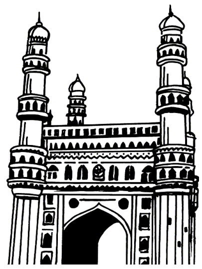
Rahul's ✔
Topper's Voice

AS PER CBCS SYLLABUS



BBA

III Year V Semester

Latest 2022 Edition

INSURANCE SERVICES

- Study Manual
- Important Questions
- Short Question & Answers
- Choose the Correct Answers
- Fill in the blanks
- One Mark Answers
- Solved Model Papers

`.149/-

- by -

WELL EXPERIENCED LECTURER

Rahul Publications™
Hyderabad. Ph : 66550071, 9391018098

BBA

III Year V Semester

INSURANCE SERVICES

Price ` . 149/-

Sole Distributors : ☎ : **66550071, Cell : 9391018098**

VASU BOOK CENTRE

Shop No. 2, Beside Gokul Chat, Koti, Hyderabad.

Maternity Hospital Opp. Lane, Narayan Naik Complex, Koti, Hyderabad.
Near Andhra Bank, Subway, Sultan Bazar, Koti, Hyderabad -195.

C
O
N
T
E
N
T
S

INSURANCE SERVICES

STUDY MANUAL

SOLVED MODEL PAPERS

SYLLABUS

UNIT - I

INTRODUCTION TO INSURANCE :

Definition and nature of insurance, Role, importance and functions of insurance. Meaning of insurance and re-insurance, principles of insurance, types of insurance, globalization of insurance and insurance sector reforms in India.

UNIT - II

LIFE INSURANCE :

Life insurance- procedure for issuing a policy, policy loans revival.

The concept of life insurance, life insurance products-traditional and market related, pension plans, group insurance, tax treatment of life insurance, claims settlement.

UNIT - III

GENERAL INSURANCE :

Concept of General Insurance procedure, group imane, Group Insurance Types – Health, Accident, Motor, fire insurance marine insurance, claim settlements.

UNIT - IV

POLICY DOCUMENTS AND ASSIGNMENT, NOMINATION & SURRENDER OF POLICY :

(a) Policy Documents : Life Insurance Policy Application and Process – Proposal Form and Related Documents – Importance of a Policy Document – Format of a Policy Document – Policy Schedule and its Various Components – Conditions and Privileges in a Policy Document – Duplicate Policies.

(b) Assignment, Nomination & Surrender of Policy : Assignment of Life Insurance Policies – Conditional Assignment – Absolute Assignment – Process of Assignment– Nomination – Process of Nomination – Features of Nomination – Assignment Vs. Nomination – Surrender of Policies – Foreclosure of Insurance Policies.

UNIT - V

POLICY CLAIMS :

Types of Policy Claims – Survival Benefits – Death Claims – Maturity Documents required for Processing Early Claims Processing State – Early Claims and Non-early Claims – Documents required for Processing Early Claims – Death due to Un-natural Causes or Accidents – Nomination – Assignment – Waiver of Evidence of Title – Claims Concession Clause and Extended Claims Concession Clause – Presumption of Death – Insurance Riders – Accidental Death Benefit Rider – Permanent Death Benefit Rider – IRDA Regulations for Claim Payments.

Contents

Topic	Page No.

UNIT - III

UNIT - IV

Important Questions

UNIT - I

1. What its uses to be business community and society as a whole?

Ans :

Refer Unit-I, Q.No. 3

---

2. What are the important functions of insurance?

Ans :

Refer Unit-I, Q.No. 6

---

3. What are the various methods of re-insurance?

Ans :

Refer Unit-I, Q.No. 9

---

4. What are the various essentials of insurance contract?

Ans :

Refer Unit-I, Q.No. 12

---

5. Discuss various types of Insurance.

Ans :

Refer Unit-I, Q.No. 13

---

6. What are the recommendation of Malhotra Committee?

Ans :

Refer Unit-I, Q.No. 17

UNIT - II

1. Define Life insurance. Explain the Procedure for issuing a policy.

Ans :

Refer Unit-II, Q.No.1

---

2. Define policy loan. What are the guide lines for seeking loan on insurance policy.

Ans :

Refer Unit-II, Q.No. 5

3. Explain different types of life insurance products.

Ans :

Refer Unit-II, Q.No. 9

4. Define claim. What are the different types of Life insurance Claims ?

Ans :

Refer Unit-II, Q.No. 17

5. What do you meant by claim settlement? Explain the procedure in settlement of claim on death of insured.

Ans :

Refer Unit-II, Q.No. 18

UNIT - III

1. Define General Insurance. Explain the evolution of General Insurance in India.

Ans :

Refer Unit-III, Q.No. 1

2. Compare and contrast life insurance and general insurance.

Ans :

Refer Unit-III, Q.No. 4

3. Explain the procedure general insurance policies.

Ans :

Refer Unit-III, Q.No. 5

4. Define Health Insurance. Briefly trace the history of health insurance in India.

Ans :

Refer Unit-III, Q.No. 7

5. Define Motor insurance. Explain different types of Motor insurance policies.

Ans :

Refer Unit-III, Q.No. 15

6. State the various types of marine insurance products.

Ans :

Refer Unit-III, Q.No. 24

7. What are the different types of non-life insurance claim and State the procedure for claim settlement.

Ans :

Refer Unit-III, Q.No. 26

UNIT - IV

1. What is life insurance policy document? Specify its contents.

Ans :

Refer Unit-IV, Q.No. 1

2. Define Life Insurance Policy Application. Explain the procedure for issuing a life insurance policy.

Ans :

Refer Unit-IV, Q.No. 2

3. What is Policy Schedule? Explain the components of Policy Schedule.

Ans :

Refer Unit-IV, Q.No. 6

4. What are the conditions and privileges in a policy document?

Ans :

Refer Unit-IV, Q.No. 7

5. Describe the various types of assignment.

Ans :

Refer Unit-IV, Q.No. 10

6. Describe the various steps involved in the assignment.

Ans :

Refer Unit-IV, Q.No. 12

7. Distinguish between Nomination and Assignment.

Ans :

Refer Unit-IV, Q.No. 18

8. What are the various forms of payments of surrender values?

Ans :

Refer Unit-IV, Q.No. 21

UNIT - V

1. Define claim and claim settlement. Explain claim procedure in respect of life insurance policy.

Ans :

Refer Unit-V, Q.No. 1

2. What are the different types of life insurance claims?

Ans :

Refer Unit-V, Q.No. 2

3. State the procedure for the settlement of survival benefit.

Ans :

Refer Unit-V, Q.No. 5

4. What are the documents to be submitted for the settlement of Non-early claims?

Ans :

Refer Unit-V, Q.No. 8

5. What do you understand by presumption of death? State its procedure.

Ans :

Refer Unit-V, Q.No. 13

6. What are the commonly used riders in life insurance policies?

Ans :

Refer Unit-V, Q.No. 15

7. What are the duties and responsibilities of IRDA?

Ans :

Refer Unit-V, Q.No. 18

8. Discuss the regulations of IRDA regarding claim settlement.

Ans :

Refer Unit-V, Q.No. 20

UNIT I

INTRODUCTION TO INSURANCE :

Definition and nature of insurance, Role, importance and functions of insurance. Meaning of insurance and re-insurance, principles of insurance, types of insurance, globalization of insurance and insurance sector reforms in India.

1.1 Introduction to Insurance

1.1.1 Definition

Q1. Define the term Insurance.

(OR)

What is meant by Insurance ?

Ans :

Meaning

Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. Risk is uncertainty of a financial loss. It should not be confused with the chance of loss which is the probable number of losses out of a given number of exposures. It should not be confused with peril which is defined as the cause of loss or with hazard which is a condition that may increase the chance of loss. Finally, risk must not be confused with loss itself which is the unintentional decline in or disappearance of value arising from a contingency. Wherever there is uncertainty with respect to a probable loss there is risk.

Every risk involves the loss of one or other kind. The function of insurance is to spread the loss over a large number of persons who are agreed to co-operate each other at the time of loss. The risk cannot be averted but loss occurring due to a certain risk can be distributed amongst the agreed persons. They are agreed to share the loss because the chances of loss, i.e., the time, amount, to a person are not known. Anybody of them may suffer loss to a given risk, so, the rest of the persons who are agreed will share the loss. The larger the number of such persons, the easier the process of distribution of loss. In fact; the loss is shared by them by payment of premium which is calculated on the probability of loss. In olden time, the contribution by the persons was made at the time of loss. The insurance is also defined as a social device to accumulate funds to meet the uncertain losses arising through a certain risk to a person insured against the risk.

Definitions :

(i) **According to E.W.Patterson** "Insurance is a contract by which one party, for a compensation called the premium, assumes particular risks of the other party and promises to pay to him or his nominee a certain or as certainable sum of money on a specified contingency".

(ii) **According to Dr. W.A. Dinsdale** "Insurance is a device for transfer of risks of individual entitles to an insurer, who agrees, for a consideration (called the premium), to assume to a specified extent losses suffered by the insured."

(iii) **According to Riegal and Miller** "Insurance is a contract, the insurer agreeing to make good any financial loss, the insured may suffer within the scope of the contract, and the insured agreeing to pay a consideration."

(iv) **According to Roseblantt & Bennington** "Insurance is a system of protection against financial loss in which risk is shifted to a professional risk bearer; an insurance company, in exchange for a certain sum of money (premium), the insurer agrees to pay the insured if losses occur."

(v) According to Encyclopaedia Britannica "Insurance, a system under which the insurer, for a consideration usually agreed upon in advance, promises to reimburse the insured or to render services to the insured in the event that certain accidental occurrences result in losses during a given period."

1.1.2 Nature of Insurance

Q2. Briefly explain the Nature of Insurance.

Ans :

The insurance has the following characteristics which are, generally, observed in case of life, marine, fire and general insurances.

1. Sharing of Risk

Insurance is a device to share the financial losses which might befall on an individual or his family on the happening of a specified event. The event may be death of a bread-winner to the family in the case of life insurance, marine-perils in marine insurance, fire in fire insurance and other certain events in general insurance, e.g., theft in burglary insurance, accident in motor insurance, etc. The loss arising from these events if insured are shared by all the insured in the form of premium.

2. Co-operative Device

The most important feature of every insurance plan is the co-operation of large number of persons who, in effect, agree to share the financial loss arising due to a particular risk which is insured. Such a group of persons may be brought together voluntarily or through publicity or through solicitation of the agents. An insurer would be unable to compensate all the losses from his own capital. So, by insuring or underwriting a large number of persons, he is able to pay the amount of loss. Like all co-operative devices, there is no compulsion here on anybody to purchase the insurance policy.

3. Value of Risk

The risk is evaluated before insuring to charge the amount of share of an insured, herein called, consideration or premium. There are several methods of evaluation of risks. If there is expectation of more loss, higher premium may be charged. So, the probability of loss is calculated at the time of insurance.

4. Payment at Contingency

The payment is made at a certain contingency insured. If the contingency occurs, payment is made. Since the life insurance contract is a contract of certainty, because the contingency, the death or the expiry of term, will certainly occur, the payment is certain. In other insurance contracts, the contingency is the fire or the marine perils etc., may or may not occur. So, if the contingency occurs, payment is made, otherwise no amount is given to the policy-holder. Similarly, in certain types of life policies, payment is not certain due to uncertainty of a particular contingency within a particular period. For example, in term-insurance the, payment is made only when death of the assured occurs within the specified term, may be one or two years. Similarly, in Pure Endowment payment is made only at the survival of the insured at the expiry of the period.

5. Amount of Payment

The amount of payment depends upon the value of loss occurred due to the particular insured risk provided insurance is there up to that amount. In life insurance, the purpose is not to make good the financial loss suffered. The insurer promises to pay a fixed sum on the happening of an event. If the event or the contingency takes place, the payment does fall due if the policy is valid and in force at the time of the event, like property insurance, the dependents will not be required to prove the occurring of loss and the amount of loss. It is immaterial in life insurance what was the amount of loss at the time of contingency. But in the property and general insurances, the amount of loss, as well as the happening of loss, are required to be proved.

6. Large Number of Insured Persons

To spread the loss immediately, smoothly and cheaply, large number of persons should be insured. The co-operation of a small number of persons may also be insurance but it will be limited to smaller area. The cost of insurance to each member may be higher. So, it may be unmarketable. Therefore, to make the insurance cheaper, it is essential to insure large number of persons or property

because the lesser would be cost of insurance and so, the lower would be premium. In past years, tariff associations or mutual fire insurance associations were found to share the loss at cheaper rate. In order to function successfully, the insurance should be joined by a large number of persons.

7. Insurance is not a gambling

- The insurance serves indirectly to increase the productivity of the community by eliminating worry and increasing initiative.
- The uncertainty is changed into certainty by insuring property and life because the insurer promises to pay a definite sum at damage or death. From a family and business point of view all lives possess an economic value which may at any time be snuffed out by death, and it is as reasonable to ensure against the loss of this value as it is to protect oneself against the loss of property.
- In the absence of insurance, the property owners could at best practice only some form of self-insurance, which may not give him absolute certainty. Similarly, in absence of life insurance, saving requires time; but death may occur at any time and the property, and family may remain unprotected.
- Thus, the family is protected against losses on death and damage with the help of insurance. From the company's point of view, the life insurance is essentially non-speculative, in fact, no other business operates with greater certainties. From the insured point of view, too, insurance is also the antithesis of gambling. Nothing is more uncertain than life and life insurance offers the only sure method of changing that uncertainty into certainty.
- Failure of insurance amounts gambling because the uncertainty of loss is always looming. In fact, the insurance is just the opposite of gambling. In gambling, by bidding the person exposes himself to risk of losing, in the insurance, the insured is always opposed to risk, and will suffer loss if he is not insured.
- By getting insured his life and property, he protects himself against the risk of loss. In fact, if he does not get his property or life insured he is gambling with his life on property.

8. Insurance is not Charity

Charity is given without consideration but insurance is not possible without premium. It provides security and safety to an individual and to the society although it is a kind of business because in consideration of premium it guarantees the payment of loss. It is a profession because it provides adequate sources at the time of disasters only by charging a nominal premium for the service.

1.2 Role and Importance of Insurance

Q3. Explain the Role of Insurance.

(OR)

Explain the Role of Insurance to individual.

(OR)

What its uses to be business community and society as a whole?

Ans : **(Imp.)**

The role and importance of insurance, here, has been discussed in three phases:

(I) Uses to individuality

(II) Uses to a special group of individuals, viz., to business or industry, and

(III) Uses to the society.

I. Uses to an Individual

1. Insurance provides Security and Safety

The insurance provides safety and security against the loss on a particular event. In case of life insurance payment is made when death occurs or the term of insurance is expired.

The loss to the family at a premature death and payment in old age are adequately provided by insurance. In other words, security against premature death and old age sufferings are provided by life insurance. Similarly, the property of insured is secured against loss on a fire in fire insurance. In other insurance, too, this security is provided against the loss at a given contingency. The insurance provides safety and security against the loss of earning at death or in olden age, against the loss at fire, against the loss at damage, destruction or disappearance of property, goods, furniture and machines, etc.

2. Insurance affords Peace of Mind

The security wish is the prime motivating factor. This is the wish which tends to stimulate to more work, if this wish is unsatisfied, it will create a tension which manifests itself to the individual in the form of an unpleasant reaction causing reduction in work. The security banishes fear and uncertainty, fire, windstorm, auto-mobile accident, damage and death are almost beyond the control human agency and in occurrence of any of these events may frustrate or weaken the human mind. By means of insurance, however, much of the uncertainty that centres about the wish for security and its attainment may be eliminated.

3. Insurance protects Mortgaged Property

At the death of the owner of the mortgaged property, the property is taken over by the lender of money and the family will be deprived of the uses of the property. On the other hand, the mortgagee wishes to get the property insured because at the damage or destruction of the property he will lose his right to get the loan repayed. The insurance will provide adequate amount to the dependents at the early death of the property-owner to pay off the unpaid loans. Similarly, the mortgagee gets adequate amount at the destruction of the property.

4. Insurance eliminates dependency

At the death of the husband or father, the destruction of family need no elaboration. Similarly, at destruction of, property and goods, the family would suffer a lot. It brings reduced standards of living and the suffering may go to any extent of begging from the relatives, neighbours or friends. The economic independence of the family is reduced or, sometimes, lost totally. What can be more pitiable condition than this that the wife and children are looking others more benevolent than the husband and father, in absence of protection against such dependency. The insurance is here to assist them and provides adequate amount at the time of sufferings.

5. Life Insurance encourages saving

The elements of protection and investment are present only in case of life insurance. In property insurance, only protection element exists. In most of the life policies elements of saving predominates. These policies combine the programs of insurance and savings. The saving with insurance has certain extra advantages

(i) Systematic saving is possible because regular premiums are required to be compulsorily paid. The saving with a bank is voluntary and one can easily omit a month or two and then abandon the program entirely.

(ii) In insurance the deposited premium cannot be withdrawn easily before the expiry of the term of the policy. As contrast to this, the saving which can be withdrawn at any moment will finish within no time.

(iii) The insurance will pay the policy money irrespective of the premium deposited while in case of bank-deposit, only the deposited amount along with the interest is paid. The insurance, thus, provides the wished amount of insurance and the bank provides only the deposited amount.

(iv) The compulsion or force to premium in insurance is so high that if the policy-holder fails to pay premiums within the days of grace, he subjects his policy to lapsation and may get back only a very nominal portion of the total premiums paid on the policy. For the preservation of the policy, he has to try his level best to pay the premium. After a certain period, it would be a part of necessary expenditure of the insured. In absence of such forceful compulsion elsewhere life insurance is the best media of saving.

6. Life Insurance provides profitable Investment

Individuals unwilling or unable to handle their own funds have been pleased to find an outlet for their investment in life insurance policies. Endowment policies, multipurpose policies, deferred annuities are certain better form of investment. The elements of investment i. e., regular saving, capital formation, and return of the capital alongwith certain additional return are perfectly observed, in life insurance. In India the insurance policies carry a special exemption from income-tax, wealth tax, gift tax and estate duty. An individual from his own capacity cannot invest regularly with enough of security and profitability. The life insurance fulfils all these requirements with a lower cost. The beneficiary of the policy-holder can get a regular income from the life-insurer; if the insured amount is left with him.

7. Life Insurance fulfils the needs of a person

The needs of a person are divided into

(A) Family needs

(B) Old-age needs

(C) Re-adjustment needs

(D) Special needs

(E) The clean-up needs.

(A) Family Needs

Death is certain, but the time is uncertain. So, there is uncertainty of the time when the sufferings and financial stringencies may be fall on the family. Moreover, every person is responsible to provide for the family. It would be a more pathetic sight in the world to see the wife and children of a man looking for some one more considerate arid benevolent than the husband or the father, who left them unprovided. Therefore, the provision for children up to their reaching earning period and for widow up to long life should he made. Any other provision except life insurance will not adequately meet this financial requirement of the family. Whole life policies are the better means of meeting such requirements.

(B) Old-age heeds

The provision for old-age is required where the person is surviving more than his earning period. The reduction of income in old-age is serious to the person and his family. If no other family member starts earning, they will be left with nothing and if there is no property, it would be more piteous state. The life insurance provides old age funds alongwith the protection of the family by issuing various policies.

(C) Re-adjustment Needs

At the time of reduction in income whether by loss of unemployment, disability, or death, adjustment in the standard of living of family is required. The family members will have to be satisfied with meagre income and they have to settle down to lower income and social obligations. Before coming down to the lower standard and to be satisfied with that, they require certain adjustment income so that the primary obstacles maybe reduced to minimum. The life insurance helps to accumulate adequate funds. Endowment policy, anticipated endowment policy and guaranteed triple benefit policies are deemed to be a good substitute for old age needs.

(D) Special Needs

There are certain special requirement of the family which is fulfilled by the earning member of the family. If the member becomes disable to earn the income due to old age or death, those needs may remain unfulfilled and the family will suffer.

(i) Need for Education

There are certain insurance policies, and annuities which are useful for education of the children irrespective of the death or survival of the father or guardian.

(ii) Marriage

The daughter may remain unmarried in case of father's death or in case of inadequate provision for meeting the expenses of marriage. The insurance can provide funds for the marriage if policy is taken for the purpose.

(iii) Insurance needs for settlement of children

After education, settlement of children takes time and in absence of adequate funds, the children cannot be well placed and all the education go to waste.

(E) Clean-up funds

After death, ritual ceremonies, payment of wealth taxes and income taxes are certain requirements which decrease the amount of funds of the family member. Insurance comes to help for meeting these requirements. Multipurpose policy, education and marriage policies, capital redemption policies are the better policies for the special needs.

(II) Uses to Business

The insurance has been useful to the business society also. Some of the uses are discussed below:

1. Uncertainty of business losses is reduced

In world of business, commerce and industry a huge number of properties are employed. With a slight slackness or negligence, the property may be turned into ashes. The accident may be fatal not only to the individual or property but to the third party also. New construction and new establishment are possible only with the help of insurance. In absence of it, uncertainty will be to the maximum level and nobody would like to invest a huge amount in the business or industry. A person may not be sure of his life and health and cannot continue the business up to longer period to support his dependents. By purchasing policy, he can be sure of his earning because the insurer will pay a fed amount at the time of death. Again, the owner of a business might foresee contingencies that would bring great loss. To meet such situations they might decide to set aside annually a reserve, but it could not be accumulated due to death. However, by making an annual payment, to secure immediately, insure policy can be taken.

2. Business-efficiency is increased with insurance

When the owner of a business is free from the botheration of losses, he will certainly devote much time to the business. The care free owner can work better for the maximization of the profit. The new as well as old businessmen are guaranteed payment of certain amount with the insurance policies at the death of the person; at the damage, destruction or disappearance of the property or goods. The uncertainty of loss may affect the mind of the businessmen adversely. The insurance, removing the uncertainty, stimulates the businessmen to work hard.

3. Key Man Indemnification

Key man is that particular man whose capital, expertise, experience, energy, ability to control, goodwill and dutifulness make him the most valuable asset in the business and whose absence will reduce the income of the employer tremendously and up to that time when such employee is not substituted. The death or disability of such valuable lives will, in many instances, prove a more serious loss than that by Fire or any hazard. The potential loss to be suffered and the compensation to the dependents of such employee require an adequate provision which is met by purchasing an adequate life-policies. The amount of loss may be up to the amount of reduced profit, expenses involved in appointing and training, of such persons and payment to the dependents of the key man. The Term Insurance Policy or Convertible Term Insurance Policy is more suitable in this case.

4. Enhancement of Credit

The business can obtain loan by pledging the policy as collateral for the loan. The insured persons are getting more loan due to certainty of payment at their deaths. The amount of loan that can be obtained with such pledging of policy, with interest thereon will not exceed the cash value of the policy. In case of death, this value can be utilized for setting of the loan alongwith the interest. If the borrower is unwilling to repay the loan and interest, the lender can surrender the policy and get the amount of loan and interest thereon repaid. The redeemable debentures can be issued on the collateral of capital redemption policies. The insurance properties are the best collateral and adequate loans are granted by the lenders.

5. Business Continuation

In any business particularly partnership business may discontinue at the death of any partner although the surviving partners can restart the business, but in both the cases the business and the partners will suffer economically. The insurance policies provide adequate funds at the time of death. Each partner may be insured for the amount of his interest in the partnership and his dependents may get that amount at the death of the partner.

With the help of property insurance, the property of the business is protected against disasters and the chance of disclosure of the business due to the tremendous waste or loss.

6. Welfare of Employees

The welfare of employees is the responsibility of the employer. The former are working for the latter. Therefore, the latter has to look after the welfare of the former which can be provision for early death, provision for disability and provision for old age. These requirements are easily met by the life insurance, accident and sickness benefit, and pensions which are generally provided by group insurance. The premium for group insurance is generally paid by the employer. This plan is the cheapest form of insurance for employers to fulfill their responsibilities. The employees will devote their maximum capacities to complete their jobs when they are assured of the above benefits. The struggle and strife between employees and employer can be minimized easily with the help of such schemes.

(III) Uses to the Society

Some of the uses of insurance to society are discussed in the following sections.

1. Wealth of the society is protected

The loss of a particular wealth can be protected with the insurance. Life insurance provides loss of human wealth. The human material, if it is strong, educated and care-free, will generate more income. Similarly, the loss of damage of property at fire, accident, etc., can be well indemnified by the property insurance; cattle, crop, profit and machines are also protected against their accidental and economic losses. With the advancement of the society, the wealth or the property of the society attracts more hazardous and, so new types of insurance are also invented to protect them against the possible losses. Each and every member will have financial security against old age, death, damage, destruction and disappearance of his wealth including the life wealth. Through prevention of economic losses, instance protects the society against degradation. Through stabilization and expansion of business and industry, the economic security is maximized. The present, future and potential human and property resources are well-protected. The children are getting expertised education, working classes are free from botherations and older people are guiding at ease. The happiness and prosperity are observed everywhere with the help of insurance.

2. Economic Growth of the Country

For the economic growth of the country, insurance provides strong hand and mind, protection against loss of property and adequate capital to produce more wealth. The agriculture will experience protection against losses of cattle, machines, tools and crop. This sort of protection stimulates more production in agriculture, in industry, the factory premises, machines, boilers and profit insurances provide more confidence to start and operate the industry welfare of employees create a conducive atmosphere to work: Adequate capital from insurers accelerate the production cycle. Similarly in business, too, the property and human material are protected against certain losses, capital and credit are expanded with the help of insurance. Thus, the insurance meets all the requirements of the economic growth of a country.

3. Reduction in Inflation

The insurance reduces the inflationary resource in two ways. First, by extracting money in supply to the amount of premium collected and secondly, by providing sufficient funds for production narrow down the inflationary gap. With reference to Indian context it has been observed that about 5.0 per cent of the money in supply was collected in form of premium. The share of premium contributed to the total investment of the country was about 10.0 per cent. The two main causes of inflation, namely, increased money in supply and decreased production are properly controlled by insurance business. Insurance Need and Selling.

Q4. State the advantages and disadvantages of Insurance.

Ans :

1. Financial Protection

In life, there is no such thing as a guarantee. There may be a loss of life, as well as some business accidents. The loss is difficult to bear in both of these cases. As a result, insurance provides financial protection against such a sudden loss.

In the event of death, he/she family member may be able to receive financial assistance from insurance. In the event of a business loss, insurance provides financial assistance to help the company recover and rebuild. In the case of health insurance, he or she may be eligible for financial assistance in treating his or her health.

2. Distribution of Risk/Spreading of Risk

The underlying concept of insurance is to spread the risk across a large number of people. People pay a certain amount to an insurance company up to a certain time or lifetime and receive a refund if a loss occurs. Risk in life or business cannot be eliminated, but it can be reduced, distributed, or shared. So, in this case, insurance companies bear risks in order to redistribute business and individual risks among insurance companies.

3. Stability of Living Standard

Insurance provides financial support to ensure that people can sustain and maintain stability in living standards against an unforeseen risk of losses.

4. Encouragement to Savings

In insurance, people pay a certain amount of money for a fixed time or lifetime based on an agreement and this helps to develop a habit of saving money. Knowing the importance of saving, people start doing saving in various fields.

5. Job Opportunities

Insurance, like any other business, is a successful business model. It targets many entrepreneurs and business owners. As a result, there is a lot of cash flow in the business. They need employees to handle and maintain cash flow and run the business, so they open vacancies in various positions based on qualifications and provide job opportunities.

Disadvantages of Insurance

Insurance also has some defects in it. Some of them are as follows:

1. Term and Conditions

Insurance does not cover every type of loss that can happen to an individual or a business. They have terms and conditions, and they only provide financial assistance based on those terms. Please read the terms and conditions of any insurance before purchasing it. Also, seek assistance from the appropriate person in order to obtain accurate information about an insurance policy.

2. Long Legal formalities

It may take a long legal procedure for receiving your claims.

3. Fraud Agency

There are lots of fraud agencies available in the market so, before taking any type of insurance does exercise yourself or take the help of an expert.

Some insurance, such as life and health insurance, do not cover sick or elderly people in most cases. Their insurance may be costly. Do your homework before enrolling in insurance.

5. Potential crime incidents

It could lead to social crimes as the users of the policy are tempted to commit crimes to get the insured money.

6. Temporary and Termination

Insurance is temporary and will be terminated when the individual no longer belongs to the group.

Q5. Explain the importance of Insurances.

Ans :

a) Protection Against Loss

The main service of insurance is to provide certainty of payment at the uncertainty of loss. It provides safety and security against any possible loss that may happen to an individual or to a group of individuals.

b) Motivation For Saving

Life Insurance companies not only give protection but also encourage people to save by giving various incentives like bonus, tax benefits, etc.

c) Spreading Of Risk

The very important service rendered by an insurance company is to spread the risk or loss or damage among those who are exposed to similar risk. It serves as a co-operative device to share the risk by many people through spreading the risk among them.

d) Promotion Of Efficiency

Insurance gives peace of mind to the insured by eliminating uncertainty of risks and all worries attached with those risks. It enables the insured to concentrate on his work without any anxiety.

e) Elimination Of Dependency

In the event of death of the bread-winner or destruction of properties, the entire family would be placed in a pitiable condition to face the sufferings and to depend on others for help. But insurance relieves from such dependency and assists them by providing adequate sum at the time of their sufferings.

f) **Meetings Of Different Needs**

Insurance looks after the different needs of a person such as old age needs, retirement needs, educational needs, marriage needs, etc., by suitably designing and marketing various insurance products to meet the above requirements.

g) **Best Avenue For Investment**

People can make use of insurance as a profitable avenue for investment, particularly in life insurance policies. The premium paid by the insured is a kind of saving, since he is assured of a certain sum with profit, after the expiry of a certain predetermined period in the case of endowment policies. The policy holder gets bonus, tax benefits, etc., on his investment besides getting life protection.

h) **Maintenance of Normal Profit**

Fire insurance policies not only protect the loss of goods but also cover the loss of profits during the stoppage of production till normalcy is restored. Thus, it enables businessmen to maintain the same level of profits during stoppage of production.

i) **Welfare of Employees**

Insurance enables the employers to take care of the welfare of their employees by providing suitable policies like Group Insurance Scheme, Social Security Scheme etc.,

j) **Instrumental For Capital Formation**

Insurance companies collect the idle savings of the people in the form of insurance premium and invest them in shares and debentures of companies and Government securities. Thus, savings are diverted towards productive ventures and thus, insurance companies act as catalyst for capital formation.

1.3 Functions of Insurance

Q6. What are the important functions of insurance?

(OR)

State the various functions of Insurance.

Ans : **(Imp.)**

The most important function of insurance is to spread the risk over a number of persons who are insured against the risk, share the loss of each member of the society on the basis of the probability of loss to their risk and provide security against losses to the insured.

The functions of insurance can be studied into two parts;

I. Primary Functions, and,

II. Secondary Functions.

I. Primary Functions

1. Insurance provides certainty

Insurance provides certainty of payment at the uncertainty of loss. The uncertainty of loss can be reduced by better planning and administration.

But, the insurance relieves the person from such a difficult task.

Moreover, if the subject matters are not adequate, the self-provision may prove costlier. There are different types of uncertainty in a risk.

The risk will occur or not, when will occur, how much loss will be there?

In other words, there is the uncertainty of happening of time and amount of loss. Insurance removes all these uncertainties and the assured is given certainty of payment of loss.

The insurer charges the premium for providing the said certainty.

2. Insurance provides protection

The main function of insurance is to protect the probable chances of loss. The time and amount of loss are uncertain and at the happening of risk, the person will suffer the loss in the absence of insurance.

The insurance guarantees the payment of loss and thus protects the assured from sufferings. The insurance cannot check the happening of risk but can provide for losses at the happening of the risk.

3. **Risk-Sharing**

The risk is uncertain, and therefore, the loss arising from the risk is also uncertain.

When risk takes place, the loss is shared by all the persons who are exposed to the risk.

The risk-sharing in ancient times was done only at the time of damage or death; but today, based on the probability of risk, (he share is obtained from every insured in the shape of premium without which protection is not guaranteed by the insurer.

II. Secondary Functions.

Besides the above primary functions, the insurance works for the following functions:

1. **Prevention of loss**

The insurance joins hands with those institutions which ate engaged in preventing the losses of the society because the reduction in loss causes the lesser payment to the assured arid so more saving is possible which will assist in reducing the premium.

Lesser premium invites more business and more business causes lesser share to the assured.

So again premium is reduced to which will stimulate more business and more protection to the masses.

Therefore, the insurance assists financially to the health organization, fire brigade, educational institutions and other organizations which are engaged in preventing the losses of the masses from death or damage.

2. **It Provides Capital**

The insurance provides capital to society. The accumulated funds are invested in the productive channel.

The death of the capital of the society is minimized to a greater extent with the help of investment in insurance. The industry, the business, and the individual are benefited by the investment and loans of the insurers.

3. **It Improves Efficiency**

Insurance eliminates worries and miseries of losses at death and destruction of property.

The carefree person can devote his body and soul together for better achievement, it improves not only his efficiency but the efficiencies of the masses are also advanced.

7. **It helps Economic Progress**

The insurance by protecting the society from huge losses of damage, destruction, and death, provides an initiative to work hard for the betterment of the masses.

The next factor of economic progress, the capital, is also immensely provided by the masses. The property, the valuable assets, the man, the machine and the society cannot lose much at the disaster.

1.4 Re - Insurance

1.4.1 Meaning

Q7. Define Re-insurance. State the advantages of Re-insurance.

Ans : **(Imp.)**

Reinsurance is the transfer of insurance business from one insurer to another. The insurer transferring the business is called the 'principal' or ceding or original office and the office to which the business is transferred is called for 'reinsurer or guaranteeing office'. It is also a contract of indemnity. The original company must disclose all the material facts to the reinsurer. At the time of loss the reinsurer indemnifies the loss up to the amount of reinsurance. The reinsurance amount is obtained by deducting retention amount from the original policy amount.

Advantages

1. The original insurer can accept the risk to the extent of his limit. In absence of reinsurance, a person desiring a large amount of insurance will have to take a number of policies from several insurers. This reinsurance contract makes it possible to purchase only one policy from an insurer.
2. Reinsurance makes it possible to accept each risk for the very amount desired by the proposer and to transfer the excess above the 'retention limit' to another insurer.
3. The reinsurance gives the benefit of the greater stability resulting from a widespread . business. By accepting many risks and scaling down, by reinsurance, all those that are larger than the normal carrying capacity of the insurer justifies, certainty in business substituted for uncertainty through the better application of the law of average.
4. The reinsurance makes stability in under writing and consistency in underwriting results over a period.
5. It provides a safeguard against serious effects of conflagration.
6. The reinsurance has the effect of stabilizing income and losses over a period of years.

Q8. State the Characteristics of Reinsurance.

Ans : **(Imp.)**

1. Reinsurance is an insurance agreement between two or more insurance companies.
2. The original insurer shifts the risk beyond the limit of his capacity to other insurer.
3. Reinsurer is not liable directly to insured. The relationship of the insured remains with the original insurer only.
4. Reinsurance contract is a contract of indemnity.
5. The rights of insured remains same without any change.
6. All the fundamental principles of insurance like insurable interest, indemnity, utmost good faith, mitigation of loss are applicable in re-insurance also.
7. The ceding company cannot re-insure more than the actual sum insured.

Q9. What are the various methods of re-insurance?

(OR)

Discuss the methods of re-insurance.

(OR)

Explain in detail treaty method of re-insurance.

Ans :

Methods of Reinsurance

1. Shopping or 'Street' Reinsurance

Under this method, there is no standing agreement regarding reinsuring of risk of one company by the other. Each policy is treated on an individual basis. The reinsurer is sought only when the need of reinsurance on a policy arises. The reinsurer scrutinizes each case on its merits and may accept the risk on any terms and conditions or may decline it. Since the ceding company is NC certain about the availability of reinsurance and a term, it will exercise a greater care in selecting the risk.

2. Facultative Reinsurance

The essential feature of this method is that each individual risk is submitted by the ceding office to the reinsurer who can accept or decline whatever sum they consider appropriate subject to the amount of their acceptance being approved by the ceding office. The reinsurer is offered the particulars of original contract. The reinsurer will see the plan and report on the risk offered for reinsurance. The reinsurer may qualify the acceptance subject to plan and report. The ceding office may retain certain amount on the insurance. The agreement does not make it binding upon the reinsuring company to provide reinsurance on a particular risk. The ceding office is under no obligation to submit all its business to the insurer. When reinsurance facultatively, the insurer may obtain reinsurance coverage before accepting to insurer a client to ensure that the reinsurance term do not exceed those applying to direct insurance and to back up the judgment of the original underwrite at the insurer's office who will after benefit from the reinsurer.

3. Automatic or Treaty Reinsurance

Under this method, there is an agreement between the ceding office and reinsurer office that the Amount of insurance on a policy above the retention of the ceding office shall be submitted by it for reinsurance and the same shall be accepted by the reinsuring company. As soon as the original contract is completed the excess above retention amount becomes automatically reinsured under the agreement. The ceding office need not even inform the reinsuring office immediately that a risk has been accepted by it. The terms and conditions of the reinsurance contract are the same as of the original insurance contract. The maximum reinsurance amount acceptable to the reinsurer bears a definite relationship with the retention limit of a ceding company.

Treaties are of Three Types

(i) Quota Share Treaty

Under this method, the ceding insurer is bound to cede and the reinsurer is bound to accept a fixed share of every risk coming within the scope of the treaty. This treaty is used where the direct insurer is new in the field with little or no past experience or has had adverse experience in the past. This method is favourable to the reinsurers. The liability of the reinsurer attaches as soon as the ceding office assumes the risk. Then the ceding office furnishes the accepting office with full particulars of each cession, copies of proposal papers. It does not give the reinsurer an option of acceptance or rejection. It enables the reinsurer to consider any marked divergence of underwriting standards and if persistent to its disadvantage, it may indicate the need for revision or cancellation of the treaty respect of new business.

(ii) The Surplus Treaty

The purpose of this treaty is to reinsure the surplus of a risk beyond the amount of the ceding insurer's retention. Up to what extent the surplus can be reinsured is determined by the size of the treaty measured in terms of lines not retention. There may be second surplus treaty to absorb the amounts which are beyond the capacity of the first surplus treaty.

The scope of treaty is defined with the scope of geographical area, class of business, etc. The liability of the insurer commences obligatorily and simultaneously with that of the ceding insurer as soon as retention of the ceding insurer is exceeded. The ceding insurer has the right to demand immediate payment from the reinsurer of the latter's share of any loss exceeding an agreed value.

There may be two problems under this method

(a) There may be selection against the reinsurer as the ceding insurer will retain more of the better type of business with type result that the bulk of the business under a treaty will be of an inferior nature.

(b) There may be problem of accumulation of acceptances.

(iii) Excess of Loss Treaty

This method provides against catastrophic loss. The excess of loss reinsurance comes into operation when the total net loss suffered by the insured due to one event exceeds the figure agreed in the treaty. Such excess of the amount or a proportion of it, being paid by the reinsurer subject to a maximum limit. The net loss means the loss computed after taking into account recoveries from facultative and treaty reinsurers. If the total net loss exceeds the maximum limit provided in the treaty the excess amount is paid by the reinsurer. The premium depends upon the nature and extent of reinsurance.

4. "Pool or Syndicate Method"

Under this method, a number of insurer agrees to pool together all their business to a leading office and the payment is made by this leading office. The profit of this association is distributed amongst the insurers according to their shares to the business.

Q10. State the advantages of treaty method of re-insurance.

Ans :

1. The Treaty-method provides obligatory and automatic nature of reinsurance acceptances. The reinsurer cannot decline to accept any cession coming within its scope.
2. The risk commences simultaneously with that of the ceding insurer. Under the facultative method, the reinsurance cover operates only from the time the reinsurer accepts the risk.
3. The treaty method involves much less clerical work and costs as compared to the costs involves a in the facultative reinsurance.
4. The rights and obligations of each party are clearly defined in the treaty agreement, where as in facultative, it has not been so easy.
5. The treaty-method ensure a constant and regular flow of business.

1.5 Principles of Insurance

Q11. Describe briefly about various principles of insurance.

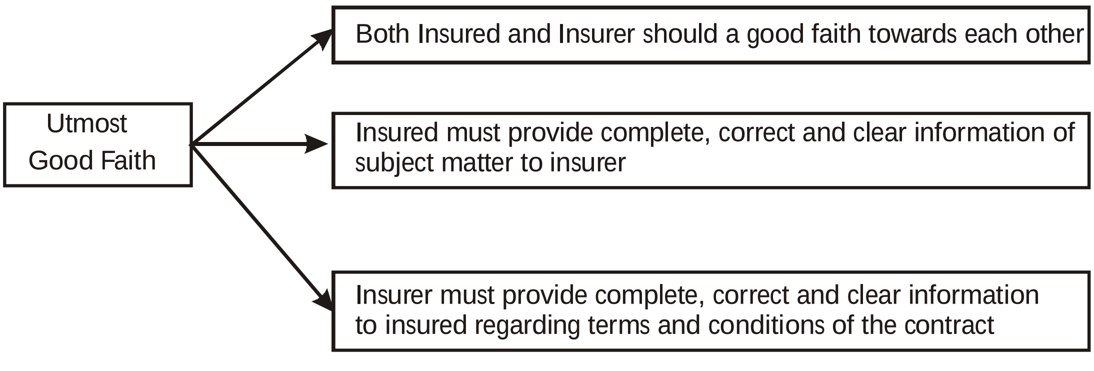
(OR)

State the various principles of insurance.

Ans : **(Imp.)**

1. Principle of Utmost Good Faith

The principle of Utmost Good Faith is the basic and primary principle of insurance. This principle explains that the insurance contract must be signed by both insurer and insured in an absolute good faith, belief or trust. The principle of utmost good faith applies to all kinds of insurance contracts. The individual getting insured must willingly disclose and surrender to the insurance company his complete true information relating the subject matter of insurance.



2. Principle of Insurable Interest

The principle of insurable interest explains that the individual getting insured must insurable interest in the object of insurance. A person has an insurable interest when the physical existence of the insured object offers him some gain but its non-existence will provide him a loss. Principle of insurable interest states that the insured person must suffer financial loss by the damage or destruction of the insured object. This principle is applicable to all contracts of insurance. The owner of the property is said to have insurable interest as long as he is the owner of the property

Insurable Interest → Insured must suffer some financial loss by the damage of insured object

3. Principle of Indemnity

All insurance contracts are contracts of indemnity except for life insurance. Indemnity refers to the security, protection and compensation given against damage, loss or injury.

According to the principle, the insurer agrees to compensate the insured for the actual loss suffered. An insurance contract is signed only for getting protection against unpredicted financial lasses arising due to future uncertainties. Insurance contract is a cooperative device. It is not made for making profit. The main aim of insurance is to give compensation in case of any damage or loss. The amount of compensations is limited to the amount assured or the actual losses, whichever is less. The compensation must not be less or more than the actual damage. Insurance is only for providing protection against losses and not for making profit.

4. Principle of Contribution

Principle of contribution is a corollary of the principle of indemnity. It applies to all contracts of indemnity. According to principle of contribution, insured can claim the compensation only to the extent of actual loss either from all insurer or from any one insurer. In case, one insurance pays full compensation then that insurer can claim proportionate claim from the other insurance companies. The insured cannot claim the compensation from other insurance company and make a profit if he claim full amount of compensation from one insurance company.

5. Principle of Subrogation

Principle of subrogation is corollary of the principle of indemnity. It is applicable to all contracts of indemnity. It is an extension of the principle of indemnity. According to the principle or subrogation after the insured is compensated for the loss due to damage to property insured, then the right of ownership of such property transfers to the insurance company.

6. Principle of Loss Minimization

According to the principle of loss of mitigation, insured must always try his level best to minimize the loss of his insured property. Insured must take all possible measures and necessary steps to control and reduce the losses. Insured must not neglect and behave irresponsibly during such events just because the property is insured. Hence, it is a responsibility of the insured to protect his insured property and avoid further losses.

7. Principle of Causa Proxima

Causa proxima means nearest cause, direct cause or closest cause of loss. According to this principle, when a loss is caused by more than one cause, the proximate or the nearest cause or the closest cause should be taken into consideration to decide the liability of the insurer.

Q12. What are the various essentials of insurance contract?

Ans :

Insurance may be defined as a contract between two parties of whereby one party called insurer undertakes, in exchange for a fixed sum called premiums, to pay the other party called insured a fixed amount of money on the happening of a certain event. Since insurance is a contract, certain sections of Indian Contract Act are applicable. Section 10 of this Act says, "All agreements are contract if they are made by free consent of the parties, competent to contract, for a lawful consideration and with a lawful object and which are not hereby declared to be void". The insurance contract involves (A) the elements of general contract, and (B) the element of special contract relating to insurance.

The valid contract, according to Section 10 of Indian Contract Act 1872, must have the following essentialities.

I. Agreement (offer and acceptance).

II. Legal consideration.

III. Competent to make contract.

IV. Free consent.

V. Legal object.

I. Offer and Acceptance

The offer for entering into contract may generally come from the insured. The insurer may also propose to make the contract. Whether the offer is from the side of insured, or from the side of insured, the main fact is acceptance. Any act that precedes it is offer or a counter-offer. All that precede the offeror counter-offer is an invitation to offer. In insurance, the publication of prospectus, the canvassing of the agents are invitations to offer. When the prospect (the potential policy-holder) proposes to enter the contract it is an offer and if there is any alteration in the offer that would be a counter-offer. If this alteration or change (counter-offer) ill accepted by the proposer, it would be an acceptance. In absence of counter-offer, the acceptance of offer will be an acceptance by the insurer. At the moment, the notice of acceptance is given to other party, it would be a valid acceptance.

II. Legal Consideration

The promiser to pay a fixed sum at a given contingency is the insurer who must have some return or his promise. It need not be money only but it must be valuable. It may be sums, right, interest, profit, or benefit. Premium being the valuable consideration must be given for starting the insurance contract. The amount of premium is not important to begin the contract. The fact is that without payment of premium, the insurance contract cannot start.

III. Competent to make contract

Every person is competent to contract

(a) who is of the age of majority according to the law,

(b) who is of sound mind, and

(c) who is not disqualified from contracting by any law to which he is subject.

A minor is not competent to contract. A contract by a minor is void excepting contracts for necessaries. A minor cannot sign a contract. A person is said to be of sound mind for the purpose of making a contract if at the time when he makes it, he is capable of understanding it and of forming a rational judgment as to its effect upon his interests. A person who is usually of unsound mind, but, occasionally of sound mind may make a contract when he is of sound mind. An alien enemy, an undischarged insolvent and criminals cannot enter into contract. Contract made by incompetent party/parties will be void.

IV. Free Consent

Parties entering into the contract should enter into it by their free consent. The consent will be free when it is not caused by (1) coercion, (2) undue influence, (3) fraud, or (4) misrepresentation, or (5) mistake. When there is no free consent except fraud the contract becomes voidable at the option of the party whose consent was so caused. In case of fraud the contract would be void. The proposal for free consent must sign a declaration to this effect, the person explaining the subject matter of the proposal to the proposer must also accordingly make a written declaration on the proposal.

V. Legal Object

In order to make a valid contract, the object of the agreement should be lawful. An object that is (i) not forbidden by law, or (ii) is not immoral, or (iii) opposed to public policy, or (v) which does not defeat the provisions of any law, is lawful. In proposal from the object of insurance is asked which should ,be legal and the object should not be concealed. If the object of an insurance, like the consideration, is found to be unlawful, the policy is void.

1.6 Types of Insurance

Q13. What are the different types of Insurance?

(OR)

Describe the different kinds of insurance.

(OR)

Discuss various types of Insurance.

Ans : **(Imp.)**

Insurance can be broadly divided into two categories :

1. Life Insurance
2. General Insurance

I. Life Insurance

Life insurance is insurance on human life. A human being buys life insurance to make sure his dependents are financially secured in the event of his untimely demise. Under life insurance, the family of policyholder is financially compensated in case the policyholder expires during the term of the policy.

Life Insurance = Insurance on Human Life

II. General Insurance

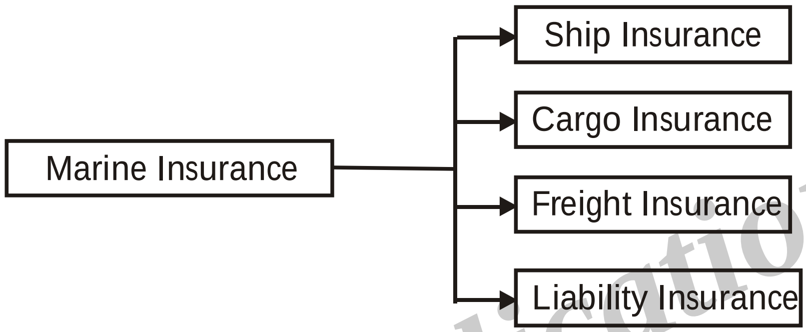
1. Fire Insurance

Fire insurance is property insurance that covers damage and losses caused by fire. It helps to cover the risk of loss of property caused by fire accidentally or unintentionally. A fire insurance policy covers the loss that the insurer may suffer due to destruction of or damage to property or goods, caused by fire, during a specified period and upto agreed amount.

Fire Insurance = Covers damage and losses caused by fire

2. Marine Insurance

Marine insurance covers the loss or damage of ships, cargo, terminals and any transport by which the property is transferred, acquired or held between the points of origin and the final destination. Marine insurance is an arrangement by which the insurance company agrees to indemnify the owner of the ship or cargo against risks involved in marine venture. It provides protection against loss of marine perils. Marine insurance involves ship insurance, cargo insurance, freight insurance and liability insurance. Hence, marine insurance protects from business losses incurred during water transport operations.



(i) Ship Insurance

It is also known as hull insurance. It is the insurance against loss caused by damage or destruction of ship to the owner. It is done to protect the ship owner and investment in ship.

(ii) Cargo Insurance

The goods sent through waterway is called as cargo. It covers physical damage or loss of goods while in transit by land, sea and air.

Cargo = Goods sent through waterway

(iii) Freight Insurance

The amount paid to the owner of ship to transfer the goods from one port to another is called freight. It provides protection to merchant vessels corporations. It stands for the chance of losing freight amount in case cargo is lost due to the ship meeting in an accident.

(iv) Marine Liability Insurance

It is that type of marine insurance where compensation is bought to provide any liability occurring on account of a ship crashing. One ship may collide with another ship. Goods of another ship may be lost. Marine insurance offers compensation of such liabilities.

3. Motor Insurance

Motor vehicle insurance, called automotive insurance, is a contract by which the insurer assumes the risk of any loss the owner of a vehicle may incur through damage to property or persons as the result of an accident. It is insurance for cars, motorcycles and other road vehicles. It provides financial protection against physical damage, theft of vehicle or bodily injury resulting from traffic collisions and against liability that could arise from incidents in a vehicle.

4. Social Insurance

It is a public insurance that provides protection against economic risks. Social insurance is considered to be a type of social security. Social insurance provides economic security to weaker sections of the society who are unable to pay the premium for an adequate insurance. Social insurance includes pension plans, disability benefits, unemployment benefits, sickness insurance, oldage insurance and so on.

$\boxed{\text{Social Insurance = Economic security to weaker sections of society}}$

5. Health Insurance

Health insurance is generally known as medical insurance. In this insurance, a person or group of persons acquire health care coverage in advance by paying premium. Health insurance is insurance against the risk of incurring medical expenses among individuals.

6. Home Insurance

Home insurance is a type of property insurance that covers losses and damages to an individual's house and to assets in the home. It also provides liability coverage against accidents in the home or on the property. The policy usually covers interior damage, exterior damage, loss or damage of personal assets and injury that arises while on the property.

7. Liability Insurance

Liability insurance is also known as third party insurance. It is a part of the general insurance system of risk financing to protect the insured from the risk of liabilities imposed by lawsuits and similar claims and protects the insured if the purchaser is sued for claims that come within the coverage of the insurance policy. Hence, liability insurance is designated to offer particular protection against third-party insurance claims i.e., payment is not typically made to the insured but rather to someone suffering loss who is not a party to the insurance contract.

1.7 Globalization of Insurance

Q14. Explain the concept of Globalization of Insurance.

Ans : **(Imp.)**

Globalization of Insurance market, as a part of the overall process of liberalization in emerging and other countries enabled the foreign insurance companies to enter in those countries and benefited both. The driving forces of insurance market globalization is as the 'push factors and 'Pull Factors'. The Push factors are the motives behind the movement of foreign insurance companies while the pull factors are the motives behind allowing the foreign companies to operate in local market.

(i) Push Factors

Insurance Companies move out to emerging markets due to Increasing Global Trade Growing Direct Investment, Potential Future Growth in Emerging Markets, Saturation in industrialized countries and Strong growth in emerging countries and expected Efficiency Gains through Diversification Economics of scale etc.

(ii) Pull Factors

The important pull factors in emerging markets - Emerging Markets have Strom Economic growth and Trade, and there are substantial requirements of capital in Emerging Markets to cover major risks.

There are several benefits to the countries allowing foreign insurance companies to operate in their countries which can be broadly classified into

(a) Economy related, and

(b) Insurance marked related.

(a) Economy Related Benefits to the Local Country

Foreign insurance companies along with local companies add further momentum to mobilization of savings. Institutional net work in the savings market increases, which also influence the savings behaviour of household and corporate savings. Resources and capital allocation in the Domestic Market increases with the increased sophistication brought by the foreign insurance companies It also improves the financial stability in the host country, as well as facilitates improvement in production and Trade.

(b) Insurance Market Related Benefits

Capital structure of entire insurance industry improves because foreign companies brings fresh capital with them. Market efficiency improves due to information dissemination global operating knowledge and increased competition. Management efficiency increases because foreign companies bring with them global experience and management innovation. Range of available products increases because foreign companies bring with them a wide range of products and product development expertise. Customers' service improves. Increased competition, technology led service, and cost competition finally benefits the consumers. Globalization also improves Regulatory and Governance system. It also improves market conduct md Ethical Business Standard.

With the removal of entry barriers in emerging and less developed countries there has been an increased flow of funds from developed countries to the emerging and less developed countries.

Q15. Explain the need for globalization of insurance.

Ans :

Insurers promote financial system efficiency through their role of, both life and non-life, financial intermediary in the following three ways:

1. Reduction in Transaction Costs

Because it collects the premium from a very large number of policyholders from different regions of the country and thereby commands huge funds at their disposal.

2. Creating Liquidity

Since there is no time lag between occurrence of loss on the one hand and receiving the claim amount by the policyholders. Moreover the funds raised are used for long term projects, which are not required to be paid immediately. Thus liquidity is created in the capital market.

3. Facilitating Economies of Scale in Investment

Investment in large projects such as national road projects, railways, ports, power projects facilitate innovations and specialization's and thereby promote economic efficiency and productivity in the economy.

1.8 Insurance Sector Reforms in India

Q16. Discuss the impact of privatization on insurance industry in India.

Ans : **(Imp.)**

The opening-up of Insurance sector for competition offers ample opportunities to both existing as well new players to penetrate into untapped areas, sectors and sub-sectors and unexploited. segments of population as presently both insurance density and penetration are at low level. Both indices being at very low level in the country even compared to the countries with same level economic development and per capita income are indicative of the vast potential of the growth of this sector in future.

The impact of privatization can be studied under three heads :

(I) Opportunities

(II) Challenges or Threats

(III) Strategies

(I) Opportunities

The privatization of insurance industry will provide the following opportunities :

1. Untapped Market

New comers in insurance industry will get the advantage of untapped market. The untapped potential market for insurance products is quite large in spite of the efforts made by general insurance companies and LIC to extend their services throughout the country. But the choices available to the insuring public are inadequate in terms of services, products and prices. The Malhotra Committee estimated that in life insurance, 22% of the insurable population has been tapped so far. Premium per capita is only 2% in India. Premium percentage of GDP is 0.55% which is very less in comparison to USA where premium per capita is ` 1381 and premium as percentage of GDP is 4.80%. This huge gap from the global bench mark is itself lucative.

2. Mandatory Insurance

In disaster prone area, Government of India is going to make insurance mandatory. The interim report of the high powered committee set-up by the Centre on disaster management has proposed mandatory insurance of life and property by people residing in disaster prone area such as coastal belts, flood prone areas, site near nuclear, chemical and hazardous industries and thickly populated areas.

3. More Products Offered

A state monopoly has little incentive to offer a wide range of products. It can be seen by a lack of certain products from LIC's portfolio and lack of extensive categorization in several GIC products such as health insurance. More competition in this business will spur firms to offer several new products and more complex and extensive risk categorization.

(II) Challenges

Whether the insurer is old or new, private or public, expansion of market will present multitude of challenges :

1. New Insurers

New insurance will have to invest a minimum capital of Rs 100 crore. The normal gestation period is of five years. Hence, the new insurers will have to lock up their capital for at least five years before earning any profits. Besides they will face problems of shortage of trained manpower for the insurance industry. The setting up of various offices and distribution of network is a time consuming process. Further, the new insurer companies will have to compete with the established insurance companies like LIC and GIC which have a corporate image and market presence for several years.

2. Expectations of the Consumers

To-day, LIC has more than 60 products and GIC has more than 180 products to offer in market. But most of them are outdated, as they are not suitable to the needs of the consumers. Hence, all the insurance companies will have to offer innovative products to the consumers. The consumers are particularly expecting good pension plans, health insurance, term insurance, and investment products like unit linked insurance from the life insurance companies. Similarly, the consumers expect innovative products from the general insurance for managing health care, property insurance, accident insurance and other products on an attractive terms and premium. The consumers also expect reduction in the premium of the insurance products as the mortality rate in India has come down three times in the last five years.

3. Premium on Customer Service

The days of giving fixed insurance products are over. Now customers need insurance solutions that match their needs or wants. The large scale of operation, public sector bureaucratic and cumbersome procedures hamper nationalized insurers. Therefore, potential private entrants expect to score in the areas of customer service, speed and flexibility. It may mean better products and choice for the customer. For giving better services, insurance companies will have to build call centres to provide call free telephone-based sales and services. The call centres will provide product-related information, customer account information, query and complaint handling. These call centres can be used for outbound sales and marketing campaigns.

(III) Strategies

The Insurance players would be required to concentrate on the following main strategies to be more competitive and responsive to the needs of the societies :

1. Environmental Analysis

The companies should concentrate on environmental change, its direction, magnitude and its short-term and long-term impact, formulating strategies to meet the challenges of high competition, preparing contingency plans and then designing action plans for effective implementations of formulated strategies.

2. Restructuring Organizations

The traditional hierarchy system is very slow in making decisions due to several levels of management, its procedural inflexibility and slow communication. A manager in the privatized scenario is required to be an organizational specialist, country specialist and global specialist.

3. Speed, Cost effectiveness and Innovations

The insurance private companies will have to make substantial investments in customer relationship management technologies. They will be required to have wide area network (WAN), connecting branches spread across wide geographical locations and workout modalities facilitating premium payment through the Internet. LIC is setting up an interactive response systems in more cities so that a policyholder need not to travel to the office of company for information. After all, the customer should have the choice of getting work done in the shortest possible time without having to visit the office of insurance companies.

4. Human Resource Development

Human resource is important for any organization especially for organizations whose activities revolve around special human interactions. The new private insurance companies need people with the right set of knowledge, skills and aptitude for insurance alongwith right type of products and services. The persons who are involved in selling the product and those who are doing the back office work need to equip themselves with newer skills and insights into every aspect of functioning of the company. They have a daunting task of exploiting potential in the industry and at the same time bring good risks to the company for providing insurance coverage. They have to retain the existing customers for which they need to have better understanding of products and services by creating healthy internal environment with group harmony. Existing companies will have to frame their human resource policies to retain the competent and motivated staff since new companies enter in insurance business will be eyeing them by offering lucrative salaries

---

Q17. What are the recommendation of Malhotra Committee?

Ans :

The Government of India in 1993 had set-up a high powered committee under the Chairmanship of R.N.Malhotra, former Governor of Reserve Bank of India, to examine the structure of the insurance industry and to recommend changes to make it more efficient and competitive keeping in view structural changes in other parts of the financial system of the country.

The Committee submitted its report in January 1994 recommending that private insurers be allowed to co-exist alongwith government companies like LIC and GIC companies. This recommendation recommendation had been supported by several factors such as need for wide insurance coverage in the economy.

Major recommendations of Malhotra Committee are as follows :

(i) Raising the capital base of LIC and GIC upto ` 200 crores, half retained by the government and rest sold to the public at large with suitable reservations for employees.

(ii) Private sector be granted permission to enter insurance industry with a minimum paid-up capital of ` 100 crores.

(iii) Foreign insurance companies be allowed to enter by floating an Indian company preferably joint venture with Indian partners.

(iv) Steps to be taken to set up a strong and effective insurance regulatory in the form of statutory autonomous board on the lines of SEBI.

(v) Limited number of private companies to be allowed in the sector. But no firm be allowed to operate in both lines of insurance (Life or non-Life).

(vi) Tariff Advisory Committee (TAC) is delinked from GIC to function as a separate statutory body under necessary supervision by the insurance Regulatory Authority.

(vii) All insurance companies be treated equal footing and governed by the provision of Insurance Act. No special dispensation is given to government companies.

(viii) Setting up of a strong and effective regulatory body with independent source for financing before allowing private companies into this sector.

(ix) The committee suggested that settlement of claims were to be done within a specific time frame without delay.

(x) The committee has several recommendations on product pricing, vigilance, systems and procedures, improving customer service and use of technology.

(xi) It also made a number of recommendations to change the existing structure of the LIC and the GIC.

(xii) The committee insisted that insurance companies should pay special attention to the rural insurance business.

2. Passing of Insurance Regulation and Development Act

The Government passed Insurance Regulation and Development Authority Act in December 1999 to redraft the rules and regulations of insurance industry.

3. Amendments in related Acts

Necessary amendments have been made by government in the relevant Acts after the implementation of the Insurance Regulation and Development Authority Act in India. The monopoly powers of LIC and GIC have been withdrawn to open the doors for private insurance companies in insurance industry.

4. Constitution of Insurance Regulation and Development Authority

The Central Government has constituted Insurance Regulation and Development Authority formally through a notification under the powers delegated to it vide Section 3 of Insurance Regulation and Development

Authority Act, 1999. The maximum membership in this Authority is a including a Chairman. Ms N. Rangachary has been appointed as first Chairman for a term ending upto June, 2003.

5. Setting up of Insurance Consultation Committee.

Insurance Regulation and Development Authority Constituted a 25 member consultative committee through a notification. The committee is represented by members belong to trade, commerce, transport, agriculture, consumer organi- zations, insurance agents, brokers and employee unions. The main task of this committee is to advise the Insurance Authority in drafting the rules relating to insurance business.

6. Declaration of Rules

Insurance Authority has declared that the rules for regulation to Insurance business framed by it shall be operative within 90 days from the date of constitution of the committee. Insurance Authority has so far announced the following rules :

- Accounting standards for insurers; and
- Rules relating to underwriters/surveyors/Insurance Agents.

7. Appointment of Evaluators

To appoint an evaluate in the top management position has been made essential for every insurer. Insurance Authority shall grant the permission to appoint the evaluator.

The main functions of an evaluator are to make recommendations on insurance business especially to prepare the policies, premium rate, and determine the conditions as to policy, investment funds and re-insurance. It is the duty of evaluator to informs the Insurance Authority about the irregularity and mistakes being committed by the insurer in its day-to-day activities.

8. Fixations of Village and Social Insurance Business Limits

The minimum limits of insurance business for private insurers in village and under social insurance schemes has fixed by the Insurance Authority to help in making available insurance facilities to all in country.

Short Question & Answers

1. Define the term Insurance.

Ans :

Meaning

Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. Risk is uncertainty of a financial loss. It should not be confused with the chance of loss which is the probable number of losses out of a given number of exposures. It should not be confused with peril which is defined as the cause of loss or with hazard which is a condition that may increase the chance of loss. Finally, risk must not be confused with loss itself which is the unintentional decline in or disappearance of value arising from a contingency. Wherever there is uncertainty with respect to a probable loss there is risk.

Every risk involves the loss of one or other kind. The function of insurance is to spread the loss over a large number of persons who are agreed to co-operate each other at the time of loss. The risk cannot be averted but loss occurring due to a certain risk can be distributed amongst the agreed persons. They are agreed to share the loss because the chances of loss, i.e., the time, amount, to a person are not known. Anybody of them may suffer loss to a given risk, so, the rest of the persons who are agreed will share the loss. The larger the number of such persons, the easier the process of distribution of loss. In fact; the loss is shared by them by payment of premium which is calculated on the probability of loss. In olden time, the contribution by the persons was made at the time of loss. The insurance is also defined as a social device to accumulate funds to meet the uncertain losses arising through a certain risk to a person insured against the risk.

Definitions :

(i) **According to E.W.Patterson** "Insurance is a contract by which one party, for a compensation called the premium, assumes particular risks of the other party and promises to pay to him or his nominee a certain or as certainable sum of money on a specified contingency".

(ii) **According to Dr. W.A. Dinsdale** "Insurance is a device for transfer of risks of individual entitles to an insurer, who agrees, for a consideration (called the premium), to assume to a specified extent losses suffered by the insured."

(iii) **According to Riegal and Miller** "Insurance is a contract, the insurer agreeing to make good any financial loss, the insured may suffer within the scope of the contract, and the insured agreeing to pay a consideration."

(iv) **According to Roseblantt & Bennington** "Insurance is a system of protection against financial loss in which risk is shifted to a professional risk bearer; an insurance company, in exchange for a certain sum of money (premium), the insurer agrees to pay the insured if losses occur."

(v) **According to Encyclopaedia Britannica**"Insurance, a system under which the insurer, for a consideration usually agreed upon in advance, promises to reimburse the insured or to render services to the insured in the event that certain accidental occurrences result in losses during a given period."

2. Nature of Insurance.

Ans :

The insurance has the following characteristics which are, generally, observed in case of life, marine, fire and general insurances.

1. Sharing of Risk

Insurance is a device to share the financial losses which might befall on an individual or his family on the happening of a specified event. The event may be death of a bread-winner to the family in the case of life insurance, marine-perils in marine insurance, fire in fire insurance and other certain events in general insurance, e.g., theft in burglary insurance, accident in motor insurance, etc. The loss arising from these events if insured are shared by all the insured in the form of premium.

2. Co-operative Device

The most important feature of every insurance plan is the co-operation of large number of persons who, in effect, agree to share the financial loss arising due to a particular risk which is insured. Such a group of persons may be brought together voluntarily or through publicity or through solicitation of the agents. An insurer would be unable to compensate all the losses from his own capital. So, by insuring or underwriting a large number of persons, he is able to pay the amount of loss. Like all co-operative devices, there is no compulsion here on anybody to purchase the insurance policy.

3. Value of Risk

The risk is evaluated before insuring to charge the amount of share of an insured, herein called, consideration or premium. There are several methods of evaluation of risks. If there is expectation of more loss, higher premium may be charged. So, the probability of loss is calculated at the time of insurance.

3. Define Re-insurance.

Ans :

Reinsurance is the transfer of insurance business from one insurer to another. The insurer transferring the business is called the 'principal' or ceding or original office and the office to which the business is transferred is called for 'reinsurer or guaranteeing office'. It is also a contract of indemnity. The original company must disclose all the material facts to the reinsurer. At the time of loss the reinsurer indemnifies the loss up to the amount of reinsurance. The reinsurance amount is obtained by deducting retention amount from the original policy amount.

4. State the advantages of Re-insurance.

Ans :

1. The original insurer can accept the risk to the extent of his limit. In absence of reinsurance, a person desiring a large amount of insurance will have to take a number of policies from several insurers. This reinsurance contract makes it possible to purchase only one policy from an insurer.
2. Reinsurance makes it possible to accept each risk for the very amount desired by the

5. Facultative Reinsurance

Ans :

The essential feature of this method is that each individual risk is submitted by the ceding office to the reinsurer who can accept or decline whatever sum they consider appropriate subject to the amount of their acceptance being approved by the ceding office. The reinsurer is offered the particulars of original contract. The reinsurer will see the plan and report on the risk offered for reinsurance. The reinsurer may qualify the acceptance subject to plan and report. The ceding office may retain certain amount on the insurance. The agreement does not make it binding upon the reinsuring company to provide reinsurance on a particular risk. The ceding office is under no obligation to submit all its business to the insurer.

When reinsurance facultatively, the insurer may obtain reinsurance coverage before accepting to insurer a client to ensure that the reinsurance term do not exceed those applying to direct insurance and to back up the judgment of the original underwrite at the insurer's office who will after benefit from the reinsurer.

6. Treaty Reinsurance

Ans :

Under this method, there is an agreement between the ceding office and reinsurer office that the Amount of insurance on a policy above the retention of the ceding office shall be submitted by it for reinsurance and the same shall be accepted by the reinsuring company. As soon as the original contract is completed the excess above retention amount becomes automatically reinsured under the agreement. The ceding office need not even inform the reinsuring office immediately that a risk has been accepted by it. The terms and conditions of the reinsurance contract are the same as of the original insurance contract. The maximum reinsurance amount acceptable to the reinsurer bears a definite relationship with the retention limit of a ceding company.

7. 'Street' Reinsurance

Ans :

Under this method, there is no standing agreement regarding reinsuring of risk of one company by the other. Each policy is treated on an individual basis. The reinsurer is sought only when the need of reinsurance on a policy arises. The reinsurer scrutinizes each case on its merits and may accept the risk on any terms and conditions or may decline it. Since the ceding company is NC certain about the availability of reinsurance and a term, it will exercise a greater care in selecting the risk.

8. State the advantages of treaty method of re-insurance.

Ans :

1. The Treaty-method provides obligatory and automatic nature of reinsurance acceptances. The reinsurer cannot decline to accept any cession coming within its scope.
2. The risk commences simultaneously with that of the ceding insurer. Under the facultative method, the reinsurance cover operates only from the time the reinsurer accepts the risk.
3. The treaty method involves much less clerical work and costs as compared to the costs involves a in the facultative reinsurance.
4. The rights and obligations of each party are clearly defined in the treaty agreement, where as in facultative, it has not been so easy.
5. The treaty-method ensure a constant and regular flow of business.

9. Principle of Utmost Good Faith

Ans :

The principle of Utmost Good Faith is the basic and primary principle of insurance. This principle explains that the insurance contract must be signed by both insurer and insured in an absolute good faith, belief or trust. The principle of utmost good faith applies to all kinds of insurance contracts. The individual getting insured must willingly disclose and surrender to the insurance company his complete true information relating the subject matter of insurance.

10. Principle of Indemnity

Ans :

All insurance contracts are contracts of indemnity except for life insurance. Indemnity refers to the security, protection and compensation given against damage, loss or injury.

According to the principle, the insurer agrees to compensate the insured for the actual loss suffered. An insurance contract is signed only for getting protection against unpredicted financial lasses arising due to future uncertainties. Insurance contract is a cooperative device. It is not made for making profit. The main aim of insurance is to give compensation in case of any damage or loss. The amount of compensations is limited to the amount assured or the actual losses, whichever is less. The compensation must not be less or more than the actual damage. Insurance is only for providing protection against losses and not for making profit.

11. Principle of Contribution

Ans :

Principle of contribution is a corollary of the principle of indemnity. It applies to all contracts of indemnity. According to principle of contribution, insured can claim the compensation only to the extent of actual loss either from all insurer or from any one insurer. In case, one insurance pays full compensation then that insurer can claim proportionate claim from the other insurance companies. The insured cannot claim the compensation from other insurance company and make a profit if he claim full amount of compensation from one insurance company.

12. Globalization of Insurance.

Ans :

Globalization of Insurance market, as a part of the overall process of liberalization in emerging and other countries enabled the foreign insurance companies to enter in those countries and benefited both. The driving forces of insurance market globalization is as the 'push factors and 'Pull Factors'. The Push factors are the motives behind the movement of foreign insurance companies while the pull factors are the motives behind allowing the foreign companies to operate in local market.

13. Explain the need for globalization of insurance.

Ans :

Insurers promote financial system efficiency through their role of, both life and non-life, financial intermediary in the following three ways:

1. Reduction in Transaction Costs

Because it collects the premium from a very large number of policyholders from different regions of the country and thereby commands huge funds at their disposal.

2. Creating Liquidity

Since there is no time lag between occurrence of loss on the one hand and receiving the claim amount by the policyholders. Moreover the funds raised are used for long term projects, which are not required to be paid immediately. Thus liquidity is created in the capital market.

3. Facilitating Economies of Scale in Investment

Investment in large projects such as national road projects, railways, ports, power projects facilitate innovations and specialization's and thereby promote economic efficiency and productivity in the economy.

Choose the Correct Answers

1. The process of identification of pure risk faced by an individual or family. [a]

   (a) Individual risk management (b) Risk retention

   (c) Avoidance (d) Loss control

2. It is an instrument by which a pure risk is transferred to a party other than an insurer [b]

   (a) Life insurance (b) Non insurable transfer

   (c) Insurable transfer (d) None of the above

3. The party that accepts a portion of the potential obligation in exchange for a share of the insurance premium is known as [d]

   (a) Insured (b) Insurer

   (c) Insurance contract (d) Reinsurer

4. The probable number of losses that may occur during the given period of time. [a]

   (a) Loss frequency (b) Loss servile

   (c) Loss estimation (d) Loss potential

5. Pricing of insurance and calculation of insurance premium is known as [c]

   (a) Reinsurance (b) Securitization of risk

   (c) Rate making (d) All the above

6. The primary insurer that initially writes the insurance is called the [c]

   (a) Insurance company (b) Portfolio

   (c) Ceding company (d) Underwriter

7. Risk arising due to loss of earned income to the family because of premature death of family head [a]

   (a) Potential risk (b) Risk retention

   (c) Risk management (d) None of the above

8. To investigate and confirm the cause of loss, assess the quantum of loss, determine the liability of the insurers is the duty of the [d]

   (a) Agent (b) Broker

   (c) Insurer (d) Surveyor

9. Insurance companies tying up with banks to sell insurance products. [a]

   (a) Bancassurance (b) Pooling

   (c) Risk retention (d) Ceding company

10. Which of the following are insurance intermediaries ? [d]

   (a) Agents (b) Brokers

   (c) Insurance (d) All the above

Fill in the blanks

1. The person or organization covered by an insurance policy is known as ________
2. The termination of an insurance policy because a renewal premium is not paid by the end of the grace period is known as ________
3. A written agreement attached to the policy expanding or limiting the benefits otherwise payable under the policy is called as ________
4. ________ is the person who reviews an application for insurance and decides, is the applicant is acceptable and at what premium rate.
5. ________ is a claim filed against another person's insurance policy.
6. ________ is the printed legal document stating the terms of insurance contract that is issued to the policy owner by the company.
7. ________ is defined as the cause of loss.
8. TPA stands for ________.
9. IRDA plays a role of a ________ for the insurance industry in India.
10. IRDA established a committee of 25 members which is known as ________.
11. ________ is the amount paid to broker as a commission.

Answesrs

1. Insured
2. Lapse
3. Rider
4. Underwriter
5. Third-party claim
6. Policy
7. Peril
8. Third Party Administrator
9. Regulator
10. Insurance Advisory Committee
11. Brokerage

One Mark Answers

1. Insurance.

Ans :

"Insurance is a device for transfer of risks of individual entitles to an insurer, who agrees, for a consideration (called the premium), to assume to a specified extent losses suffered by the insured."

2. Re-insurance.

Ans :

Reinsurance is the transfer of insurance business from one insurer to another. The insurer transferring the business is called the 'principal' or ceding or original office and the office to which the business is transferred is called for 'reinsurer or guaranteeing office'.

3. Fire Insurance

Ans :

Fire insurance is property insurance that covers damage and losses caused by fire. It helps to cover the risk of loss of property caused by fire accidentally or unintentionally.

4. Marine Insurance

Ans :

Marine insurance covers the loss or damage of ships, cargo, terminals and any transport by which the property is transferred, acquired or held between the points of origin and the final destination.

5. Liability Insurance

Ans :

Liability insurance is also known as third party insurance. It is a part of the general insurance system of risk financing to protect the insured from the risk of liabilities imposed by lawsuits and similar claims and protects the insured if the purchaser is sued for claims that come within the coverage of the insurance policy.

UNIT II	**LIFE INSURANCE :** Life insurance- procedure for issuing a policy, policy loans revival. The concept of life insurance, life insurance products-traditional and market related, pension plans, group insurance, tax treatment of life insurance, claims settlement.

2.1 Life Insurance

2.1.1 Procedure for issuing a policy

Q1. Define Life insurance. Explain the Procedure for issuing a policy.

Ans : **(Imp.)**

Meaning

Life Insurance is different from other insurance in the sense that, here, the subject matter of insurance is life of human being. The insurer will pay the fixed amount of insurance at the time of death or at the expiry of certain period. At present, life insurance enjoys maximum scope because the life is the most important property of the society or an individual. Each and every person requires the insurance. This insurance provides protection to the family at the premature death or gives adequate amount at the old age when earning capacities are reduced. Under personal insurance a payment is made at the accident. The insurance is not only a protection but is a sort of investment because a certain sum is returnable to the insured at the death or at the expiry of a period. The business of life insurance is wholly done by the Life Insurance Corporation of India.

Procedure

Any human being who wants to take a life insurance policy has to follow the following procedure:

1. Proposal Form

The person who wants to get an insurance policy makes an offer to the agent of the insurance company by filling up a prescribed proposal form which is available free of cost from the insurance agents.

Various types of information such as :

(i) Name, occupation and address of insured.

(ii) Family history and health of insured.

(iii) Facts about the income, life and habits of the insured.

(iv) Date of birth and age proof of the insured.

(v) Mode of payment of premium.

Must be filled in the application form. The insured is under an obligation to provide the true and correct information in the form.

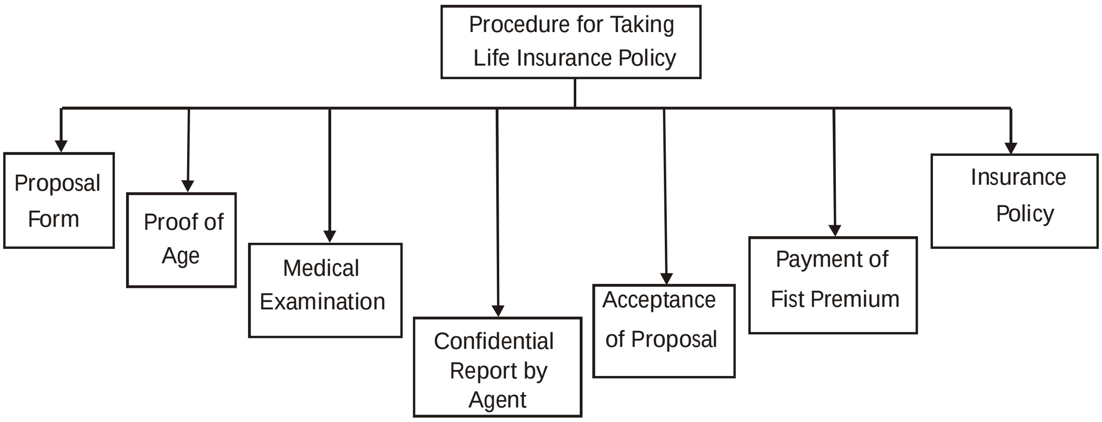


Fig.: Procedure for Taking Life Insurance Policy

2. Proof of Age

Insured is required to give age proof along with the proposal form at the time of entering the contract of insurance. The age of the insured can be proved by a certified copy of an entry in the Birth Register of the Municipal Committee, certificate of date of birth issued by the school or college, or service book maintained by the employer etc.

3. Medical Examination

After the receipt of proposal form in the office of insurance company, the proposer is required to get himself medically examined from the doctor approved by the insurance company. The expenses of medical examination are normally paid by insurance company.

4. Confidential Report by Agent

The life insurance agent is required to prepare a confidential report about the health, character, financial position and other personal information of the insured. This report is attached with the proposal form.

5. Acceptance of Proposal

On the basis of information given in the proposal form, the corporation considers the acceptance of the proposal. After determines the types of risk, volume of risk, premium rate etc., it accepts the proposal. Acceptance letter is dispatched to the insured stating the conditions to be fulfilled by the insured.

6. Payment of First Premium

On the receipt of acceptance letter, the insured pays the first premium and the corporation becomes liable for loss from the day on which it is paid. The premium may be paid monthly, quarterly, half yearly or yearly as the insured wishes.

7. Insurance Policy

On the payment of first premium, the policy comes into operation and risk is covered then onward. Insurance policy is prepared in proper form, duly stamped and signed is finally issued to the insured.

Q2. What are the principles of life insurance?

Ans :

The following are the principle of insurance:

1. Principle of Uberrimae fidei (Utmost Good Faith)

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

2. Principle of Insurable Interest

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

3. Principle of Indemnity

Indemnity means security, protection and compensation given against damage, loss or injury. According to the principle of indemnity, an insurance contract is signed only for getting protection against unpredicted financial losses arising due to future uncertainties. Insurance contract is not made for making profit else its sole purpose is to give compensation in case of any damage or loss. The principle of indemnity applies mainly to property, liability and other non-life insurance business, where the exact amount of compensation is not known in advance.

4. Principle of Contribution

Principle of Contribution is a corollary of the principle of indemnity. It applies to all contracts of indemnity, if the insured has taken out more than one policy on the same subjeet matter. According to this principle, the insured can claim the compensation only to the extent of actual loss either from all insurers or from any one insurer. If one insurer pays full compensation then that insurer can claim proportionate claim from the other insurers. According to this principle insurance policy is designed to provide compensation only for such losses that are caused by perils, which are stated in the policy.

5. Principle of Subrogation

Subrogation means substituting one creditor for another. Principle of Subrogation is an extension and another corollary of the principle of indemnity. It also applies to all contracts of indemnity. According to the principle of subrogation, when the insured is compensated for the losses due to damage to his insured property, then the ownership right of such property shifts to the insurer.

6. Principle of Causa Proxima (Nearest Cause)

Principle of Causa Proxima (a Latin phrase), or in other words, the Principle of Proximate (i.e Nearest) Cause, means when a loss is caused by more than one causes, the proximate or the nearest or the closest cause should be taken into consideration to decide the liability of the insurer. The principle states that to find out whether the insurer is liable for the loss or not, the proximate (closest) and not the remote (farest) must be looked into.

Q3. Explain the importance of life insurance.

Ans :

1. Covers the Risk of Death

The risk of death is covered under the life insurance. In case of l; death, insurance company pays full sum assured, which would be several times larger than the total of the premiums paid.

2. Encourages Compulsory Savings

The element of protection and investment both are present in case of life insurance. In most of the life policies, elements of savings predominates. After taking insurance, if the premium is not paid the policy lapses. Thus, the insured is forced to go on paying premium. In other words, it encourage compulsory saving to pay premium.

3. Easy Settlement and Protection Against Creditors

In case nomination or assignment is made, a claim under life insurance can be settled in a simple way. The policy money becomes a kind of trust, which cannot be taken away by the creditors.

4. Provides Security and Safety

Under life insurance payment is made in case of death of insured or when the term of insurance expires. The loss to family of a insured at an premature death and payment for old age both are adequately provided by life insurance. In other words, security against premature death and old age sufferings both are provided by life insurance.

5. Eliminates Dependency

On the death of husband or father, the destruction of family need no elaboration. The family suffers a lot. It brings down the standards of living and the suffering may go to any extent of begging from the relatives, neighbours or family friends. The economic freedom of family is totally lost. The life insurance is here to help the wife and children and it provides adequate amount at the time of sufferings.

6. Profitable Investment

Life insurance policies provide the best alternative of investment to individuals. There are better forms of investment in endowment policies, multipurpose policies, deferred annuities.

7. Facilitates Liquidity

Life insurance provides liquidity. If a policy-holder is not in a position to pay the premium, he can surrender the policy for cash to meet his cash requirement in time.

8. Tax Relief

In India, insurance policies carry a special exemption from income-tax, wealth, tax, gift tax and estate duty. The insured obtains significant reliefs in income tax and wealth tax by paying the insurance premium.

9. Loan Facility

The insured can also take a loan for a temporary period to meet his difficulty against policy. Sometimes, a life insurance policy is also acceptable as security for a commercial loan.

10. Helpful in Re-adjustment

The life insurance helps to accumulate adequate funds to make adjustment in standard of living, at the time of reduction in income due to loss of employment, disability, death retirement etc.

11. Helpful in Education

There are several life insurance policies, and annuities which are useful for education of the children irrespective of the death or survival of the family head.

12. Assist in Marriage

The life insurance can provide funds for the marriage of daughter if a appropriate policy is taken for this purpose. The daughter may remain unmarried in case of death of father due to inadequate provision for meeting the expenses of marriage.

13. Help in Family Requirement

After death, ritual ceremonies, payment of wealth tax and income tax, are certain requirements which decrease the amount of funds of the family member. Insurance comes to help for meeting these requirements.

Q4. What are the features of life insurance?

Ans :

1. Like other contracts of insurance, the life insurance contract is also the outcome of an offer made by the insured and its acceptance by the insurer. Usually, contract of life insurance is made in writing.
2. The insurance company agrees to pay a certain sum of money either on the death of the insured or on the maturity of the policy, whichever is earlier.
3. The insured is under obligation to pay periodically the amount of payment till the death of insured or expiry of the period of policy, whichever is earlier.
4. The contract of life insurance is not a contract of indemnity because the loss caused by the death cannot be calculated in money terms, nor is money any compensation for loss of one's life.
5. Insurable interest must be present in the person insured at the time when the policy is taken in case of life insurance, which may or may not be present at the time of insured's death.
6. Life insurance extends the hand of protection to those who are left support less and helps financially in case of death of the insured. It is also considered to be the best alternative for making savings.
7. Life insurance covers under scope certain other risks which are connected with the human life in addition to the risk of death. For example, in case of total and permanent disability or the living death, temporary disability and medical expenses, compulsory retirement or the economic death risks, etc., have also been covered under the purview of life insurance these days.
8. It relieves the insured from the sword of Damocles *i.e.* various risks and uncertainties which may occur before and after the death of the insured.

2.1.2 Policy loans and revival of policy

Q5. Define policy loan. What are the guide lines for seeking loan on insurance policy.

Ans : **(Imp.)**

Policy loan

Insurance company can grant a loan to the policy holder against his policy as per the terms and conditions applicable to the policy. The requirements for granting a loan are as under :

1. Application for loan with an endorsement of terms and conditions of the loan being placed on the policy.
2. Policy to be assigned absolutely in favour of the corporation.
3. A receipt for the loan amount.

The maximum loan amount available under the policy is 90% of the surrender value of the policy (85% in case of paid up policies) including cash value of bonus.

Guide lines

The guidelines for applying loan on insurance policy are as follows:

1. Eligibility

Under this, loans might be provided only on those policies which had completed three years of payment of premium. The policy bond states as to whether a specific policy is with or without the facility of loan. Loans aren't granted for a period of less than six months or on the security of lost policies (except if they have duplicate policy) loans like education loan and marriage loans or term assurance are not granted.

2. Amount of Loan

The Amount of Loan is granted on the policies on the basis of the following circumstances,

(i) In case, if premiums are fully paid up then loans are granted up to 90% of the surrender value of their policies.

(ii) In case, if premiums are partly paid up then loans are granted up to 85% of the surrender value of their policies.

3. Interest on Loans

Life Insurance corporation is presently charging 10.5% Interest on policy loans which is payable half-yearly. Thus, the rate of interest would be revised on timely basis by RBI. If interest is not paid regularly, then it is computed on compound interest basis. In case, if policy reaches maturity or ends due to the death with in six month of loan, then interest will not charged.

4. Period of Loan

The policy loans might be granted for a minimum period of time (i.e six month) from the payment date. Thus, interest must be paid for six months only.

5. Repayment of Loan

The repayment of loan might be made either partly or fully but it must be with in the specified duration of time. The minimum repayment starts with ? 50 and later on it becomes in multiple of? 10. In case, if the loan amount is not paid then insurance company would deduct the loan plus Interest amount from the cash value and remaining amount would be paid to the claimant.

Q6. What is revival of life insurance policy? State different types of revival of life insurance policy.

Ans :

Where the premium is not paid on the due date or within the days of grace, the policy lapses but it can be revived at any time during the remaining period of the policy, subject to medical evidence and arrears of premium along with interest thereon at the applicable rate. If the policy has lapsed within 3 years of the date of commencement it is not entitled to any claims' concession, except days of grace, usually 30 days. As per IRDA guidelines details all those policies who have lapsed is required to be submitted within stipulated time to IRDA.'

Types

If the premium under a policy is not paid within the days of grace, the policy lapses. Revival is a fresh contract wherein the insurer can impose fresh terms and conditions. In case of LIC, a lapsed policy can be revived within 5 years from the date of first unpaid premium. A policy can be revived under the following types of revival:

1. Ordinary Revival

If a revival of the policy is effected within 6 months from the due of first unpaid premium, no personal statement regarding health is required and the policy is revived on collection of delayed premium plus interest. The rate of interest to be charged for such delayed premium will depend on the date of commencement of the policy.

2. Revival on Non-medical Basis

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

3. Revival on Medical Basis

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

4. The Other Schemes for Revival are :

- Special Revival Scheme
- Revival by instalment
- Loan-cum-revival
- Survival Benefit-cum-revival

5. Special Revival Scheme

If the policy was in force for at least 6 months and has not acquired surrender value, the policy may be revived where the original date of the policy is shifted by the period for which the policy was in force. A fresh policy was will have to be issued for the age as on that date. The arrears of premiums will be a nominal amount. The cost of the preparation of the policy will have to be borne by the policyholder.

6. Special Revival Scheme

If the policy was in force for at least 6 months and has not acquired surrender value, the policy may be revived where the original date of the policy is shifted by the period for which the policy was in force. A fresh policy will have to be issued for the age as on that date. The arrears of premiums will be a nominal amount. The cost of the preparation of the policy will have to be borne by the policyholder.

7. Revival by Instalment

The policyholder, in that case, can pay arrears of premium by suitable instalments, which should be paid alongwith regular premiums. The unpaid instalments of premiums are treated as a deh: charge against the policy.

8. Loan cum Revival

If the lapsation period is long, the arrears of premiums could be a very substantial amount, the insurer offers a Loan-cum-Revival scheme, provided the policy has acquired surrender value, notionally on the date of revival.

2.2 The Concept of Life Insurance

Q7. Explain the evolution of life insurance.

Ans :

Life Insurance Policies and Life Insurance Plans have been around in India for as long as they have been around anywhere else in the world. In 1956, when the government nationalized the insurance sector by combining about 250 Indian life insurance companies to form a single firm, the Life Insurance Corporation (LIC) of India became the sole provider. This nationalization by the centre to channel more resources towards various national development programmes and give insurance market penetration a boost to protect the interests of the policy holders from failures which were the result of mismanagement resulted in the transformation of competitive segment to highly regulated monopoly. The nationalization also led to more effective mobilization of funds to enable capital to be allocated to various development projects.

In 1991, the Government implemented the New Industrial Policy, under which the Indian economy was opened up to foreign investment and sectors such as banking and finance were reformed. With the passage of the IRDA Act the Indian Life insurance industry was liberalized in 2000 with the objective of once again increasing competition in the industry and to tap the vast potential that this rapid growing market has to offer.

First year premium for single as well as regular life insurance policies offered by LIC and private players witnessed dynamic growth during the early 2000s — from less than 200 billion INR in 2002 to nearly 900 billion by 2009. This intense competition has also forced the different life insurance players to improve their underwriting and risk management abilities. This has greatly benefitted policyholders and Life insurance companies have been quick to recognize the larger need for structured retirement plans, and the potential of long-term fund management.

Several unit linked insurance plans (ULIPs) have been introduced by private players and this has helped them to compete with LIC and also create a customer base of individuals who are willing to opt for these plans for purely investment & tax saving purposes. More than half of the premium income of private companies in the life insurance segment is contributed by these unit-linked plans. Traditional policies like term products and endowment based products form a relatively small proportion of the insurance market.

With the growing popularity of term insurance in India, spending on insurance is on a growth trajectory in India. However, the relatively high population growth rate has been slowing down the improvement of insurance density in India.

In 2006, a milestone occurred when India's insurance penetration nearly doubled to 4.10% before marginally declining to 4.00% in 2007. However, when compared to other countries, the life insurance market in India is still.

Q8. What are the benefits of life insurance?

Ans :

The following are the advantages of Life Insurance:

1. Superior Saving Plan

Unlike any other savings plan, a life insurance policy affords full protection against risk of death. In the event of death of a policyholder, the insurance company makes available the full sum assured to the policyholders' near and dear ones In comparison, any other savings plan would amount to the total savings accumulated till date. If the death occurs prematurely, such savings can be much lesser than the sum assured. Evidently, the potential financial loss to the family of the policyholder is sizable.

2. Encourage Saving Habits

Life Insurance encourages saving habits. Long-term savings can be made in a painless manner because of the easy instalment facility built into the scheme. The insured person can pay premiums through monthly, quarterly, half-yearly or yearly instalments. The salary saving scheme, popularly known as SSS; provides a convenient method of paying premium each month through deduction from one's salary. The employer is authorized by the employee to deduct the insurance premium monthly and remit to the life insurance corporation. The Salary Saving Scheme (SSS) can be introduced in any institution or organization subject to specified terms and conditions laid down by insurer.

3. Suitable for Raising Loans

Life Insurance policy can be given as security to raise a loan even for commercial purposes also. The loan can be raised without any delay on safe security of the policy. Even after an initial period payments if the policy holder finds it difficult to continue with the payment of premium, he can surrender the policy for a surrender value amount with the Life Insurance Corporation

4. Easy Settlement Protection Against Creditors

The maturity value of Life Insurance policy can be protected against the claims of the creditors of the life assured by valid assignment of a policy. The policy holder can nominate a person to whom the policy money would be payable in event of his death.

5. Tax Relief

The Income Tax relief is available for amounts paid by way of premium for life insurance subject to the income tax rates in force. Assesses can avail themselves of provisions in the law for tax relief. In this manner, the assured is required to pay lower premium for his insurance than he would have to pay otherwise. Under Section 80C of the Income Tax Act, 1956, the premium paid is allowed as a deduction from Gross Total Income (GTI). Contribution to pension plans qualifies for deduction under section 80CCC. Also 100% of the premium paid is deductible as expenditure from business income. When these benefits are factored in, it is found that most policies offer returns that are comparable/or even better than other saving modes such as PPF, NSC etc. Moreover, the cost of insurance is a very negligible.

6. Estate Duty

Life Insurance ensures the definite sum of money after the death of the insured without resorting to sale of assets at a loss on realization. So it is the best way of making provision for payment of Estate Duty.

7. Economic Protection

Life Insurance provides economic protection to the family members of the insured in case of his untimely death who might be the sole bread-earner of the family. It reduces the sufferings of the families on happening of a contingent event. It is considered to be the most effective devise for providing family security.

8. Investment Element

In Life Insurance, the insured is required to pay the premium. The premium is a kind of investment. The premium is returned to the insured along with additional bonus amount after the expiry of the period of contract.

9. Helpful to the Government

Life Insurance provides long-term funds to the government for different development schemes. This helps the government to develop infrastructure to develop infrastructure and serve the society.

10. Money when Needed

A suitable insurance plan or a combination of different plans can be taken out as life insurance to meet the specific needs that are likely to arise in future, such as children's education, start- in-life or marriage provision, etc. Alternatively, policy money can be so arranged to be made available at the time of one's retirement from service to be used for any specific purpose, such as for the purchase of plot, house or for other investments. Loans are also granted to the policy holders, subject to certain conditions, for house building or for purchase of flats, etc.

11. Ready Marketability and Suitability for Quick Borrowing

A life insurance policy can, after a certain time period (generally three years), be surrendered for a cash value. The policy is also acceptable as a security for a commercial loan, for example, a student loan. It is particularly advisable for housing loans when an acceptable LIC policy may also cause the lending institution to give loan at lower interest rates.

12. Disability and Accidental Death Benefits

Death is not the only hazard that is insured; many policies also include disability benefits. Typically, these provide for waiver of future premiums and payment of monthly installments spread over certain time period. Many policies can also provide for an extra sum to be paid (typically equal to the sum assured) if death occurs as a result of accident.

2.3 Life Insurance Products-Traditional and Market Related

Q9. Explain different types of life insurance products.

Ans : **(Imp.)**

1. Whole Life Insurance

Whole life insurance is an insurance plan that provides you coverage throughout your lifetime provided the policy is in force. Whole life insurance policies also contain a cash value component that increases over time. You can withdraw your cash value or take out a loan against it as per your convenience. In addition, in case of your unfortunate demise before you pay back the loan, the death benefit paid to your beneficiaries will be reduced.

2. Endowment Policy

An endowment policy is defined as a types of life insurance policies that is payable to the insured if he/she is still living on the policy's maturity date, or to a beneficiary otherwise. Endowment plans provide you with a dual combination of protection and savings. In this policy, if the insured dies during the term of the insurance policy, the nominee receives the sum assured plus the bonus or participating profit or guaranteed additions, if any. The bonus or profit is paid for the number of years that the insured survives in the policy term.

3. Money Back Policy

Money back policy gives you money during the policy tenure. It gives you a percentage of the sum assured at regular intervals during your policy term. If you live beyond the term of the insurance policy then you will receive the remaining portion of the corpus and the accrued bonus also at the end of the policy term.

But in case of an unfortunate event before the full term of the insurance policy is over; the beneficiaries are entitled to receive the entire sum assured regardless of the number of installments paid out. Money back policies are the most expensive insurance options offered by insurance companies as they provide returns to the insured during the policy tenure.

Money Back policy gives way for a person to plan the course of his life with a sum that is expected in regular Intervals. Plans such as children's education, children's marriage can be executed in a better way with the help of this policy.

4. Retirement Plans

These plans provide you with income during retirement is called the Retirement Plan, These plans are offered by life insurance companies in India and help you to build a retirement corpus. On maturity, this corpus is invested for generating a regular income stream which is referred to as pension or annuity,

5. Unit Linked Insurance Plans-ULIPs

ULIPs are a type of life insurance plan that provide you with a dual advantage of protection and flexibility in investment. It is a type of life insurance where the cash value of a policy varies according to the current net asset value of the underlying investment assets. The premium paid is used to purchase units in investment assets chosen by the policyholder.

6. Child Insurance Policy

A child insurance policy is a saving cum investment plan that is designed to meet your child's future financial needs. It allows your kids to live their dreams and gives you the advantage to start investing in the children's plan right from the time the child is born and provisions to withdraw the savings once the child reaches adulthood. Some child insurance policies do allow intermediate withdrawals at certain intervals.

Life insurance is not just to fulfill the daily expenses of the family in the absence of breadwinner. It should be capable enough to bail out the family during large financial exigencies. So, one should always choose one or two best types of life Insurance which can support his/her family in different stages of life.

2.3.1 Pension plans

Q10. What are pension plans? Explain different types of pension plans.

Ans :

Meaning

The pension plans offered by insurance companies help the individuals in planning their retirement period. These type of plans provide regular income to individuals after their retirement. On the date of maturity of pension plan, the plan will be generated or converted into a regular income which is known as 'Pension' or 'Annuity'. Tax benefits on pension plans is limited to ` 10,000 only.

Types

The different types of pension plans or policies are as follows,

1. With Cover Plans

The pension plan which provide assured life cover or sum assured in case of any eventuality is referred as 'with cover pension plans'.

2. Without Cover Plans

In case of without cover pension plans, there will be no sum assured provided to the insured person. Person may receive the amount after the deduction of expenses and premium which is unpaired at the time of eventuality.

3. Immediate Annuity Plans

Under immediate annuity plans, the pension or annuity is provided to individual is one year only. Because premium payment is only one-time in this plan. Such a premium amount is known as purchase price. In India, only few companies are offering immediate annuity plans. One of the example is LIC's Jeevan Akshay-II.

4. Deffered Annuity Plans

Under deffered annuity plan, the pension or annuity does not occur immediately to the individual. The premium paid under this plan can be single (or) regular premium. In India, most of the pension plans offered by insurance companies are deffered annuity plans.

2.3.2 Group insurance

Q11. What is Group insurance? Explain the features of Group insurance.

Ans :

Meaning

In Group Insurance is an extention of individual insurance into class insurance. In group insurance a large number of persons belonging to an identifiable group, like employees in an organization, members of a club or an association are covered under one contract. In a single master policy, called 'master policy' the employees/ workers members of one group are insured for one year's Term Assurance (OYTA) renewable every year. The contract is between the insurer and the employer, though risk is covered on employees' lives.

The first group insurance policy was issued in 1911 by the Equitable Life Assurance Society of New York. The development of group insurance was insignificant till the early 1960s in India. However by the year end of 2002, the number of persons covered under Group insurance by the LIC was nearly 70% of the individual lives covered. The new entrants are focussing on group insurance for an early market penetration.

Apart from issuing a single master policy to employees of the same organization, the group insurance is being provided to groups which are identifiable and homogeneous like trade-unions, professional organizations, co-operative societies, trade associations, Debtor-Creditor Groups, etc. Group insurance is also useful for Government because it helps in implementing various social welfare schemes providing benefits to poorer sections of the society.

Features

Group insurance possesses several distinguishing features vis-a-vis individual life insurance:

1. Group Underwriting replaced for individual underwriting.
2. Master Contract Policy.
3. Lower Cost of Administration
4. Flexibility in design of contract
5. Extensive use of experience rating technique.

Q12. What are the factors led to growth in group insurance?

Ans :

1. Industrialization

The transition from agrarian to industrial economy in the Europe has magnified the economic consequences of death, sickness, accidents and old age. As a result, some employers tried to provide retirement, death and medical benefits in a systematic way through group insurance. In fact companies started offering various kinds of benefit plans to attract and retain talented employees through group insurance.

2. Organized labour

Though unionism has pressurised employers to broaden the employee benefits offered from time to time, it is in fact the employer's approach to wean away the employees from unionism that made them to offer a variety of benefits. This need for providing variety of benefits on a cost effective scale has ultimately given a boost to group insurance.

3. Wage Control

During the periods of wage control, immediately after the Second World War, companies started offering benefit plans to attract an retain talented employees through group insurance mechanism. Group health insurance coverage grew rapidly when employers learned it could be treated as a fringe benefit, exempt from wage and salary control.

4. Cost Advantages

Because of the economics associated with the group underwriting and administration benefits, it became feasible to obtain insurance at lower cost through group mechanism. Besides the employers can deduct group insurance contributions as business expenses and thus save on taxes. Similarly, employees may have no taxable income as a result of employer contributing on their behalf to group insurance.

5. Inflation

Inflation has also affected the cost of group insurance. Increase in the level of inflation results in increased wages/salaries. As the benefits are linked to wages, the cost of providing benefits to the employees also increases under an inflationary economy. The benefits given in the form of fixed amounts are likely to exert pressure on employees during inflationary period. During such times, companies have resorted to group insurance as a means of cutting cost.

6. Legislation

In every country, the government has made the inclusion of certain benefits like those for maternity compulsory. Offering such benefits through group insurance mechanism turned out to be a cheaper tool for the employers. Thus, group insurance, has picked up momentum. Cumulatively all these factors have led to a substantial growth in group insurance.

Q13. What are the benefits of group insurance?

Ans : **(Imp.)**

Benefits

Following are the benefits of group insurance to both employees and employers.

1. Benefits to Employees

Employees have been the major gainers of group insurance, which has increased the scope of employee benefit manifold.

(a) Low Cost

The major benefit derived by the employees under the group insurance is the low cost of policy as compared to the individual insurance policy. This is feasible due to large number of employees under the same insurance policy that ultimately reduced the administrative costs.

(b) Employee Benefit Plan

Group insurance is the most popular employee benefit plan. A large section of the working class is found to be unable to obtain an individual insurance policy for oneself/ one's spouse/ family because of its high cost. Thus, it depends solely on the employer to fund its insurance policy.

(c) Flexibility

The concept of group insurance is applicable to all sectors of society and industry. This aspect of group insurance has made it popular among different groups like trade associations and etc.

(d) Tax Deductions

As the benefits are received in the form of group insurance policy, the employee under the group can avail the benefits of tax deductions by contributing to the group insurance policy.

2. Benefits to The Employers

Group insurance has become an essential employee benefit, and has helped employers in not only improving the productivity of employees but also employee morale in the organization.

(a) Retention

Many organizations provide group insurance to its employees in the form of an additional benefit to retain them for a longer period. Group insurance benefit not only increases the retention ratio among the employees, but also their productivity and morale.

(b) Public Image

An organization can always promote its public image through group insurance schemes and thus attract the major productive cream of the market.

(c) Tax Benefits

By providing the group insurance benefit plan, whether contributory or non-contributory to the employees, the employer can avail tax deductions under the taxation rules.

(d) Size of the Organization

Group insurance is beneficial to all types of organizations, irrespective of size and number of employees.

Q14. Explain the eligible group required for group insurance.

Ans : **(Imp.)**

1. **Single Employer**

Single employer is the most popular form of group insurance. The employer may be of any kind: a partnership firm, sole proprietorship firm or other form of organization. Under this form, the employee undertakes to ensure the employee. Here, the employees include even the proprietors, partners of a firm, employees working in an associated company or subsidiary and retained employees. The employer needs to enter into a contract on behalf of the employees. The policy may be contributory or non-contributory. In order to reduce the administrative expenses it is essential that there is high participation from the employees.

2. **Trade Associations**

Group insurance specifies certain number of people which is generally more than 10 for obtaining the benefit of insurance coverage. But every organization may not have the requisite number. Therefore, such organizations form associations and can obtain insurance coverage to their employees. For example, there may be trade association of doctors, lawyers, engineers and etc. The members of the association should belong to the same profession or industry to maintain homogeneity in the group. In such associations, high participation from the employees is needed to reduce the cost of the policy.

3. **Labour Union**

At times, Labour Unions provide group coverage for their union members. Under such coverage, policies remain with the union. Usually, union-sponsored policies are contributory in nature.

4. **Negotiated Trusteeship**

These Trusteeships are formed through collective bargaining between a union and the employers of the union members. Such employees usually hail from activities like trucking, construction, etc. Employers of such union members make payments to the trusteeship to provide group insurance benefits. The group insurance contract is issued favouring the trustees of the fund. The employers regularly contributes fund to the trustees to meet premium costs and other administrative expenses related to the insurance coverage

5. **Self-insurance**

Some big employers at times prefer self-insurance against certain risks. However, from a practical point of view, this may not be always be feasible as very few companies can afford to meet the claims arising out due to death, catastrophic medical expenses or disability from their current revenues. Except for very large employers, it is generally very difficult to make accurate prediction of frequency of claims and allocate the payment of benefits. Even if an employer believes that claims can be met from the current cash flows, it can not wish away the administrative problems associated with the management of claims and other administrative function. So, self-insurance is not advisable in case of group insurance.

6. **Debtor-Creditor Group**

The banks, financial institutions, small finance companies and retailers providing loans may form a group and seek coverage under life / health insurance for their debtors. The purpose of such coverage is to ensure that the lenders purpose of such coverage is to ensure that the lenders don't suffer financial losses due to debtor's ill health / disability / premature death. Accordingly, the benefit under the policy is paid directly to the creditors, Even though the debtor is the beneficiary of the policy.

7. **Multiple Employer Trust**

In this type of group insurance as the number of employees is few, they urge the employers to enter into multiple employer trusts to provide them with group benefits. The employers who participate should, of course, belong to same category of industry. They need not, of course, form into an association. Each such trust must have a trustee and an administrator. Such trusts get fully insured with an insurer using him or a third-party administrator to act as an administrator.

2.3.3 Tax treatment of life insurance

Q15. Write a short note on Tax treatment of life insurance.

Ans : **(Imp.)**

Understanding the income tax treatment of life insurance is crucial for individual preparing risk management plan. The various constituents of life insurance are treated in the following manner by the income tax,

1. Premiums

The premium amount paid by individuals, towards life insurance, is not deductable for computation of taxable income. However, the premium paid on life insurance owned by a charitable organization is deductable. For example. Suppose Mr. Rakesh purchases a ` 6,00,000 life insurance policy as a fund-raiser for a charitable institute. Therefore, the premium paid by Mr. Rakesh is deductable from income tax amount. The death of Mr. Rakesh will result in payment ` 6,00,000 face amount to the charitable institute.

2. Death Benefits

The payment of death benefits by the insurer to the insured family, in an event of death, is not taxable when paid in a lumpsum amount. However, payment of death benefit in any other form is subjected to more complex income tax rules. The beneficiary receiving the death benefit in instalments from the insurer, can deduct only a part of the income from taxable income. Only the amount of actual death benefit included in each payment is non-taxable.

3. Cash Values

The life insurance policy terminated, before the death of the insured, and the cash benefit earned from it includes a taxable amount during the termination year. The difference in amount between the cash received, on termination, and premium paid during the year is taxable. However, no immediate tax is charged on the increase in the cash value of the policy. The increase or increment in cash value is taxed only when the policy is terminated for its cash value. Therefore, an increase in the cash value of individual's life insurance policy from ` 30,000 to ` 31,000 in one year, does not include ` 1,000 as taxable income.

The policies, that do not meet the standard requirements and definition of life insurance by internal revenue code are taxed partially on their incremented cash values. Whereas, policies that meet these requirements and definition of insurance by internal revenue code are not taxed immediately on their incremented cash value.

The internal revenue code states that a policy is a taxable life insurance only if it passes two tests. These tests are technical and cannot be stated. Both tests ensure that the cash value of a policy is not more than its death benefit.

Q16. Explain the implication of income tax of life insurance companies.

Ans :

The taxation of Indian life insurance companies is regulated and governed by Sections 115B, Section 44 and first schedule of Income tax Act, 1961.

The section 115B of Income Tax Act, 1961 states that,

1. The income tax shall be aggregate of amount generated from the total income of assessee which consist of any profits and gains from the business.
2. The income tax amount shall be calculated at the rate of 12.5% on the profits and gains of life insurance business which consist of total income.

After this statements, two changes has been brought up. In one, the rate of tax will be 12.5% on calculated profit and gains of life insurance business and other one is normal corporate tax rate on the net income on the funds of shareholders after excluding the profits from life insurance business.

According to Section 80D of Income Tax Act, 1961, Section 10(10D) says that any money received under a life insurance policy will not constitute 'income' under the Income Tax Act, chargeable to Tax in the year of receipt. There is no limit for payment of,

(i) Refund of premiums

(ii) Surrender value

(iii) Loans

(iv) Survival benefit

(v) Maturity claim

(vi) Death claim, etc.

These amounts need not be shown as income in the tax returns filed. But the premiums paid under section 80 DD, if refunded, are treated as income chargeable to tax.

➢ **Taxation on Insurance Premium**

The maturity proceeds from the single premium life insurance policy will be tax-free only if the minimum sum assured throughout the policy term remains at least 10 times of the single premium paid. However, if the sum assured on single premium life insurance policies is 1.25 times of the premium amount, then the maturity proceeds will be taxable. For example: when the premium is ` 10,000, the life cover (sum assured) should be ` 1 00,000 for the maturity proceeds to be tax-free. If, say, the sum assured is ` 12,500 or ` 90,000, the policy loses the tax benefit under Section 10 (10D). Therefore, make sure the sum assured is at least 10 times the premium amount.

If this condition is not satisfied then the complete maturity which is proceeds fully taxable in the year of receipt has to be shown as income while filing income tax return. The only exception in this case is the proceeds from life insurance policy arising due to the death of the policyholder exempted from tax irrespective of the level of the premium.

Addition to this, the insurer is supposed to deduct tax at source i.e. TDS on such payments. According to section 194DA of the Income Tax Act, 1961, any sum received by an insured or Indian resident from an insurer under a life insurance policy shall be subject to TDS of 1 percent if the maturity proceed is not exempted under Section 10(10D), i.e., on policies where the sum assured is less than 10 times the premium amount.

➢ **Taxation on Annuity or Pension Plans (Sec. 80CCC)**

According to Section 80CCC of Income Tax Act, 1961, contributions made towards annuity plans available with any of the Life Insurance Companies for receiving pension from the fund can be considered for tax benefit. The maximum Tax deduction allowed under this section is ? 1.5 Lakhs.

➢ **Taxation on Medical Insurance Premium (Sec. 80D)**

According to Section 80D of Income Tax Act, 1961, upto ` 30,000 can be deducted towards the medical insurance premium for senior citizens (above 60 years) and upto ` 25,000 can be deducted towards medical insurance of self and dependents (spouse & children).

Additionally, a deduction of up to ` 25,000 towards medical insurance premium of parents (father/ mother/both) is available. If both the parents (Father & Mother) are senior citizens, then the deduction allowed is up to ` 30,000.

2.3.4 Claims settlement

Q17. Define claim. What are the different types of Life insurance Claims ?

Ans : **(Imp.)**

Meaning

Claim refers to the demand made by an insured or beneficiary to the insurer to make payment of insurance policy benefits

Types

The insurance claims are divided into three types.

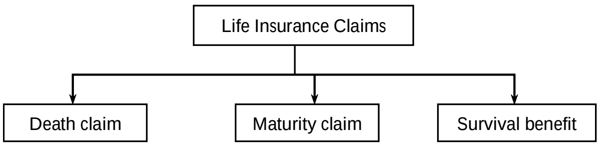


Fig.: Life insurance claims

The basic necessity for settlement of claim arises on death of the policy holder or maturity of policy.

(A) Death Claim

The death claim arises on the death of the policy holder. Death can be natural, accidental or a suicide. Death claim is further classified as,

(i) Premature Claim

In case of premature claim, insured person dies within three (3) years from the date on which insurance policy is taken.

(ii) Other Claim

In case of other claim, insured person dies after three (3) years from the date on which insurance policy is taken.

(B) Maturity Claim

The essential features of maturity claims are listed below,

1. A maturity claim is payable according to the conditions of the contract on the completion of the policy term period, if the insured person is alive till the maturity date.
2. This claim includes the assured sum, vested bonuses and other specified money. Any debt or charge under the policy such as outstanding premia and loans will be deducted from the assured sum.
3. When it comes to proof of title, settlement of maturity claims is quite easy as the policy money is paid directly to the insured person itself.
4. The insurance company will make payment to the absolute assignee in case of an absolute assigned policy.
5. Policy holders are informed in advance about the maturity date by the insurers. The insurers also send the discharge form to the policy holders and request them to return the discharge form signed, duly stamped and enclosed with the documents such as,
   (i) The policy document
   (ii) Age proof (if age is not admitted yet)
   (iii) In case if an assignment is made, the stamped document of assignment should also be submitted.

(C) Survival Benefit Payment

Some policies such as money back policies allow the insured person for the survival benefit before the full term policy expires. Settlement of the survival benefit is less complicated when compared to settlement of maturity claim.

The procedure for settlement of survival benefit is as follows,

1. Insurer intimates the policy holder in advance about the money back policies and sends a discharge voucher.
2. The policy holder returns the documents duly stamped and signed and witnessed with the original policy document for necessary approval.
3. The gross amount is nothing but the installments of the sum of money assured payable.
4. After subtracting the outstanding premium, outstanding loan, interest etc., from the gross amount, the net amount will arrive.

Q18. What do you meant by claim settlement? Explain the procedure in settlement of claim on death of insured.

Ans : **(Imp.)**

Claim settlement means paying back the money by the insurance company to the insurance policy holder. A claim is said to be settled when the policy holder duly receives the money which is due to him by the company according to the terms and conditions of policy. The process of claim settlement directly reflects the efficiency and effectiveness of the company. A company which correctly and successfully settles down the claims of clients achieves trustworthiness and loyalty. While the insurance companies which involve litigations in claim settlements owes bad reputation in the market.

Claim settlement of an insurance policy usually takes place in two circumstances,

A) On death of policy holder.

B) On maturity of insurance policy.

(A) Procedure for Settlement of Claim on the Death of Policy Holder

In case of death of policy holder, the following procedure is followed and the claim is settled down,

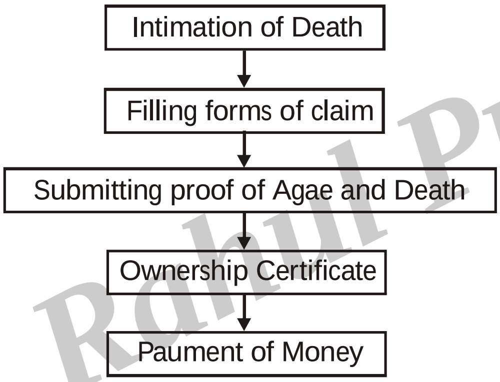


Figure: Procedure for Settlement of Claim on Death of Policy Holder

1. Intimation of Death

The process of claim settlement basically starts with intimating about the death of policy holder (insured) to the respective office of LIC from where the policy was being purchased. The intimation letter should include the following details, full name of the insured, policy number, date and place of death and so on. The letter must be forwarded by the correct nominee, assignee or the close relative of policy holder. The relationship between the person sending the intimation letter and the insured should also be mentioned.

2. Filling Forms of Claim

Soon after receiving the intimation letter, the official authorities would send certain claim forms to the nominee. These forms need to be duly filled up in a prescribed format and should be returned back to the authorities within the specified time period.

3. Submitting Proof of Age and Death

In addition to sending letter of death intimation and filled up forms, it is also required to submit the proof of age and death to the concerned officials. For submitting the proof of age, school certificate, birth certificate or citizenship card might be used. And for proof of death, death certificate from hospital or from municipality might be submitted. If necessary, it is also required to submit the statement of doctor who was giving treatment to the insured and the certificate from hospital in which the insured got treatment for the illness.

4. Ownership Certificate

Certificate of ownership is needed in case when there is no valid nominee or assignee mentioned in the policy. It can be a succession certificate, letters of probate and the similar kind.

5. Payment of Money

After successfully completing all the steps, the money is paid to the right person i.e., nominee. The LIC company sends a cheque in the name of nominee which can be withdrawn anytime. A form of discharge is also sent by the company in order to acknowledge the receipt of the policy amount.

(B) Procedure for Settlement of Claim on the Maturity of Insurance Policy

The settlement of maturity claim follows a simple procedure. The procedure gets started soon after the completion of maturity period of a life insurance policy. Prior to the claim settlement, discharge form is sent by the divisional head of the LIC to the policy holder before two months of maturity date. After receiving the filled in discharge form, claim settlement takes place. The procedure of maturity claim settlement include three main steps as follows,

1. Intimation of the Maturity

The first step in the claim settlement is intimation about the maturity to the policy. The divisional officer of the LIC is responsible for intimating the insured about the maturity before two months of maturity date. The insured is asked to fill the discharge form which is sent along with the intimation and submits the required documents. The documents includes the original document of policy, age proof of the insured and the assignment or reassignment deed of the policy. In case where the intimation is not received, the policy holder should approach the concerned branch enquiring about the copy of intimation.

2. Submission of Required Documents

Soon after receiving the intimation letter from the company, the policy holder must forward the following documents to the given address,

i) **Filled up Discharge Form :** Discharge form is issued by the divisional head along with intimation letter. The insured has to duly fill up and sign this letter and forward the same to LIC's branch.

ii) **Original Document of Policy :** Every policy holder is given an original document of the life insurance policy. In case if this document is lost then an indemnity bond with reliable surety needs to be sent.

iii) **Receipts of Premium Paid :** The receipts which acknowledges the payment of premium regularly must be submitted.

iv) **Proof of Age :** Proof of age is also required in settlement of maturity claim. If it is not submitted then it must be sent along with the discharge form. Proof of age can be either a Birth Certificate of insured, High school certificate or any other document given by the authorized body.

v) **Other Documents :** Any other document demanded by the corporation should be submitted.

vi) **Payment of Money :** After successfully receiving the required documents from policy holder, the corporation would send an account payee cheque to the insured. The amount of money would be \according to the terms and conditions of policy selected. The procedure of claim settlement would come to an end after duly paying the claim amount to the insured.

Q19. How to managing claims and losses in insurance?

Ans :

Handling claims is also a social responsibility of insurance company. In case of life the job is not complex as with property liability where losses are have higher frequency, predominance of partial losses and uncertainty of quantum of loss.

Claims management is the basic goal of the insurance industry. It means to settle the losses of the insurer and the differences between the insurer and the insured. Claims management is more than just settling the losses with money. Insurance companies have claim settlement representatives to carry-out this task. An insurance company should pay for the claim reasonably. Rejection of undeserved claims also falls under claims settlement. Claim management is the function of an insurance adjuster. There are various such adjusters working in the insurance industry.

Objectives

The basic objective of claims settlement includes:

1. Confirmation of a Covered Loss

The insurer should make sure that the claim to be covered had actually occurred or not. The insurer should check, if the applicant of a life or property insurance is eligible to claim it.

2. Reasonable and Timely Payment of Claims

The claims settlement should be fair and without any delay. If the applicant's reasonable claim is rejected, it may defy the main objective of insurance. It may also affect the insurer's reputation.

3. Personal Support to the Insured

Apart from the legal responsibilities as per the contract, the insurer should help the insured personally in some cases. **For example,** an insurer should help the insured to find a temporary house, if there is any natural hazard.

Types

The person who adjusts a claim is known as a claims adjustor. The major types of adjustors include the following:

1. Agent

An agent often has authority to settle small first-party claims upto some maximum limit. The insured submits the claim directly to the agent, who has the authority to pay upto some specified amount.

2. Company Adjustor

A company adjustor can settle a claim. The adjustor is usually a salaried employee who represents only one company. After notice of the loss is received, the company adjustor will investigate the claim, determine the amount of loss, and arrange for payment.

3. Independent Adjustor

An independent adjustor can also be used to settle claims. An independent adjustor is a person who offers his or her services to insurance companies and is compensated by a fee. The company may use an independent adjustor in certain geographical areas where the volume of claims is too low to justify a branch office with a staff of full-time adjustor.

4. Adjustment Bureau

An adjustment bureau can be used to settle claim. An adjustment bureau is an organization for adjusting claims that is supported by insurers that use its services. Claims personnel employed by an adjustment bureau are highly trained individuals who adjust claims on a full-time basis.

5. Public Adjustor

A public adjustor can be involved in settling a claim. A public adjustor, however, represents the insured rather than the insurance company and is paid a fee based on the amount of the claim settlement.

Short Question and Answers

1. Importance of life insurance.

Ans :

(i) Covers the Risk of Death

The risk of death is covered under the life insurance. In case of l; death, insurance company pays full sum assured, which would be several times larger than the total of the premiums paid.

(ii) Encourages Compulsory Savings

The element of protection and investment both are present in case of life insurance. In most of the life policies, elements of savings predominates. After taking insurance, if the premium is not paid the policy lapses. Thus, the insured is forced to go on paying premium. In other words, it encourage compulsory saving to pay premium.

(iii) Easy Settlement and Protection Against Creditors

In case nomination or assignment is made, a claim under life insurance can be settled in a simple way. The policy money becomes a kind of trust, which cannot be taken away by the creditors.

(iv) Provides Security and Safety

Under life insurance payment is made in case of death of insured or when the term of insurance expires. The loss to family of a insured at an premature death and payment for old age both are adequately provided by life insurance. In other words, security against premature death and old age sufferings both are provided by life insurance.

2. Features of life insurance.

Ans :

1. Like other contracts of insurance, the life insurance contract is also the outcome of an offer made by the insured and its acceptance by the insurer. Usually, contract of life insurance is made in writing.
2. The insurance company agrees to pay a certain sum of money either on the death of the insured or on the maturity of the policy, whichever is earlier.
3. The insured is under obligation to pay periodically the amount of payment till the death of insured or expiry of the period of policy, whichever is earlier.
4. The contract of life insurance is not a contract of indemnity because the loss caused by the death cannot be calculated in money terms, nor is money any compensation for loss of one's life.
5. Insurable interest must be present in the person insured at the time when the policy is taken in case of life insurance, which may or may not be present at the time of insured's death.
6. Life insurance extends the hand of protection to those who are left support less and helps financially in case of death of the insured. It is also considered to be the best alternative for making savings.

3. Policy loan.

Ans :

Insurance company can grant a loan to the policy holder against his policy as per the terms and conditions applicable to the policy. The requirements for granting a loan are as under :

1. Application for loan with an endorsement of terms and conditions of the loan being placed on the policy.
2. Policy to be assigned absolutely in favour of the corporation.
3. A receipt for the loan amount.

The maximum loan amount available under the policy is 90% of the surrender value of the policy (85% in case of paid up policies) including cash value of bonus.

4. What is revival of life insurance policy?

Ans :

Where the premium is not paid on the due date or within the days of grace, the policy lapses but it can be revived at any time during the remaining period of the policy, subject to medical evidence and arrears of premium along with interest thereon at the applicable rate. If the policy has lapsed within 3 years of the date of commencement it is not entitled to any claims' concession, except days of grace, usually 30 days. As per IRDA guidelines details all those policies who have lapsed is required to be submitted within stipulated time to IRDA.'

5. Different types of revival of life insurance policy.

Ans :

If the premium under a policy is not paid within the days of grace, the policy lapses. Revival is a fresh contract wherein the insurer can impose fresh terms and conditions. In case of LIC, a lapsed policy can be revived within 5 years from the date of first unpaid premium. A policy can be revived under the following types of revival:

1. Ordinary Revival

If a revival of the policy is effected within 6 months from the due of first unpaid premium, no personal statement regarding health is required and the policy is revived on collection of delayed premium plus interest. The rate of interest to be charged for such delayed premium will depend on the date of commencement of the policy.

2. Revival on Non-medical Basis

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

3. Revival on Medical Basis

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

4. The Other Schemes for Revival are :

- Special Revival Scheme
- Revival by instalment
- Loan-cum-revival
- Survival Benefit-cum-revival

5. Special Revival Scheme

If the policy was in force for at least 6 months and has not acquired surrender value, the policy may be revived where the original date of the policy is shifted by the period for which the policy was in force. A fresh policy was will have to be issued for the age as on that date. The arrears of premiums will be a nominal amount. The cost of the preparation of the policy will have to be borne by the policyholder.

6. Special Revival Scheme

If the policy was in force for at least 6 months and has not acquired surrender value, the policy may be revived where the original date of the policy is shifted by the period for which the policy was in force. A fresh policy will have to be issued for the age as on that date. The arrears of premiums will be a nominal amount. The cost of the preparation of the policy will have to be borne by the policyholder.

6. What are the benefits of life insurance?

Ans :

The following are the advantages of Life Insurance:

1. Superior Saving Plan

Unlike any other savings plan, a life insurance policy affords full protection against risk of death. In the event of death of a policyholder, the insurance company makes available the full sum assured to the policyholders' near and dear ones In comparison, any other savings plan would amount to the total savings accumulated till date. If the death occurs prematurely, such savings can be much lesser than the sum assured. Evidently, the potential financial loss to the family of the policyholder is sizable.

2. Encourage Saving Habits

Life Insurance encourages saving habits. Long-term savings can be made in a painless manner because of the easy instalment facility built into the scheme. The insured person can pay premiums through monthly, quarterly, half-yearly or yearly instalments. The salary saving scheme, popularly known as SSS; provides a convenient method of paying premium each month through deduction from one's salary. The employer is authorized by the employee to deduct the insurance premium monthly and remit to the life insurance corporation. The Salary Saving Scheme (SSS) can be introduced in any institution or organization subject to specified terms and conditions laid down by insurer.

3. Suitable for Raising Loans

Life Insurance policy can be given as security to raise a loan even for commercial purposes also. The loan can be raised without any delay on safe security of the policy. Even after an initial period payments if the policy holder finds it difficult to continue with the payment of premium, he can surrender the policy for a surrender value amount with the Life Insurance Corporation

7. Whole Life Insurance.

Ans :

Whole life insurance is an insurance plan that provides you coverage throughout your lifetime provided the policy is in force. Whole life insurance policies also contain a cash value component that increases over time. You can withdraw your cash value or take out a loan against it as per your convenience. In addition, in case of your unfortunate demise before you pay back the loan, the death benefit paid to your beneficiaries will be reduced.

8. Endowment Policy.

Ans :

An endowment policy is defined as a types of life insurance policies that is payable to the insured if he/she is still living on the policy's maturity date, or to a beneficiary otherwise. Endowment plans provide you with a dual combination of protection and savings. In this policy, if the insured dies during the term of the insurance policy, the nominee receives the sum assured plus the bonus or participating profit or guaranteed additions, if any. The bonus or profit is paid for the number of years that the insured survives in the policy term.

9. Money Back Policy.

Ans :

Money back policy gives you money during the policy tenure. It gives you a percentage of the sum assured at regular intervals during your policy term. If you live beyond the term of the insurance policy then you will receive the remaining portion of the corpus and the accrued bonus also at the end of the policy term.

But in case of an unfortunate event before the full term of the insurance policy is over; the beneficiaries are entitled to receive the entire sum assured regardless of the number of installments paid out. Money back policies are the most expensive insurance options offered by insurance companies as they provide returns to the insured during the policy tenure.

Money Back policy gives way for a person to plan the course of his life with a sum that is expected in regular Intervals. Plans such as children's education, children's marriage can be executed in a better way with the help of this policy.

10. Pension plans.

Ans :

The pension plans offered by insurance companies help the individuals in planning their retirement period. These type of plans provide regular income to individuals after their retirement. On the date of maturity of pension plan, the plan will be generated or converted into a regular income which is known as 'Pension' or 'Annuity'. Tax benefits on pension plans is limited to ₹ 10,000 only.

11. Types of pension plans.

Ans :

1. With Cover Plans

The pension plan which provide assured life cover or sum assured in case of any eventuality is referred as 'with cover pension plans'.

2. Without Cover Plans

In case of without cover pension plans, there will be no sum assured provided to the insured person. Person may receive the amount after the deduction of expenses and premium which is unpaired at the time of eventuality.

3. Immediate Annuity Plans

Under immediate annuity plans, the pension or annuity is provided to individual is one year only. Because premium payment is only one-time in this plan. Such a premium amount is known as purchase price. In India, only few companies are offering immediate annuity plans. One of the example is LIC's Jeevan Akshay-II.

4. Deffered Annuity Plans

Under deffered annuity plan, the pension or annuity does not occur immediately to the individual. The premium paid under this plan can be single (or) regular premium. In India, most of the pension plans offered by insurance companies are deffered annuity plans.

12. What is Group insurance?

Ans :

Meaning

In Group Insurance is an extention of individual insurance into class insurance. In group insurance a large number of persons belonging to an identifiable group, like employees in an organization, members of a club or an association are covered under one contract. In a single master policy, called 'master policy' the employees/ workers members of one group are insured for one year's Term Assurance (OYTA) renewable every year. The contract is between the insurer and the employer, though risk is covered on employees' lives.

The first group insurance policy was issued in 1911 by the Equitable Life Assurance Society of New York. The development of group insurance was insignificant till the early 1960s in India. However by the year end of 2002, the number of persons covered under Group insurance by the LIC was nearly 70% of the individual lives covered. The new entrants are focussing on group insurance for an early market penetration.

13. Benefits of group insurance.

Ans :

Benefits

Following are the benefits of group insurance to both employees and employers.

1. Benefits to Employees

Employees have been the major gainers of group insurance, which has increased the scope of employee benefit manifold.

(a) Low Cost

The major benefit derived by the employees under the group insurance is the low cost of policy as compared to the individual insurance policy. This is feasible due to large number of employees under the same insurance policy that ultimately reduced the administrative costs.

(b) Employee Benefit Plan

Group insurance is the most popular employee benefit plan. A large section of the working class is found to be unable to obtain an individual insurance policy for oneself/ one's spouse/ family because of its high cost. Thus, it depends solely on the employer to fund its insurance policy.

(c) Flexibility

The concept of group insurance is applicable to all sectors of society and industry. This aspect of group insurance has made it popular among different groups like trade associations and etc.

(d) Tax Deductions

As the benefits are received in the form of group insurance policy, the employee under the group can avail the benefits of tax deductions by contributing to the group insurance policy.

2. Benefits to The Employers

Group insurance has become an essential employee benefit, and has helped employers in not only improving the productivity of employees but also employee morale in the organization.

(a) Retention

Many organizations provide group insurance to its employees in the form of an additional benefit to retain them for a longer period. Group insurance benefit not only increases the retention ratio among the employees, but also their productivity and morale.

(b) Public Image

An organization can always promote its public image through group insurance schemes and thus attract the major productive cream of the market.

(c) Tax Benefits

By providing the group insurance benefit plan, whether contributory or non-contributory to the employees, the employer can avail tax deductions under the taxation rules.

---

14. What do you meant by claim settlement?

Ans :

Claim settlement means paying back the money by the insurance company to the insurance policy holder. A claim is said to be settled when the policy holder duly receives the money which is due to him by the company according to the terms and conditions of policy. The process of claim settlement directly reflects the efficiency and effectiveness of the company. A company which correctly and successfully settles down the claims of clients achieves trustworthiness and loyalty. While the insurance companies which involve litigations in claim settlements owes bad reputation in the market.

Choose the Correct Answers

1. Which one of the following does not belong to the main products of life insurance? [d]
   (a) Term (b) Whole life
   (c) Endowment (d) Personal accident insurance

2. Which one of the following does not belong to the major general insurance private sector companies in India? [b]
   (a) Reliance General Insurance (b) The Oriental Insurace Company
   (c) Bajaj Allianz General Insurance (d) Royal Sundaram Alliance Insurance

3. When was Life Insurance sector nationalised? [c]
   (a) 1947 (b) 1951
   (c) 1956 (d) 1959

4. provide the benefit to insured to claim from the insurer any loss incurred due to the negligence of third party. [c]
   (a) Principle of utmost good faith (b) Principle of contribution
   (c) Principle of subrogation (d) Principle of indemnity

5. The amendments made by IRDA in which of the following acts, [c]
   (a) GICAct, 1972 (b) LIC Act, 1956
   (c) Both (a) and (b) (d) MRTP Act

6. The main purpose of is to prevent gambling and minimize the moral hazard. [c]
   (a) Subrogation (b) Utmost good faith
   (c) Insurable interest (d) Proximate cause

7. The facts that should not be disclosed by insured are, [d]
   (a) Facts that minimize the risk (b) Facts relating to public knowledge
   (c) Facts waived by insurer (d) All the above

8. "A contract that pledges payment of an agreed upon amount to the person (or his/her nominee) on the happening of an event covered against" is technically known as [b]
   (a) Death coverage (b) Life insurance
   (c) Savings for future (d) Provident fund

9. The insurance companies collect a fixed amount from its customers at a fixed interval of time. What is it called? [c]
   (a) Instalment (b) Contribution
   (c) Premium (d) EMI

10. Different types of life insurance claims are [d]
    (a) Death claim (b) Maturity claim
    (c) Survival Benefit (d) All the above

11. Unnatural causes of death includes. [c]
    (a) Suicide (b) Accident
    (c) Both (a) and (b) (d) Old age

12. Underwriting helps in risk pooling and [a]
    (a) Fair Pricing (b) Waiver of Premium
    (c) Guaranteed Purchase Option (d) Accelerated Benefit's Rider

13. FUP stands for [d]
    (a) Fixed Unpaid Premium (b) Full Unpaid Premium
    (e) Final Unpaid Premium (d) First Unpaid Premium

Fill in the Blanks

1. LIC stand for ________
2. PLI stand for ________
3. ULIPs stand for ________
4. Example of LIC plan ________
5. Type of Health insurance ________
6. ________ is the pooling of for feitous losses by the transfer of risk of insured to insurer.
7. The process of identification and classification of the risks involved in insurance program is called ________
8. The price paid by the policy holder for the insurance policy is referred as ________.
9. The insurance that pays death benefits to the beneficiaries after the death of the insured is known as ________
10. IRDA plays a role of a ________ for the insurance industry in India.

ANSWERS

1. Life Insurance Corporation
2. Postal Life Insurance
3. Unit linked policy
4. Money Back policy
5. Group Health Insurance
6. Insurance
7. Underwriting
8. Premium
9. Life insurance
10. Regulator

One Mark Answers

1. Principle of Insurable Interest

Ans:

The principle of insurable interest states that the person getting insured must have insurable interest in the object of insurance.

2. Principle of Indemnity

Ans:

Indemnity means security, protection and compensation given against damage, loss or injury. According to the principle of indemnity, an insurance contract is signed only for getting protection against unpredicted financial losses arising due to future uncertainties.

3. Principle of Subrogation

Ans:

Principle of Subrogation is an extension and another corollary of the principle of indemnity. It also applies to all contracts of indemnity.

4. Policy loan.

Ans:

Insurance company can grant a loan to the policy holder against his policy as per the terms and conditions applicable to the policy. The requirements for granting a loan are as under.

5. ULIPs

Ans:

ULIPs are a type of life insurance plan that provide you with a dual advantage of protection and flexibility in investment.

UNIT III	**GENERAL INSURANCE :** Concept of General Insurance procedure, group imane, Group Insurance Types – Health, Accident, Motor, fire insurance marine insurance, claim settlements.

3.1 Concept of General Insurance

Q1. Define General Insurance. Explain the evolution of General Insurance in India.

Ans : **(Imp.)**

Meaning

Insurance which protect things like stock, cars, homes etc is known as 'General Insurance'. It provide protection to our valuables against fire, storm, earthquake, thefts, accidents, travel mishap etc. General insurance contracts offers financial compensation for any loss occurred to the insured excluding death i.e., it insures everything of a person apart from his life.

Evolution

The introduction of general insurance in India is attributable to the Industrial Revolution in the West and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. British and other foreign insurance companies through their agencies in India transacted this business.

General Insurance sector in India dates back to 1850, when Tritron Insurance Company, for general insurance was incorporated in 1907, The Indian Mercantile Insurance Co. Ltd. was set up to transact all classes of general insurance business. Insurance Act was passed in 1928 but it was subsequently reviewed and comphrensive legislation was enacted in 1938. In 1957, General Insurance Council, a wing of the Insurance Association of India, framed a code of conduct for ensuring fair conduct and sound business practices. In 1968, the Insurance Act, 1938 was amended to regulate investments and set minimum solvency margin and the Tariff Advisory Committee set up.

Management of Non-Life insurers was taken over by the Central Government in 1971 as a prelude to nationalisation. General Insurance business was nationalised with effect from 1.1.1973 by the General Insurance Business (Nationalisation) Act, 1972.

Prior to 1973 General Insurance was urban-centric, catering mainly to the needs of organized trade and Industry. 107 insurers including branches of foreign companies operating the country were amalgamated. GIC was incorporated as a company in 1972 and it commenced business on January 1st 1973. The Government of India subscribed to the capital of GIC. GIC, in turn subscribed to the capital of four companies. All the four companies are government companies registered under the Companies Act. These are:

- National Insurance Co. Ltd.
- New India Assurance Co. Ltd.
- Oriental Fire and General Insurance Co. Ltd.
- United India Insurance Co. Ltd.

The main objectives of nationalisation were to ensure the development of the general insurance business in sympathy with the best of interest and advantage to the community. Further, these companies were required to promote competition in the economy and to prevent the concentration of wealth and growth of monopoly. They were supposed to spread their activities over geographical area, innovate new products as per the requirements of different segments of population and also meet social objectives through formulating policies for weaker sections of society.

These subsidiaries carry out the entire major portion of the general insurance business in the country and surrender 20% of it to GIC through the obligatory reinsurance premium on a quota share basis. However, certain new players have also ventured into the general insurance business.

- Tata AIG General Insurance Co. Ltd.
- Bajaj Allianz General Insurance Co. Ltd.
- Reliance General Insurance Co. Ltd.
- Royal Sundraram General Insurance Co. Ltd.
- IFFCO TOKIO General Insurance Co. Ltd.
- ICICI Lombard General Insurance Co. Ltd.

Q2. State the Objectives and functions of General Insurance.

Ans :

Objectives

The main objectives of general insurance were superintending, controlling, and carrying on the business of general insurance.

1. To provide need-based and low-cost general insurance cover to the rural population.
2. To administer a crop insurance scheme for the benefits of farmers.
3. To develop and introduce covers with social security benefits.
4. To develop a marketing network throughout the country and to promote balanced regional development and make insurance available to the masses.

Functions

The functions of general insurance as mentioned in the Act were as follows :

1. The carrying on of any part of general insurance business as deemed desirable,
2. Aiding, assisting and advising the companies in the matter of setting up of standard of conduct and sound practice in general insurance business and in rendering efficient customer service.
3. Advising the acquiring companies in the matter of controlling the expenses including the payment of commission and other expenses.
4. Advising the acquiring companies in the matter of investment of funds.
5. Issuing directions to acquiring companies in relation to the conduct of general insurance business.

Q3. Explain about Classification of General Insurance Companies.

Ans : **(Imp.)**

1. Agriculture Insurance Co. of India

Agriculture Insurance Co. of India was established on 20th December 2002 under the Indian Companies Act, 1956. This company was launched with a motive to meet the needs of the farmers and to work on a maintainable actuarial regime.

2. Apollo Munich Health Insurance

India's Apollo Hospitals are renowned for its superior medical practices and a reputed brand for years now. In August 2007, they joined forces with Munich Health internationally recognized insurance brand leading to some impressive leaps in this sector. Currently, Apollo Munich Health Insurance is considered as one of the most trustworthy and favored health insurance brands in India.

3. Bajaj Allianz General Insurance

Bajaj Allianz General Insurance Company Limited is a joint venture between the world's foremost insurance company Allianz SE and Bajaj Finserv Limited, with has an authorized and paid up capital of Rs. 110 crore. Bajaj Finserv Limited holds 74% and 26% is held by Allianz, SE. They started their operations in 2001 and now with the range of products catering to individual and corporate. It has received iAAA rating from ICRA for 10th consecutive years.

4. Bharti Axa General Insurance Co. Ltd

Bharti AXA General Insurance Company Ltd was formed in the year 2008 as a joint venture between one of India Leading Business House – The Bharti Enterprises &

the AXA business Group. The Bharti group owns 51% stake in the joint venture whereas AXA Group owns 49% of the stake. In a short stint of just 09 years, the Bharti – AXA General Insurance Company has expanded its horizons in both Life Insurance Category & General Insurance Products. Bharti AXA has a vast network and national footprint of insurance distributors who are trained & equipped to provide quality financial service and insurance solutions to the each and every type of customer base.

5. Cholamandalam MS General Insurance Co. Ltd

Chola MS General Insurance Co. Ltd. (IRDA Reg. No 123) headquartered in Chennai, is a leading insurance company in India. Cholamandalam was established about 10 years ago, in 2005, their values truth, transparency, and technology forming the foundation of the multi-faceted company.

Chola MS has a number of products such as different kinds of insurance, business protection solutions, etc. Cholamandalam health insurance is very popular amongst their customer base due to their high level of customer satisfaction through optimized operational processes and innovative vision. Cholamandalam Health Insurance has over 90 centers PAN-India and an agent network that is 7000 strong.

6. Cigna TTK Health Insurance Co. Ltd

Cigna TTK Health Insurance Company Limited is a joint venture. A collaboration between Cigna Corporation, a leading US based health services provider and TTK group of India. Cigna TTK commenced their operations in 2014. Headquartered in Mumbai, Cigna TTK has a pan India presence as a health insurance provider across 15 cities of the country. Soon after their launch in 2014, a first-of-its-kind product - Cigna Global Health Product (CGHP), was launched by Cigna TTK.It has won trusts of many customers due to its tailor-made plans.

7. Export Credit Guarantee Corporation of India Ltd

Export Credit Guarantee Corporation of India Ltd was established in 1957 which is a wholly owned Government company. It was formed with an objective of promoting exports from India thereby offering Credit Risk Insurance and other related services for exports. Basically, this company is an export promotion organization. The premium rates here are minimal.

8. Future General India Insurance Co. Ltd

Future Generali General India Insurance Company which is a collaboration between Future Group and the Generali Group was incorporated in the year 2006. This company offers a varied range of easy solutions for the financial protection of the customers with a huge range of insurance products. It provides you a sense of security and a freedom to lead your life tension-free. Besides, the plans offered are customized as per your requirement.

9. HDFC ERGO General Insurance Co. Ltd

HDFC ERGO General Insurance Company (IRDA Reg. No 125) is a joint venture of one of the most respected financial institutions that provides housing finance, HDFC, and the insurance arm of Munich Re Group ERGO International AG. HDFC ERGO has a range of products such as health insurance, motor insurance, travel insurance etc. This general insurance company is one of the leaders in the private sector insurance providers in India. It is ISO certified and was bestowed upon the prestigious iAAA rating by ICRA, which is a reflection of company's high claim settlement ratio. HDFC ERGO also offers health insurers, and quite a favorite of their loyal customer base.

10. IFFCO Tokio General Insurance Co. Ltd

Founded in the year 2000, IFFCO Tokio General Insurance Co. Pvt. Ltd (IRDA Reg No. 106) is one of the most popular insurance companies in India. It is a joint venture between IFFCO and associates and Tokio

Marine and Nichido Group of Japan. IFFCO stands for Indian Farmers Fertilizer Co-operative, and is one of the largest co-operative fertilizer manufacturers in the world. IFFCO was established in 1967, and had made its place in the agricultural vertical by consistently optimizing their marketing practices while delivering the best products. Tokio Marine and Nichido Group have been providing insurance in Japan for the past 120 years, making them the oldest insurance providers.

11. L&T; General Insurance Co. Ltd

L&T General Insurance Company Limited is a subsidiary of Larsen & Toubro, which is one of the most reputed engineering companies of India. L&T General Insurance Company Limited aspires to become a leading name in the general insurance market through its innovative insurance products and efficient services. A few years back, L&T General Insurance Company was merged with HDFC ERGO and today it is known as HDFC General Insurance Limited.

12. Liberty Videocon General Insurance Co. Ltd

Liberty Videocon General Insurance Co. Ltd is a collaboration of Liberty Citystate Holdings PTE Ltd which is a US based Group Company named Liberty Mutual Group, a leading global property and casualty group and Videocon Industries Limited. This company started its operations in the year 2013.

13. Magma HDI General Insurance Co. Ltd

Magma HDI General Insurance Co. Ltd is a collaboration of Magma Fincorp Ltd, Kolkata and HDI Global SE Germany. This company's motive is to be one of the responsible and vibrant general insurance companies. They wish to fulfil the ambitions of all the stakeholders. They want to give excellent services to their customers.

14. Max Bupa Health Insurance Co. Ltd

Max Bupa Health Insurance Company Ltd. (IRDA Reg. No 145) regularly known as Max Bupa is a strategic collaboration between Max India Limited and Bupa – a pioneer in healthcare services from UK. Max India Group is considered to be a forerunner in the Indian health and insurance segment. Their repertoire includes life insurance, hospitals, and health related clinical research. On the other hand, Bupa boasts of over 6 decades experience in the healthcare industry and it has over 11.3 million customers spread across 190 countries. Max Bupa health insurance envisions of being India's most preferred health insurance company by being committed to their esteemed customers.

15. National Insurance Co. Ltd

National Insurance Co. Ltd is India's one of the oldest providers of general insurance. It is renowned to achieve significant milestones. It has achieved significance by launching corporate as well as rural products. They have good deals for online insurance products. This company was incorporated in the year 1906. This company offers huge range of products and other insurance related services.

16. The New India Assurance Co. Ltd

New India Assurance Co Ltd, founded by Sir Dorabji Tata in 1919. And now it is a 100 % Government owned multinational general insurance company operating in 28 countries with headquarter in Mumbai, India. The New India Assurance has been conferred an AAA/ Stable rating by CRISIL, which is a reflection of the company's financial stability and solubility, which in turn talk about the strong ability of the company to fulfill the claims of their customers. Moreover, New India Assurance is the only direct insurer in India rated A - (Excellent - Stable outlook) by AM Best.

17. The Oriental Insurance Co. Ltd

The Oriental Insurance Company Limited was formed in the year 1947 as a wholly owned subsidiary of the erstwhile Oriental Government Security Life Assurance Company Ltd. The core intent to form Oriental Insurance was to cater the requirement of General Insurance for all the segments of Indian market.

Oriental Insurance made a modest beginning with a first year premium of 99,946 in the year 1950 and since then the Oriental Insurance has pioneered various general insurance products in India and has earned a reputation in the Indian Insurance industry for its smooth & orderly accomplishment of the general Insurance business.

18. Raheja QBE General Insurance Co. Ltd

Raheja QBE General Insurance Co. Ltd is one of the famous insurance companies in the world. This company was founded by Rajan Raheja Group, which happens to be one of the dynamic business groups in India. This company is renowned for its unique insurance products. They believe in offering help to their clients during tough times by its insurance related products.

19. Reliance General Insurance Co. Ltd

Reliance General Insurance Co.Ltd is a fundamental part of Reliance Capital. Reliance Capital has diversified business in insurance of all kinds, asset management, mutual funds, commercial finance and other financial services. Reliance Life has a huge variety of life insurance plans that offers tailor-made plans as per the customer's requirements.

20. Religare Health Insurance Co. Ltd

When a leading financial services company comes along with two reputed public sector banks you get Religare Health Insurance Company Limited. Religare Health Insurance Company Limited is formed as a venture between Religare Enterprises Limited, Corporation Bank and Union Bank of India. Religare Enterprises Limited does not need much introduction. Religare Health Insurance Co. Ltd. specializes mainly in health insurance products.

The company also offers travel insurance. The company is promoted by the founders of very famous healthcare companies – Fortis Healthcare and SRL Diagnostics. While Fortis boasts of having about 54 healthcare facilities in India, Mauritius and Dubai, SRL Diagnostics is considered to be India's largest diagnostic company. The company in present in Dubai, Nepal and Sri Lanka and has more than 306 networking laboratories.

21. Royal Sundaram Alliance Insurance Co.Ltd

Royal Sundaram General Insurance Co. Ltd was earlier known as Royal Sundaram Alliance Insurance Company Limited. This company offers comprehensive insurance plans. They also provide innovative insurance solutions to various categories like the families, individuals and businesses. This company offers different general insurance products like car, personal accident, health, home, two wheeler and travel insurance.

22. SBI General Insurance Co. Ltd

SBI General Insurance Co. Ltd is a collaboration of State Bank of India and BNP Paribas Cardif S.A. This company was founded in the year 2001. They offer products as per customers requirements. This company is famous for its versatile products.

23. Shriram General Insurance Co. Ltd

Shriram General Insurance Co. Ltd is a collaboration between Shriram Capital Ltd and Sanlam Limited. It was a 74:26 until September 2012. This company was rewarded with "Excellence in Growth Award" in 2011 and 2012. The main motive of this company is to serve a major group of "Aam Admi" with its variety of products.

24. Star Health and Allied Insurance Co. Ltd

Star Health & Allied Insurance Company Limited is a standalone health insurance company in India which was formed in 2006. Since inception, the company has been engaged in offering health insurance, travel insurance and personal accident plans. Best Health Insurance Award winner of 2015, Star

Health has set the benchmark as a health insurance provider of India. As India's first standalone health insurance company, with thousands of network hospitals, Star Health provides an outstanding claim settlement to their customers.

25. Tata AIG General Insurance Co. Ltd

Formed on January 22, 2001, TATA AIG General Insurance Company Limited is established as a joint venture between Tata Group and the American International Group (AIG). While Tata Group is one of the largest conglomerates of India, AIG is an international insurance company which has its presence in more than 100 countries worldwide. Since 2001, TATA AIG has made it a goal to provide insurance products so as to meet the needs of their customers. As a result Tata AIG was awarded as the "General Insurer Claims Team of the Year" by Claims Awards Asia 2013. Tata AIG offers consumer as well as commercial general insurance plans.

26. United India Insurance Co. Ltd

United India Insurance Co. Ltd is India's one of the oldest companies which was established in the year 1938. This company later got merged with 12 Indian Insurance Companies, 4 Cooperative Insurance Societies and Indian operations of 5 Foreign Insurers, apart from General Insurance operations of southern region of Life Insurance Corporation Of India. This company has major clients like ONGC Ltd, GMR –Hyderabad International Airport Ltd, Mumbai International Airport Ltd etc.

27. Universal Sompo General Insurance Co. Ltd

Universal Sompo General Insurance Company Limited is a private-public partnership between three public sector Indian banks (Allahabad Bank, Karnataka Bank and Indian Overseas Bank), a leading Indian FMCG company (Dabur India Limited) and a private Japanese insurance company (Sompo Japan Nipponkoa). While Allahabad Bank has a shareholding of 30%, Indian Overseas Bank and Karnataka Bank have a shareholding of 19% and 15% respectively. Dabur India Limited holds 10% and the rest 26% is held by Sompo Japan Nipponkoa. Universal Sompo General Insurance Company Limited offers a range of individual as well as commercial general insurance products to its customers.

28. Kotak Mahindra General Insurance Co. Ltd

Kotak Mahindra General Insurance Co. Ltd is a subsidiary of Kotak Mahindra Bank Ltd, that serves the needs of their customers with their growing non-life needs of insurance. Their main focus is to provide excellent customer service and insurance products of good quality with innovation. They wish to cater to different categories of customers.

29. Aditya Birla Health Insurance Co. Ltd

Aditya Birla Health Insurance Co. Ltd is a collaboration of Aditya Birla Group and MMI Holding Limited. Their joint venture led to individuals and families for a healthier and happier lives. Their motive is to motivate families to purchase and prioritize health insurance.

Q4. Compare and contrast life insurance and general insurance.

Ans : **(Imp.)**

S.No.	Nature	Life Insurance	General Insurance
1.	**Contract**	Life insurance is not a contingent contract.	General insurance is a contigent contact
2.	**Objective**	The objective of life insurance policy is to provide protection and encourage the investment of savings.	The objective of general insurance policy is to provide security against the risk.
3.	**Period and Premium**	Life insurance is a long-term contract and its premium remains fixed throughout the contract.	General insurance is a short-term contract and its premium varies with the renewal of contract.
4.	**Indemnity**	Under life insurance policy, actual loss occurred on the death of a person is not possible to measure. Because of this, an insured amount of policy is payable.	Under general insurance policy, actual loss can be measured. Therefore, insured is paid with the amount equal to the extent of loss occurred.
5.	**Risk**	In life insurance policy, risk associated with the life of the individual increases with the growing age of a person.	In general insurance policy, risk of loss increases with the passage of time.
6.	**Amount of Claim**	In life insurance policy, full amount of policy is paid either at the event of maturity or death whichever is earlier.	In general insurance policy, amount of policy is paid either to the extent of loss suffered by an individual or the sum assured by a party which ever is low.
7.	**Surrender Value**	It contains a specified amount of surrender value or paid up value.	In general insurance, no such specification is made regarding surrender value or paid up value.
8.	**Reserve for Unexpired**	It does not maintain any reserve for unexpired risk.	It maintains reserve for unexpired risk.

3.1.1 Procedure

Q5. Explain the procedure general insurance policies.

Ans : **(Imp.)**

General insurance policies are of different types because of which every policy would have its own condition and procedure. Therefore, in order to understand the procedure of general insurance policies, one can keep the following basic steps in his mind,

Step-1

Select the type of general insurance policy for which person wants to get insured. For example, Fire Insurance Policy, Health Insurance Policy, Accident Insurance Policy etc.

Step-2

In this step, person can search for the best policy or insurance company which having good background for claim settlement and other services.

Step-3

In this step, once the policy and company both are selected, person can fill the basic insurance policy form with the help of insurance agent. While filling up the form, he can also discuss the premium amount and conditions related to total coverage under policy.

Step-4

In this step, the filled-up form of selected general insurance policy will be verified by the insurance agent and insurance company based on the terms and matters stated as per the regulations of IRDA.

The matters which are to be stated in a General Insurance policy are as follows,

- The name(s) and address(s) or of the bank(s) or of the insured or any individual who has financial interest in the subject matter of insurance. Name, UIN of the product, code number and contact details of the individual involved in the sale.
- Insurance period.
- Complete description of the interest or property insured.
- Perils or risks which are not covered and which are covered.
- The location (s) of the interest or property insured under the insurance policy along with their respective insured values wherever needed.
- The sum which is insured.
- Warranties, terms, conditions and any other exclusions of the policy.
- Any franchise or deductible whichever is applicable.
- Any special conditions which are adhered to the insurance policy.
- Premium which is payable as well as the premium which is provisional subject to adjustment and the basis of premium adjustment must also be stated.
- Action which are to be taken by the insured whenever a contingency is likely to lead in the rise of a claim under the policy.
- Various obligations and rights of the policyholder related to the insurance at the time of claim.
- Insurer's address at which interactions related to the insurance contract can be made.
- The grounds on which the policy will be cancelled. In a retail policy the insurer may cancel the policy on the grounds of non-co-operation, non-disclosure of material facts, fraud and misrepresentation of the insured.
- The benefits provided under the policy and its terms and conditions are subject to change upon renewal.
- Detailed information of the add-on covers adhered to the main policy and endorsements.
- Information of the internal grievance redressal mechanism of the insurer and contact details and address of the ombudsman nearby to the location of the office or branch of the insurer or the residential address of the policy holder.

3.2 General Insurance Types

Q6. Write about various General Insurance Products.

Ans : **(Imp.)**

General insurance is a contingent contract with the aim of providing security against the risk. It is a short term contract, the premium of which varies according to the renewal of the insurance contract. The following are the different types of general insurance products,

1. Fire Insurance

According to Indian Fire Insurance Act, 1938, "In addition to other insurances, fire insurance is that insurance contract which takes place against fire and such other risks which are mentioned in the fire insurance "contract".

2. Marine Insurance

According to Marine Insurance Act, 1963 "marine insurance is an agreement whereby the insurer undertakes to indemnify the assured, in the manner and the extent thereby agreed, against losses incidental to marine adventure".

3. Motor Insurance

Motor vehicle insurance was emerged in United Kingdom, but later on it has gained importance in the whole world. This type of insurance cover risk of owner and vehicle along with the financial liability which may develop from accident causing harm to third party. When there is no insurance all the expenses relating to repair of vehicle, treatment of injured must be borne by the person. Hence, motor vehicle insurance is essential. In India, motor vehicle insurance is made compulsory after the amendment of Act for motorists to insure against the risk of liability to third parties.

4. Liability Insurance

Liability insurance is a mandatory fonn of insurance for those at risk of being sued by third parties of negligence or other tortuous actions. The regular classes of mandatory policy gives coverage for the ones who provide professional services to the public, for the drivers of vehicles, for those who employ staff and for those who manufacture products which may cause harm.

5. Personal Accident and Speciality Insurance

Personal accident insurance aims at paying a fixed amount of compensation to person who met with an accident leading to death or disablement in body due to accidental injury. During policy period, if policy holder gets injured solely and directly from accident then insurer pay then policy amount to insured or to his legal nominee in case of death, permanent disablement, partial disablement etc. Claim amount of policy will be paid only once in case of death. Some policies make payment for education of dependent children.

Speciality insurance refers to the insurance policy that is taken up for special and unique items, This insurance policy covers unique and important items, which are generally not covered under the general insurance policies. Some examples of speciality insurance items include the following,

a) Pet animal health insurance.

b) Insurance of vintage cars or furniture.

c) Insurance of voice (in case of a professional singer).

6. Engineering Insurance

Engineering insurance is also known as machinery breakdown or plant all risks insurance. This policy provide wide coverage of damages caused to electrical and mechanical machinery. Even the losses suffered by contracts and principals relating to civil engineering projects such as bridges, tunnels, building, etc are covered under this policy.

7. Other Insurance

Miscellaneous or other general insurance comprises of different insurance coverages which are prepared to fulfill the unusual requirements of different individuals.

3.2.1 Health Insurance

Q7. Define Health Insurance. Briefly trace the history of health insurance in India.

Ans : **(Imp.)**

Meaning

Health insurance is a safeguard against rising medical costs. A health insurance policy is a contract between an insurer and an individual or group, in which the insurer agrees to provide specified health insurance at an agreed-upon price (the premium). Depending upon the policy, premium may be payable either in a lumpsum or in installments. Health insurance usually provides either direct payment or reimbursement for expenses associated with illnesses and injuries. The cost and range of protection provided by health insurance depends on the insurance provider and the policy purchased. There are many health concerns including the following which accentuate the demand for health insurance:

(a) Environmental pollution is causing serious health problems to humans.

(b) The fast spreading AIDS, poisonous gases, various wastes including nuclear waste generated by the people are seriously endangering the life on earth.

(c) A person may face serious monetary problems for the medical treatment and hospitalisations during life. Now-a-days, most companies give the benefit of health insurance to its employees.

Healthcare, with global revenue of over Rs. 2.75 trillion is the largest industry in the world. The nation of India. with a population of 1000 million experiences a vast inequity that exists in the healthcare industry with barely 3 per cent of the population covered by some form of health insurance, either social or private. During the last 50 years, India has made considerable progress in improving its health status. Death rate has reduced from 40 to 9 per thousand, infant mortality rate reduced from 161 to 71 per thousand live births and life expectancy increased from 31 to 63 years. However, many challenges remain and these are: life expectancy 4 years below world average, high incidence of communicable diseases, increasing incidence of non-communicable diseases, neglect of women's health, considerable regional variation and threat from environment degradation. At any given point of time 40 to 50 million of population are on medication for major sickness. About 200 million days are lost annually. The annual rate (range) of out-patient: rural 30-152/1000, urban 9-81/1000 and for hospitalization: rural 16-76/ 1000, urban 5-38/1000.

In India, presently the health insurance exists primarily in the form of Mediclaim policy offered to the individual or to any group, association or corporate bodies. Although, total expenditure on health in India is nearly 6 per cent of the entire GDP, the government spending is less than 25 per cent against the average spending of 30- 40 per cent in other developing countries. Penetration of Mediclaim is currently done by state-owned insurance companies, covering only about 2.5 million people i.e. less than 0.50 per cent of the country's population.

The primary health care system in India is managed mainly by the shallow structure of government health-care facilities and other public-health care systems in a traditional model of health funding and provision. But, it is unable to justify the demand for health security for 200 million Indian health insurable population mainly due to service costs being out of the reach of many people, absence of good and effective number of physicians, low rate of education programs, less number of hospitals, poor medical equipment and over all, the poor budget of government towards the health program.

Q8. List the various health insurance systems in India.

Ans :

Based on ownership the existing health insurance schemes can be broadly divided into the following categories:

(a) Government or State-based Systems (including CGHS and ESIS)

(b) Market-based Systems(Private and Voluntary)

(c) Employer provided Insurance Systems

(d) Member Organization (NGO or Cooperative) based Systems

(a) Government/State Based Systems

The best documented and largest system of health care delivery in India is the diverse network of hospitals, primary health Centres, community health centres, dispensaries and speciality facilities financed and managed by the Central and State local Governments. These facilities are officially available to the entire population either free or for nominal charges. Along with some other networks of village health workers, maternal and child health, programmes and speciality disease prevention programmes these public facilities carry out a central role in India's primary health care system. Studies have shown that these facilities are mostly underfunded, understaffed and short of drugs and essential supplies and that they sometimes suffer from low morale and inadequate motivation.

(i) Central Government Health Scheme

The Central Government Health Scheme (CGHS) was introduced in 1954 as a contributory health scheme to provide comprehensive medical care to the central government employees and their families. It was basically-designed to replace the cumbersome and expensive system of reimbursements (Ministry of Health and Family Welfare, Annual Report 1993-94). Separate dispensaries are maintained for the exclusive use of the centra] government employees covered by the scheme. Over the years, the coverage has grown substantially with provision for the non-allopathic system of medicines as well as for allopathic. In addition, the CGHS reimburses patients for part of their out of pocket costs on treatment at the government hospitals and some other facilities.

The list of beneficiaries includes all categories of current as well as former government employees, members of parliament and so on. Since the large central bureaucracy in India definitely belongs to the middle-income and high-income categories, they are likely to make above-average use of health services. The CGFIS has been in the recent past, widely criticized from the point of view of quality and accessibility.

(ii) Employees State Insurance Scheme

Established in 1948, the Employees State Insurance Scheme (ESIS) is an insurance system which provides both the cash and the medical benefits. It is managed by the Employees State Insurance Corporation (ESIC), a wholly government-owned enterprise. It was conceived as a compulsory social security benefit for workers in the formal sector. The original legislation creating the scheme allowed it to cover only factories which have been 'using power' and employing 10 or more workers.

However, since 1989 the scheme has been expanded, and it now includes all such factories which are 'not using power' and employing 20 or more persons. Mines and plantations are explicitly excluded from coverage under the ESIS Act.

(b) Market Based Systems

➢ **GIC Mediclaim Coverages**

The GIC holds a major share in the market-based health insurance segment. It introduced the standard Mediclaim" health insurance scheme in 1986, and became operational in 1987. This product was later on modified in 1997 to allow for premium differentials for various age groups meant for both individuals and groups.

(c) Employee-Managed Systems

"Employer-managed health facilities", and the "reimbursement of health expenses by employers" are the other means of health insurance in India. Generally, the public sector undertakings and big industrial houses have their own dispensary and hospitals and provide medicines, etc, across the counter, usually within the company premises/ township. These include defence services also. Also, educational institutions, particularly universities also provide medical services to their employees.

In addition, there are various medical reimbursement plans offered by employers for private medical expenses in the private sector including commercial banks and autonomous institutions. Also, in some organizations we may find a self-insurance system known as medical benefit or medical allowance scheme. Under this scheme, employees incurring medical expenses are required to submit their claims to their employers for reimbursement, and reimbursements are not linked to their individual contribution. Such coverages generally vary according to the employee's salary or designation. Overall, the performance of these systems in India have been satisfactory.

(d) NGO system

Health facilities are also provided by voluntary and charitable or Non-government organizations (NGOs). Soir.c of the important NGOs are Child In Need Institute (CINI), Self-employed Women's Association (SEWA). Streehitkarni and Parivar Seva Sanstha. The health care facilities offered by these organizations are a part of their main objectives. Though, these are not exactly health insurance programmes, yet they have potential to generate awareness and associate themselves with the major health insurers.

Q9. Explain the importance health insurance.

Ans :

1. Most of the employed Indians are found to be suffering from health issues due to lack of maintenance of balanced diet. Thus, as a result number of health issues are increasing.
2. The trend of consuming junk food is rapidly growing in urban areas and metropolitan cities. Thus, ill health is common is such areas.
3. The percentage has increased drastically in serious diseases among Indians in the last few

decades. According to a study about 30 % of Indians suffer from heart attacks within the age of 40 - 45 years.

4. Majority of diseases are found to be due to cardio-vascular disorders.

5. Diabetes has became a common disease among the Indian families.

6. Treatment of disease is highly expensive.

7. Reaching a good hospital or medical centres has become difficult in India. Thus increase the unnecessary costs to patients.

8. Many Indians earn low income and suffers from improper financial planning. They do not have enough savings to cure their family members.

Q10. Explain the benefits of health insurance.

Ans :

1. Coverage against medical expenses

The main purpose of medical insurance is to receive the best medical care without any strain on your finances. Health insurance plans offer protection against high medical costs. It covers hospitalization expenses, day care procedures, domiciliary expenses, and ambulance charges, besides many others. You may, therefore, focus on your speedy recovery instead of worrying about such high costs.

2. Coverage against critical illnesses

Insurance providers nowadays offer critical illness insurance, either as a standalone plan or as a rider. Such an insurance policy provides coverage against life-threatening diseases such as kidney failure, bone marrow transplant, stroke, and loss of limbs, among others. Upon diagnosis of any of the critical illness from the predetermined list of your policy, you are entitled to receive a lump sum amount. This amount may be used to meet your illness-related treatment costs, daily expenses, and any other financial obligations.

3. Cashless claim benefit

Many insurance providers offer cashless claim facility. In such an arrangement, you do not have to make any out-of-pocket payments. The hospitalization expenses are settled between your insurer and the hospital. To avail of this benefit, it is imperative to get admitted at any of the insurer's network hospitals. You may fill out a pre-authorization form and display your health insurance card to enjoy the cashless facility.

4. Additional protection over and above your employer cover

Many organizations cover their employees with a group insurance plan. However, such policies are not tailor-made according to the needs of every individual. Besides, you may be left uninsured in case of loss of job or change in employment. In order to protect yourself against such an event, purchase a health cover individually.

5. Tax benefits

Health care plans provide tax benefits. Premiums paid towards your health care policy are eligible for tax deductions under Section 80D of the Income Tax Act, 1961. The quantum of deduction is as under:

- In case of the individual, Rs. 25,000 for himself and his family
- If individual or spouse is 60 years old or more the deduction available is Rs 50,000
- An additional deduction for insurance of parents (father or mother or both, whether dependent or not) is available to the extent of Rs. 25,000 if less than 60 years old and Rs 50,000 if parents are 60 years old or more.
- For uninsured super senior citizens (80 years old or more) medical expenditure incurred up to Rs 50,000 shall be allowed
- A deduction of Rs. 5000 will be allowed under this section for payment of preventive health check-up of either the individual himself or his family members which includes spouse, parents and dependent children. This deduction is NOT in addition to the deduction of Rs.25000/50000 stated above, but is included in the above deduction.

3.2.2 Accident insurance

Q11. Define Accident insurance.

(OR)

Explain the concept of personal accident insurance.

Ans : **(Imp.)**

The personal accident insurance policy provides that, if at any time during the currency of this policy, the insured (person who has taken the policy) shall sustain any bodily injury resulting solely and directly accident caused by external violent and visible means, then the insurance company shall pay to the insured or his legal personal representative(s), as the case may be, the sum or sums set, forth, in the policy, if resulting in specified contingencies such as death, permanent disablement etc.

(a) Bodily injury

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

(b) Solely & Directly

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

(i) A person is thrown from his horse while hunting and so injured that he cannot walk and he lies on the wet ground until he is pick up. He thus catches chill which turns pneumonia and dies. Though he dies because of pneumonia but the actual cause is an accident and it covered under personal accident insurance policy.

(ii) If a person breaks a leg in an accident and taken to hospital where he contracts an infectious disease from another patient which result in to death and the same is not covered under the personal accident insurance policy.

(c) Accident

An accident is an event which is wholly unexpected not intended or designed. For eg: Snake biting, Drowning suicide and unprovoked murder are covered under this policy.

(d) External, violent and visible means

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

(e) Disablement

When a person is prevented by an accidental bodily injury from engaging in any occupation (or) business he is said to be disabled and his ability to attend to any occupation or business is call disablement.

Q12. Explain the features of personal accident insurance policy.

Ans :

1. Offer & Acceptance

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

Example: A proposal submitted to the insurance company along with premium on 1/1/2011 but the insurance company accepted the proposal on 15/1/2011. The risk is covered from 15/1/2011 and any loss prior to this date will not be covered under fire insurance.

2. Payment of premium

An owner must ensure that the premium is paid well in advance so that the risk can be covered. If the payment is made through cheque and it is dishonored then the coverage of risk will not exist. It is as per section 64VB of Insurance Act 1938.(Details under insurance legislation Module).

3. Contract of Indemnity

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

4. Utmost good faith

The person must disclose all the relevant information to the insurance than company while insuring himself because none other him knows about his health and other relevant particulars. Any change in profession or occupation during the policy should also be informed to the insurance company. e.g. A person is working in the office in administrative job and took the personal accident policy but later on he becomes pilot then he should inform o the insurance company otherwise the insurance company can refuse the claim in case it arises.

5. Insurable Interest

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

6. Contribution

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

7. Period of Insurance

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

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

9. Claims

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

Q13. Discuss the claim procedure to be flowed to get the claim in case of death of an insured person.

Ans :

Procedure for insuring under personal accident insurance policy:

a) Submission of proposal form

b) Assessment of the proposal form and premium rate to be quoted

c) Payment of the premium

d) Issue of policy document

(a) Submission of proposal form

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

i) Personal details i.e., age, height and weight, full description of occupation and average monthly income.

ii) Physical condition

iii) Habits and pastimes

iv) Other or previous insurances

v) Previous accidents or illness

vi) Selection of benefits and sum insured

vii) Declaration

(b) Assessment of the proposal form and premium rate to be quoted

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

Rating In personal accident insurance, the rating factor used is the occupation. Generally speaking exposure to personal accidents at home, on the street etc. is the same for all persons, But the risks associated with occupation vary according to the nature of work performed. For example, an office manager is less exposed to risk at work than a civil engineer working at a site where a building is constructed.

It is not practicable to fix a rate for each profession or occupation. Hence, occupations are classified into groups, each group reflecting, more or less, similar risk exposure.

i) **Risk Group I: (Lowest Premium rate):** Accountants, Doctors, Lawyers, Architects, Consulting Engineers, Teachers, Bankers, Persons engaged in administration functions. Persons primarily engaged in occupations of similar hazards.

i) **Risk Group II: (Higher Premium rate):** Builders, Contractors and Engineers engaged in superintending functions only, Veterinary Doctors, paid drivers of motor cars and light motor vehicles and persons engaged in occupation of similar hazards and not engaged in manual labour.

All persons engaged in manual labour (Except those falling under Group III), Cash Carrying Employees, Garage and Motor Mechanics, Machine Operators, Drivers of trucks or lorries and other heavy vehicles. Professional Athletes, and Sportsmen, Woodworking Machinists and Persons engaged in occupations of similar hazards.

iii) **Risk Group III : (Highest Premium Rate):** Persons working in underground mines, explosives, magazines, workers involved in electrical installation with high tension supply. Jockeys, Circus Personnel, Persons engaged in activities like racing on wheels or horseback, big game hunting, mountaineering, winter sports, skiing, ice hockey, ballooning, hang gliding, river rafting, polo and persons engaged in occupations/ activities of similar hazard.

(c) Payment of the premium

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

(d) Issue of Policy Document

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

i) Name of the person and address

ii) Age

iii) Occupation

iv) Sum insured

v) Nominee

vi) Policy Conditions

(a) Written notice of claims with full particulars. In case of death written notice must, unless reasonable cause is shown, be so given before internment or cremation, and in any case, within one calendar month after the death

(b) In the event of loss of sight or amputation of limbs, written notice thereof must be given within one calendar month after such loss of sight or amputation.

(c) Proof of claim satisfactory to the Company shall be furnished.

(d) Any doctor on behalf of the company shall be allowed to examine the person of the Insured on the occasion of any alleged injury or disablement and as may reasonably be required.

(e) A post mortem examination report, if necessary, be furnished within the space of fourteen days after demanding writing.

(f) In the event of loss of sight the Insured shall undergo at the Insured's expense such operation or treatment as the company may reasonably deem desirable.

(g) No sum payable under this policy shall carry interest.

(h) No claim is payable if the claim is fraudulent or supported by fraudulent statement.

(i) The insured shall give immediate notice to the company of any change in his business or occupation. The insured shall on tendering any premium of the renewal of this policy give notice in writing to the company of any disease, physical defect or infirmity with which he has become affected since the payment of last preceding premium.

(j) The policy is cancelable by either party. Pro-rata refund of premium is made if cancelled by insurers and short period refund of premium, subject to no claim under the policy, if cancelled by the insured.

(k) The Company shall not be bound to take notice or be affected by any notice of any trust, charge, lien, assignment or other dealing with or relating to this policy but the receipt of the Insured or his legal personal representatives shall in all cases be an effective discharge to the Company.

(l) The Company treats the insured as the absolute owner of the policy. Receipt of the insured or his legal personal representatives that is, those with a Succession Certificate etc. granted by a court of law will be an effective discharge to the Company.

(m) Differences regarding amount of loss (not question of liability) are to be referred to arbitration. The award of arbitration is a precedent to suit in Court of Law.

(n) If the insurers disclaim liability the insured has to file a suit in a Court of Law within 12 months from the date of such disclaimer.

The insurer is not liable for

(a) Compensation under more than one of causes (death or disability)

(b) Once a claim is settled under one of the causes the policy becomes inoperative. No further claim can be admitted under the policy.

(c) Payment of weekly compensation (until the total amount shall have been ascertained and agreed).Although, the benefit is known as weekly compensation the payment is generally made in one lump sum after the quantum of liability is agreed. It is felt that periodical part payments may encourage a claimant to deliberately prolong the disablement. In genuine hardship cases however 'on account' payment is made which is then adjusted against the final payment due.

Miscellaneous features

(i) Family Package Cover

(a) Earning Member and Spouse, 100% of the Capital Sum if earning. (Persons Insured) Insured for each.

(b) Spouse (if not earning 50% of the Capital Sum member) whichever is lower Insured or Rs. 1 lakh.

(c) Children (between the age 25% of the Capital Sum and of 5 years and 25 years) Insured or Rs. 50000/- whichever is lower per child.

  i) For children the cover is limited to Death and Permanent Disablement (total or partial)

  ii) Premium payable for husband and wife will be on the total sum insured for husband and wife.

  iii) A discount of 5% is granted on the gross premium.

(ii) Extensions

A personal accident policy can be extended by endorsement, on payment of extra premium to cover medical expenses incurred by the insured in connection with the accidental bodily injury, subject to specified limits.

Q14. Define group personal accident policy. State the features of group personal accident policy.

Ans :

Group personal accident policy will be issued only if there is common relationship among group members and a common point of controlling insurance schemes.

The coverage of this policy is same as individual policy excluding the education grant and cumulative bonus. On payment of additional premium, medical expenses can be reimbursed. By making extensions to policy even risk involved in war can be covered. The sum insured will be different for each insured person. Based on risks, premium amount is charged from each person.

Features

The coverage is the same as under individual P.A. policy except that

(a) Cumulative bonus and education grant do not apply. However, medical expenses and war risks extensions are available.

(b) The sum insured is fixed separately for each insured person.

(c) Rates of premium applicable to named employees as per the classification of risks. Where it is not possible to obtain details of occupation for each insured person, insurers use their discretion in applying the rates.

(d) If P.A. cover is required only for the restricted hours of duty (and not for all the 24 hours of the day), a reduced premium equivalent to 75% of the appropriate premium is charged. The cover applies to accident to employees arising out of and in the course of employment only. If cover is required only for the restricted hours, when the employee is not at work and / or not on official duty, the reduced premium of 50% of the appropriate premium is charged.

(e) It is possible to exclude the Death benefit, subject to following conditions;

i) A group life policy covering Death benefit for the same group of persons is in existence.

ii) Group P.A. Policy covers a group of 100 persons (or) more

3.2.3 Motor insurance

Q15. Define Motor insurance. Explain different types of Motor insurance policies.

Ans : **(Imp.)**

Motor insurance provides protection to the owner of vehicle against

- damages to his/her vehicle and
- Pays for any third party liability decided as per law against the owner of the vehicle.

Third party insurance is a compulsory requirement. Under motor vehicle Act, the owner of the vehicle is legally liable for any injury or damage to third party or property caused by or arising out of the use of the vehicle in a public place. In terms of the Motor Vehicle Act, 1988, it is a punishable offence to drive a motor vehicle in public place without insurance.

Types

1. Act / Liability Policy

This policy aims at complying with the requirements of Motor Vehicles Act, 1988, and is issued by the insurance companies to cover act risks. The Act provides for compulsory insurance of motor vehicles in relation to liabilities arising out of the use of motor vehicles in a public place. As per the provisions of Motor Vehicles Act, all the vehicles plying in the territorial limits of India must possess an act policy at all times. The violation is punishable with fine, etc., as per Motor Vehicles Act (as prevalent at the time of detection).

The All India Motor Tariff governs motor insurance business in India. According to the tariff, all classes of vehicles use two types of policy forms. They are form A and form B. Form A, or what is commonly known as act policy, covers act liability, which is a compulsory requirement of the Motor Vehicles Act. No vehicle can be used without this minimum insurance cover. Use without such insurance is a penal offense. In case a vehicle is purchased under hire purchase agreement, the financiers insist upon a comprehensive policy to take care of their interest as collateral security.

The following liabilities can be covered under the policy :

i) Unlimited liability towards third party bodily injury.

ii) Liabilities towards damage to the property of third parties. As per requirements of the Motor Vehicles Act, while compensation for personal injuries to third parties is unlimited, property damage is limited (in the case of commercial vehicles it is limited to ` 6,000 only). This limit can be enhanced on payment of additional premium.

iii) Unlimited liability towards bodily injury of passengers of the vehicle.

iv) Liability towards employees of the owner of the vehicle while traveling in or using it, against bodily injury, to the extent required under the Workmen's Compensation Act.

2. Third-Party Policy

This policy provides insurance against the liabilities towards third parties suffering loss pertaining to the damage of property/ personal injury/death. In addition, the policy may also include fire, theft risks, and legal liability to persons employed in connection with the operation and/or maintenance and/ or loading/unloading of motor vehicles. Section 146 of the Motor Vehicles Act 1988, provides that no person shall use or allow any other person to use motor vehicle in a public place, unless the vehicle is covered by the policy of insurance complying with the requirements of the Act. Section 147 of the Motor Vehicles Act 1988, requires that the policy must provide cover against liabilities incurred by the insured in respect of death or bodily injury to any person or damage to any property of a third party or against death or bodily injury to any passengers of a public service vehicle, caused by or arising out of the use of the vehicle in a public place.

3. Package/Comprehensive Policy

Also called form 'B' Policy, the package/ comprehensive policy is an optional policy, which provides cover against own damage, losses, and act liability. It is a package policy issued by the insurance companies for comprehensive risks. Unlike the form AJ Act policy, which is identical for different classes of vehicles, the comprehensive policy cover differs for various classes of vehicles.

Comprehensive policy contains the following three sections :

i) First section covers damage to the vehicles and covers the risks like fire, explosion, self-ignition and lightning; burglary, house-breaking and theft, riot, strike, malicious and terrorism, damage, earthquake flood, typhoon, etc.

ii) Second section covers the insured liability to third parties.

iii) Third section differs according to the class of the vehicles.

3.2.4 Fire insurance

Q16. Define fire insurance. Explain the features of fire insurance.

Ans : **(Imp.)**

Meaning

Fire insurance contract may be defined as "an agreement, whereby one party in return for a consideration undertakes to indemnify the other party against financial loss which the latter may sustain by reason of certain defined subject-matter being damaged or destroyed by fire or other defined perils up to an agreed amount." The party responsible to indemnify the loss is called the insurer, the party who is to be indemnified is called the insured, the consideration for the contract is termed 'the premium', the defined subject-matter is termed 'the property insured" the sum set forth in the contract is called the assured sum, and the document containing the terms and conditions of the contract is known as 'the policy.

Definitions

(i) According to T.R. Smith "Fire insurance may be defined as a contract whereby the insurers in return for a consideration. as premium, undertake to indemnify the insured against financial loss which he may sustain, by reason of certain defined perils against which the property is insured, being damaged or destroyed by fire within a stated period, of the liability of insurer, being limited to a specified amount, called the sum insured".

(ii) According to Section 2 of Indian Insurance Act, 1938 "Fire insurance business means the business of affecting, otherwise than incidentally the some other class of insurance business, contracts of insurance against loss by or incidental to fire or other, the occurrence customarily included among the risks insured against in fire insurance policies."

(iii) According to V.R. Bhushan and R.S. Sharma "A fire insurance may be defined as an agreement whereby one party, in return for a consideration, undertakes to indemnify the other party against financial loss caused by fire or other defined perils upto an agreed amount".

Features

(i) Proposal

The proposal for fire insurance can be made either verbally or in writing. The proposer gives the necessary description of the property to be insured. In practice the printed proposal form is used for the purpose. Introduction, type of properties, value of properties, construction, occupation, etc., are the various information which are required by the insurer. The answers to these questions must be completely correct. The assured must disclose all the material facts and should observe utmost good faith. The description of the subject-matter of insurance is the basis of contract for assessing the risk and fixing the premium.

(ii) Acceptance

On receipt of the proposal form, the insurer will assess the risk. Sometimes, when the contents and subject-matters are not of very high amount, the insurer may accept on the basis of proposal forms only. When the subject-matters is of larger magnitude and where the hazard involved is of a variable or unknown nature, the insurer may send his surveyor to survey the property. The surveyors being expert in the field of insurance evaluation will consider the proposal in the light of this report. The unknown proposers are required to submit an evidence of respectability. The insured is required to submit a certificate from some known and respectable person about honesty and integrity. As soon as the proposal is accepted, the assured is informed about the decision.

(iii) Commencement of risk

The risk commences as soon as the contract is completed provided there is no specific time for the purpose. As soon as the proposal is accepted, risk will commence irrespective of the fact that no policy was issued and no premium was paid. Where risks are unknown and tremendous, the payment of premium will be the basis of the completion of the contract. The risk will commence only when the premium has been paid and not before that when the policy has been issued, payment of premium will not be the basis of commencement of risk.

Q17. Explain various Fire Insurance Products.

Ans :

The policies can be of various types which are explained below :

1. Valued Policy

The value of the property to be insured is determined at the inception of the policy. In this case, the insurer pays the total admitted value irrespective of the then market value of the properties.

2. Specific Policy

Where a specific sum is insured upon a specified property in case of a specified period, the whole of the actual loss is payable provided it does not exceed the insured amount. Here the value of property insured has no relevance in arriving at the measure of indemnity in a specified policy and the insured sum sets a limit up to which the loss can be made good.

3. Floating Policy

The floating policy is the policy taken to cover one or more kinds of goods at one time under one, sum assured for one premium and in relation to the same owner. This policy is useful to cover fluctuating stocks in different localities.

4. Average Policy

Policy containing 'average clause' is called an Average Policy. The amount of indemnity is determined with reference to the value of the property insured. If the policyholder has taken policy for lesser amount than the actual value of the property, the insured will be deemed to be his own insurer for the amount of under-insurance. The insurer will pay only such proportion of the actual loss as his insurance amount bears to the actual value of the property at the time of loss.

5. Declaration Policy

Under the declaration policy, the insured takes out insurance for the maximum amount that he considers would be at risk during the period of the policy. On a fixed date of every month or a specific period, the insured furnishes a declaration of the amount. The premium is provisionally paid to 75% of the annual premium amount.

6. Adjustable Policy

This policy is nothing but an ordinary policy on the stock of the businessman with liberty to the insured to vary at his opinion, the premium is adjustable pro rata according to the variation of the stock.

7. Reinstatement Policy

This policy is issued to avoid the conflict of indemnity. In other types of policies only the market value of the damage or loss is indemnified but this policy undertakes to reinstate the insured property lost by fire to new condition irrespective of its value at the time of loss.

8. Comprehensive Policy

This policy undertakes full protection not only against the risk of fire but combining within the risk against burglary, riot, civil commotion, theft, damage from pest, lightning. The policy is also termed as 'All in policies'. Here the 'Comprehensive' does not mean that every type of risk is covered. There may be many exclusions and limitations. This policy is beneficial to the insured and the insurer. The insurer can get higher premium and the assured is protected against losses due to several specified perils.

9. Consequential Loss Policy

The fire insurance is originally purchased to indemnify the material loss only. The intangible interest was not indemnified. This provided a check on the insured to exercise a greater care with respect to the property. However, the settlement of a loss covering material damage only was not sufficient. The consequential loss was also to be provided. Thus, the consequential loss policy includes the loss of tangible and intangible properties.

Q18. State the Principles of Fire Insurance Contract.

Ans :

The following principles are necessary for a valid fire insurance contract,

1. Principle of Indemnity

The aim of this principle is to put the insured in the same financial position to maximum extent possible after the loss had occurred. Only the price of actual loss subject to the sum assured can be recovered by the insured.

2. Principle of Insurable Interest

The insurable interest should be present at the time of the loss and also at the time of effecting the insurance. The insurable interest may arise in a contract of sale or purchase as it may be legal. The following are believed to have insurable interest in the subject-matter in the context of life insurance, Trustee, owner, mortgagor, executor, bailee, warehouseman, finder, tenants who are liable to pay rent after the fire etc. However the persons can insure upto an extent of limited interest.

3. Principle of Good Faith

Contracts of fire insurance are contracts of "uberimae fidei" i.e., a contract based on unconditional good faith. As per this principle, the insured should furnish full and detailed information of all material facts possible to affect the fire officials judgement in deciding the premium rates whether the proposal need to be accepted or rejected.

4. Principle of Causa Proxima / Loss Through Fire

In a fire insurance contract, the loss resulting from fire or some other related cause being the proximate cause of loss are covered. If the fire is caused by the insured himself or with his assistance or by the operation of a peril specifically excluded under the policy such as earthquake, the loss will not be covered and the insurer will not be liable to indemnify the insured.

5. Principles of Subrogation and Contribution

Fire insurance contracts relies on the principle of subrogation while states the insurer becomes entitled to claim all the rights of the insured after paying compensation against third parties who may be responsible directly or indirectly for causing such a loss. Fire insurance contracts are also governed by the principle of contribution which state that where the subject matter has been insured by more than one insurer, every insurer has to meet the loss only rateably. If the insured has paid more than his share of loss he is entitled to recover the excess amount paid by him from his co-insurers.

6. Yearly Contract

A fire insurance policy is generally for one year and can be renewed from then.

Q19. Explain the Procedure of effecting Fire Insurance.

Ans : **(Imp.)**

For obtaining fire insurance policy, a property holder must follow the following procedure.

1. Selection of insurance
2. Proposal form
3. Evidence of respectively
4. Survey of the property
5. Acceptance of proposal
6. Issue of cover note
7. Issue of insurance policy/ bond

1. Selection of insurance

First of all a policy holder must select the insurance company for fire insurance. The company having good financial position and ideal terms and condition against fire insurance and ideal terms and condition against fire insurance must be referred.

2. Proposal form

After selecting of the company, a proposer must fill up the proposal form, which can be obtained free of cost from insurance company. It contains different question regarding the value, nature, time, construction of the property to be insured and answer of various question must be filled by insured and answer of various question must be filled by the proposer. The proposal form also include name, address, occupation of proposer together with insured amount, types of policy, method of paying premium, etc. All the details regarding property should be cleared and true. False matter should not be included. After filling the information in proposal form, the proposer should sign it.

3. Evidence of respectively

It is a recommendation provided by an individual, institution, firm or a company about some person. In fire insurance there is much physical and moral hazards (risk). Physical hazards arise from the nature, design or site of insured property. And the moral hazard means the character of the proposer. Evidence of respectively is required for the fire insurance because sometimes a policy holder may destroy the property himself to claim on insurance company. In order to safe from these risks, insurance company collects evidence of honesty, integrity and financial position of the proposer from the third party. If the insured amount is not very high or proposer is well known in the society then evidence of respectively is not required.

4. Survey of the property

Generally insurance company issues the insurance policy on the basis of proposal from but sometimes the risk is high, the insurance company surveys the property and risk is determined. For survey of the property, insurance company can appoint the surveyor.

5. Acceptance of proposal

After submitting of necessary document in the insurance company office, the officer scrutinize the documents and if the documents are recording to demand then the form is accepted and letter of acceptance with the rate of premium is sent to the proposer and first insurance premium will also be demanded by insurance company.

6. Issue of cover note

When the proposer deposit the first premium then insurance company issue the cover note because the fire insurance process is very lengthy. Cover note is an interim protection note, work as an insurance policy and liability of the company will start from the date in which cover note is issued.

7. Issue of insurance policy/bond

At least insurance company will issue the insurance policy which is dully stamped and contains terms and conditions against fire insurance. It is legal and formal document of fire insurance.

3.2.5 Marine insurance

Q20. What is marine insurance ? Explain the features of marine insurance.

Ans :

Meaning

Marine insurance basically covers three risk areas, namely: hull, cargo and freight. The risks which these areas are exposed to are collectively known as "Perils of the Sea". These perils include theft, fire, collision, etc.

Definitions

(i) According to Section 2(13)A of the Insurance Act 1938 defines marine insurance as, "Marine insurance business" means the business of effecting contracts of insurance upon vessels of any description, including cargoes, freights, and other interests which may be legally insured in or in relation to such vessels, cargoes and freights, goods, wares, merchandise and property of whatever description insured for any transit by land or water or both, and whether or not including warehouse risks or similar risks in addition or as incidental to such transit and includes any other risks customarily included among the risks insured against in marine insurance policies.

(ii) According to U/S 3 of Marine Insurance Act "A contract of marine insurance is a contract whereby the insurer undertakes to indemnify the insured in a manner and to the extent thereby agreed, against marine losses, i.e. to say, the losses incidental to marine adventures".

(iii) According to U/S 2 (13) Insurance Act, 1938 "Marine insurance business means the business of effecting contracts of insurance upon vessels of any description, including cargoes, freight and other interests which legally insured in or in relation to such vessels, cargoes, freights, goods, wares, merchandise or property of whatever description insured for any transit by land or water or both and whether or not including warehouse risks or similar risks in addition to or as incidental to such transit and includes any other risks customarily included among the risks insured against in marine insurance policies".

(iv) According to Arnold, A marine insurance is a contract whereby one party for an agreed consideration, undertakes to indemnify the other against loss arising from certain perils and sea risks to which a shipment and other interest in a marine adventure may be exposed during a certain voyage or a certain time".

Features

The salient features of marine insurance are as follows :

1. It is based on utmost good faith. Both the insured and the insurer must disclose everything which is in their knowledge and can affect the contract of insurance.
2. It is a contract of indemnity. The insured is entitled to recover only the actual amount of loss from the insurer.
3. Insurable interest in the subject-matter insured must exist at the time of the loss. It need not exist when the insurance policy is taken. Under marine insurance, the following persons are deemed to have insurable interest.
   i) The owner of the ship.
   ii) The owner of the cargo.
   iii) A creditor who has advanced money on the security of the ship or cargo.
   iv) The mortgagor and mortgagee.
   v) The master and crew of the ship have insurable interest in respect of their wages.
   vi) In case of advance freight, the person advancing the freight has an insurable interest if such freight is not repayable in case of loss.
4. It is subject to the doctrine of causa proxima. Where a loss is brought by several causes in succession to one another, the proximate or nearest cause of loss must be taken into account. If the proximate cause is covered by the policy, only then the insurance company will be liable to compensate the insured.
5. It must contain all the essential requirements of a valid contract, e.g. lawful consideration, free consent, capacity of the parties, etc.

Q21. What are the Principles of Marine Insurance Policy.

Ans :

The following are the key principles of marine insurance policy,

1. Principle of Insurable Interest

The key principle of marine insurance is that the insurer should have interest in the goods being insured. For example, if the cargo reaches safely to the destination port, it is profit for the insured and if the cargo is damaged or destroyed, it is a loss.

In case of marine insurance, the cargo can be sold during the transit of goods. Thus, the insurance policy and the insurable interest would automatically get transferred to the buyer.

Generally, insurable interest is possessed by the following parties,

(i) The ship owner, untill the time the goods are present in his ship.

(ii) Passenger have insurable interest in their goods.

(iii) The owner of the goods.

(iv) Financer who provides money towards the security of the goods.

(v) Individuals who charge freight has insurable interest in that freight.

2. Principle of Implied Warranties

Some aspects of the marine insurance contract are implied and not necessarily need to be specified. Thus, implied warranties are the warranties which are not specifically mention but are to be followed. Example of implied warranties,

(a) Condition of the Ship

Even without being mention, it is an implied warranty that the ship is in a worthy condition. Any repairs if any, need to be carried out before the voyage begins.

(b) Fixed Route

It is implied and assumed by the insurance company that the ship would follow a pre determined route during the voyage.

At times, the ship is deviated from its predetermined routes,

(i) If required to save lives.

(ii) If required for the safety of goods.

(iii) If the ship could not be controlled by the captain.

Q22. Explain the Procedure for Taking a Marine Insurance Policy.

Ans :

The first step for initiating a marine insurance policy is for the trader to fill the "Marine Declaration Form (MDF)", which would be available with the insurance provider. The next step is to sign the MDF and submit to the insurance personnel. The MDF would contain the following information,

(i) The proposer individuals name and address.

(ii) Complete details of the cargo to be insured.

(iii) Amount to be insured.

(iv) The voyage period of the marine insurance policy.

(v) Subject matter of insurance policy.

Subject Matter of Marine Insurance

The insured may be the owner of the ship, owner of the cargo or the person interested in freight. In case the ship carrying the cargo sinks, the ship will be lost along with the cargo. The income that the cargo would have generated would also be lost. Based on this we can classify the marine insurance into three categories:

(a) Hull Insurance

Hull refers to the ocean going vessels (ships trawlers etc.) as well as its machinery. The hull insurance also covers the construction risk when the vessel is under construction. A vessel is exposed to many dangers or risks at sea during the voyage. An insurance effected to indemnify the insured for such losses is known as Hull insurance.

(b) Cargo Insurance

Cargo refers to the goods and commodities carried in the ship from one place to another. The cargo transported by sea is also subject to manifold risks at the port and during the voyage. Cargo insurance covers the shipper of the goods if the goods are damaged or lost. The cargo policy covers the risks associated with the transshipment of goods. The policy can be written to cover a single shipment. If regular shipments are made, an open cargo policy can be used that insures the goods automatically when a shipment is made.

(c) Freight Insurance

Freight refers to the fee received for the carriage of goods in the ship. Usually the ship owner and the freight receiver are the same person. Freight can be received in two ways- in advance or after the goods reach the destination. In the former case, freight is secure. In the latter the marine laws say that the freight is payable only when the goods reach the destination port safely. Hence if the ship is destroyed on the way the ship owner will loose the freight along with the ship. That is why, the ship owners purchase freight insurance policy along with the hull policy.

(d) Liability Insurance

It is usually written as a separate contract that provides comprehensive liability insurance for property damage or bodily injury to third parties. It is also known as protection and indemnity insurance which protects the ship owner for damage caused by the ship to docks, cargo, illness or injury to the passengers or crew, and fines and penalties.

Q23. State the various clauses in a marine insurance policy.

Ans :

A policy of marine insurance may contain several clauses. Some of the clauses are common to all marine policies while others are included to meet special requirements of the insured. Hull, cargo and freight policies have different standard clauses. There are standard clauses which are invariably used in marine insurance. Firstly, policies are constructed in general, ordinary and popular sense, and, later on, specific clauses are added to them according to terms and conditions of the contract.

Some of the important clauses in a marine policy are described below:

1. Valuation Clause

This clause states the value of the subject matter insured as agreed upon between both the parties.

2. Sue and Labour clause

This clause authorizes the insured to take all possible steps to avert or minimize the loss or to protect the subject matter insured in case of danger. The insurer is liable to pay the expenses, if any, incurred by the insured for this purpose.

3. Waiver Clause

This clause is an extension of the above clause. The clause states that any act of the insured or the insurer to protect, recover or preserve the subject matter of insurance shall not be taken to mean that the insured wants to forgo the compensation, nor will it mean that the insurer accepts the act as abandonment of the policy.

4. Touch and Stay Clause

This clause requires the ship to touch and stay at such ports and in such order as specified in the policy. Any departure from the route mentioned in the policy or the ordinary trade route followed will be considered as deviation unless such departure is essential to save the ship or the lives on board in an emergency.

5. Warehouse to warehouse clause

This clause is inserted to cover the risks to goods from the time they are dispatched from the consignor's warehouse until their delivery at the consignee's warehouse at the port of destination.

6. Inchmaree Clause

This clause covers the loss or damage caused to the ship or machinery by the negligence of the master of the ship as well as by explosives or latent defect in the machinery or the hull.

7. F.P.A. and F.A.A. Clause

The F.P.A. (Free of Particular Average) clause relieves the insurer from particular average liability. The F.A.A. (free of all average) clause relieves the insurer from liability arising from both particular average and general average.

8. Lost or Not Lost Clause

Under this clause, the insurer is liable even if the ship insured is found not to be lost prior to the contact of insurance, provided the insurer had no knowledge of such loss and does not commit any fraud. This clause covers the risks between the issue of the policy and the shipment of the goods.

9. Running down Clause

This clause covers the risk arising out of collision between two ships. The insurer is liable to pay compensation to the owner of the damaged ship. This clause is used in hull insurance.

10. Free of Capture and Seizure Clause

This clause relieves the insurer from the liability of making compensation for the capture and seizure of the vessel by enemy countries. The insured can insure such abnormal risks by taking an extra 'war risks' policy.

11. Continuation Clause

This clause authorizes the vessel to continue and complete her voyage even if the time of the policy has expired. This clause is used in a time policy. The insured has to give prior notice for this and deposit a monthly prorate premium.

12. Barratry Clause

This clause covers losses sustained by the ship owner or the cargo owner due to willful conduct of the master or crew of the ship.

13. Jettison Clause

Jettison means throwing overboard a part of the ship's cargo so as to reduce her weight or to save other goods. This clause covers the loss arising out of such throwing of goods. The owner of jettisoned goods is compensated by all interested parties.

14. At and From Clause

This clause covers the subject matter while it is lying at the port of departure and until it reaches the port of destination. It is used in voyage policies. If the policy consists of the word 'from' only instead of 'at and from', the risk is covered only from the time of departure of the ship.

Q24. State the various types of marine insurance products.

Ans : **(Imp.)**

The types of marine insurance products :

1. Voyage Policy

It is a policy in which the subject matter is insured for a particular voyage irrespective the time involved in it. In this case, the risk attaches only when the ship starts on the voyage.

2. Time Policy

It is a policy in which the subject matter is insured for a definite period of time. The ship may pursue any course it likes, the policy would cover all the risks from perils of the sea for the stated period of time.

3. Mixed Policy

It is a combination of voyage and time policies and covers the risk during particular voyage for a specified period of time.

4. Valued Policy

It is a policy in which the value of the subject matter insured is agreed upon between the insurer and the insured and it is specified in the policy itself.

5. Open or Unvalued Policy

It is the policy in which the value of the subject matter insured is not specified. Subject to the limit of the sum assured, it leaves the value of the loss to be subsequently ascertained.

6. Floating Policy

It is a policy which only mentions the amount for which the insurance is taken-out and leaves the name of the ship(s) and other particulars to be defined by subsequent declarations. Such policies are very useful to merchants who regularly dispatch goods through ships.

7. Wagering or Honour Policy

It is a policy in which the assured has no insurable interest and the underwriter is prepared to dispense with the insurable interest. Such policies are also known as 'Policy Proof of Interest (PPI)'.

8. Builder's Risk Policy

This policy is issued for more than one year. This covers the risk of damage to vessels from the time its construction commences until its trail is completed.

9. Port Risk Policy

This policy covers all the risk of a vessel while it is standing at a port for particular period of time.

3.3 Claim Settlements

Q25. What do you mean by Claim Settlements? State the featres of claim management.

Ans : **(Imp.)**

Claim settlement means paying back the money by the insurance company to the insurance policy holder. A claim is said to be settled when the policy holder duly receives the money which is due to him by the company according to the terms and conditions of policy. The process of claim settlement directly reflects the efficiency and effectiveness of the company. A company which correctly and successfully settles down the claims of clients achieves trustworthiness and loyalty. While the insurance companies which involve litigations in claim settlements owe bad reputation in the market.

Claim settlement of an insurance policy usually takes place in two circumstances,

1. On death of policy holder.
2. On maturity of insurance policy.

Features

Some of the important characteristic features of insurance claims are as follows,

1. There has been an increase in awareness regarding insurance after the liberalization of insurance sector. Almost all businesses and individuals are involved in one or the other type of insurance. This has increased the number of claim transactions to be processed.
2. Brokers and other intermediaries are handling most of the transactions. This results in increased necessity of record maintenance, information update, data analysis and the difficulties in settlement of claims.
3. The complexity in insurance process has increased, thus leading to increase in the number of steps and people (legal experts, loss adjuster, witness etc).
4. More than 3-4 insurance companies are involved in some insurance products. This results in the complexity in claim settlement and the method of risk distribution.
5. Increased number of transactions are being carried out because of increased fraudulent, exaggerated and repeated claims.
6. Due to the excessive reinsurance transactions, there is more complexity in a claim.

Q26. What are the different types of non-life insurance claim and State the procedure for claim settlement.

Ans : **(Imp.)**

There are two types of General Insurance or Non-life Insurance claims. They are,

1. Motor Insurance Claim, and
2. Property Insurance Claim.

1. Motor Insurance Claim

Motor insurance policy claim occurs when any damage caused to the policyholder vehicle either by fire, accident or theft.

2. Property Insurance Claim

Property insurance claim occurs when there is any loss or damage caused to the property due to fire, lightning, windstorm, hurricane, earthquake or tornado.

The Settlement Procedure for Claims of Non-life Insurance/General Insurance

The accuracy of information provided by the insured at the time of claim is to be verified by the insurance company. If any fault is found at the time of verification then the insurance company has a right to stop the claim settlement procedure. The procedure involved in settlement of non-insurance claims are,

(i) An immediate information/report should be given to the insurer regarding the loss of damage. After receiving the report, the insurer sends a claim form to the insured.

(ii) The insured has to submit a claim form to the insurer with complete information along with the estimated loss. Submitting detailed estimation i.e., estimation for each item damaged is preferable.

(iii) An inspection may be arranged by the insurer inorder to analyse the loss.

(iv) An expert licensed examiners/authorities are appointed to inspect the major losses.

(v) At the time of inspection, the policy holder has to submit the documents which are essential to confirm the extent of loss.

(vi) If the causes behind loss can not be proved then it is the responsibility of policy holder to prove that the loss or damage has a rised due to the policy holder's risk.

(vii) Based on the report given by the inspection officials, the insurer takes decision with respect to the settlement of claim.

(viii) The settlement of claim can be completed if both insurer and insured comes to a common point regarding claim amount.

Short Question and Answers

1. Define General Insurance.

Ans :

Meaning

Insurance which protect things like stock, cars, homes etc is known as 'General Insurance'. It provide protection to our valuables against fire, storm, earthquake, thefts, accidents, travel mishap etc. General insurance contracts offers financial compensation for any loss occurred to the insured excluding death i.e., it insures everything of a person apart from his life.

2. Objectives of General Insurance.

Ans :

1. To provide need-based and low-cost general insurance cover to the rural population.
2. To administer a crop insurance scheme for the benefits of farmers.
3. To develop and introduce covers with social security benefits.
4. To develop a marketing network throughout the country and to promote balanced regional development and make insurance available to the masses.

3. Functions of General Insurance.

Ans :

1. The carrying on of any part of general insurance business as deemed desirable,
2. Aiding, assisting and advising the companies in the matter of setting up of standard of conduct and sound practice in general insurance business and in rendering efficient customer service.
3. Advising the acquiring companies in the matter of controlling the expenses including the payment of commission and other expenses.
4. Advising the acquiring companies in the matter of investment of funds.

4. Compare and contrast life insurance and general insurance.

Ans :

S.No.	Nature	Life Insurance	General Insurance
1.	**Contract**	Life insurance is not a contingent contract.	General insurance is a contigent contact
2.	**Objective**	The objective of life insurance policy is to provide protection and encourage the investment of savings.	The objective of general insurance policy is to provide security against the risk.
3.	**Period and Premium**	Life insurance is a long-term contract and its premium remains fixed throughout the contract.	General insurance is a short-term contract and its premium varies with the renewal of contract.
4.	**Indemnity**	Under life insurance policy, actual loss occurred on the death of a person is not possible to measure. Because of this, an insured amount of policy is payable.	Under general insurance policy, actual loss can be measured. Therefore, insured is paid with the amount equal to the extent of loss occurred.
5.	**Risk**	In life insurance policy, risk associated with the life of the individual increases with the growing age of a person.	In general insurance policy, risk of loss increases with the passage of time.

5. Define Health Insurance.

Ans :

Meaning

Health insurance is a safeguard against rising medical costs. A health insurance policy is a contract between an insurer and an individual or group, in which the insurer agrees to provide specified health insurance at an agreed-upon price (the premium). Depending upon the policy, premium may be payable either in a lumpsum or in installments. Health insurance usually provides either direct payment or reimbursement for expenses associated with illnesses and injuries. The cost and range of protection provided by health insurance depends on the insurance provider and the policy purchased. There are many health concerns including the following which accentuate the demand for health insurance:

(a) Environmental pollution is causing serious health problems to humans.

(b) The fast spreading AIDS, poisonous gases, various wastes including nuclear waste generated by the people are seriously endangering the life on earth.

(c) A person may face serious monetary problems for the medical treatment and hospitalisations during life. Now-a-days, most companies give the benefit of health insurance to its employees.

6. Importance health insurance.

Ans :

1. Most of the employed Indians are found to be suffering from health issues due to lack of maintenance of balanced diet. Thus, as a result number of health issues are increasing.
2. The trend of consuming junk food is rapidly growing in urban areas and metropolitan cities. Thus, ill health is common is such areas.
3. The percentage has increased drastically in serious diseases among Indians in the last few decades. According to a study about 30 % of Indians suffer from heart attacks within the age of 40 - 45 years.
4. Majority of diseases are found to be due to cardio-vascular disorders.
5. Diabetes has became a common disease among the Indian families.
6. Treatment of disease is highly expensive.
7. Reaching a good hospital or medical centres has become difficult in India. Thus increase the unnecessary costs to patients.

7. Define Accident insurance.

Ans :

The personal accident insurance policy provides that, if at any time during the currency of this policy, the insured (person who has taken the policy) shall sustain any bodily injury resulting solely and directly accident caused by external violent and visible means, then the insurance company shall pay to the insured or his legal personal representative(s), as the case may be, the sum or sums set, forth, in the policy, if resulting in specified contingencies such as death, permanent disablement etc.

8. Define group personal accident policy.

Ans :

Group personal accident policy will be issued only if there is common relationship among group members and a common point of controlling insurance schemes.

The coverage of this policy is same as individual policy excluding the education grant and cumulative bonus. On payment of additional premium, medical expenses can be reimbursed. By making extensions to policy even risk involved in war can be covered. The sum insured will be different for each insured person. Based on risks, premium amount is charged from each person.

9. Motor insurance.

Ans :

Motor insurance provides protection to the owner of vehicle against

- damages to his/her vehicle and
- Pays for any third party liability decided as per law against the owner of the vehicle.

Third party insurance is a compulsory requirement. Under motor vehicle Act, the owner of the vehicle is legally liable for any injury or damage to third party or property caused by or arising out of the use of the vehicle in a public place. In terms of the Motor Vehicle Act, 1988, it is a punishable offence to drive a motor vehicle in public place without insurance.

10. Define fire insurance.

Ans :

Meaning

Fire insurance contract may be defined as "an agreement, whereby one party in return for a consideration undertakes to indemnify the other party against financial loss which the latter may sustain by reason of certain defined subject-matter being damaged or destroyed by fire or other defined perils up to an agreed amount." The party responsible to indemnify the loss is called the insurer, the party who is to be indemnified is called the insured, the consideration for the contract is termed 'the premium', the defined subject-matter is termed 'the property insured" the sum set forth in the contract is called the assured sum, and the document containing the terms and conditions of the contract is known as the policy.

11. What is marine insurance ?

Ans :

Meaning

Marine insurance basically covers three risk areas, namely: hull, cargo and freight. The risks which these areas are exposed to are collectively known as "Perils of the Sea". These perils include theft, fire, collision, etc.

Definitions

(i) According to Section 2(13)A of the Insurance Act 1938 defines marine insurance as, "Marine insurance business" means the business of effecting contracts of insurance upon vessels of any description, including cargoes, freights, and other interests which may be legally insured in or in relation to such vessels, cargoes and freights, goods, wares, merchandise and property of whatever description insured for any transit by land or water or both, and whether or not including warehouse risks or similar risks in addition or as incidental to such transit and includes any other risks customarily included among the risks insured against in marine insurance policies.

(ii) According to U/S 3 of Marine Insurance Act "A contract of marine insurance is a contract whereby the insurer undertakes to indemnify the insured in a manner and to the extent thereby agreed, against marine losses, i.e. to say, the losses incidental to marine adventures".

12. What are the different types of non-life insurance claim?

Ans :

There are two types of General Insurance or Non-life Insurance claims. They are,

1. Motor Insurance Claim

Motor insurance policy claim occurs when any damage caused to the policyholder vehicle either by fire, accident or theft.

2. Property Insurance Claim

Property insurance claim occurs when there is any loss or damage caused to the property due to fire, lightning, windstorm, hurricane, earthquake or tornado.

Choose the Correct Answers

1. The general insurance Corporation of India was incorporated as a company in the year [b]
   (a) 1970 (b) 1971
   (c) 1972 (d) 1973
2. The amendments made by IRDA in which of the following acts, [c]
   (a) GIC Act, 1972 (b) LIC Act, 1956
   (c) Both (a) and (b) (d) MRTP Act
3. Which one of the following is not a function of insurer? [d]
   (a) Production (b) Underwriting
   (c) Rate making (d) None of the above
4. Different types of motor vehicle insurance policies are [d]
   (a) Act policy (b) Collision insurance policy
   (c) Garage insurance policy (d) All the above
5. Health insurance is basically divided into two types, disability income insurance and ________. [b]
   (a) Participating life insurance (b) Medical expense insurance
   (c) Adjustment life insurance (d) None of the above
6. The legal right to insure arising out of a financial relationship recognized under the law between the insured and the subject matter of insurance is called [a]
   (a) Principle of insurable interest (b) Principle of utmost good fait
   (c) Principle of subrogation (d) Principle of indemnity
7. ________ decide whether to accept or to reject the insurance proposal. If the proposal is accepted at what price it should be accepted [d]
   (a) Agent (b) Intermediaries
   (c) Actuaries (d) Underwriters
8. Reinstatement policy is also called ________. [a]
   (a) Replacement policy (b) Recurrence policy
   (c) Instalment policy (d) Renew policy
9. Insurance which is not covered under other insurance policies comes under [b]
   (a) Fire insurance (b) Speciality insurance
   (c) Accident insurance (d) Marine insurance
10. From the following, which is not a risk sharing method [d]
    (a) Avoidance (b) Loss control
    (c) Retention (d) Remission

Fill in the Blanks

1. ________ is the oldest insurance company in India.
2. IRDA plays a role of a ________ for the insurance industry in India.
3. Insurer can be a ________.
4. Insurance emerged in India during ________ century.
5. ________ is also called as non-life insurance.
6. ________ help with insurance approvals at the time of cashless admission in the hospital and with settling the bill with the insurer on discharge.
7. The State Bank of India enter into a joint venture agreement with ________ for undertaking general insurance business.
8. RMAC stands for ________ .
9. ORMC stands for ________ .
10. IBNR stands for ________ .

Answers

1. National Insurance Company Ltd.
2. Regulator
3. Company or Person
4. 18th
5. General Insurance
6. Third Party Administrators
7. Insurance Australia Group
8. Risk management advisory Committee
9. Operational Risk Management Committee
10. Incurred but not reported

One Mark Answers

I. Define Insurance.

Ans:

According to the commission on insurance terminology of the ARIA, insurance is defined as, "The pooling of fortuitous losses by transfer of such risks to insurers, who agree to indemnify insureds for such losses, to provide other pecuniary benefits on their occurrence, or to render services connected with the risk".

2. Define Insurance Contract.

Ans:

An Insurance Contract is nothing but an agreement between insured and insurance company (ie insurer) and has to comply with the provisions of the Indian Contract Act, 1872. The main purpose of creating insurance contract is to transfer a part of the risk of loss from insured to the insurer.

3. What is General Insurance

Ans:

Insurance which does not protect the life but protect things like stock, cars, homes etc is known as 'General Insurance'.

4. What is a Fire Insurance

Ans:

Fire insurance can be defined as "The agreement which covers the loss incurred by insured because of fire accident according to a specified insurance policy."

5. What is a Marine Insurance?

Ans:

Marine insurance refers to the protection of goods which are being transported from one place to another for the trading purpose.

UNIT IV	**POLICY DOCUMENTS AND ASSIGNMENT, NOMINATION & SURRENDER OF POLICY :** (a) **Policy Documents :** Life Insurance Policy Application and Process – Proposal Form and Related Documents – Importance of a Policy Document – Format of a Policy Document – Policy Schedule and its Various Components – Conditions and Privileges in a Policy Document – Duplicate Policies. (b) **Assignment, Nomination & Surrender of Policy :** Assignment of Life Insurance Policies – Conditional Assignment – Absolute Assignment – Process of Assignment– Nomination – Process of Nomination – Features of Nomination – Assignment Vs. Nomination – Surrender of Policies – Foreclosure of Insurance Policies.

4.1 Policy Documents

Q1. What is life insurance policy document? Specify its contents.

Ans :

The life insurance organizations make use of different documents starting from proposal form to claim settlement of insurance. The following are some of the primary insurance policies documents which are explained below,

1. Proposal Form

Application form/proposal form is the first and foremost source of risk information. It is one of the essential activity of proposer to disclose the information which is required for insurance contract completely and accurately, eventhough the insurer may or may not ask for any information. Generally, the insurer asks only the questions which are mentioned in the proposal form. There are two kinds of proposal forms. They are as follows,

(i) Application form and

(ii) Personal statement.

2. Other Related Documents

Generally, the life insurance organizations accept the following standard age-proofs,

(i) Date of birth proof extracted from Municipal or other records.

(ii) Baptism certificate or certified extract from family Bible if it consists of age or date of birth.

3. Issue of Duplicate Policy

Duplicate policy is issued in case of loss or misplace of the original policy. For instance, if a policy is damaged fully or partly because of natural disasters like fire, floods and so on then in such a case the insured has a right to apply for a duplicate policy. The duplicate policy would provide the same right and privileges as that of the original one.

4. Policy Document

Policy document acts as a proof for insurance contract which discloses the standard and accurate conditions of the contract. It should be a standardized document that is performed by LIC. The eligible authority of the insurance organization must sign and stamp the policy document as per the Indian Stamp Act.

5. Cover Note

Cover note is a document which is issued in advance before the issue of the policy and is essential if policy cannot be issued straight away for some or the other reason. Inorder to provide a cover on a provisional basis, the cover notes are issued during the course of negotiations. It is a genuine document eventhough it is not a stamped one and the coverage of policy begins as soon as cover note is issued.

6. First Premium Receipt (FPR)

The insurance can be accepted by the insurer, if the proposal is completed in all aspects.

A risk can be assumed for getting first premium receipt, if the complete first premium is in' deposit. Without receiving the premium, the law restricts from assuming the risk. It is the proof of the organization having assumed risk. The following aspects can be provided by the FPR apart from bearing its date of issue. They are,

(i) The required details of policy provided like policy number, commencement date of risk, maturity date, last premium payment date, mode of payment, amount of premium and address of the policyholder.

(ii) In First Premium Receipt (FPR), the due date of the next premium is mentioned.

(iii) The details regarding the receipt and adjustment of first premium and particularly in FPR the risk which has been assumed should be mentioned.

7. Endorsements

If there is a requirement of alteration to any condition in the form of addition or deletion, endorsements must be attached to the policy. Nomination which are made after the issue of policy must be provided on the back of policy. Separate endorsements are attached to the policy to have affect of the modifications in age, name, plan term, sum- guaranteed, mode etc.

8. Renewal

Insurer is not legally liable to remind the due of premium to the policyholders. Yet, they are following the practice of sending renewal notices regularly.

9. Bonus Notices and Intimations

On regular intervals, the assets and liabilities of the insurance firms are valued by the analysts. If any surplus is found during these valuations then it is declared and distributed in the form of bonus to the policyholders.

The criteria for determination of bonus is significant in every insurance product. Various insurance firms are having different patterns for determining bonus. Some firms declare it as a percentage of the premium and some as percentage of sum assured.

After the completion of 15 years, terminal bonus is also declared for policies as "in force policies". With respect to the terms and conditions, the bonus may be added to the sum assured or as deduction from the premium.

10. Other Relevant Insurance Documents

The other related insurance documents are as follows,

(i) The commissioner of income tax has to approve the trust deed for the purpose of Group Insurance/Group Gratuity/ Pens ion policies.

(ii) In case of accidental death, it is essential to have the post mortem report, panchanama, copies of FIR, police enquiry reports etc.

11. Claims Documents

There are two types of claims documents. They are,

(a) Maturity claims and

(b) Death claims.

(a) Maturity Claims

Generally, the branch of insurance companies send the maturity claim intimations to the policyholders two months prior the maturity. The following documents must be submitted by the policyholder. They are,

(i) Age proof.

(ii) Discharge form given by the office.

(iii) Policy document: If the document is lost, then an indemnity bond should be submitted.

(iv) Assignment deed, if required.

(b) Death Claims

A person who is legally allowed to receive policy money must provide the information regarding the death of policyholder to the branch of insurance company of the insurer. The documents required for the claim are given below,

(i) Age proof.

(ii) Policy document.

(iii) Certificate of death.

(iv) Assignments/Re-assignments deed.

(v) Discharge form issued or properly witnessed.

(vi) Legal evidence of the title.

The following documents should be provided by the policyholder, if the claim has occurred within 3 years from the commencement of policy.

(i) The statement of doctors/hospital authorities if the deceased has been admitted to a hospital.

(ii) The statement of medical attendant who has looked after the person by providing details of illness and treatment at the time of death.

(iii) The details of leave should be provided by the employer, if the deceased was employed.

(iv) The witness of funeral.

4.1.1 Life Insurance Policy Application and Process

Q2. Define Life Insurance Policy Application. Explain the procedure for issuing a life insurance policy.

Ans : **(Imp.)**

Meaning

The life insured has to provide the general information for completing the life insurance policy application. The information regarding name of the policyholder, address of the policyholder, occupation, place, date of birth, abroad travel if any, number of children, marital status, beneficiary designation, relationship, type of policy, amount of insurance, previous life insurance, any life insurance denied or rated, any high risk personal avocations, hobbies, medical history like illness, disease, operations or hospitalization, statement of health condition of applicant, name of personal physician, consulting physicians, immediate family, parents and siblings physical limitations and abnormalities and any medical diagnosis or treatment recommended. Apart from the life insurance policy application, no other document is that much important for the insurers. This form is prepared by insurance company inorder to provide its underwriters with basic information that is required to decide whether the applicant is eligible for the coverage.

Procedure

Step 1: Filling of a Proposal Form

A proposal form is a standardized application which contains detailed information of the insured with respect to the policy. The person applying for a policy needs to give complete information. The insured is required to disclose all the material facts such as follows,

(i) Name of the assured

(ii) Address of the assured

(iii) Date of birth

(iv) Occupation

(v) Age

(vi) Value of the proposed policy

(vii) Age and number of family members

(viii) Family's medical history

(ix) Kind of policy chosen

(x) Amount and type of payment (i.e., is premium) and

(xi) All other details which would effect the terms and conditions of policy.

All the details of the proposal form must be filled by the propose in his own handwriting along with a declaration form assuring that the above in formation is authentic and it must be signed in front of the insurance agent.

Step 2: Medical Examination

Medical Examination of the person applying for policy is conducted by the designated doctors of LIC. The report of the doctor is sent to LIC directly. Various details related to the health of individual is examined which includes the following aspects,

- Medical History of the proposer,
- Proposer's Family Medical History,
- Lifestyle and habits of proposer like drinking, smoking, recreational, drug use and so on.
- Contact details of his/her Family doctors.
- Measurement of Height and weight of the proposer.
- Complete Picture of blood test for checking cholesterol, glucose, protein and HIV.
- Complete Picture of Urine to analyze protein, glucose, creatinine etc.

This step might be avoided in case when the amount of policy is very small or when the insured is too young.

Step 3: Proof of Age is Examined

The Proof of age is examined by analyzing the following documents,

- Certificate's traced out from Municipal Office and other records, for date of birth proof.
- Higher/Secondary School certificate.
- For defence personnel identity card issued by the defence department indicating date of birth.
- For Government Employees and Employees of quasi-Government institution the certificate is extracted form their service book. In the absence of the above mentioned proofs the following one or more proofs might be taken into consideration,
  - (i) A certified traced out from the service registers of commercial institutions or industrial undertaking showing the evidence of age entered at the time of appointment of the employee.
  - (ii) A True copy of certificate issued by Higher Secondary Education/Matriculation Board or State/ Central Government.
  - (iii) Certificates issued by village panchayats are accepted but subjected to few jurisdictions.

Step 4: Acceptance of the Proposal

The Insurer accepts the proposal of insurance by taking into consideration the medical report issued by the designated doctors of LIC and after verifying other details filled in the form. As soon as the proposal is accepted, an intimation letter of acceptance would be sent to insured demanding the payment of premium. Immediately after payment of first premium the coverage of risk begins. Incase, if the company is not satisfied with the medical report then they can reject the policy if required copy of medical report would be submitted to them.

Step 5: Payment of Premium

The Premium is a regular payment which is paid by the insured either monthly, quarterly, half-yearly or annually depending upon the terms and conditions in the Insurance contract. In case, if premium is not paid then the policy would lapse and revival of policy is possible only when insured is supposed to pay certain percentage of Interest on it. The Rate of premium differs from one policy to another depending on the nature of policy and particulars of the insured. The following are some of the factors on the basis of which amount of premium is decided,

- Age of the Insured
- Kind of life Insurance policy, Chosen
- Mode of premium payment
- Terms and conditions of premium payment and
- Terms of the policy.

Step 6: Issue of Policy

Life Insurance policy is the document which consists of the terms and conditions of Insurance contract. In other words, it is an agreement which is between the Life Insurance Corporation (LIC) and the assured [i.e. policy holder] to pay certain sum of money to assured at the occurrence of the mentioned event. It is made on stamp paper. The following are the Significant details of the Policy,

- Name of the company issuing policy and branch number.
- Policy Number, Date of starting and maturity.
- Duration of policy.
- Sum assured, Terms and Premium of each installments.
- Mode of Payment [i.e. is Monthly, Quarterly, half-yearly or annually].
- Date of birth and Age of the insured.

4.1.2 Proposal Form and Related Documents

Q3. "Life insurance start with the proposal". Explain.

Ans : **(Imp.)**

Proposal form is also called as application form. It is the first and foremost source of risk information. It is an essential for the person who is applying for a policy to give a complete information, eventhough the insurer is not asking for any information. Generally, the insurance agent asks all the questions which are mentioned in the proposal form. There are two parts of proposal forms. They are :

(i) Application form and

(ii) Personal statement

The proposal form would include the following information :

1. Name

The name of would be assured is to be entered very carefully. Any mistake in giving the full and correct name may create problem at the time of payment of claims and sum assured.

2. Nationality

The nationality of the life to be assured is very significant. As per IRDA rules, life insurance policies on the lives of foreign can be offered only under special cases subject to certain conditions to be fulfilled.

3. Occupation

The occupation of the proposer is also very significant to analyse the risk. The nature of occupation should be fully stated explaining the duties.

4. Age

It is essential to provide the exact date of birth as the insurance premiums are calculated on the basis of age. Proof of age must be demanded by the insurance company alongwith the proposal form.

The following types of age proofs would be generally acceptable to the insurance company.

Certified extract from Municipal or other records made at the time of birth.

Certified extract from school or college records.

Certified extract from service register in the case of Government employees and employees of semi-government institutions including public undertaking.

Passport issued by Government of India.

5. Nominee

The appointment of nominee is necessary to receive the claim amount in the event of death.

6. Detail of Other Life Insurance Policies

It helps the insurer to get the information from the life assured as to whatever he/she has simultaneously applied to other insurance company. Insurance company also obtain information as regard to the total risk covered on the life both with respect to the quantity and with respect of nature of acceptance of work.

7. Additional Information for Female Proposer

In case of female proposer, additional information relating to qualification, average monthly income, source of income alongwith the husband's information so that relevant details of the risk to be covered. She should not be in an advance stage of pregnancy at the time of proposal.

8. Family History

The information about family history helps the insurer to find out the hereditary, infectious or contagious diseases in the family of the proposer.

9. Name of Medical Attendant

The name of regular medical attendant should be given to get any information about the medical history of life to be insured.

10. Declaration

The proposer has to declare at the end of the form that true and accurate information is stated in the proposal form.

4.1.3 Importance of a Policy Document

Q4. State the importance a policy document.

Ans :

Importance

1. At the time of claiming the amount from the policy, a policy document is essential to be submitted to the insurer for settlement of claim.
2. When the insured wants to raise a loan on the security of policy, the policy document is needed to be submitted to the insurer or a bank from where the loan is to be raised.
3. In case, insured is planning to cancel the policy and take the surrender value then it is essential to submit the policy to the insurer before receiving the amount.

In some cases the policy gets lost and the insured is concerned to have a duplicate policy which is issued on behalf of the lost one. However, the destruction or loss of a policy document do not discharge the liability of insurance company to make payment regarding the claim amount whenever the claim arises. In case of destruction of policy, the claim amount is paid to the person who provides the indemnity bond jointly with one surety.

4.1.4 Format of a Policy Document

Q5. Explain the format of a policy document.

Ans :

The terms and conditions regarding the contract between insurer and insured are specified in a life insurance policy. The following information should be revealed in policy document,

(a) The definition of risk covered.

(b) The duration of the risk.

(c) The premium and

(d) The insurance amount.

However, the policy express the rights, privileges and obligations of the insured person. It comprises of printed and standardised conditions. Any change in policy can be made by providing appropriate endorsement attached with the policy. The following details are included in life insurance policy. They are,

1. Heading

It includes the name and address of the insurer and jurisdiction in case of legal disputes and also provides address where insured can give notice to the organization.

2. Preamble

It explains the purpose of the parties to the contract in specific and general terms. Here, both the parties are introduced. There will be an acknowledgment for the receipt of proposal and declaration and also for the first premium from the policyholder. The statement and declarations included in the proposal and personal statement are considered to be the basis of the agreement.

3. Operative Clause

It indicates the obligations and mutual responsibilities of both the parties in the following ways,

(i) In consideration of payment of first and subsequent premium amount whenever they are due.

(ii) The benefits mentioned in the policy including bonus with respect of participating policies is paid by the insurer.

(iii) On receiving the proof which is acceptable by the company,

(a) The title of the person who is claiming payment.

(b) Age of life assured, if not specified earlier.

(c) The occurrence of event due to which the benefits become payable.

4. Provision

It consists of two provisions. They are as follows,

(i) The privileges and conditions which are mentioned on the back of policy should be considered as a part of policy.

(ii) Endorsement provided as proof for changes etc should be considered as a part of the policy.

5. Schedule

'Policy schedule' is also referred as a schedule of insurance. It is considered as a component of the insurance contract which determines the policyholder and details regarding the amount of coverage, the exclusions, property and persons covered, the deductibles and the mode of payment and schedule.

6. Attestation

The authorized official of the organization should stamp and sign the policy.

7. Conditions and Privileges

The conditions and privileges are generally printed on the back of policy document and can be divided into the following,

(i) Conditions

Conditions exhibits the nature of the contract wherein age proof specified is used to calculate premium on the basis of age and if the age is not already admitted and later on proved to be higher than mentioned then company can make changes in any conditions of the contract. Some conditions are as follows,

(a) Forfeiture in certain events

(b) Suicide

(c) Other restrictive clauses

(d) Assignment and nomination.

(ii) Privileges

Under the policy, some privileges are permitted. They are as follows,

(a) Revival of discontinued policies and

(b) Non-forfeiture regulations.

4.1.5 Policy Schedule and its Various Components

Q6. What is Policy Schedule? Explain the components of Policy Schedule.

Ans : **(Imp.)**

Meaning

A policy schedule is the outline of the coverage provided by the insurance policy. This is usually the first page or first few pages of a policy package. It is the part of the insurance contract that identifies the policyholder and details the property and persons covered, the amount of coverage, the exclusions, the deductibles, and the payment mode and schedule. It may also include other key coverage information like additional clauses, warranties and conditions that are specific to policy.

A schedule is an insurance term that basically means a list. There are many ways this term is used in the insurance industry but in this case, a policy schedule is a list detailing the coverage you have purchased. Examples of details listed on a schedule includes:

- Limits of insurance.
- A list of who is insured.
- The deductible.
- List of the property that is covered.

Components

It includes the information regarding the specific contract. The classification of information is explained as follows,

(i) Recognizing the Insured

Identification of the policyholder includes details relating to policy number, date of commencement, date of proposal, name and address of the proposer and life assured.

(ii) Scope of Coverage

Term and plan of insurance, sum guaranteed, date of maturity, events on the occurring of which the benefits become payable, any further benefits like accident benefit are included in scope of coverage.

(iii) To Whom the Sum Guaranteed is Payable

Related information and also the name of nominee should be mentioned.

(iv) Premium

It includes details relating to the installment premium, due dates, mode of payment of premium, premiums payable period, date on last premium.

(v) Age

Exact age of life assured and whether it has been accepted or not.

4.1.6 Conditions and Privileges in a Policy Document

Q7. What are the conditions and privileges in a policy document?

Ans : **(Imp.)**

Conditions in a Policy Document

A policy document includes following conditions,

1. Age

It is very essential to certify the age of insured in life insurance because the premium determination and risk underwriting depends on age. It also plays an important role in document policies where the money is payable to the insured on completion of specific age.

2. Grace Days

Certain number of days are allowed by the insurance company after the specified period of insurance wherein the policy holder can pay the premium inorder to regenerate or continue the policy. These days are called grace days or grace period. For payment of yearly, half-yearly and quarterly, the grace days allowed by the insurance company is one month but not less than 30 days. For payment of premium on monthly basis, 15 days grace period is allowed. If the premium is paid within the grace period then it is said to be payment on time and hence no interest is charged on the premium.

3. Lapse and Non-Forfeiture

The policy lapses when the premium is not made within the grace days and it is a default made by the policy holder/insured. Here, no claim will be given on lapsed policy and all premiums which are previously made will be forfeited.

4. Paid-up Value

If the payment of premium is terminated by the insured after two years, then the policy will not be void but will be in continuation as a paid-up policy.

Paid-up Value

$$= \frac{\text{Number of Premiums Paid} \times \text{Sum Assured}}{\text{Number of Premium Payable}} + \text{Bonus}$$

5. Keeping Policy in Force

In this case, if the premiums are in default, then the premium is advanced/deducted from surrender value to keep the policy in force.

6. Extended Term Assurance

The term assurance policy is usually issued for a short period. If insured want to extend the policy for longer period, he would be getting some refund at the end of premium paying term. On maturity date, insured will get total of all premiums paid by him till the end of term. If insured is of age required at the end of term then he would get cover for additional period.

7. Surrender Value

In the concept of insurance policy the term "surrender" refers to the willing termination of a contract by a policy holder. The insured has a right to terminate his contract at anytime before the maturity of policy.

Surrender value is the amount payable by the insurance company to insured for surrendering his policy. It is paid after deducting all the essential surrendering charges.

If once the policy is surrendered, it means that insurance protection given under the policy will be stopped and also the life coverage provided by the company will come to an end.

8. Nomination

Nomination is a right of insured for nominating a person as a nominee to receive his claim incase of the event of death. Nominee can be any one from his family or relatives. If a policyholder assigns a nominee then there would be no need of succession certificate or letters of administration to be submitted while claiming the amount of policy. Nomination can be made only by the competent person.

Definition: Sec. 39 of the Insurance Act, 1938 defines nomination as "Nomination is the process of appointing/nominating a person or persons by the insured, in order to receive the payment of the insurance policy in the event of death of the insured".

9. Policy Loan

Policy loan is defined as a loan which is taken by the policy holder from an insurance company against the cash surrender value of the complete life insurance policy. A policy holder needs to apply for a loan by submitting the policy bond with duly completed form in a prescribed manner. A loan against life insurance policy is usually an advance against the cash value of the policy. The surrendering value at the time of loan application is usually the cash value of the policy and the amount of loan granted is always less than this cash value.

10. Foreclosure

Foreclosure refers to the process of closing the policy of the policy holder if suppose their outstanding loan and unpaid interest gets equal to the surrendered value of the policy. Thus, the insurance company holds the right to lapse the policy by giving one month's prior notice to the policy holder.

11. Assignment

In life Insurance policy the term "Assignment" refers to transfer of a policy from one person to another. In other words, it means all rights, titles and liabilities associated with a policy would be transferred from assignor to the assignee. Here assignor is the person who transfers his policy and assignee is the person to whom the policy is being transferred.

Definition: Robert J. Surridge defines, " An assignment of a Life insurance policy is a document or action which is effective to transfer the ownership of the policy from the person to another".

Privileges in a Policy Document

Under the policy some privileges are permitted. For instance, in payment of premiums grace days are permitted, the sum guaranteed will be paid with respect to the deduction of overdue premiums completely. This also demands that at the time of death if the policy is in full force for the full sum guaranteed, the unpaid premium which are due before the next policy anniversary is deducted from the claim amount.

4.1.7 Duplicate Policies

Q8. Explain briefly about Duplicate Policies.

Ans :

A policy document is a valuable document and can be used for mortgage etc. Loss of policy document does not absolve the insurer from the liability of payment of policy proceeds when the claim arises. The claim can be settled on the claimants, furnishing an indemnity bond jointly with one surety.

If a policy is irrevocably lost, a duplicate policy can be issued, after following a certain procedure. The insurer satisfies itself of the circumstances leading to loss. Being so satisfied the insurer insists upon an advertisement in a news paper, production of an indemnity bond and payment of policy preparation charges and there after a duplicate policy is issued. The duplicate policy is stamped "Duplicate Policy".

4.2 Assignment of Life Insurance Policies

Q9. Define Assignment.

(OR)

What is meant by assignment?

Ans :

Assignment is a means whereby the beneficial interest, right and title under a Policy gets transferred from Assignor to Assignee. 'Assignor' is the Policyholder who transfers the title, and 'Assignee' is the person who derives the title from the Assignor. Assignment can be made only after acquiring the Policy. Assignment can be done only for consideration-for money or money's worth or goods, moral and meritorious consideration, like Love and Affection.

Assignment can be made by mere endorsement on the Policy or by a separate duly stamped Deed. Assignment can be done by the Proposer, Policyholder or the Absolute Assignee. Assignor must be a major, and must have an absolute right over the Policy. Assignment must be in writing and the Assignor's signature along with a Witness is a must. Notice of Assignment should be submitted to the insurer.

Definition: Robert J. Surridge defines, " An assignment of a Life insurance policy is a document or action which is effective to transfer the ownership of the policy from the person to another".

4.2.1 Types

4.2.1.1 Conditional Assignment – Absolute Assignment

Q10. Describe the various types of assignment.

Ans : **(Imp.)**

1. Conditional Assignment

Conditional Assignment whereby the assignor and the assignee may agree that on the happening of a specified event which does not depend on the will of the assignor, the assignment will be suspended or revoked wholly or in part. Conditional Assignment is usually effected for consideration of natural Love and Affection.

Example : Mr. Rahul owns a term insurance policy of Rs 50 Lakh. He wants to apply for a home loan of Rs 50 Lakh. His banker has asked him to assign the term policy in their name to get the loan. Rahul can conditionally assign the policy to the home loan provider to acquire a home loan. If Rahul meets an untimely death (during the loan tenure), the banker can receive the death benefit under this policy and get their money back from the insurance company.

If Rahul repays the entire home loan amount, he can get back his term insurance policy. The policy would be reassigned to Rahul on the repayment of the loan.

In case if the death benefit received by the banker is more than the outstanding loan amount, the insurer will pay the bank the outstanding dues and pay the balance to the nominee directly. The balance amount (if any) will be paid to Rahul's beneficiaries (legal heirs / nominee).

2. Absolute Assignment

Absolute Assignment whereby all the rights, title and interest which the assignor has in the policy passes on to the assignee without reversion to the assignor or his estate in any event. Absolute Assignment is usually effected for valuable consideration.

Example : Mr. PK Khan owns a life insurance policy of Rs 1 Crore. He would like to gift this policy to his wife. He wants to make 'absolute assignment' of this policy in his wife's name, so that the death benefit (or) maturity proceeds can be directly paid to her. Once the absolute assignment is made, Mrs. Khan will be the owner of the policy and she may again transfer this policy to someone else.

Q11. How to assign a life insurance policy?

Ans :

The Assignment must be in writing and a notice to that effect must be given to the insurer. Assignment of a life insurance policy may be made by making an endorsement to that effect in the policy document (or) by executing a separate 'Assignment Deed'. In case of assignment deed, stamp duty has to be paid. An Assignment should be signed by the assignor and attested by at least one witness.

Application for Assignment

(Please read the instructions carefully before proceeding) Date : ____________

Name of Policy Owner : ____________ Policy No: | | | | | | | | |

Client ID : ____________

Contact No. (Off/Red) ____________ Mobile ____________ Email ID: ____________ @ ______

Sir/Madam,

I/We ____________ applicant/holder of the Life Insurance Application/Policy No ____________ with India First Life Insurance Company Limited do hereby assign the right and benefits of the ____________ said policy in favour of ____________ (assignee's name) being my ____________ ____________ (relationship) whose Data of Birth is ____________ (if assignee is an individual) and residing at/having their office at ____________

____

4.2.2 Process of Assignment

Q12. Describe the various steps involved in the assignment.

Ans : **(Imp.)**

When a policy holder is willing to assign his/ her policy to any other person then a standard form of assignment which includes essential instructions for carrying out the assignment is issued. After that the insurance company registers the properly-filled up form.

Following are the points which must be checked by insurance company to ensure that assignment is valid. They are as follows,

Step-1

To evaluate whether the assignment is carried out on the policy by an endorsement or on a separate paper. If the assignment is carried out on a separate paper then check whether the paper is properly stamped as per Stamp Regulations or else assignor must be informed about it to rectify.

Step-2

Examine whether the notice of assignment is received from the assignor. If notice is received then date on which it is received and details of assignment should be specified under policy ledger sheet. The assignor has to be informed if the notice have not received and found to be defective.

Step-3

Ensure that the signature of the assignor in the notice of assignment must match with the specimen of his signature in the proposal papers. In case of any differences, the assignor has to be informed.

Step-4

Examine whether the date and place of executing an assignment are mentioned or else assignment can be registered while giving back the assignment to party concerned, he/she must be asked to insert essential details in the assignment.

Q13. What are the major conditions of assignment?

Ans :

1. Assignee gets complete ownership and rights over the plan in assignment process.
2. Assignment must be in favour of more than one person.
3. Assignor must be a major person.
4. Assignment may be in favour of any person or institution.
5. Assignor must be competent to make assignment.
6. Assignment is an act of non-cancellation.
7. Assignment must be in writing and must be clear to understand.
8. Assignment can be made with or without consideration.
9. Assignment is allowed for all types of polices.
10. Registration of assignment in the records of insurer.

4.3 Nomination

4.3.1 Process of Nomination

Q14. Define the term nomination. State the process of nomination.

Ans :

Nomination is the process of identifying a person to receive the policy money in the event of the depth of the Policyholder. Nomination can be done at the inception of the Policy by providing details of nominee in the proposal form. However, if the nomination is not given at the beginning, the policyholder can give it at a later date.

This nomination has to be effected by giving notice in a prescribed form to the insurer and getting it endorsed on Policy Bond. Change of Nomination can be done by the Policyholder any time during the term of the Policy and any number of times. For this, the policyholder has to give a notice in a prescribed form to the insurer and get it endorsed at the back of the Policy.

Definition: Sec. 39 of the Insurance Act, 1938 defines nomination as "Nomination is the process of appointing/nominating a person or persons by the insured, in order to receive the payment of the insurance policy in the event of death of the insured".

Process

Step-1: At the Time of Undertaking the Policy

In this case, if the holder of the policy desires to make nomination then, he can specify his requirement in proposal form. The issued policy will have details regarding the nomination.

Step-2: After Undertaking the Policy

In this case, the holder of the policy must give details about nomination on the policy bond then sign on it and get it witnessed.

4.3.2 Features of Nomination

Q15. What are the features of nomination?

Ans :

1. **Nomination Right**

   The insured has the right to nominate one or more persons as his nominee. The

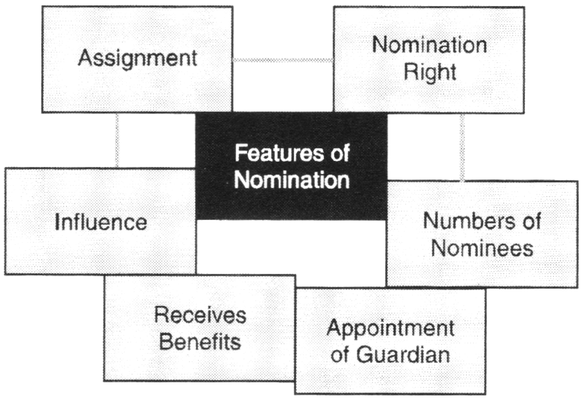
Policyholder also has the right to revoke or cancel the nomination anytime during the period of policy. In case insured and policyholder are different, only insured has the right to appoint the nominee.

2. Number of Nominee

Insured can nominate one or more than one nominee.

3. Receives Benefits

The nominee, appointed by insured receives the benefits from insurance company on the death of the insured on behalf of legal heirs of policyholder.



4. Influence

In life insurance contract, nominee has no right to influence the policy in any way at any time.

5. Assignment

The nomination stand cancelled automatically in case of assignment.

6. Appointment of Guardians

The insured has to appoint a guardian in case of nominee is minor. The documents are duly signed by the guardian to give his consent to be appointed as guardian. Insured can change the guardian at any time. The guardian loses his status when the minor becomes major.

Q16. Explain briefly change in the nomination.

Ans :

The policy holder might change his nomination as many times as he wants but such change of nomination should be given in a written form to the insurer as change will be in effect when it is registered. The following are two ways in which nomination can be changed,

(a) By making an endorsement at the back of the policy.

(b) By making a will.

If there is no nomination in the matter of the policy and it is now made for the first time, then a written notice to the insurer is not required. In other situations, endorsement should be attached with notice. If notice is not given to the insurer regarding change of nomination or endorsement of nomination, then the insurer is not responsible to make any payment under the policy.

Q17. Discuss about nominee as a minor.

Ans :

In case nominee is a minor, the life assured should appoint an appointee who is a major. An appointee must express his/her acceptance to act as an appointee. The appointment of an appointee must be done before policy matures for payment and appointment can be cancelled or modified through endorsement and convey it to insurer. The power of an appointee is just to receive the policy amount on behalf of the nominee in case death of issued takes place when nominee is still minor. If the appointee is also not alive during the death of the insured then the money is paid to the legal hiers of the policy holder.

4.4 Assignment Vs. Nomination

Q18. Compare and contrast Nomination and Assignment.

(OR)

Distinguish between Nomination and Assignment.

Ans : **(Imp.)**

S.No.	Parameters	Nomination	Assignment
1.	Source	It is made through mentioning the names of the nominees.	It is made through an endorsement on the contract policy.
2.	Policy Ownership	Policy ownership does not change under nomination, it continues with the policy holder.	It involves transferring rights/ownership from the assignor (policy/holder) to the assignee (person/entity).
3.	Purpose	It offers the nominee to avail claim benefits in case of death of the life assured.	The life assured will transfer all his/her right/ownership of the policy to another person/institution.
4.	Consideration	Nomination does not support consideration.	The assignment might/might not support consideration.
5.	Witness	It is not required in the nomination.	Without a witness, the assignment will be considered invalid.
6.	Right to sue	The nominee cannot sue the policy-holder of the policy.	Assignee has the right to sue the assignor of the policy.
7.	Policy Amount	The nominee is entitled to avail the claim benefits in case of death of the life assured.	Assignee is entitled to receive the policy money.

4.5 Surrender of Policies

Q19. Define the term Surrender Value.

Ans :

It has been revealed in previous chapter that the premiums received by the insurer are accumulated with a certain rate of interest, which form the shape of reserve. When the insured wishes to surrender his policy or fails to pay his premium, reserve is no longer accumulated and the insured, generally, is given a surrender value. The surrender value will not be equal to the accumulated reserve because certain expenses or losses are involved in payment of surrender values.

Now, the definition of surrender value can be as that amount of premiums paid which is returned to the policy-holder at the time of surrendering the policy. Normally no surrender value is paid if the policy lapses within two or three years of its issue because huge expenditures are involved during the inception of the policy. It has been realised that the insurer may return the excess of receipts over expenditure only after two years of the policy. In India, the policy can be surrendered for cash after the premiums have been paid for at least two years or to the extent of one-tenth of the total number, stipulated for in the policy, provided such one-tenth exceeds one full year's premiums.

There are two bases of calculating surrender values:

I. Accumulation Approach and

II. Saving Approach.

I. The Accumulation Approach

Under this approach, surrender value is the accumulation of overcharges in the net premium, which upon the surrender of the policy is no longer required to pay the amount of claims, therefore, theoretically he should pay all the accumulated reserve but if it is allowed, the insurer will be left a vary small amount for meeting other obligations because a huge expenses are involved at the time of surrender.

The accumulation approach is very scientific because it allows surrender values to all types of policies, whereas, in practice surrender values on the term policies and pure endowment policies are not allowed because there the question of payment may or may not arise. Had the surrender values allowed on these policies, the insurer may be losing when claims would not arise on the policies.

Q20. Discuss about the methods of calculating surrender value.

Ans :

Surrender Value = Full Reserve – Surrender Charges.

I) Surrender Charges

The surrender charges are those expenses and losses which occurred on account of a surrender or lapsation of policy. The surrender charges are discussed below:

(i) Initial Expenses

In the beginning of the contract, certain expenses are involved for processing the proposals, payment of commission to agents and medial officer, correspondence and issuing of policy. The initial expenses are so high that the first year's premium is unable to meet all the expenses.

These expenses, actually, are recouped after several years' continuation of the policy. Moreover, the initial expenses involved are equally distributed throughout the premium paying period. If policy is lapsed or surrendered before maturity, a part of the initial expenses are left unpaid.

So, it is a justified matter to charge the unpaid initial expenses from the reserve of the policy which is surrendered. If it is not done, it would be a great injustice to remaining policy-holders who are willing to continue the policy. The surrender values are lesser in the beginning and higher at later stage because initial expenses to be recouped in the beginning are more than at later age.

(ii) Adverse Financial Selection

During the period of business depression, the surrendering of policies weaken the financial standing of the insurer because at that time most of the policy-holders will rush for surrender values and the insurer's funds will be reduced to minimum. In such cases the policyholders should not be allowed to receive surrender values more than the realized values of the invested funds.

The insurer has to liquidate some assets at depressed prices. The demand of surrender values necessitates some liquid assets with the insurer, which means the insurer is unable to earn sufficient amount on the liquid assets.

(iii) Adverse Mortality Selection

it is well-known fact that the persons in extremely poor health are not likely to surrender their policies. They will beg, borrow or steal to maintain the protection. Those who do surrender are expecting longer lives than those who do not surrender. Consequently at every surrender, the average or actual mortality tends to increase more than the assumed mortality. Thus, the increased mortality should be adjusted while surrender value is permitted.

(iv) Contribution to Contingency Reserve

While calculating gross premium a small amount for contribution to contingency reserve is charged from the policyholders to meet the sudden and accidental rise in claims due to wars and epidemics. If the policy is surrendered in the beginning, the contribution is left unrealised.

(v) Contribution to Profits

The policy is expected to contribute a fund towards the profit. If the policy surrendered, the expectation :s lost. So this contribution should also be treated as surrender charges while permitting surrender of policy.

(vi) Cost of Surrender

The insurer will incur a certain amount of expenses in processing the surrender of policies. Sometimes, the cost of surrender is like other expenses, spread over the premium paying period. In early surrender, the cost is left unrealised and a deduction from the reserve is permitted.

These expenses and losses are estimated by the actuary. He tries to allow maximum surrender values keeping all the above factors.

II) Saving Approach

An insurer is responsible for payment of claims whenever it may arise; but if a policy is surrendered, the insurer is relieved of its obligation for payment of the assured sum. He is in a position to save something due to non-payment of claims.

Thus, where the insurers is relieved of the responsibility of payment of claims, he is in a position to return some amounts to the insured. But where he may not be required to pay the claims, he is not relieved of the responsibility and no surrender value can be given to the policyholders. For example, in Term Insurance and Pure Endowment policies, the insurer may or may not be required to pay the claims.

So the insurer is not bound to pay the amount of surrender. The insurer may certainly agree to pay a cash surrender value to the policy-holder in lieu of paying the sum assured at maturity or death.

Q21. What are the various forms of payments of surrender values?

Ans : **(Imp.)**

The policyholder can get the surrender values in any of the following forms:

1. Cash Surrender Value

The policyholder can get the value of surrender in cash. When the policyholder gets the cash, the contract comes to an end and the insurer has no further obligation to pay on that particular policy. Since all the amounts surrendered is given at the time of surrender, the cash benefit is generally less than the other benefits. However, the cash surrender value gives immediate relief to the policyholders; so it is generally preferred by them.

2. Reduced Paid up Insurance

In this case, the surrender value is not paid immediately, but the original amount of policy is reduced in certain proportion and the reduced amount is paid according to the term of Policy. Thus, if, after at least two full years' premiums have been paid in respect of the policy, any subsequent premium be not duly paid, the policy shall not be wholly void, but the sum assured by it shall be reduced to such a sum as shall bear the same ratio to the full sum assured as the number of premiums actually paid shall bear to the total number premiums payable as originally stipulated for in the policy provided such reduced sum together any attached bonus in the case of a policy for a sum assured of ` 1,000 or over be not less than ` 100 and in the case of a policy for or a sum assured of less than ` 1,000 be not less than ` 50.

Since, January 1,1976 the provision for non-forfeiture clause has been altered as below.

(i) If the premium under the policies have been paid for a period of five years or 1/4 of the original premium paying period of the policy whichever is less but subject to the condition that minimum 3 years' premiums are paid.

(ii) The paid up value under the policy is not less than ` 250 excluding of attached bonuses for policies where under original sum assured is ` 1,000 or more and ` 100 exclusive of attached bonus where the original sum assured is less than ` 1,000.

The above non-forfeiture condition would apply to proposals completed on and after 1-1-1976.

3. Extended Term Insurance

The net cash value arisen at the time of surrender of a policy can be used for payment of as single premium for purchase of term insurance, where the sum assured will be paid only when death of the life assured occurs within the term of the policy. The main disadvantage of this scheme is that if the life assured does not die within the specified time, the premium paid is forfeited by the insurer. Thus, the surrender value would be lost with no use to the insured.

However, in case of death during the term, the policy holder would be benefited for a higher amount with only a small sum of surrender value. Moreover, the term insurance under this scheme is given without medical examination.

4. Automatic Premium Loan

Under this scheme, the surrender value is used for payment of future premium. Thus, the policy will continue up to the period the surrender value is adequate enough to meet the amount of further premiums. Each premium is paid automatically as it comes due by creation of a loan which with interest becomes a lien upon the face of the policy amount until paid. The premiums continue to be paid until the surrender value is completely exhausted. After this period the policy stands cancelled and no amount is paid to the policy-holder because all the surrender value has been used for payment of premiums.

The advantage of this scheme is that if the policyholder dies after surrender but before expiry of the surrender value, full policy amount minus the loan and interest thereon is paid. The policy does not lapse but remains in full force subject to the lien. The insured is permitted to regain his original status without furnishing an evidence of insurability by simply repaying the amount which he owes to the insurer.

The rate of interest on loan is now 9 per cent p.a. with effect from Feb. 1974. The loan can be granted only up to 90 per cent of surrender value if policy was in force.

5. Purchase of Annuity

The policyholder, with the surrender value, can purchase an annuity. Thus instead of taking surrender value in cash, the annuity is purchased from the available surrender value. The amount of annuity depends upon the amount of net cash value, the attained age of the policyholders and the type of annuity required. The option often annuity is better alternative to those who require to use all their savings during their life-times.

4.6 Foreclosure of Insurance Policies

Q22. What is meant by Foreclosure?

Ans :

Meaning

Foreclosure is an action of closing the policy due default in payments of outstanding loan and or loan interest on due date.

Foreclosure is the legal process by which a lender attempts to recover the amount owed on a defaulted loan by taking ownership of and selling the mortgaged property. Typically, default is triggered when a borrower misses a specific number of monthly payments, but it can also happen when the borrower fails to meet other terms in the mortgage document.

The foreclosure process derives its legal basis from a mortgage or deed of trust contract, which gives the lender the right to use a property as collateral in case the borrower fails to uphold the terms of the mortgage document. Although the process varies by state, the foreclosure process generally begins when a borrower defaults or misses at least one mortgage payment. The lender then sends a missed payment notice that indicates it hasn't received that month's payment.

If the borrower misses two payments, the lender sends a demand letter. While this is more serious than a missed payment notice, the lender may still be willing to make arrangements for the borrower to catch up on the missed payments.

Short Question and Answers

1. Policy Document

Ans :

The life insurance organizations make use of different documents starting from proposal form to claim settlement of insurance. The following are some of the primary insurance policies documents which are explained below,

(a) Proposal Form

Application form/proposal form is the first and foremost source of risk information. It is one of the essential activity of proposer to disclose the information which is required for insurance contract completely and accurately, eventhough the insurer may or may not ask for any information. Generally, the insurer asks only the questions which are mentioned in the proposal form. There are two kinds of proposal forms. They are as follows,

(i) Application form and

(ii) Personal statement.

(b) Other Related Documents

Generally, the life insurance organizations accept the following standard age-proofs,

(i) Date of birth proof extracted from Municipal or other records.

(ii) Baptism certificate or certified extract from family Bible if it consists of age or date of birth.

(c) Issue of Duplicate Policy

Duplicate policy is issued in case of loss or misplace of the original policy. For instance, if a policy is damaged fully or partly because of natural disasters like fire, floods and so on then in such a case the insured has a right to apply for a duplicate policy. The duplicate policy would provide the same right and privileges as that of the original one.

(d) Policy Document

Policy document acts as a proof for insurance contract which discloses the standard and accurate conditions of the contract. It should be a standardized document that is performed by LIC. The eligible authority of the insurance organization must sign and stamp the policy document as per the Indian Stamp Act.

2. State the importance a policy document.

Ans :

(i) At the time of claiming the amount from the policy, a policy document is essential to be submitted to the insurer for settlement of claim.

(ii) When the insured wants to raise a loan on the security of policy, the policy document is needed to be submitted to the insurer or a bank from where the loan is to be raised.

(iii) In case, insured is planning to cancel the policy and take the surrender value then it is essential to submit the policy to the insurer before receiving the amount.

In some cases the policy gets lost and the insured is concerned to have a duplicate policy which is issued on behalf of the lost one. However, the destruction or loss of a policy document do not discharge the liability of insurance company to make payment regarding the claim amount whenever the claim arises. In case of destruction of policy, the claim amount is paid to the person who provides the indemnity bond jointly with one surety.

3. What is Policy Schedule?

Ans :

A policy schedule is the outline of the coverage provided by the insurance policy. This is usually the first page or first few pages of a policy package. It is the part of the insurance contract that identifies the policyholder and details the property and persons covered, the amount of coverage, the exclusions, the deductibles, and the payment mode and schedule. It may also include other key coverage information like additional clauses, warranties and conditions that are specific to policy.

A schedule is an insurance term that basically means a list. There are many ways this term is used in the insurance industry but in this case, a policy schedule is a list detailing the coverage you have purchased.

4. Nomination

Ans :

Nomination is a right of insured for nominating a person as a nominee to receive his claim incase of the event of death. Nominee can be any one from his family or relatives. If a policyholder assigns a nominee then there would be no need of succession certificate or letters of administration to be submitted while claiming the amount of policy. Nomination can be made only by the competent person.

Definition: Sec. 39 of the Insurance Act, 1938 defines nomination as "Nomination is the process of appointing/nominating a person or persons by the insured, in order to receive the payment of the insurance policy in the event of death of the insured".

5. Assignment

Ans :

In life Insurance policy the term "Assignment" refers to transfer of a policy from one person to another. In other words, it means all rights, titles and liabilities associated with a policy would be transferred from assignor to the assignee. Here assignor is the person who transfers his policy and assignee is the person to whom the policy is being transferred.

Definition: Robert J. Surridge defines, " An assignment of a Life insurance policy is a document or action which is effective to transfer the ownership of the policy from the person to another".

6. Duplicate Policies.

Ans :

A policy document is a valuable document and can be used for mortgage etc. Loss of policy document does not absolve the insurer from the liability of payment of policy proceeds when the claim arises. The claim can be settled on the claimants, furnishing an indemnity bond jointly with one surety.

If a policy is irrevocably lost, a duplicate policy can be issued, after following a certain procedure. The insurer satisfies itself of the circumstances leading to loss. Being so satisfied the insurer insists upon an advertisement in a news paper, production of an indemnity bond and payment of policy preparation charges and there after a duplicate policy is issued. The duplicate policy is stamped "Duplicate Policy".

7. Conditional Assignment

Ans :

Conditional Assignment whereby the assignor and the assignee may agree that on the happening of a specified event which does not depend on the will of the assignor, the assignment will be suspended or revoked wholly or in part. Conditional Assignment is usually effected for consideration of natural Love and Affection.

Example : Mr. Rahul owns a term insurance policy of Rs 50 Lakh. He wants to apply for a home loan of Rs 50 Lakh. His banker has asked him to assign the term policy in their name to get the loan. Rahul can conditionally assign the policy to the home loan provider to acquire a home loan. If Rahul meets an untimely death (during the loan tenure), the banker can receive the death benefit under this policy and get their money back from the insurance company.

If Rahul repays the entire home loan amount, he can get back his term insurance policy. The policy would be reassigned to Rahul on the repayment of the loan.

In case if the death benefit received by the banker is more than the outstanding loan amount, the insurer will pay the bank the outstanding dues and pay the balance to the nominee directly. The balance amount (if any) will be paid to Rahul's beneficiaries (legal heirs / nominee).

8. Absolute Assignment

Ans :

Absolute Assignment whereby all the rights, title and interest which the assignor has in the policy passes on to the assignee without reversion to the assignor or his estate in any event. Absolute Assignment is usually effected for valuable consideration.

Example : Mr. PK Khan owns a life insurance policy of Rs 1 Crore. He would like to gift this policy to his wife. He wants to make 'absolute assignment' of this policy in his wife's name, so that the death benefit (or) maturity proceeds can be directly paid to her. Once the absolute assignment is made, Mrs. Khan will be the owner of the policy and she may again transfer this policy to someone else.

9. What are the major conditions of assignment?

Ans :

(i) Assignee gets complete ownership and rights over the plan in assignment process.

(ii) Assignment must be in favour of more than one person.

(iii) Assignor must be a major person.

(iv) Assignment may be in favour of any person or institution.

(v) Assignor must be competent to make assignment.

(vi) Assignment is an act of non-cancellation.

(vii) Assignment must be in writing and must be clear to understand.

(viii) Assignment can be made with or without consideration.

10. What are the features of nomination?

Ans :

(i) Nomination Right

The insured has the right to nominate one or more persons as his nominee. The Policyholder also has the right to revoke or cancel the nomination anytime during the period of policy. In case insured and policyholder are different, only insured has the right to appoint the nominee.

(ii) Number of Nominee

Insured can nominate one or more than one nominee.

(iii) Receives Benefits

The nominee, appointed by insured receives the benefits from insurance company on the death of the insured on behalf of legal heirs of policyholder.

(iv) Influence

In life insurance contract, nominee has no right to influence the policy in any way at any time.

(v) Assignment

The nomination stand cancelled automatically in case of assignment.

11. Define the term Surrender Value.

Ans :

It has been revealed in previous chapter that the premiums received by the insurer are accumulated with a certain rate of interest, which form the shape of reserve. When the insured wishes to surrender his policy or fails to pay his premium, reserve is no longer accumulated and the insured, generally, is given a surrender value. The surrender value will not be equal to the accumulated reserve because certain expenses or losses are involved in payment of surrender values.

Now, the definition of surrender value can be as that amount of premiums paid which is returned to the policy-holder at the time of surrendering the policy. Normally no surrender value is paid if the policy lapses within two or three years of its issue because huge expenditures are involved during the inception of the policy. It has been realised that the insurer may return the excess of receipts over expenditure only after two years of the policy. In India, the policy can be surrendered for cash after the premiums have been paid for at least two years or to the extent of one-tenth of the total number, stipulated for in the policy, provided such one-tenth exceeds one full year's premiums.

12. What is meant by Foreclosure?

Ans :

Foreclosure is an action of closing the policy due default in payments of outstanding loan and or loan interest on due date.

Foreclosure is the legal process by which a lender attempts to recover the amount owed on a defaulted loan by taking ownership of and selling the mortgaged property. Typically, default is triggered when a borrower misses a specific number of monthly payments, but it can also happen when the borrower fails to meet other terms in the mortgage document.

The foreclosure process derives its legal basis from a mortgage or deed of trust contract, which gives the lender the right to use a property as collateral in case the borrower fails to uphold the terms of the mortgage document. Although the process varies by state, the foreclosure process generally begins when a borrower defaults or misses at least one mortgage payment. The lender then sends a missed payment notice that indicates it hasn't received that month's payment.

If the borrower misses two payments, the lender sends a demand letter. While this is more serious than a missed payment notice, the lender may still be willing to make arrangements for the borrower to catch up on the missed payments.

Choose the Correct Answers

1. Life insurance policy is a ________ of the policy holder. [a]
   (a) Asset (b) Liability
   (c) debt (d) none of these
2. ________ can transfer the rights, title and interest in the life insurance policy to the assignee. [b]
   (a) Assignee (b) assignor
   (c) insurance company (d) heirs of the policy holder
3. Assignment means ________ of rights, title and interest in the property from the assignor to assignee. [c]
   (a) purchase (b) sale
   (c) transfer (d) none of above
4. According to Insurance Act, ________ Section ________ transfer or assignment of a life insurance policy can be done by endorsement or an instrument. [b]
   (a) 1936; 36 (2) (b) 1938; 38 (1)
   (c) 1940; 40 (1) (d) 1942; 42 (a)
5. Transfer or Assignment of life insurance policy can be done by ________ [c]
   (a) Endorsement (b) an instrument
   (c) (a) & (b) both (d) none of these.
6. When assignment is done by ________ stamp duty is payable. [b]
   (a) Endorsement (b) an instrument
   (c) both (a) & (b) (d) none of these
7. When assignment is done by ________ stamp duty is not necessary. [a]
   (a) Endorsement (b) an instrument
   (c) both (a) & (b) (d) none of these
8. The endorsement or a separate deed must be signed by ________ or ________. [d]
   (a) Assignor; assignee (b) assignee; insurance company
   (c) authorized agent of the transferor; assignee (d) Assignor; authorized agent of the transferor
9. ________ must attest the signature of the assignor. [c]
   (a) Assignor (b) assignee
   (c) a witness (d) insurance company
10. The assignment is complete and effective ________ . [a]
    (a) when it is executed and sent to the insurer along with notice
    (b) when it is executed and sent to assignor along with notice
    (c) when it is executed and sent to assignee along with notice
    (d) none of these

11. The assignment is effective when ________ is delivered to insurer. [b]
(a) assignment (b) notice
(c) (a) & (b) both (d) none of these

12. Upon the receipt of notice the insurer shall ________. [a]
(a) record the facts of such transfer or assignment together with dates.
(b) send the assignment to the assignee.
(c) send the notice to the assignor
(d) cancel the policy.

13. Subject to the terms and condition of the transfer or assignment ________ is entitled to benefits under the policy. [a]
(a) transferee or assignee
(b) transfer or assigner
(c) insurer
(d) none of these

14. Assignments are either ________ or ________. [a]
(a) absolute; conditional (b) absolute; unconditional
(c) (a) & (b) both (d) none of these

15. ________ is a simple way to ensure easy payment. [a]
(a) nomination (b) assignment
(c) (a) & (b) both (d) none of these

16. Nomination can be done ________. [c]
(a) at the time of proposal
(b) at any time during the currency of the policy
(c) (a) & (b) both
(d) none of these

17. ________ can nominate the person or persons, to whom the money shall be paid in the event of his death. [c]
(a) insurer (b) nominee
(c) the policy holder (d) assignee

18. A nomination can be done by ________ or ________. [c]
(a) endorsement (b) separate piece of paper
(c) (a) & (b) both (d) none of these

19. Nomination must be communicated to ________ and should be registered by ________. [a]
(a) insurer; insurer (b) nominee; insurer
(c) insurer; nominee (d) nominator; insurer

20. Nomination can be cancelled or changed by the policy holder by ________. [a]
(a) making another endorsement (b) making a separate piece of paper
(c) (a) & (b) both (d) none of these

Fill in the blanks

1. ________ is the first and foremost source of risk information.
2. ________ document acts as a proof for insurance contract which discloses the standard and accurate conditions of the contract.
3. ERP stands for ________ .
4. ________ Examination of the person applying for policy is conducted by the designated doctors of LIC.
5. The ________ is a regular payment which is paid by the insured either monthly, quarterly, half-yearly or annually depending upon the terms and conditions in the Insurance contract.
6. ________ is a means whereby the beneficial interest, right and title under a Policy gets transferred from Assignor to Assignee.
7. ________ Assignment is usually effected for consideration of natural Love and Affection.
8. ________ Assignment is usually effected for valuable consideration.
9. Assignment of a life insurance policy may be made by making an endorsement to that effect in the policy document (or) by executing a separate ________.
10. ________ is the process of identifying a person to receive the policy money in the event of the depth of the Policyholder.

Answers

1. Application form
2. Policy
3. First Premium Receipt
4. Medical
5. Premium
6. Assignment
7. Conditional
8. Absolute
9. Assignment Deed
10. Nomination

One Mark Answers

1. Cover Note

Ans :

Cover note is a document which is issued in advance before the issue of the policy and is essential if policy cannot be issued straight away for some or the other reason.

---

2. Policy Schedule

Ans :

'Policy schedule' is also referred as a schedule of insurance. It is considered as a component of the insurance contract which determines the policyholder and details regarding the amount of coverage,

---

3. Surrender Value

Ans :

In the concept of insurance policy the term "surrender" refers to the willing termination of a contract by a policy holder. The insured has a right to terminate his contract at anytime before the maturity of policy.

---

4. Policy Loan

Ans :

Policy loan is defined as a loan which is taken by the policy holder from an insurance company against the cash surrender value of the complete life insurance policy.

---

5. Assignment.

Ans :

Assignment is a means whereby the beneficial interest, right and title under a Policy gets transferred from Assignor to Assignee. 'Assignor' is the Policyholder who transfers the title, and 'Assignee' is the person who derives the title from the Assignor.

UNIT V

POLICY CLAIMS :

Types of Policy Claims – Survival Benefits – Death Claims – Maturity Documents required for Processing Early Claims Processing State – Early Claims and Non-early Claims – Documents required for Processing Early Claims – Death due to Un-natural Causes or Accidents – Nomination – Assignment – Waiver of Evidence of Title – Claims Concession Clause and Extended Claims Concession Clause – Presumption of Death – Insurance Riders – Accidental Death Benefit Rider – Permanent Death Benefit Rider – IRDA Regulations for Claim Payments.

5.1 Policy Claims

Q1. Define claim and claim settlement. Explain claim procedure in respect of life insurance policy.

Ans : **(Imp.)**

Claim

Claim refers to the demand made by an insured or beneficiary to the insurer to make payment of insurance policy benefits.

Claim Settlement

Claim settlement means paying back the money by the insurance company to the insurance policy holder. A claim is said to be settled when the policy holder duly receives the money which is due to him by the company according to the terms and conditions of policy. The process of claim settlement directly reflects the efficiency and effectiveness of the company. A company which correctly and successfully settles down the claims of clients achieves trustworthiness and loyalty. While the insurance companies which involve litigations in claim settlements owe bad reputation in the market.

Claim settlement of an insurance policy usually takes place in two circumstances as follows,

1) On death of policy holder
2) On maturity of insurance policy

Procedure

Claim Procedure in respect of a Life Insurance Policy

Following are the steps involved in claim settlement procedure,

Step-1

A life insurance policy must show the list of documents that must be submitted by a claimant to support a claim.

Step-2

After receiving a claim, a life insurance company must start the processing of claim without any delay. All queries or requirement of additional documents, if any must be asked within 15 days of receipt of the claim.

Step-3

Within 30 days from date of receipt of all papers and clarifications, claim under life policy must be either paid or rejected by giving appropriate reasons. In some situations, a claim give authorization to have an investigation in the opinion of insurance company then it must be initiated and completed within 6 months from the time of presenting the claim.

Step-4

As per the provisions of Sec. 47 of the Act, if a claim is ready for payment but delayed because of improper identification of the payee then amount of claim must be kept for benefit of payee and it should earn interest at the rate prevailing for savings bank account in a scheduled bank.

Step-5

If processing of claim is delayed by insurer for any reason other than identification of payee then life insurance company must pay interest on claim amount at a rate which is 2% more than rate prevailing in bank at the beginning of financial year wherein claim is reviewed.

5.2 Types of Claims

5.2.1 Survival Benefits – Death Claims – Maturity Claims

Q2. What are the different types of life insurance claims?

Ans : **(Imp.)**

The life insurance claims are classified into three types. They are as follows,

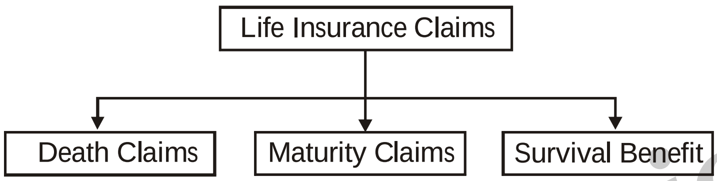


Fig.: Types of Life Insurance Claims

1. Death Claims

If the insured dies before the expiry of the term of the policy, it is called as death claim. The death of the life assured has to be intimated in writing to the insurer. It may be done by the nominee, assignee, a relative of the life assured, the employer, agent or development officer. Particulars like policy number, name of the life assured, the date of death, the cause of death and the relationship of the informant to the decreased are to be mentioned. The intimation must satisfy two conditions:

(a) It must be from a concerned person and

(b) must establish beyond doubt, the identity of the deceased person as the life assured under the policy.

Sometimes, the office need not wait till the intimation of the claim is received. Obituary columns, the concerned agent or newspaper reports in case of accidents or air crashes may give information and the claim action can be initiated. However, care has to be taken to ensure that identity of the deceased is established.

The facts required to the submitted by the claimant are :

(a) Date of death

(b) Reason and Place of Death and

(c) Full details of policies held by the Life assured should also be submitted.

2. Maturity Claims

Maturity claims are payable as per the terms of the policy. These policies are generally endowment polices including money back policies. The amount payable at the time of maturity includes sum assured and bonuses/ incentives. The insurer normally sends advance intimations to the insured. The insurer has to satisfy that:

- The life assured is the holder of the policy and his identity is proved.
- The age stands admitted.
- The premiums are all paid.
- The original policy is handed in together with a completed discharge voucher before making payment.

The insurance company is expected to make payment on the maturity date. Post-dated cheques arc normally set in advance.

3. Survival Benefits

Survival benefit is not payable under all types of plans. It is payable in endowment or money back plans after a lapse of a fixed period say 4 or 5 years, provided firstly the policy is in force and secondly the policyholder is alive.

As the insurer sends out premium notices to the policyholder for payment of due premium, so it sends out intimation also to the policyholder if and when a survival benefit falls due. The letter of intimation of survival benefit carries with it a discharge voucher mentioning the amount payable.

The policyholder has merely to return the discharge voucher duly signed along with the policy document. The policy document is necessary for endorsement to the effect that the survival benefit which was due has been paid.

The survival benefit can take different forms under different types of policies.

Q3. Briefly explain the procedure of settlement of death claims.

Ans :

Death claims are categorised as

(i) Non-Early Death claims and

(ii) Early Claims

The procedure for processing these claims is different.

(i) Non-Early Death claims and

Non-early Death Claims refer to death of the Life assured occurring after 3 years from the date of commencement of policy or Date of last revival/ reinstatement. If the policy is in force till death by regular payment of premiums, full sum assured is payable along with bonus (if it is with a profit policy). The requirements for the settlement of the death claim are :

- Policy Document
- Death Certificate from the appropriate authority
- Legal evidence of Title, if the claimant is not an assignee/nominee
- Abridged Claim Form
- Discharge Form duly signed
- Assignment/Reassignment deed, if any
- Age proof, if age is not already admitted

Once these documents are received and if they are found in order, claim is settled and payment is made to the person entitled to.

(ii) Early Claims

Early claims refer to the death of life assured occurring within 3 years from commencement of policy. The following forms are to be submitted duly completed:

- Statement from the medical attendants who last treated the deceased Life assured.
- Certificate of treatment issued by the hospital authorities where the deceased was treated last.
- Certificate by the employer if the deceased was an employee.
- Certificate of burial/cremation signed by a person who attended the funeral of the deceased.

Where death takes place due to accident, the death has to be reported to the police and a FIR (First Information Report), police inquest report, and post-mortem report (if conducted only) are to be submitted. Wherever death takes place within 2 years from Date of commencement an enquiry is conducted to determine the genuineness of claim. On the basis of these, the decisions to settle accidental benefits are taken. Under MWPA policy the proceeds of the policy will be paid to the trustees. If there is no trustee, the official trustee will step in.

But if the beneficiaries are major and competent to contract, payment can be made directly to them without the intervention of trustees. The assured need not sign the discharge voucher.

- In case of absolute assignment, the payment will be made to the assignee. If the assignment is conditional, payment can be made to the assured himself, after satisfying repayment of loan that may be the reason for assignments.
- If the policy is irretrievable lost, advertisement of the loss of the policy is a necessary precaution. Payment can be made on the basis of an indemnity executed by the policyholder together with a surety of means. It is not necessary to issue a duplicate policy.
- The death claim amount is payable to the nominee or the assignee as the case may be. If the life assured has died without making an assignment or nomination, legal evidence of title (proof of ownership) such as succession certificate or letters of administration or probate of a will where a will exists, would be required.
- The insurer may waive strict evidence of title, if the amount involved is small, there is no other estate left by the deceased and there is no dispute among he survivors about the policy moneys.
- If the intimation claim is received after 3 years from the death, the same is time barred. The claimant has to be informed accordingly. However, if the death had occurred with 3 years of the policy's commencement of revival, simultaneous investigation should be conducted to find out the bonafides of the claim, without the knowledge of the claimant. However, if more than three years have elapsed, since the date of risk, the claimant has to be informed that the claim is barred by limitation. But simultaneously claim forms can be issued without prejudice to see if any ex-gratia payment can be made.
- If the death has occurred within 2 years of the date of the policy (that is the date of FPR) the possibility of suppression of evidence cannot be ruled out. Hence, it is necessary to investigate such cases. The reasons for intimating a claim late may be deliberate attempt to tamper with evidence.
- Death can take place suddenly e.g. due to cardiac arrest, downing, burns, air crash, suicide, and murder or at the hand of justice. In case of an air crash, a certificate from airline authorities would be necessary certifying that the assured was a passenger on the plane. In case of ship-accident, a certified extract from the logbook of the ship would be needed. In case of sudden heart failures, doctor's certificate will not be forthcoming.
- In case of defence personnel, a certificate from the commanding officer of the Unit is to be obtained. If a court of enquiry is ordered its findings should be obtained.

Q4. State the procedure for the settlement of maturity claims.

Ans : **(Imp.)**

Step-1: Intimation of the Maturity

The first step in the claim settlement is intimation about the maturity of the policy. The divisional officer of the LIC is responsible for intimating the insured about the maturity before two months of maturity date. The insured is asked to fill the discharge form which is sent along with the intimation and submits the required documents. The documents include the original document of policy, age proof of the insured and the assignment or reassignment deed of the policy. In case, where the intimation is not received, the policy holder should approach the concerned branch enquiring about the copy of intimation.

Step-2: Submission of Required Documents

Soon after receiving the intimation letter from the company, the policy holder must forward the following documents to the given address,

(i) Filled up Discharge Form

Discharge form is issued by the divisional head along with intimation letter. The insured has to duly fill up and sign this letter and forward the same to LIC's branch.

(ii) Original Document of Policy

Every policy holder is given an original document of the life insurance policy. In case, if this document is lost, then an indemnity bond with reliable surety needs to be sent.

(iii) Receipts of Premium Paid

The receipts which acknowledge the payment of premium regularly must be submitted.

(iv) Proof of Age

Proof of age is also required in settlement of maturity claim. If it is not submitted, then it must be sent along with the discharge form. Proof of age can be either a Birth Certificate of insured, High school certificate or any other document given by the authorized body.

(v) Other Documents

Any other document demanded by the corporation should be submitted.

Step-3: Payment of Money

After successfully receiving the required documents from policy holder, the corporation would send an account payee cheque to the insured. The amount of money would be according to the terms and conditions of policy selected. The procedure of claim settlement would come to an end after duly paying the claim amount to the insured.

Q5. State the procedure for the settlement of survival benefit.

Ans : **(Imp.)**

The procedure for settlement of survival benefit is as follows,

Step-1:

Insurer intimates the policy holder in advance about the money back policies and sends a discharge voucher.

Step-2:

The policy holder returns the documents duly stamped, signed and witnessed with the original policy document for necessary approval.

Step-3:

The gross amount is nothing but the installments of the sum of money assured payable.

Step-4:

After subtracting the outstanding premium, outstanding loan, interest etc., from the gross amount, the net amount will arrive.

Conditions

Following are the conditions relating to survival benefits,

1. The payment of survival benefit does not indicate that contract has come to an end and policy document is cancelled. Payment is done by making suitable endorsement on policy document by returning it with cheque.
2. Some insurers does not demand policy document to make endorsement usually when amount of survival benefit is less than specified amount. The limit and procedure of survival benefit vary from insurer to insurer.
3. When death of life assured takes place after survival benefit becomes due then it is not paid to nominee rather it is payable to legal heirs insured.

5.2.2 Waiver of Evidence of Title

Q6. Write a short note on Waiver of Evidence of title.

Ans :

Insurer may forgo the proof of title in two conditions if insured dies without providing any details of nominee or assignee. The two conditions in which insurer waive off the proof of title are as follows,

(i) No disputes among family members and legal heirs.

(ii) If no will is prepared by the deceased.

5.3 Early Claims and Non-Early Claims

Q7. Define the following terms

(a) Early Claims

(b) Non-early Claims

Ans :

(a) Early Claims

Early claims; are those claims wherein assured dies in less than 3 years from the commencement of policy.

(b) Non-early Claims

Non-early death claims are those claims which are made on death of life assured if it occurs after 3 years from the date of commencement of policy. If policyholder make regular payment of premiums till his/ her death then full sum assured is paid with bonus.

5.3.1 Documents required for Processing Early Claims

Q8. What are the documents to be submitted for the settlement of Non-early claims?

Ans : **(Imp.)**

The documents required to be submitted for the settlement of early claims are as follows,

(i) Statement is required from the medical attendants who has treated the expired life assured in his/her last days of life.

(ii) Document of treatment provided to deceased must be issued by the hospital authorities.

(iii) If the expired insured was an employee, then certificate from employer is required.

(iv) The document related to the burial or cremation must be submitted along with the signature of those who attended the funeral of the expired.

In case, death of an insured occurred due to an accident, then the information regarding the death should be reported to the police and a FIR (First Information Report), police inquest report and post-mortems report should be submitted. If the death occurs within 2 years from starting of policy, then an enquiry is carried out to check the authenticity of claim. Based on such conditions, decisions are made to settle accidental benefits.

According to the MWPA policy, the profits of the policy are paid to the trustees. The official trustee would be appointed in the absence of any trustee. Moreover, the payment can be directly made to the beneficiaries without any interruption of trustees only if the beneficiaries are major and competent to contract. There is no need of any signature of the insured on the discharge voucher. They are as follows,

1. The payment can be made to the assignee only in case of absolute assignment. Whereas in case of conditional assignment, the payment is made to the insured himself, after repaying the loan amount which might be the purpose of assignments.

2. In case of loss of unrecoverable policy, the advertisement of the loss of the policy is an essential precaution. Based on an indemnity carried out by the policyholder along with a surety of means, the payment can be made. Further, there is no need of issuing a duplicate policy.

3. The amount of death claim is paid either to the assignee or nominee. In case, if the life insured died without making an assignment or nomination then legal proof of title is required.

4. The insurer may ignore the evidence of title in case policy amount is small, no other estate exist and no dispute among the survivors regarding the policy moneys.

5. In case 3 years have passed after death of insured and there is no intimation claim then claim is seized by insurer and informed to the claimant. Moreover, if the death occurred within 3 years of the policy's beginning of revival, the investigation is carried out to identify the bonafides of the claim without the claimant's knowledge.

6. If the deceased died within 2 years of the policy, then there are chances of hiding of proof of death. Therefore, it requires to have necessary investigation in such cases.

7. Death can occur at any time due to cardiac arrest, burns, air crash etc. In case of an air crash, a document from airline authorities might be required to make sure that the insured was present in the plane. In case of ship accident, a document from the logbook (Daybook) of the ship might be required. In case of sudden heart failures, doctors certificate is not expected.

8. In case of death of defence personnel, a document from the commanding officer of the unit is to be acquired. Moreover, in case of any order of court enquiry, then its findings must be presented.

The settlement of non early death claim requires following documents,

1. Policy document.
2. Death certificate from concerned authority.
3. Duly signed discharge form.
4. Legal evidence of title.
5. Summarized claim form.
6. Deed of assignment/reassignment.
7. Age proof, if not admitted earlier.

When all the above documents are received and if they are in order then payment of claim amount is made to entitled person by settlement of claim.

5.4 Death Due to Un-natural Causes or Accidents

Q9. Discuss in detail Un-natural Causes of death.

Ans :

Un-natural causes includes suicide, hanging accident or other causes which leads to the death of insured. In such cases the claimant must submit the attested copies such as First Information Report (FIR), Police inquest report, postmortem report, chemical analysis, forensic report if required and certificates or reports obtained from respective authorities and a certificate of death. These documents are helpful in identifying the deceased and to know the reason behind his/her death such as self-injury, illegal activity or consumption of alcohol etc.

1. Suicide

Suicide indicates a willful and purposeful act done by a self destroyer. This type of act is against public policy because a person can take benefits from his own criminal act. However this rule has been modified now wherein the insurers make specifications in their conditions that the death caused by suicide whether insane or insane condition within one year from commencement of policy must be excluded and after the specified period the claim is acceptable. Few insurers considers reinstatement as a new contract and apply the one year rule from the date of revival. Further, the suicide clause can secure the bonafide interests of an assignee but the assignment must be of useful consideration and notice regarding the assignment must be provided to the insurer before the death of the insured.

The insurer is responsible for proving the reason of death as suicide. The insurer cannot reject the claim until and unless the evidences produced are authentic. In case, if suicide is proved and at the same time claim is rejected, then the insurer can have a provision to refund the premiums excluding expenses.

2. Accidents

Accident benefit is regarded as a rider which is provided to the insurer at an additional cost. If the death is caused due to accident and the policy includes accident rider then an additional amount must be paid along with the basic amount insured. Complications may develop if the description of an accident given by the claimant does not match with the accident clause of the insurer. Generally, in the life insurance policy, an accident refers to a sudden, unforeseen and unexpected event occurred due to ‘external’, ‘violent’ and ‘visible’ reasons.

The accident clause includes some rejections. For instance, if the accident is because of self injury, suicide, attempted suicide, any criminal strikes, hunting then the liability to pay additional benefit is excluded. The benefits cannot be payable if the accident occurred at the time when life insured is mentally ill or under the influence of alcohol or drugs. Even the activities of terrorist are included in the exclusion list.

5.5 Nomination – Assignment

Q10. Define terms.

(i) Nomination

(ii) Assignment

Ans :

(i) Nomination

Nomination is the process of identifying a person to receive the policy money in the event of the depth of the Policyholder. Nomination can be done at the inception of the Policy by providing details of nominee in the proposal form. However, if the nomination is not given at the beginning, the policyholder can give it at a later date.

(ii) Assignment

Assignment is a means whereby the beneficial interest, right and title under a Policy gets transferred from Assignor to Assignee. 'Assignor' is the Policyholder who transfers the title, and 'Assignee' is the person who derives the title from the Assignor. Assignment can be made only after acquiring the Policy. Assignment can be done only for consideration-for money or money's worth or goods, moral and meritorious consideration, like Love and Affection.

Q11. What are the differences between nomination and assignment?

Ans :

Refer to Q.No.18, Unit - IV

5.6 Claims Concession Clause and Extended Claims Concession Clause

Q12. Explain the following

(a) Claims Concession Clause

(b) Extended Claims Concession Clause

Ans :

(a) Claims Concession Clause

Normally, a death claim becomes payable so long as the policy is kept in force by payment of due premium. In other words if the payment of premium is stopped and the grace period expires and if the death occurs thereafter the policy is treated as lapsed or paid up depending upon whether the premium has been paid for less than 3 yrs or 3yrs & more. Under a lapsed policy no claim is payable. In case of a paid up policy, only the paid up value is payable.

However, some companies provide certain concessions with regard to the claim payment, if the policy has run for 3 yrs or more:

1. If the premiums under a policy have been paid for a minimum period of three full years, and the life assured has died within 6 months from the date of the first unpaid premium insurer pays the full sum assured instead of the paid up value and only the unpaid premiums for the policy year are deducted from the claim amount.
2. This concession is extended to a period of twelve months and the full sum assured is paid if the life assured dies within one year from the due date of the first unpaid premium, provided the premiums have been paid for a minimum period of 5 years subject to deduction of the unpaid premiums for the policy year.

(b) Extended Claims Concession Clause

When a policy has not acquired paid up value and claim concession rules are not applicable, nothing is payable in case of death. However some insurers relax the rules in favour of the claimant.

If the premiums have been paid for more than 2 years and

(a) The death occurs within three months from the first unpaid premium, full sum assured with bonus, if any, is payable ;

(b) If the death occurs after 3 months, but within 6 months, half the sum assured is paid ;

(c) If the death occurs within one year from first unpaid premium, notional paid up value is paid.

Under the first condition, the unpaid premium with interest for the policy year of death will be deducted from the claim and no deduction is made in the other two conditions.

5.7 Presumption of Death

Q13. What do you understand by presumption of death? State its procedure.

Ans : **(Imp.)**

Meaning

Under Section 108 of the Indian Evidence Act, 1872, if it is proved that the person has not been heard of for seven years by those who would have naturally heard by him had he been alive, the presumption of law is that he is deed. In case of death by accident while travelling by aeroplane or rail or natural calamities, the body may not be found. Insurers rely on information-supplied carriers, or other organizations in possession of relevant information. If the policyholder is missing for seven years, his heirs can apply to the appropriate civil court and get a court order declaring that the life assured might be presumed to be dead. A claim is payable if the policy is in force or in a paid-up condition, as on the date of the court's order. The exact date and time of death is not a matter of presumption but of active proof. Therefore, in the absence of any such proof, the date of the court's order could be taken as the Date of Death.

The insurer may also sometimes settle the claim on getting an indemnity bond to protect its interest, in case the presumption of death is later found to be wrong. When the insurer takes the responsibility for such action or its own, without the decree from a court, there is a risk that some other claimant to the estate may raise a challenge later. The insurer will not be able to avoid getting involved in the dispute and having to defend its action.

Process

The following are the steps for obtaining evidence for presumption of death of a missing person,

Step-1: Search for an Active Earnings Record for the Missing Person

(a) Ascertain whether the missing person has applied for a Social Security Number (SSN) or is having the wages or Self Employment Income (SEI) presented after his or her missing.

(b) Analyze completely whether wages or SEI recorded after his or her missing or if they were given for work which is done before his missing.

Step-2: Try to Contact the Missing Person

(a) Attempt must be made to contact the disappeared person by contacting the most recent employer listed on Detail Earnings Query (DEQ).

(b) Attempt must be made to contact the missing person at the address details which are displayed on Form W-2 by acquiring a microprint copy of Form W-2 [Wage and Tax Statement].

(c) Attempt must be made to contact the disappeared person at the address details displayed on SS-5 (Application for Social Security Card) by acquiring a microprint copy of SS-5.

Step-3: Complete an SSA - 723 - F4 [Statement Regarding the Inferred Death of an Individual by Reason of Continued and Unexplained Absence]

(a) Record the statement from minimum 3 members on Form SSA - 723 - F4 who know about the missing person and the reasons behind his missing.

(b) Involve the claimant, spouse and any close family member with whom the disappeared would willingly communicating.

Step-4: Acquire the Missing Person's Physical Description

(a) Communicate with the spouse or claimant inorder to obtain physical description of the missing person.

(b) Ask for the recent photograph of disappeared to spouse or claimant.

(c) Show the photograph to previous employers and other contacts inorder to determine whether the Number Holder (NH) is actually deceased.

Step-5: Obtain a Statement of the Missing Person's Death by a Court

(a) Acquire a certified copy or decree of any declaration regarding the death of disappeared by a court of competent jurisdiction and a statement of facts utilized in finding.

(b) Depending on the presumption mainly on supporting evidence, the declaration of death is given by court.

Step-6: Determine the Presumed Death Date

(a) Decide the date of presumed death on or near the date of missing, if the facts of case fitting into any of the following situations,

(i) The disappeared experienced some particular risk at or about the time of missing.

(ii) The disappeared was suicidal.

(iii) The disappeared was in a poor state of health and it was not possible for him to be alive for any time period after missing.

(iv) The disappeared was responsible towards his domestic duties and suddenly without any reason found missing.

(b) Certify the date of presumed death on the last day of 7 years period,

(i) Starting from the missing date, decide the date of death as the last day of 7 year period of disappearance.

(ii) If the fact of death is important, certify the last day of 7 year period as date of death.

Step-7: Incase the disappeared is found alive, then follow the given actions

(a) Disqualify the claim.

(b) Ask the disappeared to submit a dated and signed statement comprising the information regarding the identification.

(c) Inform the disappeared that the applicant filed a claim for benefits and the true nature of the claim is to disclose the missing/ disappeared existence.

(d) Take the permission from the missing for disclosing his/her information, only in some exceptional situations.

Step-8: Prepare a Special Determination

(a) Inorder to support the conclusions of agency with respect to the missing of the disappeared, prepare a special determination.

(b) Record the decision on report of contact on the modernized claims system screens or on Form SSA - 553 (Special Determination).

5.8 Insurance Riders

5.8.1 Accidental Death Benefit Rider – Permanent Death Benefit Rider

Q14. Define Insurance Riders.

Ans :

A rider is an insurance policy provision that additional benefits to or amends the terms of a basic insurance policy. Riders provide insured parties with additional coverage options, or they may even restrict or limit coverage. There is an additional cost if a party decides to purchase a rider. Most are low in cost because they involve minimal underwriting. A rider is also referred to as an insurance endorsement. It can be added to policies that cover life, homes, autos, and rental units.

Q15. Explain different types of riders in life insurance policies.

(OR)

What are the commonly used riders in life insurance policies?

Ans : **(Imp.)**

1. Guaranteed Insurability Rider

This rider allows you to purchase additional insurance coverage in the stated period without the need for further medical examination. A guaranteed insurability rider is most beneficial when there has been a significant change in your life circumstances, such as the birth of your child, marriage, or an increase in your income. If your health declines with age, you will be able to apply for extra coverage without giving any evidence of insurability. This type of rider may also provide a renewal of your base policy at the end of its term without medical checkups. Guaranteed insurability riders may end at a certain age.

2. Accidental Death Rider

An accidental death rider pays out an additional amount of death benefit if the insured dies as the result of an accident. Normally, the additional benefit paid out on death due to an accident is equivalent to the face amount of the original policy, which doubles the benefit. In the event of death due to accidental bodily injury, the insured's family gets twice the amount of the policy. That's why this rider is called a double indemnity rider. If you are the sole provider for your family, an accidental death rider can be ideal because the double benefit will take good care of your surviving family's expenses.

3. Waiver of Premium Rider

Under this rider, future premiums are waived if the insured becomes permanently disabled or loses their income as a result of injury or illness prior to a specified age. Disability of the main breadwinner can have a crippling effect on a family. In these circumstances, the rider exempts policyholders from paying the premium due on the base policy until they are ready to work again. A waiver of premium rider can be valuable, particularly when the premium on the policy is high.

4. Family Income Benefit Rider

In case the insured dies, a family income benefit rider will provide a steady flow of income to family members. When buying this rider, you need to determine the number of years your family is going to receive the benefit.

5. Accelerated Death Benefit Rider

Under an accelerated death benefit rider, an insured person can use the death benefits if diagnosed with a terminal illness that will considerably shorten their life-span. On average, insurers advance a percentage of the death benefit of the base policy to the insured.

6. Child Term Rider

This rider provides a death benefit in case a child dies before a specified age. After the child reaches maturity, the term plan can be converted into permanent insurance with coverage up to five times the original amount without the need for medical exams.

5.9 IRDA Regulations for Claim Payments

Q16. Discuss about Insurance Regulatory and Development Authority.

Ans :

The Insurance Regulatory and Development Authority is the main organization or supervisory body that regulates the insurance sector in the country. It sets rules and regulations for the functioning of the insurance industry. Its sole purpose is to protect the interest of policyholders and to develop the industry on the whole.

The IRDA or IRDAI regularly issues advisories to insurance companies in case of changes to the rules and regulations.

Establishment

The Government of India was the regulator for the insurance industry until 2000. However, to institute a stand-alone apex body, the IRDA was established in 2000 following the recommendation of the Malhotra Committee report in 1999. In August 2000, the IRDA began accepting applications for registrations through invites and allowed companies from other countries to invest up to 26% in the market.

The IRDA has outlined several rules and regulations under Section 114A of the Insurance Act, 1938. Regulations range from registration of insurance companies for operating in the country to protecting policyholder's interests. As of September 2020, there are 31 General Insurance companies and 24 Life Insurance companies who are registered with the IRDA.

Objectives

The main objective of the Insurance Regulatory and Development Authority of India is to enforce the provisions under the Insurance Act. The mission statement of the IRDA is:

1. To protect the interest and fair treatment of the policyholder.
2. To regulate the insurance industry in fairness and ensure the financial soundness of the industry.
3. To regularly frame regulations to ensure the industry operates without any ambiguity.

Q17. What are the features of IRDA ?

Ans :

The following are salient features of the IRDA Act (1999),

1. The insurance sector in India has been thrown open to the private sector. The second and third schedules of the act provide for removal of existing corporations (or companies) to carry out the business of life and general (non-life) insurance in India.
2. An Indian insurance company is a company registered under the Companies Act, 1956, in which foreign equity does not exceed 26 percent of the total equity shareholding, including the equity shareholding of NRIs, FIIs and OCBs.
3. After commencement of an insurance company, the Indian promoters can hold more than 26 percent of the total equity holding for a period of ten years, the balance shares being held by non-promoter Indian shareholders which will not include the equity of the foreign promoters and the shareholding of NRIs, FIIs and OCBs.
4. After the permissible period of ten years, excess equity above the prescribed level of 26 percent will be dis-invested as per a phased programme to be indicated by IRDA. The central government is empowered to extend the period of ten years in individual cases and also to provide for higher ceiling on share holding of Indian promoters in excess of which disinvestment will be required.
5. On foreign promoters, the maximum of 26 percent will always be operational. They will thus be unable to hold any equity beyond this ceiling at any stage.
6. The act gives statutory status for the Interim Insurance Regulatory Authority (IRA) set up by the central government through a resolution passed in January 1996.
7. All the powers presently exercised under the Insurance Act, 1938, by the Controller of Insurance (CoI) will be transferred to the IRDA.
8. The IRDA act also provides for the appointment of CoI by the central government when the regulatory authority is superseded.
9. The minimum amount of paid-up equity capital is Rs. 100 crores in case of life insurance as well as general insurance and Rs. 200 crores in the case of reinsurance.
10. Solvency margin (excess of assets over liabilities) is fixed at not less than Rs. 50 crores for life as well as general insurance, for reinsurance solvency margin is stipulated at not less than Rs. 100 crores in each case.

11. Insurance companies will deposit Rs. 10 crores as security deposit before starting their business.

12. In the non-life sector, IRDA would give preference to companies providing health insurance.

13. Safeguards for policy holders' funds include specific provision prohibiting investment of policy holders' funds outside India and provision for investment of funds in accordance with policy directions of IRDA, including social and infrastructure investments.

14. Every insurer shall provide life insurance or general insurance policies (including insurance for crops) to the persons residing in the rural sector, workers in the unorganised or informal sector or for economically vulnerable or backward classes of the society and other categories of persons as may be specified by regulations made by IRDA.

15. Failure to fulfill the social obligations would attract a fine of Rs. 25 lakhs, in case the obligations are still not fulfilled, licence would be cancelled.

Q18. What are the duties and responsibilities of IRDA?

Ans : **(Imp.)**

Under Section 14 of the IRDA Act, the authority's duty is to regulate, promote and to ensure an orderly growth of the insurance and the re-insurance business.

Under sub-Section 1 of Section 14 of the IRDA Act, the authority has the following duties and responsibilities :

1. Registration

Issuance of certificate of registration, or to renew, modify, withdraw, suspend or cancel such registration.

2. Protection

Protection of the interests of policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions in contracts of insurance.

3. Qualification

Specifying the requisite qualifications, code of conduct and practical training for insurance intermediaries and agents.

4. Code of Conduct

Specifying the code of conduct for surveyors and loss assessor.

5. Efficiency

Promoting efficiency in the conduct of the insurance business.

6. Professionalism

Promoting and regulating professional organizations connected with the insurance and re insurance business.

7. Fees

Levying fees and other charges for carrying out the objectives of this act.

8. Information

Calling for information from, undertaking inspection of, and conducting enquiries and investigations, including audit of the insurers, intermediaries, insurance intermediaries and other organizations connected with the insurance business.

9. Terms of Business

Control and regulation of the rates, advantages, terms and conditions that may be offered by insurers for general insurance, business not so controlled and regulated by the Tariff Advisory Committee under Section 64U of the Insurance Act, 1938 (4 of 1938).

10. Books of Accounts

Specifying the form and the manner in which books of account shall be maintained, and statement of accounts shall be rendered by insurers and other insurance intermediaries.

11. Funds Investment

Regulating investment of funds by insurance companies.

12. Margin of Solvency

Regulating the maintenance of margin of solvency.

13. Adjudication

Adjudication of disputes between insurers and intermediaries or insurance intermediaries.

14. Supervising

Supervising the functioning of the Tariff Advisory Committee.

15. Premium Income

Specifying the percentage of the premium income going into finance schemes for promoting and regulating professional organizations pursuing assurance business.

16. Rural and Social Insurance

Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector.

17. Others

Exercising other powers as may be prescribed.

Q19. What are the functions of IRDA?

Ans :

The important functions of the IRDAI in the insurance industry in India:

1. Grant, renew, modify, suspend, cancel or withdraw registration certificates of the insurance company.
2. Protecting the interests of the policyholder in matters concerning the grant of policies, settlement of claims, nomination by policyholders, insurable interest, surrender value of the policy and other terms and conditions of the policy.
3. Specify code of conduct, qualifications and training for intermediary or insurance agents.
4. Specify code of conduct for loss assessors and surveyors.
5. Levying fees and charges for carrying out the provisions of the Act.
6. Undertaking inspection, calling for information, and investigations including an audit of insurance companies, intermediaries, and other organizations associated with the insurance business.
7. Regulate and control insurance rates, terms and conditions, advantages that may be offered by the insurance providers.

Q20. Discuss the regulations of IRDA regarding claim settlement.

Ans : **(Imp.)**

The regulations provided by IRDA relating to claim payment/settlement are as follows,

1. Insurance company must demand all requirements in case of death claim at one time rather in steps.
2. Within 30 days of receiving death claim papers, insurer must make decision whether to accept or reject a death claim.
3. Within six months all the required investigation must be completed.
4. An interest at 2% over bank rate is paid to claimant incase to any delay m claim settlement because to insurer.
5. On receipt of all the requirements, payment must be made within 7 days.
6. If there is any delay in claim from claimant then investigation must be done.

Circular Issued By IRDA for Health Insurance Claim Settlement

On 19th March 2021, IRDA issued a circular for health insurance claims settlement. It includes the following points,

1. Reference is drawn to the provisions of Regulation 27 (Settlement/Rejection of claim by insurer), Regulation 30 (Administration of Health Policies) and Regulation 33 (Engagement of Services of TPAs by Insurers in relation to Health Insurance Policies) of the 1RDAI (Health Insurance) Regulations, 2016,

Regulation 21 (3) (c) (i) (b) of IRDAI (Third Party Administrators - Health Services) Regulations, 2016 and circular Ref: IRDAI/CAD/CIR/PPHI/059/04/2019 dated 10.04.2019 regarding information to be provided to the insurance policyholders/claimants about various insurance policy services.

2. It is essential that all insurers establish procedures to let policyholders get clear and transparent communication at various stages of claim processing. As specified in the within referred circular dated 10.4.2019, all the insurers shall ensure putting in place systems to enable policyholders track the status of cashless requests/ claims filed with the Insurer/TPA through the Website/Portal/App or any other authorized electronic means on an ongoing basis. The status shall cover from the time of receipt of request to the time of disposal of the claim along with the decision thereon.

3. Where claims are processed through TPAs, the insurers are permitted to let their respective Third Party Administrators operationalize the claim tracking mechanism. The policyholders shall be invariably notified in all the communications, the location to track the claim status.

4. Insurer shall ensure that the repudiation of the claim is not based on "presumptions and conjectures". As specified in the IRDAI (Health Insurance) Regulations, 2016, where a claim is denied or repudiated, the communication about the denial or the repudiation shall be made only by the Insurer by specifically stating the reasons for the denial or repudiation, while necessarily referring to the corresponding policy conditions. The insurer shall also furnish the grievance redressal procedures available with the Insurance Company and with the Insurance Ombudsman along with the detailed addresses of the respective offices. Claims shall be processed in a transparent, seamless and efficient manner within the prescribed timelines.

5. Insurer shall also ensure that the policyholder is provided with granular details of the payments made, amounts disallowed and the reasons for the amount disallowed as specified in the within referred provisions of IRDAI (Third Party Administrators - Health Services) Regulations, 2016.

6. Insurers and TPAs, wherever applicable, are advised to ensure compliance of these instructions without fail.

   This has the approval of the competent authority.

Circular Issued By IRDA for Covid-19 Pandemic situation

On 23rd March, 2020 IRDA issued a circular related to the Covid-19 Pandemic situation. It provide instructions to all the life insurers.

This has reference to various measures being taken by Central and State Governments including lockdown of certain states impacting the normal functioning of offices and the possible difficulties to policyholders in accessing various services including timely payment of premium, settlement of claims. In this regard the following directions are being issued under Section 34(1)(a) of the Insurance Act, 1938.

1. Functioning of Offices

Following points highlights the functioning of offices with Regard to Covid-19,

(a) Safety and well-being of employees and policyholders is to be treated as top priority and necessary arrangements are to be made.

(b) The instructions of the Central and State Governments and local authorities in this regard may be followed scrupulously.

(c) Wherever the offices are not functioning fully/partially, the policyholders may be notified by SMS, E-mail and/or Press Release in addition to suitable display in the branch office. Policyholders may also be informed about other alternate channels for payment of premiums, submission of claim and other service requests/requirements. The services of call centers wherever appropriate may be used.

(d) The web site of Life Insurers shall be updated with all the information including list of offices not functioning and alternate arrangements for policyholder servicing, contact phone numbers, if any, for emergency needs.

2. Grace Period for payment of Premiums

For premiums due in the month of March 2020, the Grace Period shall stand extended by one more month in the areas where lockdown has been declared by state government.

3. Claim Payments with Regard to Covid-19

Following points highlights the Claim Payments with Regard to Covid-19,

(a) Any claims received may be settled expeditiously. Life Insurers may consider developing quicker claim settlement process to suit the emerging situation in the affected areas.

(b) Information to be provided in the respective websites about admissibility or otherwise of Covid-19 death claims, for all products covering the contracts already issued.

(c) Specific Information, product wise, related to any health insurance contracts already issued, regarding admissibility or otherwise of Covid-19 claims to be provided in the website

4. Periodic Reports

A report every fortnight may be submitted to the Authority giving the details of offices fully/ partially closed with duration and steps taken in this regard. Data in respect of claims related to Covid-19 may be maintained separately to be submitted to Authority as and when called for. This is issued with the approval of the competent authority.

Circular for All General and Health Insurers

On 23rd April, 2021 IRDA issued a circular for all general and health insurers (Except ATC and ECGC). In includes following points,

1. There are reports of certain network providers (hospitals) charging high rates and insisting on cash payments from the policyholders for providing treatment to COVID-19 infected patients despite having cashless arrangement with insurers.

2. In compliance with the provisions of Regulation 31 Of IRDAI (Health Insurance) Regulations, 2016, the Insurers, in case of “cashless claim” under a health insurance policy, are advised to ensure expeditious settlement of such claims on cashless basis in accordance to the Service Level Agreements (SLAs) entered with hospitals.

3. While reviewing cashless requests the insurers are also advised to ensure that the policyholders are charged as per the rates agreed to by network providers wherever applicable. Insurers are also advised to ensure that hospitals do not levy any additional charges for the same treatment other than those rates that are agreed with the insurers.

4. In order to ensure that all network providers extend cashless services to policyholders and to address any issues causing inconvenience to policyholders while availing cashless service, the Insurers are advised to put in place an effective communication channel with all the network providers for prompt resolution of grievances of policyholders. Insurers are advised to report levying of excess charges or denial of cashless facility to the respective State governments for appropriate action.

5. All insurers are directed to ensure that the “reimbursement claims “under a health insurance policy shall be settled as per the terms and conditions of the respective policy contract expeditiously. Insurers are advised to issue suitable guidelines on this to all TPAs.

6. This has the approval of the competent authority.

Short Question and Answers

1. Claim Settlement.

Ans :

Claim settlement means paying back the money by the insurance company to the insurance policy holder. A claim is said to be settled when the policy holder duly receives the money which is due to him by the company according to the terms and conditions of policy. The process of claim settlement directly reflects the efficiency and effectiveness of the company. A company which correctly and successfully settles down the claims of clients achieves trustworthiness and loyalty. While the insurance companies which involve litigations in claim settlements owe bad reputation in the market.

Claim settlement of an insurance policy usually takes place in two circumstances as follows,

1) On death of policy holder
2) On maturity of insurance policy

2. Death Claims .

Ans :

If the insured dies before the expiry of the term of the policy, it is called as death claim. The death of the life assured has to be intimated in writing to the insurer. It may be done by the nominee, assignee, a relative of the life assured, the employer, agent or development officer. Particulars like policy number, name of the life assured, the date of death, the cause of death and the relationship of the informant to the decreased are to be mentioned. The intimation must satisfy two conditions:

(a) It must be from a concerned person and

(b) must establish beyond doubt, the identity of the deceased person as the life assured under the policy.

Sometimes, the office need not wait till the intimation of the claim is received. Obituary columns, the concerned agent or newspaper reports in case of accidents or air crashes may give information and the claim action can be initiated. However, care has to be taken to ensure that identity of the deceased is established.

The facts required to the submitted by the claimant are :

(a) Date of death

(b) Reason and Place of Death and

(c) Full details of policies held by the Life assured should also be submitted.

3. Maturity Claims.

Ans :

Maturity claims are payable as per the terms of the policy. These policies are generally endowment polices including money back policies. The amount payable at the time of maturity includes sum assured and bonuses/ incentives. The insurer normally sends advance intimations to the insured. The insurer has to satisfy that:

➢ The life assured is the holder of the policy and his identity is proved.

➢ The age stands admitted.

➢ The premiums are all paid.

➢ The original policy is handed in together with a completed discharge voucher before making payment.

The insurance company is expected to make payment on the maturity date. Post-dated cheques arc normally set in advance.

4. Survival Benefits.

Ans :

Survival benefit is not payable under all types of plans. It is payable in endowment or money back plans after a lapse of a fixed period say 4 or 5 years, provided firstly the policy is in force and secondly the policyholder is alive.

As the insurer sends out premium notices to the policyholder for payment of due premium, so it sends out intimation also to the policyholder if and when a survival benefit falls due. The letter of intimation of survival benefit carries with it a discharge voucher mentioning the amount payable.

The policyholder has merely to return the discharge voucher duly signed along with the policy document. The policy document is necessary for endorsement to the effect that the survival benefit which was due has been paid.

The survival benefit can take different forms under different types of policies.

5. Claims Concession Clause.

Ans :

Normally, a death claim becomes payable so long as the policy is kept in force by payment of due premium. In other words if the payment of premium is stopped and the grace period expires and if the death occurs thereafter the policy is treated as lapsed or paid up depending upon whether the premium has been paid for less than 3 yrs or 3yrs & more. Under a lapsed policy no claim is payable. In case of a paid up policy, only the paid up value is payable.

However, some companies provide certain concessions with regard to the claim payment, if the policy has run for 3 yrs or more:

1. If the premiums under a policy have been paid for a minimum period of three full years, and the life assured has died within 6 months from the date of the first unpaid premium insurer pays the full sum assured instead of the paid up value and only the unpaid premiums for the policy year are deducted from the claim amount.

2. This concession is extended to a period of twelve months and the full sum assured is paid if the life assured dies within one year from the due date of the first unpaid premium, provided the premiums have been paid for a minimum period of 5 years subject to deduction of the unpaid premiums for the policy year.

6. Extended Claims Concession Clause .

Ans :

When a policy has not acquired paid up value and claim concession rules are not applicable, nothing is payable in case of death. However some insurers relax the rules in favour of the claimant.

If the premiums have been paid for more than 2 years and

(a) The death occurs within three months from the first unpaid premium, full sum assured with bonus, if any, is payable ;

(b) If the death occurs after 3 months, but within 6 months, half the sum assured is paid ;

(c) If the death occurs within one year from first unpaid premium, notional paid up value is paid.

Under the first condition, the unpaid premium with interest for the policy year of death will be deducted from the claim and no deduction is made in the other two conditions.

7. Presumption of death.

Ans :

Meaning

Under Section 108 of the Indian Evidence Act, 1872, if it is proved that the person has not been heard of for seven years by those who would have naturally heard by him had he been alive, the presumption of law is that he is deed. In case of death by accident while travelling by aeroplane or rail or natural calamities, the body may not be found. Insurers rely on information-supplied carriers, or other organizations in possession of relevant information. If the policyholder is missing for seven years, his heirs can apply to the appropriate civil court and get a court order declaring that the life assured might be presumed to be dead. A claim is payable if the policy is in force or in a paid-up condition, as on the date of the court's order. The exact date and time of death is not a matter of presumption but of active proof. Therefore, in the absence of any such proof, the date of the court's order could be taken as the Date of Death.

The insurer may also sometimes settle the claim on getting an indemnity bond to protect its interest, in case the presumption of death is later found to be wrong. When the insurer takes the responsibility for such action or its own, without the decree from a court, there is a risk that some other claimant to the estate may raise a challenge later. The insurer will not be able to avoid getting involved in the dispute and having to defend its action.

8. Define Insurance Riders.

Ans :

A rider is an insurance policy provision that additional benefits to or amends the terms of a basic insurance policy. Riders provide insured parties with additional coverage options, or they may even restrict or limit coverage. There is an additional cost if a party decides to purchase a rider. Most are low in cost because they involve minimal underwriting. A rider is also referred to as an insurance endorsement. It can be added to policies that cover life, homes, autos, and rental units.

9. IRDA.

Ans :

The Insurance Regulatory and Development Authority is the main organization or supervisory body that regulates the insurance sector in the country. It sets rules and regulations for the functioning of the insurance industry. Its sole purpose is to protect the interest of policyholders and to develop the industry on the whole.

The IRDA or IRDAI regularly issues advisories to insurance companies in case of changes to the rules and regulations.

Establishment

The Government of India was the regulator for the insurance industry until 2000. However, to institute a stand-alone apex body, the IRDA was established in 2000 following the recommendation of the Malhotra Committee report in 1999. In August 2000, the IRDA began accepting applications for registrations through invites and allowed companies from other countries to invest up to 26% in the market.

The IRDA has outlined several rules and regulations under Section 114A of the Insurance Act, 1938. Regulations range from registration of insurance companies for operating in the country to protecting policyholder's interests. As of September 2020, there are 31 General Insurance companies and 24 Life Insurance companies who are registered with the IRDA.

10. What are the features of IRDA ?

Ans :

The following are salient features of the IRDA Act (1999),

1. The insurance sector in India has been thrown open to the private sector. The second and third schedules of the act provide for removal of existing corporations (or companies) to carry out the business of life and general (non-life) insurance in India.
2. An Indian insurance company is a company registered under the Companies Act, 1956, in which foreign equity does not exceed 26 percent of the total equity shareholding, including the equity shareholding of NRIs, FIIs and OCBs.
3. After commencement of an insurance company, the Indian promoters can hold more than 26 percent of the total equity holding for a period of ten years, the balance shares being held by non-promoter Indian shareholders which will not include the equity of the foreign promoters and the shareholding of NRIs, FIIs and OCBs.
4. After the permissible period of ten years, excess equity above the prescribed level of 26 percent will be dis-invested as per a phased programme to be indicated by IRDA. The central government is empowered to extend the period of ten years in individual cases and also to provide for higher ceiling on share holding of Indian promoters in excess of which disinvestment will be required.

11. What are the functions of IRDA?

Ans :

The important functions of the IRDAI in the insurance industry in India:

1. Grant, renew, modify, suspend, cancel or withdraw registration certificates of the insurance company.
2. Protecting the interests of the policyholder in matters concerning the grant of policies, settlement of claims, nomination by policyholders, insurable interest, surrender value of the policy and other terms and conditions of the policy.
3. Specify code of conduct, qualifications and training for intermediary or insurance agents.
4. Specify code of conduct for loss assessors and surveyors.

Choose the Correct Answers

1. What is meant by a claim under an insurance policy? [d]
   (a) Any demand made by the policyholder on the insurer
   (b) A demand to fulfill the policyholder's obligations
   (c) A demand to fulfill the insurer's obligations
   (d) All the three above
2. Which one of the following statement is correct? [d]
   (a) A request for a loan is considered as a claim
   (b) A request for surrender of the policy is considered a claim
   (c) Both the statements above are correct
   (d) Both the statements above are wrong
3. Which one of the following statement is correct? [d]
   (a) A claim will be paid as soon as the death of the insured is confirmed
   (b) An insurer makes enquiries to establish that death took place
   (c) Both the statements above are correct
   (d) Both the statements above are wrong
4. Which one of the following statement is correct? [c]
   (a) A death claim within two years of commencement is treated as an early claim
   (b) A death claim within two years of revival is treated as an early claim
   (c) Both the statements above are correct
   (d) Both the statements above are wrong
5. Which one of the following statement is correct? [b]
   (a) The insurer waits for a demand before taking action in maturity claim cases
   (b) The insurer takes action in a death claim case after a demand is made on it
   (c) Both the statements above are correct
   (d) Both the statements above are wrong
6. Which one of the following statement is correct? [c]
   (a) Maturity claims are paid to policyholders
   (b) Maturity claims are paid to assignees
   (c) Both the statements above are correct
   (d) Both the statements above are wrong

7. Which one of the following statement is correct? [b]

   (a) The death claim is settled in favour of the nominee in MWP Act cases

   (b) The death claim is settled in favour of the trustee in MWP Act cases

   (c) Both the statements above are correct

   (d) Both the statements above are wrong

8. Which one of the following statement is correct? [a]

   (a) Maturity proceeds are paid to the nominee, if the policyholder dies earlier

   (b) Maturity proceeds are paid to the heirs, if the policyholder dies earlier

   (c) Both the statements above are correct

   (d) Both the statements above are wrong

9. Which one of the following statement is correct? [b]

   (a) No claim is paid unless the original policy is produced

   (b) Claim can be paid even without the original policy, if it is lost

   (c) Both the statements above are correct

   (d) Both the statements above are wrong [c]

10. Which one of the following statement is correct?

   (a) Claims may be paid on the basis of indemnity, if title is not established

   (b) Claims may be paid on the basis of indemnity, if original policy is lost

   (c) Both the statements above are correct

   (d) Both the statements above are wrong

Fill in the Blanks

1. ________ refers to the demand made by an insured or beneficiary to the insurer to make payment of insurance policy benefits.
2. ________ means paying back the money by the insurance company to the insurance policy holder.
3. ________ are payable as per the terms of the policy.
4. The ________ of the life assured has to be intimated in writing to the insurer.
5. ________ claims; are those claims wherein assured dies in less than 3 years from the commencement of policy.
6. ________ death claims are those claims which are made on death of life assured if it occurs after 3 years from the date of commencement of policy.
7. SSN stands for ________.
8. IRDA stands for ________.
9. IRDA was established in ________.
10. The IRDA has outlined several rules and regulations under Section ________ of the Insurance Act, 1938.

Answers

1. Claim
2. Claim settlement
3. Maturity claims
4. Death
5. Early
6. Non-early
7. Social Security Number
8. Insurance Regulatory and Development Authority
9. 2000
10. 114A

One Mark Answers

1. Claim

Ans :

Claim refers to the demand made by an insured or beneficiary to the insurer to make payment of insurance policy benefits.

2. Claim Settlement

Ans :

Claim settlement means paying back the money by the insurance company to the insurance policy holder.

3. Survival Benefits

Ans :

Survival benefit is not payable under all types of plans. It is payable in endowment or money back plans after a lapse of a fixed period say 4 or 5 years, provided firstly the policy is in force and secondly the policyholder is alive.

4. Maturity Claims

Ans :

Maturity claims are payable as per the terms of the policy. These policies are generally endowment polices including money back policies.

5. Early Claims

Ans :

Early claims; are those claims wherein assured dies in less than 3 years from the commencement of policy.

6. Non-early Claims

Ans :

Non-early death claims are those claims which are made on death of life assured if it occurs after 3 years from the date of commencement of policy.

FACULTY OF MANAGEMENT

BBA III Year V-Semester (CBCS) Examination

MODEL PAPER - I

INSURANCE SERVICES

Time : 3 Hours] [Max. Marks : 80

PART - A (5 × 4 = 20 Marks)

Note : Answer all the questions

ANSWERS

1. Answer any Five of the following in not exceeding 20 lines.

(a) Define the term Insurance. **(Unit - I, SQA-1)**

(b) Define Re-insurance. **(Unit - I, SQA-3)**

(c) What is revival of life insurance policy? **(Unit - II, SQA-4)**

(d) Importance of life insurance. **(Unit - II, SQA-1)**

(e) Define fire insurance. **(Unit - III, SQA-10)**

(f) What is Policy Schedule? **(Unit - IV, SQA-3)**

(g) Define the term Surrender Value. **(Unit - IV, SQA-11)**

(h) Define Insurance Riders. **(Unit - V, SQA-8)**

PART - B (5 × 12 = 60 Marks)

Note : Answer all the questions using the internal choice.

2. (a) Explain the Role of Insurance. **(Unit - I, Q.No.3)**

OR

(b) What are the various methods of re-insurance? **(Unit - I, Q.No.9)**

3. (a) Define policy loan. What are the guide lines for seeking loan on insurance policy. **(Unit - II, Q.No.5)**

OR

(b) Write a short note on Tax treatment of life insurance. **(Unit - II, Q.No.15)**

4. (a) Compare and contrast life insurance and general insurance. **(Unit - III, Q.No.4)**

OR

(b) Explain the Procedure of effecting Fire Insurance. **(Unit - III, Q.No.19)**

5. (a) What is life insurance policy document? Specify its contents. **(Unit - IV, Q.No.1)**

OR

(b) What is Policy Schedule? Explain the components of Policy Schedule. **(Unit - IV, Q.No.6)**

6. (a) Define claim and claim settlement. Explain claim procedure in respect of life insurance policy. **(Unit - V, Q.No.1)**

OR

(b) What do you understand by presumption of death? State its procedure. **(Unit - V, Q.No.13)**

FACULTY OF MANAGEMENT

BBA III Year V-Semester (CBCS) Examination

MODEL PAPER - II

INSURANCE SERVICES

Time : 3 Hours] [Max. Marks : 80

PART - A (5 × 4 = 20 Marks)

Note : Answer all the questions

ANSWERS

1. Answer any Five of the following in not exceeding 20 lines.

(a)	Nature of Insurance.	**(Unit - I, SQA-2)**
(b)	State the advantages of Re-insurance.	**(Unit - I, SQA-4)**
(c)	Different types of revival of life insurance policy.	**(Unit - II, SQA-5)**
(d)	Benefits of group insurance.	**(Unit - II, SQA-13)**
(e)	Define General Insurance.	**(Unit - III, SQA-1)**
(f)	State the importance a policy document.	**(Unit - IV, SQA-2)**
(g)	What are the features of nomination?	**(Unit - IV, SQA-10)**
(h)	Maturity Claims.	**(Unit - V, SQA-3)**

PART - B (5 × 12 = 60 Marks)

Note : Answer all the questions using the internal choice.

2. (a) What are the various essentials of insurance contract? **(Unit - I, Q.No.12)**

OR

(b) What are the important functions of insurance? **(Unit - I, Q.No.6)**

3. (a) Define Life insurance. Explain the Procedure for issuing a policy. **(Unit - II, Q.No.1)**

OR

(b) What do you meant by claim settlement? Explain the procedure in settlement of claim on death of insured. **(Unit - II, Q.No.18)**

4. (a) Define Health Insurance. Briefly trace the history of health insurance in India. **(Unit - III, Q.No.7)**

OR

(b) What are the different types of non-life insurance claim and State the procedure for claim settlement. **(Unit - III, Q.No.26)**

5. (a) Define Life Insurance Policy Application. Explain the procedure for issuing a life insurance policy. **(Unit - IV, Q.No.2)**

OR

(b) Describe the various types of assignment. **(Unit - IV, Q.No.10)**

6. (a) State the procedure for the settlement of survival benefit. **(Unit - V, Q.No.5)**

OR

(b) Discuss the regulations of IRDA regarding claim settlement. **(Unit - V, Q.No.20)**

FACULTY OF MANAGEMENT

BBA III Year V-Semester (CBCS) Examination

MODEL PAPER - III

INSURANCE SERVICES

Time : 3 Hours] [Max. Marks : 80

PART - A (5 × 4 = 20 Marks)

Note : Answer all the questions

ANSWERS

1. Answer any Five of the following in not exceeding 20 lines.

(a)	Define Re-insurance.	**(Unit - I, SQA-3)**
(b)	State the advantages of treaty method of re-insurance.	**(Unit - I, SQA-8)**
(c)	Features of life insurance.	**(Unit - II, SQA-2)**
(d)	What do you meant by claim settlement?	**(Unit - II, SQA-14)**
(e)	Importance of health insurance.	**(Unit - III, SQA-6)**
(f)	What are the major conditions of assignment?	**(Unit - IV, SQA-9)**
(g)	Duplicate Policies.	**(Unit - IV, SQA-6)**
(h)	Claims Concession Clause.	**(Unit - V, SQA-5)**

PART - B (5 × 12 = 60 Marks)

Note : Answer all the questions using the internal choice.

2. (a) What are the different types of Insurance? **(Unit - I, Q.No.13)**

OR

(b) Discuss the impact of privatization on insurance industry in India. **(Unit - I, Q.No.16)**

3. (a) Explain different types of life insurance products. **(Unit - II, Q.No.9)**

OR

(b) Explain the implication of income tax of life insurance companies. **(Unit - II, Q.No.16)**

4. (a) Define General Insurance. Explain the evolution of General Insurance in India. **(Unit - III, Q.No.1)**

OR

(b) Define Motor insurance. Explain different types of Motor insurance policies. **(Unit - III, Q.No.15)**

5. (a) Describe the various steps involved in the assignment. **(Unit - IV, Q.No.12)**

OR

(b) Compare and contrast Nomination and Assignment. **(Unit - IV, Q.No.18)**

6. (a) Explain different types of riders in life insurance policies. **(Unit - V, Q.No.15)**

OR

(b) What are the duties and responsibilities of IRDA? **(Unit - V, Q.No.18)**