Bachelor of Commerce

BC - 602

FUNDAMENTALS OF INSURANCE

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1.0 LEARNING OBJECTIVES

After going through this lesson you should be able to:

- Know the Concept of Insurance
- Understand the Need and Purpose
- Explain the Importance of Insurance in Social & Development

1.1. INTRODUCTION TO INSURANCE

Human Beings are basically averse to risk. They want to be protected against several types of risks including the risk of life, property, business, fidelity etc. Insurance provides a shield against such risks which may occur due to death, accident, fire, perils of sea, burglary etc. Thus insurance provides assurance to people that they shall be protected in case of mishaps and eventualities.

Before we further proceed with the lesson, some important terms used in contract of insurance are explained as follows:

Insured- The person who buys the insurance policy against the likely risk, he is exposed to is called insured. He seeks protection from the insurance company.

Insurer- This refers to the insurance company that indemnifies the loss or damage.

Premium- It is the amount paid by the insured to the insurer as a consideration to buy the insurance cover.

Insured Amount- This is the amount for which the policy is taken. In other words, it is the face value of the policy or the money value of risk involved.

Compensation- It is the amount paid by the insurer to the insured in case of happening of a mishap or occurrence of a contingency. This is the actual loss suffered or the insured amount, whichever is less.

Risk- It refers to the uncertainty about probable loss.

Peril- This refers to the event that results in loss.

Contingency- It refers to an event, which may or may not happen, and affects loss.

INSURANCE- MEANING AND DEFINITIONS

Insurance is a contract between two parties whereby one party, the insurer, agrees to compensate the loss of another party, the insured, in lieu of a payment of consideration called premium. Hence insurance is a risk management tool to hedge against contingent losses and eventualities. It is a cooperative technique of distributing risk over large number of people who are exposed to such risk and want to hedge against it. This can better be explained with the help of following example-

Example 1. Let us suppose that there are 500 houses in a locality. The value of each house is Rs. 50,000. On an average 5 houses get burnt every year by fire. This results in a total loss of Rs. 250,000.

Total number of houses in locality	500
Value of each house	Rs. 50,000
Average houses burning every year	5
Total loss in a year	5 X 50,000 = Rs. 250,000
Contribution required to be made by 500 house owners in order to compensate the total loss	250,000/500 = Rs. 500 each

Thus, by contributing just Rs. 500 each annually, 500 householders become safe and secure against risk of fire. Also, the risk of 5 owners is transferred and spread over 500 people and shared with the tool of insurance.

Definitions of Insurance

Some of the definitions of insurance given by popular authors are as follows-

According to Ghosh and Aggarwal-

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

According to Prof. D.S. Hansell-

"Insurance is a social device providing financial compensation for the effects of misfortune, the payments being made from the accumulated contributions of all parties participating in the scheme".

According to Dr. W.A. Dinsdale- "Insurance is a device for the transfer of risks of individual entities to an insurer, who agrees for a consideration, to assume to a specified extent losses suffered by the insured."

According to Federation of Insurance Institutes, Mumbai "Insurance is a method in which a large number of people exposed to similar risks make contribution to a common fund out of which, the losses suffered by the unfortunate few, due to accidental events are made good".

According to Justin Lawrence-

"Insurance is a contract by which the one party in consideration of a price paid to him adequate to the risk, becomes security to the other that he shall not suffer loss, damage or prejudice by happening of the perils specified to certain things which may be exposed to them".

Features of Insurance

From the definition discussed above, following feature of insurance can be derived-

1. **Insurance is a contract-** A contract of insurance has all the features of a valid contract as per Indian Contract Act, 1872. It is always in writing. An offer is made by the insurer to take up an insurance policy which is accepted by the insurer against a consideration called premium. It is a voluntary agreement taken by parties who have capacity to enter into a contract.
2. **Insurance is based on law of large numbers-** Law of large numbers help to fix the reasonable premium to be collected from each of the persons buying an insurance policy in order to cover the probable loss which might be incurred during a particular time period. The law states that estimates based on large numbers tend to be more accurate and reach actual figures.

   For example, if in locality there are 2000 persons who are all aged 60 years and do not suffer from any chronic ailment. On the basis of past experience, it is expected that of these 2000 people, 20 persons may die during one year. If we assume that the economic value of loss suffered by one family on the death of a person is Rs. 40,000 the total loss would work out to Rs.8,00,000. This means each member must contribute Rs.200 a year, to compensate the loss of Rs. 800,000. But insurer would be under high risk if more number of persons dies in a particular year. So the law of large number provides authenticity to this predicted value as it states that the more the number of members who are insured, the more likely it is that the actual result would be closer to the expected.

3. **Insurance is based on theory of probability**- It is a statistical tool that helps to determine the pattern of event or eventuality. It helps insurance companies to determine the percentage of policies likely to be paid out in a year. The law of probability is connected with the law of large numbers and helps in fixation of premium to be paid by each member taking the policy, in order to compensate the loss incurred by few unfortunate people.
4. **Insurance is a cooperative device-** Insurance pools the resources of many people to compensate the loss of few. Large number of people takes up an insurance policy but all do not suffer the loss or damage. Their contributions are used to indemnify the losses incurred by few others. Hence insurance works on the basis of cooperation of large number of people.
5. **Insurance deals with sharing and transfer of risk-** Many people contribute to the 'pool' of insurance in the form of premium. All do not suffer the loss. Hence those suffering the loss and paid from the 'pool' contributed by others. As a result, the risk gets shared and divided among large number of people. When a contingency actually occurs, the insurance company becomes responsible to compensate the loss of the insured up to the insured amount of actual loss, whichever is less. Hence, the risk gets transferred to the insurance company.
6. **Insurance is a social device-** Insurance tends to protect the society and make people safe and secure against probable future losses and contingencies. It supports many other acts as the Workmen Compensation Act, 1923; Employee State Insurance Act, 1948 etc.
7. **Insurance is not charity-** Though insurance contracts exist for the social security but these are not charity. A price is charged for the acquisition of insurance policy called premium. A contract without consideration is invalid. The same is applicable to the contract of insurance as well.
8. **Insurance is not gambling or wagering-** In a wagering contract, betting or gambling is involved in which either party is supposed to be rewarded either on the happening or an event or not happening of an event. This is not so in the contract of insurance. Here the aggrieved party is compensated only if the event occurs.
9. **Insurance aids life, business and society-** Insurance is the backbone of a secured and safe nation. It hedges against the risk of life and pays compensation to the nominee and the dependent family. Insurance protects against the risk of fire to property, assets and business by

indemnifying the loss. It safeguards against the perils of land and water. It gives protection against accidents, theft and burglaries, fidelities and disloyalties; thus leading to a safe society.

Need and Purpose of Insurance

Insurance is beneficial for the individuals, business as well as society at large. These are explained as follows-

For individuals-

1. **Future security**- Insurance generates security of future for individuals. They are guaranteed compensation and indemnification for the unforeseen contingencies. They have a security that even if they die, their family's future is secured. The family shall get sufficient funds to sustain livelihood, education and marriage of children and other issues.
2. **Channel of saving and investment-** A policy as life insurance serves as an important channel of savings. If the persons survive beyond the tenure of insurance policy, he gets back his invested money from the insurer. So insurance serves as a protection against death while as investment in case of survival.
3. **Freedom from worries-** An individual life in peace of mind if he is insured for life and property. He knows that his family is secured even if he does not live. Also, he works without worry during his lifetime as he knows that the insurance cover would compensate the losses in his business and property, in case of an unfortunate happening.
4. **Reduced dependence on others-** An insured person does not have to depend on others for financial help. Since insurance is also a channel of saving, he can invest as much as would make his old age and retired life comfortable, without the need to bank upon others.
5. **Tax benefits**- An insurer has a right to claim tax deduction under Income Tax Act 1961 for the premium paid on various insurance policies as life insurance policy, including an endowment policy, mediclaim and health insurance policies
6. **Safety of family**- The family and dependents are secured even in case of death of the earning member of the family as the insurance policy fully compensates the nominee in case of loss, damage and death.

7. **Attainment of loans**- Insurance policy serves as a very good collateral in case a person wants to raise loans or borrow money from the financial institutions.

For Business-

1. **Protection against damage to assets**- Insurance provides compensation if the property and assets of business get damage due to fire, theft, burglary etc. Businesses can run with confidence and invest in expensive assets and machineries since insurance is a protective shield available to the businessman.
2. **Protection against death of a key man-** In a business there are usually one or two persons who are usually the key persons in managing the affairs of the business. These persons are called the key men. They are so very important to the business that death of these persons is a huge loss to the business. So the business purchases a life insurance cover of these key men. In case of death of key men, the insurance company compensates up to the insured amount. This money is helpful to the business in replacement of old key employees with new employees and can be spend as training cost and cost of other financial losses incurred during replacement.
3. **Credit enhancement**- Insurance provides a financial cushion to the business in case of contingencies. The lenders of money feel confident and secure that the business is covered under insurance. Even in case of death of key employees they are sure that the business shall sustain and repay the borrowed amount. Similarly, in case of damage to the physical assets also, the lending institutions feel safe that the business would bounce back to its original position once it is compensated by the insurance company against the damage. Not only this, insurance policy can be pledged as a collateral which leads to credit enhancement of business.
4. **Raising loans-** The policy of insurance can be pledged as collateral. The lending institution and bank feels assured that even in the event of death of key men, the money lent is secured and bound to be received against the insurance policy.
5. **Increase in risk taking ability of business**- The businessman feels relieved that his business is insured against damage and losses. This gives him encouragement to expand his business and undertaken even risky project which are otherwise lucrative.

6. **Development of big industries-** Insurance gives protection to the business. Gradually small businesses grow into big industries over a period of time as insurance cover gives shelter to the business to expand and grow.
7. **Enhancement of credit worthiness-** Insurance improves credit ratings of business. Lenders and financial institutions unhesitatingly lend to insured business because these enjoy good credit worthiness.
8. **Protection from loss of profits-** Policies as consequential loss policy is available that helps to cover the loss on account of diminished profit in case of slowed business operations on account of damage by fire. It may include loss of net profit, insured standing charges as rent, rates and taxes, salaries of the permanent staff, wages to skilled employees, Director’s Fees, auditors fees, advertising, travelling etc. and any increased cost of working e.g., rent of temporary premises.

For Society-

1. **Protection of Societal Wealth-** Insurance protects the society by preventing economic losses. Life insurance protects loss of human wealth. Similarly, property insurance safeguards losses to the assets against fir and accident. Hence, compensation of losses protects societal wealth.
2. **Develops solidarity among people-** Insurance is a cooperative tool. It is based on law of large numbers; hence large number of people must take the policy and compensate the loss of the one suffering the damage. People do not have this feeling that they did not suffer any loss and why should others be compensated out of the money spent by them. Insurance works once people pool their resources and work for mutual benefit.
3. **Benefits of institutional investment-** Insurance companies usually have surplus funds available with them. After their estimated calculation of pay outs in a particular year, these companies invest the surplus for the benefit and upliftment of society and the masses.
4. **Avoids inflation-** Instead of spending the surplus money on luxurious goods, thereby disturbing the demand supply equilibrium, people spend the money on payment of insurance premium. So the money in circulation remains the same and hence inflation is avoided.
5. **Provide Social Insurance-** Certain society oriented schemes as National Health and Unemployment schemes can be launched in the society with through insurance. The money of rich is deployed to provide relief to the old, sick and unemployed members of the society.

1.2 LIFE INSURANCE AND GENERAL INSURANCE

Insurance is broadly classified into Life and Non- life insurance, also termed as General Insurance. These two classifications are explained as follows-

I. **Life Insurance**- Life insurance is a contract in which the insurer agrees to pay to the insured or his nominee, in case of death or expiry of the term of insurance, whichever is earlier, an assured sum of money in lump sum or installments, in consideration of premium paid by the insured. Life insurance is both a tool of protection as well as investment. It provides financial protection to the dependents of insured in case of death of insured and in case of survival, beyond the tenure of policy, it provides pay back of invested money to the insured. Hence, life insurance offers dual benefit of hedging against risk of life as well as saving and investment. Also life insurance is considered as a contract of assurance. Assurance is used in contracts which guarantee payment of insured sum of money on the happening of an event, which is bound to happen sooner or later. In life contracts, death is certain though the time of death is unknown and uncertain. The insured gets the benefit of insurance at the time of death as the whole life policy remains in force during the entire lifetime of insured provided the required premiums are paid. However, this is not applicable to term life insurance which matures after a specific number of years or death whichever is earlier.

II. **General Insurance**- General Insurance includes non-life insurance contracts. These include the following-

1. Fire insurance
2. Marine insurance
3. Personal Accident Insurance
4. Motor Vehicle Insurance

These ate explained as follows-

1. **Fire insurance-** In this contract the insurer compensates the damage to the property of insured, in lump sum or in installments, in consideration of premium caused due to fire, over an agreed period of time as mentioned in the insurance policy. The loss is indemnified only to the extent of amount of policy or the actual loss, whichever is less.

2. **Marine insurance-** In this contract the insurer compensates the insured against the losses and perils of sea. This may include sinking of the ship, burning of the ship, accident of ship, loss due to stormy winds, explosion and collision of ship etc. For such losses ship insurance is taken. Marine insurance also covers damage to the cargo because of water, floods in sea, fire, etc. For such losses cargo insurance is taken. Similarly, once ship is damaged there may be loss of revenue from freight on carriage of cargo. For such loss freight insurance is taken. Hence, marine insurance provides safety against all possible hazards during sea journey.
3. **Personal Accident Insurance-** In this contract, insurer agrees to compensate the insured, in consideration of a premium, damage caused due to accident which may result in death or disability.

Issues covered under Personal Accident Policy

- The personal accident policy compensates the insured in case of both partial and permanent disability caused due to an accident.
- The policy gives 100% of the sum assured to the nominee of the insured in case of death due to accident.
- The main objective of personal accident policy is to protect insured’s family in case of unforeseen death of the insured in an accident.
- Personal accident policy offers are renewable and hence it gives a lifelong cover against accidents
- The premium charged on personal accident policy remains same throughout the term of the policy. The age and lifestyle habits do not impact it.
- However, personal accidental policy does not offer coverage for death caused due to a sickness.
- The term ‘personal accident’ is broad enough to cover road accident as well as any mishap resulting in broken bones at any place, may be home or office.

- Personal accident policy also provides daily cash allowance to the policyholder in case hospitalization is required after accident.

Issues not covered under Personal Accident Policy

- Below factors are commonly excluded from coverage provided under personal accident policy.
- Suicidal attempts are not covered under the terminology of "personal accidents'.
- Mishaps on account of adventurous and high risk sports activities are not covered in personal accident policy.
- Similarly, accidents that are results of war or participation in defense operations are not included.
- Accidents that are caused due to activities considered as hazardous are not included in the policy.
- Accidents that are caused due to driving under the influence of drugs or alcohol are not covered.

4. **Motor Vehicle Insurance**- This contract covers insurance of vehicles used for private purposes like two-wheelers or four-wheelers; as well as commercial purpose vehicles like buses, trucks, auto-rickshaws, cabs, vans, ambulances etc. This insurance covers damages to the vehicle due to theft or accident. It also covers personal injury or death of the owner of vehicle as well as passenger, that is, damages payable to third party. Motor insurance, at least covering, third party liability is mandatory in India under Motor Vehicle Act.

1.3 INSURANCE AS A SOCIAL SECURITY TOOL

As per United Nations Declaration of Human Rights, 1948 "Everyone has a right to adequate standard of living for health and well-being of himself and his family, including food, clothing, housing, medical care, necessary social services and the right to security in the event of unemployment, sickness, disability, widowhood, or other lack of livelihood in circumstances beyond his control." In a socialistic system of society this responsibility rests with the state. Insurance is one of the tools through which the state undertakes this responsibility. In India, even Article 41 of Constitution requires the State to make arrangements for securing “right to work, to education and to provide public assistance in case of unemployment, old age, sickness and disablement.”

State has passed different acts to ensure social security of the public. Insurance is included as one of such tools to social security. For instance, Life insurance cover, in case of death of the earning member of the family provides the dependents with such amount as the family shall not fall into the downtrodden and poor strata of the society. Poor people in fact cost the nation more as they demand grants, subsidies and other allowances.

Social insurance- Definition

According to Professor Hassan, “Social Insurance aims at granting adequate benefits to the insured on compulsory basis in times of unemployment, sickness and other emergencies.”

Features of social insurance-

1. It is compulsorily provided by the government of the country.
2. In order to avail the benefits of social insurance the insured must be attached to labor class.
3. The purpose is to provide financial assistance against contingencies as old age, death, maternity, work injury, old age, unemployment etc.
4. The cost of insurance is either fully or at least partially borne by the employer of the insured.
5. Social insurance is paid as a matter of right and the insured does not have to prove his eligibility in terms of minimum income or assets in order to claim it.
6. Rather benefits of social insurance are based on social adequacy where the benefits are framed to offer a minimum income to all eligible persons regardless of their economic status.

Legal framework of social insurance

Insurance Regulatory and Development Authority (IRDA) lays out the legal status of social insurance in Section 32 B and 32 C as follows-

Section 32 B states that every insurer has to undertake a specific percentage of life insurance business and general insurance business in rural and social sectors, as specified in the Official Gazette by the authorities.

Section 32 C states that these benefits shall extent to people belonging to rural sector, workers in unorganized sector or economically backward classes of the society. The section also mentions that the insurance policies shall include insurance of crops also.

Social Security Insurance Schemes

Some of the social security insurance schemes launched by the Government of India are explained as follows-

1. **Pradhan Mantri Jeevan Jyoti Bima Yojana(PMJJBY)-** Eligibility is that a person should be between the age group of 18 to 50 years. He should have a bank account and Aadhaar. This scheme provides Rs 2 lakh risk coverage in the event of the death of the individual on any reason. The annual premium payable is Rs 330 which will be auto-debited from the subscriber's bank account before 31st May of every year during the coverage period.
2. **Pradhan Mantri Suraksha Bima Yojana(PMSBY)-**
   People eligible to take the scheme must be between the age group 18 and 70 years. They should have a bank account. This scheme covers accidental death with a cover of Rs 2 lakh and Rs 1 lakh in case partial disability. The annual premium is jsut Rs 12 per year which is auto debited from the individual's bank account.
3. **Life Cover under Pradhan Mantri Jan Dhan Yojana (PMJDY)-** the main aim of this scheme is first to provide a basic bank account to every family that till now does not have one. The bank account has the provision of a RuPay debit card with an in-built accidental insurance cover of Rs. 1 lakh. Also in 2014 when this scheme was launched it included a life cover of Rs. 30,000/-valid till 26^{th} January, 2015 for anybody getting a bank account opened and this scheme covered on death due to any reason. Hence the scheme benefited economically weaker sections of the society who cannot directly purchase a life insurance cover. Also the cost of premium to be paid is borne by the Government of India.

4. **Varishtha Pension Bima Yojana**- It is a pension scheme for senior citizens. It is applicable to persons above the age of 60 years. The scheme was available from 15th August, 2014 to 14th August, 2015. Those who subscribed between these days were guaranteed a return of 9%. The scheme is under LIC. In this scheme on the payment of lump sum, subscribes get a fixed pension monthly at the rate of 9% pa.
5. **Pradhan Mantri Fasal Bima Yojana(PMFBY**)- It was launched on 18th February 2016 by Prime Minister Shri Narendra Modi. It provides insurance cover against failure of the crop. The scheme is covered under General Insurance Companies. The scheme is compulsory for farmers availing Crop Loan for notified crops and voluntary for other others.
6. **Pradhan Mantri Vaya Vandana Yojana(PMVVY)-** This scheme is benefits persons beyond the age of 60 years against a complete fall in their income due to some unexpected market conditions. An initial lump sum payment of any amount between Rs. 1,50,000 to Rs 7,50,000 entitles the insured for a monthly pension of Rs 1,000 per month to Rs 5,000 per month depending on the initial payment made. Also, a guaranteed return of 8% per annum is paid to the insured on a monthly basis.
7. **Restructured Weather Based Crop Insurance Scheme (RWBCIS)-** It covers financial loss because of anticipated crop loss arising due to adverse weather conditions relating to rainfall, temperature, wind, humidity etc.
8. **Pradhan Mantriy Murdra Yojana**- There are three sub-schemes under Pradhan Mantriy Murdra Yojana. First, Shishu provides a loan of Rs 50,000; second, Kishore provides a loan of amount between Rs 50,000 and Rs 5 lakhs and third, Tarun provides a loan of amount between Rs 5 lakhs to Rs 10 lakhs. Collaterals are not required to take these loans. This scheme encourages entrepreneurship and small scale business development.

1.4 INSURANCE AND ECONOMIC DEVELOPMENT

Insurance sector has a prominent role in the economic development of a country. The Government of any country is no doubt responsible for the development of a nation, but government cannot supply all the funding at all the times. Other institutions, as Insurance sector is a major lender of capital to financial infrastructural developments in the country. Construction of roads, bridges, railways and other public utility services require huge funds. Government alone may not be able to manage this massive capital. So insurance company acts as a financial intermediary and deploys its resources in government projects. Insurance policies are usually long term in nature. Also, all policy holders do not ask for pay outs over the tenure of policies. As a result, surplus amount available with the insurance companies are lent to the government of the country. Life insurance companies mobilize the savings of people and then invest in Government bonds and other government instruments. Hence indirectly the funds invested by the insurance companies are used by the government in economic development of a nation. Hence, insurance helps in economic development in the following ways-

1. **Reduces burden on Government exchequer**- The insurance company provides capital to the government by investing in government bonds and other financial instruments. Thus, the money deployed by the insurance companies as institutional investment is used by the government in infrastructural development of the country.
2. **Risk management**- Insurance companies cover different types of risks as operational risk, commercial risk, market risk etc. As a result, investors invest fearlessly in the economy which leads to enhancement of capital formations and economic development.
3. **Higher GDP-** Insurance gives financial cover and protection to the venture capitalist who invest in risky projects. This promotes trade and commerce in the country. Expansion of trade and business uplifts the GDP of a country.
4. **Financial stability of business houses**- Business houses promote production and bring industrialization in the country. Insurance gives a protective cover to the life, property, assets and other risks of business houses. Business men operate in a fearless and tension free business environment because insurance companies compensate the losses if any during operations of business. Hence, non- stop business operations bring economic development in a country.
5. **Encourages international trade**- Once businesses sustain at a national level, they pick up courage to expand and grow even beyond the local borders of a country. This helps to ring foreign currency in the country. Hence, insurance encourages international trade and helps to boost economic development in a country.

1.5 CHECK YOUR PROGRESS

1. Law of large numbers helps in determination of __________ (claims/premium).

2. ____________________insurance provides protection from unforeseen contingency as well as serves as a channel of investment (life/general).
3. Pradhan Mantri Suraksha Beema Yojana covers____________ death (accidental/natural/both).
4. Pradhan Mantri Mudra Yojana encourages entrepreneurship and small business development (True/ False)
5. General insurance covers life, fire and marine insurance (True/ False)

1.6 SUMMARY

Insurance is a contract between two parties whereby one party, the insurer, agrees to compensate the loss of another party, the insured, in lieu of a payment of consideration called premium. It is risk management tool but works through cooperation of larger group of people who pool in resources towards a common risk to which they are exposed. Insurance is classified into Life Insurance and General Insurance. Life insurance gives protection against death while general insurance broadly covers Fire insurance, Marine insurance, Personal Accident Insurance and Motor Vehicle Insurance. Fire insurance compensates the damage to the property due to fire. Marine insurance compensates the insured against the losses through perils of sea. It gives cover to the ship, cargo and the freight. Personal accident insurance covers damages caused due to accident which may include death or partial or permanent disability. Motor Vehicle Insurance- covers insurance of vehicles used for private purposes as well as commercial purpose. It also covers personal injury or death of the owner of vehicle as well as passenger. Motor insurance, at least covering, third party liability is mandatory in India under Motor Vehicle Act. Insurance provides many benefits to individual, business and the society. It gives future security and worrisome life to the individual. Life cover gives economic shelter to the dependents of deceased person. The business man is also able to grow, expand and take risk in his business because of availability of insurance. Insurance cover also serves as collateral in taking loans and borrowing money in financial institutions. On the whole, insurance makes a prosperous society with a provision of not letting people fall in the economically weaker section in case unfortunately they are hit by some mishaps. Insurance is a tool of social security as well. The government has launched large number of schemes for the labor, poor and the economically backward section of the society. These schemes cover old age, unemployment, sickness, accidents, death etc. In many cases government takes the burden of payment of premium money so that the needy and weak can live a comfortable life. Thus, insurance is a very effective tool for the economic development of a country. It improves production, capital formation and infrastructural development in a country. This elevates the GDP of the country, controls inflation, generates employment and hence brings sustainable development of the nation.

1.7 KEY WORDS

1. **Premium**- It is the amount paid by the insured to the insurer as a consideration to buy the insurance cover.
2. **Insurance**- Insurance is a contract between two parties whereby one party, the insurer, agrees to compensate the loss of another party, the insured, in lieu of a payment of consideration called premium.
3. **Life Insurance**- Life insurance is a contract in which the insurer agrees to pay to the insured or his nominee, in case of death or expiry of the term of insurance, whichever is earlier, an assured sum of money in lump sum or installments, in consideration of premium paid by the insured.
4. **General insurance**- General insurance includes non-life insurance contracts and includes Fire insurance, Marine insurance, Personal Accident Insurance and Motor Vehicle Insurance.
5. **Social insurance**- Social Insurance aims at granting adequate benefits to the insured on compulsory basis in times of unemployment, sickness and other emergencies."

1.8 SELF ASSESSMENT TEST

1. Define Insurance. Give its features.
2. What is insurance? Discuss its need and purpose.
3. Write a note on Life and General Insurance
4. How is insurance a tool of social security?
5. What is the role of insurance in the economic development of a country?
6. Write notes on-

   i. Benefits of insurance to individuals

   ii. Benefits of insurance to the business

   iii. Benefits of insurance to the society

1.9 ANSWERS TO CHECK YOUR PROGRESS

1. Premium
2. Life
3. Accidental
4. True
5. False

1.10 REFERENCES/SUGGESTED READINGS

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LESSON: 02 Principles of Insurance	

Structure

2.0 LEARNING OBJECTIVES

After going through this lesson you should be able to:

- Know the Insurance as a valid contract
- Understand the specific principles governing the contracts of insurance.
- Know the methods of Indemnity.

2.1 INTRODUCTION

Insurance is defined as a contract in which one party, the insurer/ insurance company agrees to pay to the other party, the insured/ beneficiary, a certain sum of money upon the happening of a certain unforeseen even for which the insurance was taken. Hence insurance is a contract where,

1. A contingency is insured.
2. It is insured for consideration called premium.
3. A large sum of money is insured relatively against a small amount of money called premium.
4. The insured gets compensation/ indemnification for his actual loss or sum insured, whichever is less.
5. But, the indemnification is made only of the happening of the contingency.

2.2. INSURANCE AS A CONTRACT

The Indian Contract Act, 2872 defines contract as "an agreement enforceable by law" [Section 2 (h)]. In the words of Salmond, "A contract is an agreement creating and defining obligation between two or more persons by which rights are acquired by one or more acts or forbearance on the part of others."

Hence there are certain elements which when fulfilled converts an agreement into a valid contract. The insurance contracts in India also governed by the rules stated in the Indian Contract Act, 2872 which are preliminaries to make valid insurance contract. These include the following-

1. **Offer and Acceptance-** The offer is made by the person who has intention to purchase the insurance policy. When the insurance company agrees to cover the risk, it becomes acceptance by the insurer. Thus, the proposal from the proposer and its acceptance by the insurer makes the agreement a valid contract of insurance.
2. **Consideration-** Consideration refers to the payment made for acquiring something. In the contract of insurance 'premium' paid by the insured to the insurance company for purchase of insurance policy is the consideration of the contract. Without a lawful consideration the contract of insurance does not become valid.
3. **Capacity of parties-** The parties to the contract must be competent to enter into the contract to make it valid. The following persons cannot enter into a valid contract-
   a) Minors
   b) Persons of unsound mind

c) Alien enemy

d) Persons disqualified by any law to enter into a contract.

e) Insolvents

f) Persons with criminal background.

4. **Common intentions-** Both the parties to the contract of insurance should have the same purpose and intention about the subject matter and content of insurance. The offer made by the proposer and the respective acceptance given by the insurer must be against the common cause and purpose. For instance, the proposer wanted insurance against theft while the insurer accepted again fire. This dissimilarity in understanding the contract shall make the contract void.
5. **Legality of Object-** The insurance must be for a legal object. The object of insurance should neither be unlawful, nor immoral or against the provisions of any law. Such an object would make the contract of insurance invalid.

- **Free consent-** The parties involved in a contract must give their willful consent for the same. It shouldn't be obtained through any of the following means-
- Coercion
- Undue influence
- Fraud
- Mistake
- Misrepresentation

2.3 PRINCIPLES OF INSURANCE

But for the principle of Indian Contract Act, 2872 that must be fulfilled for undertaking a valid contract of insurance, there are some specific principles that govern the contract of insurance. These principles ensure proper functioning of insurance contract. The insurer and the insured are bound by these principles. These help to avoid disputes and unethical practices. On the whole these principles affirm validity of insurance as a contract. These are explained as follows-

Principle of utmost good faith- Contracts of insurance are the contract of 'Uberrimae fidie' that is based on absolute good faith. This principle states that all the material facts must be disclosed fully by either of the parties to the contract of insurance. A fact is material when it can affect the decision of entering into a contract by either of the party. If both the parties know common facts, only then common intentions prevail in the contract and make it valid. Also there should be no concealment, fraud or misrepresentation in stating facts. However, the greater degree of disclosure lies with the proposer as from the side of insurance company written terms and conditions of the contract are provided to the proposer before entering into the contract. There are different disclosure requirements for different types of insurance contracts. These are explained as follows-

In life insurance contracts, the following facts must be disclosed-

i) Occupation of proposer along with name and address.
ii) Date of birth and other demographics as height, weight etc.
iii) Medical history of the family.
iv) Income and affordability
v) A certificate duly signed by the proposer certifying truthfulness and correctness of the information supplied.

In fire insurance contracts, the following facts must be disclosed-

i) Site and location of property.
ii) Nature of goods insured.
iii) Construction details
iv) Purpose for which property is occupied, that is, as shop, office, residence, factory, warehouse etc.
v) Any losses or damages incurred in the past due to fire.

In marine insurance contracts, the following facts must be disclosed-

i) Details of the ship.
ii) Details of cargo
iii) Packaging of cargo

iv) The route followed by the ship from port to destination

v) Any past claim on account of sea peril

However, the following facts are implied and do not need expressed disclosure-

i) Facts of law
ii) Facts of common knowledge
iii) Facts which lead to reduction in risk. For instance, installation of fire extinguisher in factory.
iv) Facts already covered under the conditions of the policy.
v) Facts visible on the face while undertaking survey by the insurance officers.

Principle of Insurable Interest- The principle states that the insured must have 'insurable interest' in the property or life for which the insurance policy is being purchased. Insurable interest means the pecuniary or financial interest in the property or life. If a person gains financially if the property of life continues to exist and incurs a financial loss in case the property of life is destroyed/dies, a person is said to have insurable interest in the object or life. Insurable interest does not mean just emotional or sentimental attachment with the property or life but existence of pecuniary interest in the same. In the words of Prof. Mehr, "If the happening of the event insured cannot cost the insured money, then there is no insurable interest." Also as gathered from the case of Castellian VS Preston (2883), "insurable interest can be defied as the legal right to insure, arising out of a financial relationship, recognized under law, between the insured and the subject matter of insurance."

Essentials of insurable interest

1) There must be specific subject matter to be insured.
2) The insured must have financial interest in the subject matter.
3) This financial interest should arise on account of legal relationship with the subject matter, recognized in the eyes of law.
4) The insured is either the owner or somehow possess legal right on the subject matter.
5) The insured should be at a financial gain in case of existence of subject matter or should suffer a financial loss in case of destruction of subject matter.

Application of insurable interest

Life insurance- In life insurance insurable interest must exist at the time when policy is purchased. In life insurance-

1) A person has unlimited insurable interest in his own life.
2) A person has insurable interest in the life of his/her spouse.
3) Children have insurable interest in the life of their father.
4) A creditor has insurable interest in the life of debtor, up to the amount of debt given.
5) In a partnership firm, partner has insurable interest in the life of co-partners

Fire insurance- In fire insurance insurable interest must exist both at the time when policy is purchased and when the loss is incurred. In fire insurance-

1) The owner of the property has full insurable interest in his own property.
2) In case of partnership firm, partners have insurable interest in the property of the firm.
3) In case of agency, agent has insurable interest in the property of the principle.
4) Mortgagor and mortgagee have insurable interest in the property in the capacity of owner and lender respectively.
5) Bailee too has insurable interest in the property bailed to him.

Marine insurance- In marine insurance insurable interest must exist only when the loss occurs. In marine insurance-

1. The owner of the ship has full insurable interest in the ship.
2. The owner of the cargo has full insurable interest in the cargo.
3. The owner of the ship has insurable interest in the freight of the ship.
4. The mortgagor and mortgagee have insurable interest in the capacity of owner and lender respectively.

Principle of indemnity- Indemnity means to make the loss good. Hence all contract of insurance are contracts of indemnity but for life insurance. The principle gives the right to the insured to transfer the loss to the insurance company and seek redressal of the same. The amount of compensation shall be exactly equal to the amount of loss, so that insured cannot make any profit out of his loss. If the higher amount of compensation is allowed, the insured may develop a tendency to destroy and damage the insured goods on his own and earn profit out of insurance. For instance, if the insured has got his goods insured for Rs. 50,000 and the goods actually damaged are worth Rs. 35000, the insured shall be indemnified for Rs. 35000 only. However, if the amount of policy taken by the insured is less than the actual loss incurred, the insured shall be indemnified up to the amount of the policy taken. Indemnification shall be made for the actual loss or amount of policy whichever is less.

Essential features of principle of indemnity-

1) All contracts of insurance are covered under principle of indemnity but for life insurance because loss of life cannot be valued correctly to be indemnified.
2) Insured must prove principle of insurable interest so that principle of indemnity becomes applicable. In simple words, only if the insured has pecuniary interest in the subject matter, he shall be compensated for the loss.
3) The amount to be indemnified is the amount of policy purchased or the actual loss incurred whichever is less.
4) Once, the loss is compensated, the ownership rights of subject matter get transferred to the insurer.
5) Valued policies, that is, where the amount to be compensated is agreed upon at the time of issuance of policy, are not covered under the principle of indemnity.

Methods to calculation Liability of Insurance Company

1) **Sum insured**- Sum assured refers to the value of policy taken up by the insured. This represents the maximum loss which shall be compensated by the insurance company. If the loss is less than the sum insured, actual loss shall be indemnified. However, if actual loss is more than the sum insured, compensation shall be given only up to the amount of sum insured. If brief, sum insured or actual loss whichever is less shall be the amount of indemnification.

2) **Excess and Franchise Clause-** The insurance company can limit the amount of compensation with the 'excess and franchise clause'.

In Franchise clause, insurance company pays in full up to the sum insured only if the actual loss exceeds the franchise (fixed) amount. Otherwise, insurance company does not pay at all. For example-

Sum insured	Rs. 200,000
Franchise amount	20% of sum insured = Rs. 20,000
A. If actual damage is less than the franchise amount-	
Actual damage	Rs. 7000
Indemnification by the insurance company	NIL
B. If actual damage is more than the franchise amount-	
Actual damage	Rs. 28000
Indemnification by the insurance company	Full amount of Rs. 28000

In 'excess clause' insurance company pays the damage that exceeds the 'excess amount'. For instance-

Sum insured	Rs. 200,000
Excess provision	5% of sum insured = Rs. 5,000
A. Insurance company shall not indemnify any loss up to Rs. 5000.	
Actual damage	Rs. 4000

Indemnification by the insurance company	NIL
B. If actual damage is more than the excess provision	
Actual damage	Rs. 28000
Indemnification by the insurance company	
First Rs. 5000	NIL
Next Rs. 23000	Full amount of Rs. 23000
Total Payable	Rs. 23000

3) **Pro- rata Average-** In this clause, the loss of insured is compensated proportionately. This claim applies when the value of subject matter is more than the amount of policy purchased. For instance-

Value of property	Rs. 500,000
Policy purchased	Rs. 350,000
Actual loss	Rs. 250,000
Indemnification by the insurance company = Actual loss X $\frac{\text{Amount of Policy}}{\text{Value of subject matter}}$ 250,000 X 350,000	

500,000 = Rs. 205,000

Insured shall have to bear the loss of Rs. 45000 on his own. He is penalized for under-insurance.

4) **Salvage**- 'Salvage' refers to the undamaged or undestroyed portion of the subject matter. The scrap value of the undamaged portion is reduced from the amount indemnified by the insurance company.
5) **Subrogation**- Subrogation states that after indemnification of loss fully to the insured, the ownership rights get transferred to the insurance company. Subsequently the insurance company enters into the shoes of insured. Thereafter, insured cannot earn anything from the destroyed property, in terms of scrap or salvage value, and earn even after being indemnified. These rights no longer belong to the insured.
6) **Contribution**- This clause is applicable in case of double insurance. If the insured has got the subject matter insured from more than one insurance company, then in case of loss each insurance company is liable to contribute towards the loss proportionately to the insured amount or policy taken. For instance-

Amount insured from Company A = Rs. 250,000	Amount insured from Company B = Rs. 250,000
Actual loss	Rs. 80,000
Contribution of Company A	80,000 X <u>250,000</u> 400,000 = Rs. 30,000
Contribution of Company B	80,000 X <u>250,000</u> 400,000 = Rs. 50,000

Methods of Indemnity

1. **Cash/ Cheque payment-** This is the most common mode of indemnification. The insured is paid by the insurance company usually through cheque.
2. **Repairs-** In cases where the subject matter is not fully destroyed, the insurance company pays for the repairs. The insured gets the repair work done after sanction from the insurance company, submits the bill of repairs and the payment is made to him.
3. **Replacement-** When the subject matter cannot be repaired, replacement may be given by the insurance company; for instance in case of theft.
4. **Reinstatement-** This refers to rebuilding the damaged subject matter and bring it back to its original state. Since restoration is difficult to achieve, so this is the least followed method.

Principle of Subrogation- After indemnification the insurer enters into the shoes of insured and exercise ownership right with respect to any claim or action against the third party from whom damages or salvage can be recovered. This is also called 'Doctrine of Rights Substitution'.
According to **Federation of Insurance Institutes,** "Subrogation is the transfer of rights and remedies of the insured to the insurer who has indemnified the insured in respect of the loss."

According to **Dinsdale,** "Subrogation may be defined as the insurer's right to receive the benefits of all the rights of the insured against third parties which, if satisfied, will extinguish or diminish the ultimate loss sustained."

Essentials of subrogation-

1) **Fulfillment of principle of indemnity**- Right of subrogation can only be exercised when full indemnification is made by the insurance company to the insured. After full settlement of insured's claim, the ownership rights are transferred to the insurance company. Insurance company may recover some proportion of compensation paid.
2) **It involves substitution**- In subrogation; the insurance company substitute's the insured after settlement of claim. Thereafter, insurance company exercises ownership rights on the subject matter.

3) **Compensation of insurer**- If the insured receives some amount from the third party after being indemnified by the insurance company, insured is under an obligation to compensate and pay the same to the insurer.
4) **Subrogation may be applied before payment**- If the insured has received some amount from third party before settlement of claim by the insurance company, the insurance company can reduce the amount recovered from the third party and pay the balance amount to the insured.
5) **Personal insurance**- Principle of subrogation is not applicable to personal insurance.

Features of Subrogation

1) It is applicable to all the contracts of indemnity.
2) It becomes operative only after the settlement of claim by the insurer.
3) However, except marine insurance, it can be applied prior to payment and thereby only balance is paid by the insurance company.
4) Insured is under a binding to assist the insurance company to recover from the third party.
5) Insurer gets the right to sue the third party in the name of the insured though the expenses are borne by the insurer only.
6) Principle of subrogation is an implied rule. It is applicable even if not expressly put in writing in the contract.
7) The insured has the right to recover from third party only up to the amount of compensation paid to insured.

Cases when subrogation arises

1. **In case of tort**- When the insured has incurred a loss due to wrongful act of a third party, the insurer can exercise subrogation against third party after indemnification. For instance- factory door left unlocked by the security personnel and theft took place. Similarly, the truck driver banged into the building.

2. **Contractual right-** Subrogation may be exercised by insurance company as a custom of trade as all contracts of indemnity include right of subrogation.
3. **Salvage-** Once insurer has compensated the insured, any scrap or salvage realized from the subject matter belongs to the insurer and not the insured under the principle of subrogation.

Principle of Contribution- Sometimes the insured purchases the insurance policy for the same subject matter from more than one insurer, that is, a double insurance is taken by the insured. In case of any loss or damage to the subject matter all the insurers are liable to compensate the damages. But according to principle of indemnity insured cannot be compensated in excess of the actual damage. Hence all the insurers contribute proportionately towards the loss of the insured. Also if the insured has recovered the loss from one of the insurers, this insurer has the right to recover it from other insurers. This principle is applicable to all the contract of indemnity and hence it does not apply to life insurance contracts.

Essentials of Principle of Contribution

1. Same property should be the 'subject matter' for all insurers.
2. The reason for damage of subject matter should be common in all insurance policies.
3. All the policies must be active at the time of loss and be legally enforceable.
4. All policies must be in the name of same insured having the same insurable interest.

Principle of Causa Proxima- There may be multiple and subsequent causes leading to damage or loss. The insurer is liable to pay for the damages only for those losses caused by perils covered under insurance. If a particular cause is not covered under insurance, insurer shall not be liable to compensate the insured. "Causa Proxima" means the nearest cause or the direct cause. The remote or distant causes leading to a loss may not make the insurance company liable to pay for damages.

"Proximate cause means the active and efficient cause that sets in motion a train of events which brig about result, without the intervention of nay force started and working activity from new and independent source." – **Pawsey VS South Union and National Insurance Co.**

Classification of Perils

1. **Insured peril-** Those risks and perils which are mentioned in the insurance policy as covered are insured perils.
2. **Uninsured peril-** Those risks and perils which are not mentioned in the insurance policy as covered are uninsured perils.
3. **Expected or excluded-** Those perils which are mentioned as excluded.

Causes of losses

1. **Single cause-** If there is single identifiable cause of damage, it shall be proximate cause and shall make the insurance company liable for damages if it is an insured peril. For example- if goods were destroyed as a result of ignition from cigarette causing fire, it shall be covered under fire insurance.
2. **Concurrent cause-** If there are more than one causes resulting in damage and none is mentioned as excluded peril, insurance company shall become liable to pay. Also, concurrent causes may be separable or inseparable. If these are separable and the separable cause is covered under insured peril, insurance company shall become liable to pay otherwise not. If the causes are inseparable, insurer shall not be held liable for compensation.
3. **Successive cause-** This refers to series of causes leading to damage. If the original cause is an insured peril, insurer becomes liable to pay, otherwise not.

Principle of Mitigation of Loss- The principle states that the insured in the event of occurrence of contingency shall take all efforts to reduce and minimize the probable loss as if the subject matter was uninsured. He should act wisely and take all care to avoid the damage as much as possible.

2.4 CHECK YOUR PROGRESS

1. Principle of utmost good faith is more obligatory for _____________ (insured/insurer).
2. Principle of insurable interest involves_________________ interest (financial/emotional).
3. Subrogation is a right given to _______________ (insured/insurer).
4. Pro-rata applies when the value of subject matter is _____________ than the amount of policy purchased (more/less).

5. Benefit of salvage belongs to the ____________ and is adjusted from the amount to be indemnified (insured/ insurer)

2.5 SUMMARY

Insurance is defined as a contract in which one party, the insurer/ insurance company agrees to pay to the other party, the insured/ beneficiary, a certain sum of money upon the happening of a certain unforeseen even for which the insurance was taken. The insurance contracts in India also governed by the rules stated in the Indian Contract Act, 2872 which are preliminaries to make valid insurance contract. Hence the essentials of a valid contract as offer and acceptance, consideration, capacity of parties, lawful object, common intentions, and free consent are applicable to contract of insurance also. Only if these general principles of a contract are fulfilled, the insurance contract can become valid for application.

But for the principle of Indian Contract Act, 2872 there are some specific principles that govern the contract of insurance. These principles ensure proper functioning of contract of insurance. Principle of utmost good faith states that all the material facts must be disclosed fully by either of the parties to the contract of insurance. A fact is material when it can affect the decision of entering into a contract by either of the party. The greater onus of disclosure lies with the insured. Insured must disclose his demographics and family medical history correctly in order to take life cover. Similarly, particulars relating to property site and ownership and ship and cargo must be fully disclosed for availing fire and marine insurance cover respectively. Insured must have 'insurable interest' in the property or life for which the insurance policy is being purchased. Insurable interest means the pecuniary or financial interest in the property or life, otherwise insurance protection cannot be claimed. The principle of indemnity gives the right to the insured to transfer the loss to the insurance company and seek redressal of the same. The amount of compensation is limited to the amount of policy or the actual loss whichever is less. The insured cannot make a profit out of his loss. Principle of Subrogation states that after indemnification, the insurer enters into the shoes of insured and exercise ownership right with respect to any claim or action against the third party from whom damages or salvage can be recovered. Insured is under a binding to assist the insurance company to recover from the third party. Insurer gets the right to sue the third party in the name of the insured though the expenses are borne by the insurer only.

Principle of subrogation is an implied rule. It is applicable even if not expressly put in writing in the contract. Principle of Contribution states that when double insurance is taken by the insured, in case of any loss or damage to the subject matter all the insurers are liable to compensate the damages. Principle of causa proxima states that “Causa Proxima” means the nearest cause or the direct cause. The remote or distant causes leading to a loss may not make the insurance company liable to pay for damages. Principle of Mitigation states that the insured in the event of occurrence of contingency shall take all efforts to reduce and minimize the probable loss as if the subject matter was uninsured. Thus, these principles help in efficient functioning of insurance business.

2.6 KEYWORDS

Principle of utmost good faith- This principle states that all the material facts must be disclosed fully by either of the parties to the contract of insurance. A fact is material when it can affect the decision of entering into a contract by either of the party.

Insurable Interest- Insurable interest means the pecuniary or financial interest in the property or life.

Indemnity- The principle gives the right to the insured to transfer the loss to the insurance company and seek redressal of the same. The amount of compensation shall be exactly equal to the amount of loss, so that insured cannot make any profit out of his loss.

Subrogation- Subrogation states that after indemnification of loss fully to the insured, the ownership rights get transferred to the insurance company. Subsequently the insurance company enters into the shoes of insured.

Causa Proxima- “Causa Proxima” means the nearest cause or the direct cause. The remote or distant causes leading to a loss may not make the insurance company liable to pay for damages.

2.7 SELF ASSESSMENT TEST

1. How is insurance covered under Indian Contract Act, 2872?
2. Discuss the principles of insurance.
3. What is principle of contribution? When can it be applied?
4. Write notes on-
    i. Principle of utmost good faith.
    ii. Principle of contribution

iii. Principle of causa proxima

5. What is principle of subrogation? Explain its features. What are its essentials? What given rise to the right of subrogation?
6. Explain the principle of indemnity? What are its modes and features? How is the liability of insurance company calculated?

2.8 ANSWERS TO CHECK YOUR PROGRESS

1. Insured
2. Financial
3. Insurance
4. More
5. Insurer

2.9 REFERENCES/SUGGESTED READINGS

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2. Principles of Insurance by P K Gupta published by Himalaya Publishing House; 2018th edition.
3. Insurance Principles and Practices by Mishra M N and Mishra S B published by S Chand (4 July 2016).
4. Principles of Insurance by B D Bhargava published by Bio-Green.

Course: Fundamentals of Insurance	Author: Dr. Aparna Bhatia
Course Code: BC- 602	Vetter: Prof. Suresh Kumar Mittal
LESSON: 03 Introduction to Life Insurance	

Structure

1.0 LEARNING OBJECTIVES

After going through this lesson you should be able to:

- Know the concept of life insurance
- Know the principles governing the business of insurance
- Understand the rights and duties of parties to the contract of insurance.
- Explain the structure of life insurance

- Understand the progress made the life insurance business in India.

3.1. INTRODUCTION TO LIFE INSURANCE

Life is uncertain. Though with the advancements in medical science, life expectancy has increased and mortality rate has reduced, yet death is certain to happen. It is not in human hands or control. Only the timings are uncertain and unpredictable. Hence, sudden death of the bread earner of the family can halt lives of the family members and dependents.

Government of a country has the responsibility of well- being of the masses. The economy would rise only if its people are rich and prosperous. If one the pessimistic side, the population of a country is economically poor and financially weak, the country cannot develop and prosper. The Government would have to rather directly or indirectly help poor people by giving them free basic amenities as food, clothing and shelter. Indirectly too, the Government tries and support economically weaker population by giving grants and subsidies. So, ultimately the Government and the country bear the burden of the downtrodden population.

In order that people do not suffer and come on the roads due to death of the primary earning member of the family. Life insurance gives a protective financial cover to the family in case of death of the prime earning member of the family and thus saving the dependents from financial misery and crisis.

Life Insurance- Meaning and Definitions

Life Insurance is a financial protection in case of early death of a person. It is an assurance to the insured to receive insured sum of money in lieu of premiums paid by him, either on death or maturity of the policy, whichever is earlier. Thus, life insurance offers dual benefit-

1. Financial protection to the dependents in case of death and

2. Investment opportunity to the insured in case of his survival. Though the loss of life cannot be compensated by the insurance cover, still the money received by family members provides them financial help to arrange for the basic amenities of decent living.

Definitions of Life Insurance

Some of the definitions of insurance given by popular authors are as follows-

According to Section 2 of the Indian Insurance Act, 1938-

“Life Insurance business is the business of effecting contracts upon human life.”

According to J. H. Maggee-

“The life insurance contract embodies and agreement, in which, broadly stated, the insurer undertakes to pay a stipulated sum upon the death of the insured, or at some designated time to a designated beneficiary”.

Thus, life insurance is a contract between the insurer and the insured where the latter pays consideration in the form of premium either periodically or in lump sum to receive the amount of money or annuity, either on death or maturity of policy, whichever is earlier. So in either case the premiums paid by the insured are returned by the insurer to the insured in case of survival and to the nominees in case of death of insured.

Features of Life Insurance

From the definition discussed above, following features of life insurance can be derived-

1. Acceptance and Offer- Insured makes an ‘offer’ to take a policy cover which becomes a contract when ‘acceptance’ of the same is given by the insurance company. Thus, the agreement becomes a legal contract.

2. Express Contract- The contract of insurance is always in writing.

3. Assurance Contract- Since death is certain, so life insurance contracts fall in the category of assurance contract. It is assured that sum insured shall be paid back either in case of death or maturity of policy, whichever is earlier.

4. Both life cover as well as channel of investment- In case of death of the insured, sum insured is paid to the nominees and beneficiaries. In case of survival of the insured, life insurance becomes a channel of investment for the insured as he receives the sum assure on the maturity of policy.

5. Contract of Contingency- Since loss of death can never be fully compensated so life insurance contracts are not contracts of indemnity; rather these are considered ‘contingent contracts’.

6. Tax Benefits- Investments made in Life Insurance policies are exempt from income tax.

7. Broad Scope- Life insurance policies also cover temporary and permanent disabilities, medical expenses, retirement etc.

Advantages of life insurance

Following are the advantages of taking a life insurance policy-

1) Covers risk of death.
2) Financial support to the dependents.
3) Serves as a channel of investment and provides pay back in case of survival of policy holder at the time of maturity.
4) Life insurance policy serves as collateral for raising loan from the financial institutions.
5) It provides rebate under Sec 80C and hence offers tax benefits.
6) Life insurance cover helps to fulfill various responsibilities of the insured as financial safety to dependents in case of death, sufficient money at the time of retirement etc.

Disadvantages of life insurance

Following are the disadvantages of life insurance policy

1) Certain policies are payable only on death,. Hence insured does not gain anything during his lifetime.
2) Surrender values are very less. Even the premium payable is not fully recovered.
3) It is very difficult to choose the right insurance company. It is difficult to decide whether to take up a policy with Public Sector or Private Sector insurance company. In Public Sector there is only one giant player LIC and no other choice available.
4) The choice of policy is difficult. All policies as whole life policy, term life policy etc. have their pros and cons.

Parties to the contract of life insurance

In a contract of life insurance following parties are involved-

1) **Proposer/Policyholder**- The person who initiates the purchase of policy and makes an offer to the insurer for the same is the proposer. He has access to all the information related to the policy. He names the beneficiaries of the policy. He has also got the right to change the beneficiaries.

2) **Insured-** The person on whose life the policy is taken is called the insured. Sum assured becomes payable on the death of the insured. All the information to be disclosed while taking the life insurance cover is in relation to the insured.
3) **Beneficiary-** The person who is named as the ‘nominee’ of the sum assured in case of death of insured is the beneficiary. He/she is the one who will get total amount of policy in the event of death of the insured.
    a. *The proposer and the insured can be the same person. For instance, husband takes his own life policy and places his wife as the nominee. Here, husband is both the proposer and the insured. Wife is the beneficiary. In another example, husband takes life insurance cover of his wife. Here, husband is the proposer as well as the beneficiary; wife is the insured.*
4) **Insurance Company**- The financial institution that enters into a contract with the insured to compensate him in case of happening of an event or maturity of policy, in lieu of premiums received in the form of consideration is the insurance company. These institutions are governed and regulated by insurance statutes of a country.
5) **Agent/ Broker**- These are the intermediaries that serve as a link between the insurer and the insured. They are the middlemen who disseminate policy information to the stakeholders. They offer products to the customers in the market on behalf of the insurance company and thus promote the business and reach of insurance.
6) **Underwriter**- These are the professionals who evaluate the risks of insuring a particular person. On the basis of their evaluation report premium payable is calculated. They inspect all the factors as age, medical history, current medical reports, and health issues etc. that might affect his life expectancy.
7) **Medical Examiner**- The health care professional who examines the proposer medically and submits his repot is the medical examiner. He is neither the employee nor the agent of insurance company. Rather he is a third party who aids insurance company with respect to medical examination of the proposed policyholder.

Rights and Duties of the parties to the contract of insurance

Rights of insured

1) To hear from the insurance company within 15 days of submission of proposal form with respect to their decision of accepting/rejecting the grant of policy.
2) In case of acceptance of the proposal, the policy bond should reach the insured within a reasonable time frame.
3) The insured also has a right to cancel the policy within 15 days from the date of receipt of policy documents.
4) Right to change the method of premium payment. He may opt for the electronic mode at a later stage.
5) Right to change the terms of the policy, opt for enhancement of sum assured etc.
6) Right to acquire a duplicate copy of policy in case of loss of policy document with the same rights as the original document.
7) Right to change the nominee and provide information of new nominee.
8) Right to appoint more than one nominee and assign proportion of distribution of sum assured among them.

Rights in case of ULIPs

1) Right to make partial withdrawals.
2) Right to switch funds.
3) Right to surrender policy after the lock in period is over.
4) Right to ask for modification in terms of policy, method of premium payment, enhancement of sum assured, premium redirection etc.

Duties of insured/policyholder

1. To provide correct and true information in the proposal form to be filled by the proposer.
2. To provide all ‘material’ and relevant information required to take a decision with respect to the insurance policy. The information must be supplied even if it seem immaterial to the policy holder.
3. To make payment of premiums in time.

4. To choose accurately the term of policy, amount of policy, frequency of premium payments etc.
5. To appoint a person with insurable interest as the nominee.
6. To change the nominee after issuance of policy.
7. To name an appointee in case nominee is as minor.
8. To report immediately in case policy documents are lost.
9. To abide by the rules and regulations issued by IRDA. For instance, duty not to share confidential information about his policy with others.

Rights of Beneficiary

1. To receive the amount of policy/ sum insured in case of death of the insured person.
2. To know about all the benefits attached with the policy.
3. To know the entire procedure of getting his claim settled.
4. To know about all the material details related to the policy.

Duties of Beneficiary

1. To inform the insurance company about the claim.
2. To submit proofs and documents required for claiming the sum insured.
3. To comply with the procedure and rules involved in settlement of claims.

Rights of Insurance Company

1. Right to material information- The insured must supply information to the insurer in utmost good faith. Insurer has the right to seek all ‘material’ information.
2. Right to subrogation- Any benefit acquired by the insured from the third party after full indemnification from the insurer can be claimed by the insurance company.
3. Right to put contestability period clause- This means that right to claim may not arise immediately after taking the life insurance policy. Contestability period of 1 to 2 years may be put in the policy by the insurer. If death happens within that period, claim may be rejected, at least in exceptional cases as suicide.
4. Right to reject certain types of deaths not covered in ‘causa proxima’ as due to natural calamities, terrorist attacks etc.
5. Right to get medical tests conducted specially in case of more age or high risk coverage.

6. Right to deny claim in case of non-payment of premium by the insured or wrong nominee details.

Duties of Insurance Company

General duties

1. To act in the best interest of the client.
2. To act in utmost good faith and disclose all material terms and conditions related to the policy.
3. To respond to queries and communication of the client.
4. To expedite fair settlement of claim.

Specific duties

1. To communicate the decision of accept/reject to the proposer within 15 days from the receipt of proposal.
2. To dispatch policy document within 30 days from the receipt of proposal.
3. To provide services as recording changes in address, contact details, assignment of policy, nominee of policy etc.
4. To look into issue of duplicate policy in case of need, annuity servicing, renewal premium payments etc.
5. To issue policy papers for availing loans.
6. Settling grievance within 15 days of the receipt of grievance.
7. To give details of insurance Ombudsman in the policy documents.

3.2 PRINCIPLES AND PRACTICES OF LIFE INSURANCE

Life Insurance is a contract "in which the insurer in consideration of a premium undertakes to pay a certain sum of money on the death of the insured or the expiry of certain period of time. Under life insurance contact a assured sum of money is paid to the insured on the expiry of policy period or to his nominee in case of the death of insured. In life insurance, the risk ensured against is death."

Hence life insurance contract is governed by-

I. General Principles of Contract

II. Specific Principles of Insurance

General Principles of Contract		Specific Principles of Insurance
Offer and Acceptance		Utmost Good faith
Competency of parties to contract.		Insurable interest
Free will of parties		Warranties
Consideration		Proximate cause
Lawful object		Assignment and Nomination

These principles are explained as follows-

I. General Principles of Contract

1. **Offer and Acceptance**- An offer is a proposal initiated by the proposer showing his willingness to take up an insurance cover. When the insurance company agrees to the proposal, it is called acceptance. The ‘offer and ‘acceptance’ of the same makes a contract of insurance. The proposal form is filled by the proposer along with payment of first premium. The acceptance letter is given by the insurance company and the relationship of insured and insurer is established.
2. **Competency of the parties**- The parties to the contract of life insurance must be competent to enter into the contract to make it valid. The following persons cannot enter into a valid contract-
   1) Minors
   2) Persons of unsound mind
   3) Alien enemy
   4) Persons disqualified by any law to enter into a contract.
   5) Insolvents
   6) Persons with criminal background.

3. **Free will of the parties**- The parties involved in life insurance contract must give their willful consent for the same. It shouldn't be obtained through any of the following means-
    a. Coercion
    b. Undue influence
    c. Fraud
    d. Mistake
    e. Misrepresentation
4. **Consideration-** Consideration refers to the payment made for acquiring something. In the contract of life insurance 'premium' paid by the insured to the insurance company for purchase of insurance policy is the consideration of the contract. Without a lawful consideration the contract of life insurance does not become valid.
5. **Lawful object**- The life insurance must be for a legal object. The object of insurance should neither be unlawful, nor immoral or against the provisions of any law. Such an object would make the contract of life insurance invalid.

II. Specific Principles of Insurance

1. **Utmost Good faith**- This principle states that contract of life insurance is based on utmost good faith and honesty. So all the material facts must be disclosed by both the parties involved in the contract, that is, insured and the insurer. A fact is 'material' when it can change the decision of either party to enter into the contract. In case of absence of this principle contact does not remain valid.

Facts to be disclosed by the insured-

1. Demographics as date of birth, age, height, weight etc.
2. Name and address
3. Occupation and income
4. Medical history of self and family
5. Life style and habits.

Facts not required to be disclosed-

1. Information that reduces risk.
2. Facts which are implied in ordinary course of business.
3. Facts which are waived off by the insurer.
4. Facts which are already known to all.

2. **Insurable Interest**- Insurable interest refers to the existence of pecuniary relationship that should exist between the insured and the policy holder. The policyholder must stand to gain financially with the survival of the insured and must suffer a financial loss in case of insured's death. Insurable interest does not signify just the emotional loss but it must include a financial loss.

   Insurable interest may be assessed in two ways-

   A. **Insurable interest in one's own life**- Every person has infinite insurable interest in his own life. It does not require a proof of the same. In the words of Bunyon, "every man is presumed to possess an insurable interest in his estate for the loss of his future gains or savings which might be the result of his premature death." Since the loss on account of death cannot actually be compensated as the extent of insurable interest in one's own life is so immense that it cannot be measured, so a person can take a policy of unlimited amount for his own life.

   B. **Insurable interest in the life of others**- A person can take life insurance of some third persons as well provided he has insurable interest in the person. This insurable interest can be divided as follows-

   i. Where proof of insurance is not required-

   a. **Wife in the life of husband**- Husband is the bread earner of the family. Wife is usually dependent on her husband for living and survival. Husband is also legally bound to support his wife financially. So death of a husband is a loss for the wife which can neither be measured nor can exactly be compensated. Hence wife has unlimited insurable interest in life of her husband.

   b. Husband in life of wife- Husband is also dependent on his wife. All the domestic chores are undertaken by the wife for which the husband does not pay anything to the wife. In case of death of the wife, the husband shall have to keep some domestic help which shall involve financial expenditure. Hence, husband indirectly gains financially with the survival of wife and comes at a financial loss at her death, ensuring husband's insurable interest in wife.

ii. Where proof of insurance is not required-

Proof of insurable interest is not required in the following cases-

(A) Business Relations

i. **Creditor in life of debtor**- A creditor has insurable interest in the life of debtor for the outstanding loan amount. Creditor would suffer a financial loss if the debtor dies without repaying it. So the creditor has to prove his contractual relation while taking a life insurance policy for the debtor.

ii. **Partners in partnership firm**- All partners have an insurable interest in each other's lives because with the death of a partner other partners suffer a financial loss. Thus, partnership agreement is a valid proof of their contractual relationship and serves as an evidence to take a life insurance policy of partners.

iii. **An employer in the life of key man**- A key man is the primary person or the main employee on account of whom business runs in profits. Survival of the key man brings financial gains to the employer and obviously death of the key man results in financial loss. Recruitment and training of his substitutes also involves financial expenditure to the employer who definitely stands to have insurable interest in the key man.

(B) Family Relations

But for wife and husband insurable interest may exist among other family members when they are dependent on each other. For instance, children have insurable interest in the life of their father if they are dependent on him. Similarly, father may like to take a life insurance policy for his son, if he is dependent on his son.

Some important highlights in case of life insurance contracts

1. Insurable interest must be present at the time of taking an insurance policy. It may not be there at the time of claim.

2. But for relationship of husband and wife, other family members have to prove their insurable interest in other person through their financial dependence on the persons; otherwise they cannot take a life insurance policy of the person.
3. The value of policy of insurance is limited to the amount of insurable interest. For instance, in case of wife taking life insurance policy of husband, the policy amount can be unlimited but in case creditor takes life insurance policy for debtor it shall be limited to the amount of loan outstanding.
4. Without the existence of insurable interest, life insurance policy stands void.

3. **Warranties**- These refer to certain conditions which must be fulfilled to make insurer liable to pay on the policy taken. These conditions when stated in written are called expressed warranties. Sometimes these conditions are implied and hence called implied warranties. For instance, it is implied that a person for whom life insurance policy is being taken is not already suffering from a life-threatening disease.

   Warranty is a stipulation which is collateral to the main purpose of the contract, once it is given in the contract it has to be abided by, otherwise in case of breach insurer cannot be held liable for the non- payment.

   Warranties may be divided as-

   i. **Informative warranties-** These refer to disclosure of information by the proposer before taking a life insurance policy. He must disclose correct information about his age, height, weight, occupation, income, habits, medical history of himself and his family etc.
   ii. **Promissory warranties-** These refer to the conditions which affect future of the policy holder. For instance, proposer promises not to indulge in any hazardous occupation in future.

4. **Proximate Cause**- This refers to the most dominant cause of loss or damage to the insured. "Causa Proxima" states that the cause of loss should be direct and not 'distant' or 'remote'. But in case of death, insurer is bound to pay the policy amount usually irrespective of the cause. So the principle of proximate cause is less relevant in life insurance except in the following cases-

   i. Suicide- If the insured commits suicide within one year of taking the policy then whole amount of policy is not paid to the nominee. Rather his payment is restricted up to his insurable interest in the insured. Also he must have expressed his insurable interest at least one month before the suicide.

ii. Risk of war- If the life insurance policy specifically excludes death due to war or aviation risk, the insurer is not liable to pay the full insured amount if dominant reason of death is due to operation of war. Only premium paid or surrender value, whichever is high, may be paid.

5. **Assignment and Nomination-** Assignment means transfer of rights of insurance policy to someone else either for consideration or may on account of love and affection.

Essentials of assignment-

1. Assignment must be endorsed.
2. Endorsement may be done on the policy or as a separate deed.
3. Insurer must be informed of assignment.
4. Acknowledgment of assignment by the insurer completes assignment.
5. Once assignment is made, it cannot be revoked by assignor unless assignee reassigns in favor of assignor.

Types of Assignment

Assignment is of two types-

i. Absolute assignment- An assignment when no condition is imposed by the assignor on the assignee. This assignment is usually done either out of love and affection or for some money consideration, for instance for taking a loan.

ii. Conditional assignment- An assignment which is made only when the condition is satisfied, otherwise not is called conditional assignment.

Nomination means to name a person in life insurance policy to whom the sum assured shall be given in case of death of the insured. Nominee gets the benefits of insurance policy only after the death of the policy holder.

Essentials of nomination

i. Nomination is possible only when the policy holder and insured are same; otherwise policyholder is the beneficiary.
ii. Number of nominees can be more than one in a single policy.
iii. Nominee cannot ask for modifications in the policy.
iv. Provision of successive nomination is given in case of death of the preceding nominee.

Types of nominees

1. Beneficial nominees- The immediate family members who can take benefit of the sum received on the death of the insured are beneficial nominees.
2. Minor nominee- These are usually children of insured who is less than the age of 18 years. Insured must appoint a custodian in case the nominee is a minor.
3. Non- family nominees- These are the distant relatives or even friends of insured who are named as beneficiaries.

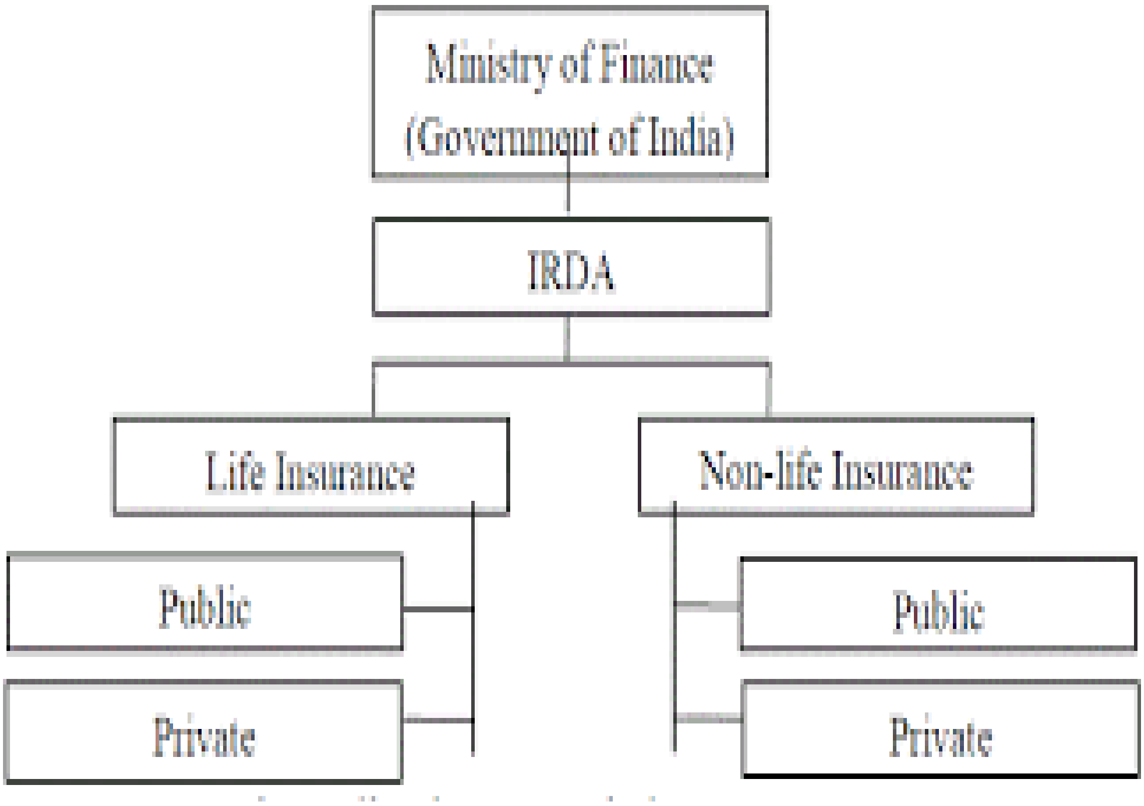
Difference between Assignment and Nomination

S. No.	**Nomination**	**Assignment**
1	Nominees are made by mentioning their names in the policy.	Assignees are made by endorsement in the policy.
2	Rights remain with the insured till his death.	Rights are transferred to the assignee during the lifetime of assignor.
3	The benefits accrued to the nominee only after the death of insured.	Benefits accrue to the assignee before the death of the assignor.
4	Nominee does not pay consideration.	Assignee may/may not pay consideration.
5	Nominee does not have the right to sue the insured.	Assignee has the right to sue the assignor.

3.3 STRUCTURE OF LIFE INSURANCE

The Indian Insurance Sector is divided into two categories – Life Insurance and Non-life Insurance. The Non-life Insurance sector is also called General Insurance. The insurance industry of India has 57 insurance companies 24 are in the life insurance business, while 34 are non-life insurers. Out of these there are seven public sector companies. All life insurance companies in India have to comply with the regulations laid out by the Insurance Regulatory and Development Authority of India (IRDAI). The structure of insurance sector is shown in Figure 1 as follows-

Figure 1- Structure of Insurance Sector in India

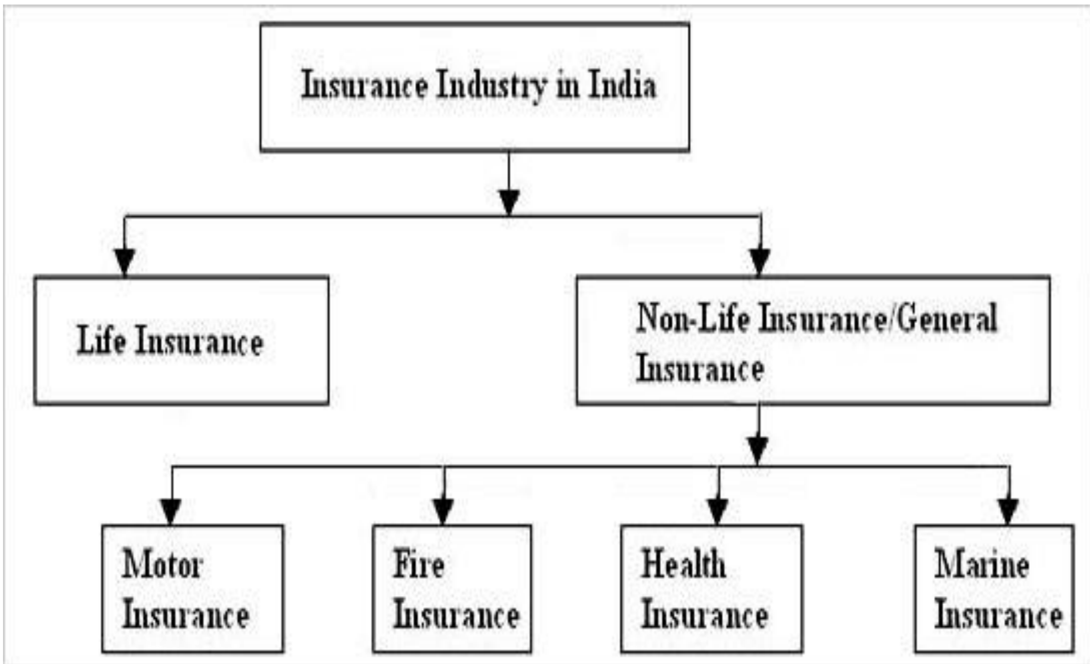


Source- IRDA

Life insurance companies primarily give coverage to life of the individuals. The non-life insurance companies provide a wider coverage as fire, marine, property automobiles, health, home, crops etc.

This is even clear from the following figure 2

Figure 2- Life and Non- Life Insurers in India



Source- IRDA

Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. The remaining 23 are in the private sector. The list is attached as follows in Table 1-

Table 1- Indian Life Insurance Companies

S. No.	Insurers	Foreign Partners	Year of Operation
	PUBLIC SECTOR		
1	Life Insurance Corporation of India	---	1956-57
	PRIVATE SECTOR		
2	Aditya Birla Sunlife Insurance Company Ltd.	Sun Life Financial (India) Insurance Investment Inc, Canada	2000-01
3	HDFC Standard Life Insurance Company Ltd.	Standard Life (Mauritius	2000-01

		Holdings) 2006, Ltd. UK	
4	ICICI Prudential Life Insurance Company Ltd.	Prudential Corporation Holdings Ltd. UK	2000-01
5	MaxLife Insurance Company Ltd.	Mitsui Sumitomo Insurance Company Ltd. Japan	2000-01
6	Bajaj Allianz Life Insurance Company Ltd.	Allianz, SE Germany	2001-02
7	Exide Life Insurance Company Ltd.	---	2001-02
8	Kotak Mahindra Life Insurance Ltd.	---	2001-02
9	PNB Metlife India Insurance Company Ltd.	Metlife International Holdings Inc, USA	2001-02
10	Reliance Nippon Life Insurance Company Ltd.	Nippon Life Insurance Company Ltd. Japan	2001-02
11	SBI Life Insurance Company Ltd.	BNP Paribas Cardif, France	2001-02
12	TATA AIA Life Insurance Company Ltd.	American International Assurance Company (Bermuda) Ltd.	2001-02
13	Aviva Life Insurance Company India Ltd.	Aviva International Holdings Ltd. UK	2002-03
14	Sahara India Life Insurance Company Ltd.	---	2004-05
15	Shriram Life Insurance Company Ltd.	Sanlam Emerging Markets (Mauritius) Limited	2005-06
16	Bharti AXA Life Insurance Company Ltd.	AXA India Holdings, France	2006-07
17	Future Generali India Life Insurance Company Ltd.	Participatie Maatschapij Graafsschap Holland NV, Netherlands	2007-08
18	IDBI Federal Life Insurance Company Ltd.	Aegis Insurance International NV Netherlands	2007-08
19	Aegon Life Insurance Company Ltd.	Aegon India Holdings BV, Netherlands	2008-09

20	Canara HSBC OBC Life Insurance Company Ltd.	HSBC Insurance (Asia Pacific) Holdings Ltd. UK	2008-09
21	DHFL Pramerica Life Insurance Company Ltd.	Prudential International Insurance Holdings Ltd. USA	2008-09
22	Star Union Dai-ichi Life Insurance Company Ltd.	Dai-ichi Life Insurance Company Ltd. Japan	2008-09
23	IndiaFirst Life Insurance Company Ltd.	Legal & General Middle East Ltd.	2009-10
24	Edelweiss Tokio Life Insurance Company Ltd.	Tokio Marine & Nichido Fire Insurance Company Ltd. Japan	2011-12

Structure of LIC

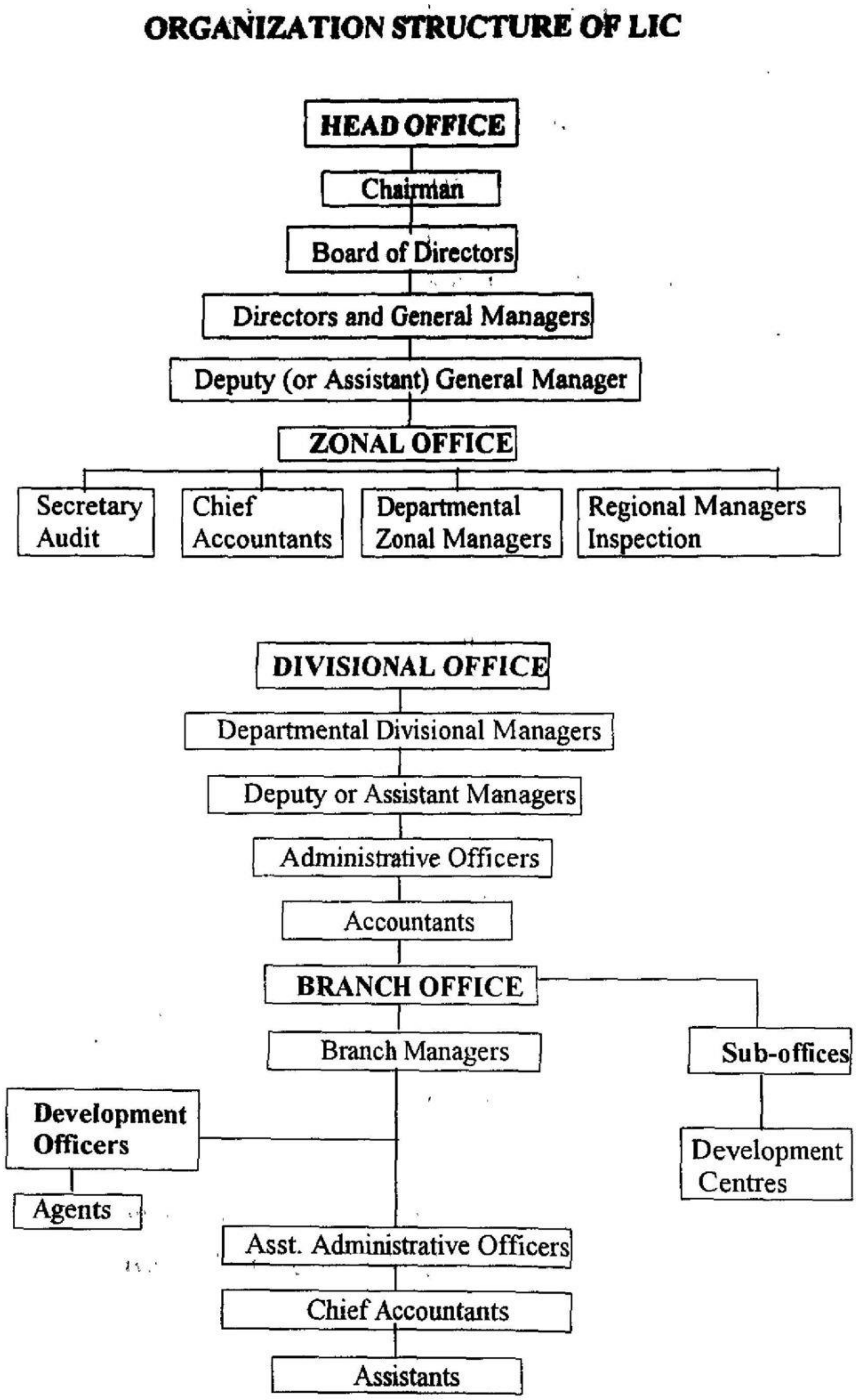
LIC has a four-tier structure operating as follows-

1. Central Level
2. Zonal Level
3. Divisional Level
4. Branch Level

At Central Level- The structure at Central Level includes –

A Chairman
2 Managing Directors
3 Executive Directors
Chief Actuary
Chief of the Investment Department
Chief Accountant
Chief of housing and mortgage development department
Chief engineer
Chief law officer
Investment department

Central Level is usually responsible for policy making and coordinating the working at various levels.



The following are covered under the scope of central level-

1. Making the investment policy and dealing with fund investment.
2. Formation of underwriter proposals.
3. Submission of returns.
4. Making prospectus, calculation of premium rates, determination of terms and conditions of policy.
5. Launching insurance campaigns.
6. Performing internal financial audit and Zonal, Divisional and Branch offices.

At Zonal Level- Many divisions operate under Zonal Level. Zonal level coordinates the activities of these divisions. Specifically department wise responsibilities at the zonal level include-

Actuarial Department- This department is responsible for appointment of Medical Officers, establishing rules for medical examination, keep statistics of claims of death, give quotations for premium, surrender value to divisional offices etc.

Accounts Department - Maintain accounts of whole zone, audit of accounts, maintenance of cash books, bank books, budgeting of divisions and branches etc.

Development Department- Planning development programs for the staff, establishing training schools, undertaking campaigning at the zonal level etc.

Secretarial and Personnel Department- Personnel- Maintaining service records of employees, dealing with personnel problems. Making rules of service; Mortgages- maintaining accounts of mortgages, submitting proposals for mortgages to central office for approval, sanction/rejection of claims etc. Establishment- Maintenance of buildings, collection of rents, payment of taxes, legalities in relation to real estate etc.; Integration- planning the integration activities.

At Divisional Level- There is large number of divisional offices in the country; to be specific more than 100. Divisional managers manage these offices. Their main responsibilities include providing services to the policyholders, drawing new business plans, underwriting of new business, settlement of claims, maintenance of accounts etc.

At Branch Level- There are more than 2000 branches in the country. These branches are responsible for scrutiny of the proposals, follow ups of proposals, issue of first premium receipts, maintaining ledgers, collecting premiums, issuing default notices, maintaining cash books, reconciliation of cash books, settlement of agent's commissions, maintenance of service records, maintaining inventory, stationary etc.

3.4 PROGRESS OF LIFE INSURANCE IN INDIA

The progress of life insurance in India has been gradual and steady. Some important milestones in the life insurance business in India are-

1818- First life insurance company, Oriental Life Insurance Company, was started in India. It was established by Europeans in Calcutta.

1870- First Indian Life Insurance Company, Bombay Mutual Life Assurance Society started its business in India.

1912- The Indian Life Assurance Companies Act was enacted as the first stature to regulate life insurance business in India.

1928- The Indian Life Assurance Companies Act was passed. This helped the Government to gather statistical data for both the life as well as general insurance business.

1938- The Insurance Act was consolidated, modified and passed. The major objective of the Act was to protect the interest of the insured.

1956- Nationalization of insurance. Life Insurance Corporation (LIC) was formed by an Act of Parliament called the LIC Act, 1956 with a capital of Rs. 5 crores contributed by Government of India.

As per the statistics provided by National Investment Promotion and Facilitation Agency, "The **total insurance penetration** in India was at 3.76% in 2019 with 2.82% in life insurance and 0.94% in non-life insurance. The **total insurance density** in India was at $78 in 2019-20 with life insurance density: $58 and non-life insurance: $19. In terms of the size of insurance industry in India, the share of **life insurance in total premium** in India is 74.94% and the **share of non-life premium** is 25.06% (2019-20)" (Source- investindia.gov.in).

Similarly **claim settlement ratio** is an important parameter to judge the performance of an insurance company. The claims settlement ratio is the percentage of total claims settled divided by the total claims received, including the claims pending for the previous year, by an insurance company. According to the Insurance Regulatory and Development Authority of India's (IRDAI) annual report for 2020-21, "In case of individual life insurance business, during the year 2020-21, out of the total 11.01 lakh claims, the life insurers paid 10.84 lakh claims, with a total benefit amount of Rs 26,422 crore. The number of claims repudiated was 9,527 for an amount of Rs 865 crore and the number of claims rejected was 3032 for an amount of Rs. 60 crore. The claim pending at the end of the year was 3055 for Rs. 623 crore. The claim settlement ratio of LIC was 98.62 per cent as at March 31, 2021 compared to 96.69 per cent as at March 31, 2020 and the proportion of claims repudiated/rejected has decreased to 1.0 per cent in 2020-21 from 1.09 per cent in the previous year. "The claim settlement ratio of private insurers was 97.02 per cent during 2020-21 (97.18 per cent during 2019-20) and the proportion of repudiations came down to 2.0 per cent in the year 2020-21 from 2.50 percent in previous year The life insurance industry's settlement ratio increased to 98.39 per cent in 2020-21 from 96.76 per cent in 2019-20 and the repudiation/rejection ratio decreased to 1.14 per cent from 1.28 per cent in 2019-20."

As per the statistics of National Investment Promotion and Facilitation Agency**, "Life insurers** recorded **new business premium** of INR 2.78 tn ($38 bn) in FY21 growing at 7.49% over the last year with private life insurers growing at 16.29%. **Private Life Insurers** account for 33.8% of the industry's new business premium (FY21) with the rest being accounted for by the Life Insurance Corporation of India (LIC). The Life Insurance Industry in India recorded a total premium of INR 5.73 tn ($81.3 bn) in FY20 witnessing a growth of 12.75% over the previous year and the private insurers accounted for 33.7% of total premium underwritten by the industry. New business premium contributed 45.25% of the total premium and witnessed a strong growth of 20.59% over FY19. 60% of the new business premium was derived from single premium with remaining 40% accounted for by first year premiums. During the last year (FY20), life insurers issued 288.47 lakh new individual policies, out of which LIC issued 75.9% of policies and the private life insurers issued 24.1% of policies." (Source-investindia.gov.in)

"The insurance regulator IRDAI has also undertaken various initiatives towards boosting the insurance penetration, such as permitting insurers to conduct video-based KYC and launching standardized insurance products. Digital issuance and online channels are expected to witness continued growth, the share of web aggregators within digital insurance has been constantly increasing and web-aggregators currently originate 30-40% of digital insurance. The total **mortality protection gap** in India stands at $16.5 tn (as of 2019) with an estimated protection gap of 83% of total protection need. This offers a huge opportunity to life insurers with an estimated additional life premium opportunity of average $78.2 bn annually over 2020-30. The growth of the insurance market is being supported by important government initiatives, strong democratic factors, conducive regulatory environment, increased partnerships, product innovations, and vibrant distribution channels." (Source- investindia.gov.in)

3.5 CHECK YOUR PROGRESS

1. Utmost good faith means insured should have complete trust in the claim settlement procedure of the insurance company. (True/False).
2. Insurable interest in life insurance must be present at the time of taking claim. (True/ False).
3. Benefit of assignment is transferred during the lifetime of insured but benefit of nomination is transferred only at the death of the insured. (True/ False).
4. First life insurance company in India started after independence (True/ False)
5. Making investment plans is the function of the central level (True/ False).

3.6 SUMMARY

Life insurance is a contract between the insurer and the insured where the latter pays consideration in the form of premium either periodically or in lump sum to receive the amount of money or annuity, either on death or maturity of policy, whichever is earlier. So in either case the premiums paid by the insured are returned by the insurer to the insured in case of survival and to the nominees in case of death of insured. Life insurance contracts fall in the category of assurance contract. It is assured that sum insured shall be paid back either in case of death or maturity of policy, whichever is earlier.

General Principles of Contract as Offer and Acceptance, competency of parties to contract, free will of parties, consideration and lawful object are applicable to life insurance contract as well. But for these life insurance contracts are also governed by specific principles. The offer and acceptance is subject to disclosure of all material facts as supported by the principle of utmost good faith. Insurable interest must be present at the time of taking life insurance policy. A person has unlimited insurable interest in his own life. Principle of warranty refers to certain conditions which must be fulfilled to make insurer liable to pay on the policy taken. Warranties may be expressed or implied. Principle of "Causa Proxima" states that the cause of loss should be direct and not 'distant' or 'remote'. But in case of death, insurer is bound to pay the policy amount usually irrespective of the cause. So the principle of proximate cause is less relevant in life insurance except in cases of suicide or deaths due to war operations. Contracts of life insurance can be assigned as well as nominated. When all the rights are transferred from the insured to the assignee either for consideration or out of love and affection, it is called assignment. When the person is named as beneficiary in the insurance policy and the sum insured is transferred to him on the event of death of insured, it is called nomination.

In the contract of life insurance major participants involved are- the proposer, the insured, the beneficiary and the insurance company. The underwriter and the medical examiner also have a role to play. Each party is assigned specific rights and duties. The insured has a prominent duty to act in utmost good faith and disclose all material facts while the insurer has the major duty of honoring the claim when due. Similarly right to claim sum insured is the major privilege of insured. Insurance company too has right of subrogation and right of cancellation of payment in case payment of premium is not made or other terms and conditions are disobeyed. The business of life insurance is undertaken both in the public as well as private sector of India. There are 24 life insurance companies in India. In fact Life Insurance Corporation incepted in 1956 is the only company in the Public Sector, remaining 23 are in the private sector. LIC has a four-tier structure operating at the Central Level, Zonal Level, Divisional Level and Branch Level.

The progress of life insurance in India has been gradual and steady. In 1818, First life insurance company, Oriental Life Insurance Company, was started in India. It was established by Europeans in Calcutta. In 1870 First Indian Life Insurance Company, Bombay Mutual Life Assurance Society started its business in India. In 1956 insurance sector was nationalized. Life Insurance Corporation (LIC) was formed by an Act of Parliament called the LIC Act, 1956 with a capital of Rs. 5 crores contributed by Government of India.

Life insurance business has made a steady progress in the recent time period. As per the statistics provided by National Investment Promotion and Facilitation Agency, "The total insurance penetration in India was at 3.76% in 2019 with 2.82% in life insurance. The total insurance density in India was at $78 in 2019-20 with life insurance density: $58

In terms of the size of insurance industry in India, the share of life insurance in total premium in India is 74.94%. According to the Insurance Regulatory and Development Authority of India's (IRDAI) annual report for 2020-21, "In case of individual life insurance business, during the year 2020-21, out of the total 11.01 lakh claims, the life insurers paid 10.84 lakh claims, with a total benefit amount of Rs 26,422 crore. As per the statistics of National Investment Promotion and Facilitation Agency, "Life insurers recorded new business premium of INR 2.78 tn ($38 bn) in FY21 growing at 7.49% over the last year with private life insurers growing at 16.29%. The growth of the insurance market is being supported by important government initiatives in the country and has a bright future ahead.

3.7 KEYWORDS

1. **Proposer/Policyholder**- The person who initiates the purchase of policy and makes an offer to the insurer for the same is the proposer.
1. **Insured-**The person on whose life the policy is taken is called the insured.
2. **Beneficiary-** The person who is named as the 'nominee' of the sum assured in case of death of insured is the beneficiary.
3. **Warranties**- These refer to certain conditions which must be fulfilled to make insurer liable to pay on the policy taken.
4. **Assignment-** Assignment means transfer of rights of insurance policy to someone else either for consideration or may on account of love and affection.
5. **Nomination**- Nomination means to name a person in life insurance policy to whom the sum assured shall be given in case of death of the insured. Nominee gets the benefits of insurance policy only after the death of the policy holder.

3.8 SELF ASSESSMENT TEST

1. What is Life Insurance? Give its features.
2. Who are the participants to the business of life insurance? Explain their rights and duties.
3. Explain the principles applicable of life insurance contracts.
4. What is principle of insurable interest? Does presence of insurable interest require a proof?

5. What is meant by assignment? What are its essentials? Discuss its types.
7. What is meant by nomination? What are its essentials? Discuss its types.
8. Differentiate between nomination and assignment. Give provision of both.
9. Write notes on-
   i. Benefits of life insurance.
   ii. Principle of 'causa proxima' and life insurance
   iii. Principle of Warranty

3.9 ANSWERS TO CHECK YOUR PROGRESS

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

3.10 REFERENCES/SUGGESTED READINGS

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Course: Fundamentals of Insurance	Author: Dr. Aparna Bhatia
Course Code: BC- 602	Vetter: Prof. Suresh Kumar Mittal
LESSON: 04 Framework of Life Insurance	

Structure

4.0 LEARNING OBJECTIVES

After going through this lesson you should be able:

- To know the terms and conditions applicable to life insurance contract.
- To understand the procedure to be followed to adhere to these conditions and regulations.
- Explain the claim settlement process of life insurance contracts.

4.1 INTRODUCTION

Life Insurance is a financial protection in case of early death of a person. It is an assurance to the insured to receive insured sum of money in lieu of premiums paid by him, either on death or maturity of the policy, whichever is earlier.

This contract is governed by certain terms and conditions. These terms and conditions must be satisfied so that the contract remains legally enforceable. These policy conditions cannot be deviated from by either of the parties to the contract of insurance. These terms and conditions exist at the time of taking the policy, continue during the duration of the policy and must also be strictly followed at the time of final settlement of the claim. If these conditions are disobeyed at the time of taking the policy, the insurance company does not issue to policy and makes the contract void. Similarly if these provisions are disobeyed at a later stage the contract can become void and insurer does not remain liable to honor the claim on such contracts that involve violation of terms and conditions.

4.2 POLICY CONDITIONS

I. Age Proof and dating back

Age is a very important factor for determination of premium of a life insurance policy. Even the medical reports submitted at the time of taking an insurance policy are based on age of the proposer. People younger in age are likely to be less risk coverage while people older in age tend to fall in high risk cover of insurance. Hence younger age would mean less premium payable by the person insured while older age would attract relatively higher premium.

Therefore it is mandatory for the proposer to submit the proof of age to the insurance company at the time of making the proposal.

Age proofs can be the standard age proofs or the non-standard age proofs.

Standard Age Proofs- Usually policies with high risk coverage demand standard age proofs. Some standard age proofs include-

1. Certified extract from Municipal or other records at the time of birth.
2. Certificate of Baptism or Certified extract from family bible, provided it contains age or date of birth.
3. Certified extract from school or college record if age or date of birth is stated therein.
4. Certificate extract from Service register in the case of Govt. Employees and Employees of Quasi Govt. and institutions including Public Limited Companies provided conclusive evidence of age was produced at the time of recruitment of the employees as per C.O. Cir Ref.: Actl/CUS/1674/4 dated 7.1.1999. Certified extract from S.R. in support should be obtained from the employers on the company's letter pad and under company's seal. It is to be countersigned by the proposer. Where age is not verified at entry into service, the restrictions quoted in manual shall apply.
5. Passport issued by Govt. of India. Passport is to be treated as Standard Age Proof under all plans, except in case of illiterate proponents.
6. Any other document (such as Domicile Certificate) where date of birth or age has been proved on the basis of one of the standard acceptable to the Corporation.
7. In case of Defense personnel, identity card issued by Defense Department.
8. Identity Card (provided date of birth is mentioned therein) issued by Govt., Quasi Government, reputed commercial and industrial undertakings to their employees will be treated as standard age proof.
9. Marriage certificate issued by Roman Catholic Churches in the case of Roman Catholics.

Source- https://licdelhionline.com

Non – Standard Age Proof (NSAP)

Non-standard age proofs are divided into three categories as shown below-

NSAP- 1- will include

a. Permanent Account number (PAN) card issued by Income – tax Department
b. Driving License issued by RTO
c. Election (Voter) identity Card
d. Ration Card

NSAP –II – will include

a. E.S.I.S.card
b. Marriage Certificate in the case of Muslims
c. Service Record where age is not verified at the time of entry into service or where only year of birth is mentioned.

NSAP – III – will include

a. Horoscope other than the maintained by a Hindu Family in a Bahi or family horoscope book
b. Elder's Declaration (Form No. 3261)
c. Self -Declaration (Form No.5220 Stamped)
d. Self- Declaration (Form No. 5096 Unstamped)
e. Certificate issued by village panchayat
f. Any other proof not classified as standard as above

Source- https://licdelhionline.com

Substandard age proofs less accepted and if and when accepted, the insurer has the right to restricts the plan and/or the term of the plan, and the sum assured. The insurer may also charge some extra premium to compensate for any probable understatement of age.

Dating back

'Dating back' means changing the start date of the policy, within the financial year, to an earlier date. Usually, no interest is charged if the dating back is for three months earlier. Also if it is in lean months usually before September, no interest is charge for the same. The insured may get benefit of lower age as the premium is less for lower age relative to higher age. For instance if a person is 35 years 7 months old on the date he takes the policy; he would be considered as 36 years old by the insurance company. But if he dates back by 2 months, his age would be 35 year 5 months and he shall be considered as 35 years of age. This shall lower his premium. Insurance company is also at no loss at all because contingency cannot happen back date.

II. DAYS OF GRACE

Days of grace refers to the extension granted from the due date of the premium payment to some future date. When insurance company allows a grace period, and the insured pays the premium within this period it shall deemed to be paid on the due date of premium. The days of grace allowed are one month but not less than 30 days. However, where the payment of premium is monthly, the grace days are 15 days. During the grace period the policy remains in force and the insurer has the right to claim if death occurs during the grace days. But, if the premium is not paid even during the grace period, the policy stands lapsed.

III. REVIVALS

Life insurance policy acts as a protective cover in the event of death of the principle earning member of the family. It provides financial support to the dependents in the most crucial times. When an insurance policy is purchased, premium which is the consideration for the policy is paid. And to keep the policy ongoing, it is mandatory to keep paying the premium to renew the policy. If the payment of premium is missed, the policy stands lapsed and no claim can be made against a lapsed policy.

Revival has greater significance. In case insured happens to suffer from some critical illness just before the expiry of policy, taking a new insurance policy becomes difficult. There are restrictions of older age. Also the premium charged would be higher than the premium in the existing policy. The policy holder would lose all benefits of the existing policy as well. Hence, revival is beneficial to the policyholder.

Life insurance is a contract for longer period of time. The payment of premium is usually annual. Hence the insured is expected to pay the premium every year till the maturity of the policy. In case of non-payment of premium the policy gets lapsed after the grace period allowed under the policy. The only option left is the revival of the policy. The revival of lapsed policy can be done within a period of 5 years from the date of unpaid premium. The revival is subject to payment of arrears of premium along with compound interest due thereon, which becomes quite an exorbitant amount. The defaulter may be required to resubmit evidence of health and habits. However, if the period lapsed is within six months, the policy can be revived by paying arrears of premium and interest only. The revival conditions may differ depending upon the policies of the insurers.

Example of Revival Policies of LIC

The revival of policies of LIC is done under following schemes-

1. **Ordinary Revival Scheme**
   In this policy the insurer can get the lapsed policy revived by paying the arrears of premium along with due amount of interest in one go. He has to resubmit the certificate of health and fitness under form no 680.

2. **Special Revival Scheme**
   It may not be easy for people to pay the total arrears of premium in one go. So for such people special revival scheme is given by LIC. In this scheme the date of commencement of policy is changed. It is shifted to the date of revival of policy. As a result, the insured has to pay just one premium. The precondition of special revival is that the policy must not have lapsed for more than 3 years. Also it must not have acquired a surrender value. But since the date is changed to a more recent year and the insured stands to have gained in age and become older than before, a higher premium is fixed. The term of the policy usually remains unchanged, provided the age remains within the permissible limits of the policy. This privilege of special revival can be allowed only once during the duration of the policy. The procedure of special revival is simple. All changes are made in the policy document by endorsement. The insured has to pay at least one installment of premium for the risk covered up to the next due date.

3. **Installment Revival Scheme**- Under this scheme, the following options of premium payment can be exercised to revive the policy under this scheme-
   i. In case the premium is due annually, the policyholder has to pay premium of half-year.
   ii. In case the premium is due half yearly, the policy holder has to pay premium of one-half of the annual premium.
   iii. In case the premium is due quarterly, payment of two quarters has to be paid by the policyholder.
   iv. In case the premium is due monthly, policy holder has to pay regular 6 months premium
   The remaining outstanding balance of premium is to be paid in equal installments spread over 2 years along with the regular premium due on the revived policy.

4. **Loan cum Revival Scheme-** In this scheme the policyholder is granted the loan assuming that the premium is paid up to the date of revival of policy. If the amount of loan falls short of the amount due as premium plus interest, the policyholder has to pay the balance on his own. Though the policy gets revived, but the policyholder has to pay back the loan amount along with interest thereon. In case of failure to do so the same is deducted from the claim of policy when it gets due.
5. **Survival Benefits cum Revival Scheme**- This scheme is used to revive the money back policies. If the survival benefit date is earlier than the date of renewal of policy, then the policy holder can take survival benefit to revive the policy. However, if revival amount is more than the survival benefit, the excess due has to be paid by the policyholder. But if revival amount is less than the survival benefit the surplus is paid to the policyholder by the insurer.

IV. NOMINATION AND ASSIGNMENT

Nomination

Sec.39 of the Insurance Act gives a provision of transfer of property through nomination. The policy holder has a right to nominate a person as a beneficiary to whom the amount of claim is payable by the insurance company in the event of the death of the insured. The name of the nominee is mentioned in the proposal and the policy document and does not require any further proof or confirmation. The insurer can make a valid discharge of claim to the nominee.

Nominee must have insurable interest in the life of the insured person. For instance, insurable interest between husband and wife is implied. But for relation of husband and wife, nominee is usually a close relative who stands to gain financially with the survival of the insured and suffer a financial loss in case of the death of the insured. In case nominee is not in close relation with the insured, insurance company seeks clarification before disbursement of the claim. However, a person can also nominate a charitable institute for his death claim.

The insured has a right to change the nominee during the duration of policy. Nominee can be changed by specific endorsement on the policy document. For instance- before marriage a person nominates his parents as the beneficiaries but after marriage nomination can be changed and the wife can be named as the nominee by making a special application for the same. Also if an insurance policy is taken for a minor, for instance, a child; there is no immediate need of nomination. The policy holders can claim money in case of death of the minor. However, after attaining the age of major, the child owns the policy and then he has the right to make a nomination.

If the life insurance policy is taken under Married Women's Property Act, 1874 nomination may not be made as it directly belongs to the wife and/or child/ children. However, nomination may be made to define the proportion of each of the beneficiaries. Similarly, nomination is not required in Joint Life Policy, as the one who survives is entitled to receive the sum assured. Nominee should preferably be a major. In case nominee is a minor an appointee should be name in the policy document who would take the claim money and keep it in his trust fir the ultimate beneficiary till the minor attains the age of major. Signature of the appointee is obtained in the proposal form as a proof of his consent.

Essentials of nomination

v. Nomination is possible only when the policy holder and insured are same; otherwise policyholder is the beneficiary.
vi. Number of nominees can be more than one in a single policy.
vii. Nominee cannot ask for modifications in the policy.
viii. Provision of successive nomination is given in case of death of the preceding nominee.

Assignment

Sec 38 of the Insurance Act 1938 provides the rule and conditions for assignment of an insurance policy. Assignment means transfer of rights of insurance policy to someone else either for consideration or may on account of love and affection.

Essentials of assignment-

i. Assignment must be endorsed.
ii. Endorsement may be done on the policy or as a separate deed.
iii. Insurer must be informed of assignment.
iv. Acknowledgment of assignment by the insurer completes assignment.

v. Once assignment is made, it cannot be revoked by assignor unless assignee reassigns in favor of assignor.
vi. An assignment may be absolute assignment or conditional assignment. When no condition is imposed by the assignor on the assignee it is absolute assignment. This assignment is usually done either out of love and affection or for some money consideration, for instance for taking a loan. An assignment which is made only when the condition is satisfied, otherwise not is called conditional assignment.

Assignment is a complete transfer of ownership of the policy to the assignee. The assignee acquires all the rights with respect to the policy. He can even dispose of the policy or surrender it when he desires.

The assignee must be competent to contract. He must be a major and qualified to enter into a contract. Assignment should have a lawful object. It is an expressed contract; properly signed before a witness. Assignment can also be done to a charitable institution. Assignment should be done wisely as once assignment is done it cannot be revoked by the assignor.

It is only possible when assignee reassigns it back to the assignor on the policy or on a stamped paper.

Thus nomination and assignments are two simple methods incorporated in the Insurance Act whereby the property, that is, the Life insurance policy, can be transferred without entering into the hassles of acquiring a succession certificate and other formalities through court of law.

V. PAID-UP VALUE AND SURRENDER VALUE

If a policy holder does not pay the future premiums due on his policy during the duration of his policy, he loses the cover of life. But the money which he has already paid as premiums is not forfeited. He is paid that money by two ways-

I. Paid up Value

If the person has already paid premium for three years and fails to continue the premium payments in future, instead of forfeiting his policy, the policy automatically becomes, “paid up policy”, which means he shall be paid an amount which is a "reduced sum assured exactly in proportion to the term for which premium is paid compared to the term for which premium was payable".

To formulate,

Paid-Up Value = [(No. of paid premium X Sum Assured) / Total No. of premiums]

For example

The term of policy is 20 years and the sum assured is Rs. 40,00,000. The person has paid premium for 5 years. Calculate the paid up value.

Paid –Up value = (5 X 40,00,000)/ 20 = Rs. 10,00,000

The paid-up value is payable along with accrued bonus on maturity or death of the insured whichever is earlier. The Paid-Up policy is also eligible to receive the proportionate bonus. If it is with profit policy, the bonus which has already accrued during the period when the policy was in force remains attached to it and is paid along with the paid- up value. However a policy is not entitled to any bonus after it gets paid up.

Surrender Value

Surrender Value is the amount payable to policyholder by the insurance company if he decides to exit the policy before its maturity. A surrender charge is deducted from the amount payable. However, as per IRDA directions no surrender charge is levied if 5 years have expired since the policy was taken. A regular premium policy can acquire a surrender value only if the policyholder has paid premiums for it for a continuous period of 3 years. This period has been incorporated because insurance company spends in the process of issuing an insurance policy and it must recover the same.

Types of Surrender Value

Guaranteed surrender value

The Insurance Act, 1938 provides for a guaranteed surrender value.

Guaranteed surrender value is defined as, “If the policy premium has been paid for three years, the minimum surrender value allowable under this policy is equal to 30 percent of the total amount of premium paid excluding the premium for the first year and also additional premium for accident benefit etc. The cash value of any existing vested bonus addition will also be allowed.

Example: Suppose you paid Rs.45,000 (Rs15,000 per year x 3) in the initial three years for a sum assured of Rs5 lakh, the minimum surrender value you can get is 30% of Rs30,000, which is ₹9,000 (excluding the first year premium),"

Special surrender value

This is based on paid up value. When the policyholder stops paying premium after a specific period, the policy continues, but at a lower sum assured, which is called the paid-up value.

The paid-up value is calculated as “original sum assured multiplied by the quotient of the number of paid premiums and number of payable premiums”, as per Rakesh Goyal, director, Probus Insurance.

On discontinuing a policy, the policyholder gets special surrender value, which is calculated as “the sum of paid-up value and total bonus multiplied by surrender value factor”.

As per Rakesh Goyal, director, Probus Insurance,

“Suppose you paid Rs15,000 on an annual basis for a sum assured of Rs3 lakh for a policy tenure of 20 years. You stopped paying premium from the fourth year. Here, suppose the bonus is Rs30,000 and the value factor is 30%; then paid-up value will be equal to 60,000 and the special surrender value will be equal to {(60,000+30,000) x (30/100) }, which is Rs27,000”

VI. LOANS UNDER POLICY

The facility of loan is provided in the policy condition. Generally the loan facility is allowed in all traditional savings oriented policies like the endowment plans. Loan amount is generally 85 to 90% of the surrender value. This percentage can be increased during the last 3 years of the duration of policy. However, if the policy has been paid up, only 85% of the surrender value can be available for loan.

The repayment tenures are flexible and vary across companies. For instance LIC has given a provision where the customer has a choice of paying only the interest payments and the principal amount can be adjusted from the claim amount of policy when it is time to settle the loan.

The provision of loan under policy is becoming popular because of the following reasons-

1. Greater flexibility is given in repayment of loans. So much so that the same can be deducted from the claim amount at a later date.
2. Less eligibility criteria are applicable. Even customer with low credit scores can avail the option.
3. The time period for sanctioning the loan is very less, usually 7 working days.
4. The interest rates are also less as compared to the ones charged on secured loans or personal loans.

VII. CLAIM CONCESSIONS

The provision states that when the policy holder has paid premiums continuously for a period of 3 years expires, the company makes full payment of sum assured with a deduction of unpaid premiums with interest till the date of death and unpaid premiums falling due before the next anniversary of the policy within a period of six months or one year from the date of the first unpaid premium.

VIII. ANNUITY PAYMENTS

Annuity is a contract of insurance issued by the insurer with the objective of paying a fixed income stream to the policyholder over a specified period of time in future or over the remainder of annuitant’s life. The premium payable to purchase annuities is usually paid in lump-sum though it can be paid periodically as well. Annuities are beneficial at the time of retirement and cover the risk of people outliving their savings.

Features-

1. It is a financial product that generates income stream for future.
2. It is most useful for people who wish to financially secure retirement phase of their life.

3. In the initial phase annuity holder funds annuities by paying premium either in lump-sum or periodically.
4. There are different categories of annuities available with different features.

Types of annuities

1. **Deferred Annuity**- An annuity that pays the annuity holder a regular stream of income or lump-sum a some future date. This type of annuity is best for giving financial cover to retired people.
2. **Immediate Payment Annuity**- A contract that starts paying the annuitant almost immediately rather than at some future date is called immediate payment annuity. Premium is paid in lump-sum in the single payment immediate annuity
3. **Fixed Annuity**- A contract that promises the payment of fixed interest rate to the annuity holder on their contribution to their account. In **Variable annuity** the interest rate can fluctuate depending on the performance of the investment portfolio opted.
4. **Indexed Annuity**- A contract that guarantees to pay interest on the basis of performance of a specified market index, for instance, S&P 500 is indexed annuity.
5. **Individual Retirement Annuity**- This is a contract that provides stable income to retired people. There are limits fixed on the amount that can be contributed annually. These annuities involve higher fees.

Benefits of annuities

1. A source of income for life.
2. Taxes on deferred annuities are due only on withdrawal of funds.
3. Fixed annuities guarantee a stable income.

Disadvantages of annuities-

1. Charge of fees makes annuities an exorbitant proposal.
2. Returns on withdrawals are taxable.

IX. BONUSES

Bonus is an additional amount which is paid on a life insurance policy on the maturity of policy or death of the insured whichever is earlier. Insurance companies accumulate large public money in the form of premium. All policies do not mature simultaneously or immediately. So the surplus available with insurance companies is invested by the insurance companies in safe government securities, debt and even in equity. The earnings that are generated by insurance company from these investments are distributed proportionately among the policy holders. But this provision is applicable only in case of "participating" and "with profit" policy.

The bonus is affected by many factors as the income generated from investments, the bonus declared, the bonus paid in the previous year etc.

Types of Bonus-

1. **Simple Bonus-** It is the percentage of sum assured that gets added to the sum assured every year and is payable on the maturity of policy either on expiry of term or early death is called simple bonus.
2. **Compound Reversionary Bonus**- It is the percentage of sum assured calculated on the basis of compound interest. The annual bonus is added to the sum assured to calculate bonus of next year. This bonus is higher than the simple bonus.
3. **Cash Bonus-** The bonus which is paid annually in cash rather than at the maturity of the policy to the policy holder is called cash bonus. It is calculated as the percentage of annual premium.
4. **Interim Bonus**- Bonus is declared annually. But if the policy matures prior to the declaration of bonus either because of expiry of time or early death, the insurance company calculates the bonus on interim policy rates and gives advantage of the same to the insured.

The provisions of bonus applicable to the policy are mentioned in the policy document. The policy holder must go through the same thoroughly before taking the policy.

4.3 CLAIM SETTLEMENT

Claim settlement is one of the most important services provided by an insurance company to the policyholders. Insurance companies must settle the claims promptly. The claimant has to fill and submit a claim form. He should contact the intermediary, the financial advisor, through whom he had purchased the policy. The relevant documents have to be submitted. Usually the claim is settled within 7 days of submitting the documents and the payment is made by cheque by the insurance company.

Types of Claim

Maturity claim- In an endowment policy, when the term of the policy is completed and the insured is still alive, it is called maturity claim. In this case nomination has no significance. The following points need to be checked-

i. The policyholder is the insured person. The identity proof may be seen.
ii. All the premiums have been paid on the policy.
iii. Age proof is given at the time of proposal.

Death claim- When the claim arises on account of death, prior to the term of the policy, it is called death claim. The relevant information about the death of the life assured is required to be given to the insurer which may include-

- Place and time of death
- Cause of death
- Doctor and diagnosis of illness

The claim form has to be filled and submitted with proof of age, proof of death, proof of title and the original policy.

Procedure for Claim Settlement

The procedure for settlement of claim is explained as follows-

1. **Maturity claim settlement**- In case of maturity claims the insured can himself claim the amount of policy. Nomination carries no significance. He has to submit the proof of his age if it was not submitted at the time of making the proposal. The claim discharge voucher is sent by the insurance company. This has to be signed and witnessed and returned to the insurer along with the policy document. Then the claim is settled by the insurance company.

2. **Death claim**- In case of death of the life insured, nominee is the beneficiary of death claim. The intimation of death is given to the insurance company. The information about date of death, cause of death and place of death is given. Policy number is also given.

   If the insured dies within 2 years of taking the policy it is treated as “early or premature” claim. If death occurs after 2 years from the date of taking the policy it is treated as normal death claim. Proof of age if not submitted earlier and proof of death which can be a certificate from municipal authorities or a death registry has to be submitted. Information about title of policy is filled in a form and information about death called “claimant’s statement” is given.

   The detailed procedure followed is given below-

   1. **Intimation of claim**- The first step is to immediately inform the insurance company about the death of the insured. Claim intimation form has to be filled. The form is available in the insurance office and can also be downloaded from the company website. It requires some basic information as the date of death, cause of death, name of nominee or the claimant etc.
   2. **Other documentation**- But for the claimant settlement the other information that needs to be supplied includes-
      - Death certificate
      - Proof of age, if not given with proposal form
      - Original Policy Document

      In case of early death, the following additional documentation is required-

      - Statement of the hospital in case of hospitalization of deceased.
      - Certificate of medical attendant giving details of last illness.
      - Certificate of cremation or burial
      - Certificate from employer if the deceased was working under somebody.
   3. **Settlement of Claim-** As per regulation 8 of IRDA Regulations, 2002, “the insurer is required to settle the claim within 30 days of the receipt of all relevant documents. In case the claim requires some further investigation a time period of six months is given from the date of written intimation of claim”.

After the documents are received the amount of claim is calculated. A form is filled which requires details of nomination, assignment etc. Policy bonus is calculated, if any. Similarly if any loan has been taken against the policy the outstanding amount along with interest there on is calculated. The net payable amount is determined and same is paid either through cheque or electronic fund transfer to the claimant.

4.4 CHECK YOUR PROGRESS

1. Passport issued by the government is a ___________proof (standard/ non-standard).
2. Days of grace means time period allowed in ________________ (dating back the policy/ payment of premium).
3. ___________ is payable even before the maturity of the policy (surrender value/ paid-up value).
4. _______________ is calculated on the basis of compound interest (simple bonus/ compound reversionary bonus).
5. ______________ generate income stream for future for the insured (annuities/ policy).

4.5 SUMMARY

The contract of life insurance is governed by certain terms and conditions. These terms and conditions must be satisfied so that the contract remains legally enforceable. These policy conditions cannot be deviated from by either of the parties to the contract of insurance. These terms and conditions exist at the time of taking the policy, continue during the duration of the policy and must also be strictly followed at the time of final settlement of the claim. If these conditions are disobeyed at the time of taking the policy, the insurance company does not issue to policy at first, and if these are violated at a later stage the insurer may refuse to settle the claim.

The insured must reveal his correct age in the policy documents. Age is a very important factor for determination of premium of a life insurance policy. Even the medical reports submitted at the time of taking an insurance policy are based on age of the proposer. People younger in age are likely to be less risk coverage while people older in age tend to fall in high risk cover of insurance. Hence younger age would mean less premium payable by the person insured while older age would attract relatively higher premium. Standard age proofs as Certified extract from school or college record, Service register in the case of Government employees, Passport issued by Govt. of India etc. are required in case of high risk coverage policies otherwise Non-standard age proofs are sufficient. ‘Dating back’ is also allowed. It means changing the start date of the policy, within the financial year, to an earlier date. Usually, no interest is charged if the dating back is for three months earlier. Days of grace are also given. Days of grace refer to the extension granted from the due date of the premium payment to some future date. The days of grace allowed are one month but not less than 30 days. Provision of revival is also given in the interest of the policyholder. The revival of lapsed policy can be done within a period of 5 years from the date of unpaid premium. The revival is subject to payment of arrears of premium along with interest. Different revival schemes are available as Ordinary Revival Scheme, Special Revival Scheme, Installment Revival Scheme, Loan cum Revival Scheme and Survival Benefits cum Revival Scheme.

Life insurance property can be transferred through nomination and assignment. Sec.39 of the Insurance Act gives a provision of transfer of property through nomination. The policy holder has a right to nominate a person as a beneficiary to whom the amount of claim is payable by the insurance company in the event of the death of the insured. Sec 38 of the Insurance Act 1938 provides the rule and conditions for assignment of an insurance policy. Assignment means transfer of rights of insurance policy to someone else either for consideration or may on account of love and affection. Assignment is a complete transfer of ownership of the policy to the assignee. The assignee acquires all the rights with respect to the policy.

The provision of paid up value states that If the person has already paid premium for three years and fails to continue the premium payments in future, instead of forfeiting his policy, the policy automatically becomes, “paid up policy”, which means he shall be paid an amount which is a “reduced sum assured exactly in proportion to the term for which premium is paid compared to the term for which premium was payable”. Similarly, provision of Surrender Value is also there. It is the amount payable to policyholder by the insurance company if he decides to exit the policy before its maturity. A regular premium policy can acquire a surrender value only if the policyholder has paid premiums for it for a continuous period of 3 years. The facility of loan is provided in the policy condition. Loan amount is generally 85 to 90% of the surrender value. Annuity is also included in contract of insurance. Annuity is issued with the objective of paying a fixed income stream to the policyholder over a specified period of time in future or over the remainder of annuitant’s life. The premium payable to purchase annuities is usually paid in lump-sum though it can be paid periodically as well. Annuities are beneficial at the time of retirement. Bonus is also given in ‘with profit’ policies. It is an additional amount which is paid on a life insurance policy on the maturity of policy or death of the insured whichever is earlier. The earnings that are generated by insurance company from its investments are distributed proportionately among the policy holders.

Claim settlement is one of the most important services provided by an insurance company to the policyholders. Usually the claim is settled within 7 days of submitting the documents and the payment is made by cheque by the insurance company. There are two types of claim- the maturity claim and death claim. Maturity claim is given to the insured while death claim is paid to the beneficiary after submission of relevant documents to the insurance company.

4.6 KEYWORDS

1. **Dating back-** Dating back’ means changing the start date of the policy, within the financial year, to an earlier date. The insured may get benefit of lower age as the premium is less for lower age relative to higher age.
2. **Revivals-** Revival means making the policy functional after it has lapsed. The revival of lapsed policy can be done within a period of 5 years from the date of unpaid premium.
3. **Paid up Value-** If the person has already paid premium for three years and fails to continue the premium payments in future, instead of forfeiting his policy, the policy automatically becomes, “paid up policy”.
4. **Surrender Value-** Surrender Value is the amount payable to policyholder by the insurance company if he decides to exit the policy before its maturity.
5. **Annuity**- Annuity is a contract of insurance issued by the insurer with the objective of paying a fixed income stream to the policyholder over a specified period of time in future or over the remainder of annuitant’s life. The premium payable to purchase annuities is usually paid in lump-sum.
6. **Simple Bonus-** It is the percentage of sum assured that gets added to the sum assured every year and is payable on the maturity of policy either on expiry of term or early death is called simple bonus.

7. **Compound Reversionary Bonus**- It is the percentage of sum assured calculated on the basis of compound interest.

4.7 SELF ASSESSMENT TEST

1. Explain the terms and conditions of life insurance contract.
2. What are claims? How are these settled?
3. What are annuities? Give their types and uses?
4. What is meant by nomination? How is it different from assignment?
5. What are the rules in relation to loan under policy?
6. Write notes on-
    1) Paid-up value and Surrender Value
    2) Revivals
    3) Bonus
    4) Maturity claim and Death Claim

4.8 ANSWERS TO CHECK YOUR PROGRESS

1. Standard
2. Payment of premium
3. Surrender value
4. Compound reversionary bonus
5. Annuities

4.9 REFERENCES/SUGGESTED READINGS

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Course: Fundamentals of Insurance	**Author: Dr. Aparna Bhatia**
Course Code: BC- 602	**Vetter: Prof. Suresh Kumar Mittal**
LESSON: 05 **Fire Insurance**	

Structure

5.0 LEARNING OBJECTIVES

After going through this lesson you should be able to:

- Know the concept of fire insurance along with its need.
- Understand the principles of fire insurance
- Know the types of policies.
- Explain the claim settlement procedure

5.1 INTRODUCTION TO FIRE INSURANCE

Fire insurance, as the name suggests, is a financial protection given to the policyholder by the insurance company against damages caused by fire to the property of the policy holder. The fire insurance covers losses caused due to accidental fire, explosions, lighting etc. In fire insurance, the insurance company in consideration of premiums paid by the policyholder, in lump sum or in installments, indemnifies the loss against fire or loss or injury arising therefrom during a fixed period of time and up to the sum assured.

Fire insurance is thus a contract of indemnity where either the actual loss or the sum assured, whichever is less, is paid to the policyholder by the insurance company. The policy is for one year. It has to be renewed every year to take the benefit of insurance against fire.

The word “fire” must meet two requirements:

(a) There must be actual fire or ignition; and

(b) The fire must be accidental.

The property must have been harmed or burnt by fire. If the property is destroyed by heat or smoke without being ignited, it is not covered by the term “fire.” Fire caused by wars, nuclear risks, terrorist activities etc. are also not protected under fire insurance. However, any kind of “property”, movable or immovable, having a pecuniary value is covered under fire insurance. Insurable properties include the following-

1. Buildings
2. Electrical installations in buildings
3. Plant and Machinery and other accessories kept in the building
4. Goods in factories.
5. Goods in godowns
6. Goods in open
7. Pipelines
8. Furniture and fixture
9. Goods and items in shops, hotels, dwellings etc.

Definitions of Fire Insurance

Some of the definitions of fire insurance given by popular authors are as follows-

According to T R Smith-

"Fire insurance may be defined as a contract whereby the insurers in return for a consideration, known 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 specified amount, called the sum insured."

According to Section 2 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 the insurance policies."

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 up to an agreed amount."

From the above definitions following characteristics of contract of fire insurance can be derived-

1. It is a contract of indemnity.
2. It is usually for a fixed period of time, up to one year.
3. A premium is paid to buy fire insurance policy.
4. It involves offer of proposal from the policyholder and acceptance of same by the insurance company.
5. Insurable interest of the policy holder must exist at the time of taking the policy as well as at the time of loss due to fire.
6. The loss must be due to fire only.
7. The insurer has the right to claim the salvage value, if any, after compensation of loss.
8. The claim is settled usually in cash or through re habilitation of the damaged properties.

Principles of Fire Insurance

Following are the principles that govern the contract of fire insurance-

1. **Principle of indemnity**- Indemnity means "making good the loss". The purpose of this principle is that the insured must be in the same financial position after indemnification of the loss as he was before the occurrence of loss. However, the insured would be indemnified only to the extent of actual loss or the amount of sum assured, whichever is less. The insured cannot make profit out of the loss.
2. **Principle of insurable interest**- Under the contract of fire insurance, the insured must have insurable interest in the subject matter insured/destroyed. The policyholder must be at a financial gain with the continued existence of the subject matter and must come at a financial loss in case the subject matter ceases to exist. The insurable interest in case of fire insurance must be present both at the time of taking the policy as well as at the time when the loss occurs. If the property is sold to another party, the insurance contract will be null and void. The person can take fire insurance policy to the extent of his insurable interest in the subject matter.

    1. The following individuals have an insurable interest in the subject matter-
    2. A lawful owner has an insurable interest in the property.
    3. An agent has an insurable interest in his principal's property.
    4. A partner has an equal stake in the firm's assets.
    5. A borrower has an insurable interest in the property on which he has a debt lien.
    6. If the subject matter is mortgaged, the mortgagor has an insurable interest in the full value of the subject matter, and the mortgagee has an insurable interest in any amount due to become due under the mortgage.
    7. A bailee can insure any subject matter that has been bailed. He can be a gratuitous bailee or even a bailee for a reward.
    8. A trustee has an insurable interest under the subject matter in his care.

3. **Principle of utmost good faith-** The contract of fire insurance is based on "Uberrimae fidei", that is, utmost good faith. Proposer of the policy must disclose all material information in relation to the property he intends to get insured. Information is material if it can affect the decision making of the insurer to accept/reject the proposal. The disclosure also helps the insurer to determine the rates of premium to be charged on the policy. Following information is considered to be material-
    1. Description of goods to be insured.
    2. Class of goods that are kept on the premises.
    3. Class of goods that are in the surrounding neighborhood.

    However the following information does not require disclosure-

    1. All the events that reduce risk.
    2. All information which is already known to the insurer or is implied to be known to the insurer.
    3. All information that can be easily derived from other information provided by the proposer.
    4. Certain details which are unnecessary to reveal due to a condition or warranty.
4. **Principle of Causa Proxima-** The cause of damage should be fire or a related cause. Only such a cause shall be considered "direct" or the "causa proxima". No compensation shall be paid for any "distant" or "remote" cause. The following shall not be considered to be covered under the principle of causa proxima-
    1. Where the fire is caused by the insured himself.
    2. Where the fire is caused by some illegal act of the insured.
    3. Where the fire is caused by a peril expressly excluded from the policy, for instance, earthquake.
5. **Principle of Subrogation-** Fire insurance contracts are contracts of subrogation. This implies that once the insurance company has fully indemnified the insured for his loss, it enters into the shoes of insured and can exercise all rights which the insured has against third partly who were responsible for loss to the subject matter of the insured. Any scrap/ salvage/loss/ damage recovered by the insured from the third party belong to the insurance company who has already compensated the insured for the same loss. Also, insured cannot make profit from the business of insurance. So the amount recovered from the third party belongs to the insurance company.

6. **Principle of Contribution**- This principle states that if the same property or subject matter has been got insured from multiple insurers then the contribution of each of the insurers is proportionate to the sum assured with them. If one of the insurers has indemnified the insured it has the right to seek contribution from other insurers.

5.2 TYPES OF FIRE INSURANCE POLICIES

The various types of fire insurance policies are discussed as follows-

1. **Specific Policy-** It is the policy where a specific amount up to the sum insured in the policy is paid in case of damage or destruction of property by fire. For instance, the insured takes a policy of Rs. 50,000 for the subject matter which is worth Rs. 100,000. The actual loss is Rs. 40,000. The full loss of Rs. 40,000 shall be paid to the insured as the actual loss is less than the sum insured in the policy. Suppose the actual loss is Rs. 60,000. The insurer shall pay only up to Rs. 50,000, the total amount of policy and not the actual loss. In specific policy, the insured is not penalized for under insurance because the value of the property is not taken into consideration. It is only the amount of policy which is taken as the base. If the loss is within the amount of policy undertaken, the whole loss is reimbursed by the insurer.

2. **Valued Policy-** In certain cases it is difficult to ascertain the value of the policy, for instance in case of works of art, antiques, sculptures, pictures, old antique jewellery, paintings. craft etc. The value of such subject matter is declared by the insured and mentioned in the policy. In this case the insurance company becomes liable to pay the amount mentioned in the policy at the time of loss, irrespective of the actual value or market value of the subject matter. In the policy even the basic principle of indemnity is ignored. The amount compensated is the declared amount in the policy which may be more or less than the actual value of goods. These policies are not very common in practice.
3. **Average Policy-** A policy which contains an average clause is called an average policy. In this policy the insured is penalized for under insurance. If the amount of policy taken is less than the actual value of the property, the compensation payable to the insured in case of loss by fire is proportionately reduced. The insured pays only that proportion of the loss which the value of the

insured part of the property bears to the actual value of the property. In other words, the insured has to personally bear the loss of under insurance. For example-

Value of property = Rs. 300,000

Policy taken = Rs. 200,000

Loss by fire = Rs. 150,000

Compensation payable = 200,000/300,000 X 150000

a. = Rs. 100,000

Thus the insured shall not be compensated to full, that is, 150,000. He shall be paid proportionately by the insurance company. The balance loss of Rs. 50,000 shall be borne personally by the insured. Average clause is introduced in the policy to discourage under insurance.

4. **Floating Policy-** A policy which is primarily taken to cover 'stock-in-trade' is called the floating policy. The stock keeps changing hands from the seller to the buyer and subsequently new stock is added. With every transaction there is a change in stock. So it becomes difficult for the businessman to take specific policy for each of the items of stock. Many a times stock is lying in different places may be shops, godowns, warehouses etc. So due to the fluctuating nature of stock it becomes difficult to take a policy of a specific amount for specific goods. Hence, the owner takes one floating policy against one premium for all the goods. The premium is charged as an average premium that would have been charged if separate specific policies would have been taken. Only condition is that the goods lying at different places and purchased at different times should belong to one person only. The insured declares the total value of risk in all the goods and takes a floating policy accordingly of the desired amount.
5. **Reinstatement Policy-** As the name of the policy is suggesting in this policy, the insurance company does not compensate for the loss or damage by fire, rather the insurer pays the cost of reinstating or replacing the property. This type of insurance is more applicable to buildings, plant and machinery, furniture and fixtures etc.
6. **Comprehensive Policy-** The policy which covers multiple risks is called comprehensive policy. In this but for loss by fire, consequential losses are also covered. This policy clubs the risk of fire with other risks as risk of theft, burglary, lighting, explosion, riots, civil commotions etc.

This policy is also called "all in one Policy". However, it may exclude certain risks. Comprehensive policy is beneficial both to the insurer and insured. Insurer is able to earn a higher premium while the insured is able to cover multiple risks under one policy.

7. **Consequential Loss Policy-** This is a policy in which the subsequent loss of profits which a businessman suffers on account of fire is also covered. Business gets dislocated as a consequence of fire. There is financial loss and loss of profits. Hence the insurance company covers this loss. Consequential loss policy is also called 'loss of profit policy'. It comprehensively covers loss of goods or property damaged, loss of net profits, interruption in business after fire, outstanding expenses as salaries, rent on building, interest on loans etc. Ordinary insurance policy does not cover such losses. Hence, the loss so suffered is calculated separately from the loss on account of fire.
8. **Declaration Policy-** The declaration policy of insurance is applicable to stock of goods only which may be in the form of raw material, work in progress or finished goods. This policy is available because stock of goods keeps on fluctuating and the insured cannot be sure as to for what value should the insurance cover be taken. So the insured takes the cover of the maximum amount that he considers under risk during the period of policy. On a fixed date of every month or specific period, the insured has to give a declaration of the amount. The premium is charged provisionally as 75% of the annual premium. The exact premium is based on three declarations. If the premium collected is less than the provisional premium, the insured pays the balance. If it is more than the provisional premium the same is returned to the insured. If the declaration is not made on a specific date or at the maximum with 14 days, the sum insured is taken as the declared value. The policy offers a big advantage to the insured as the amount of premium is restricted to the value of risk and not the sum insured. Value of risk is the average of each day of the month or the highest value at risk during the month. The policy has a disadvantage also as the insured may undervalue the stock in order to evade paying higher premium.
9. **Adjustable Policy-** This is a modification in the declaration policy. This policy also covers the fluctuating stock of the businessman. But in adjustable policy the insured is allowed to vary his option and the premium varies with the variation in stock. This policy is issued for a specific period on the existing stock. The premium is calculated as in a regular policy and is paid in the

beginning of the policy. The insured informs the insurance company about every variation in the stock. As soon as the information about stock variation is received by the insurer it ratifies the policy immediately and the premium is adjusted on pro-rata basis. The policy amount also changes from time to time and the premium is also adjusted accordingly.

10. **Maximum value of discount policy-** This policy does not require a declaration or adjustment. Rather in this policy the insurance is taken for the maximum amount. The premium is also paid thereon. However, in case there is no loss one third of the premium is returned at the end of the policy period.
11. **Add on covers policy-** In a normal fire insurance policy certain events remain uncovered. The insured can have an additional cover for such events by paying extra premium. Such policy is called add on cover policy. For instance- damage by earthquake may be added to the basic fire insurance policy.
12. **Escalation policy-** The insured may wish to have a regular increase in the sum insured throughout in a policy in exchange of higher premium payable in advance. In such a case an escalation policy may be opted. However, escalation cannot be more than 25% of the sum insured. Also the additional premium can be 50% of the full rate of premium. This policy can be opted only for building, machinery, furniture and fixture and not for stock.

5.3 ASSIGNMENT OF FIRE POLICY

Assignment refers to the transfer of rights of insurance to another party. The party which transfers its rights is called an assignor, and the party to whom such rights are transferred is called an assignee. Assignment only takes place after the original contract has been made.

Assignment of fire insurance policy is possible only with the prior consent of the insurance company as these are contracts of personal nature. Only such approval of the insurer shall bestow a valid right to the assignee.

As per Transfer of Property Act, "Every assignee by endorsement or other writing, of a policy of insurance against fire, in whom the property in the subject insured shall be absolutely vested at the date of assignment, shall have transferred and vested in him all rights of suit as if the contract contained in the policy has been made with himself".

5.4 CLAIM SETTLEMENT PROCEDURE

The claims in fire insurance are settled through the following steps-

1. **Intimation to Insurance Company**: The insured must give immediate intimation to the insurance company about the loss by fire. Detailed information about the day, date, timings and reasons that led to fire must be disclosed. The intimation can be made either online or on the 24 X 7 toll free number of insurance company.
2. **Assessment of the loss**: The insurance company makes an assessment and estimation of the actual loss. With the help of such assessment claim forms are filled correctly in respect of the loss of goods and property.
3. **Submission of the claim form:** The insured has to fill the claim form covering all the possible details. The claim form must be submitted within 15 days of fire. Claim form is a very vital document. No delay should be made in its submission as it may lead to non-acceptance of the claim.
4. **Evidence of claim-** The insured must submit the evidence or proof of fire if possible. Other necessary records too must be submitted. Such evidence is helpful to insurance company to assess the cause of fire as well as the amount of loss that is to be compensated.
5. **Verification of Form**: The claim form as well as the supporting evidence is then verified by the insurance company. Thereafter, insurance company appoints surveyors to conduct an assessment of the actual loss.
6. **Survey**: When the surveyors are appointed they conduct the required investigations. The investigations include identification of cause of fire, the actual amount of loss of property, the perils included and excluded from the policy etc. The surveyors are required to make a report of their findings and give an estimation of the loss.
7. **Appointment of the arbitrator**: An arbitrator is appointed only when there is dispute regarding the amount of claim. The arbitrator appointed should be acceptable to both the insured as well as

the insurer. He with his arbitration finally settles the amount of claim acceptable to both the parties.

8. **Settlement of Claims***:* This is the last step in the process of claim settlement where the amount of loss is finally paid to the policy holder and the claim is settled.

5.5 CHECK YOUR PROGRESS

1. Fire insurance includes damage by heat or smoke may be with or without ignition. (true/ false)
2. Valued policies are based on **___________________** (declared/ actual).
3. Floating policy primarily covers **__________________** (real estate/ stock).
4. **__________________** covers future business losses. (Consequential loss policy/ escalation policy).
5. The role of surveyor is in the issue of policy and not in the settlement of claims (true/ false).

5.6 SUMMARY

Fire insurance is a financial protection given to the policyholder by the insurance company against damages caused by fire to the property of the policy holder. Fire insurance is a contract of indemnity where either the actual loss or the sum assured, whichever is less, is paid to the policyholder by the insurance company in event of loss on account of fire. The policy is for one year. It has to be renewed every year to take the benefit of insurance against fire. Any kind of “property”, movable or immovable, having a pecuniary value is covered under fire insurance. “Fire” should involve ignition and it must not be accidental to be covered under insurance cover.

The contract of fire insurance is governed by many principles. First and foremost is the principle of indemnity which states that the insured must be in the same financial position after indemnification of the loss as he was before the occurrence of loss. The insured is indemnified for actual loss or the amount of sum assured, whichever is less. The insured cannot make profit out of the loss. Principle of insurable interest states that the insured must have insurable interest in the subject matter insured/destroyed. The insurable interest in case of fire insurance must be present both at the time of taking the policy as well as at the time when the loss occurs. A lawful owner, an agent a partner, a borrower, the mortgagor, a bailee can insure any subject matter that has been bailed. He can be a gratuitous bailee or even a bailee for a reward and a trustee are considered to have insurable interest in the respective subject matter. Principle of utmost good faith states that the proposer of the policy must disclose all material information in relation to the property he intends to get insured as the description and class of goods on the premises and the surroundings. Principle of Causa Proxima states that the cause of damage should be fire or a related cause. Only such a cause shall be considered “direct” or the “causa proxima”. No compensation shall be paid for any “distant” or “remote” cause. Principle of Subrogation allows insurer to take any benefit derived from the third party by the insured with respect to damage due to fire, provided the insurance company has fully indemnified the insured. Principle of Contribution is applicable in case of double insurance. This principle states that if the same property or subject matter has been got insured from multiple insurers then the contribution of each of the insurers is proportionate to the sum assured with them.

Policyholder has wide option to take an insurance policy. There are several types of policies offered by the insurance companies covering loss by fire. In Specific Policy a specific amount up to the sum insured in the policy is paid in case of damage or destruction of property by fire. In Valued Policy it is difficult to ascertain the value of the policy, for instance in case of works of art. The value of such subject matter is declared by the insured in the policy. The insurance company becomes liable to pay the amount mentioned in the policy at the time of loss, irrespective of the actual value or market value of the subject matter. In Average Policy an average clause is put in the policy. As a result the insured is penalized for under insurance. If the amount of policy taken is less than the actual value of the property, the compensation payable to the insured in case of loss by fire is proportionately reduced to the loss which the value of the insured part of the property bears to the actual value of the property. Floating Policy is taken for ‘stock-in-trade’ is called the floating policy. With every transaction there is a change in stock. Also stock is lying in different places may be shops, godowns, warehouses etc. So due to the fluctuating nature of stock it becomes difficult to take a policy of a specific amount for specific goods. Hence, the owner takes one floating policy against one premium for all the goods. In Reinstatement Policy the insurance company does not compensate for the loss or damage by fire, rather the insurer pays the cost of reinstating or replacing the property. Comprehensive Policy covers multiple risks but for loss by fire as risk of theft, burglary, lighting, explosion, riots, civil commotions etc. This policy is also called “all in one Policy”. The Consequential Loss Policy This is a policy in which the subsequent loss of profits and outstanding expenses as salaries, rent on building, interest on loans etc. are also covered. In Declaration Policy stock of goods is covered. Since stock is fluctuating the insured takes the cover of the maximum amount that he considers under risk during the period of policy. On a fixed date of every month or specific period, the insured has to give a declaration of the amount. The premium charged is restricted to the value of risk and not the sum insured. In Adjustable Policy the insured is allowed to vary his option and the premium varies with the variation in stock. This policy is issued for a specific period on the existing stock. The policy amount also changes from time to time and the premium is also adjusted accordingly. In Maximum value of discount policy no declaration or adjustment is required. Rather in this policy the insurance is taken for the maximum amount. The premium is also paid thereon. However, in case there is no loss one third of the premium is returned at the end of the policy period. Add on covers policy gives additional cover for such events not covered by ordinary insurance by paying extra premium. In Escalation policy there is a regular increase in the sum insured throughout in a policy in exchange of higher premium payable in advance.

Fire insurance policy too can be assigned. But, assignment of fire insurance policy is possible only with the prior consent of the insurance company as these are contracts of personal nature. Only such approval of the insurer shall bestow a valid right to the assignee.

The claims in fire insurance are settled through some steps. The insured must give immediate intimation to the insurance company about the loss by fire. The insurance company makes an assessment of the actual loss which is helpful in filling claim forms correctly. The claim form must be submitted within 15 days of fire along with evidence of fire. The claim form as well as the supporting evidence is then verified by the insurance company. Thereafter, insurance company appoints surveyors to conduct an assessment of the actual loss. An arbitrator may also be appointed in case of dispute regarding the amount of claim. Lastly, the claim is settled and the amount of loss is finally paid to the policy holder by the insurance company.

5.7 KEYWORDS

1. **Fire Insurance**- “Fire insurance is 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 up to an agreed amount.”

2. **Specific Policy-** It is the policy where a specific amount up to the sum insured in the policy is paid in case of damage or destruction of property by fire.
3. **Valued Policy-** The value of such subject matter is declared by the insured and mentioned in the policy. In this case the insurance company becomes liable to pay the amount mentioned in the policy at the time of loss, irrespective of the actual value or market value of the subject matter.
4. **Average Clause**- In this clause the insured is penalized for under insurance. If the amount of policy taken is less than the actual value of the property, the compensation payable to the insured in case of loss by fire is proportionately reduced.
5. **Consequential Loss-** the subsequent loss of profits which a businessman suffers on account of fire is also covered

5.8 SELF ASSESSMENT TEST

1. Define fire Insurance. Give its features.
2. What are the principles that govern fire insurance?
3. Explain different types of fire insurance policies.
4. What is the claim settlement procedure of fire insurance?
5. What is the effect of average clause in a fire insurance policy?
6. Write notes on-
   I. Assignment in fire insurance
   II. Subrogation and fire insurance
   III. Causa proxima and fire insurance

5.9 ANSWERS TO CHECK YOUR PROGRESS

1. False
2. Declared
3. Stock
4. Consequential loss policy
5. False

5.10 REFERENCES/SUGGESTED READINGS

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Course: Fundamentals of Insurance	Author: Dr. Aparna Bhatia
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LESSON: 06 Marine Insurance	

Structure:

6.0 LEARNING OBJECTIVES

After going through this lesson you should be able to:

- Know the concept of marine insurance and importance.
- Understand the importance of marine insurance
- Understand the types of policies

- Explain the claim settlement procedure of marine losses.

6.1 INTRODUCTION TO MARINE INSURANCE

Marine Insurance is the oldest category of insurance undertaken in India. In earlier days there was massive threat from sea pirates to the people carrying their goods via sea routes. Also sea journey was the most prevalent mode of trade during those days. Hence marine insurance incepted thousands of years back. Even today, in international transactions, business man has to face several hazards and risks related to sea. Marine insurance covers these risks and provides for the losses of importers and exporters in case of some mishappening during the sea voyage.

Marine Insurance Act in India came into operation on 1st August 1963. It is a detailed and comprehensive document containing all provisions relating to marine insurance in India. The Sun Insurance Office Limited, the first company, was set up in Calcutta in 1710. Thereafter many more companies joined the insurance business. In 1972, Government of India nationalized general insurance business by forming General Insurance Corporation. Today marine insurance is operated by subsidiaries of General Insurance Corporation of India.

6.2 MARINE INSURANCE- MEANING AND DEFINITIONS

Marine Insurance is a contract between two parties whereby one party, the insurer, agrees to indemnify another party, the insured, in the manner and extent thereby agreed upon, against marine losses, that is, losses incidental to marine adventure, in lieu of a payment of consideration called premium. There is a marine adventure when property insured is exposed to marine perils. Marine perils are perils consequent to navigation of the sea and include accidents or eventualities of the sea. These losses include the damage to ships, cargo, ports, docks, passengers etc. Marine insurance has two categories-

1. **Ocean marine insurance**
2. **Inland marine insurance**

Ocean marine insurance covers perils of the sea and includes the coverage of following -

i. **The Vessel**- This is called hull insurance. It covers damage to the ship and its equipment including furniture, machinery, fuel, tools etc. vessels may include steamers, sailing vessels, builders etc.

ii. **The Cargo**- This is called cargo insurance and includes goods that are being carried in the ships. It also covers damage to the personal belongings of the crew and passengers.

iii. **The freight-** This is called freight insurance. If the goods or the vessel is damaged, the passengers may not be willing to pay the freight of the ship. This results in loss the owners of the ship. Marine insurance covers such losses as well.

iv. **Liability coverage**- This is called liability insurance. This includes losses to the third parties for instance, loss caused to another ship due to collisions. The insurance company undertakes to indemnify such losses which the insured may suffer on account of some damage to the third party. Liability insurance also covers any costs relating to medical bills, legal expenses etc.

Inland marine insurance covers the risks of land. There are certain properties which cannot be covered under general property insurance because these tools and equipment are not housed at a specific location and travel to various job sites. This includes basically any property that involves some type of transportation. Such property is covered under inland marine insurance. It is not necessary that a person must have frequent shipping business in order to take inland marine insurance. This insurance can be taken otherwise also. The property that is insured under inland marine coverage is typically one of the following:

- Actually in transit
- Held by a bailee
- A movable type of goods that is often at different locations

Special Inland marine insurance includes the following-

- **Builder's Risk-** Insurance of structure and material during new construction projects and renovations.
- **Exhibition coverage-** Insurance of valuable items requiring exhibitions and displays.
- **Installation floater-** Insurance covers to materials when they are loaded to vehicles till they reach the destination for installation.
- **Motor truck Cargo coverage-** This covers the goods of customers while transporting and delivering them by the respective companies.

Definitions of Marine Insurance

Some of the definitions of insurance given by popular authors are as follows-

According to Section 2(13) of Insurance Act 1938-

Marine insurance business means the business of effecting contracts of insurance upon vessels of any description, including cargos and other interests which may be legally insured in or in relation to such vessels, cargo 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 risk or similar risk in additional or as incidental to such transit and includes any other risk customarily included among the risks insured against in marine insurance policies."

According to Templeman-

"Marine Insurance is a contract of indemnity whereby the insurer undertakes to compensate the insured against perils insured".

According to Marine Insurance Act 1963-

"Marine Insurance is an agreement whereby the insurer undertakes to indemnify the assured, in the manner and to the extent thereby agreed losses incidental to marine adventure. It may cover loss or damage to vessels, cargo or freight"

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".

From the above definitions, following feature of marine insurance can be derived-

Features of Marine Insurance

1. Marine insurance is a non- life contract between the insured and the insurance company.
2. Consideration in the form of payment of premium is a preliminary to a valid contract of marine insurance.

3. Marine insurance covers any loss or damage to the ship, cargo, freight and even third party liability.
4. Insurance can be for a single journey or for a number of voyages but for a specific period of time.
5. Marine insurance covers only sea perils and perils incidental to sea.
6. However, inland marine insurance covers risks of land transportation.

Types of risks covered under Marine Insurance

Marine insurance covers the following types of risks

1) Sinking of vessel.
2) Collision of vessel.
3) Discharge of cargo at the port
4) Damage due to volcanic eruption or fire and other natural disasters like cyclones and earthquakes.
5) Average general sacrifice
6) War
7) Sea piracy and theft
8) Loss cause by rats, for instance holes made by rats through which water enters the ship.
9) Jettison

Principles of Marine Insurance

Like any other contract of insurance, marine insurance is also governed by some specific principles. These are explained as follows-

1. **Principle of insurable interest-** The principle states that the insured must have insurable interest in the subject matter to be insured. He must be at a loss with the destruction of subject matter and should gain financially at the existence of the same. However, in marine insurance it is sufficient if the insured has insurable interest at the time of loss. He may not have insurable interest at the time when the policy is taken. Following persons are deemed to have insurable interest in case of marine insurance

- Owner of the ship and recipient of freight

- Owner of the cargo
- Trustee
- Bailee
- Mortgagor
- Creditor who have given advance
- Crew of ship up to their remuneration

2. **Principle of utmost good faith-** The principle states that the insured must disclose all the material and relevant facts to the insurance company while taking the policy of insurance. Any information which can affect the decision of insurance company to accept or reject the contract is material. The contract of insurance is based on uberrimae fide, that is, utmost good faith. Deviation from the same can make the contract void.
3. **Principle of indemnity**- The principle states that the insurance company is liable to compensate the loss or damages of the insured up to the amount of policy or actual loss suffered whichever is less. Insured cannot make profit out of the loss but must get full compensation against the premiums he has been paying on the policy.
4. **Principle of subrogation**- The principle states that after full indemnification of the losses to the insured, insurer has the right to claim any amount/ salvage or scrap recovered by the insured from the third party with respect to the subject matter destroyed. Insurer has the right to enter into the shoes of the insurer and can exercise their rights against the third parties as were available to the insured.
5. **Principle of contribution**- The principle states that when the insurance is taken from more than one insurer, each insurer is liable to contribute proportionately to the loss. If the loss has been indemnified in full by one insurer, he has a right to claim contribution from others.

6.3 MARINE INSURANCE POLICY: CONDITIONS/CLAUSES

A marine insurance is based on certain policy conditions. The conditions are put in the policy in the form of **clauses**. There are mainly three types of clauses in marine policy:

i. Hull Clauses
ii. Cargo Clauses

iii. Freight clauses

Hull Clauses- These clauses cover conditions imposed in relation to losses caused to ship on account of collision, standing or general average.

Cargo Clauses- These clauses cover conditions and restrictions imposed in relation to losses caused to cargo or goods. These clauses give the description of the nature, extent and the scope of the cargo insurance..

Freight clauses- The clauses give conditions with reference to the loss of freight due to perils which may be insured for a period for a voyage

Other Conditions/Clauses in a Marine

i. **Valuation Clause-** In this clause both the parties decide the amount to be payable at the time of loss. Compensation cannot exceed the amount already stated in the policy.
ii. **'At and From' Clause-** This clause decides the timings when the risk is considered to commence and be covered under the insurance policy. According to this clause the coverage of risk starts 'at' the port where it is lying for departure and 'from' the time it leaves the port. If insurance policy states, 'at and from Bombay', it means the risk is covered when the ship is at Bombay port and also when it leaves this port. This clause is applicable to to Hull and Freight Insurance.
iii. **Deviation or Change of Voyage-** This clause restricts any deviation of route to be followed by the ship from the original route as decided and mentioned in the policy. The policy gives the port of departure, the port of destination as well as the route to be followed within the two points. In case of any deviation, the insurance company does not remain liable for indemnification of the loss. Even if the ship changes its original route and then follows same route later on, it will be taken as deviation and the insurer will be relieved from his liability.
iv. **Inchmaree clause-** This clause was inserted after a famous case involving a ship named 'Inchmare' in 1857. This clause covers any damage caused by the negligence of the master or a crew member. The damage caused to the cargo in loading and unloading is also covered under this clause. This clause also indemnifies the loss caused by explosives or any latent defect in the machinery or the hull.

v. **Sue and Labor Clause-** This clause has been put to encourage the act of saving the subject matter from loss or damage. If the insured spends any money in his efforts to save the subject matter from an impending loss, he can recover the same from the insurance company.

vi. **Memorandum Clause-** This clause is in favor of the insurer. This clause protects the insurer from indemnifying small losses on the perishable goods insured in the policy. Under this clause the insurer is not liable for partial losses. In certain goods this loss is allowed up to 50%. However, if there is a general loss, the insurer will be liable to pay the loss.

vii. **Perils of the Sea Clause-** This clause indemnifies losses only in case of casualties of the sea and does not cover losses arising from the action of winds or waves.

viii. **All Risks Clause-** This clause covers 'all-risks' of loss to the subject matter, irrespective of the percentage.

ix. **FCS Clause-** This clause is specifically inserted at the time of war. The insurer frees himself from the liability of indemnifying losses from attack of ship as a price of war, unless extra premium is paid by the insured.

x. **Lost or Not Lost Clause-** This was a very popular clause in times when the technology was not very advanced. Sometimes when the goods were sent via sea, the recipient did not receive them. The sender also did not know where they were lost or not. So in such circumstances this clause provided cover for the loss of goods.

xi. **Warehouse to Warehouse Clause-** This clause covers the risk of loss or damage to the goods from the warehouse of the sender/consignor to the warehouse of the receiver. This clause ensures safety of goods till their receipt and storage.

xii. **Touch and Stay Clause-** This clause states that the ship should stop at only those ports which are mentioned in the policy. If nothing is mentioned then only those ports should be preferred for staying which come in the conventional route of the ship otherwise it shall amount to deviation of the route.

xiii. **Running down Clause-** This class is applicable to the vessel and covers losses and damages in case of collision of ships.

xiv. **Reinsurance Clause-** The insurer can take up reinsurance "subject to the same clauses and conditions as the original policy, and to pay as may be paid thereon." The reinsurer is liable only to original insurer. As insured has no direct link with the reinsurer, he cannot approach the reinsurer for the settlement of the claim.

xv. **Continuation Clause-** This clause is used in time policy where the time of policy expires during the voyage. Continuation clause allows the insured to complete the journey by paying a pro rata monthly premium after giving a prior notice to the insurer.

xvi. **Waiver Clause-** This clause specifically states that when the insured or the insurer tries to protect the subject matter against loss or damage, this shall not mean waiver to the insurance cover from the side of insured and rejection of compensation from the insurer.

xvii. **FGA Clause Foreign General Average clause** means that the arrangement in case of a general average claims, which may arise under the policy, the average settlement made in a foreign country will be adopted as the basis for settlement.

xviii. **F.P.A. and F.A.A. Clause The F.P.A. (Free of Particular Average) clause** is beneficial for the insurer. FPA clause relieves the insurer from particular average liability while the F.A.A. (free of all average) clause relieves the insurer from liability arising from both particular average and general average.

xix. **Assignment Clause**- This clause states that the marine policy is assignable and may be assigned before or after a loss. The assignee acquires the beneficial interest in the policy. This gives him the right to sue thereon in his own name.

PREMIUMS

According to Section 54 of Marine Insurance Act, 1963, “unless otherwise agreed, the duty of the assured or his agent to pay the premium; and the duty of the insurer to issue the policy to the assured or his agent, is concurrent condition, and the insurer is not bound to issue the policy until payment or tender of the premium”.

DOUBLE INSURANCE

According to Section 34 of Marine Insurance Act, 1963,

(1) “Where two or more policies are effected by or on behalf of the assured on the same adventure and interest or any part thereof, and the sums insured exceed the indemnity allowed by this Act, the assured is said to be over-insured by double insurance”.

(2) “Where the assured is over-insured by double insurance—

(a) the assured, unless the policy otherwise provides, may claim payment from the insurers in such order as he may think fit, provided that he is not entitled to receive any sum in excess of the indemnity allowed by this Act;

(b) Where the policy under which the assured claims is a valued policy, the assured must give credit as against the valuation, for any sum received by him under any other policy, without regard to the actual value of the subject-matter insured;

(c) Where the policy under which the assured claims is an unvalued policy he must give credit, as against the full insurable value, for any sum received by him under any other policy;

(d) Where the assured receives any sum in excess of the indemnity allowed by this Act, he is deemed to hold such sum in trust for the insurers, according to their right of contribution among themselves”. (Source- Marine Insurance Act, 1963)

ASSIGNMENT OF POLICY

As per Section 52 of Marine Insurance Act 1963,

“A marine policy may be transferred by assignment unless it contains terms expressly prohibiting assignment. It may be assigned either before or after loss”.

Also, the Act states that, “Where a marine policy has been assigned so as to pass the beneficial interest in such policy, the assignee of the policy is entitled to sue thereon in his own name; and the defendant is entitled to make any defence arising out of the contract which he would have been entitled to make if the suit had been brought in the name of the person by or on behalf of whom the policy was effected.”

A marine insurance policy can be assigned through endorsement or any other customary mode.

The provisions of Marine Insurance Act 1963 further state that, “Where the assured has parted with or lost his interest in the subject-matter insured, and has not, before or at the time of so doing expressly or impliedly agreed to assign the policy, any subsequent assignment of the policy is inoperative: Provided that nothing in this section affects the assignment of a policy after loss”.

WARRANTIES IN MARINE INSURANCE

Warranties refer to certain stipulations or conditions which must be fulfilled by the insured in order to continue the contract. It is an undertaking by the insured to the insurer that he shall do or shall not do certain acts. In the words of Lord Goff, “a warranty is any term of an insurance contract which, properly construed and is a condition precedent to the inception or continuation of cover”. The insured gets bound by these conditions to such an extent that any violation of these conditions renders the contract void. The contract becomes avoidable at the option of the insurer.

The warranties are of two types-

1) **Express warranties**
2) **Implied warranties**

Express warranties refer to those conditions which are written and explicitly stated in the marine insurance policy. As per Section 37 of Marine Insurance Act 1963, “An express warranty must be included in, or written upon, the policy, or must be contained in some document incorporated by reference into the policy”. Few examples of express warranties are-

i. The ship shall start its journey on the schedule date only.
ii. The ship shall start its journey at the scheduled timings. The time schedule shall be strictly abided by.
iii. The subject matter covered under insurance is safe on a particular date.
iv. There is prohibition on navigations during certain period and in certain regions.
v. The ship as well as the cargo shall remain in the neutral state.
vi. An armed guard shall conduct the sailing of the ship.
vii. A fixed number of crew members shall be available.
viii. Warranties against towage.
ix. Warranties in relation to additional insurance.

Implied warranties are the conditions which are not stated in written in the policy but are understood by the implication of law. Implied warranties are binding on both the parties. Implied warranties are of three types. These include-

i. **Warranty of sea-worthiness**- This condition states that the ship should be fit to travel. It should be suitable in all respects to undertake the voyage. The ship should be seaworthy at the start of the voyage in all respects. The owner of the ship has to ensure that-

- The ship is not overloaded.
- It is well equipped with adequate fuel and water.

- It has all provisions and materials.
- The captain of the ship is guided well.
- It should have desired number of experience officers and crew members.
- The ship does not require any repairs.
- The ship has the legal permission to start the voyage.

It should be remembered that the warranty is for the ship and not the cargo in the ship. Also the warranty applies to time policies and not voyage policies. This warranty is applicable only at the start of the voyage. If the ship stops in between and restarts again then this warranty is not applicable.

ii. **Warranty of legality of the voyage**- This warranty ensures that all the legal formalities have been complied with before undertaking the voyage. These legal formalities may related to the following-

- The object of the voyage is legal. It should not be related to smuggled goods as arms, ammunition, liquor etc.
- The owner has the legal right to carry the subject matter. The owner has the license to carry the goods.
- The cargo does not belong to some enemy country.
- The cargo does not belong to the government.

It should be remembered that the warranty of legality of voyage should continue from the start till the end of the voyage and there can be no excuse for the same.

iii. **Warranty of non-deviation**- This warranty expects that the ship shall follow the normal path of voyage and specified in the policy. If nothing is specified that the normal path has to be followed by the ship. If the ship deviates from its normal route of travel the insurer is freed from any liability arising in the event of mishap. However, there are some exceptions to this warranty.

- When the deviation is in line with some warranty.
- In case of natural calamities like storm and bad weather.
- In order to make the ship seaworthy.
- If change of path is essential to save the ship from sea piracy, sea dacoits etc.
- To safeguard the life of passengers on the ship or even passengers in another ship.

- In order to avail some medical facilities or services.

THE VOYAGE

The provisions related to the voyage are mentioned in different sections of Marine Insurance Act 1963. These are specified as follows-

As per Section 44- *Implied condition as to commencement of risk.—*

(1) "Where the subject-matter is insured by a voyage policy "at and from" or "from" a particular place, it is not necessary that the ship should be at that place when the contract is concluded, but there is an implied condition that the adventure shall be commenced within a reasonable time, and that if the adventure be not so commenced the insurer may avoid the contract. The implied condition may be negatived by showing that the delay was caused by circumstances known to the insurer before the contract was concluded, or by showing that he waived the condition".

As per Section 45- *Alteration of port of departure.—*

"Where the place of departure is specified by the policy, and the ship instead of sailing from that place sails from any other place, the risk does not attach.

As per Section 46- *Sailing for different destination*. —

"Where the destination is specified in the policy, and the ship, instead of sailing for that destination, sails for any other destination, the risk does not attach".

As per Section 47- *Change of voyage*.—

"Where, after the commencement of the risk, the destination of the ship is voluntarily changed from the destination contemplated by the policy, there is said to be a change of voyage".

As per Section 48- *Deviation*—

"Where a ship, without lawful excused, deviates from the voyage contemplated by the policy, the insured is discharged from liability as from the time of deviation, and it is immaterial that the ship may have regained her route before any loss occurs. There is a deviation from the voyage contemplated by the policy—

(a) where the course of the voyage is specifically designated by the policy, and that course is departed from; or

(b) where the course of the voyage is not specifically designated by the policy, but the usual and customary course is departed from.

(3) The intention to deviate is immaterial; there must be a deviation in fact to discharge the insurer from his liability under the contract".

As per Section 49- *Several ports of discharge*.—

"Where several ports of discharge are specified by the policy, the ship may proceed to all or any of them, but, in the absence of any usage or sufficient cause to the contrary, she must proceed to them, or such of them as she goes to, in the order designated by the policy. If she does not, there is a deviation".

As per Section 50- *Delay in voyage*—

"In the case of a voyage policy, the adventure insured must be prosecuted throughout its course with reasonable dispatch, and, if without lawful excuse it is not so prosecuted, the insurer is discharged from liability as from the time when the delay became unreasonable".

As per Section 51- *Excuse for deviation or delay*.—

"Deviation or delay in prosecuting the voyage contemplated by the policy is excused—

(a) where authorised by any special term in the policy; or

(b) where caused by circumstances beyond the control of the master and his employer; or

(c) where reasonably necessary in order to comply with an express or implied warranty; or

(d) where reasonably necessary for the safety of the ship or subject-matter insured; or

(e) for the purpose of saving human life or aiding a ship in distress where human life may be in danger; or

(f) where reasonably necessary for the purpose of obtaining medical or surgical aid for any person on board the ship; or

(g) where caused by the barratrous conduct of the master or crew, if barratry be one of the perils insured against".

LOSSES AND ABONDANMENT

A loss arising during voyage due to perils of the sea is a marine loss. Marine losses are categorized as-

A. Total loss

i. Actual total loss
ii. Constructive total loss

B. **Partial loss**

i. Particular average losses
ii. General average losses
iii. Salvage Losses

These losses are explained as follows-

A. **Total Loss**- When the subject matter is completely destroyed and is totally lost, it is called the total loss. Total loss is further divided as-

i. **Actual Total Loss**- When the subject matter is completely destroyed or damaged to the extent that is ceases to be the thing as it was when it was insured, the loss is called actual total loss. The actual total loss may occur when-

- The subject matter is destroyed to the extent that no salvage can be recovered.
- The subject matter is damaged that it is not the same thing as it was when insured. Eg. The bad of cement became concrete due to sea-water.
- The subject matter is irretrievable. For instance, in case of sinking of ship, the cargo that is recovered after long period is of no value to the insured.

In case of an actual total loss, no notice of abandonment is required. However, the insurer is entitled to all rights and remedies in relation to damaged properties. The amount up to the insured value is recoverable from the insurer. But if the subject matter is underinsured, the insured can recover only up to the amount of insurance.

ii. **Constructive Total Loss**- In constructive loss, the damage is less as compared to the total loss but the goods are damaged to that extent that the cost of repair or recovery is greater than the value of the subject matter destroyed. Thus, a constructive total loss is considered to exist when-

- The subject-matter insured is abandoned as its actual total loss is unavoidable.
- The subject matter recovery of subject matter from actual total loss involves an expenditure that would exceed its repaired and recovered value.

The insured can treat the loss either as partial loss or actual total loss. If the insured abandons the subject matter, the loss is treated as the actual total loss and the full amount up to the loss covered by the insurance policy is payable.

Abandonment

As per Section 62 of Marine Insurance Act 1963, following are the provisions for abandonment of subject matter-

(1) "where the assured elects to abandon the subject-matter insured to the insurer, he must give notice of abandonment. If he fails to do so the loss can only be treated as a partial loss".

(2) "Notice of abandonment may be given in writing, or by word of mouth, or partly in writing and partly by word of mouth, and may be given in any terms which indicate the intention of the assured to abandon his insured interest in the subject-matter insured unconditionally to the insurer".

(3) "Notice of abandonment must be given with reasonable diligence after the receipt of reliable information of the loss, but where the information is of a doubtful character the assured is entitled to a reasonable time to make enquiry".

(4) "Where notice of abandonment is properly given, the rights of the assured are not prejudiced by the fact that the insurer refuses to accept the abandonment".

(5) "The acceptance of abandonment may be either express or implied from the conduct of the insurer. The mere silence of the insurer after notice is not an acceptance".

(6) "Where notice of abandonment is accepted the abandonment is irrevocable. The acceptance of the notice conclusively admits liability for the loss and the sufficiency of the notice".

(7) "Notice of abandonment is unnecessary where at the time when the assured receives information of the loss, there would be no possibility of benefit to the insurer if notice were given to him".

(8) "Notice of abandonment may be waived by the insurer".

(9) "When an insurer has reinsured his risk, no notice of abandonment need be given by him".

Effect of abandonment—

As per Section 63 of the Act, "Where there is a valid abandonment the insurer is entitled to take over the interest of the assured in whatever may remain of the subject-matter insured, and all proprietary rights incidental thereto".

B. **Partial loss-** When the subject matter is partially destroyed or damaged it is called the partial loss. Partial loss is classified as -

i. **Particular average losses**- When the subject matter is partially destroyed because of the peril of sea, it is called particular average loss. This loss must be accidental and not intentional.

ii. **General average losses**- It is an intentional expenditure incurred in order to avoid a bigger loss. It is in fact a sacrifice expenditure made by either the master or the crew of the ship for the mutual benefit of the owners of the ship and the goods. This expenditure is made knowingly, intentionally but prudently. The intention in general average loss is to protect the ship and the cargo against bigger damage. The examples of general average loss include the following-

- Throwing of goods from the ship in the sea to lighten the ship and protect it against some peril or bad weather.
- Amount paid to a third party to tow the ship to a nearby port in order to avoid sinking of the ship.
- Pour water on the cargo or the ship to extinguish fire.

In case of general average loss, the captain of the ship reports the matter to the port authorities. They appoint an Average Adjustor who is a professional in preparing statement of general average adjustment. He also fixed the contribution required to be made by the owner of the ship and various other shippers. The average adjustor gives a certificate of contribution to the various shippers. The insured gets his claim from the insurer after showing the certificate of contribution as evidence. The whole process usually takes 2-3 years.

iii. **Salvage Loss**- Sometimes the goods are damaged in the transit to such an extent that they would further deteriorate by the time they reach their destination and would rather become worthless. In such cases prudence demands that the goods are sold at the intermediate port at the best available price. Salvage loss is the difference between the insured value of goods and the sale value of goods, which can be recovered from the insurer as the final settlement claim.

MEASURES OF INDEMNITY

According to Section 67 of Marine Insurance Act 1963, "The sum which the assured can recover in respect of a loss on a policy by which he is insured, in the case of an unvalued policy to the full extent of the insurable value, or, in the case of a valued policy to the full extent of the value fixed by the policy, is called the measure of indemnity."

In case number of insurers are more than one the loss is recoverable proportionately.

According to Section 68, in case of ***Total Loss***, “if the policy be a valued policy, the measure of indemnity is the sum fixed by the policy; and if the policy be an unvalued policy, the measure of indemnity is the insurable value of the subject-matter insured”.

According to Section 69, in case of ***Partial Loss of ship***,

(1) “where the ship has been repaired, the assured is entitled to the reasonable cost of the repairs, less the customary deductions, but not exceeding the sum insured in respect of any one casualty”

(2) “where the ship has been only partially repaired, the assured is entitled to the reasonable cost of such repairs, computed as above, and also to be indemnified for the reasonable depreciation, if any, arising from the unrepaired damage, provided that the aggregate amount shall not exceed the cost of repairing the whole damage”

(3) “where the ship has not been repaired, and has not been sold in her damaged state during the risk, the assured is entitled to be indemnified for the reasonable depreciation arising from the unrepaired damage, but not exceeding the reasonable cost of repairing such damage, computed as above”

(4) “where the ship has not been repaired, and has been sold in her damaged state during the risk, the assured is entitled to be indemnified for the reasonable cost of repairing the damage, computed as above, but not exceeding the depreciation in value as ascertained by the sale”

According to Section 70, in case of ***Partial loss of freight***, “Subject to any express provision in the policy, where there is a partial loss of freight, the measure of indemnity is such proportion of the sum fixed by the policy in the case of a valued policy or of the insurable value in the case of an unvalued policy, as the proportion of freight lost by the assured bears to the whole freight at the risk of the assured under the policy”.

According to Section 71, in case of ***Partial loss of goods, merchandise, etc.***, Where there is a partial loss of goods, merchandise, or other movable, the measure of indemnity, subject to any express provision in the policy, is as follows:—

(1) “where part of the goods, merchandise or other movable insured by a valued policy is totally lost, the measure of indemnity is such proportion of the sum fixed by the policy as the insurable value of the part lost bears to the insurable value of the whole, ascertained as in the case of an unvalued policy”;

(2) “where part of the goods, merchandise or other movable insured by an unvalued policy is totally lost, the measure of indemnity is the insurable value of the part lost, ascertained as in case of total loss”;

(3) "where the whole or any part of the goods or merchandise insured has been delivered damaged at its destination, the measure of idemnity is such proportion of the sum fixed by the policy in the case of a valued policy, or of the insurable value in the case of an unvalued policy, as the difference between the gross sound and damaged values at the place of arrival bears to the gross sound value";

(4) "Gross value means the wholesale price, or, if there be no such price, the estimated value, with, in either case, freight, landing charges, and duty paid beforehand; provided that, in the case of goods or merchandise customarily sold in bond, the bonded price is deemed to be the gross value. "Gross proceeds" means the actual price obtained at a sale where all charges on sale are paid by the sellers".

6.4 CLAIM SETTLEMENT PROCEDURE

Procedure for claim settlement is divided into two –

1. For import-export consignments
2. For inland (within India) consignments

1. For import-export consignments

The claim settlement requires that the insurer must be intimated about the loss immediately. It also requires submission of some documents. These are discussed as follows-

i. Policy: The original policy as issued by the insurer to the insured is to be submitted for establishing a valid title of the claimant. This documents also evidences that the subject matter is insured against specific perils.
ii. Bill of Lading : Bill of lading is a proof that the subject matter was actually shipped. It gives details of the cargo.
iii. Invoice: Invoice is a proof of terms of sale. It gives description of goods, prices etc. It ensures correct valuation of the cargo.
iv. Survey Report: This contains the findings of the surveyors. The report mentions about the nature and extent of loss. It usually mentions the remarks "without prejudice".
v. Debit note: This is the claim bill which mentions the amount claimed by the insured for loss and damange.
vi. Copy of Protest: This is a document which has to be submitted by the master of the ship who makes a claim that the loss was not caused by him but was rather the result of some sea peril.

vii. Letter of subrogation: This document transfers the rights of the claimant against third party to the insurance company.

2. For inland (within India) consignments

For inland consignments following documents are required-

- Original policy or certificate of insurance duly endorsed.
- Invoice.
- Certificate of loss or damage issued by the carriers.
- In case the goods are totally lost and are not delivered, the original railway receipt and / or non-delivery certificate / consignment note.
- Copy of the claim lodged against the railways / road carriers.
- Letter of Subrogation.
- Special Power of Attorney duly stamped. (Railway Claims).
- Letter of Authority addressed to the railway authorities signed by the consignors in favor of consignees whenever loss is claimed by consignees.
- Letter of Authority addressed to the railway authorities signed by the consignors in favor of the insurers
- Letter of Undertaking from the claimant in case of non-delivery of consignment.
- Claim Bill, after adjusting proposed salvage value.

(Source- https://nios.ac.in/media/documents/VocInsServices/m4-2f.pdf)

6.5 CHECK YOUR PROGRESS

1. Ocean marine insurance covers-

A. Hull insurance

B. Cargo insurance

C. Freight insurance

D. All of the above

2. 'At and 'from' clause specifies the-

A. Distance of ship

B. Route of ship

C. Timings of ship

D. All of the above

3. **Sea-worthiness means-**

A. Sea is worthy to travel.

B. Ship is fit to travel.

C. Captain of the ship is in mood to travel.

D. Any of the above.

4. **Which of the following is an intentional expenditure-**

A. Total loss

B. Partial loss

C. Particular average loss.

D. General average loss.

5. **Double insurance means-**

A. Two or more policies from same insurer for same adventure.

B. Two or more policies from same insurer for different adventure.

C. Two or more policies from different insurers for same adventure.

D. Two or more policies from different insurers for different adventure.

6.6 SUMMARY

Marine Insurance Act in India came into operation on 1st August 1963. Today marine insurance is operated by subsidiaries of General Insurance Corporation of India. Marine insurance is a contract between two parties whereby one party, the insurer, agrees to indemnify another party, the insured, in the manner and extent thereby agreed upon, against marine losses, that is, losses incidental to marine adventure, in lieu of a payment of consideration called premium. Marine insurance has two categories- ocean marine insurance covers perils of the sea and includes hull, cargo and freight insurance. Inland marine insurance covers the risks of land. Marine insurance also follows the principle of insurable interest, utmost good faith, indemnity, subrogation and contribution. It also involves application of several policy conditions in the shape of clauses as the valuation clause that decides the loss payable at the time of mishap, at and from clause that states the timings of loss, deviation clause that states the normal route of voyage, inchmaree clause that widens the types of damages covered, sue and labor clause that indemnifies the expenditure incurred to safeguard the subject matter from damage etc.

Double insurance states that where the assured is over-insured by double insurance the assured may claim payment from the insurers in such order as he may think fit, provided that he is not entitled to receive any sum in excess of the indemnity allowed by this Act. The insured has the right to assign marine insurance policy by endorsement. Marine insurance contracts also involve certain warranties which may be expressed in the contract or implied under law. Express warranties may include the date and timings of voyage, the details of subject matter insured etc. Implied warranties cover three things- the seaworthiness of vessel, the legality of voyage and the non-deviation clause. The marine insurance policy must also give other details of the voyage as provisions related to Alteration of port of departure, Sailing for different destination, change of voyage, several ports of discharge, delay in voyage, excuse of deviation or delay.

Marine insurance covers several losses as the total and the partial loss. When the subject matter is completely destroyed it is called the total loss. Total loss may be the actual or the constructive total loss. When the subject matter is completely destroyed to the extent that is ceases to be the thing as it was when it was insured, the loss is called actual total loss. In constructive loss, the damage is less as compared to the total loss but the goods are damaged to that extent that the cost of repair or recovery is greater than the value of the subject matter destroyed. The insured can treat the loss either as partial loss or actual total loss. If the insured abandons the subject matter, the loss is treated as the actual total loss and the full amount up to the loss covered by the insurance policy is payable. When the subject matter is partially destroyed it is called the partial loss. Partial loss is classified as Particular average losses and general average losses. When the subject matter is partially destroyed because of the peril of sea, it is called particular average loss. This loss must be accidental and not intentional. General average loss is an intentional expenditure or sacrifice incurred for the mutual benefit of the owners of the ship and the goods to avoid a bigger probable loss. Salvage loss is the difference between the insured value of goods and the sale value of goods which is realized at an intermediate port to avoid further damage of goods. This can be recovered from the insurer as the final settlement claim.

According to Section 67 of Marine Insurance Act 1963, “The sum which the assured can recover in respect of a loss on a policy by which he is insured, in the case of an unvalued policy to the full extent of the insurable value, or, in the case of a valued policy to the full extent of the value fixed by the policy, is called the measure of indemnity.” In case number of insurers are more than one the loss is recoverable proportionately.

Procedure for claim settlement of marine insurance requires immediate intimation to the insurer and submission of some documents as the original policy, Bill of Lading, Bill of lading, Invoice, Survey Report, Debit note, Copy of Protest, Letter of subrogation etc.

6.7 KEYWORDS

1. **Marine Insurance**- Marine Insurance is a contract between two parties whereby one party, the insurer, agrees to indemnify another party, the insured, in the manner and extent thereby agreed upon, against marine losses, that is, losses incidental to marine adventure, in lieu of a payment of consideration called premium.
2. **Ocean marine insurance** covers perils of the sea and includes hull insurance, cargo insurance, freight insurance and liability insurance
3. **Inchmaree clause-** This clause covers any damage caused by the negligence of the master or a crew member. The damage caused to the cargo in loading and unloading is also covered under this clause.
4. **Total Loss-** When the subject matter is completely destroyed and is totally lost, it is called the total loss.
5. **Actual Total Loss**- When the subject matter is completely destroyed or damaged to the extent that is ceases to be the thing as it was when it was insured, the loss is called actual total loss.
6. **Constructive Total Loss-** In constructive loss, the damage is less as compared to the total loss but the goods are damaged to that extent that the cost of repair or recovery is greater than the value of the subject matter destroyed.
7. **Particular average losses**- When the subject matter is partially destroyed because of the peril of sea, it is called particular average loss. This loss must be accidental and not intentional.

8. **General average losses-** It is an intentional expenditure incurred in order to avoid a bigger loss. It is in fact a sacrifice expenditure made by either the master or the crew of the ship for the mutual benefit of the owners of the ship and the goods. This expenditure is made knowingly, intentionally but prudently. The intention in general average loss is to protect the ship and the cargo against bigger damage.

6.8 SELF ASSESSMENT TEST

1) Define Marine Insurance. Give its features, types and principles.
2) Discuss the policy conditions in marine insurance policy.
3) Give provisions relating to ‘the voyage’ in marine policies.
4) Can marine policies be assigned? Explain the relevant provisions of the assignment clause.
5) Discuss different types of losses under marine insurance. What are the provisions of abandonment of losses?
6) How can marine insurance claim be settled?
7) Write short notes on-
   i. Warranties in marine insurance.
   ii. Double insurance
   iii. Salvage loss

6.9 ANSWERS TO CHECK YOUR PROGRESS

1) All of the above
2) Timings of the ship
3) Ship is fit to travel
4) General average loss
5) Two or more policies from different insurers for same adventure.

6.10 REFERENCES/SUGESTED READINGS

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LESSON: 07 Motor Vehicle Accident and Insurance	

Structure

7.0 LEARNING OBJECTIVES

After going through this lesson you should be able to:

- Know the relevance and necessity of motor insurance and accidental insurance.
- Understand the claim settlement procedure with respect to both motor and accident insurance

7.1 INTRODUCTION

Motor Vehicles Act was passed in 1939 and amended in 1988. Earlier many pedestrians were hit by motor vehicles and were killed or injured. They did not get any compensation for their loss. In order to protect the interest of such people, the Motor Vehicles Act, 1939, introduced compulsory insurance. The insurance of motor vehicles against damage is not mandatory but the insurance of third party liability arising out of the use of motor vehicles in public places is compulsory. No motor vehicle can run in a public place without third party insurance.

Motor insurance, also called the vehicle insurance covers all financial losses arising out of usage of vehicle in the public places. It covers damages caused not only to the vehicle but also provides accidental cover to the owners of vehicles while driving and passengers and also cover third party legal liability, that is , damages to the third party in person or to property. Motor insurance gives protection against both natural as well as man-made calamities.

But for Motor Vehicle insurance, it is very important to buy a personal accident insurance policy as well. A contingency like accident can happen any time. The injury too can vary from a minor one to a serious one and even to death. Such an event can lead to a financial crisis in the family and hence accidental insurance can provide financial cover for the same. There are several other benefits that are provided in accident insurance policy as accidental hospitalization cover, Hospital Confinement Allowance, and Medical Expense Cover etc.

7.2 MOTOR VEHICLE INSURANCE

Motor Vehicle insurance is a contract by which the insurance company undertakes the risk of any loss to the owner or operator of a vehicle which he may incur through damage to property or persons as a result of an accident. Other than traffic collisions motor insurance may protect the insured from incurring any financial losses that arise due to damage or even theft of the vehicle. Motor insurance vary in the types of risk they cover subject to the various legal regulations in a particular region.

Motor Vehicle insurance covers the following-

1. **Own Damage (OD)** : The damages to the motor vehicle on account of following reasons are covered under OD section of the Motor Insurance policy:

i. Fire, Explosion, Self- Ignition, Lightning

ii. Burglary/Housebreaking /Theft
iii. Riots and Strikes
iv. Natural calamities as Earthquake, Floods, Storm, Cyclone, Hurricane, landslides etc.
v. Accidents due to external factors

2. **Third Party (TP) Liability**: This policy covers the Third-Party Liability that arises against the owner of the vehicle. Third Party Insurance is a statutory requirement. The owner of the vehicle becomes legally liable for any injury or damage to third party's life or property due to accident with his vehicle.
3. **Compulsory Personal Accident Cover (CPA):** This policy provides compensation to the owner/driver of the vehicle in case of bodily injury/death in direct relation to the vehicle and also covers in case the person is engaged in mounting/dismounting the vehicle or is travelling in it as a passenger.

The policy cover can be extended to include other risks by paying extra premium.

The damages covered under Motor Vehicle Insurance are summarized in the following table

Coverage under any Motor Insurance policy in India:

Damages occurring on any vehicle due to the following natural and manmade perils are covered -

Natural Disasters/Perils	Other types of perils
Fire	Theft / Burglary
Lightning	Housebreaking
Earthquakes Floods/Cyclones/Storms/Tempests/Hurricanes/ Frost / Hailstorm / Inundation	Explosion
Rockslides / Landslides	Self-Ignition
	Strikes / Riots / Terrorism/Malicious Acts
	While the vehicle is in transit through any means of transport
	Accidental External Sources

(Source- IRDA)

Risks not covered under Motor Vehicle Insurance

Following risks are however not covered under the Motor Vehicle Insurance-

- Routine and normal wear and tear of the vehicle on account of its usage.
- Depreciation of the vehicle.
- Breakdown of machinery of vehicle.
- Depreciation and wear and tear of consumables of vehicle like tyres and tubes.
- Any damage or loss outside the stated geographical boundary.
- Loss arising due to driving under intoxication (DUI) due to influence of alcohol or drugs.
- Loss caused by person driving without the driving license.
- Loss due to nuclear risks and war.
- Losses due to racing
- Deliberate accidental damage.

Importance of Motor Vehicle Insurance

Following points highlight the importance of motor vehicle insurance-

i. Third party motor vehicle insurance is mandatory under law. It is not a choice but a mandate. A person driving without third party cover is penalized under Motor Vehicle Insurance Act 1988.

ii. Accident is an unforeseen event. Neither the probability nor the timings can be determined of such mishaps. But insurance cover gives financial compensation during such times and saves from bearing expensive damages.

iii. In case of damage to the person or property of the third party, motor vehicle insurance saves a person from his financial liability towards the third party.

iv. Purchasing a vehicle is an expensive affair. The loss or damage of vehicle also proves very expensive unless protected with an insurance cover.

v. The motor vehicle insurance not only covers accidental losses but also other contingencies as theft, fire etc.

Types of Motor Vehicle Insurance

There is a wide range of motor vehicles running on Indian roads and hence there is a broad range of motor insurance policies available to suit the needs of vehicle owners. Two-wheelers usually include scooters and motor bikes, three wheelers include the auto-rickshaws while the four wheelers consist of a range of personal vehicles as cars and jeeps, and commercial vehicle as buses, trucks, trolleys taxis etc. On the basis of category of vehicles, motor insurance policies are classified as follows-

1. Car insurance
2. Two wheelers insurance
3. Commercial vehicle insurance

1. **Car Insurance-** This is insurance cover for vehicle not used for commercial purposes. Today this is the most growing areas of motor vehicle insurance. First, the number of cars on roads is on the increase and secondly, this is mandatory under the Motor Vehicle Insurance Act. Every new car is compulsorily supposed to take car insurance. Car dealers and vendors have fixed tie ups with the insurance companies to facilitate the same. Following losses and damages are covered under car insurance-

    i. Accidents
    ii. Fire and explosions
    iii. Theft
    iv. Riots and terrorist attacks
    v. Earthquakes, hurricanes and other natural calamities
    vi. Third party legal liabilities both to person and vehicle.
    vii. Electric and electronic devices and accessories; only on the payment of additional premium.

    The amount of premium payable depends upon

- The value of the car
- The make of the car
- The year of manufacturing of car
- The state where registration of car is done.

2. **Two wheelers insurance-** This category of insurance covers non-commercial vehicles of the public as scooters and motorcycles. It provides financial protection against loss and damages on account of accidents, theft, fire, explosions, burglary, riots, earthquakes, floods etc. This also covers the third party legal liabilities. Two wheeler insurance also offers an accident policy cover to the owner/driver. An additional cover for passengers may also be availed.

3. **Commercial vehicle insurance-** This insurance is for the heavy and light commercial vehicles as buses, trucks, ambulances, taxis etc. The premium varies depending on the value of vehicle, the make of vehicle, the year of manufacturing, the state of registration, the price of showroom and whether the vehicle is in the name of a person or a corporate.

But for these basic policies classified on the basis of type of vehicles, insurance policies are also classified on the basis of utility as follows-

1. Third Party Insurance Policy
2. Comprehensive Insurance Policy
3. Liability Only Policy

These are explained as follows-

1. **Third Party Insurance Policy-** The first party is the insured/owner or the driver of the vehicle, the second party is the insurance company and the third party is the rest of the people in the public place where the vehicle is being run or operated. Hence third party insurance provides financial assistance to the first party against the loss or damage to the third party in terms of bodily injury or damage to the vehicle of the third party. This is also referred to as the minimum risk covered under the Auto Vehicle Act 1938 (Act Liability). Taking a third party insurance is mandatory in India. The third party insurance covers the following losses/ damages-
   i. Injuries and death of other people. This also includes passengers in your own vehicle.
   ii. Damage to the vehicle of other people.
   iii. Damage to other property of other people.
   iv. Damages caused by your co-passengers.
   v. Damages caused by caravan attached to the vehicle.

   Third party cover compensates the damages irrespective as to who was at fault for the damage- the insured or the third party.
2. **Comprehensive Insurance Policy-** Comprehensive policies are very broad in coverage. They cover not only the legal liability of third party but also the damages and losses to the insured/ driver and co-passengers. The damages covered by comprehensive insurance policy are given as follows, though these may vary from one insurance company to another-

i. Damage of insured's vehicle by fire.

ii. Damage of insured's vehicle by accident

iii. Theft of insured's vehicle.

vi. Injuries and death of other people. This also includes passengers in your own vehicle.

vii. Damage to the vehicle of other people.

viii. Damage to other property of other people.

ix. Damages caused by your co-passengers.

x. Damages caused by caravan attached to the vehicle.

Additionally comprehensive polices also cover the following-

1. Medical expenses incurred due to accident. The amount covered varies from insurer to insurer.
2. Damage to personal belonging up to a stated limit by the insurer.
3. Personal accident benefit in case of death or permanent disability as a result of accident. The spouse and other family members may also be covered under the comprehensive policy.

3. **Liability Only Policy-** This policy covers third party legal liabilities for death and bodily injuries and also damage to the property of the third party. The personal accident cover of the owner/driver is also covered under Liability Only Policy.

Motor Insurance Policy Tenure in India

As per provisions of IRDA, "any Motor insurance policy is generally valid for one year after which it has to be renewed by the due date. Grace periods are not offered on premium payments. If the policy is not renewed on time, then the insurer might conduct an inspection before renewing the policy. Additionally, if renewals are not done for more than 90 days for a comprehensive motor insurance policy, the customer might lose the No-Claim Bonus benefit from the insurer".

Documents Required to Be Kept in Insured Vehicles:

Following documents must be kept in the insured vehicles-

1. Certificate of Insurance
2. Pollution under Control Certificate

3. Driving License - photocopy
4. Registration Certificate – photocopy

Claim settlement procedure in motor vehicle insurance

The legal documents where the details of claim are to be filled is called the “statement of claim”. The procedure of submitting motor vehicle insurance claim is as follows-

1. Intimating the claim to the insurance company- The first step is to intimate the insurance company from where the insurance policy was purchased about the damage and the loss. This intimation is a must even if the accident takes place several miles away. The application for compensation due to accident u/s 166 of the Motor Vehicle Act 1988 may be made by any of the following-

i. Owner of the vehicle/property
ii. Injured person
iii. Duly authorized agent of the injured person
iv. In case of death, legal representative of the deceased

The insurance company has to keep the following documents ready-

i. Name of insured
ii. Policy number
iii. Name of driver
iv. Registration number of the vehicle
v. Date, Time and Place where accident takes place
vi. Type, make and model of vehicle
vii. Description of accident in brief

2. Claim Form- This is a ‘Proof of Loss Form’ which supports the claim. A claim adjuster is assigned to the claim file. He is a professional who handles the claim.

3. Determination of the amount of loss- The claim adjuster determines the amount of loss and the claim to be admitted for compensation. He mentions the various damages covered in the insurance policy. The insurance company coordinates with the insurance adjuster to decide the final amount of claim.

4. **Submission of documents-** Certain documents are required to be arranged for claiming the loss from insurance company. These include bills of repair, medical reports in case of bodily injuries, police reports if needed.

5. **Settlement of Loss-** Finally on the basis of the above procedural aspects and submission of documents, the claim is finalized and settled by the insurance company.

Customer Turnaround Time

IRDA has given the total customer turnaround time for the motor insurance procedure to complete. It is given in the following table-

Customer Turnaround Times as approved by the IRDA:

Issuance, processing and Cancellation of policies	15 days
Issuance of proposal copy	30 days
Services after issuance of policy/ Refund of proposal deposits/ Non-claim requests	10 days
Submission of survey report	30 days
Addendum Report for the insurer	15 days
Claims - settlement/rejection after the addendum report has been received	30 days
Acknowledgement of a grievance	3 days
Resolution of a grievance	15 days

(Source- IRDA)

7.3 ACCIDENTAL INSURANCE

As per the World Health Organization, accident related deaths, are known to be the eighth leading cause of death and the first largest cause of death among children aged 5-14 and adults in the age 15-29. As per the statistics of Ministry of Road Transport and Highways road accidents in India kill almost 1.5 lakh people annually. Accordingly, India accounts for almost 11% of the accident related deaths in the World.

An accident is “an event which is wholly unexpected not intended or designed.” Accident or accidental death means “a sudden, unintended and fortuitous external and visible event.” The personal accident insurance policy states that, if at any time during the ‘period of insurance’, the ‘insured’ sustains any bodily injury directly due to accident caused by external violent and visible means, then the insurer shall pay to the insured or his legal personal representative(s), as the case may be, the ‘capital sum assured’, forth, in the policy, in case of specified contingencies such as death, Permanent Total Disablement, Permanent Partial Disability, Temporary Total Disablement etc.

Some important terms

Accidental Death: Death resulting from “bodily injury solely and independently due to any other cause except illness, directly resulting from, or medical or surgical treatment rendered necessary for such injury, resulting in death of the insured person within 12 months from the date of accident.”

Bodily Injury: “Accidental physical bodily injury solely and directly caused by external, violent visible cause.”

Capital Sum Insured: It means the monetary amounts shown in the policy of insured person(s) which is the maximum limit of insurer’s liability against said insured person.

Insured Person: The person(s) named as insured person which includes self, family and the dependent parents.

Period of Insurance: The “time period for which the contract of insurance is valid as shown in the Policy Schedule.”

Permanent Total Disablement: The bodily injury that “totally, irrecoverably and absolutely prevents a person from engaging in any kind of occupation”.

Permanent Partial Disability: The bodily injury that results in "total, irrevocable, absolute and continuous loss of or impairment of a body part or sensory organ specified under the Table of Benefits".

Temporary Total Disablement: The bodily injury that "prevents from engaging in an occupation for a period not exceeding 104 weeks since the date of injury to the time a person is fit enough to resume his/her occupation as certified by a Medical Professional."

Features of accident insurance

Following are the features of accident insurance policy-

1. **Offer and Acceptance-** The person interested in taking the accident insurance cover must make an offer to the insurance company. The policy commences from the date on which an acceptance is given by the insurer.
2. **Premium-** Like any other insurance policy, accident insurance is against a consideration of premium paid by the insured to the insurance company, well in advance.
3. **Contract of indemnity-** Though in case of death in an accident, indemnity of human life is not possible. Still the compensation paid to the dependents is equal to the sum assured under the policy.
4. **Utmost good faith-** The insured must disclose all the material facts to the insurer before taking the policy. The details about age, health, medical history, nature of job or occupation etc. must be honestly disclosed.
5. **Insurable interest-** A person always has an unlimited insurable interest in his own life. Similarly spouse has insurable interest and even the employer has insurable interest in the life of an employee. So accident insurance policy is governed by the principle of insurable interest.
6. **Period of Policy-** The period of policy is given in the policy which usually varies from one year to five years.
7. **Scope of policy-** The policy is applicable 24X7 and is applicable both in India and abroad. Compensation is fully paid even if contingency takes place in foreign land.

Coverage of accident insurance policy

Following are covered under accident insurance-

Death: If a person dies due to an accident it is covered under personal accident policy. His legal representatives can claim the sum assured under the policy.

Disability: Disability is classified as-

Permanent Total Disability (PTD) - This disability is permanent and irrecoverable for instance, paralysis, loss of sight in both eyes, loss of both hands and both feet or one hand and one foot. The person becomes incapable of undertaking any occupation as it is total disability. Full compensation which is equal to the sum insured is payable.

Permanent Partial Disability: The disability is not total, but partial. The compensation is paid proportionately to the disability based on doctor's certificate and specifications mentioned in the policy.

Temporary total disablement: This type of disablement is total but for temporary period of time. Here the payment is made on weekly basis.

Carriage of dead body: The cost of carrying the dead body from the place of accident to the residence of insured are compensated. It is based as a percentage of sum assured.

Education amount for children: In case of death of the insured as well in case of permanent disability, accident insurance cover may provide for education of children who are below the age of 25 years. Maximum of two children are compensated.

Alteration of the house- In case of permanent disablement any expenditure incurred by the insured in alternation of his house to enable his free movement in the house is reimbursed up to a certain specified limit.

Exclusions from accident insurance policy

In the following cases no compensation is payable to the insured in case of death or bodily injury

i. From deliberate self-injury
ii. suicide
iii. Death or Injury under influence of drugs or alcohol
iv. Mounting/ dismounting while travelling in any balloon or aircraft other than as passenger.
v. Injury or death due to some disease or
vi. From any breach of law while committing a criminal offence
vii. From service in the armed forces or
viii. Resulting from child birth or pregnancy.

Claim settlement procedure in accident insurance

Claim settlement procedure in accident insurance involves the following formalities-

1) Intimation to the insurance company- The first step is to immediately intimate the insurance company about the accident in writing. The extent and nature of loss should be reported along with the policy number.
2) Filling of claim form- The next step is to give details of the insured in the claim form. It usually asks for the following particulars-
   - Age and occupational details
   - Details of accident, type of injuries or other loss
   - Details of the attending doctor
   - Medical certificate from the doctor
3) Submission of other documents- The other documents required include-
   - Medical Examiner's Report- If the medical certificate is doubtful or some other causes are involved.
   - Discharge form
   - Prescription, bills and receipts.
   - Diagnostic reports etc.
   - absence certificate from the employer
   - Death certificate
   - Report of post mortem (if applicable)

7.4 CHECK YOUR PROGRESS

1. Following is not covered under motor vehicle insurance-

A. Damage due to fire

B. Loss due to theft

C. Loss due to depreciation

D. None of the above

2. Third party liability insurance is -

A. Statutory requirement for all

B. Statutory requirement for commercial vehicles

C. Statutory requirement for senior citizens

D. Optional

3. Which of the following is covered under accidental insurance-

A. Self-injury

B. Suicide

C. Road accident

D. All of the above

4. Which of the following documents is not required to be kept in Insured's vehicle?

A. Certificate of Insurance

B. Pollution under Control Certificate

C. Driving License – photocopy

D. Birth Certificate – photocopy

5. Which of the following documents is not required to be presented for taking accidental claim?

A. Medical examiner's report

B. Birth certificate

C. Diagnostic report

D. Discharge form in case of hospitalization

7.5 SUMMARY

Motor insurance, also called the vehicle insurance covers all financial losses arising out of usage of vehicle in the public places. It covers damages caused not only to the vehicle but also provides accidental cover to the owners of vehicles while driving and passengers and also covers third party legal liability. Motor Vehicles Act was passed in 1939 and amended in 1988. The insurance of motor vehicles against damage is not mandatory but the insurance of third party liability arising out of the use of motor vehicles in public places is compulsory. No motor vehicle can run in a public place without third party insurance. Motor Vehicle insurance covers Own Damage including Fire, Explosion, Self- Ignition, Lightning, Theft, Natural calamities as Earthquake, Floods, etc. and Third Party (TP) Liability both towards the person as well as his property. Compulsory Personal Accident Cover (CPA) is also given. This policy provides compensation to the owner/driver of the vehicle and the co- passengers. However, certain risks, as normal wear and tear and depreciation of vehicle, its breakdown or mechanical faults or losses arising under the influence of drugs or alcohol are not covered.

There are several types of motor vehicle insurance policies offered in India as the Car Insurance which covers private vehicles and comes mandatorily against new cars purchased. The Two wheelers insurance covers non-commercial vehicles of the public as scooters and motorcycles. The Commercial vehicle insurance is for the heavy and light commercial vehicles as buses, trucks, ambulances, taxis etc. The amount of premium payable depends upon the value of vehicle, its make, state of registration and the year of manufacture. There are other specific policies also as the Third Party Insurance Policy which covers third party legal liabilities both to persons and the property. The Comprehensive Insurance Policy covers not only the legal liability of third party but also the damages and losses to the insured/ driver and co-passengers. The Liability Only Policy covers third party legal liabilities for death and bodily injuries and also damage to the property of the third party. The personal accident cover of the owner/driver is also covered under Liability Only Policy.

For taking claim in case of a contingency the legal documents where the details of claim are to be filled is called the “statement of claim”.

The first step is to intimate the insurance company from where the insurance policy was purchased about the damage and the loss. The Claim Form which is a ‘Proof of Loss Form’ which supports the claim is submitted through a claim adjuster- a professional who handles the claim. The claim adjuster determines the amount of loss and the claim to be admitted for compensation. Certain documents as bills of repair, medical reports in case of bodily injuries, police reports if needed are submitted. Then, the claim is finalized and settled by the insurance company.

But for Motor Vehicle insurance, it is very important to buy a personal accident insurance policy as well. A contingency like accident can happen any time. An accident is “an event which is wholly unexpected not intended or designed.” Accident policy covers many aspects as death, Permanent Total Disablement, Permanent Partial Disability, Temporary Total Disablement etc. However the policy excludes damage/injury or death due to deliberate self-injury, suicide, under influence of drugs or alcohol, breach of law, criminal offence, and service in the armed forces or resulting from child birth or pregnancy.

For claiming accidental claim Intimation is given to the insurance company in writing. The first step is to immediately intimate the insurance company about the accident. The extent and nature of loss should be reported along with the policy number. Details of accident, type of injuries or other loss are conveyed along with the policy number. Certain other documents as Medical Examiner's Report, Discharge form, Prescription, bills and receipts, Diagnostic reports, Death certificate etc. are submitted and the claim is settled.

7.6 KEYWORDS

1) **Motor Vehicle Insurance-** Motor vehicle insurance is a contract by which the insurance company undertakes the risk of any loss to the owner or operator of a vehicle which he may incur through damage to property or persons as a result of an accident.
2) **Third Party (TP) Liability-** The owner of the vehicle becomes legally liable for any injury or damage to third party's life or property due to accident with his vehicle
3) **Accidental Death**: Death resulting from "bodily injury solely and independently due to any other cause except illness, directly resulting from, or medical or surgical treatment rendered necessary for such injury, resulting in death of the insured person within 12 months from the date of accident."
4) **Permanent Total Disablement**: The bodily injury that "totally, irrecoverably and absolutely prevents a person from engaging in any kind of occupation".
5) **Permanent Partial Disability**: The bodily injury that results in "total, irrevocable, absolute and continuous loss of or impairment of a body part or sensory organ specified under the Table of Benefits".
6) **Temporary Total Disablement**: The bodily injury that "prevents from engaging in an occupation for a period not exceeding 104 weeks since the date of injury to the time a person is fit enough to resume his/her occupation as certified by a Medical Professional."

7.7 SELF ASSESSMENT TEST

1) What is Motor Vehicle Insurance? Is it mandatory? What is its importance?
2) Which risks are covered under Motor Vehicle Insurance? Which risks are not covered in it?
3) Explain different types of Motor Vehicle Insurance.
4) How is claim settled under Motor Vehicle Insurance Act?
5) What is accident insurance policy? Give its features.
6) Explain different types of damages and disabilities covered under accidental insurance policies.
7) How is claim settled in accidental insurance policies?
8) Write notes on-

- Third party liability
- Permanent total and permanent partial disability
- Features of accident insurance
- Features of motor vehicle insurance

7.8 ANSWERS TO CHECK YOUR PROGRESS

1. Loss due to theft
2. Statutory requirement for all
3. Road accident
4. Birth certificate
5. Birth certificate

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LESSON: 08 **Insurance Intermediaries**	

Structure

8.0 LEARNING OBJECTIVES

After going through this lesson you should be able to:

- Know the insurance intermediaries and their role in business of insurance.
- Explain the procedure of becoming an agent in insurance business.
- Understand the code of conduct applicable on insurance intermediaries.

8.1 INTRODUCTION

India is a country with a massive population of 1.3 billion with greater of it belonging to the economically weaker segment that cannot afford the brunt of uncertain losses and damages. But simultaneously this large segment of population is unaware of the benefits of taking an insurance policy that helps to give a financial protection against such unforeseen losses. Hence, in a country like India, Insurance is a product that is not bought by the masses rather it has to be sold through various channels and intermediaries. Also but for life insurance which offers the benefit of investment also, insurance provides compensation in case of an unfortunate event or a contingency. If the contingency does not take place, there is no refund of the premium paid. So the masses feel that Insurance drains away their resources without giving them any benefit unless there is a loss. Hence the business of insurance becomes complex and there is great reluctance to buy the insurance policies. Also with such a population the penetration of insurance business is relatively less. It was just 4.2% in 2021 with 3.2% in the life insurance business and 1% from in the non-life insurance business. This calls for the role of insurance intermediaries to boost the business of insurance and increase its expanse to the uncovered areas and population.

8.2 INSURANCE INTERMEDIARIES

Insurance intermediaries bridge the gap between the consumers and insurance companies. An Insurance Intermediary means "individual agents, corporate agents including banks and brokers, insurance marketing firm. Insurance Intermediary also includes Surveyors and Third Party Administrators but these intermediaries are not involved in the procurement of business. Surveyors assess losses on behalf of the insurance companies. Third Party Administrators provide services related to health insurance for insurance companies". Some detail of these intermediaries is given as follows-

Insurance Agent- An agent is a "person who is licensed by the Authority to solicit and procure insurance business including business relating to continuance, renewal or revival of policies of insurance."

Section 2(10) of the Insurance Act 1938 defines an insurance agent as "an insurance agent licensed under section 42, who receives or agrees to receive payment by way of commission or the remuneration in consideration of his soliciting or procuring insurance business including business relating to the continuance, renewal or revival of policies of insurance".

A **Composite Insurance Agent** is an "insurance agent who holds a license to act as an insurance agent for a life insurer and a general insurer."

There are many types of insurance agents.

Internal Sales agent: An internal sales agent is an in- house agent. He is usually an employee of the insurance carrier.

***Captive Sales agent*:** A captive sales agent is someone who works for one organization or company.

Corporate Agent- A corporate agent is an "intermediary other than an individual, may be a firm, company or a registered society, representing an insurance company". As per IRDA regulations 2002, corporate agent means" any person specified and licensed to act as such and includes-

1. A firm; or
2. A company formed under the Companies Act, 1956 or
3. A banking company as defined in clause (4A) of section 2 of the Act; or
4. A corresponding new bank as defined under clause (d(a)) of sub-section (1) of section 5 of the Banking Companies Act, 1949 (10 of 1949); or
5. A regional rural bank established under section 3 of the Regional Rural Banks Act, 1976 (21 of 1976); or
6. A co-operative society including a co-operative bank, registered under the Co-operative Societies Act, 1912 or under any law for the registration of co-operative societies; or
7. A panchayat or a local authority; or
8. A Non-Governmental organization or a micro lending finance organization covered under the Co-operative Societies Act, 1912 or a Non- Banking Financial Company registered with the Reserve Bank of India; or
9. Any other institution or organization which on an application to the Authority is specifically approved by the Authority.

Insurance Broker- Insurance Broker is “a person licensed by IRDAI who arranges insurance contracts with insurance companies on behalf of his clients. An Insurance Broker may represent more than one insurance company and may deal with more than one life or general insurer or both”.

Categories of insurance broker- An insurance broker may be-

A direct broker- These brokers are intermediaries between primary insurers and the end users, that is, insured.
A reinsurance broker- These brokers are intermediaries between primary insurers and the reinsurers.
A composite broker is an insurance broker who arranges the insurance for his clients with insurance companies and/or re insurance for his clients.

Role of Insurance Intermediaries

I. Functions of Insurance Agent: The functions of insurance agent are as follows-

1. **To solicit and procure new business**: An agent is an intermediary of insurer and should work in favor of the principal. He is under obligation to obtain certain specified amount of new business for the insurer. He should always make effort in getting new insurance proposals beyond his prescribed limit.
2. **To conserve the present business**: an agent should ensure the continuation of the policies already issued. He should take all efforts to prevent them from lapsing on account of default in the payment of premium. He should update the policyholders about dates of premium payments of their current policies as well as renewal of policies before the lapse.
3. **Assist in selection of suitable policy**: The agent should act like a guide. He must aid the prospects in selection of a suitable policy, keeping in view the needs of the proposers desirous to opt for insurance schemes.
4. **To enquire into full details of prospects**: The agent should have complete particulars of the prospective policyholders. He should know their requirement, economic status, type of occupation, age, demographic details and family history so that he can guide them of a policy that shall cover their risks.
5. **Inform the agency about the factors which can cause damage to insured**: It is the duty of an agent to inform the agency about all the factors that may lead to non-coverage of their risks.

6. **To motivate the policy holders to pay premium in time:** It is the duty of an agent to remind the policyholder about the schedule of their premium payments. Their policies should not become invalid due to lapse due to non-payment of consideration in the form of premium.
7. **To prevent the policy from lapsing**: Agent should make sincere efforts that the policy of the policy holders does not get lapse due to some controllable or manageable issues or lapse of the part of the policyholders.
8. **Inform the insured for appointing nominee(s):** The agent should get the complete policy formed filled. An agent must ensure that the nominee's column is filled by the insured. This helps in future settlements of claims.
9. **To prepare the necessary documents:** All the relevant and important documents like birth certificate, medical certificate, etc. must be submitted by the insured. The agent must guide the proposer accordingly.
10. Other important duties of an agent :
    a. Update the insurer about policies in his charge.
    b. Working with honesty and integrity.
    c. Calculation of the amount of premium which is payable by the insured
    d. Explaining the details of insurance application form to the prospect.
    e. Informing the prospects about the rejection/refusal or acceptance of insurance application by the insurance agency.
    f. Following the rules and regulations of insurance authority.

II. Functions of Direct Broker

1. To obtain the detailed information of the client's business and risk management philosophy.
2. To familiarize himself with the client's business and underwriting information so that this can be explained to an insurer and others.
3. To render the advice on appropriate insurance cover and terms.
4. To maintain the detailed knowledge of available insurance markets, as may be applicable.
5. To submit the quotation received from insurer for consideration of a client.

6. To provide the requisite underwriting information as required by an insurer in assessing the risk to decide pricing terms and conditions for cover.
7. To act promptly on instructions from a client and providing him written acknowledgements and progress reports.
8. To assist clients in paying premium under Section 64VB of Insurance Act, 1938 (4 of 1938).
9. To provide services related to insurance consultancy and risk management.
10. To assist in the negotiation of the claims.
11. To maintain proper records of claims.

III. Functions of Reinsurance Broker

1. Familiarize himself with the client's business and risk retention philosophy.
2. Maintain clear records of the insurer's business to assist the insurer or others.
3. Render advice based on technical data on the reinsurance covers available in the international insurance and the reinsurance markets.
4. Maintain a database of available reinsurance markets, including solvency-ratings of individual insurers.
5. Render consultancy and risk management services for reinsurance.
6. Select and recommending an insurer or a group of insurers.
7. Negotiate with an insurer on the client's behalf.
8. Assist in case of commutation of reinsurance contracts placed with them.
9. Act promptly on instructions from a client and providing it written acknowledgements and progress reports.
10. Collect and remit the premiums and claims within such time as agreed upon.
11. Assist in the negotiation and settlement of claims.
12. Maintain proper records of claims.

13. Exercise due care and diligence at the time of selection of insurers and international insurance brokers having regard to their respective security rating and establishing respective responsibilities at the time of engaging their services

IV. Function of composite broker

A composite broker shall carry out any one or more of the functions mentioned in the functions of the direct broker or the reinsurance broker above. The brokers have to obtain the license from the IRDA. For this they have the meet the certain criteria and the norms as prescribed by the IRDA. They have to maintain a certain code of conduct and also maintain a separate account in respect of the insurance money and his earnings. The insurance broker has to maintain solvency margin as notified by the IRDA in the regulations.

(Source- https://www.owlgen.in/explain-different-types-of-insurance-brokers-and-their-functions/)

8.3 PROCEDURE OF BECOMING AN AGENT

I. ISSUE OF LICENCE.

A. As per provision of IRDA Regulations, 2000 (Licensing of Insurance Agents) and 2002 (Licensing of Corporate Agents)

A person desiring to obtain or renew a license to act as an insurance agent or a composite insurance agent shall proceed as follows-

1. **Application-** The applicant shall make an application to a designated person
   i. in Form IRDA- Agents-VA, if the applicant is an individual;
   ii. in Form IRDA- Agents-VC, if the applicant is a firm or a company. *("Designated person" means an officer normally in charge of marketing operations, as specified by an insurer, and authorised by the Authority to issue or renew licences under these regulations*)

Provided that the applicant, who desires to be a composite *corporate agent, shall make two such separate applications*.

2. **Fee Payable-**

   1) The fees payable to the Authority for issue or renewal of licence to act as a corporate agent shall be rupees two hundred and fifty.

   (2) Every specified person of the corporate agent shall, apply through the corporate agent to the designated person of the insurer to obtain the certificate, accompanied by a fees of rupees five hundred remitted to the Authority.

3. **Qualification-** The designated person may, on receipt of the application along with the evidence of payment of fees to the Authority, and on being satisfied that the corporate insurance executive of the applicant, possesses the qualifications as specified under ***Regulation 4*** which includes-

- "The corporate insurance executive shall possess the minimum qualification of a pass in 12th Standard or equivalent examination conducted by any recognised Board/Institution, where the applicant resides in a place with a population of five thousand or more as per the last census, and a pass in 10th Standard or equivalent examination from a recognised Board/ Institution if the applicant resides in any other place."
- Every corporate insurance executive and each of the specified persons shall also not suffer from any of the disqualifications specified under ***Section 42D*** of the Act which includes-

  - That the person is a minor.
  - That he is found to be of unsound mind by a Court of competent jurisdiction.
  - That he has been found guilty of criminal misappropriation or criminal breach of trust of cheating or forgery or an abetment of or attempt to commit any such offence by a Court of competent jurisdiction

4. **Examination**- has passed the examination as specified under Regulation 6; which includes-

   (1) The corporate insurance executive of the applicant or a specified person shall have passed the pre-recruitment examination in life or general insurance business, or both, as the case may be, conducted by the Insurance Institute of India, Mumbai, or any other examination body duly recognised by the Authority.

   (2) The examining body shall issue a certificate to every successful specified person, which shall enable him to procure insurance business on behalf of the corporate agent he is working for.

5. Practical Training-

(1) Where an applicant is seeking licence for the first time to act as a corporate agent, a corporate insurance executive of such an applicant shall have completed from an approved institution, at least, one hundred hours' practical training which may be spread over three to four weeks, in either life or general insurance business, as the case may be.

Provided that the corporate insurance executive of the applicant shall have completed from an approved institution, at least, one hundred fifty hours' practical training which may be spread over six to eight weeks both in life and general insurance business, where such an applicant is seeking licence for the first time to act as a composite corporate agent.

(2) Where the corporate insurance executive of the applicant is-

a. an Associate/Fellow of the Insurance Institute of India, Mumbai;
b. an Associate/Fellow of the Institute of Chartered Accountants of India, New Delhi;
c. an Associate/Fellow of the Institute of Costs and Works Accountants of India, Calcutta;
d. an Associate/Fellow of the Institute of Company Secretaries of India, New Delhi;
e. an Associate/Fellow of the Actuarial Society of India, Mumbai;
f. a Master of Business Administration of any Institution/ University recognised by any State Government or the Central Government; or
g. possessing Certified Associateship of Indian Institute of Bankers (CAIIB); or
h. possessing any professional qualification in marketing from any Institution/ University recognised by any State Government or the Central Government--

he shall have completed, at least, fifty hours' practical training from an approved institution.

Provided that such corporate insurance executive of the applicant shall have completed from an approved institution, at least, seventy hours' practical training in life and general insurance business, where such applicant is seeking licence for the first time to act as a composite corporate agent.

(3) A Specified Person shall undergo a practical training of not less than 100 hours in life or general insurance business, as the case may be, from an approved institution. In case of training in both life and general insurance, the duration of practical training shall be not less than 150 hours. However, if he falls

within one of the categories as given in sub-regulation (2) above, he shall have completed fifty hours from an approved institution.

Provided that such a specified person of the corporate agent shall have completed from an approved institution, at least, seventy hours' practical training in life and general insurance business, where such specified person of the corporate agent is seeking certificate for the first time which will enable him to procure both life and general insurance business.

The designated person shall grant or renew the licence within a period of 3 months from the date of application.

The designated person shall, if the consideration of the application is likely to get delayed, within 60 days of the receipt of the application inform the applicant the reasons for such a delay, and the likely time it would take to do so.

If the designated person refuses to grant or renew a licence under this regulation, he shall give the reasons thereof to the applicant.

II. RENEWAL OF LICENCE

(1) Every licence granted by the Authority to a corporate agent or any renewal thereof, in terms of these regulations, shall remain in force for three years.

(2) A licence granted to a corporate agent may be renewed for a further period of three years on submission of the application form along-with a renewal fee of rupees two hundred and fifty, at least thirty days prior to the date of expiry of the licence.

(3) The additional fees payable to the Authority, under the circumstances mentioned in sub-section (3) of section 42 of the Act, shall be rupees one hundred by way of penalty, if the application for renewal of the licence does not reach the issuing authority at least thirty days before the date on which the licence ceases to remain in force.

(4) The Authority may, if it is satisfied that undue hardship would be caused otherwise, accept any application after the licence ceased to remain in force, on the payment by the applicant of a payment of rupees seven hundred and fifty as additional fee.

(5) Every certificate granted to the specified person shall remain in force for a period of three years which can be renewed for a further period of three years on submission of an application form accompanied by fees of rupees one hundred, provided that the licence of the corporate agent continues to be valid. The application form along-with the fees shall be submitted at least thirty days prior to the date of expiry.

(6) The specified person on his ceasing to be an employee of the corporate agent shall surrender his certificate to the designated person. If he desires to become an individual insurance agent then he shall follow the procedure as laid down in Insurance Regulatory and Development Authority's (Licensing of Insurance Agents) Regulations, 2000. Such a person need not go through a further process of training and pass at the examination within the period of licence granted to them.

(7) A specified person will also be governed by the provisions of sub-regulation (3) and (4) stated above.

(8)Every corporate insurance executive or the specified person of the corporate agent, shall have completed at least twenty-five hours' practical training in life or general insurance business, as the case may be, from an approved institution, for the purposes of renewal of licence to the corporate agent and/or renewal of certificate to the specified person.

Provided that such applicant before seeking renewal of licence or certificate to act as a composite insurance agent shall have completed from an approved institution, at least, fifty hours' practical training in life and general insurance business.

III. CANCELLATION OF LICENCE/ CERTIFICATE-

The designated person may cancel a licence or a certificate of a corporate agent or a specified person, if such a corporate agent or the corporate insurance executive or the specified person suffers, at any time during the currency of the licence, from any of the disqualifications mentioned in sub-section (4) of section 42D of the Act (discussed above) and recover from him the licence or certificate granted to him.

B. LICENSING OF INSURANCE BROKERS

Categories of the insurance brokers –

(1) Application for grant of certificate of registration to act as an insurance broker shall be made for any one of the following categories, namely:

(a) Direct broker (life)

(b) Direct broker (general)

(c) Direct broker (life & general)

(d) Reinsurance broker

(e) Composite broker

(2) An applicant or its group entities ordinarily may be granted one certificate of registration. However, an application for an insurance broker registration where any applicant or its group entities is already engaged in insurance intermediation including insurance broking shall be considered on merits and subject to there being no conflict of interest.

New certificate of registration/ licensing involves the following procedure

Submission of application for grant of certificate of registration-

(1) An application to act as an insurance broker shall be made in application form as specified under schedule i - form b of these regulations to the authority.

(2) Application for grant of certificate of registration shall be submitted along with the requisite documents as specified in schedule i – form c of these regulations.

(3) Application for grant of certificate of registration shall be submitted along with the requisite fees as specified in schedule i – form d of these regulations.

Application to conform to the requirements –

An application, not complete in all respects and not conforming to the instructions specified in schedule i - form b and these regulations and not complying with the requirements 5 and/or directions of the authority, shall be liable for rejection. Provided that, before rejecting any such application, the applicant shall be given a reasonable opportunity to complete the application in all respects and rectify the errors, if any.

Furnishing of information, clarification and personal representation —

(1) The authority may require an applicant to furnish any further information and/or clarification and/or may direct the applicant to comply with certain requirement/s for the purpose of disposal of the application, and, thereafter, in regard to any other matter as may be deemed necessary by the authority.

(2) the authority shall give, the applicant an opportunity to submit the requirements/ clarifications/ additional information etc sought by the authority, within 30 days from the date of receipt of the communication from the authority.

(3) The applicant along with their principal officer shall, if so required, appear before the authority for a personal representation in connection with the application.

(4) The authority may direct an applicant to submit any information/ data/ clarification as may be required for the processing/ disposal of the application so made to it. (5) the applicant shall bring to the notice of the authority, on its own forthwith, such further information/or clarification, which might have a bearing on consideration of their application

Consideration of application —

(1) The Authority while considering an application shall take into account, all matters relevant for carrying out of the functions of the insurance broker.

(2) Without prejudice to the provisions of (1) above, the Authority in particular, shall take into account the following, namely:-

(a) Whether the applicant is suffering from any of the disqualifications specified under subsection (5) of section 42 D of the Act;

(b) Whether the applicant has the necessary infrastructure, such as, adequate office space, equipment, trained manpower and IT infrastructure to effectively discharge its activities;

(c) Whether the applicant has in their employment a minimum of two broker qualified persons who have the necessary qualifications specified in Schedule I – Form E and experience to conduct the business of insurance broker and in case applicant has 6 certain branch offices, one broker qualified person per branch office having the necessary qualifications specified in Schedule I – Form E of these regulations and experience to conduct the business of insurance broker.

(d) Whether any person, directly or indirectly connected with the applicant, has, in the past, been refused grant of a certificate of registration or license by the Authority.

(e) Whether the applicant fulfills the capital requirements as specified in regulation 19; Net Worth requirement as specified in regulation 22 and deposit requirements as specified in regulation 23.

(f) Whether the principal officer of the applicant possesses the required qualification, undergone training, passed the examination, possesses the necessary certificate and fulfills other requirements as specified in Schedule I – Form E of these regulations. The information required under Schedule I – Form F of these regulations shall be submitted by Director(s)/ Promoter(s)/ Partner(s)/ Key Management Personnel, in addition to Principal Officer of the applicant.

(g) Whether in the opinion of the Authority the Principal Officer of the applicant is suitable to be so appointed keeping in view his experience, preferably in the insurance sector.

(h) Whether the Principal Officer/ Director(s)/ Promoter(s)/ Partner(s)/ Key Management Personnel are Fit and Proper based on the statement in Schedule I – Form G of these regulations. (i) Whether the principal officer and/or any other official of the insurance broker has violated the code of conduct as specified in Schedule I – Form H and Schedule I – Form I, as applicable, of these regulations;

(j) Whether the applicant is engaged in any other business other than the main objects clause of the MOA/ AOA or its equivalent;

(k) Whether the promoters/ investors/ foreign investors/ partners of the applicant are of sound financial position to make investment in the applicant entity.

(l) Whether the broker qualified persons fulfill the requirements mentioned in Schedule I – Form E of these regulations and a list of such broker qualified personsshall be provided to the Authority.

(m) Whether the Authority has rejected the application for grant of certificate of registration or the applicant has withdrawn the application for any reason at any time during the preceding financial year from the date of application.

(n) Whether the foreign investor or Indian Promoter of the existing venture has exit for any reason at any time during the preceding two financial years from the date of application. Provided the Authority, considering the interests of the policyholders and overall growth and development of the insurance sector, may relax the condition of two year waiting to such time as it may so specify.

(o) Whether the issue of certificate of registration will be in the interest of policyholders.

Payment of fees and the consequences of failure to pay fees —

(1) Every applicant eligible for the grant of a certificate of registration and renewal of certificate of registration shall pay such fees in such a manner and within such a period as specified in Schedule I – Form D of these regulations.

(2) The Authority shall not process any application which does not carry the required fees.

Procedure for issuance of Certificate of Registration –

(1) The Authority on being satisfied that the applicant fulfills all the conditions specified for the issuance of Certificate of Registration, shall first issue an in-principle approval to the applicant for compliance of requirements for issuance of Certificate of Registration.

(2) The Authority upon satisfying itself of the conditions specified in the in-principle approval or other conditions of the Act, Rules, regulations, circulars, guidelines, etc., may issue a Certificate of Registration as prescribed in Schedule I – Form J of these regulations stating the category.

(3) The Certificate of Registration shall be issued subject to the insurance broker adhering to the conditions and the code of conduct as specified by the Authority from time to time.

(4) An insurance broker registered under these regulations for a specified category may also apply for the issuance of Certificate of Registration for any other category by fulfilling the requirements of these regulations. However, such application shall be made only after completion of one year from the issuance of certificate of registration in the first instance.

(5) In case a Certificate of Registration issued under these regulations or a License issued under previous regulations, is cancelled or surrendered or whose renewal is rejected by the Authority by an Order and such Order is upheld by the Securities Appellate Tribunal or any Court of Law, the applicant may then make a fresh application for grant of Certificate of Registration only after lapse of one year from the effective date of such Order for consideration of the Authority. The Authority may consider such application on merit.

Validity of Certificate of Registration —

(1) A Certificate of Registration once issued shall be valid for a period of three years from the date of issue, unless the same is suspended or cancelled under these regulations.

(2) No insurance broker shall be permitted to do business without a valid and current Certificate of Registration

(Source-
https://irdai.gov.in/ADMINCMS/cms/frmGeneral_Layout.aspx?page=PageNo57&flag=1#:~:text=%2D%2D%2D%20(1)%20The%20applicant%20shall,to%20act%20as%20insurance%20agent)

8.4 CODE OF CONDUCT

A. FOR INSURANCE AGENTS-

As per provision of IRDA Regulations, 2000 (Licensing of Insurance Agents)

I. Every insurance agent shall-

(a) Identify himself and the insurance company of whom he is an insurance agent; (b) disclose his licence to the prospect on demand;

(c) Disseminate the requisite information in respect of insurance products offered for sale by his insurer and take into account the needs of the prospect while recommending a specific insurance plan;

(d) Disclose the scales of commission in respect of the insurance product offered for sale, if asked by the prospect;

(e) Indicate the premium to be charged by the insurer for the insurance product offered for sale;

(f) Explain to the prospect the nature of information required in the proposal form by the insurer, and also the importance of disclosure of material information in the purchase of an insurance contract;

(g) bring to the notice of the insurer any adverse habits or income inconsistency of the prospect, in the form of a report (called "Insurance Agent's Confidential Report") along with every proposal submitted to the insurer, and any material fact that may adversely affect the underwriting decision of the insurer as regards acceptance of the proposal, by making all reasonable enquiries about the prospect; (h) inform promptly the prospect about the acceptance or rejection of the proposal by the insurer;

(i) Obtain the requisite documents at the time of filing the proposal form with the insurer; and other documents subsequently asked for by the insurer for completion of the proposal;

(j) Render necessary assistance to the policyholders or claimants or beneficiaries in complying with the requirements for settlement of claims by the insurer;

(k) Advise every individual policyholder to effect nomination or assignment or change of address or exercise of options, as the case may be, and offer necessary assistance in this behalf, wherever necessary.

II. No insurance agent shall-

(a) Solicit or procure insurance business without holding a valid license;

(b) Induce the prospect to omit any material information in the proposal form;

(c) Induce the prospect to submit wrong information in the proposal form or documents submitted to the insurer for acceptance of the proposal;

(d) Behave in a discourteous manner with the prospect;

(e) Interfere with any proposal introduced by any other insurance agent;

(f) Offer different rates, advantages, terms and conditions other than those offered by his insurer;

(g) Demand or receive a share of proceeds from the beneficiary under an insurance contract;

(h) Force a policyholder to terminate the existing policy and to effect a new proposal from him within three years from the date of such termination;

(i) have, in case of a corporate agent, a portfolio of insurance business under which the premium is in excess of fifty percent of total premium procured, in any year, from one person (who is not an individual) or one organisation or one group of organisations;

(j) Apply for fresh licence to act as an insurance agent, if his licence was earlier cancelled by the designated person, and a period of five years has not elapsed from the date of such cancellation;

(k) Become or remain a director of any insurance company;

(l) Every insurance agent shall, with a view to conserve the insurance business already procured through him, make every attempt to ensure remittance of the premiums by the policyholders within the stipulated time, by giving notice to the policyholder orally and in writing;

B. FOR CORPORATE AGENTS

As per provision of IRDA Regulations, 2000 (Licensing of Corporate Agents)

1) Every Licensed Corporate Agent shall abide by the code of conduct specified below:

Every corporate agent shall:

a) Be responsible for all acts of omission and commission of its corporate insurance executive and every specified person;

b) Ensure that the corporate insurance executive and all specified persons are properly trained, skilled and knowledgeable in the insurance products they market;

c) Ensure that the corporate insurance executive and the specified person do not make to the prospect any misrepresentation on policy benefits and returns available under the policy;

d) Ensure that no prospect is forced to buy an insurance product;

e) Give adequate pre-sales and post-sales advice to the insured in respect of the insurance product;

f) Extend all possible help and cooperation to an insured in completion of all formalities and documentation in the event of a claim;

g) Give due publicity to the fact that the corporate agent does not underwrite the risk or act as an insurer;

h) Enter into service level agreements with the insurer in which the duties and responsibilities of both are defined.

2) Every corporate agent or a corporate insurance executive or a specified person shall also follow the code of conduct specified below:

(i) **Every Corporate agent/corporate insurance executive/ specified person shall-**

(a) Identify himself and the insurance company of whom he is a representative;

(b) Disclose his licence/ certificate to the prospect on demand;

(c) Disseminate the requisite information in respect of insurance products offered for sale by his insurer and take into account the needs of the prospect while recommending a specific insurance plan;

(d) Disclose the scales of commission in respect of the insurance product offered for sale, if asked by the prospect;

(e) Indicate the premium to be charged by the insurer for the insurance product offered for sale;

(f) Explain to the prospect the nature of information required in the proposal form by the insurer, and also the importance of disclosure of material information in the purchase of an insurance contract;

(g) bring to the notice of the insurer any adverse habits or income inconsistency of the prospect, in the form of a report (called "Insurance Agent's Confidential Report") along with every proposal submitted to the insurer, and any material fact that may adversely affect the underwriting decision of the insurer as regards acceptance of the proposal, by making all reasonable enquiries about the prospect;

(h) Inform promptly the prospect about the acceptance or rejection of the proposal by the insurer;

(i) Obtain the requisite documents at the time of filing the proposal form with the insurer; and other documents subsequently asked for by the insurer for completion of the proposal;

(j) Render necessary assistance to the policyholders or claimants or beneficiaries in complying with the requirements for settlement of claims by the insurer;

(k) Advise every individual policyholder to effect nomination or assignment or change of address or exercise of options, as the case may be, and offer necessary assistance in this behalf, wherever necessary;

(ii) No corporate agent/ corporate insurance executive/ specified person shall,

(a) Solicit or procure insurance business without holding a valid licence/ certificate;

(b) Induce the prospect to omit any material information in the proposal form;

(c) Induce the prospect to submit wrong information in the proposal form or documents submitted to the insurer for acceptance of the proposal;

(d) Behave in a discourteous manner with the prospect;

(e) Interfere with any proposal introduced by any other specified person or any insurance intermediary;

(f) Offer different rates, advantages, terms and conditions other than those offered by his insurer;

(g) Demand or receive a share of proceeds from the beneficiary under an insurance contract;

(h) Force a policyholder to terminate the existing policy and to effect a new proposal from him within three years from the date of such termination;

(i) No corporate agent shall have a portfolio of insurance business from one person or one organization or one group of organizations under which the premium is in excess of fifty percent of total premium procured in any year;

(j) Apply for fresh licence to act as an insurance agent, if his licence was earlier cancelled by the designated person, and a period of five years has not elapsed from the date of such cancellation;

(k) Become or remain a director of any insurance company;

(iii) Every corporate agent shall, with a view to conserve the insurance business already procured through him, make every attempt to ensure remittance of the premiums by the policyholders within the stipulated time, by giving notice to the policyholder orally and in writing.

(iv) No director of a company or a partner of a firm or the chief executive or a corporate insurance executive or a specified person shall hold similar position with another corporate agent of any other insurance company.

C. FOR INSURANCE BROKERS –

(1) Every insurance broker shall abide by the Code of Conduct as specified in Schedule I – ***Form H*** of these regulations. *(Detailed below)*

(2) In case of a Composite Broker or a reinsurance broker, he shall abide by the additional Code of Conduct specified in Schedule I – ***Form I*** of these regulations. *(Detailed below)*

Form H

1. Every insurance broker shall follow recognised standards of professional conduct and discharge their functions in the interest of the clients or policyholders.
2. **Conduct in matters relating to clients relationship**— Every insurance broker shall:

   (a) Conduct its dealings with clients with utmost good faith and integrity at all times;

   (b) Act with care and diligence;

   (c) Ensure that the client understands their relationship with the insurance broker and on whose behalf the insurance broker is acting;

   (d) Treat all information supplied by the prospective clients as completely confidential to themselves and to the insurer(s) to which the business is being offered;

   (e) Take appropriate steps to maintain the security of confidential documents in their possession;

   (f) Hold specific authority of client to develop terms;

   (g) Understand the type of client it is dealing with and the extent of the client's awareness of risk and insurance;

   (h) Obtain written mandate from client to represent the client to the insurer and communicate the grant of a cover to the client after effecting insurance. Unless it is specifically mentioned otherwise, the written mandate obtained from the client shall be valid for a period of one year if the mandate has no validity period mentioned. However, in the case of pre-underwritten policies or retail/individual policies there is no requirement of obtaining mandate from the client;

   (i) Obtain written mandate from client to represent the client to the insurer/ reinsurer; and confirm cover to the insurer after effecting re-insurance, and submit relevant reinsurance acceptance and placement slips;

   (j) Avoid conflict of interest.

   (k) Obtain necessary documents required under KYC norms and share with insurance company.

   (l) Assist the client in opening e-insurance account.
3. **Conduct in matters relating to Sales practices**— Every insurance broker shall:

(a) Confirm that it is a member of the Insurance Brokers Association of India or such a body of insurance brokers as approved by the Authority which has a memorandum of understanding with the Authority;

(b) Confirm that he does not employ agents or canvassers to bring in business;

(c) Identify itself and explain as soon as possible the degree of choice in the products that are on offer;

(d) Ensure that the client understands the type of service it can offer;

(e) Ensure that the policy proposed is suitable to the needs of the prospective client;

(f) Give advice only on those matters in which it is knowledgeable and seek or recommend other specialist for advice when necessary;

(g) Not make inaccurate or unfair criticisms of any insurer or any member of the Insurance Brokers Association of India or member of such body of insurance brokers as approved by the Authority;

(h) Explain why a policy or policies are proposed and provide comparisons in terms of price, cover or service where there is a choice of products;

(i) State the period of cover for which the quotation remains valid if the proposed cover is not effected immediately;

(j) explain when and how the premium is payable and how such premium is to be collected, where another party is financing all or part of the premium, full details shall be given to the client including any obligations that the client may owe to that party;

(k) Explain the procedures to be followed in the event of a loss.

(l) Not indulge in any sort of money laundering activities.

(m) ensure that the insurance broker does not indulge in sourcing of business by themselves or through call centers by way of misleading calls or spurious calls.

4. **Conduct in relation to furnishing of information** — Every insurance broker shall:

(a) Ensure that the consequences of non-disclosure and inaccuracies are pointed out to the prospective client;

(b) Avoid influencing the prospective client and make it clear that all the answers or statements given are the latter's own responsibility.

(c) Ensure that the information provided by the client on the basis of which the risk is accepted by the insurer is made part of the proposal form and shared with the client and the insurer. Any wrongful submission of information may be dealt as per the terms and conditions of the insurance contract.

(d) ask the client to carefully check details of information given in the documents and request the client to make true, fair and complete disclosure where it believes that the client has not done so and in case further disclosure is not forthcoming it should consider declining to act further;

(e) Explain to the client the importance of disclosing all subsequent changes that might affect the insurance throughout the duration of the policy; and

(f) Disclose on behalf of its client all material facts within its knowledge and give a fair presentation of the risk

5. **Conduct in relation to explanation of insurance contract** — Every insurance broker shall:

   (a) Provide the list of insurer(s) participating under the insurance contract and advise any subsequent changes thereafter;

   (b) Explain all the essential provisions of the cover afforded by the policy recommended by him so that, as far as possible, the prospective client understands what is being purchased;

   (c) Quote terms exactly as provided by insurer;

   (D) Draw attention to any warranty imposed under the policy, major or unusual restrictions, exclusions under the policy and explain how the contract may be cancelled; (e) provide the client with prompt written confirmation that insurance has been effected. If the final policy wording is not included with this confirmation, the same shall be forwarded as soon as possible;

   (f) Notify changes to the terms and conditions of any insurance contract and give reasonable notice before any changes take effect;

   (g) advise its clients of any insurance proposed on their behalf which will be effected with an insurer outside India, where permitted, and, if appropriate, of the possible risks involved; and

   (h) Not to favor any particular insurer while arranging insurance contracts to the clients.

6. **Conduct in relation to renewal of policies** — Every insurance broker shall:

   (a) Ensure that its client is aware of the expiry date of the insurance even if it chooses not to offer further cover to the client;

(b) ensure that renewal notices contain a warning about the duty of disclosure including the necessity to advise changes affecting the policy, which have occurred since the policy inception or the last renewal date;

(c) Ensure that renewal notices contain a requirement for keeping a record (including copies of letters) of all information supplied to the insurer for the purpose of renewal of the contract;

(d) Ensure that the client receives the insurer's renewal notice well in time before the expiry date

7. **Conduct in relation to claim by client**— Every insurance broker shall : -

(a) Explain to its clients their obligation to notify claims promptly and to disclose all material facts and advise subsequent developments as soon as possible;

(b) Request the client to make true, fair and complete disclosure where it believes that the client has not done so. If further disclosure is not forthcoming it shall consider declining to act further for the client;

(c) Give prompt advice to the client of any requirements concerning the claim;

(d) Forward any information received from the client regarding a claim or an incident that may give rise to a claim without delay, and in any event within three working days;

(e) Advise the client without delay of the insurer's decision or otherwise of a claim; and give all reasonable assistance to the client in pursuing his claim.

8. **Conduct in relation to receipt of complaints** — Every insurance broker shall: —

(a) Ensure that letters of instruction, policies and renewal documents contain details of complaints handling procedures;

(b) accept complaints either by phone or in writing, including through electronic mode; (c) acknowledge a complaint within fourteen days from the receipt of correspondence, advise the member of staff who will be dealing with the complaint and the timetable for dealing with it;

(d) Ensure that response letters are sent and inform the complainant of what he may do if he is unhappy with the response;

(e) Ensure that complaints are dealt with at a suitably senior level;

(f) Have in place a system for recording and monitoring complaints.

9. **Conduct in relation to documentation** — Every insurance broker shall:—

(a) Ensure that any documents issued comply with all statutory or regulatory requirements from time to time in force;

(b) Send policy documentation without avoidable delay,

(c) Make available, with policy documentation, advice that the documentation shall be read carefully and retained by the client;

(d) Not withhold documentation from its clients without their consent, unless adequate and justifiable reasons are disclosed in writing and without delay to the client. Where documentation is withheld, the client must still receive full details of the insurance contract;

(e) Acknowledge receipt of all monies received in connection with an insurance policy;

(f) Ensure that the reply is sent promptly or use its best endeavours to obtain a prompt reply to all correspondence;

(g) Ensure that all written terms and conditions are fair in substance and set out, clearly and in plain language, client's rights and responsibilities;

(h) subject to the payment of any monies owed to it, make available to any new insurance broker instructed by the client all documentation to which the client is entitled and which is necessary for the new insurance broker to act on behalf of the client; and

(i) Assist the client in obtaining / receiving electronic insurance policies.

10. **Conduct in matters relating to advertising** — Every insurance broker shall conform to the relevant provisions of the Insurance Regulatory and Development Authority (Insurance Advertisements and Disclosure) Regulations, 2000, and :—

(a) Ensure that statements made are not misleading or extravagant;

(b) Where appropriate, distinguish between contractual benefits which the insurance policy is bound to provide and non-contractual benefits which may be provided;

(c) Ensure that advertisements shall not be restricted to the policies of one insurer, except where the reasons for such restriction are fully explained with the prior approval of that insurer;

(d) Ensure that advertisements contain nothing which is in breach of the law nor omit anything which the law requires;

(e) Ensure that advertisement does not encourage or condone defiance or breach of the law;

(f) Ensure that advertisements contain nothing which is likely, in the light of generally prevailing standards of decency and propriety, to cause grave or widespread offence or to cause disharmony;

(g) Ensure that advertisements are not so framed as to abuse the trust of clients or exploit their lack of experience or knowledge; and

(h) Ensure that all descriptions, claims and comparisons, which relate to matters of objectively ascertainable fact shall be capable of substantiation.

11. **Conduct in matters relating receipt of remuneration** — Every insurance broker shall:—

If requested by a client, disclose the amount of remuneration and reward and the basis of such remuneration and reward it receives as a result of effecting insurance for that client and whether there is any relation between him and the insurer.

12. **Conduct in relation to matters relating to training** — Every insurance broker shall:

(a) Ensure that its staff, particularly broker qualified persons, are aware of and adhere to the standards expected of them by this code;

(b) Ensure that staff, particularly broker qualified persons, are competent, suitable and have been given adequate training;

(c) Ensure that there is a system in place to monitor the quality of advice given by broker qualified persons engaged by it;

(d) Ensure that members of staff, particularly broker qualified persons, are aware of legal requirements affecting their activities; and only handle classes of business in which they are competent;

(e) Draw the attention of the client to Section 41 of the Act, which prohibits rebating and sharing of commission or remuneration or reward.

13. **Information and Education common to direct & reinsurance brokers**

a) The insurance broker will support industry education initiatives aimed at explaining insurance to consumers and the community.

b) The insurance broker will make readily available to client:

(i) Up-to-date information on insurance;

(ii) Information to assist insured to determine the level of insurance cover they may require; and

(iii) Information about insurance products and services, and this Code.

14. Every insurance broker shall display in every office where it is carrying on business and to which the public have access a notice to the effect that a copy of the code of conduct is available upon request and that if a member of the public wishes to make a complaint or requires the assistance of the Authority in resolving a dispute, he may write to the Authority.
15. An insurance broker as defined in these regulations shall not act as an insurance agent of any insurer under section 42 of the Act. 61
16. Every insurance broker shall abide by the provisions of the Insurance Act, 1938 (4 of 1938), Insurance Regulatory and Development Authority Act 1999(41 of 1999), rules and regulations made there under which may be applicable and relevant to the activities carried on by them as insurance brokers.

D. FOR REINSURANCE BROKERS

The reinsurance broker/composite broker shall adhere to the following additional code of conduct –

1. General (applicable to all contracts of reinsurance)

a) The insurance broker shall not enter the reinsurance markets either to develop terms for reinsurance cover or to place reinsurance on any risk without the specific written authorization of the insurer insuring the risk or insurer/reinsurer who has been asked to quote terms for the risk.

b) The broker shall not block reinsurance capacity in anticipation of securing an order to place reinsurance.

c) The insurance broker shall provide to the insurer/reinsurer, a true and complete copy of the reinsurance placement slip to be used, before entering the market. The insurance broker shall incorporate any modifications or corrections proposed by the insurer/reinsurer in the placement slip.

d) The insurance broker shall put up to the insurer/reinsurer, all the terms (including the reinsurance commission and brokerage allowed) obtained by it from various reinsurers and indicate the share the lead reinsurer is willing to write at those terms and the expectation of the insurance broker about placement of the required reinsurance at the terms quoted, with acceptable reinsurance security.

e) The insurance broker shall furnish to the insurer/reinsurer, a true copy of the placement slip signed by the lead reinsurer quoting terms, indicating thereon, the signed line of the reinsurer.

f) Where reinsurance on a risk is proposed to be placed with different reinsurers at different terms, the fact that terms for all reinsurers are not uniform, shall be disclosed to reinsurers suitably.

g) Once the insurer/reinsurer has accepted the reinsurance terms quoted, the insurance broker shall place the required reinsurance cover and shall keep the insurer/reinsurer informed about the progress of placement from time to time. In selecting the reinsurers to whom the risk is offered, the insurance broker shall be mindful of the need to use only such reinsurers who have a rating as required by IRDAI (General Insurance – Reinsurance) Regulations, 2016 and IRDA(Life Insurance-Reinsurance) Regulations, 2013. Where the reinsurance is over placed, the signing down shall be done in consultation with the insurer/reinsurer in a manner consistent with good market practice.

h) Shall confirm to the insurer the remittance of premium and receipt of the same by the reinsurer concerned within ten days of such remittance.

i) Immediately after completion of placement of reinsurance, the insurance broker may issue an insurance broker's cover note giving the terms of cover and the names of reinsurers and the shares placed with each of them. The cover note may contain a listing of all important clauses and conditions applicable to the reinsurance and where the wordings of clauses are not market standard, the wordings to be used in the reinsurance contract shall be attached to the insurance broker's cover note.

j) The insurance broker shall follow up the cover note by a formal signed reinsurance policy document or other acceptable evidence of the reinsurance contract signed by the reinsurers concerned, within one month of receipt of reinsurance premium.

k) The insurance broker shall have a security screening procedure in-house or follow credit ratings given by recognized credit rating agencies and answer without any delay, any questions raised by the insurer about the credit rating of one or more reinsurers. Where the insurer/reinsurer declines to accept a particular reinsurer for whatever reason and asks the insurance broker to replace the security before commencement of risk, the insurance broker shall do so promptly and advise the insurer/reinsurer of the new reinsurer brought on the cover.

2**. Placement of Proportional Treaty or Non-proportional Treaty**

a) The insurance broker invited to place a proportional treaty shall prepare the treaty offer slip and supporting information with the cooperation of the insurer and secure the insurer's concurrence to the slip and information before entering the market.

b) Where a reinsurance treaty is placed at different terms with different reinsurers, the fact that such is the practice shall be made known to all the reinsurers suitably.

c) Where a reinsurer accepts a share in a treaty subject to any condition, the conditions shall be made known to the ceding insurer and its agreement obtained before binding the placement.

d) The insurance broker shall advise the progress of placement of the treaty from time to time. Immediately after completion of placement, the insurance broker shall issue a cover note setting out the treaty terms and conditions and list of reinsurers with their shares. Where a treaty is over-placed, the insurance broker shall sign down the shares in consultation with the insurer in a manner consistent with good market practice.

e) The insurance broker shall secure signature of formal treaty wordings or other formal reinsurance contract documentation within three months of completion of placement.

3. **Placement of Foreign Inward Reinsurance**

a) The insurance broker shall ensure that Indian Reinsurer(s) receive the reinsurance premium from the overseas insurer as per the premium payment condition stipulated in the reinsurance contract;

b) The insurance broker shall not enter the Indian reinsurance markets either to develop terms for reinsurance cover or to place reinsurance on any risk without the specific written 64 authorization of the overseas insurer insuring the risk or insurer who has been asked to quote terms for the risk.

c) The insurance broker shall provide to the Reinsurer in India, a true and complete copy of the placement slip to be used, before committing any terms to the overseas insurer. The insurance broker shall incorporate any modifications or corrections proposed by the Reinsurer in the placement slip.

d) The insurance broker shall put up to the overseas insurer, all the terms (including the reinsurance commission and brokerage allowed) obtained by it from various Indian reinsurers and indicate the share the reinsurer(s) is willing to write at those terms and the expectation of the insurance broker about placement of the required reinsurance at the terms quoted, with acceptable reinsurance security.

e) The insurance broker shall furnish to the overseas insurer, a true copy of the placement slip signed by the Indian reinsurer quoting terms, indicating thereon, the signed line of the reinsurer. f) Where reinsurance on a risk is proposed to be placed with different reinsurers at different terms, the fact that terms for all reinsurers are not uniform, shall be disclosed to reinsurers suitably

g) The insurance broker shall provide complete information as desired by the Indian reinsurer(s) to process the claim arising out of any Inwards business.

4. **Reinsurance business placed with overseas reinsurers**

a) The insurance broker shall ensure that business is placed with only those overseas Reinsurers which are approved by the Authority under Guidelines on Cross Border Reinsurers;

b) The Reinsurance broker shall ensure the compliance of any taxation, foreign exchange, Anti Money laundering or any other applicable statutory laws at the time of placing the reinsurance business.

c) Reinsurance broker shall ensure that, while placing reinsurance business of a foreign insurer with any other foreign insurer/reinsurer, they comply with the applicable Laws of those jurisdictions.

5. **Responding to Catastrophes and Disasters**

a) The insurance broker shall respond to catastrophes and disasters, such as floods, earthquakes, cyclones, severe storms and hail which result in a large number of claims, in a timely, professional and practical way and in a compassionate manner.

6. **Conduct in relation to explanation of Reinsurance contract** —

Every Reinsurance or Composite broker shall:

a) Provide the list of Reinsurer(s) participating under the Reinsurance contract and advise any subsequent changes thereafter;

b) Explain all the essential provisions of the cover afforded by the policy recommended by him so that, as far as possible, the prospective insurer understands what is being purchased;

c) Quote terms exactly as provided by Reinsurer;

d) draw attention to any warranty imposed under the policy, major or unusual restrictions, exclusions under the policy and explain how the contract may be cancelled;

e) Provide the insurer/reinsurer with prompt written confirmation that Reinsurance has been effected. If the final policy wording is not included with this confirmation, the same shall be forwarded as soon as possible; and

f) Notify changes to the terms and conditions of any Reinsurance contract and give reasonable notice before any changes take effect.

(Source- irda.gov.in)

https://www.irdai.gov.in/ADMINCMS/cms/Uploadedfiles/Regulations/Consolidated/IRDAI%20(Insurance%20Brokers)%20Regulations%20May%202020.pdf

8.5 CHECK YOUR PROGRESS

1. Insurance agent can represent one insurance company and an insurance broker can represent more than one insurance company (True/ False).
2. An insurance agent can force the policyholder to terminate the policy and take a new proposal at any time (True/False).
3. A composite agent is one who can be an agent in both life as well as general insurance (True/ False).
4. Panchayat or local authority can become an agent of an insurance company (True/ False).
5. The minimum qualification for becoming a corporate agent is ______________.
6. A ____________ broker is an are intermediary between primary insurers and insured (direct/ reinsurance)

8.6 SUMMARY

India is a country with a massive population of 1.3 billion. Catering such a huge population with insurance increases the role of insurance intermediaries. Insurance intermediaries bridge the gap between the consumers and insurance companies. An insurance intermediary means “individual agents, corporate agents including banks and brokers, insurance marketing firm”. Insurance Agent is a “person who is licensed by the Authority to solicit and procure insurance business including business relating to continuance, renewal or revival of policies of insurance.” A corporate agent is an “intermediary other than an individual, may be a firm, company or a registered society, representing an insurance company. Insurance Broker is also an important intermediary. He is “a person licensed by IRDAI who arranges insurance contracts with insurance companies on behalf of his clients. An Insurance Broker may represent more than one insurance company and may deal with more than one life or general insurer or both”. He may be a direct broker, reinsurance broker or a composite broker.

All these intermediaries have important roles to perform. The functions of insurance agent deal with soliciting and procuring new business. They assist in selection of suitable policy according to the requirement, economic status, type of occupation, age, demographic details and family history of their clients. They guide the policy holders to pay premium in time and take full benefits of their policies. Direct Broker obtains detailed information of the client’s business and risk management philosophy. He familiarizes himself with the client’s business and underwriting information so that this can be explained to an insurer and others to render the advice on appropriate insurance cover and terms. Reinsurance Broker renders advice based on technical data on the reinsurance covers available in the international insurance and the reinsurance markets and maintains a database of available reinsurance markets, including solvency-ratings of individual insurers. He selects and recommends an insurer or a group of insurers and negotiates with an insurer on the client’s behalf.

Becoming an agent involves a formal procedure. It requires issue of license. The IRDA Regulations, 2000 (Licensing of Insurance Agents) and 2002 (Licensing of Corporate Agents) govern the whole mechanism. First an application has to be filed to a designated person in Form IRDA- Agents-VA, if the applicant is an individual; and in Form IRDA- Agents-VC, if the applicant is a firm or a company. A fee of rupees two hundred and fifty is payable. Certain qualifications have to be satisfied as passing of 12th Standard or equivalent examination, where the applicant resides in a place with a population of five thousand or more as per the last census, and a pass in 10th Standard or equivalent examination from a recognised Board/ Institution if the applicant resides in any other place. Also, every corporate insurance executive and each of the specified persons shall also not suffer from any of the disqualifications specified under *Section 42D* of the Act which includes that he shouldn't be a minor or of unsound mind or held in criminal offence. A pre-recruitment exam has to be passed. He should undertake a specified hours of practical training as mentioned in IRDA guidelines. The designated person shall grant or renew the licence within a period of 3 months from the date of application. If the designated person refuses to grant or renew a licence under this regulation, he shall give the reasons thereof to the applicant.

Similarly guidelines of IRDA issue license to persons desirous of becoming an insurance brokers as well. The authority shall consider the application after seeing certain qualification as under section 42 D. requirements of infrastructure, minimum two employees working as qualified brokers etc. Qualifications with respect to training hours and examination shall also be checked. A Certificate of Registration once issued shall be valid for a period of three years from the date of issue, unless the same is suspended or cancelled under these regulations.

Insurance agent is governed by code of conduct under IRDA regulations. He shall identify himself and the insurance company of whom he is an insurance agent; and disclose his licence to the prospect on demand; disseminate the requisite information in respect of insurance products offered for sale by his insurer and take into account the needs of the prospect while recommending a specific insurance plan etc. He shall not solicit or procure insurance business without holding a valid licence; or induce the prospect to omit any material information in the proposal form; or submit wrong information in the proposal form or documents submitted to the insurer for acceptance of the proposal; or behave in a discourteous manner with the prospect etc. Similarly, every Licensed Corporate Agent shall abide by the code of conduct and be responsible for all acts of omission and commission of its corporate insurance executive and every specified person;

Also every insurance broker shall abide by the Code of Conduct as specified in Schedule I – *Form H and Form I* of these regulations. Reinsurance brokers shall not enter the reinsurance markets either to develop terms for reinsurance cover or to place reinsurance on any risk without the specific written authorization of the insurer insuring the risk or insurer/reinsurer who has been asked to quote terms for the risk and shall provide to the insurer/reinsurer, a true and complete copy of the reinsurance placement slip to be used, before entering the market. He shall abide by placement of Proportional Treaty or Non-proportional Treaty and placement of Foreign Inward Reinsurance etc.

8.7 KEYWORDS

1. **Insurance intermediaries**- An Insurance Intermediary means individual agents, corporate agents including banks and brokers, insurance marketing firm who bridge the gap between the consumers and insurance companies.
2. **Insurance Agent**- An agent is a "person who is licensed by the Authority to solicit and procure insurance business including business relating to continuance, renewal or revival of policies of insurance."
3. A **Composite Insurance Agent** is an "insurance agent who holds a license to act as an insurance agent for a life insurer and a general insurer."
4. ***Corporate Agent***- A corporate agent is an "intermediary other than an individual, may be a firm, company or a registered society, representing an insurance company".
5. **Insurance Broker**- Insurance Broker is "a person licensed by IRDAI who arranges insurance contracts with insurance companies on behalf of his clients. An Insurance Broker may represent more than one insurance company and may deal with more than one life or general insurer or both".
6. **A reinsurance broker**- These brokers are intermediaries between primary insurers and the reinsurers

8.8 SELF ASSESSMENT TEST

1) Explain different insurance intermediaries. Discuss their role and functions.
2) Explain the procedure of becoming an insurance intermediary.
3) How can insurance agent obtain a licence? Discuss.
4) How can insurance broker obtain a licence? Discuss.
5) How can corporate agent obtain a licence? Discuss.
6) Explain code of conduct applicable to insurance agents.
7) Explain code of conduct applicable to insurance brokers.

8.9 ANSWERS TO CHECK YOUR PROGRESS

1. True
2. False
3. True
4. True
5. 12^{th} standard
6. Reinsurance

8.10 REFERENCES/SUGGESTED READINGS

1) irda.gov.in
2) Principles of Insurance by P K Gupta published by Himalaya Publishing House; 2018th edition.
3) The IRDA Act, 1999 along with rule and regulations by Universal, New Delhi, India.
4) Sethi J, Bhatia N. Elements of Banking and Insurance. PHI Learning Pvt. Ltd.; 2012 Dec 9.
5) Palande PS, Shah RS, Lunawat ML. Insurance in India: Changing policies and emerging opportunities. SAGE; 2003.

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