MANONMANIAM SUNDARANAR UNIVERSITY

Tirunelveli

DIRECTORATE OF DISTANCE AND CONTINUING EDUCATION

B.COM

PRINCIPLES OF INSURANCE

Principles of Insurance

UNIT – I

Insurance- Meaning- Definition, Functions, Nature and Principles of Insurance-Insurance contract- Importance of insurance to society, individuals, Business and Government.

Insurance

Insurance is a legal contract between two parties- the insurance company (insurer) and the individual (insured), wherein the insurance company promises to compensate for financial losses due to insured contingencies in return for the premiums paid by the insured individual. In simple words, insurance is a risk transfer mechanism, where you transfer your risk to the insurance company and get the cover for financial loss that you may face due to unforeseen events. And the amount that you pay for this arrangement is called premium. There is insurance available for various risks, starting from your life to mobile phones that you use. In the end, it's essential to protect what is 'important' to you.

Definition of insurance

Insurance is generally defined as a contract which is also called a policy. An insurance policy is a contract in which an individual or an organization gets financial protection and compensation for any damages by the insurer of the insurance company. In simpler words, one can answer what is an insurance policy as a form of protection from any unexpected loss or damage.

Functions of Insurance

It is important to understand that an insurance policy has both a financial and an emotional aspect for the policyholder. There are certain functions that an insurance company must promise to take care of while they are finalising the contract with the insured party. The functions are discussed below:

1. **To provide safety and security to the insured**

   One of the prime reasons for entering into an insurance contract is to seek financial security in the event of a loss from an unexpected occurrence. Insurance offers support to the policyholder and helps to reduce the uncertainties in the business or in human lives. With the help of a policy, the insured party is protected against future hazards, vulnerabilities and accidents. Although no insurer in the world can prevent the dangerous event from occurring, they can certainly help by providing some sort of financial protection to compensate the insured party.

2. **Protection for your loved ones**

Medical insurance can help you and your family get the right sort of treatment and cover hospitalisation expenses. It helps to take care of their health in case of an accident, illness or any other unfortunate event. The well being of your family comes before anything, and insurance helps take care of that in the best possible manner.

3. **Collective Risks**

Another function of an insurance contract is that it helps a number of individuals get an insurance policy to safeguard themselves from the losses that may occur due to an unfortunate event. This strategy works on the principle that not all of the policyholders for a particular risk will face it at the same time. For example, if a total of fifty thousand people are insured against damage to their cars due to accidents, the most likely scenario is that only a few of them would have accidents in a single year. So the amount that they can claim from the insurance company for the financial losses due to the accidents would be adequately covered by the insurance premiums from all fifty thousand policyholders.

4. **Risk Assessment**

Insurance organisations play an important role in determining the actual amount of risk from the occurrence of a particular event by assessing the situation. They analyse all the aspects of a risk carefully to make an informed decision. It helps them to arrive at the final insurance amount as well as fix the premium to be paid by the insured.

5. **Certainty**

One of the main benefits of taking a policy for the insured is that they can feel secure about meeting the future losses after taking coverage for a particular risk. It can be very reassuring for the insured party and can also help them to precede with their daily activities in a much more assured manner without fear or hesitation.

6. **It helps to forestall losses**

An insurance contract can help the insured to mitigate their losses by providing some sort of security in case of an unforeseen event. It helps businesses have a contingency plan in case things do not go as planned. Insurance is a very important tool for organisations as it allows them to cover their bases while operating in a very risky environment where the losses can be huge if they do not play their cards right. It also allows them to be able to cover these huge risks in their businesses by paying a relatively small amount as the premium.

7. **Fulfil the legal requirements**

In some countries, any business is required to have certain insurance covers in order to engage in any economic activity. So the insurance company can help organisations fulfil these requirements.

8. **It allows the development of big businesses**

Any large-sized organisation is exposed to a greater amount of risk. If the chances of loss are relatively higher, it may prevent the management in those organisations from taking calculated risks, which has the potential of bringing more profits. Insurance helps to mitigate that risk in a way and encourage businesses to take bold decisions. Insurance takes away some of the financial pressures and allows businesses to flourish in the long run.

9. It can help in boosting the economy

When the businesses have sufficient insurance cover, they can increase their scope of economic activity that will bring commensurate rewards. This can provide an impetus to the overall economy of a country in the long run.

Nature of Insurance

1. Contract

Insurance is contract between two parties in which one party agrees to provide protection to other party from losses in exchange for premium. The parties are insurer and insured. Insurer guarantees compensation in occurrence of any contingency to insured and insured pays premium to insurer for protection. Insurance companies accept the offer made by the insurance policy holder and enter into contract. Contract for insurance is always written.

2. Lawful Consideration

Existence of lawful consideration is must for insurance contract like any other lawful contract. The insurance policy holder is required to pay premium regularly to the insurance company. This premium is paid in exchange for protection against losses and damages guaranteed by insurance companies.

3. Payment on Contingency

Insurer is required to compensate the insured only on happening of contingency for the damages and losses done. Insured cannot make profit from insurance policy but can only claim compensation from insurer in case of contingency. If no contingency occurs, insurer is not required to pay any compensation to insured.

4. **Risk Evaluation**

Insurer evaluates the risk associated with subject matter of insurance contract. Proper risk evaluation enables the insurer to calculate the right amount of premium to be paid by insured. Insurer uses different techniques for risk evaluation. If insurance object is subject to heavy losses, heavy premium will be charged. On the other hand, if there is less expectation of losses then low premium will be charged.

5. **Large Number of Insured Persons**

Large number of insured persons take insurance policy from insurer. Larger the number of insurance policy holders with insurance companies, smaller will be the degree of risk on any individual. Risk arising from any contingency is shared among these large number of insured persons.

6. **Co-operative Device**

Insurance is a cooperative device to pool risk among large number of persons. Insurance is a platform where different persons come together to share risk by taking insurance policy from insurer. All persons pay premium regularly to insurance companies. If any person incurs losses or damages due to occurrence of any contingency, insurance company will compensate him out of premiums paid by different persons.

7. **Not a Charity or Gambling**

Insurance is a legal contract. It cannot be termed as a charity or gambling. Compensation paid to insured by insurer is not in charity but is paid in exchange of premium deposited by him. Insured pays premium to insurer for guarantee of compensation in happening of contingency. Also, insured cannot make profit out of insurance policy and is meant for recovering him from losses only. He is paid compensation only when he incurs losses due to contingency. That is why it is not a gambling.

Principles of Insurance

In insurance, there are 7 basic principles that should be upheld,

1. Principle of Utmost Good Faith
2. Principle of Insurable Interest
3. Principle of Proximate Cause
4. Principle of Subrogation
5. Principle of Indemnity
6. Principle of Contribution
7. Principle of Loss Minimisation

1. Principle of Utmost Good Faith

This is a primary principle of insurance. According to this principle, you have to disclose all the information that is related to the risk, to the insurance company truthfully.

You must not hide any facts that can have an effect on the policy from the insurer. If some fact is disclosed later on, then your policy can be cancelled. On the other hand, the insurer must also disclose all the features of a life insurance policy.

2. Principle of Insurable Interest

According to this principle, you must have an insurable interest in the life that is insured. That is, you will suffer financially if the insured dies. You cannot buy a life insurance policy for a person on whom you have no insurable interest.

3. Principle of Proximate Cause

While calculating the claim for a loss, the proximate cause, i.e., the cause which is the closest and the main reason for a loss should be considered. Though it is a vital factor in all types of insurance, this principle is not used in Life insurance.

4. Principle of Subrogation

This principle comes into play when a loss has occurred due to some other person/party and not the insured. In such a case, the insurance company has a legal right to reach that party for recovery.

5. Principle of Indemnity

The principle of indemnity states that the insurance will only cover you for the loss that has happened. The insurer will thoroughly inspect and calculate the losses. The main motive of this principle is to put you in the same position financially as you were before the loss. This principle, however, does not apply to life insurance and critical health policies.

6. Principle of Contribution

According to the principle of contribution, if you have taken insurance from more than one insurer, both insurers will share the loss in the proportion of their respective coverage. If one insurance company has paid in full, it has the right to approach other insurance companies to receive a proportionate amount.

7. Principle of Loss Minimisation

You must take all the necessary steps to limit the loss when it happens. You must take all the necessary precautions to prevent the loss even after purchasing the insurance. This is the principle of loss minimization.

Insurance contract

Insurance contract is unique, there are seven essential elements of every insurance contract. These are:

1. Intention to create legal relation
2. Agreement between both parties
3. Legal capacity and insurable interest

4. Legality
5. No misrepresentation
6. Offer and acceptance.
7. Consideration

1. Intention to create legal relation

For an insurance contract to be valid, both the insurer and insured must be intent on entering into a legally binding agreement. Intention to create legal relations is so important that failure to prove intent to enter into a legally binding may nullify the contract.

2. Agreement between both parties

Both parties to an insurance contract (the insurer and the insured) should have a **consensus ad idem**. That is, both parties should agree on the same thing and the same terms. In essence, an insurance contract is a legally binding agreement between the insured and the insurer in which the insurer agrees to indemnify the insured against a specified risk in consideration for the premium that will be paid by the insured to the insurer.

3. Legal capacity and insurable interest

For an insurance contract to be binding, the parties involved must have the legal capacity to enter into a contract. In the case of the insurer, if the insurance company is lawfully created and has the power to solicit insurance, then it can enter into an insurance contract. When it comes to the insured, the insured must be of legal age, of sound mind, and not be disqualified by local law. It is evident from the preceding that a person who is drunk, insane or a minor cannot enter into an insurance contract.

Furthermore, the prospective insured must have an insurable interest for the contract to be legally binding. That is, the person entering into an insurance contract must be in the position to suffer loss upon the occurrence of the insured peril.

For example, a person who purchases a life insurance policy for himself has an insurable interest: his family and relatives will suffer financial hardship upon his death.

However, if a person takes a life insurance policy on the life of an unknown person, then the policyholder has no insurable interest and such contract may be declared void.

4. Legality

As a legal business, insurance does not concern itself with anything illegal. Therefore, the object or subject matter of an insurance policy must be legal. In other words, it should not go against the law; otherwise, it would not be enforceable in a court of law.

For example, insurance on a stolen property is not enforceable in the court of law and such a contract will be declared null and void by the court.

Additionally, the object or subject matter of an insurance policy should not go against the public interest as public interest take precedence over individual interest.

5. No misrepresentation

A representation is a factual statement that forces one to enter into an insurance contract. If such statements are false or twisted, it is a misrepresentation. More precisely, misrepresentation occurs when material facts are suppressed or not disclosed. To ensure the validity of an insurance contract, there should be no misrepresentation and every material fact must be disclosed. Indeed, if one of the parties wilfully makes a false or misleading declaration, the insurance contract may be rendered null and void.

6. Offer and acceptance

As previously stated, a valid insurance contract requires an agreement between two parties. For this to happen, one party must make an offer, which must be accepted by the other party. Only when an offer is accepted and disclosed to the other party does an insurance contract become legitimate.

As a result, an insurance contract between the insured and the insurer can only exist if an offer is accepted. An offer is made when one party propose to another party to create a legal agreement between them. An offer can be made through letter, email or through your actions. Although the offer is normally made by the insured, there are times when the insurer will make an offer.

For example, when your current insurance policy expires, the insurance provider may send you an offer to renew it. In addition, an insurance company may make adjustments to the insured's original offer before returning it to the insured for acceptance. This is referred to as a **counter-offer**.

7. Consideration

Consideration consists of certain benefits accruing to parties to a contract. It is the act or promise offered by one party and accepted by the other party as the price of his promise. In an insurance contract, the premium is the consideration moving from the insured to the insurer while the assurance to indemnify against a loss is the consideration moving from the insurer to the insured.

The consideration for an insured under an insurance contract is

- (•) Premium
- ( ) Promise

- Condition
- Compensation

Importance of Insurance to Society

1. Protects society's wealth

Through various types of insurance schemes, the insurer protects the wealth of the society. Life insurance offers protection against loss of human wealth. General insurance policies protect the property against losses due to fire, theft, accident, earthquake, etc. As such, both general and life insurances offer protection to stabilize business condition and financial position.

2. Removes social evils

All forms of insurance tend to reduce the extent of social evils that are meant to alleviate. The most effective argument for reduction of fire losses is that smaller losses will make smaller premiums possible.

3. Maintains standard of living

Insurance rescues many people in the society who are rendered destitute through misfortune. They are able to maintain the standard of living due to high returns. They reduce the destitution and misery. These could lower the ideals and standards of conduct of entire communities.

4. Social security benefits

Insurance plays a pivotal role in fulfilling certain needs for which state might have to provide. The provision for old age, sickness and disability of persons in general. Those who have their insurance do not become a burden on state insurance plan.

In case of fire, explosions and other calamities that would tend to impoverish (render poor) families would have been relieved of the financial loss if adequate insurance had been maintained.

5. Equitable distribution of loss

Insurance distributes the cost of accidental events in an equitable manner. In the absence of insurance, this would have been paid in a haphazard manner. For example, the cost of fire insurance is reflected in house rent. In the absence of insurance, some tenants would pay higher rents than others.

Importance of Insurance to Individuals

1. **Financially Security**:

No matter how much you are earning or how much you have saved; your financial position can be dented by an unexpected event in a moment. Therefore, the best way to become financially secure is to cover yourself, your family, and your assets with insurance. You can buy or renew insurance online and receive a payout for financial support, in case there happens to be an unforeseen event.

2. Transfer of Risk:

The contract of insurance works on the ‘principle of transfer of financial risk from the insured to the insurgency company’. As an insured, you pay premiums to receive compensation from the insurer, in case of occurrence of an unforeseen event. So, having insurance reduces the financial burden on your shoulders.

3. Complete Protection for You and Your Family:

Family is the most important asset that you have and your family depends on you for financial support. That is why it is important to make sure that you and your family are completely secure to face any emergency.

4. No More Stress or Tension during Difficult Times:

None of us can see the future or predetermine the future events. Any unforeseen tragedy can leave you physically, mentally, and financially strained. Therefore, if you have insurance to take care of the outcomes of such tragedies such as illness, injury or permanent disability, even death- you save yourself and your family from tension and stress. With insurance in place, any financial stress will be taken care of, and you can focus on your recovery.

5. Some Types of Insurances are Compulsory:

Insurance is necessary because sometimes it is mandatory as per the law. An example of this is motor insurance. As per the Motor Vehicle Act of 1988, it is compulsory to have at least a third-party motor insurance for every motor vehicle plying on road in India. Motor insurances come in really handy during claims.

6 Peace of Mind:

Having insurance like health insurance offers you financial security and also peace of mind. No amount of money can replace your peace of mind. So, when you have insurance you know that you are secured against any unforeseen events in life, and this gives you complete peace of mind.

The sum of all these reasons provides enough reason as to why insurance is necessary. Insurance secures you, your family, and your assets, and thus both financial freedom, as well as peace of mind, are pretty achievable.

Importance of Insurance to a Business

- The uncertainty of business losses is reduced.
- Business efficiency is increased with insurance.

- Key man indemnification.
- Enhancement of credit.
- Business continuation.
- The welfare of employees.

1. The uncertainty of Business Losses is reduced

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

2. Business Efficiency is increased with Insurance

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

3. Key Man Indemnification

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

4. Enhancement of Credit

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

5. Business Continuation

In any business particularly partnership business may discontinue at the death of any partner and the business and the partners will suffer economically although the surviving partners can restart the business. The insurance policies provide adequate funds at the time of death. Each partner may be insured for the amount of his interest in the partnership and his dependents may get that amount at the death of the partner. With the help of property insurance, the property of the business is protected against disasters and the chance of disclosure of the business due to the tremendous waste or loss shall be avoided.

6. Welfare of Employees

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

Importance of Insurance to Government

Insurance **turn accumulated capital into productive investments**. Insurance also enables mitigation of losses, financial stability and promotes trade and commerce activities those results into sustainable economic growth and development. Thus, insurance plays a crucial role in the sustainable growth of an economy.

Apart from protecting individuals and businesses from many kinds of potential risks, the Insurance sector contributes significantly to the general economic growth of the nation by providing stability to the functioning of businesses and generating long-term financial resources for the industrial projects. Among other things, Insurance sector also encourages the virtue of savings among individuals and generates employments for millions, especially in a country like India, where savings and employment are important.

The Insurance sector makes a significant impact on the overall economy by mobilizing domestic savings. Insurance turn accumulated capital into productive investments.

The Insurance sector generates funds by way of premiums from millions of policyholders. Due to the long-term nature of these funds, these are invested in building long-term infrastructure assets (such as roads, ports, power plants, dams, etc.) that are significant to nation-building. Employment opportunities are increased by big investments leading to capital formation in the economy.

Insurance also enables mitigation of losses, financial stability and promotes trade and commerce activities those results into sustainable economic growth and development. Thus, insurance plays a crucial role in the sustainable growth of an economy.

Types of Insurance

There are many different types of insurance. The most important types of insurance are as follows.

1. **Health Insurance**

With regard to health insurance, people who have chronic health issues or need regular medical attention should look for policies with lower deductibles. Though the annual premium is higher than a comparable policy with a higher deductible, less expensive access to medical care throughout the year may be worth the tradeoff.

2. **Home Insurance**

Homeowners insurance (also known as home insurance) protects your home and possessions against damage or theft. Virtually all mortgage companies require borrowers to have insurance coverage for the full or fair value of a property (usually the purchase price) and won't make a loan or finance for a residential real estate transaction without proof of it.

3. **Auto Insurance**

When you buy or lease a car, it's important to protect that investment. Getting auto insurance can offer reassurance in case you're involved in an accident or the vehicle is stolen, vandalized, or damaged by a natural disaster. Instead of paying out of pocket for auto accidents, people pay annual premiums to an auto insurance company; the company then pays all or most of the costs associated with an auto accident or other vehicle damage.

4. **Life Insurance**

Life insurance is a contract between an insurer and a policy owner. A life insurance policy guarantees that the insurer pays a sum of money to the named beneficiaries when the insured dies in exchange for the premiums paid by the policyholder during their lifetime.

5. **Travel Insurance**

Travel insurance is a type of insurance that covers the costs and losses associated with travelling. It is a useful protection for those travelling domestically or abroad.

The world we live in is full of uncertainties and risks. Individuals, families, businesses, properties and assets are exposed to different types and levels of risks. These include risk of losses of life, health, assets, property, etc. While it is not always possible to prevent unwanted events from occurring, financial world has developed products that protect individuals and businesses against such losses by compensating them with financial resources. Insurance is a financial product that reduces or eliminates the cost of loss or effect of loss caused by different types of risks.

UNIT – II

Life Insurance- Meaning and features of life insurance Contract-Classification of Policies- Annuities- Selection of risk- Measurement of Risk- Calculation of Premium- Investment of funds- Surrender Value-Policy Conditions- Life insurance for the Under Privileged

Life Insurance

Life insurance is a contract between an insurer and a policy owner. A life insurance policy guarantees the insurer a sum of money to the named beneficiaries when the insured dies in exchange for the premiums paid by the policyholder during his lifetime.

The life insurance application must accurately disclose the insured's past and current health conditions and high-risk activities to enforce the contract.

Features of Life Insurance Contract

1. Nature of General Contract
2. Insurable Interest
3. Utmost Good Faith
4. Warranties
5. Proximate Cause
6. Assignment and Nomination

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

1. Nature of General Contract

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

- **Agreement (offer and acceptance)**
- **Competency of the parties**
- **Free consent of the parties**
- **Legal consideration**

- **Legal objective**
- **Agreement (offer and acceptance)**

An offer or proposal is intimation to another of ones intention to do or to abstain from doing anything with a view to obtaining the assent of that other person to such an act or abstinence. When the person to whom the proposal or offer is made signifies his assent to it, the offer is said to be accepted. The offer and acceptance in life insurance is of typical nature. The Agents canvassing or publication of prospectus and of uses of insurance constitutes invitation to offer because the public in general and individual in particular are invited to make proposal for insurance. Submission of proposal along with the premium is an offer and the dispatch of acceptance-letter is the acceptance. The risk will commence as soon as the acceptance letter is dispatched by the insurer.

When the proposal is not accompanied with the first premium, it would be an invitation to offer by the prospect and the letter of insurer (generally acceptance letter with modification is sent) asking the prospect to pay the first premium without any alteration is an offer and the payment of first premium by the prospect is acceptance. As soon as premium is dispatched, acceptance is made provided there was no alteration in the terms and conditions. Another case may be when the insurer desires to accept the proposal only on certain modifications. The letter (generally the acceptance letter) sent to the prospect about the desire of change in terms and conditions are an offer if the first premium was not sent along with the proposal. But if the first premium was sent along with the proposal, it would be a counter-offer. If the premium was not already sent, it would be an acceptance. Thus the acceptance letter sent by the insurer is not always acceptance. It would be acceptance only when the first premium was accompanied with the proposal and the proposal is acceptable on normal rates and terms. In other cases it would be an offer or counter-offer.

- **Competency of the Parties**

The essential element of a valid Contract is that the parties to it must be legally competent to contract. Every person is competent to contract who is of the age of majority according to the law, who is of sound mind, and who is not disqualified from contracting by any law. The insurer will be competent to contract if he has got the license to carry on insurance business. Majority is attained when a person completes age of 18 years. A minor is not competent to contract. A contract by a minor is void excepting contracts for necessaries. The minor can repudiate the contract at any time during his minority. If the life insurance policy is issued to a minor, the insurer cannot repudiate it but the minor can repudiate it during his minority. At the attainment of majority, he has to exercise the option, within a reasonable time, whether he would continue to carry on the policy or not. Generally, insurer accepts the proposal forms completed by the guardians of the minors. So, the incompetence of contract does not arise. Persons of sound mind can enter into a contract. A person is said to be of sound mind for the purpose of making a contract if at the time when he makes it, he is capable of understanding it and of forming a rational judgment as to its effect upon his interests. A person who is usually of unsound mind, but occasionally of sound mind may make a contract when he is of sound mind. A person usually of sound mind, but occasionally of unsound mind, may not make a contract when he is of unsound mind. So, an intoxicated person cannot enter into a contract. The contract may be avoidable at his option, but in order to be avoided, it must be repudiated by the insured within a reasonable time of his becoming sober. Similarly, when an originally valid contract has been entered into, it will not be affected by one of the parties becoming lunatic afterwards. A contract with an alien enemy is void. An alien enemy is disqualified from, and is incapable of entering into contract or enforcing it. When an alien with whom an insurance contract has been entered into becomes an enemy afterwards, the contract is either suspended or terminated as from the declaration of war.

- **Free Consent of the Parties**

  In life insurance, both parties must know the exact nature of the risk to be underwritten. If the consent is not free, the contract is generally avoidable at the option of the party whose consent was not freely given.

- **Legal Consideration**

  The presence of a lawful consideration is essential for a legal contract. The insurer must have some consideration in return of his promise to pay a fixed sum at maturity or death whichever may be the case. The consideration need not be money only. It should be anything valuable or to which value may be assigned. It may be interest, right, dividend, etc. The first premium is consideration and subsequent premiums are merely conditions to contract.

- **Legal Objective**

  The contract would be legal only when the object is legal. The object of a legal life insurance contract is to protect oneself or ones family against financial losses at the death of the insured. The contract is, sometimes, to provide for financial emergencies that may occur in old age. In brief the contract will be lawful only when the objective is legal. The objective will be legal only when there is insurable interest. Without having this interest, the object of the contract would not be legal. It would be wager contract and against public policy.

2. Insurable Interest

Insurable interest is the pecuniary interest. The insured must have insurable interest in the life to be insured for a valid contract. Insurable interest arises out of the pecuniary relationship that exists between the policy-holder and the life assured so that the former stands to loose by the death of the latter and/or continues to gain by his survival. If such relationship exists, then the former has insurable interest in the life of the latter. The loss should be monetary or financial. Mere emotion and expectation do not constitute insurable interest in the life of his friend or father merely because he gets valuable advice from them.

Insurable interest in life insurance may be divided into two categories.

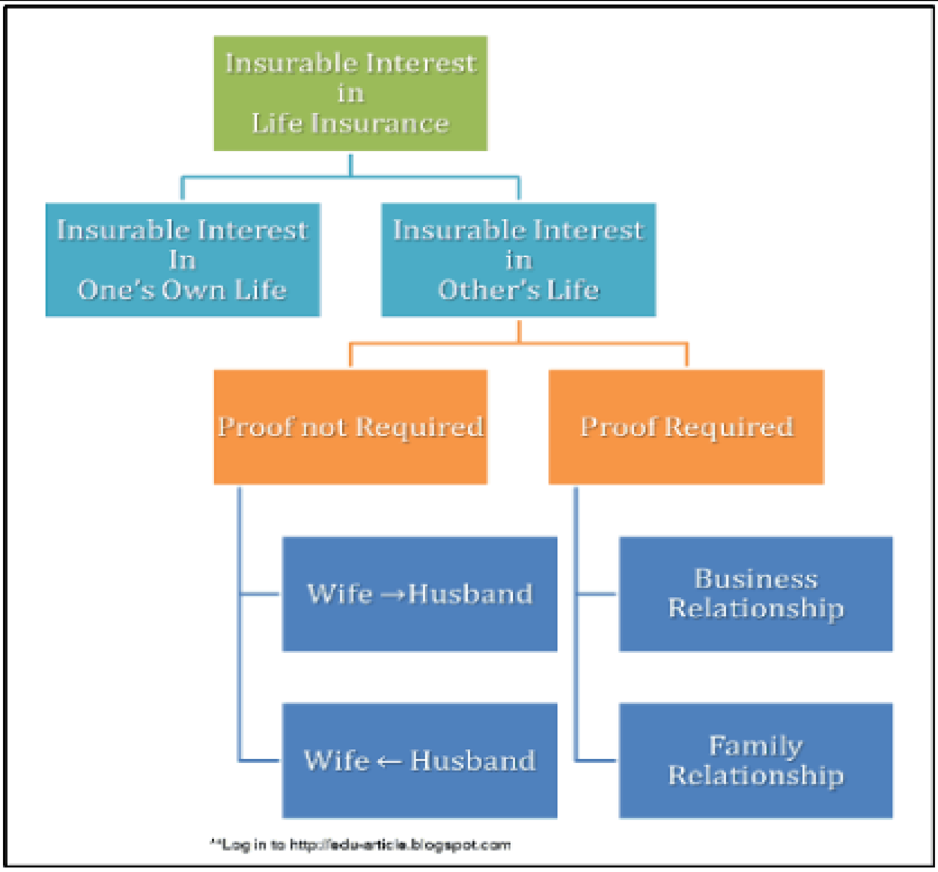
- Insurable interest in own's life and
- Insurable interest in other's life.

The latter can be sub-divided into two classes:

- Where proof is not required and
- Where proof is required

Again this insurable interest where proof is required can be divided into two classes:

- Insurable interest arising due to business relationship, and
- Insurable interest in family relationship



- **Insurable interest in own's Life**

  An individual always has an insurable interest in his own life. Its presence is not required to be proved. Bunyon says "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". The insurable interest in own life is unlimited because the loss to the insured or his dependents cannot be measured in terms of money and, therefore, no limit can be placed to the amount of insurance that one may take on one's own life. Thus, theoretically, a person can take a policy of any unlimited amount on his own life but in practice no insurer will issue a policy for an amount larger than amount seems suitable to the circumstances and means of the applicant.

- **Insurable interest in other's life**

Life insurance can be affected on the lives of third parties provided the proposed has insurable interest in the third party. There are two types of insurable interest in others life. First where proof is not required and second, where proof is required.

- ✓ **Proof is not required**

There are only two such cases where the presence of insurable interest is legally presumed and therefore need not be proved.

- ➢ **Wife has insurable interest in the life of her husband:**

It is presumed and decided by Reed vs. Royal Exchange (1795) that wife has an insurable interest in the life of her husband because husband is legally bound to support his wife. The wife will suffer financially if the husband dies and will continue to gain if the husband survives. Since, the extent of loss or gain cannot be measured in this case; the wife has insurable interest in the husband's life up to an unlimited extent.

- ➢ **Husband has insurable interest in the life of his wife:**

It was decided in Griffith vs. Fleming (1909) that the husband has insurable interest in his wife's life because of domestic services performed, by the wife. If the wife dies, husband has to employ other person to render the domestic services and other financial expenditures will involve at her death which are not calculable. The husband is benefited by the survival of his wife, so it is self proved that husband has insurable interest in his wife's life. Since the monetary loss at her death or monetary gain at her survival cannot be measured, there is unlimited insurable interest in the life of wife.

- ✓ **Proof is required**

Insurable interest has to be proved in the following cases:

- **Business Relationship:** The policyholder may have insurable interest in the life of assured due to business or contractual relationship. In this case, the amount of insurance depends on the amount of risk involved. Example, a creditor may lose money if the debtor dies before the loan is repaid. The continuance of debtor's life is financially meaningful to the creditor because the latter will get all his money repaid at the former's survival. The maximum amount of loss to a creditor may be the amount of outstanding loan plus interest thereon and the amount of premium paid. So, the maximum amount of insurable interest is limited to the outstanding loan, plus interest and amount of premium expected to be paid. The interest is calculated on the estimation of duration of debt to be paid. The full amount of policy is payable irrespective of the payment of loan and interest. Since it is life insurance, the full policy amount is paid. A trustee has insurable interest in respect of the interest of which he is trustee because at the survival of the other person, the trustee is benefited and at his death he will suffer.

A surety has insurable interest in the life of his principal. If the principal (the debtor) dies, the surety is responsible for payment of outstanding loan, or obligated amount. At the survival of principal, he will not suffer this loss. Insurable interest is limited, up to the amount of outstanding loan, interest and premium paid. A partner has insurable interest in the life of each partner. At the death of a partner, the partnership will be dissolved and the surviving partner will lose financially. Even if the firm continues at the death of the partner, the firm has to pay deceased partner's share to his dependents. This will involve a huge financial loss to the partnership. Therefore, the firm collectively can purchase insurance policies on the life of each partner of the firm. Similarly all the partners have insurable interest on the life of each partner because they will financially suffer at the death of partners.

- **Family Relationship:** The insurable interest may arise due to family relationship if pecuniary interest exists between the policyholders and life assured because mere relationship or ties of blood and of affection does not constitute insurable interest. The proposer must have a reasonable expectation of financial benefit from the continuance of the life of the person to be insured or of financial loss due to his death. The interest must be based on value and not on mere sentiments. Similarly, mere moral obligation is not sufficient to warrant existence of insurable interest although legal obligation to get support will form insurable interest of the person who is supported in life of the person. Thus a son can insure his father's life only when he is dependent on him and the father can take insurance policy on his son's life only when he is dependent on his son.

General Rules of Insurable Interest in Life Insurance:

Time of Insurable Interest:

Insurable interest must exist at the time of the proposal. Policy, without insurable interest, will be wager. It is not essential that the insurable interest must be present at the time of claim.

Services:

Except the services of wife, services of other relatives will not essentially form insurable interest. There must be financial relationship between the proposer and the life-assured. In other words, the services performed by the son without dependence of his father, will not constitute insurable interest of the father in the life of his son. Vice-versa is not essential for forming insurable interest.

Insurable Interest must be valuable:

In business relationship the value or extent of the insurable must be determined to avoid wager contract of additional insurance. Insurance is limited only up to the amount of insurable interest.

Insurable interest should be valid:

Insurable interest should not be against public policy and it should be recognized by law. Therefore, the consent of life assured is very essential before the policy can be issued.

Legal responsibility may be basis of insurable interest:

Since the person will suffer financially up to the extent of responsibility, the proposal has insurable interest to that extent.

Insurable Interest must be definite:

Insurable interest must be present definitely at the time of proposal. Mere expectation of gain or support will not constitute insurable interest.

Legal Consequence:

Insurable interest must be there to form legal and valid insurance contract. Without insurable interest, it would be null and void.

3. Utmost Good Faith

Life insurance requires that the principle of utmost good faith which should be preserved by both the parties. The principle of utmost good faith says that the parties, proposer (insured) and insurer must be of the same mind at the time of contract because only then the risk may be correctly ascertained. They must make full and true disclosure of the facts material to the risk.

- **Material facts:** In life insurance material facts are age, income, occupation, health, habits, residence, family history and plan of insurance. Material facts are determined not on the basis of opinion, therefore, the proposer should disclose not only those matters which the proposer may feel are material but all facts which are material.

- **Duty of both parties:** It is not only the proposer but the insurer also is responsible to disclose all the material facts which are going to influence the decision of the proposer. Since the decision is taken mostly on the basis of subject-matter, the life to be insured in life insurance, and the material facts relating to the subject-matter are known or is expected to be known by the proposer; hence it is much more the responsibility of the proposer to disclose the material facts.
- **Full and True Disclosure:** Utmost good faith says that there should be full and true disclosure of all the material facts. Full and true means that there should be no concealment, misrepresentation, half disclosure and fraud of the subject matter to be insured.
- **Legal Consequence:** In the absence of utmost good faith the contract will be avoidable at the option of the person who suffered loss due to non-disclosure. The intentional non-disclosure amounts to fraud and the unintentional non-disclosure is voidable at the option of the party not at fault. Once the voidable contract has been validated by the party not at fault, the contract cannot be avoided by him later on. For instance, if the insurer has continued to accept the premium when, certain non-disclosure, say miss-statement of age, has been disclosed the insurer cannot invalid the contract and cannot refuse to pay the amount of claim. If the party not at fault does not exercise its option, the contract will remain valid.
- **Indisputability of Policy:** The doctrine of utmost good faith works as a great hardship for a long period on the plea of miss-statement at the time of proposal. In such cases, it would be very difficult to prove or disprove whether a particular statement made, at the time of policy was true. Therefore, to remove this hardship, certain sections in the concerned Act are provided. In India, Section 45 of the Insurance Act, 1938 deals with

such dispute. It is called indisputable clause, "No policy of life insurance, after expiry of two years from the date on which it was effected, be called into question by an insurer on the ground that a statement made in the proposal for insurance or in any report of a medical officer or referee or friend of the insured or in any other document leading to the issue of the policy was inaccurate or false, unless the insurer shows that such statement was on a material matter or suppressed facts which it was material to disclose and that it was fraudulently made by the policy-holder and that the policyholder knew at the time of making it that the statement was false or that he suppressed facts which it was material to disclose. Provided that nothing in this section shall prevent the insurer from calling for proof of age at any time if he is entitled to do so.

4. Warranties

Warranties are an integral part of the contract, i.e., these are the basis of the contract between the proposer and insurer and if any statement, whether material or non-material, is untrue, the contract shall be null and void and the premium paid by him may be forfeited by the insurer. The policy issued will contain that the proposal and personal statement shall form part of the Policy and be the basis of the contract. Warranties may be informative and promissory. In life insurance the informative warranties are more important. The proposal is expected to disclose all the material facts to the best of his knowledge and belief. Warranties relating to the future may only be the statements about his expectation or intention, for instance, the insured promises that he will not take up any hazardous occupation and will inform the insurer if he will take the hazardous occupation.

Breach of Warranty

If there is breach of warranty, the insurer is not bound to perform his part of the contract unless he chooses to ignore the breach. The effect of a breach of warranty is to render the contract voidable at the option of the other party provided there is no element of fraud. In case of fraudulent representation or promise, the contract will be Void ab initio.

5. Proximate Cause

The efficient or effective cause which causes the loss is called proximate cause. It is the real and actual cause of loss. If the cause of loss (peril) is insured, the insurer will pay; otherwise the insurer will not compensate. In life insurance the doctrine of Causa Proxima (Proximate Cause) is not applicable because the insurer is bound to pay the amount of insurance whatever may be the reason of death. It may be natural or unnatural. So, this principle is not of much practical importance in connection with life assurance, but in the following cases the proximate causes are observed in the life insurance, too.

- **War-risk:** Where Policy is issued on exclusion of war and aviation risks, the proximate cause of death is important because the Insurer waives its liability if death occurred, in this case, while the insured was in field or is engaged in operation of war and aviation. Only premium paid or surrender value whichever is higher is payable and the total Policy amount is not payable.
- **Suicide:** If suicide occurs within one year of the policy, or there was intention to commit suicide, the payment of policy would be restricted, only up to the interest of the third party in the policy provided, the interest was expressed at least one month before the suicide.
- **Accident Benefit:** A problem arises when an insured under an accident Policy is killed or suffers an injury which has an immediate cause and also a remote cause. In accident benefit policy, double of the Policy

amount is paid. The cause of death in this Policy is of paramount importance.

6. Assignment and Nomination

The Policy in life insurance can be assigned for a legal consideration or for love and affection. The assignment shall be complete and effectual only on the execution of such endorsement either on the Policy itself or by a separate deed. Notice for this purpose must be given to the insurer who will acknowledge the assignment. Once the assignment is completed, it cannot be revoked by the assignor because he ceases to be the owner of the Policy unless reassignment is made by the assignee in favor of the assignor. An assignee may be the owner of the policy both on survival of the life assured, or on his death according to the terms of transfer. The life policies are the only Policies which can be assigned whether the assignee has an insurable interest or not.

The holder of a policy of life insurance on his own life may, either at the time of affecting policy or at any subsequent time before the Policy matures, nominate the person or persons to whom the money secured by the policy shall be paid in the event of his death. A nomination can be cancelled before maturity, but unless notice is given of any such cancellation to the insurer, the insurer will not be liable for any bonafide payment to a nominee registered in the records. When the policy matures, or if the nominee dies, the sum shall be paid to the Policy-holder or his legal representatives.

Classification of Life Insurance Policies

One can classify life insurance policies into several categories according to their customizable features. So even if there are only a few types of policies, you can further classify each one of them based on these features. The number of add-ons and options within an insurance policy can make them unique for each policyholder. Several major insurers allow the customers to customize and make their plans based on their requirements and premium paying ability. These customizations make a life insurance policy easier on the customers' pockets.

Given below are some of the common features through which you can further classify every type of life insurance.

Premium Payment Frequency

The premium payment frequency of policies allows you to choose the interval between two premium payments. The available frequencies are one-time, monthly, quarterly, semi-annual, annual, or multi-annual payments.

Premium Payment Term

Policy term is the duration for which you have to continue paying regular premiums. In the case of a life insurance policy, the payment term can increase or change depending on the policy and the insurer.

Policy Coverage Term

The policy coverage term is the duration you get life coverage from a policy. For most policies, the coverage term ends with the premium payment term. Only a few insurers provide lifetime coverage or coverage until a certain high age limit. Some insurers even give life coverage till the policyholder reaches 100 years of age.

Money back Policy

If your chosen life insurance has a money-back policy, then at the end or maturity of the policy, you will get back the entire premium payments back. This repayment comes with no extra charges and is fully tax-free as it is a type of repayment. And as per the income tax laws, all repayments have tax exemption.

Interest Benefits

Some insurance policies with higher premiums and longer durations give the policyholder interest on the premium money received.

Market-Dependency

Market-dependent policies invest your premium payments into securities like bonds or mutual funds. The insurer then gives you the return on investment from these instruments. Market-dependent plans can cause losses if the product doesn’t perform well in the future.

Mortality Benefits

Mortality benefit is common in all life insurance policies as it is the purpose of having a life insurance policy. But you can choose between high mortality benefits providing policies to maximize the benefits to one’s survivors.

Waiting Period

The waiting period is like a precautionary period for the insurer and the insured. You cannot raise a claim during the waiting period, but you can terminate the policy if it is unsatisfactory. Waiting periods can change from insurer to insurer, either a few days or up till a few months.

Partial Withdrawal

With the help of a partial withdrawal facility, you can withdraw a portion of your invested money in case of an emergency. There are several eligibility criteria for a partial withdrawal facility.

Loan Availability

Sometimes, if there is insufficient money accumulated in your life insurance policy, you can get a loan facility. Several banks provide loans against the maturity amount of a policy. Such loans also have the benefit of a low-interest rate.

Adding Rider

With the facility of rider addition, you can enhance your coverage spectrum. The benefit of such plans is that even though you get two covers, the premium amount of the plan will be lower than having two separate plans.

Tax Deductions

The Income Tax Act of India, 1961, has several tax benefits on premium payments made towards a life insurance policy. You can deduct your taxable money through various sections of the act and pay a lower income tax. However, tax laws are subject to change from time to time.

Annuity

An annuity is a contract between an individual and life insurer aiming at generating a regular income for life after retirement. For annuity, lump sum payment is made by the investor, which is then invested by the life insurance company to pay back the returns generated from it.

At its core, an annuity is a contract with which you can plan to generate a steady income at a future time, such as during the retired times. In India, people purchase annuities to prepare for their retired lives. You should also know that most people consider it a form of insurance, not an investment avenue.

Those who find it difficult to understand what is annuity can think of it as a plan under which they can receive regular payment for life in return for a lump sum investment.

Types of Annuities

There are several types of annuity for individuals planning for a steady income source for their post retirement period. These include the following:

1. Deferred Annuity

It is one of the unique types of annuity, which includes a specific interval between the premium payments and annuity payouts. The tenure for which a subscriber pays the premium is referred to as the accumulation phase of these types of annuity.

After this phase ends, he/she utilises the accrued amount to purchase annuities to receive future payouts.

2. Immediate Annuity

This type of annuity requires an individual to pay a lump sum amount as a premium to become a subscriber. Once this payment is made, the payouts under these annuity plans start immediately as per the pre-defined payout criteria.

3. Fixed Annuity

As the name suggests, a fixed annuity is one of the most popular types of annuity chosen by people in India. Under this annuity plan, the payouts will remain constant over the entire tenure. It is considered a conservative option, with the money being invested into fixed income instruments mostly. Although there is a little growth potential with the principal investment, a fixed annuity is preferred as it guarantees income to the subscribers post retirement.

4. Variable Annuity

In these types of annuity plans, there occur variations in the payouts between one instance to the next. The variations are majorly linked to the performance of the benchmark or the index to which the underlying investment is mapped.

Being index-linked, variable annuity plans cannot guarantee specific payouts to the subscribers and is thus, a riskier proposition for many pensioners.

Risk Selection

Definition:

Risk Selection is the way in which the insurance companies screen the insurance applicants. This screening process is used to determine what the insurer should cover and what they should exclude for every unique individual who has applied for the insurance policy.

Description:

Risk selection is the concept used by insurance companies to decide whether or not to accept the risk for underwriting. If they pick a proposal with a low-risk profile, the chances of business profitability increase. On the contrary, if a poor risk is selected, it can cause heavy losses to the insurer.

Insurance companies analyse individual applications for insurance. In the process of risk selection, they do the classification of applicants and divide them into groups based on the risk associated with covering them. The following are the objectives of conducting risk selection:

- Take the decision to accept the application or reject.
- Determine the coverage limit.
- Define the amount of premium to be charged.

Based on the classification of risks, the insurance company can make risk selection. Only then can they decide the premium to be charged.

The risks are classified as:

Substandard: An applicant is said to have not qualified for the standard insurance policy due to poor status or health. In this case, the proposer is offered insurance at a substandard rate.

Standard: When the applicant is favourable to be offered insurance without discounts, it is called risk covered at the standard rate.

Preferred: An applicant who is considered safe for insurance or is low-risk and is offered insurance at discounted rates is called preferred risk.

Measurement of Risk

Risk management is a crucial process used to make investment decisions. Risk management involves identifying and analyzing risk in an investment and deciding whether or not to accept that risk given the expected returns for the investment.

Some common measurements of risk include standard deviation, Sharpe ratio, beta, value at risk (VaR), conditional value at risk (CVaR), and R-squared.

1. **Standard Deviation**

Standard deviation measures the dispersion of data from its expected value. The standard deviation is commonly used to measure the historical volatility associated with an investment relative to its annual rate of return. It indicates how much of the current return is deviating from its expected historical normal returns. For example, a stock that has high standard deviation experiences higher volatility and is therefore considered riskier.

Standard deviation is most useful in conjunction with an investment's average return to evaluate the dispersion from historical results.

An alternative to the standard deviation is the semi-deviation, a measurement tool that only assesses part of an investment's risk profile. The semi-deviation is calculated similarly to the standard deviation but can be used to specifically look at only the downside or risk of loss potential of an investment as only half the distribution curve is determined.

2. **Sharpe Ratio**

The Sharpe ratio measures investment performance by considering associated risks. To calculate the Sharpe ratio, the risk-free rate of return is removed from the overall expected return of an investment. The remaining return is then divided by the associated investment's standard deviation. The result is a ratio that compares the return specific to an investment with the associated level of volatility an investor is required to assume for holding the investment. The Sharpe ratio serves as an indicator of whether an investment's return is worth the associated risk.

One variation of the Sharpe ratio is the Sortino ratio which removes the effects of upward price movements on standard deviation to focus on the distribution of returns that are below the target or required return. The Sortino ratio also removes the risk-free rate of return in the numerator of the formula.

The Sharpe ratio is most useful when evaluating differing options. This measurement allows investors to easily understand which companies or industries generate higher returns for any given level of risk.

3. **Beta**

Beta measures the amount of systematic risk an individual security or sector has relative to the entire stock market. The market is always the beta benchmark an investment is compared to, and the market always has a beta of one.

If a security's beta is equal to one, the security has exactly the same volatility profile as the broad market. A security with a beta greater than one means it is more volatile than the market. A security with a beta less than one means it is less volatile than the market.

Beta is most useful when comparing an investment against the broad market.

4. Value at Risk (VaR)

Value at Risk (VaR) is a statistical measurement used to assess the level of risk associated with a portfolio or company. The VaR measures the maximum potential loss with a degree of confidence for a specified period. For example, suppose a portfolio of investments has a one-year 10% VaR of $5 million. Therefore, the portfolio has a 10% chance of losing $5 million over a one-year period.

There are several different methods for calculating Value at Risk, each of which with its own formula:

The historical simulation method is the simplest as it takes prior market data over a defined period and applies those outcomes to the current state of an investment.

The parametric method or variance-covariance method is more useful when dealing with larger data sets.

The Monte Carlo method is best suited for the most complicated simulations and assumes the probability of risk for each risk factor is known.

5. Conditional Value at Risk (CVaR)

Conditional Value at Risk (CVaR) is another risk measurement used to assess the tail risk of an investment. Used as an extension to the VaR, the CVaR assesses the likelihood, with a certain degree of confidence, that there will be a break in the VaR. It seeks to assess what happens to investment beyond its maximum loss threshold. This measurement is more sensitive to events that happen at the tail end of a distribution.

For example, suppose a risk manager believes the average loss on an investment is $10 million for the worst one percent of possible outcomes for a portfolio. Therefore, the CVaR or expected shortfall is $10 million for this one percent portion of the investment's distribution curve. The VaR loss for this investment will likely be lower than $10 million as the CVaR loss often exceeds the distribution boundary of the VaR simulation.

6. R-squared

R-squared is a statistical measure that represents the percentage of a fund portfolio or a security's movements that can be explained by movements in a benchmark index. For fixed-income securities and bond funds, the benchmark is the U.S. Treasury Bill. The S&P 500 Index is the benchmark for equities and equity funds.

R-squared values range from zero to one and are commonly stated as a percentage (0% to 100%). An R-squared value of 0.9 means 90% of the analysis accounts for 90% of the variation within the data. Risk models with higher R-squared values indicate that the independent variables being used within the model are explaining more of the variation of the dependent variable.

R-Squared is most useful when attempting to determine why the price of an investment changes. It's a byproduct of a financial model that clarifies what variables determine the outcome of other variables.

Mutual fund investors are often recommended to avoid actively managed funds with high R-squared ratios which are generally criticized by analysts as being "closet" index funds. In these cases, with each basket of investments acting very similar to each other, it makes little sense to pay higher fees for professional management when you can get the same or close results from an index fund.

Insurance Premium

When you have an insurance policy, the company charges you money in exchange for that coverage. That cost is known as the insurance premium. Depending on the insurance policy, you might pay the premium each month or on a semi-annual basis. In some cases, you might be required to pay the full amount up front, before coverage starts.

Most insurance companies offer a variety of ways to pay your bill, including online options, automatic payments, credit and debit cards, checks, money orders, cashier's checks, and bank drafts. You may qualify for a discount if you sign up for paperless billing options or if you pay the full amount all at once instead of making minimum payments.

How much is an Insurance Premium?

There's no set cost for insurance premiums. You could have the same car as your neighbour and end up paying more (or less) for insurance—even with the exact same coverage. It pays to shop around and compare prices and policies.

You'll pay more for "better" coverage. For example, a health insurance policy with a $1,000 deductible will be pricier than one with a $5,000 deductible. Similarly, a car insurance policy with a $0 deductible will be more expensive than a policy with a $500 one, all other factors being the same.

Still, that doesn't mean you should automatically go for the cheapest policy just to save money. It's essential that you should consider your situation—and the likelihood that you'll need to use that policy—when choosing the plan that will work best for you.

How to Calculate Insurance Premiums

Insurance companies consider several factors when calculating insurance premiums:

1. **Your age.** Insurance companies look at your age because that can predict the likelihood that you'll need to use the insurance. With health insurance, younger people are less likely to need medical care, so their premiums are generally cheaper. Premiums increase as people age and have a higher chance of needing more medical services. And teenage drivers are still working on building experience, so their auto insurance is more expensive. Likewise, older drivers—who tend to have slower reflexes—will also pay more.
2. **The type of coverage.** In general, you have several options when you buy an insurance policy. The more comprehensive the coverage that you get, the more expensive it will be. For example, if you have an auto insurance policy that covers liability only, it will be cheaper than if you have a plan with collision, comprehensive, liability, medical payments, and uninsured/underinsured motorist coverage.
3. **The amount of coverage.** The less coverage, the cheaper the premiums—no matter what you're insuring. For example, if you buy health insurance, you'll pay lower premiums for the same type of coverage if you have a higher deductible and a higher out-of-pocket maximum. Similarly, it will cost more to insure a $400,000 home than a $200,000 home.
4. **Personal information.** Depending on the type of insurance for which you're shopping, the insurance company may take a close look at things like your claims history, driving record, credit history, gender, marital status, lifestyle, family medical history, health, smoking status, hobbies, job, and where you live.

5. **Actuarial tables.** Most insurance companies employ actuaries—business professionals who assess the risk of financial loss, using mathematics and statistics to predict the likelihood of an insurance claim, based on much of the aforementioned criteria. They typically produce something called an actuarial table that is provided to an insurance company's underwriting department, which uses the input to set policy premiums.

Investment of Funds

Life insurance lessens the financial problems your loved ones might run into if an unfortunate event occurs for you. But this is not the only benefit of life insurance. Many life insurance products also offer investment options. You can choose to tap into the stock market's high return-potential with Unit Linked Insurance Plans (ULIPs) or play it safe and get guaranteed returns with traditional endowment policies.

Here are the many **benefits of investing in life insurance**:

Ensuring risk cover

Life insurance offers financial protection against life's uncertainties. In case of an unwanted event, your nominee receives the assured benefits. This can help them meet their living costs as well as fulfil their life goals even in your absence.

Building the habit of saving

You need to pay your life insurance premiums regularly to keep your policy in force. Such disciplined, systematic payments inculcate a habit of savings in you. When you have to pay your insurance premium, you tend to spend less as you want to make sure you have the premium amount ready on time. With budgeting and prioritising your expenditures, you develop the inclination to save more and build up the funds you need to finance your life's milestones.

Saving on income tax

Life insurance premiums make you eligible for deductions on your taxable income. As per **Section 80C** of the Income Tax Act, 1961, you can avail deductions up to ₹ 1.5 lakh for such premiums. If you add a health-based rider with your **life insurance plan**, you can get further deductions up to ₹ 25,000 under **Section 80D**.

Moreover, the proceeds from life insurance are also exempted from taxes under the provisions of Section 10(10D). These benefits, not generally found in other investment products, can reduce your income tax liability and effectively increase your savings.

Protecting your money

Many life insurance plans guarantee a sum assured. Such plans keep your hard-earned money safe from market uncertainties. Many reputed insurance companies also offer bonuses, helping your investments grow. The returns from life insurance plans can help you meet your life goals, such as children's higher education, or financial freedom in retirement. You can also borrow against your policy's cash value at times of financial emergencies.

Navigating the capital market

ULIPs allow you to switch your funds around different asset classes. In a downturn, you can shift your allocations to debt funds, minimising losses. When the market recovers, you can change over to equities, and see your profits soar. You also have the option to switch to better-performing funds. By remaining patient and continuing investing throughout your policy tenure, you can earn excellent profits.

Gain peace of mind

While wealth can give you the lifestyle you want, peace of mind is priceless. Life insurance guarantees this peace. Buying life insurance assures you that your loved ones' needs will be met in every exigency.

Surrender Value of a Life Insurance Policy

A policyholder can opt to discontinue a life insurance policy before the plan's maturity date. Should anybody choose to surrender their policy mid-way through the term, they will not receive the entire maturity amount. Instead, they will receive a portion of the sum, which is referred to as the surrender value of the policy.

Types of Surrender Values

When you read your policy documents, you may come across two types of surrender values:

Guaranteed Surrender Value

The guaranteed surrender value amount is usually mentioned in policy documents. If you have paid the premium for three consecutive years, you are eligible to receive the amount you choose to surrender your policy. The amount is equal to all the premiums paid so far, excluding the first premium amount and the premium amount for additional benefits or riders. The surrender value will not include any bonus amount you might be eligible for on the plan's maturity.

Special Surrender Value

The special surrender value gets calculated in cases where the policyholder stops paying premiums, but the plan continues until they choose to surrender it. Once the premium payments stop, the sum assured may decrease and the lower amount is known as the paid-up value. You can calculate the amount by multiplying your original sum assured with the total number of premiums paid. You then need to divide the amount by the total premiums payable. For example, you pay INR 15,000 per year. You have a sum assured of INR 3,00,000 and the policy tenure is 20 years. You may stop paying premiums from the fourth year.

Let's calculate your paid-up value.

Paid-Up Value = Original Sum Assured x (No. of Premiums Paid / No. of Premiums Payable)

Paid-Up Value = 3,00,000 x (4/20)

Paid-Up Value = 3,00,000 (x1/5)

Paid-Up Value = INR 60,000

To calculate the special surrender value, you also need to know your surrender value factor.

The number remains at 0 for the first three years. It then increases every subsequent year. Various companies decide their own surrender value factor.

For example assume you stop paying premiums in/ from the fourth year, we can use a surrender value factor of 30%. In the four years, you earn a bonus of INR 30,000 Let's use this information to calculate your special surrender value.

Special Surrender Value = (Paid-Up Value + Bonus) x Surrender Value Factor

Special Surrender Value = (60,000 + 30,000) x (30/100)

Special Surrender Value = 90,000 x (30/100)

Special Surrender Value = INR 27,000

VARIOUS TYPE OF POLICY CONDITION AND THEIR IMPLICATION

Guidelines for policy holders

Customer service section.

This section will guide Policy holders and the prospective customers through the various intricacies of a life insurance contract and the facts that you must know to make the best out of your life insurance policy.

1. **Payment of Premiums**
2. **Non-forfeiture regulations**
3. **Forfeiture in certain events**
4. **Suicide**
5. **Guaranteed Surrender Value**
6. **Salary Saving Scheme**
7. **Alterations**
8. **Duplicate Policy**
9. **Age Proof accepted by LIC**
10. **Alternative Age Proofs which are accepted**
11. **Nomination**
12. **Assignment**
13. **Re-assignment**
14. **Concessions for claims during the lapsed period**
15. **Revivals**
16. **Policy Loans**
17. **Claims settlement procedure**
18. **Maturity Claims**
19. **Death Claims**
20. **Double Accident Benefit Claims**
21. **Disability Benefit Claims**
22. **Claims Review Committees**
23. **Insurance Ombudsman**

1. **Payment of Premiums:**

   A grace period of one month but not less than 30 days is allowed where the mode of payment is yearly, half-yearly or quarterly and 15 days for monthly payments. If death occurs within this period, the life assured is covered for full sum assured.

2. **Non-forfeiture regulations:**

   If the policy has run for at least 3 full years and if subsequent premiums have not been paid, the policy shall not be void but the sum assured will be reduced to a sum which will bear the same ratio as to the number of premiums paid bear to the total number of premiums payable.

3. **Forfeiture in certain events:**

   In case of untrue or incorrect statement contained in the proposal, personal statement, declaration and connected documents or any material information withheld, subject to the provision of Section 45 of the Insurance Act 1938, wherever applicable, the policy shall be declared void and all claims to any benefits in virtue thereof shall cease.

4. **Suicide:**

   The policy shall be void, if the Life Assured commits suicide (whether sane or insane at the time) at any time or after the date on which the risk under the policy has commenced but before the expiry of one year from the date of commencement of the policy.

5. **Guaranteed Surrender Value:**

   After payment of premiums for at least three years, the Surrender Value allowed under the policy is equal to 30% of the total premiums paid excluding premiums for the 1st year and all extra premiums.

6. **Salary Savings Scheme:**

   The rate of instalment premium shown in the schedule of the policy will remain constant as long as the employee continues with the employer given in the proposal. On leaving the employment of said employer the policyholder should intimate the Corporation. In case of the Salary Savings Scheme being withdrawn by the said employer, the Corporation will intimate the same to the policyholder. Thereafter the 5% rebate given under Salary Savings Scheme will be withdrawn.

7. **Alterations:**

After the policy is issued, the policyholder in a number of cases finds the terms not suitable to him and desires to change them. LIC allows certain types of alterations during the lifetime of the policy. However, no alteration is permitted within one year of the commencement of the policy with some exceptions. The following alterations are allowed.

»Alteration in class or term.

»Reduction in the Sum Assured

»Alteration in the mode of payment of premiums

»Removal of an extra premium

»Alteration from without profit plan to with profit plan

»Alternation in name

»Correction in policies

»Settlement option of payment of sum assured by instalments

»Grant of accident benefit

»Grant of premium waiver benefit under CDA policies

»Alteration in currency and place of payment of policy money

A fee for the change or alteration in the policy is charged by the Corporation called quotation fee and no additional fee is charged for giving effect to the alteration.

8. **Duplicate Policy:**

A duplicate policy confers on its owner the same rights and privileges as the original policy.

The following are the requirements for issuing a duplicate policy:

1. Indemnity bond duly notarized as per requisite stamp value
2. Any one of the photo identity proof: Passport, PAN card, Voter's identity card, Driving License, Personal identification card issued by Govt. organization or reputed commercial organization
3. Any one of the residence proof: Telephone bill, Bank A/C statement, Letter from any recognized public authority, Electricity Bill, ration Card, Valid lease agreement along with rent receipt which is not more than 3 months old, Certificate from employer as a proof of residence.
4. Requisite fee towards policy preparation charges to be paid at the Branch Cash counter.

However, in the following cases Policyholder has to visit to Branch Office to know the requirements:

1. Policies under which absolute assignment is operational or
2. In death claim cases where the title is open and waiver of strict legal evidence of title is to be considered.

9. Age Proof accepted by LIC:

The Proof of age, which are generally acceptable to the Corporation, are as under:

»Certified extract from Municipal or other records made at the time of birth.

»Certificate of Baptism or certified extract from family Bible if it contains age or date of birth.

»Certified extract from School or College if age or date of birth is stated therein.

»Certified extract from Service Register in case of Govt. employees and employees of Quasi-Govt. institutions including Public Limited Companies and Passport issued by the Passport Authorities in India.

10.Alternative Age Proofs which are accepted:

»Marriage certificate in the case of Roman Catholics issued by Roman Catholic Church.

»Certified extracts from the Service Registers of Commercial Institutions or Industrial Undertakings provided it is specifically mentioned in such extracts that conclusive evidence of age was produced at the time of recruitment of the employee.

»Identity Cards issued by Defence Department.

»A true copy of the University Certificate or of Matriculation/Higher Secondary Education, S.S.L.C Certificate issued by a Board set up by a State/Central Government.

»Non- standard age proof like Horoscope, Service Record where age is not verified at the time of entry, E.S.I. Card, Marriage Certificate, Elder's Declaration, Self-declaration and Certificate by Village Panchayats are accepted subject to certain rules.

11.Nomination:

The nominee is statutorily recognized as a payee who can give a valid discharge to the Corporation for the payment of policy money.

Nomination will be incorporated in the text of the policy at the time of its issue. After the policy is prepared and issued and if no Nomination has been incorporated the assured can ordinarily affect the nomination only by an endorsement on the policy itself. A nomination made in this manner is required to be notified to the Corporation and registered by it in its records. A nomination is not required to be stamped. Any change or cancellation of nomination should be given in writing only by the Life Assured.

Nomination under Joint Life Policy can only be a joint nomination. Nomination in favour of a stranger cannot be made as there is no insurable interest and moral hazard may be involved. Nomination in favour of wife and children as a class is not valid. Specific names of the existing wife and children should be mentioned. Where nomination is made in favour of successive nominees, i.e., nominee “A” failing him to nominee “B” failing where nominee “C”, the nomination in favour of one individual in the order mentioned will be considered.

Where the nominee is a minor, an appointee has to be appointed to receive the money in the event of the assured’s death during the minority of the nominee. No nomination can be made under a policy financed from HUF fund.

In the case of first endorsement of nomination the date of registration of nomination will be the date of receipt of the policy by the servicing office and in case of any other nomination or cancellation or change thereof, the date of receipt of the policy and/or of notice whichever is later, will be the date of registration.

12. Assignment:

An assignment has an effect of directly transferring the rights of the transferor in respect of the property transferred. Immediately on execution of an assignment of the Policy of life assurance the assignor forgoes all his rights, title and interest in the Policy to the assignee. The premium/loan interest notices etc. in such cases will be sent to the assignee. In case the assignment is made in favor of public bodies, institutions, trust etc., premium notices/receipts will be addressed to the official who has been designated by the institutions as a person to receive such notice.

An assignment of a life insurance policy once validly executed, cannot be cancelled or rendered in effectual by the assignor. Scoring of such assignments or super scribing words like 'cancelled' on such assignment does not annul the assignment. And the only way to cancel such assignment would be to get it re-assigned by the assignee in favor of the assignor.

There are two types of assignments:

1. **Conditional Assignment** whereby the assignor and the assignee may agree that on the happening of a specified event which does not depend on the will of the assignor, the assignment will be suspended or revoked wholly or in part.
2. **Absolute Assignment** whereby all the rights, title and interest which the assignor has in the policy passes on to the assignee without reversion to the assignor or his estate in any event.

13.Re-assignment:

An assignee may during the term of policy reassign the interest in the policy to the assignor. Such reassignment would have the effect of cancelling the assignment in favour of assignee and after the reassignment is executed on policy document, the right, title and interest under the policy would revert to the assignor.

14.Concessions for claims during the lapsed period:

1. If the policyholder has paid premiums for atleast 3 full years and subsequently discontinued paying premiums, and in the event of death of the life assured within six months from the due date of the first unpaid premium, the policy money will be paid in full after deduction of the unpaid premiums, with interest upto the date of the death.
2. If the policyholder has paid premiums for atleast 5 full years and subsequently discontinued paying premiums and in the event of death of the life assured within 12 months from the due date of first unpaid premium, the policy money will be paid in full after deducting the unpaid premiums, with interest up to date of the death.

15.Revivals:

If premiums under a policy are not paid within the Days of Grace, the policy lapses. A lapsed policy can be revived as per the plan conditions on submission of proof of continued insurability to the satisfaction of the Corporation and payment of all arrears of premiums together with interest at such rate as fixed by the Corporation from time to time. The Corporation however reserves the right to accept at original terms, accept with modified terms or decline revival of a discontinued policy. The revival of the discontinued policy shall take effect only after the same is approved by the Corporation. The cost of Medical Reports, including Special Reports, if any, required for the purpose of Revival of the policy shall be borne by the Life Assured.

16.Policy Loans:

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

a) Application for loan with an endorsement of terms and conditions of the loan being placed on the policy.

b) Policy to be assigned absolutely in favour of the Corporation

c) A receipt for the loan amount

The maximum loan amount available under the policy is 90% of the Surrender Value of the policy (85% in case of paid up policies) including cash value of bonus. "Provision has also been made on Customer Portal for registration of request for Loan for the policyholders registered for Premier Services. After registration of request, the Loan documents can be submitted to any nearby LIC Branch Office."

»Loans are granted on policies as per Conditions and Privileges printed on the back of the Policy Bond.

»It is mentioned in the policy whether a particular policy is with or without loan facility.

»The rate of interest charged on policy loan is declared by the Corporation every year and they are plan specific.

»Interest on loan is payable half yearly.

The minimum period for which a loan can be granted is six months from the date of its payment. If repayment of loan is desired within this period the interest for the minimum period of six months will have to be paid. In case the policy becomes a claim either by maturity or death within six months from the date of loan, interest will be charged only upto the date of maturity/death.

17.Claims settlement procedure:

The settlement of claims is a very important aspect of service to the policyholders. Hence, the Corporation has laid great emphasis on expeditious settlement of Maturity as well as Death Claims.

The procedure for settlement of maturity and death claims is detailed below:

18.Maturity Claims:

1) In case of Endowment type of Policies, amount is payable at the end of the policy period. The Branch Office which services the policy sends out a letter informing the date on which the policy money is payable to the policyholder at least two months before the due date of payment.

The policyholder is requested to return the Discharge Form duly completed along with the Policy Document, NEFT Mandate Form (Bank

A/c Particulars with supporting proof), KYC requirements etc. On receipt of these documents payment is processed in advance so that maturity amount gets credited to the policyholder's bank A/C on the due date.

2) Some Plans like Money Back Policies provide for periodical payments to the policyholders provided premium due under the policies are paid up to the anniversary due for Survival Benefit. In these cases where amount payable is up to Rs.500,000/-, payments are released without calling for the Discharge Receipt or Policy Document. Survival Benefit under Jeevan Anand policies up to Sum assured Rs. 200000/- is also released without calling for policy bond or discharge form. However, in case of higher amounts these two requirements are insisted upon.

19. Death Claims:

The death claim amount is payable in case of policies where premiums are paid up-to-date or where the death occurs within the days of grace. On receipt of intimation of death of the Life Assured the Branch Office calls for the following requirements:

a) Claim form A – Claimant's Statement giving details of the deceased and the claimant.

b) Certified extract from Death Register

c) Documentary proof of age, if age is not admitted

d) Evidence of title to the deceased's estate if the policy is not nominated, assigned or issued under M.W.P. Act.

e) Original Policy Document

The following additional forms are called for if death occurs within three years from the date of risk or from date of revival/reinstatement.

a) Claim Form B – Medical Attendant's Certificate to be completed by the Medical Attendant of the deceased during his/her last illness

b) Claim Form B1 – if the life assured received treatment in a hospital

c) Claim form B2 – to be completed by the Medical Attendant who treated the deceased life assured prior to his last illness.

d) Claim Form C – Certificate of Identity and burial or cremation to be completed and signed by a person of known character and responsibility.

e) Claim form E – Certificate by Employer if the assured was employed person.

f) Certified copies of the First Information Report, the Post-mortem report and Police Investigation Report if death was due to accident or unnatural cause.

These additional forms are required to satisfy ourselves on the genuineness of the claim, i.e., no material information that would have affected our acceptance of proposal has been withheld by the deceased at the time of proposal. Further, these forms also help us at the time of investigation by the officials of the Corporation.

20.Double Accident Benefit Claims:

Double Accident Benefit is provided as an additional benefit to the life insurance cover. For this purpose an extra premium of Rs.1/- per Rs.1000/- S.A is charged. For claiming the benefits under the Accident Benefit the claimant has to produce the proof to the satisfaction of the Corporation that the accident is defined as per the policy conditions. Normally for claiming this benefit documents like FIR, Post-mortem Report are insisted upon.

21.Disability Benefit Claims:

Disability benefit claims consist of waiver of future premiums under the policy and extended disability benefit in addition of a monthly benefit payment as per policy conditions. The essential condition for claiming this benefit is that the disability is total and permanent so as to preclude him from earning any wage/compensation or profit as a result of the accident.

22. Claims Review Committees:

The Corporation settles a large number of Death Claims every year. Only in case of fraudulent suppression of material information is the liability repudiated. This is to ensure that claims are not paid to fraudulent persons at the cost of honest policyholders. The number of Death Claims repudiated is, however, very small. Even in these cases, an opportunity is given to the claimant to make a representation for consideration by the Review Committees of the Zonal office and the Central Office. As a result of such review, depending on the merits of each case, appropriate decisions are taken. The Claims Review Committees of the Central and Zonal Offices have among their Members, a retired High Court/District Court Judge. This has helped providing transparency and confidence in operations and has resulted in greater satisfaction among claimants, policyholders and public.

23. Insurance Ombudsman

»The Grievance Redressal Machinery has been further expanded with the appointment of Insurance Ombudsman at different centers by the Government of India. At present there are 12 centres operating all over the country.

»Following type of complaints fall within the purview of the Ombdusman

a) any partial or total repudiation of claims by an insurer;

b) any dispute in regard to premiums paid if payable in terms of the policy;

c) any dispute on the legal construction of the policies in so far as such disputes relate to claims;

d) delay in settlement of claims;

e) non-issue of any insurance document to customers after receipt of premium.

»Policyholder can approach the Insurance Ombudsman for the redressal of their complaints free of cost.

Industrial Insurance

This is a form of life insurance; therefore, most of the characteristics of life insurance are present in this insurance apart from the following dissimilarities of life insurance for the underprivileged:

1. The premiums in industrial insurance are payable weekly and monthly whereas in ordinarily life insurance, they are payable annually, semi-annually, quarterly, and monthly.
2. The premiums, instead of being payable at the office of the insurer are collected in most cases at the houses of the assured persons by insurance agents.
3. The amount of policy in industrial insurance is generally not more than Rs. 1,000 whereas in other forms of insurance it is usually more than Rs. 1,000.
4. In Industrial insurance, a medical examination is not essential, but in other forms of life insurance, a medical examination is required in most cases.
5. Industrial insurance is extended to every member of the family. Thus, it covers more areas than other forms of insurance.

Types of contracts:

The policies issued under this form of insurance are generally limited payment life or endowment plans because the saving element in these plans are maximum.

- **Cash Values**

  The Industrial policy should be in force for a longer period for getting cash or paid-up values. It may be from 3 years to 5 years. Extended-term assurance is available after the payment of premiums for at least six weeks.

- **Loan Values**

  Since the servicing cost of the loan is higher and the protection element is elapsed in granting loans, the policy does not bear the provision for loans.

- **Assignment**

  Assignment of the industrial policy is prohibited because the amount secured may not be useful to the assured in case of assignment.

- **Indisputable Clause**

  The industrial policy becomes indisputable after one year of the issue whereas the ordinary life insurance policies become indisputable after two years on any ground except that of fraud and age admission.

- **Suicide**

  The suicide waiver clause does not apply to this policy.

- **Reinstatement**

  An industrial policy that has been in force for more than 5 years not more than six months in arrears may usually be reinstated without a medical examination.

- **Conversion of Plan**

  The industrial policy can be converted into an ordinary endowment policy or a whole life policy.

- **Beneficiaries**

  The beneficiaries of the policy may be usually those persons who got an insurable interest in the life of the assured.

- **Premium rates**

The premium rates in industrial life policies are generally higher than that of ordinary life insurance policies because of higher mortality costs, higher costs of administration, and higher lapse rates.

In India, the form of industrial Insurance Policy is the Janata policy which is issued generally to comparatively poorer sections of the society. The maximum amount under this policy is Rs. 1,000, the minimum sum assured is Rs. 250 and the maximum sum assured to a policyholder is Rs. 3,000.

The maximum age of entry is limited to 45 years. No medical examination is required for up to 35 years. A lapsed policy can be revived for a period of 3 years from the due date without medical examinations. No loans or other benefits are granted under this policy.

Janata Personal Accident Policy

This scheme would benefit industrial workers, domestic servants, road transport operators, and the like who are engaged in hazardous jobs. The scheme is truly a Janata scheme for anybody between the ages of 16 to 60 who can join it. The annual premium is Rs. 12 per month. The risk cover is Rs. 10,000. The scheme is designed for the injured and Rs. 200 as cash help for hospital expenses.

The policy is meant for the worker, the office goer, truck operator, rickshaw-puller, students, or the like. Such a scheme would be a great help to the people, it covers apart from death and hospitalization, loss of limbs, and disablement.

Group Life Insurance

Under this plan, a large number of persons are insured by a single policy without medical examination at a low cost. The group consists of employees of a common employer, debtors of the same creditor, or members of the same trade union. The policy is issued to the employees, creditor, or the trade union although the number and information of all the assured lives are mentioned, in the policy.

Life Insurance for the Underprivileged

Insurance covers are a part of life and are taken for granted in the developed world but its coverage is patchy and woefully inadequate in the developing world.

However, with several recent innovations, what was a luxury for the poor has now become a reality. Insurance coverage is now dramatically expanding with millions of more low-income households accessing insurance products and services.

A new class of insurance, that is more inclusive than the conventional one, has emerged for low income populations. It is popularly known as micro-insurance.

Micro-insurance has emerged in response to the inadequacy of regular insurance to provide protection to the bottom tier of the population.

MICRO INSURANCE FOR THE POOR

Micro-insurance is specifically designed for the protection of low-income people, with affordable insurance products to help them cope with adverse consequences of risks. It is a market-based mechanism that promises to support sustainable livelihoods by empowering people to adapt and withstand stress. Micro-insurance ensures the protection of people against specific perils in exchange for regular monetary payments in the form of premiums proportionate to the likelihood and cost of the risk involved. As with all insurance, risk pooling allows many individuals or groups to share the costs of a risky event.

RISKS FOR THE POOR

Although poor households often have informal means to manage risks, such strategies provide inadequate protection. They need insurance more than well-heeled people because the poor have no financial cushion and are more vulnerable to risks.

Insurance is a part of life in the developed world but its coverage is patchy and woefully inadequate in the developing world. However, with several recent innovations, what was a luxury for the poor has now become reality. Insurance coverage is now dramatically expanding with millions of more low-income households accessing insurance products and services.

Low-income communities live on the edge; just a tiny misfortune away from disaster—an injury, illness, or natural calamity can precipitate them falling ever deeper into poverty as their limited resources get depleted. These events often have very grave financial consequences. Many get drawn into debt traps as they borrow beyond their means, sell productive assets, take children out of school or put them to work, compromise on food, or leave sickness untreated. The vulnerability of poor people is exacerbated each time they incur a loss, creating a vicious cycle that precludes improvements of their economic welfare.

Micro-insurance is an important service to help poor households protect their fragile lives and livelihoods against inevitable risks and unexpected economic shocks. It has shown to deliver on the promise of what insurance is all about: Building resilience of households against the adverse consequences of risks. This is true for reducing economic shocks, and hence often impoverishing, as well as reducing average as well as expenses on medical treatment or rehabilitation in the event of a catastrophe.

MAKE INSURANCE A KEY COMPONENT

Micro-insurance is an important service to help poor households protect their fragile lives and livelihoods against inevitable risks and unexpected economic shocks. It has shown to deliver on the promise of what insurance is all about – building the resilience of households against the adverse consequences of risks.

Micro-insurance is now acknowledged as a highly effective tool to end the cycle of poverty by providing a robust safety net that families need. If the poor know that they are covered, they are more likely to plan their future better, invest in expanding businesses, diversify crops or send their children to school without the fear of losing their savings if something were to happen.

The whole capacity to take risks, changes. Thus, apart from just being a safety net, micro-insurance promises something that earlier generations could never imagine.

Unit III

Fire Insurance- Meaning, Nature and use of fire insurance- fire insurance contract- kinds of policies- Policy conditions- Payment of claims- Reinsurance-Double insurance- Progress of Fire insurance

Fire Insurance

Fire Insurance is defined as "the business of effecting, otherwise than independently to some other class of business, contracts of insurance against loss by or incidental to fire or other occurrence customarily included among the risks insured against in fire insurance policies."

□ Fire insurance is an agreement whereby one party (the insurer), in return, for a consideration undertakes to indemnify the other party (the insured) against financial loss which he may sustain by reason of certain defined subject matter being damaged or destroyed by fire or other defined perils up to an agreed amount.

□ The word fire here does not mean the fire used for domestic and household activities. It refers to fire which is not caused intentionally and has no bound, andit is production of ignition, light and smoke by combustion.

□ It is also one of the oldest types of Insurance which emerged in London.

□ On 2nd September 1666, a great fire broke out in London which caused mass destruction in city burning 13,000 houses and lasted for 5 days. This led to emergence of Fire Insurance Policy so as to compensate people for the losses suffered by them and so they can start their life again after such a mishap. The first Fire Insurance Company was established in 1681, Insurance Office for Houses to insure 5000 brick and frame houses. Later on many more Insurance Companies were established such as Hand-in Hand, Sun Fire Office, Westminster and the Royal Exchange in 1720.

PRINCIPLES OF FIRE INSURANCE

- Insurable Interest in Fire Insurance
  (insurable interest in the subject matter of the contract both at the time of taking the policy and the at the time of loss)
- The principle of Good Faith in Fire Insurance
- The principle of indemnity
- Proximate Cause of Fire Insurance
- The doctrine of Subrogation
- Warranties in Fire Insurance

A Fire insurance contract like any other insurance contract must fulfill the essential elements of a valid contract like offer and the acceptance, lawful consideration, legality of object etc.

- Premium is required to be paid at the time of taking policy
- Fire insurance is usually taken for any duration but in the some cases for short periods also
- Fire policies can be assigned with the prior consent of the insurer.
- The loss must be the outcome of fire or ignition only
- Nothing can be recovered under a fire policy if the fire is caused deliberately.
- In case of several policies for the same property each insurer is entitled to **contributions** from other insurers. After indemnification, the insurer is **subrogated** on to the rights and interest of the policy holders.

The following items are covered in fire insurance

- Buildings
- Plant & Machinery, Equipments and Accessories
- Furniture and electrical fittings

- Goods as raw materials, semi-finished and finished goods stored in warehouses
- Pipelines present inside as well as outside thebuilding

Scope of fire insurance

According of section 2 of the Insurance Act 1938, the scope of fire insurance includes

(a) Fire insurance business is different from other insurance business and covers the risks caused by fire:

(b) In addition to the risk caused by the fire, it also includes other reasons and occurrences, which can be customarily be included among risks insured under fire insurance contracts.,

Thus the scope of fire insurance can be studied from two angles viz.,

- **Ordinary scope of fire insurance and**
- **Comprehensive scope of fire insurance**

ORDINARY SCOPE OF FIRE INSURANCE

It includes only those risks which define the narrower scope of fire insurance viz., the losses caused by fire only. Some losses caused by the fire are included in the insurance against fire and some losses are left out.

a. RISKS COVERED UNDER FIRE INSURANCE:

The risk causing losses are stated in the fire policy and only these risks are indemnified by the insurance company, in case of the loss.

The following risks caused by the fire are generally included in the fire insurance.

Fire: It excludes loss, destruction and damage caused to the property by its own spontaneous fermentation of halting, any heating or drying process. Also it excludes burning of property insured by order of any Public Authority.

Lightening: There may be occurrences where lightening leads to fire or other damages to the Insured property. For example cracks in an office due to lightening will be covered under the fire policy.

Explosion/Implosion: It refers to sudden burst caused due to difference between the internal temperature of the building and the external atmospheric temperature. This does not cover the domestic boilers and economizers.

Aircraft damage: It covers any loss caused by the aerial devices; aircraft and articles dropped by them and don't cover those covered by pressure waves.

Riot, Strike and malicious damage: It covers the physical damage to the property caused due to strikes by workers, riots by public or intentional destruction caused by a person.

- Storm, Cyclone, Typhoon, Tempest, Hurricane, Tornado, Flood and Inundation: Any damages caused to the insured property due to these natural occurrences are also included in fire Insurance policy.
- Impact Damage: It refers to the damage to the insured property due to its contact with rail, vehicles or any animal. But such vehicles and animals should not be owned by the insured or residence of the property.
- Subsidence and land slide including rock slide: It can also lead to damage or destruction of the insured's property. In such cases, the insured can file for claim under Fire Insurance Policy.
- Bursting and/or overflowing of water tanks, apparatus and pipes: These perils are also covered under Fire Insurance Policy.

- Missile testing operations: can lead to damage to property and are also covered under Fire Insurance policy.
- Leakage from automatic sprinkler installations: It covers destruction of property due to faulty working of sprinklers but excludes damage which is caused while repairing and removal of sprinklers or renovation in the buildings.
- Bush Fire: It refers to fire spread from bushes but doesn't cover forest fire.

Secondary scope

There are many special risks which an insured can get it covered under the Fire Insurance Policy by paying extra premium to the Insurance Company. These are as follows:

- If fees paid to the architect, surveyor or consultant engineer exceed more than 3 percent of the claim money.
- The expenses incurred in connection with the removal of wastages from the construction site, if that amount exceeds more than 1 per cent of the claim money.
- Loss to the goods kept in the cold storage due to fluctuations in electricity/ power but within the causes stated in the policy.
- Loss arising out of earth-quake, fire or combustion
- Forest fire.

b. RISKS NOT COVERED BY FIRE INSURANCE

There are certain risks for which the insurer do not indemnify the insured in case of loss. They are as follows:

- Loss, or damage to precious stones and metal artistic goods and article, maps, stamps, cheques, account books, achieves and rate documents etc.
- Loss, destruction or damage caused by riot., civil disturbances , revolutions , war, aggression, internal emergencies, storms, cyclones., etc.,
- Spontaneous fire in jungle or bushes
- Spontaneous combustion caused by the chemicals
- Theft during fire or after break out the of fire
- Compulsory burning of goods or properties by the orders of Government or by court's decision

---

HAZARDS IN FIRE INSURANCE

Fire loss is the result of two types of hazard:

□ PHYSICAL HAZARDS: It refers to the inherent risk of the fire in the property which may be on account of the situation, inflammable nature of constructions, artificial lighting and heating, lack of the fire extinguishing appliances, etc. Fire insurance provides protections to the property against the occurrence of fire, an unavoidable physical hazard.

□ MORAL HAZARD: The term Moral Hazard refers to the wilful and malicious setting of fire on the property by the owners or somebody else. Moral hazard may be in anyone of the following forms:

(a) IN CENDIARISM: It refers to the deliberate destruction of one's own property by fire. Some insured indulge in such activities to realize the insured amount from the insurer.

(b). ARSON: It refers to setting of fire on the property of the insured by the some other persons. Some persons may set fire to property of others with a view to get a reward for information about the break out of the fire or assisting in extinguishing it.

(C). PASSIVE DISHONESTY: It refers to the wilful neglect to by the insured to take proper action for extinguishing fire and his carelessness during the occurrence of fire.

KINDS OF FIRE INSURANCE POLICY

1. Valued Policy

As the name suggests, the value of the insured property is pre-determined at the inception of the policy. In case of loss suffered by the insured, a fixed compensation amount is paid by the insurer irrespective of the actual amount of financial loss suffered by the insured. The claim amount may be less or greater than the market value of the property and will not include renovations made in the property.

2. Valuable Policy

It is reserve of the above policy. Here, the value of the insured property is determined at the time of loss and claim is paid depending on the market value of the property at the time of damage.

3. Specific Policy

In this policy, a specific policy coverage amount is mentioned which is not the market value of the property and is for a specific period of time for a particular property. The compensation paid will not exceed the policy coverage value.

4. Average Policy

It is that policy in which the Insured doesn’t take insurance policy which covers the total value of the property. The loss is shared by both the insured and the Insurance Company in predefined proportion.

5. Floating Policy

In this type, a single policy covers two or more properties present at different locations for an insured. A single premium is paid by the insured, providing him convenience against buying multiple policies.

6. Adjustable Policy

There may be change in the value of stocks; hence it becomes difficult for the insured to determine what coverage amount of insurance policy should be purchased. In this case Adjustable policy is taken where insurance amount and premium is calculated on the existing value of the stock initially and later is adjusted depending on the change in the value of the stock which is regularly provided by the insured. The premium changes on a pro rata basis.

7. Declaration Policy

Unlike above, the Insured takes insurance policy for the maximum value of the stock and regularly (particular date of the month) declares to the Insurance Company the change in value of the stock. The insured pays 75 percent of the premium before in advance and remaining depends on the premium so calculated after one year on an average of the value declared by the insured in that year.

8. Excess Policy

This policy is for those people, whose stock value keeps on fluctuating. In this scenario, insured purchases two policies- First loss policy for the minimum stock value and Excess Policy for the excess value of the stock. The minimum value for the stock is calculated on the past experience and excess value of the stock is informed by the insured to the insurer every month. The premium is not high in this case.

9. Reinstatement Policy

Here, the Insurance Company replaces or reinstates the insured property in case of damage of fire instead of providing monetary compensation.

10. Comprehensive Policy

Insured gets coverage from not only loss by the fire but also from theft, war, riot, strike and etc. The premium charged for such a policy is very high but it provides security to insured against many risks.

11. Consequential loss Policy

It covers the consequential loss as well loss by fire, suffered by the insured. As discussed in comprehensive scope, consequential loss is a loss suffered by the insured in terms of loss in profit, salary, inflation incidental to the occurrence of the fire.

Various conditions under fire insurance policy

There are Various conditions in the policy. They are:

(1) Voidable Condition:

This condition provides that the policy shall be voidable in the event of misrepresentation, mis-description or non-disclosure of any material particulars. This condition emphasizes the principle of utmost good faith.

(2) Policy Ceasing Condition:

All insurances under the policy cease to affect after 7 days from the date of fall or displacement of any building or part thereof. However, if the displacement/fall occurs due to an insured peril, and notice is given within due time, the insurer may agree to continue the cover subject to revised terms and conditions, or by endorsements.

(3) Material alteration Condition:

Under the following conditions, the insurance cease to attach as regards to the property affected. (a) Changes in trade or manufacture or nature of occupation or other circumstances which increase the risk of loss or damage by insured perils. (b) Un occupancy of the building for a period of more than 30 days (c) Transfer of insurable interest unless by will or operation of law.

(4) Marine clause Condition:

The insurance does not cover any loss or damage to property which at the time of loss is insured under any marine policy. However the policy covers the excess beyond the amount payable under the marine policy. This is known as Marine clause.

(5) Termination Condition:

The insurance may be terminated at any point of time by the insured and the premium be refunded at short period scale on a fifteen days notice. The insurer can also terminate the policy on fifteen days notice and refund the premium for the unexpired term on pro-rata basis.

This condition is divided into two parts:

The first part of the condition plays down the duties of the insured in the event of loss /damage and the following procedure is to be followed by him. The requirements are:

Immediate notification of the loss to the company

Submission of the written claim statement giving detailed particulars of the loss/damage within fifteen days or within any extension period if granted.

Submission of all reasonable information and proof in respect of the claim at the insured's expense.

A declaration, an oath or any other legal form of the truth of the claim.

This condition expressly provides that compliance with its terms is binding on the insured to fulfil the insurer's liability.

The second part of the condition is known as limitation condition. According to this condition the liability of the insurer ceases after the expiry of 12 months from the date of loss, unless the claim is the subject of arbitration or pending action.

If the liability for any claim is disclaimed by the insurer, and the insured has not filed a suit within 12 months from the date of disclaimer, the claim is deemed to be abandoned and time barred. This condition provides necessary protection to the insurer against inordinate delay on the part of the insured as it is not possible to keep the accounts open for an indefinite period. In the absence of this condition the insured could have reopened his claim after a long time, when the insurer may have lost all the evidences which led to its original rejection.

(6) Right of entry condition.

This condition gives the company right to enter the premises where loss has occurred, take possession of the property and deal with it or sell such property. The condition further provides that exercise of these rights does not mean admission of loss liability forfeiture of the benefit under the policy in case of non cooperation of the insured.

The insured has no right to abandon the property whether taken possession by the insurer or not. This condition confers certain rights on the insurers to ascertain the cause and extent of loss/damage to minimize the damage and to protect the salvage. The rights conferred by the condition are exercisable by the insurer at any time until notice in writing is given by the insured declining claim or such claim is finally determined or withdrawn.

(8) Condition deals with fraud. According to this condition, all benefits under the policy shall be forfeited in the following circumstances:

The claim is fraudulent.

The claim is supported by a false declaration.

Fraudulent means are used by the insured or any other person on his behalf.

Loss or damage is caused by the wilful act of the insured or any other person with his connivance.

These conditions reiterate the conditions under the common law. Utmost good faith is an implied condition in an insurance contract and places the duty of honesty on the insured, when a claim arise. Both fraud and wilful act make the policy void, however an express condition is incorporated under the policy for emphasis.

(9) Reinstatement condition. The operative clause provides that the company may pay the value of the property at the time of its destruction or the amount of damage or at its option reinstate/replace such property.

The following provisions are made relating to reinstatement/replacement in exercise of this option:

Reinstatement shall not be exact or complete but shall be reasonably sufficient. Expenditure is limited to the cost of reinstating the property to its pre-fire condition and the sum insured. It is the duty of the insured to furnish all necessary information to the insurer at his cost. Any action done by the insurer regarding reinstatement shall be without prejudice to the final decision. If due to municipal or other regulations in respect of building constructions, the insurer is unable to reinstate, then liability is limited to such sum as would be required to reinstate the property if the same could be lawfully reinstated. Though this condition is hardly practiced, it is inserted for protection against unreasonable or exaggerated claims.

(10) Pro-rata average condition:

If the property at the time of claim be collectively of a larger value than the sum insured, then the Insured shall act as his own insurer for the difference, and shall bear a rateable proportion of the loss accordingly. If there is under insurance, i.e the sum insured is less than the value of the property, on the date of loss, the payable amount is proportionately reduced. The main objective is to penalize under insurance by a corresponding under payment of claim. If the fire policy covers various items, then each item will be separately subject to average.

(11) Contribution condition:

In the event of more than one policy covering the same property, the company will pay only the rateable proportion of the loss. Rateable proportion of the policy may be defined as that proportion of the loss as the sum insured under the policy bears to the total sum insured under all the policies.

(12) Subrogation condition:

The insured's rights to obtain relief/ indemnify are subrogated to the insurers, even before they indemnify the loss. The condition also provides that the insured shall, at the expense of the company render help and assistance for enforcing these rights against the other parties responsible for the loss.

(13) Arbitration condition:

Any dispute or difference as to the quantum to be paid under this policy shall independently be referred to arbitration. No dispute can be referred to arbitration if the company disputes or denies the liability under the claim. A sole arbitrator has to be appointed in writing, agreed by both the parties. If the parties cannot agree upon a single arbitrator within 30 days of any party invoking arbitration, then a panel of three arbitrators can be appointed, where two arbitrators are selected by the two parties, and the third is chosen by the two selected arbitrators.

Arbitration shall be conducted under the provisions of the Arbitration and Conciliation Act, 1996.

The award by the arbitrators shall be a condition precedent to any right of action or suit upon the policy. The object of this condition is to ensure that disputes are settled quickly. Arbitration is less expensive than litigation, and a private process. So, it avoids undue publicity or press coverage.

Every notice or other communication to the company must be written or printed.

The full sum insured has to be maintained throughout the currency of the policy.

Upon settlement of loss, pro-rata premium from the date of loss to the date of expiry is to be paid by the insured. The extra premium is deducted from the claim amount.

The continuous cover to the full extent will be available not withstanding any previous loss for which they may have paid irrespective of the fact whether additional premium has been paid or not. However, in case the insured immediately closes his policy, following a loss, then the sum insured shall stand reduced by the amount of loss.

Claims

One must file a **fire insurance claim** with the insurer to get coverage for damages caused to the property by fire. Filling an insurance claim requires informing the insurance provider, following specific rules, and filling out documents. Some companies even make the claim forms available online, eliminating the need for the party to visit the office.

While some insurers restrict the insured from filing any claims for two or three months after signing the policy, others set several days after the fire, after which the insured can file a claim. Waiting too long to file a claim after a fire can turn it invalid.

It is critical to record losses caused by a fire without replacing or disposing of anything on the premises. The owner should have sufficient evidence as photographs, videos, and documents depicting the property and its contents to support their claim and simplify the damage assessment. The surveyor or claims adjuster sent by the insurance company makes a detailed report of the incident. The insurer then calculates the compensation based on this.

The policyholder should review the reimbursement estimate and compare it to the insurance provisions. They must also ensure if the compensation is on a replacement cost basis or actual cash settlement for the fire-damaged property. The latter does not allow the owner to recoup the loss at current market value, but adding a rider to the policy and paying higher premiums will.

The most crucial element to ensure that a claim is paid in full is that the claimant understands the policy terms and adheres to them.

Definition of Double Insurance

Double insurance is described as an insurance arrangement in which a particular subject or risk is insured with multiple insurance policies of the same insurer, or with multiple insurers, for the same period. It is made to attain security and satisfaction, which the insurers will make good the loss occurred to the insured.

In the event of loss, the insured can claim compensation from all the insurers under the concerned policies. However, the total amount of compensation cannot exceed the actual loss incurred to him, and so the insurers will contribute, in the proportion of the sum insured.

Definition of Reinsurance

Reinsurance is a product offered by the insurance companies to other insurance companies to cover large losses. When an insurance company is not capable of bearing the entire loss arising out of the insurance provided to the insured, then it can go for reinsurance, in which a part of the risk is reinsured, with another insurer.

Usually, the insurance company chooses reinsurance, when the insurance amount is high, and a single insurance company cannot bear it easily.

The original insurer cedes (gives) a proportion of its business to another insurer, in essence, the risk is signed and accepted by that insurance company.

In finer terms, reinsurance is a contract between the ceding company (original insurer that shifts a part of the risk) and the reinsurer, for sharing the risk of the insurance policy, in exchange for a share of the insurance premium.

In the event of loss, the amount of claim will be borne in the proportion, they've agreed to share the risk of loss.

Key Differences between Double Insurance and Reinsurance

The difference between double insurance and reinsurance are as follows:

- Double insurance is understood as insurance wherein the property or asset, is insured with many insurers or under multiple insurance policies with the same insurer. Conversely, reinsurance can be defined as the arrangement that helps insurance company to transfer the risk on the insurance policy to another insurer.
- In double insurance, the subject matter of the insurance arrangement is the property, for which the policy is taken from various insurers. On the other hand, in reinsurance, the reinsurance is taken for the original insurer’s risk.
- When it comes to compensation, the insured can claim all the insurers, in case of double insurance. As against, in reinsurance, the insured can claim compensation from the original insurer, who in turn claim compensation from the reinsurer.
- In double insurance, the actual amount of loss incurred will be shared by all the insurers, in the proportion of the sum insured. Unlike, in reinsurance, the reinsurer will be liable for part of risk reinsured by the ceding company.
- While double insurance ensures the benefits of insurance, reinsurance is concerned with reducing the insurer’s risk liability.
- In double insurance, the insured has an insurable interest in the insurance contract. On the contrary, in reinsurance, the original insured has no interest in reinsurance.
- Double insurance is possible only when the insured gives his consent for it. In contrast, in reinsurance the consent of the insured in not required.

Recent Developments in Fire Insurance

The Insurance Regulatory and Development Authority of India (Irdai) has decided to introduce standard products covering the risk of fire and allied perils.

General insurers that offer fire and allied perils policies have to mandatorily introduce the same from April 1, 2021, replacing the Standard Fire and Special Perils (SFSP) policy — provided for in the erstwhile All India Fire Tariff (AIFT) 2001.

First is the Bharat Griha Raksha, which will cover home building and home content, and provide coverage against fire, natural catastrophes, riots, acts of terrorism, and other risks within seven days of occurrence. Not only will it provide coverage against the home building, it will also provide for damages to home contents for up to 20 per cent of the sum insured (maximum Rs 10 lakh). There will be two optional covers with this product — insurance for valuable contents, and coverage against personal accident of the insured along with spouse.

Second is the Bharat Sookshma Udyam Suraksha, a standard product for enterprises for which the total value at risk is up to Rs 5 crore. This will provide coverage for buildings, plant, machinery, stocks, and other assets; with Rs 5 crore being the total value at risk across insurable asset classes at one location.

Bharat Laghu Udyam Suraksha, the third, will cover enterprises for which the total value of risk across insurable asset classes at a single location exceeds Rs 5 crore, but not Rs 50 crore at the policy commencement date.

UNIT IV

Marine Insurance- Meaning and Nature of Marine Insurance – Classification of Policies – Policy Conditions- Premium Calculation- Marine Losses- Payment of Claims- Progress of Marine Insurance Business in India.

Marine Insurance

Marine insurance refers to a contract of indemnity. It is an assurance that the goods dispatched from the country of origin to the land of destination are insured. Marine insurance covers the loss/damage of ships, cargo, terminals, and includes any other means of transport by which goods are transferred, acquired, or held between the points of origin and the final destination.

The term originated when parties began to ship goods via sea. Despite what the name implies, marine insurance applies to all modes of transportation of goods. For instance, when goods are shipped by air, the insurance is known as the contract of marine cargo insurance.

Importance of Marine Insurance

Marine insurance is required in many import-export trade proceedings. Admitting the terms, both parties are liable for the payment of goods under insurance. However, the subject matter of marine insurance goes beyond contractual obligations, and there are several valid arguments necessary for buying it before dispatching the export cargo.

Goods in transit need to be insured by one of the three parties:-

- The Forwarding Agent
- The Exporter
- The Importer

Also, it can be taken by anyone involved in the transit of goods.

Where to get Marine Insurance?

The process to purchase marine insurance in India is easy. The country's geographical position allows many banks and financial institutions to provide marine insurance.

Marine Insurance Act 1963

The Marine Insurance Act, in India, came into existence in 1963. As per section 3 of the Act, any time the term 'marine insurance' is used, expressed or even extended for the insuring of goods against loss or damage, the insurer will be at risk to bear the charges. The insurer will consider all the certainty of goods in case of misfortune sustained during marine ventures.

Principles of Marine Insurance

1. Principle of Good faith - Parties demand absolute trust on the part of both; the insurer and the guaranteed.
2. Principle of Proximate Cause - The proximate cause is not adjacent in time; also, it is inefficient. Nevertheless, it is the definitive and adequate cause of loss.
3. Principle of Insurable Interest - Any object presented as a marine risk and the assured covering the insurance of goods - both should have legal relevance.
4. Principle of Indemnity - The insurance extended to the parties will only be applicable up to the loss. The parties can't buy insurance to gain profits. If they do, they won't get more than the actual loss.
5. Principle of Contribution - Sometimes, the risk coverage for goods has more than one insurer. In such cases, the amount has to be fairly distributed amongst the insurers.

Classification of Marine Insurance

- Freight Insurance
- Liability Insurance
- Hull Insurance
- Marine Cargo Insurance

Freight Insurance

In freight insurance, for example, if the goods are damaged in transit, the operator would lose freight receivables and so the insured will be provided a compensation for loss of freight.

Liability Insurance

Marine Liability insurance is where compensation is bought to provide any liability occurring on account of a ship crashing or colliding.

Hull Insurance

Hull Insurance covers the hull & torso of the transportation vehicle. It covers the transportation against damages and accidents.

Marine Cargo Insurance

Marine cargo policy refers to the insurance of goods dispatched from the country of origin to the country of destination.

Types of Marine Insurance policies

- Floating Policy
- Voyage Policy
- Time Policy
- Mixed Policy
- Named Policy
- Port Risk Policy
- Fleet Policy

- Block Policy
- Single Vessel Policy
- Blanket Policy
- Open (or) Unvalued Policy
- Valued Policy
- Wager Policy

1. **Floating policy**

A marine insurance policy where only the amount of claim is specified and all other details are omitted till the time the ship embarks on its journey, is known as a floating policy. For clients who undertake frequent trips of cargo transportation through waters, this is the most ideal and feasible marine insurance policy.

Instead of taking insurance separately for each shipment. An floating policy is a one-time insurance that provides insurance cover against all shipments made during the agreed period, often a year. The exporter may need to declare periodically (say, once a month) the detail of all shipments made during the period, type of goods, modes of transport, destinations, etc.

2. **Voyage policy**

A specific policy can be taken for a single lot or consignment only. The exporter needs to purchase insurance cover every time a shipment is sent overseas. The drawback is that extra effort and time is involved each time an exporter sends a consignment. With open policies, on the other hand, shipments are insured automatically.

3. **Time policy**

Time policy in marine insurance is generally issued for a year's period. One can issue for more than a year or they may extend to complete a specific voyage. But it is normally for a fixed period. Also under marine insurance in India, time policy can be issued only once a year.

4. **Mixed policy**

Mixed policy is a mixture of two policies i.e Voyage policy and Time policy.

5. **Named policy**

Named policy is one of the most popular policies in marine insurance policy. The name of the ship is mentioned in the insurance document, stating the policy issued is in the name of the ship.

6. **Port Risk policy**

It is a policy taken to ensure the safety of the ship when it is stationed in a port.

7. **Fleet policy**

Several ships belonging to the company/owner are covered under one policy. Where it has the advantage of covering even the old ships. Also the policy is a time based policy.

8. **Block Policy:**

This policy also comes under maritime insurance to protect the cargo owner against damage or loss of cargo in all modes of transport through which his/her cargo is carried i.e. covering all the risks of rail, road, and sea transport.

Marine Insurance is an area which involves a lot of thought, straightforward and complex dealings.

9. Single Vessel policy

This policy is suitable for small ship owner having only one ship or having one ship in different fleets. It covers the risk of one vessel of the insured. In single vessel policy only one vessel is covered under marine insurance policy.

10. Blanket policy

In this policy, the owner has to pay the maximum protection amount at the time of buying the policy.

10. Open (or) Unvalued Policy:

In this type of marine insurance policy, the value of the cargo and consignment is not put down in the policy beforehand. Therefore reimbursement is done only after the loss of the cargo and consignment is inspected and valued.

11. Valued Policy:

A valued marine insurance policy is the opposite of an open marine insurance policy. In this type of policy, the value of the cargo and consignment is ascertained and is mentioned in the policy document beforehand thus making clear about the value of the reimbursements in case of any loss to the cargo and consignment.

12. Wager Policy:

A wager policy is one where there are no fixed terms for reimbursements are mentioned. If the insurance company finds the damages worth the claim then the reimbursements are provided, else there is no compensation offered. Also, it has to be noted that a wager policy is not a written insurance policy and as such is not valid in a court of law.

Marine Insurance Premium

Marine transit insurance, which is the oldest form of insurance is a special type of insurance which provides coverage against the losses or damages caused to goods during their transportation from one location to another. A comprehensive marine insurance (with named exclusions) covers not only the sea voyages but air and surface transportations as well.

As in case of any insurance, the premium amount for a marine cargo insurance policy, is determined by the insurer on the basis of risk estimates provided by the insured. Below are some major parameters that are taken into consideration while calculating marine insurance premium:

Natural Risks associated with the transit locations

Natural forces or natural disasters such as earthquake, tsunami, flood, cyclone etc. can occur anytime and cause huge damage to the transporting goods. Though these perils can never be predicted, they have a high chance of occurring during some seasons and at some places as per the historical trends.

In fact, some ports are more prone to these disasters due to factors like insufficient depth and lack of protection from tides. These things can have a huge impact on marine insurance premium.

Type and construction of vessel

The construction, type, quality and fitness of a shipping vessel, plays a major role in determining the marine insurance premium for goods that are to be transported in it. The insurance provider usually asks for the vessel details before providing a marine insurance quote.

The details which can be asked include ownership of the vessel, its structural strength, material used for its construction, and its adaptability for carrying different types of cargo.

Nationality of the vessel

The nationality of the vessel is also taken into consideration by the insurers while calculating marine insurance premium. It's because the nationality of a vessel reflects the skills of the crew and its masters. For example, countries who are too much dependent of ocean trades usually have highly skilled vessel crews and captains.

Value and nature of the goods

It's an obvious fact. The value and nature of the goods for which the marine insurance is sought to play an important role in the evaluation of premium amount. If the value of the goods is high or if there are high chance of goods getting damaged, such as glass, food items etc., the marine insurance premium is most likely to go up, and vice versa.

Terms and conditions of the policy

Last but not the least, the terms and conditions of a marine insurance policy, including its exclusions and inclusions, also impacts its premium. For example, some policies cover entire losses whereas some policies cover only partial losses. The premium of a particular policy is decided on the basis of the coverage it is providing.

Marine Loss Claims

A marine loss is a loss in quantity or quality of commodities that occurs between the time the B/L is issued to the shipping company and the time the shipping company turns over custody and control of the commodities to the Awardee (or the Awardee's designated C & F agent), usually at the port. Marine losses may be discovered when the independent surveyor (as required) attends the discharge of the commodity from the ship, counts or weighs it, examines its condition, and produces a survey report.

An inland loss pertains to landlocked countries only, where commodities are received at a port in an intermediate country and then transported to the recipient country. Inland losses may include warehouse handling losses at the port of entry and losses that occur during transportation through the intermediate country to a designated point in the recipient country.

The main distinctions between a marine loss and an inland loss are the parties liable for the loss and the method of pursuing claims.

For Marine Losses

1. File a Notice of Loss (Letter of Protest) with the shipping company immediately upon discovery of any cargo loss or damage. This notice states that a loss has been determined and that the company is being held responsible.
2. Record the names and addresses of individuals who were present at the time of discharge and during the survey, who can verify the quantity lost or damaged.
3. If possible, document all losses on a Loss Report before any cargo is dispatched from the port. If unavoidable circumstances require that

short-weight bags or containers be dispatched, state the quantity and reasons for dispatch on the dispatch waybill.

4. Determine whether a claim is justified against the shipping company. Consult regularly with the USAID mission to review the criteria currently being used to justify claim action.
    i. In general, a claim is required for all losses except when the following is true:
    ii. The loss is caused by force majeure-events beyond the control of the responsible parties that could not have been avoided by the exercise of due care (such as a flash flood).
    iii. The value of the loss is less than US$ 300, and failure to pursue the claim would not be detrimental to the program.
5. Prepare a claim letter (demand for restitution), and send it to shipping company.
6. Send a copy of the claim letter to USDA/CCC. File one claim for loss or damage to commodities that are shipped on the same voyage of the same vessel to the same port destination, irrespective of the kinds of commodities shipped or the number of different bills of lading issued by the carrier.
7. Compute the monetary value of commodity loss claims.
8. Assign claim rights to USDA, which will pursue the claim. Failure to file a required claim or assign claim rights to USDA may leave the Awardee liable to FFP for the cost and freight value of the commodity in question. To the extent practicable, submit all documents concerning the cargo loss or damage as a package to the headquarters (for onward submission to USDA) as soon as all such documents are available. In all cases, submit whatever documentation has been obtained within three months of completion of the discharge survey. If documentation is not

complete as of this date, advice headquarters of the missing documents and reason(s) for the delay.

9. Even if no claim will be filed, still send information and/or documentation on shipments to USDA/CCC.
10. For all documents or correspondence prepared in a language other than English, submit also a literal, verbatim translation in English.
11. Documents that should be submitted include the following:

- Notice of Loss (letter of protest)
- Discharge Survey Report
- Narrative chronology or other commentary of events surrounding the discharge of commodities (required where losses are in excess of US$5,000)
- Names and addresses of those attending the discharge and survey who can verify quantity lost or damaged
- Claim letter
- Booking confirmation and the applicable on-board Bill(s) of Lading
- Outturn reports (tally sheets of the surveyor), if available
- Short landing certificates signed by the port authority, if available
- Invoice, written waiver authorization, Marine Reconstitution Costs Certificate, or other documents for reimbursement of reconstitution costs, if applicable
- Declaration of Unfit Food or chemical analysis report issued by the port health official, a chemist, or an independent laboratory, if applicable
- Certificate of Destruction, disbursing officer's receipt for net proceeds of sale, and/or other documentation on disposal of unfit commodity, if applicable
- Invoice of survey fee
- Resolution of excess landed quantities

- Retain all marine claims records for a full six years after settlement, or longer if required to do so by host country.

Marine Insurance Claim

Following are the common steps to make a marine insurance claim:

- Take immediate steps to minimize damage or loss.
- Report the occurrence to the nearest office of the insurance company or claim settling agent specified in the insurance policy.
- If the damage occurs while the shipment is on ship or at a port, arrange for a joint ship or port survey.
- File the insurance claim within the time specified in the policy.

A surveyor will determine the nature, cause and extent of the loss or damage. He will relay the approximate value of the loss or damage to the insurer.

The following documents are required to support your claim:

- Insurance policy
- Original invoice
- Declaration of Consignment
- Packing list
- Notice served on carrier with corresponding receipt or acknowledgment
- Survey fee for the surveyor appointed by the insurer. You may need to advance this amount but it will be reimbursed by the insurer if your claim is approved.
- Bill of Lading
- Correspondence with carriers
- Shortage or Damage Certificate issued by carriers.
- The insurer will need around one to three weeks to process the claim.

Progress of the Marine Insurance Business in India

The marine insurance business was nationalized, along with other general insurance by the general insurance (Emergency provisions) Ordinance 1971, which was subsequently replaced by the General Insurance (Emergency Provisions) Act, 1971.

Progress of the marine insurance business in India

The management of the insurers carrying on the General Insurance Business in India was taken over by the Central Government with effect from 13th May 1971. The General Insurance Corporation of India was formed on 22nd Nov. 1972, under General Insurance.

Business (Nationalization) Act 1972 and by virtue of the same Act, 55 Indian General insurance companies became subsidiaries of the General Insurance Corporation of India and the undertakings of the other erstwhile insurers were merged into one or the other of four selected ultimate companies which were to operate in the nationalized set-up, viz., National Insurance Company Ltd., New India Assurance Company Limited, Oriental Fire & General Insurance Company Ltd. And United India Fire & General Insurance Company Limited.

1st January 1974, 55 Indian insurance companies were also merged into the four ultimate companies by schemes merger. The setting up of a new organizational set-up for the four ultimate companies is still in the process of being completed.

Thus the period from 13th May 1971 to 31st Dec. 1794 has been a period of transition. The progress of marine insurance has been analyzed under progress before nationalization and progress after nationalization.

The business of Indian insurers' progress before nationalization

Progress of the marine insurance business in India

- The Gross premium of Indian insurers has increased from Rs. 21.06 crores in 1969, i.e., 76.6 percent of the gross premium received by the marine insurers, to Rs. 31.61 crores, i.e., 76.4 percent of the gross premium in 1972.
- Thus, the gross premium has increased not only in absolute terms but it has increased in the relating of total gross premium.
- The business of non-Indian insurers has decreased from 23.4 percent of the total gross premium in 1969 to 20.6 percent of the gross premium in 1972. The non-Indian insurers were unable to increase their share in the total business.
- The total gross premium incomes of nationalized insurers increased from Rs. 70.83 crores in 1975 to Rs. 98.32 crores in 1978.
- Not only the share of the gross premium to Indian Insurers but, the share of the net premium to Indians. Insurers have also increased from 75.2 percent of the net premium to 78.2 percent of the net premium in 1972. The share of non-Indian insurers has decreased from 24.8.
- Percent of total net premium to 21.8 percent of total net premium in 1972. The total net premium has been constantly rising from Rs. 17.96 crore in 1969 to Rs. 27.79 crores in 1972.
- As compared to the general total general insurance business, the Indian insurers have booked less business in the form in the marine insurance business as the share of Indian insurers to the total general insurance business in 1969 was 80.2 percent of the total net received by all general insurers which increased to 81.7 percent in 1971 and 82.8 percent in 1972 while the corresponding percentage in case of marine insurance was 25.2, 76.9 and 78.2 percent respectively.

- Thus, the share of marine insurance of Indian insurers was not as high as the total business in the case of general insurance.

The global marine insurance market reached a value of US$ 31.4 Billion in 2021. Looking forward, IMARC Group expects the market to reach US$ 39.2 Billion by 2027, exhibiting at a CAGR of 3.65% during 2022-2027.

Marine insurance policy provides financial coverage against damages and losses caused to cargo vessels, ships, and terminals during transportation. It is generally required during import and export trade proceedings to meet strict regulatory compliance of different countries. Nowadays, several insurers are introducing plans that cover the risk of theft, malicious damage, shortage, and non-delivery of goods. These plans can be customized according to the specific business requirements of customers. Besides this, they also cover for losses incurred on account of fire, explosion, hijacks, accidents, collisions, and overturning.

Governing agencies of numerous countries are undertaking initiatives to promote local manufacturing and international trade, which is resulting in a significant rise in the number of export activities across the globe. In addition, they are mandating marine insurance for vessels used in commercial transportation. This represents one of the key factors driving the demand for marine insurance to keep goods or cargos insured against unforeseen incidents during transit. Furthermore, e-commerce companies are adopting marine shipping to facilitate cross-border transportation of goods and reach a broader audience. This, in confluence with the emerging trend of online shopping on account of rapid urbanization, improving income levels, and the growing influence of social media, is propelling the growth of the market. Apart from this, leading players are focusing on incorporating machine learning (ML) and artificial intelligence (AI) to deliver risk management services, improve renewal efficiency, and uncover behavioral factors that impact loss events in real-time. Such advancements are anticipated to drive the demand for marine insurance around the world to simplify claim processing, manage engine performance, and improve navigation and cargo supply chains.

UNIT –V

Personal Accident Insurance- Motor Insurance- Burglary Insurance- Miscellaneous Form of Insurance including Social Insurance- Rural insurance and Prospects of Agriculture Insurance in India- Health Insurance- Liability insurance- Banc assurance

Personal Accident Insurance

Personal Accident Insurance policy provides complete financial protection to the insured members against uncertainties such as accidental death, accidental bodily injuries, and partial/total disabilities, permanent as well as temporary disabilities resulting from an accident. In the case of accidental death of the policyholder, the nominee gets 100% compensation from the insurer. There are various other compensations that are offered for accidental disability such as loss of eyes, limbs, and speech.

This insurance is designed to offer protection against damages from bodily injury resulting solely and directly from an accident caused by violent external and visible means. The insurance covers death, loss of limbs or sight, temporary total disablement, and permanent total disablement.

An accident does not come knocking at the door. It can happen anytime, anywhere and may result in minor to serious injuries. Any such uncertainty may lead to financial crisis, and that is why it is always recommended to buy an Accidental Insurance policy. It will provide the necessary financial assistance against accidental death, bodily injuries and disabilities (Partial/ Permanent/Temporary). There are various other rider benefits such as accidental hospitalization cover, Hospital Confinement Allowance, and Medical Expense Cover.

Types of Personal Accident Insurance Policy:

Accidental Insurance Policies can be further divided into twosub-heads. Here’s a quick rundown of the two variants:

- Individual Accident Insurance:

This type of policy guards an individual in case of any accidental damage. It covers accidental death, loss of limbs or sight, or other permanent disabilities resulting due to an accident.

- Group Accident Insurance:

Group Accident Insurance is taken by employers to get coverage for their employees. Depending on the group size, some insurers also provided a discount on the premium. It is a good incentive/ value-added advantage for small organizations as it is available at low cost. However, this is a very basic plan and may offer limited benefits compared to an individual plan.

Accidental Insurance Coverage

You can avail the following coverage benefits with a personal accident insurance policy –

- Accidental Death Cover

An accident can be both emotionally and financially devastating for the dependent family members. In case of fatal injuries, the entire sum assured is paid to the nominee as mentioned in the policy document.

- Permanent/Total Disability Cover

In case an accident results in permanent disabilities or lifelong total impairment such as loss of both the limbs, then a specified sum insured amount is paid to the policyholder.

- Permanent Partial Disability Cover

If bodily injuries, resulting in permanent partial disabilities, then a certain percentage (up to 100%) of the benefit is paid to the insured.

- Temporary Total Disability

In case the insured meets with temporary total disabilities and is bedridden, then the insurer will provide a weekly allowance to recompense the loss of income. The insured can also utilize this claim amount to pay the EMIs, in case there is a loss of earnings.

Motor Insurance

A motor insurance policy is a mandatory policy issued by an insurance company as part of prevention of public liability to protect the general public from any accident that might take place on the road. The law mandates that every owner of a motor vehicle must have one motor insurance policy

Meaning of motor insurance

Motor insurance is a unique insurance policy meant for vehicle owners to protect them from incurring any financial losses that may arise due to damage or theft of the vehicle. Whether you have a private car, a commercial vehicle, or a two-wheeler, you can purchase a motor insurance policy.

You will come across three different types of insurance policies in the market that provides coverage for motor vehicles:

● Third-party insurance policy:

Obtaining this insurance policy is a statutory requirement. Without this policy, it is illegal to drive your motor vehicle in India. The chief objective of this policy is to provide coverage for any injury caused to a third party by your vehicle. Therefore, in case of an injury or death of a third party, the third party can raise a claim under such a policy and receive the insured amount.

● Own-damage insurance policy:

In case of any damage to your vehicle due to fire or rain, or theft, you can raise a claim under this policy to compensate you for the expenses incurred for repairing your vehicle.

● Comprehensive insurance policy:

This type of insurance policy provides you the best of both worlds as it provides both third-party cover and own damage cover. Even if your car gets stolen, you can file a claim under such a policy and get compensated. Typically, most policyholders prefer purchasing a comprehensive insurance policy and also take on various add-on covers such as zero depreciation cover, personal accident cover, etc., to make it more useful.

Bear in mind that you cannot raise any claim under any type of motor insurance policy, if:

- You were driving your vehicle without a valid driving licence
- You were driving the vehicle under the influence of drugs or alcohol
- You were using the vehicle for any unlawful activity

Burglary Insurance

A burglary insurance policy is a type of crime insurance that covers losses resulting from burglary. Put simply, burglary refers to when someone uses force to unlawfully enter someone else's property - even if they did not steal anything in the end.

Types of losses insured include:

- Theft of property from a closed premises such as a home, place of business or automobile.
- Damage caused by the intruder in the process.

Even though the words burglary, robbery, and theft are often used interchangeably in real life, they are actually very different legally speaking and in the insurance world. The definitions are nuanced but in the insurance world, burglary is defined as theft when force was used to unlawfully enter someone else's property.

In order for an insurer to recognize your claim, you have to file a police report and show some signs of forced entry such as a broken window or scratch marks on the door. If you do not have these evidences, the insurer will not count it as a burglary and therefore you would not have coverage.

The broadest peril for this type of loss is "theft." In insurance terms, theft is defined as any means of taking without the owner's consent, regardless of the method.

So if you see theft as an insured peril on your policy, you can rest easy that your property is well protected against all types of crime losses whether that be burglary, robbery, or otherwise.

Miscellaneous Insurance

1- HOTEL COMPREHENSIVE INSURANCE

Hotel Comprehensive Insurance is a unique miscellaneous insurance package designed to offer all-around protection to hoteliers in their day-to-day operations.

This package provides cover for loss and/or damage to the hotel property, loss of revenue as well as cover against third-party liability arising from the operations and loss and/or damage to guest effects, or personal effects. Furthermore, this policy may also cover physical loss of money, infidelity of employees, and forgery.

2- CONTINGENCY/CANCELLATION INSURANCE

Contingency/cancellation Insurance covers monetary loss suffered by the insured in consequence of the cancellation, abandonment, postponement, etc. arising from any cause beyond the control of the insured.

Note: In the event of non-appearance of participants, adverse weather conditions, and national mourning, this miscellaneous insurance policy will be considered null and void.

3- JEWELERS BLOCK INSURANCE

Jewellery trade is one of the major business activities in Qatar. And as such, Jewellers Block Insurance is designed to cater to a wide range of risks, such as fire, theft/burglary as well as loss in transit whilst at customers' sites.

4- EVENT CANCELLATION

With the massive growth and sophistication in the tourism and hospitality industry, this specialized class of miscellaneous insurance is gaining prominence.

5- BAGGAGE ALL RISKS INSURANCE

Baggage All Risks Insurance covers loss or damage to the insured property (usually personal effects) during business or personal travel as accompanied baggage.

6- BANKERS BLANKET BOND (BBB)

Bankers Blanket Bond is designed to offer protection to banks/financial institutions against financial loss suffered during their operations.

The protection offered ranges from loss due to infidelity of employees, loss of money in transit, on-premises, forgery, holdup, robbery, and computer-related crime.

The package also offers bankers cover for professional indemnity towards their customers. Directors and Officers of the company may also be covered under this miscellaneous insurance service.

7- OTHER INSURANCE POLICIES

In addition to the standard and specialized insurances offered as above, other insurance policies extend cover for other miscellaneous exposures of the business.

Social insurance

Social insurance is a form of social welfare that provides insurance against economic risks. The insurance may be provided publicly or through the subsidizing of private insurance. In contrast to other forms of social assistance, individuals' claims are partly dependent on their contributions, which can be considered insurance premiums to create a common fund out of which the individuals are then paid benefits in the future.

Social insurance is one of the devices to prevent an individual from falling to the depths of poverty and misery and to help him in times of emergencies. Insurance involves the setting aside of sums of money in order to provide compensation against loss, resulting from particular emergencies.

The elimination of the risk of the individual is the basic idea of insurance. It is primarily the effort of the social group, in place of the individual effort, to lessen the incidence of loss on the individual.

Definition - social insurance

Social insurance is "a co-operative device, which aims at granting adequate benefits to the insured on the compulsory basis, in times of unemployment, sickness and other emergencies, with a view to ensure a minimum standard of living, out of a fund created out of the tripartite contributions of the workers, employers and the State, and without any means test, and as a matter of right of the insured".

Social insurance can be described as the giving in return for contribution, benefits up to subsistence level, as right and without means tests, so that individual may build freely upon it.

Main Features of Social Insurance:

Well-marked features of social insurance are as follows:

(1) It involves the establishment of a common monetary fund out of which all the benefits in cash or kind are paid, and which is generally built up of the contribution of the workers, employers and the State.

(2) The contribution of the workers is merely nominal and is kept at a low level so as not to exceed their paying capacity, whereas the employers and the State provide the major portion of the finances. This means that there is no close correspondence between workers' own contribution, and the benefits granted to them.

(3) Benefits are granted as a matter of right and without any means test, so as not to touch the beneficiaries' sense of self-respect.

(4) Social insurance is now provided on a compulsory basis so that its benefits might reach all the needy persons of the society who are sought to be covered.

(5) The benefits are kept within fixed limits, so as to ensure the maintenance of a minimum standard of living of the beneficiaries during the period of partial or total loss of income.

(6) It has to be borne in mind that social insurance alleviates the sufferings of the individual from the particular event, but, it does not prevent it. As a matter of fact, when prevention is impossible, or nearly so, that insurance has its greatest appeal.

Benefits of Social Insurance

1. A common fund is established by employer, State and the workers out of which all the benefits in cash or kind are paid.
2. The contribution of the workers is nominal which generally does not exceed their paying capacity, whereas the employers and the State provide the major portion of the finances.
3. The object of the benefits is to ensure the maintenance of a minimum standard of living to the beneficiaries during the period of partial or total loss of income.
4. Benefits are granted as a matter of right and without any means test, thus, they do not touch the self-respect of the beneficiaries.
5. It is provided on compulsory basis so that its benefit might reach to all the needy persons of the society who are sought to be covered by the scheme.
6. Lastly, social insurance reduces the sufferings arising out of the contingencies faced by individual contingencies which he cannot prevent.

Social Insurance and Commercial Insurance

Commercial insurance is necessarily voluntary, whereas social insurance is generally compulsory. In commercial insurance, the policy benefits are according to the premiums paid, while in social insurance the benefits received by the workers are much larger than their contributions.

Moreover, commercial insurances do not have for its object the maintenance of a minimum standard of living, which is the only inspiring motive of social insurance. Besides, social insurance is undertaken to meet a chain of contingencies of diverse nature and intensity, while commercial insurance provides against an individual risk only.

Social insurance is different from commercial insurance, for the latter is voluntary and is meant for the better-paid sections of the society, and its benefits are in proportion to the premium paid; it offers protection only against individual risks and does not aim at providing a minimum standard of living.

Thus, commercial insurance is voluntary whereas social insurance is compulsory. In commercial insurance the benefits are given according to the premium paid just as the risks are covered under LIC policies, while in social insurance the benefits received by the workers are much larger than their contribution. Moreover, social insurance has the object of maintaining a minimum standard of living while in commercial insurance the object is to cover the risk of those individuals who pay the premium.

It is, thus, obvious that, the ideals of social insurance are based on human dignity and social justice while that of commercial insurance are on means tests. Besides, social insurance is undertaken to meet a chain of contingencies of diverse nature and intensity, while commercial insurance provides security against an individual’s risk.

Rural Insurance

Rural insurance ensures that families living in rural areas have a safe and secure future so that they can lead a happy life. The insurance helps them to cover risks related to various aspects of their life. Rural Insurance policies come with the affordable premium rates and faster claim process.

Rural insurance is associated with the lifestyle risks of people residing in villages.

This insurance policy includes:

- Hut insurance
- Poultry insurance
- Cycle rickshaw policy
- Sericulture insurance
- Honey bee insurance
- Failed- well insurance
- Sheep and goat insurance
- Lift irrigation insurance
- Farmers’ package insurance
- Agricultural pump-set policy
- Animal-driven cart insurance
- Gramin personal accident insurance
- Aqua-culture (prawn/ shrimp) insurance
- Horticulture/ plantation insurance scheme
- Animals included in rural insurance are elephants, rabbits, pigs, birds, zoo and circus animals.

Agriculture insurance in India

Farm Income Insurance Scheme

The Central Government formulated the Farm Income Insurance Scheme (FIIS) during 2003-04. The two critical components of a farmer's income are yield and price. FIIS targeted these two components through a single insurance policy so that the insured farmer could get a guaranteed income.

The scheme provided income protection to the farmers by insuring production and market risks. The insured farmers were ensured minimum guaranteed income (that is, average yield multiplied by the minimum support price). If the actual income was less than the guaranteed income, the insured would be compensated to the extent of the shortfall by the Agriculture Insurance Company of India.

Initially, the scheme would cover only wheat and rice and would be compulsory for farmers availing crop loans. NAIS would be withdrawn for the crops covered under FIIS, but would continue to be applicable for other crops.

National Agriculture Insurance Scheme

The Government of India experimented with a comprehensive crop insurance scheme which failed. The Government then introduced in 1999-2000, a new scheme titled “National Agricultural Insurance Scheme” (NAIS) or “Rashtriya Krishi Bima Yojana” (RKBY).

NAIS envisages coverage of all food crops (cereals and pulses), oilseeds, horticultural and commercial crops. It covers all farmers, both loanees and non-loanees, under the scheme.

The premium rates vary from 1.5 percent to 3.5 percent of sum assured for food crops. In the case of horticultural and commercial crops, actuarial rates are charged. Small and marginal farmers are entitled to a subsidy of 50 percent of the premium charged- the subsidy is shared equally between the Government of India and the States. The subsidy is to be phased out over a period of 5 years.

NAIS operates on the basis of

1. Area approach
2. On individual basis- for localized calamities such as hailstorms, landslides, cyclones and floods.

Under the scheme, each state is required to reach the level Gram Panchayat as the unit of insurance in a maximum period of 3 years. Agriculture Insurance Corporation of India is implementing the scheme. This scheme is replaced by Pradhan Mantri Fasal Bima Yojana.

Health Insurance

Health insurance is an insurance product which covers medical and surgical expenses of an insured individual. It reimburses the expenses incurred due to illness or injury or pays the care provider of the insured individual directly.

Types of Health Insurance

Every individual is different and has a unique set of needs. A single health insurance product is not enough to cover every person's individual requirements. This is precisely where there are a number of different types of health insurance plans available. Different types of Health Insurance are:

1. Individual Health Insurance

You can purchase an individual health insurance policy to provide cover for yourself, your spouse, your children and your parents. These policies typically cover all kinds of medical expenses, including hospitalisation, day-care procedures, hospital room rent and more. Under an individual health insurance plan, each member has their own sum insured amount. So, let's say you've taken an individual plan for yourself, your spouse and both your parents with a sum insured of INR 8 lakhs. Each of you will be able to claim a maximum amount of 8 lakhs per policy year against your health insurance.

2. Family Floater Health Insurance

A family floater plan allows you to cover your family members under a single policy and everybody shares the sum insured amount. These plans are typically more affordable than individual plans since the sum insured is shared.

Let's say you purchase a family floater plan for you and your spouse with a sum insured of INR 8 lakhs. In a single policy year, you can make claims worth only INR 8 lakhs. Your spouse may make claims worth INR 6 lakhs and you could make claims worth INR 2 lakhs or vice-versa. Typically, family floater plans are ideal for young nuclear families.

3. Senior Citizens Health Insurance

These health plans have been designed specifically keeping the medical needs and requirements of senior citizens in mind. Most senior citizens policies offer additional cover, such as domiciliary hospitalisation and even some psychiatric benefits. Since older citizens are more likely to have health issues, these policies may require a full medical check-up beforehand and could be more expensive than regular insurance policies.

4. Critical Illness Insurance

There are a number of lifestyle-related diseases that are on the rise. Health issues such as cancer, stroke, kidney failure and cardiac diseases can be very expensive to deal with and to manage long-term. This is precisely why critical illness insurance policies have been created. They can either be purchased as a rider or add-on with your regular health insurance plan or separately as their own plan. These policies offer cover for very specific issues and often provide claim payouts as a single lump sum payment after the diagnosis of a critical illness.

5. Group Health Insurance

Unlike individual and family floater policies, group health insurance plans can be purchased by a group manager for a large number of individuals. For example, an employer can purchase group insurance for all their employees or a building secretary may purchase such a plan for all the residents of the building. These plans are fairly affordable, but they often only provide cover for basic health issues. Employers often purchase these plans as an additional benefit for employees.

Benefits of Health Insurance

Purchasing health insurance is crucial for a number of reasons. Most important benefits of health insurance policies are as follows:

1. Helps Deal with Rising Medical Costs

People purchase health insurance policies to safeguard their finances against ever-rising medical costs. An accident or medical emergency could end up costing you more than a few thousand rupees. With a medical insurance plan, you enjoy cover for everything from ambulance charges to day-care procedures, making it easier for you to get the care you need to recover.

2. Critical Illness Cover

Many health insurance policies will also offer cover for critical illnesses at an additional cost. Given the rising incidence of lifestyle-related diseases today, this is another crucial cover to have. You will be provided with a lump sum payout in case you are diagnosed with any of the covered critical illnesses. These issues are often very expensive to deal with and manage, so critical illness cover is another vital benefit of having health insurance.

3. Easy Cashless Claims

Every health insurance provider will tie-up with a number of network hospitals where you can enjoy cashless claims. This makes the entire process of receiving emergency medical care much easier. At a network hospital, you aren't really required to pay for any of the covered treatments. For all valid claims, insurer will take care of the medical costs, without you having to pay for anything, except non-covered expenses and the mandatory deductibles.

4. Added Protection

If you enjoy cover under a group health insurance plan, you may wonder why you should purchase your own health insurance policy. Well, individual health insurance plans offer provider more and better cover than group plans. Additionally, if you happen to leave the group at any time, you risk losing the cover, which could make you and your finances vulnerable.

5. Tax Savings

Under Section 80D of the Income Tax Act, 1961, premiums paid towards the upkeep of health insurance policies are eligible for tax deductions. For a policy for yourself, your spouse, your children and parents below the age of 60, you can claim a deduction of upto INR 25,000 per year from your taxable income. If you've also purchased a policy for a parent who is over the age of 60, you can claim an additional deduction of INR 50,000.

Difference between Mediclaim Plan or Critical Illness Insurance Plan

A mediclaim plan or health insurance policy works a little bit differently as opposed to a critical illness insurance plan.

Differences between these plans are as follows:

Mediclaim plans are known as indemnity plans. This means that the claim amount you receive will help offset costs as per actuals. These payouts are provided against actual medical costs and bills.

On the other hand, critical illness plans offer a lump sum payout of the sum insured once you are diagnosed with a covered critical illness. You can use the money to pay for treatment, repay debts or even replace your lost income.

Liability Insurance

Liability insurance is an insurance product that provides protection against claims resulting from injuries and damage to other people or property. Liability insurance policies cover any legal costs and payouts an insured party is responsible for if they are found legally liable. Intentional damage and contractual liabilities are generally not covered in liability insurance policies.

Unlike other types of insurance, liability insurance policies pay to the third parties, and not to the policyholders.

How Liability Insurance Works

Liability insurance is critical for those who are liable and at fault for injuries sustained by other people or in the event that the insured party damages someone else's property. As such, liability insurance is also called third-party insurance. Liability insurance does not cover intentional or criminal acts even if the insured party is found legally responsible. Policies are taken out by anyone who owns a business, drives a car, practices medicine or law—basically anyone who can be sued for damages and/or injuries. Policies protect both the insured and third parties who may be injured as a result of the policyholder's unintentional negligence.

For instance, most states require that vehicle owners have liability insurance under their automotive insurance policies to cover injury to other people and property in the event of accidents. A product manufacturer may purchase product liability insurance to cover them if a product is faulty and causes damage to the purchasers or another third party. Business owners may purchase liability insurance that covers them if an employee is injured during business operations. The decisions doctors and surgeons make while on the job also require liability insurance policies.

Special Considerations

Personal liability insurance policies are purchased primarily by high-net-worth individuals (HNWIs) or those with sizeable assets, but this type of coverage is recommended to anyone with a net worth that exceeds the combined coverage limits of other personal insurance policies, such as home and auto coverage. The cost of an additional insurance policy doesn't appeal to everyone, although most carriers offer reduced rates for bundled coverage packages.

Personal liability insurance is considered a secondary policy and may require policyholders to carry certain limits on their home and auto policies, which may result in additional expenses.

Although commercial general liability insurance protects against most legal hassles, it doesn't protect directors and officers from being sued, and it doesn't protect the insured against errors and omissions.

Companies require special policies for these cases including:

Errors and Omissions Liability Insurance (E & O):

Errors and omissions liability insurance policy covers lawsuits arising from negligent professional services or failing to perform professional duties. Lawyers, accountants, architects, engineers, or any business providing a service to a client for a fee should purchase this form of insurance. An E & O policy does not cover criminal prosecution, fraudulent or dishonest acts, or claims against bodily injury. The insured, however, is covered for attorney fees, court costs, and any settlements up to the amount specified by the insurance contract.

Directors and Officers (D&O) Insurance:

This type of policy protects directors and officers of large companies against legal judgments and costs arising from unlawful acts, erroneous investment decisions, failure to maintain property, releasing confidential information, hiring and firing decisions, conflicts of interest, gross negligence, and other errors. Most D & O policies exclude coverage for fraud or other criminal acts. Premiums depend on the company, its location, industry type, and loss experience.

Types of Liability Insurance

Business owners are exposed to a range of liabilities, any of which can subject their assets to substantial claims. All business owners need to have an asset protection plan in place that's built around available liability insurance coverage.

Here are the main types of liability insurance:

- Employer’s liability and workers' compensation is mandatory coverage for employers which protects the business against liabilities arising from injuries or the death of an employee.
- Product liability insurance is for businesses that manufacture products for sale on the general market. Product liability insurance protects against lawsuits arising from injury or death caused by their products.
- Indemnity insurance provides coverage to protect a business against negligence claims due to financial harm resulting from mistakes or failure to perform.
- Director and officer liability coverage covers a company's board of directors or officers against liability if the company should be sued. Some companies provide additional protection to their executive team even though corporations generally provide some degree of personal protection to their employees.
- Umbrella liability policies are personal liability policies designed to protect against catastrophic losses. Coverage generally kicks in when the liability limits of other insurance are reached.
- Commercial liability insurance is a standard commercial general liability policy also known as comprehensive general liability insurance. It provides insurance coverage for lawsuits arising from injury to employees and the public, property damage caused by an employee, as well as injuries suffered by the negligent action of employees. The policy may also cover infringement on intellectual property, slander, libel, contractual liability, tenant liability, and employment practices liability.
- Comprehensive general liability policies are tailor-made for any small or large business, partnership or joint venture businesses, a corporation or association, an organization, or even a newly acquired business. Insurance coverage includes bodily injury, property damage, personal and

advertising injury, medical payments, and premises and operations liability. Insurers provide coverage for compensatory and general damages for lawsuits but not punitive damages.

Banc assurance

Banc assurance is the new term that has come to the fore in the last decade or so. As the word implies, it is a combination of two words – bank and insurance. A simple meaning of this term is the use of the bank's resources by insurance companies to sell their insurance products. In other words, in this agreement, the bank and insurance company come together, whereby the insurance company, directly or through bank employees, sells its insurance products to the bank's large customer base.

Such agreements are helpful for both banks and insurance companies. Banks generate additional revenue from the sale of Insurance policies through such an arrangement, the banks may act as intermediaries between insurance companies and their customers. Or, insurance companies may use the banks "existing distribution network to sell insurance products. In return, the banks receive a certain fee from the insurance companies for the sale of insurance policies. The insurance companies, on the other hand, are able to gain more customers.

Banc assurance Market

This term first came into existence in France in the 1980s, when many believed that such things would make the banks more powerful, so several restrictions were put in place.

Now, such types of arrangements are very popular throughout the world, especially in Europe. Companies such as BNP Paribas, ABN AMRO, and others are major players in the banc assurance market. Such an agreement provides insurance companies with immediate reach for millions of potential customers.

It is a massive industry now. As per an estimate, the size of this industry was $1.66 billion in 2018. The future estimate suggests that this sector could grow by more than 6% between 2019 and 2024.

Models of Banc assurance

There are four different types of models that make the Ban assurance arrangement works. A bank and an insurance company can choose one of these models for their arrangement. Moreover, the selection of models is also relevant to the rules and regulations of the country where this arrangement will work.

These models are:

Distribution Agreements

A bank sells insurance products from only one insurer. A bank can either sell the insurance product separately or bundle it with its own products. This model is called a ‘tied agent.’

Strategic Alliance

The strategic alliance is another model of banc assurance. The Bank plays a greater role in the insurance business when it comes to product development, channel management, and more. However, it remains the role of the Bank to only design and market the products. All other liabilities remain with the insurance company.

Joint Venture

In a joint venture, a big bank and an insurer of the same size will join forces to create a larger distribution model. Moreover, a bank and the insurance company may decide to have joint participation for profit sharing.

Financial Service Group

A bank or insurance company integrates further with each other. A bank can acquire or establish an insurance division or vice versa.

Advantages and Disadvantages of Ban assurance

Banc assurance is beneficial for banks, insurance companies, and consumers. The following are the advantages of banc assurance:

- Such a scheme is very convenient for customers, as they can easily buy insurance by visiting their bank, saving time and energy.
- As customers trust banks more, it is relatively easier for banks to sell an insurance product.
- Banks have customers' financial data and are therefore better placed to recommend insurance products to customers.
- This arrangement helps people in rural areas who normally do not have access to insurance products.
- It helps banks to improve the productivity of their employees.
- For banks, such an arrangement will help to diversify their sources of revenue and generate significant commission income.
- Insurance companies gain access to the large customer base of banks, increasing turnover and customer numbers, resulting in higher profits.
- Two sectors – banks and insurance companies – can benefit from the existing network of banks.
- Banks will become a one-stop solution for all financial needs of their customers, including insurance needs. This will help to increase customer loyalty and longevity towards the bank.

The following are some of the disadvantages of such an arrangement:

- Such an arrangement requires more initial investment and more employees.
- In general, it is useful to sell only a few insurance products.
- Bank staff needs to be properly trained to know all the details of insurance products. This is a time-consuming process.

Challenges

From the outside, banc assurance may seem attractive and easy to implement, but both banks and insurance companies face several challenges in implementing it.

The challenges include:

- Banks and insurance companies must work together to make such an agreement a success. In reality, it isn't easy to bring two different companies together.
- Insurance companies have no direct control over the sale of their product. This may make it more difficult to manage marketing strategies.
- It increases the workload for banks, as their employees need to fully understand insurance products.
- If a bank has more than one such arrangement, it will sell the products that give it more income.
- Furthermore, these arrangements make it difficult to determine legal liability if a customer registers any disputes.
- The growing trend towards internet banking and mobile banking threatens the existence of banc assurance. Likewise, the development of new distribution channels could make it more difficult for banks to sell insurance products.

Going Digital

Digitalization is significantly impacting the bancassurance business model, and banks are slowly moving their bancassurance business online.

The internet reduces the gap between the product developer and customers. In this sense, banks can lose their network advantages in the banc assurance agreement. Moreover, insurance companies can collect customer behaviors online to tailor products more personally suitable to customers.

Digitalization challenges both banks and insurance companies to refine their banc assurance agreement. They need to respond to the change together and transform the way they serve their clients.

So, these were the advantages of bancassurance for all the involved stakeholders – customers, banks and insurance. This encompasses the reasons why bancassurance is finding success in so many parts of the world. With these advantages leveraged well, the operational efficiencies and the profitability of the bancassurance sales channel can be increased manifold.