Module 1
CoverDrive Training Material

Introduction to Insurance Part 1

- What is insurance?
- How insurance works
- Purpose of insurance
- Insurance as a social security tool (Government insurance schemes)
- Industry trends and growth potential
- Why we need Life Insurance
- History of Life Insurance

What is Insurance?

Insurance may be defined as the transfer of risk from the insured to the insurer.

The insured is the person (or firm or company) confronted by risk, who transfers the risk to the insurance company. This company specialized in the assumption of risk and accepts the risk.

- The insurer or insurance company accepts the risk for a fee which is called 'PREMIUM'
- The insurance company assess the loss and 'underwrites' the risk for a 'PREMIUM'

Insurance as security is a necessity for all human beings.

It is human to be afraid of uncertainties, fears and death. It is best to have a sense of security and certainty against possibility of losses in the times of a crisis. Be it a car accident, a hospitalization or even death, insurance can help a person overcome the fear of such crises.

The **concept of insurance** is not recent. We have always lived in a group or community to be secure. In earlier days, whenever an earning member of a family would die (because of an illness) the other members of the social group (or a family or clan) would contribute to help the survivors. The contribution was in the form of food, clothing and shelter.

Later, as commercial considerations grew stronger and stronger; nucleus families became a common practice. In such a scenario, helping hands were few and if a family lost an earning member (or faced a financial crisis) few came forward to help out.

This is when the concept of insurance as we know it today came gained prominence.

How insurance works?

Let us assume that a particular city has a population of 1 lakh.

In the city, on an average, during a year:

- 200 people die in accidents
- 800 people get injured and disables
- 2,000 people die of natural causes
- 7,000 people die of diseases

This data as per statistics is certain.

So what's uncertain?

While we know the risks posed to any individual, it is not certain how many individuals and which individuals may be actually harmed by that risk.

A 60-year-old retired school teacher in that city faces as much risk of accident-related death, as is a 32-year-old father of two.

Grown-ups and dependents will have their own set of fears against such risks.

What could be a probable solution to the problem is that if all 10,000 persons (or most of them) were to contribute a small of money each year to a common pool. This common pool of money could be used to help those who were actually affected by a crisis.

In a way, ***many would contribute to mitigate the losses of a few***.

This method of sharing losses of a few by many is the basis or core philosophy of insurance.

Purpose of Insurance

Things that every human being fears:

- Fear of not being able to make ends meet to procure basic necessities of food, clothing and shelter (*Roti, Kapda, Makaan*).
- There is fear of not being able to provide for ourselves and for those dependent on us.
- After all, it is only when one is able to meet the basic necessities is one able to acquire assets like vehicles, property or jewellery.
- And then there is additional fear of saving the assets from destruction. (The assets could be destroyed through accidents, in fire or in an earthquake, and the income may be cut off due to old age or due to uncertainties like accidents, illness or disabilities.)

Therefore, to overcome these problems, and cover oneself against such risks, **Insurance plays a very important role**.

We need insurance for security and safety.

- Life insurance provides security against premature death and payment in old age to lead a comfortable life.
- In general insurance, one could insurance one's property, car and health against contingencies, both natural and man-made.
- The uncertainty due to fire, accident, death, illness, disability in the human life, is compensated financially by general insurance.
- Insurance is the only way to assist and provide adequate cover at the times of sufferings.
- Life insurance provides protection and investment while general insurance provides only protection to the human life and property respectively.

Insurance as a security tool

The Indian Government has certain acts, which make sure that insurance is used as a tool for social security for all.

Here are a few acts you should know of:

1) **Workman Compensation Act, 1923:**
   This act fixes the liability for the employer, so that he / she is liable to provide and pay compensation to his / her victims if they were involved in an accident on duty.

2) **Employee State Insurance Act, 1948:**
   The purpose behind this legislation was to provide medical aid to workers and their families in industries located in certain notified areas.

3) **Motor Vehicle Act, 1988:**
   Third party liability insurance is compulsory and no uninsured vehicle is allowed to ply the roads or in any public place in India. The act now provides that irrespective of the fact that the fault was of the driver / owner or not (no-fault) the victim of an accident will be entitled to a compensation payment in case of death or grievous bodily injury.

4) **Public Liability Act, 1991:**
   The public liability act makes is compulsory for all individuals, companies, industries (remember the Bhopal Gas Tragedy of 1984) involved in handling of hazardous substances to insure against any untoward happening so that immediate succor is available to the victims from the insurance companies.

5) **Personal Accident Social Security Scheme:**

The scheme provided for a payment of Rs. 3,000/- in the event of death due to an accident of any person in the age group of 18 to 60 who is the earning member of the poor family. The premium is borne by the Central Government and the expenses for implementation of the scheme by the state government.

6) **National Agricultural Insurance Scheme** or the Rashtriya Krishi Bima Yojna introduced in 1999 with the objective of providing insurance coverage and financial support to farmers in the event of failure of crops as a result of calamities, pests and diseases.
7) **Hut Insurance Scheme:**
The scheme provides that in case of destruction of Hut due to fire, the Government gives compensation of Rs. 1,000 for hut and Rs. 500 for belongings shall be paid.

Growth Potential for the Insurance Sector in India

With the largest number of life insurance policies in force in the world, Insurance happens to be a mega opportunity in India. It's a business growing at the rate of 15-20 percent annually and presently is of the order of Rs. 450 billion.

Yet nearly 80 percent of the Indian population is without life insurance cover, while health and non-life insurance continues to be below international standards.

The population is also subject to weal social security and pension systems with harly any old age income security.

This itself is an indication that growth potential for the insurance sector is immense.

10 Reasons Why We Need Life Insurance

Life insurance is one of those things that every person is expected to have:

1) To provide for the risk of dying too early or living too long.
2) To replace the lost income for the family: to provide money to replace the income of the bread-winner in the case of the unfortunate death so that the family can maintain its standard of living,
3) To pay medical expenses associated with death: Unfortunately, many deaths are prolonged and a mountain of medical bills can accumulate.
4) To pay off a mortgage or other debts: A life insurance death benefit allows the surviving family to eliminate monthly house payments, car payments, or other debt obligations.
5) To provide money for settling the estate: If there is an estate to be settled, death benefits are paid immediately upon death, so money will be available to pay costs related to the estate (example: taxed) while it's being settled.

6) To leave an inheritance: A life insurance policy is a great wat to leave money behind for the family or for a charitable cause. Unlike capital gains, death benefits are not taxable.
7) To provide for future needs of children: A life insurance policy can supply money for children to go to college. Or, in the case of special needs children, it can provide for ongoing care and living expenses.
8) To provide a source for emergency cash: Many insurance policies allow for cash accumulation from which a person can borrow. Although this borrowing will reduce your death benefit, the person may want to have the option if a personal financial crisis arises.
9) To maximize pension: or retirement of a person.
10) To allow for business continuity: Of a person owns or co-owns a business, then life insurance is a way to protect the company's future in case of death of the person.

History of Life Insurance

Insurance was practiced in India even in the Vedic times and the Sanskrit term 'Yogakshema' in the Rigveda is in reference to a form of Insurance practices by the Aryans 3,000 years ago.
The first Indian Life assurance society was called 'Bombay Mutual Assurance Society'.

Oriental Life Assurance Society	1874
Bharat Insurance	1896
Empire of India	1897

During the Swadeshi Movement of 1905, Mahatma Gandhi's call to Indians to give their business only to Indian companies gave a boost to the new companies and they consolidated their position.

More Indian companies entered the Life insurance sector. They were:

- Hindustan Co-operative
- United India, Bombay Life
- National
- Laxmi Insurance

These companies has to compete with 150 foreign offices including some of the largest insurance groups in the world.

Insurance in Modern India

- Government started exercising control on Insurance companies by passing the Insurance Act in 1912.
- This act was comprehensively amended and passed as New Act in 1938 for controlling investment of funds, expenditure and management.

- The office of controlled was established. Again this act was amended in 1950.

By 1955, 170 insurance offices and 80 P.F. Societies registered companies were doing Life insurance business in India.

In view of surge in malpractices in Life insurance business, due to the illiteracy level being high and lack in will for penetration / spread of Life Insurance business, it is nationalized by Government of India and LIC Act was passed in June' 1956, and this Act came into force from 1.9.1956.

General insurance (which deals with non-life i.e. insurance of property) also nationalized in 1972 after merging of 55 Indian and 52 Non-Indian companies were nationalized by forming four general insurance companies. The Govt. of India, while liberalizing the Indian economy also felt the need to liberalize the insurance sector because of the lower penetration of insurance in general.

Initially the government formed a Malhotra committee in 1993 to study whether the insurance sector should be opened for private players. The committee recommended to liberalize, privatize and globalize the insurance sector. In 1999, the authority known as Insurance Regulatory Development Authority through IRDA Act of 1999 was formed.

Liberalization of the insurance industry will undoubtedly benefit the Indian economy, the Government, the industry, the consumers and the society.

Impact of Liberalization of Insurance Industry

Benefits to the Economy:

- Rapid investment
- Improved quality of Life (new risks covered)
- Competition will bring consumer-friendly products
- Large-scale mobilization of funds
- Insurance and reinsurance facilities to major projects
- Export projects covered at home

Benefits to the Government:

- Long-term fund for infrastructure
- Long-term debt market instruments available
- Increased employment opportunities and compensation
- Contributions in calamities (sharing of social responsibilities)
- Infrastructure funds are available to create roads, bridges, communication, housing, etc. Thus leading to reduced financial burden

Benefits to the Industry:

- Transfer of technical expertise
- Innovative products and pricing options
- Improved prospects for national companies
- Market driven economy will benefit customers the most.

Benefits to the Consumers:

- Superior quality at lower prices
- Wider choice of products
- World class services to the consumer
- Increased penetration of insurance

Benefits to employees:

- Human resource development
- Exposure to 'State-of-the-art' practices
- Greater job opportunities
- Professional management practices

Benefits to the Society: Insurance companies act as guardians of the society in a number of way

- Risk cover for large industry, trade and property
- Environmental risks get reduced
- Hit-and-run compensations
- Crop insurance for covering risks of nature like poor rainfall
- The burden of social responsibilities shared among many

How Life Insurance Investments Work

The government has prescribed the norms as to how insurance companies can invest their funds. The norms are explained below.

Every insurance company carrying on the business of life insurance shall invest and at all times keep invested in the following manner:

- 25% in government securities
- Not less than 50% in government securities or approved securities (including the ones mentioned in point #1)
- Not less than 15% in infrastructure and social sector; not exceeding 35% in other capital market investment in 'other than approved investments can in no case exceed 15% of the fund.
- From the above, it will be observed that the government has asked the insurance industry to channel the funds to state and central government. Infrastructure regulations issued by the Insurance Regulatory Development Authority).

Module 2
Introduction to Insurance (Part 2)

Types of Insurance

There are various types of insurance products that are offered by insurance companies. Insurance policies (insurance products) have been conventionally classified into Life Insurance and General [Non-Life] Insurance.

Life Insurance business means the business of effecting contracts of insurance dependent upon human life. This includes contracts whereby the payment of money is assured on death [except death by accident only].

Life insurance business includes Term Insurance policies, endowment policies, whole life policies, money back policies, unit linked insurance policies (ULIP), Annuity policies etc.

General Insurance (Non-life) business means fire, marine or miscellaneous insurance business, whether carried singly or in combination with one or more of such businesses.

Personal Lines of Insurance

Life and non-life insurance products can be categorized differently from a policyholder's point of view.

For Example: The Fire Insurance needed by a large petrochemical plant would be different from that of a small-scale factory in an industrial estate. The insurance needs of a dwelling house or a shop would be still different.

Based on the consumer segments that buy insurance, insurers categorize their products. General insurance products are classified as commercial and personal lines.

Another way of categorizing would be:

- Corporate sector
- Small and medium enterprise [SME] sector
- Personal lines

- Micro and rural insurance

Components of General Insurance business have been traditionally identified as follows:

1) **Fire insurance business** means the business of effecting contracts of insurance against loss by or incidental to fire.
   In simple words, fire insurance covers physical loss of or damage to property due to various causes like fire, lightning, flood, earthquake etc. Causes like robbery, theft, riots etc also are customarily included under fire insurance. Property means fixed assets like houses, shops, factories, offices, hotels and other buildings. Movable assets like furniture, television, refrigerator, machinery used in factories, office equipment's like Xerox machines; computers, jeweller etc. are also part of property.

2) **Marine insurance business** includes
   - Marine Hull which means the business of effecting contracts of insurance upon all types of vessels [ships, boats, etc.]
   - Marine Cargo which means insurance of goods during transit, by land or water and during incidental warehousing.

3) **Miscellaneous insurance business** originally meant the business of effecting contracts of insurance on all kind of risks other than life, fire and marine insurance policies

Types of Insurance in Today's Market

As time passed, many branches of general insurance business developed in the Indian market and today, we have some insurance companies dealing with life insurance only, some others dealing with general insurance and some dealing only with health insurance.

IRDA has identified ten major lines of general insurance business. Insurance data is compiled and published by IRDA under:

- Aviation,
- Engineering
- Fire
- Health
- Liability
- Marine Hull
- Marine Cargo
- Motor OD
- Motor TP
- Personal Accident

- The remaining products are grouped under ‘All Others’

1) **Aviation**: The insurance of airplanes and the airlines liability to others due to accidents is covered under Aviation insurance.

2) **Engineering**: Buildings and projects during erection or construction, working machinery and equipment, operational risks etc come under this type of insurance.

3) **Fire insurance business** means the business of effecting contracts of insurance against loss by or incidental to fire.

4) **Health**: Costs of treatment on account of illness or accident are under this type of insurance. Some products cover all kinds of treatments including out-patient treatment, some cover only hospitalization; while some cover only major surgeries. Health insurance is provided by both life and general insurers.

5) **Liability**: When a person is affected by the action or inaction of another person, he can ask for compensation for the loss suffered. Paying the compensation to the affected person is the liability of the person who caused the loss.

6) **Marine Hull**: Marine Hull which means the business of effecting contracts of insurance upon all types of vessels [ships, boats, etc.]

7) **Marine Cargo**: Marine Cargo which means insurance of goods during transit, by land or water and during incidental warehousing.

8) **Motor Own Damage [OD]**: Accidental damage to a vehicle can cause financial loss to the owner of the vehicle. Such losses can happen to private cars, two wheelers, passenger carrying or goods carrying commercial vehicles or other vehicles. All these are insured by Motor OD Policies.

9) **Motor Third Party [TP] Liability**: Motor accidents can cause loss damage of someone else's property. Motor accidents can cause loss of life or injury to other people as well. It is the liability of the owner of the vehicle to pay compensation to persons affected by

accidents caused by him. Such liability to other people (third parties) is insured through Motor TP Insurance.

10) **Personal Accident**: Due to accidents, one can lose his life. He can be permanently disabled by loss of a limb or a vital body part as well. This can make him bedridden permanently or for some period. Though such losses cannot be compensated, due to the accident, he would be suffering loss of his livelihood and facing difficulty in carrying out his normal functions. Personal Accident Insurance pays financial benefits to those affected by such accidents.

11) **Others**: There are many miscellaneous insurance products that are not classified under a particular type. The larger among these are, Crop insurance, Cattle insurance, and Travel insurance.

Generic Personal lines of Insurance

Health insurance and personal accident insurance are personal lines of insurance as they deal with the person, his physical wellbeing and treatment costs.

Personal line insurances are those which are suitable for individual insured and taken in their own personal names. Personal line products could be life insurance products, general insurance products and health insurance products.

Other Retail Lines

There are a few lines of business that are considered by insurers along with personal lines of business. Beyond giving protection to individual lives and treatment costs, they protect financial loss of personal properties.

1) **Travel Insurance**: Health problems that occur during overseas travel is a major part of travel insurance. Additionally, there are risks like loss of baggage, loss of passport, missing flights etc. associated with travel. Domestic travel also can be insured. There are variants that cover employment and study tours - covering employees on deputation overseas and students for medical expenses and accidents during their study period overseas.

2) **Householders Insurance**: This is a package policy covering assets of a household.i.e. The dwelling unit - the building and its contents against various risks.

Social sector and Rural Insurances

These are specially customized versions of other insurances sold to rural populations. Examples include but insurance, pedal cycle insurance, sheep and goat insurance, bee hive insurance, poultry insurance, agricultural pump-set insurance etc. For instance, Cycle insurance covers loss/ damage to pedal cycle and third-party liabilities for physical and property damage.

There could be some overlap in these types of insurance. For instance, though Health insurance is a personal line of insurance, it can also be purchased by an employer to cover all his employees and their families across a state or the country, when it is sold to a corporate buyer.

Fundamentals and Principles of Insurance

Insurance contract is an agreement between Insurer and Insured enforceable by law. The Indian Contract Act, 1872 governs all contracts in India, including insurance contracts.

Life Insurance covers insurance of human beings.

General Insurance comprises of insurance of property against fire, burglary etc

- Personal insurance such as accident and health insurance, and
- Liability insurance that covers legal liabilities etc.

In case any of these principles are missing in the insurance, contract will become void.

Offer (proposal) and Acceptance

Proposal (offer) is an application for taking an insurance. Generally, a person who needs insurance makes the proposal.

When an insured approaches insurance company to insure his life or his property he is required to fill up a form called Proposal form. In proposal form the questions are asked, depending on type of insurance sought for.

For Examples:

a) In case of insurance of life, generally questions about age, gender, health conditions, occupation, income etc are asked.

b) In case of property insurance - say for insurance of a house - questions related to type of construction, age of the building, distance from river etc are asked.

Depending upon the details given in the proposal insurers decide about acceptance or rejection of the proposal. If they accept the proposal as it is, it is called "accepted as proposed".

In many cases insurers may be willing to accept the proposal but for lesser covers or modified terms.

E.g. If Shyam approaches an insurance company to insure his life against death and disability, the insurer may not be willing to grant disability cover but may be prepared to grant only death cover. In this case the proposal is not accepted but what is done by the insurance company is called issue of a '**Counter Offer**'.

When a counter offer is made, the proposer has to decide whether he will accept the counter offer or not. If he accepts, then it amounts to acceptance.

Many a times an insurance company also may approach a prospective client and make an offer to insure his property in that case the offer is made by the insurer and the client has to decide whether he will accept it or not.

Consideration (Premium)

Once an offer is accepted it becomes an agreement. But only agreement is not sufficient to make an insurance contract valid. Other conditions are also to be fulfilled. An important condition is about payment of premium. After acceptance if the agreed premium is paid then only the insurance contract will come to existence.

Premium is the consideration, which is to he paid by the proposer to the insurer, at the beginning of the period for which the Insurance is being provided.

Under the provisions of the Contract Act the provision is ***'No consideration no contract'***. If premium is not paid it amounts to absence of consideration and the insurance contract will not come in to existence. The right to insurance cover depends on payment of subsequent instalments of premium [if any at the beginning of each period

Please note life insurance policy has a cooling off period of 15 days after the date of underwriter's acceptance. The proposer has the right to decide to reject the insurer's offer, within 15 days of receipt of the policy.

Insurable Interest

PRINCIPLE OF INSURABLE INTEREST states that an Insurance contract is enforceable when the insured has an insurable interest in the subject matter of the contract. Insurance without 'insurable interest' would be a mere wager and as such unenforceable in law.

Insurable Interest is defined as:

"The legal right to insure arising out of a financial relationship recognized under the law between the insured and the subject matter of Insurance".

Insurable interest is said to exist when the insured stands in such a relationship to the subject matter of insurance that he or she stands to benefit from its existence and suffers financial loss in the event of its damage or destruction.

The relationship of insured with the subject matter should be direct and not indirect. In life insurance one can insure own life, lives of dependent children, spouse, etc. but one cannot insure brothers, sisters or distant relatives.

For example: Shyam stays in a house, which was purchased by his father ten years ago, with his wife and brother. He can take a life policy on his life and also on the life of his wife but he cannot insure his brother's life. House is owned by his father so Shyam cannot insure it.

For *policies covering life insurance, personal accident and sickness insurance*, disability insurance etc. insurable interest is required when the proposal to insure is made.

In *property insurances* insurable interest is required at both the times, when policy is taken and when the loss occurs.

Absence of insurable interest makes the contract Void or an unenforceable contract. It is treated as a gambling transaction and payment of any claim under that is illegal.

Three essential elements of insurable interest are:

- There must be property, right, interest, life or potential liability capable of being insured.
- Such property, right, interest, life or potential liability must be the subject matter of insurance
- The insured must bear a legal relationship to e subject matter such that he stands to benefit by the safety of the property, right, interest, life or freedom of liability. By the same token, he must stand to lose financially by any loss, damage, injury or creation of liability.

When should insurable interest exist?

a) In Life Insurance, insurable interest must exist at the time of inception of Insurance and it is not required at the time of claim.
b) In Marine insurance, insurable interest must exist at the time of loss / claim and it is not required at the time of inception.
c) In Property and other Insurance, Insurable Interest must exist at the time of inception as well as at the time of loss/ claims.

Material Facts

A material fact is a fact which influences a prudent underwriter's decision to accept the risk or not. If he decides to accept the risk, at what rates, terms and conditions. It is every circumstance or information, which would influence the judgment of a prudent insurer in assessing the risk.

In other words, material facts help an underwriter to decide about the acceptance of an insurance proposal and its terms.

Some examples of material facts:

- Crop Insurance: type of crop being grown, acreage of the field, data about yield etc
- Motor Insurance: year of manufacture, purpose for which vehicle is being used etc
- Life Insurance: age, health conditions, income, occupation, details of previous policies etc.
- Fire insurance: construction of building, occupation, age of the building etc.

Facts that are generally required to be disclosed are:

Life Insurance

- Age, height, weight,
- Income and occupation,
- Family history / medical history
- Previous medical history if it is likely to increase the choice of an accident,
- Personal habits such as smoking drinking etc.

Motor Insurance

- Type of vehicle / Class of vehicle,
- Purpose of its use,
- Age (Model),
- Cubic capacity etc.

Personal Accident Insurance

- Age, height, weight, occupation,
- Previous medical history if it is likely to increase the choice of an accident,
- Personal habits such as smoking drinking etc.

Burglary Insurance

- Nature of stock,
- Value of stock,
- Type of security precautions taken.

This is NOT an exhaustive list and is only indicative.

Utmost Good Faith and Duty of Disclosure

The principle of **Utmost Good Faith** is a concept which is unique to insurance contracts. This relates to **duty of disclosure of material facts by the proposer**. If material facts are not disclosed or incompletely disclosed, the insurance company can cancel the policy and/or reject the claim on this ground. This duty of disclosure of material fact lies on the proposer.

In insurance policies the duty of disclosure is at the time of making a proposal, and continues till the proposal is completed. The duties of disclosure once again arise, [if a policy lapses for non-payment of premium at the time of revival/ reinstatement in long term policies.

However, in many non-life policies, it is mentioned, whether changes in the conditions of assets insured are required to be intimated or not.

An insurance policy becomes void when there is concealment with intent to deceive or when there is fraudulent nondisclosure or misrepresentation.

However, these duties of proposer/ policyholder cannot be taken advantage by insurers for avoiding claims. To balance the principle of "Utmost Good Faith" and principles of policyholder's right, certain rules have been framed.

A. The question of materiality is a question of facts; no straightforward answers can be given. In real life, many a times this question is a matter of interpretation.
B. In life insurance policies, Section 45 of Insurance Act 1938 puts a limit on the insurer's privilege. In simple words, after two years of commencement of the policy the insurer can cancel the policy/ reject the claim for breach of 'Utmost Good Faith', only if it can establish:

- The statement made for obtaining the policy was false or inaccurate. And
- Such statement was a "Material Fact", and
- The policyholder knew at time of making the statement, that the statement was false.

PRINCIPLES OF UTMOST GOOD FAITH

To consider a 'Life Insurance' proposal the insurer needs to know:

- Personal details of the proposer
- Personal health of details of the proposer
- Family health particulars of the proposer
- Previous Insurance details of the proposer etc.

To consider 'General Insurance' proposal the insurer needs to know:

- Details of the property to be insured.
- Previous details of the property /accidents etc.

An insurer is entirely dependent on the proposer for the above details. The proposer on the other hand knows or is supposed to know everything about the above details. *Hence there is a need for Utmost Good Faith on the part of the proposer.*

Both the insurer and the client should ensure that:

- Client discloses all correct and complete information in the proposal form to the insurer
- Insurer does not withhold any information from the client such as Standard features of the policy

Failure to reveal information, gives the aggrieved party the right to regard the contract as null and void.

Indemnity

In insurance, to indemnify means to make good the loss suffered by the insured. If the insured suffers loss, due to a loss event, he can recover only the amount of loss suffered by him and not more. He is not allowed to make any profit out of loss.

For example: Rampal has insured his buffalo for Rs 50,000, and the buffalo dies in an accident. The market value of the buffalo is Rs 30,000, Insurance company will pay him Rs 30,000 and not Rs 50,000 though he may have paid an insurance premium for Rs 50,000.

The principle of indemnity is applicable only when there is a possibility of finding out any definite value of subject matter insured. It is not applicable where there is no such possibility like in life insurance policy. What is the value of a life? Nobody can say any definite amount. So, the principle of indemnity does not apply to life insurance policy.

Principle of Indemnity:

- Indemnity means a guarantee or assurance to put the insured in the same position in which he was immediately prior to the happening of the uncertain event. The insurer undertakes to make good the loss.
- It is applicable to fire, marine and other general insurance.
- Under this the insurer agrees to compensate the insured for the actual loss suffered.

Subrogation and Contribution

Subrogation and contribution are supplementary to the principle of indemnity.

If an insured has any other source of recovery for insured loss, the insurer pays for the loss. The Insurer acquires the rights of recovery from a third party. **This principle is known as Subrogation**. The insured is not allowed to make profit out of a loss, and the insurance company is able to minimize losses.

For example: Ms Mayuri had dispatched a consignment of cotton, valued at Rs. 50,000, through Shyamji Transport service. The consignment was insured for Rs. 60,000. The consignment was destroyed by fire, due to negligence of the driver, and resulted in total loss. The insurance company will pay the claim to Ms. Mayuri of Rs. 50,000. At the same time, it will acquire the right to recover from Shyamji Transport Company.

Principle of Contribution is a corollary of the principle of indemnity. It is applicable to all contracts of indemnity. Under this principle the insured can claim the compensation only to the extent of actual loss either from any one insurer or all the insurers.

The principle of Contribution arises when the insured has taken many policies for the same property.

Example; if Supriya has insured her farm house worth Rs 1,00,000 with ABC insurance company for Rs 1,00,000 and with XYZ insurance company for Rs 1,00,000 in the event of loss of Rs. 50,000/- both insurers will pay Rs. 25,000 each and not more. This is done to ensure that the insured does not make any profit out of the loss.

As stated earlier these principles support the principle of indemnity so they are not applicable to insurances where the principle of indemnity is not applicable. They do not apply to life Insurance policies.

Proximate cause

Many Insurance contracts provide indemnity only if losses are caused, by perils, mentioned in the policy. The concept of proximate cause is used to determine, whether the cause of loss is an insured peril or an excluded peril. If there are two or more causes for the loss, whether operating simultaneously or in sequence, the cause which is most effectual in contribution to the loss is the Proximate Cause. Note that the proximate cause need not always be the immediate cause of the loss.

To understand the principle of proximate cause, consider the following situation: -

Mr Pinto, while riding a horse, fell on the ground and had his leg broken, he was lying on the wet ground for a long time before he was taken to hospital. Because of lying on the wet ground, he had fever that developed into pneumonia, finally dying of this cause. Though Pneumonia might seem to be the immediate cause, in fact it was the accidental fall that emerged as the proximate cause and the claim was admitted under Personal Accident Insurance.

According to the principle of 'Causa Proxima', the loss of insured property can be caused by more than one cause in succession to another.

- The property may be insured against some causes and not against all causes.
- In such an instance, the proximate cause or nearest Cause of loss is to be found out.
- If the proximate cause is the one which is insured against the insurance company is bound to pay the compensation and vice versa.

There are certain losses which are suffered by the insured but cannot be said to be proximately caused by fire. In practice, some of these losses are customarily paid under fire insurance policies. Examples of such losses are:

1. Damage to property caused by water used to extinguish fire.
2. Damage to property caused by a fire brigade in execution of its duty.
3. Damage to property during its removal from a burning building to a safe place.

Module 3

Life Insurance

Life insurance policies offer protection to dependents or self against the loss of economic value of an individual's income earning capacity. A life insurance policy, at its core provides peace of mind and protection to the near and dear ones of the life assured in case something unfortunate happens to him.

Types of Life Insurance Products

Every life insurance product will have different purpose for the policyholder. Some are meant as a tool of savings, while some are meant for investing.

Term Insurance

Term insurance is a life insurance policy **suitable for providing cover against premature death**. Under this plan, the sum assured is payable to the beneficiaries on the death of the insured during the period specified.

The sum assured under the policy remains constant. In some variations of this policy sum assured may get increased / decreased during the policy period. Decreasing sum insured policies are suitable when the policy is taken to cover a loan, which is getting repaid during the policy term.

The benefit is payable only if the insured dies during the specified term and the policy is in force at that time. The term can range from as short as one year to as long as forty years. Protection may extend up to age 65 or 70.

There is no savings or cash value element accruing to the insured. The premium for term assurance is generally low.

In many Term Insurance policies disability cover is also available. Some companies offer Term Insurance with return of premiums. Policyholder gets the satisfaction that the she has not lost anything in case she survives the term.

Endowment Plans

This type of life insurance policy combines features of a Term Life Insurance and those of a long-term savings account. An Endowment Insurance policy has fixed maturity date. It provides stable returns and grows in value over time. In addition, in the event of the death of the insured, during the period of the policy, the sum assured is paid to the beneficiaries.

This kind of life insurance is a form of savings for any purpose. If the insured person dies or becomes permanently disabled before the maturity date, the beneficiaries will receive the sum assured. Under the endowment policy the premiums are payable up to the end of policy period. However they can be taken with an option of payment of premium for a shorter period.

Premiums for endowment policies are normally higher than for Term Insurance or Whole Life insurance.

The policies may be **participating (with profit)**, in which case bonus is also paid along with sum assured or **non-participating (without profit)**, in which case only sum assured is paid.

Endowment policy is suitable when someone is planning to save money for a specific period and for a specific purpose such as children's' education or retirement fund. To get peace of mind and the assurance that the required money would be available, regardless of whether or not he is alive to the end of is the purpose of buying Endowment Assurance.

Money-back Policies

A popular variant of endowment policy is the money-back policy. It is an endowment plan with the provision for return of a part of the sum assured in periodic installments during the term and balance of sum assured at the end of the term.

A money-back policy for 20 years may provide for 20 percent of the sum assured to be paid as a survival benefit at the end of 5 years, 10 years and 15 years. The balance 40 percent is to be paid at the end of the full term of 20 years. If the life assured dies at the end of say 18 years of policy term, the full sum assured and bonuses accrued are paid even though the insurer has already paid a benefit of 60 percent of the face value.

These plans have been very popular because of their liquidity (money-back) element, which renders them useful for short and medium term needs. Full death protection is meanwhile available when the individual dies at any point during the term of the policy.

Whole-life Insurance

Whole life insurance offers to pay the sum assured, when the life assured dies, no matter when the death occurs. There is no fixed term for cover of death. The premiums can be paid throughout one's life or for a specified limited period.

In this policy the premiums are significantly higher than for a term insurance policy. Since a cash value accrues and accumulates, the policyholder can withdraw cash in the form of a policy loan should he require, or he can redeem by surrendering the policy for its cash value.

A whole-life insurance policy may be participating (with profit) in which case bonus is also paid along with sum assured or non-participating (without profit) in which case only sum assured is paid.

Universal Life Insurance Plans

Universal Life Insurance is a variant of a Whole Life Policy which offers flexible premium, flexible face amount and death benefit amounts. The pricing factors namely the risk, interest and expense are provided separately.

In contrast to an ordinary whole-life insurance policies, the universal life insurance policies allow the policyholder to decide the amount of premium he wants to pay for the coverage. The contract specifies the interest rate to be credited to the cash value, and mortality and expense charges.

The policy would appeal to those who seek its flexibility and transparency. The product would be suitable for individuals facing income-expenditure uncertainties and requiring a flexible premium benefit schedule that could match their cash inflows and outflows.

Unit-Linked Insurance Plan (ULIP)

The benefits under these policies are wholly or partially determined by the value of units credited to the policyholder's account on the date when payment is due. The units are of a separate fund managed by the company. Units may be purchased by payment of a single premium or via regular premium payments.

The value of these units is fixed with reference to some pre-determined index of performance. This value is defined by a rule or formula, which is declared in advance. The value of the units is given by the Net asset Value, which reflects the market value of assets in which the fund is invested. Policyholder benefits thus do not depend on the assumptions and discretion of the life insurance company.

An important feature of ULIPs is its facility of choosing between different kinds of funds, which the unit holder can exercise. Each fund has a different portfolio mix of assets. The investor thus gets to choose between option of debt, balanced and equity funds.

The Insurance Company, while being expected to manage an efficient portfolio, does not give any guarantee about unit values. The investment risk is borne by the unit holder. The life insurer may however bear the mortality and expense risk.

Unlike conventional plans, unit linked policies work on a minimum premium basis and not on sum assured. The insured decides on amount of premium to contribute at regular intervals. Insurance cover is a multiple of the premiums paid.

In case of death the death benefit would be the higher of the sum assured or the fund value standing to policy holder's account. The fund value is simply the unit price (NAV) multiplied by the number of units in the individual's account.

The important features of this scheme are as under:

- Premium is utilized for risk cover (death cover), investment and scheme maintenance charges
- The sum assured, in this policy is 5 times or more of total premiums paid. [In case of single premium it is 1.25 times or more].
- Withdrawal of units is allowed during policy period. However there is 3 years waiting period (lock in).
- There is no annual bonus. Certain riders like accidental benefit, disability benefit, critical illness, hospital cash etc. are available.

Variable Life Insurance

Variable life insurance is a kind of whole-life policy where the death benefit and cash value of the policy vary according to the investment performance of a special investment account into which premiums are credited. The policy thus *provides no guarantees* with respect to either the interest rate or minimum cash value.

In contrast to ordinary Whole Life Insurance, assets representing the policy reserves of a variable life insurance policy are placed in a separate fund that do not form part of its general investment account.

The policy mentions how charges are made against the asset account to cover the Cost of Insurance (mortality costs).

Another charge levied against the individual accounts is the fees for managing the various funds. The policy also provides the investment objectives of each available fund option and a record of its historical performance as also a projection of future performance.

Purchasing Variable Life Insurance, the purchaser must be able and willing to bear the investment risk on the policy. This implies that Variable Life policies are bought by people who are knowledgeable and quite comfortable with equity / debt investments and market volatility.

In sum, Variable life insurance is a policy in which the cash values are funded by separate accounts of the life insurance company, and death benefits and cash values vary to reflect investment experience. The policy also provides a minimum death benefit guarantee for which the mortality and expense risks are borne by the insurance company.

Policies Covering Physically Challenged

Under these policies physically challenged persons are insured. There may be extra premium charges. Generally partially handicapped persons are insured without any extra premium.

Policies under Married Women's Property Act

Under provisions of the Married Women's Property Act, a married man can take a policy on own life, making wife and/or children or any of them the beneficiaries under the policy. This policy is treated as trust for the benefit of beneficiaries.

The policy can also be taken by a widower or a divorced person. The beneficiaries may be:

1. The wife alone
2. Any one or more children
3. The wife and any one or more children, jointly.

The life assured can specify the method of distribution of benefits to the beneficiaries on his death.

The policy does not form part of the estate of the policyholder. The creditors and tax authorities cannot attach the policy. The life assured needs to appoint trustee for administration of the policy funds. The policy cannot be surrendered and even loans cannot be taken against it. The claim will be paid only to the trustees

Joint Life Policies

Two or more lives can be covered under one policy. Such policies usually cover married couples or partners. The sum insured is paid on death of any of the person or at the end of the policy term.

Some plans provide for payment of sum insured on death of one person but continue to cover the second life till maturity without any additional premium.

The risk of life assured begins when he attains a particular age. The difference between the date of commencement of risk and commencement of policy is called' Deferment Period' If the policy is taken

when the child is 6 years and the risk begins when he is of 15 years age. The deferment period is 9 years. The date on which policy will commence is called 'Deferred date'.

There is no cover during deferment period and cover starts from deferred date. If in between the child dies premium paid is returned.

In this insurance premium is low and cover is granted irrespective of child's health condition. No medical examination is required when the risk starts on deferred date. When child attains majority at age 18 or thereafter if agreed, the child will become owner of the policy and this process is called 'vesting of policy'.

Group Insurance

The group insurance policy covers large number of people under one policy called 'Master Policy'.

Such policies are generally taken by the employers covering employees, trade associations covering their members or even banks and financial institutions covering the persons to whom they have given the loans.

The body which has taken policy is the owner of policy and members are beneficiaries. In groups other than of employer and employees the certificate to the beneficiaries is to be given about the benefits available under the policy. Premium paid by the body taking policy may or may not be collected from the beneficiaries.

The underwriting of group policies is liberal and generally medical examination is not required.

Benefits and Bonuses in Life Insurance

In insurance, there are benefits available to policyholders in addition to basic cover. In both the types, certain policies also reduce amounts out the the benefits available under the terms of the policy.

Bonus

In Life insurance valuation of life insurance fund is done by an actuary, periodically.

At the end of valuation, **the surplus [if any] is distributed to the policyholders as bonus**. Policyholders, who have opted for participating (with profits) polices, only, are entitled for bonus.

There are many methods of paying bonus:

1) Simple revisionary bonus is a method in which the declared bonus is added to the basic sum assured. If the sum assured of a policy is Rs. 50,000 and bonus declared for the year is Rs. 5,000, then the sum assured will become Rs. 55,000.
2) In compounded revisionary bonus, the bonus is calculated not on basic sum insured but on previous year's sum insured with added bonus declared up to the previous year.
3) Revisionary bonus declared after each valuation are paid at the end of the policy term along with the sum assured.
4) Insurers also declare interim bonus on policies, which become claim after the valuation date but before the date of declaration of valuation results. If valuation results are

declared in September for the year ending March 31, the policy becoming claim in May will get interim bonus so declared.

Guaranteed Additions

In some life insurance policies, guaranteed additions are provided. They are guaranteed by the insurance company and have to be paid, whether any surplus is declared or not.

Guaranteed additions are calculated at the rate of per thousand of sum assured. They are added to the basic sum assured and are payable along with claim.

Surrender Value

In life insurance policies, if a policyholder wishes to cancel his policy and take back his money, he can do so. The return of cash value attached to the policy is called 'Surrender Value'.

Surrender value is generally calculated as a percentage of paid-up value. This percentage is called surrender value factor. The surrender value factor depends on type of policy; period elapsed from the start of policy: age of the life-assured etc.

The surrender value is paid, only if three annual premiums have been paid. In ULIPs, the surrender value is cash value (Net Asset Value multiplied by number of units) reduced by surrender charges.

IRDA has prescribed maximum surrender charge under ULIP policies. The lock-in period for ULIP is minimum 5 years.

Paid Up Value

In case of non-payment of premium, the policy lapses. However, if the premiums have been paid for three years, the policy acquires value, this value is called paid-up value and the policy becomes paid up. The policy remains in force for the remaining term with reduced sum insured.

Normally sum assured is reduced in proportion to the number of premiums paid and number of premiums payable.

For example: Let's say there is a policy with sum insured of Rs. 50,000 and the number of premiums payable are 50. But after payment of 25 premiums, if the insured cannot pay the further premiums and the policy becomes paid up, the sum insured will be reduced to Rs. 25,000 as paid up as under:

(Premium paid / Premium payable) x Sum insured = (25 / 50) x 50,000 = Rs. 25,000

In ULIP, the concept of paid-up value does not apply.

Mortality Tables

Mortality table shows the rate of deaths occurring in a defined population during a selected time interval. In other words the mortality table show the probability of a person dying before their next birthday, based on their age.

Mortality table helps in preparing premium tables. These premium tables are used for determining premiums to be paid by individuals for purchasing life insurance. A mortality table is also known as a "life table," and "actuarial table".

Premium Payment Term

Premium payment term is the period up to which the insured has to pay the premium under a life policy.

This term is normally equal to the policy period. However, insurance companies give the insured, option to choose a premium paying term lower than the policy term. If entire premium is paid in lump sum, it is called as 'Single Premium'.

Assignment of the Policies

A life insurance policy is a property, it represents rights. These rights can be transferred by insured person in favour of other(s) by way of assigning the policy. Assignment is transfer of rights, titles and interests in the policy to other person.

Assignment can be done by endorsing (signing) policy after writing the deed of assignment i.e. stating that policyholder wishes to assign the policy to the assignee. It is to be witnessed and signed by him/ her and sent to insurers, along with the policy, for recording the assignment. In the event of any claim policy money is paid to the assignee.

On assignment of the policy, previous nominations are cancelled.

Premium in Life Insurance

Premium is the name given to the consideration that the policyholder has to pay to the insurer in order to get the promised benefit from him in the event of specified event happening. It can also be said that the premium is the price, which is to be paid for getting benefits under the insurance policy.

In life insurance the promised event may be death of insured person or maturing after the term.

Factors for Determining the Premium

A life insurance policy premium depends upon the perception of the underwriter about the risk. Underwriter is the person in any insurance company who evaluates various aspects of the risk and decides about the acceptance and non-acceptance of the risk and in case of acceptance about the terms, conditions and premium rates.

In life insurance the subject matter of insurance is human life. If the underwriter finds that the individual proposed to be insured has no adverse feature affecting, mortality and other factors relating to insurability, the risk is considered as normal, standard or first class and accepted at normal rates of premium. However, if there are any adverse features in the proposal may be rejected or he **may be charged extra premium** than the standard premium. The rejection of risk is called 'Declined Risk'.

Following factors are considered in deciding the life insurance premium for a person:

- **Physical Factors**
  - Age: Higher the age more is the premium, because the main peril covered under a life policy is death and with increase in age the probability of death increases. So, the risk increases.
  - Build: height, weight, measurement of chest etc give indication about weight sicknesses like heart problem, TB etc., if they vary from standard height tables.
  - Physical condition: Medical data like blood and urine tests etc. indicate the likely diseases.
  - Physical deformities: Like blindness, deafness etc. though are not sickness but are seen to adversely affect the mortality of a person.
  - Personal history of past sicknesses, lifestyle, habits etc. have impact on mortality.
  - Family history: Family history of cardiac problem, diabetes, kidney etc. are important as they affect the health of proposer due to predisposition towards these diseases.

- **Occupational Factors**
  Occupation of a person is important in determining the risk they are exposed to. Working in places of excessive temperature, high electrical voltage areas, mines etc. affects life span and so is working in areas where chemical fumes, dust and similar hazards are present.
  Under group life policies, composition of the group: males, females, their ages, occupation etc. are considered. Another important aspect in group policies is about past loss experience of the group, i.e. the number of deaths over a period of 3 years.

On Payment of Premiums in Life Insurance

Under section 64 VB of Insurance Act, 1938, first premium of the life insurance is to be paid in advance before commencement of the policy. Subsequent renewal premiums can be paid periodically at agreed intervals, say monthly, quarterly, six monthly, annual etc.

In life insurance, premium is to be paid at agreed intervals and depending upon the length of intervals 'days of grace' are allowed for payment of premium. Though premium is not paid on due date but if paid within days of grace the policy remains in force and only in case of delayed payment beyond days of grace policy lapses.

A grace period of one month but not less than 30 days is allowed for payment of yearly/half-yearly/quarterly premiums and 15 days for monthly premiums.

When the days of grace expire on a Sunday or a public holiday, the premium may be paid on the following working day to keep the policy in force.

Module 4

Non-Life Insurance

Premiums in Non-Life Insurance

Premium is the name given to the consideration that the policyholder has to pay to the insurer in order to get the promised benefit from him in the event of specified event happening. It can also be said that the premium is the price, which is to be paid for getting benefits under the insurance policy.

In non-life insurance it may be some insured peril like fire, theft, accident to insured vehicle etc.

Factors for Determining the Premium

A non-life insurance policy premium depends upon the perception of the underwriter about the risk. Underwriter is the person in any insurance company who evaluates various aspects of the risk and decides about the acceptance and non-acceptance of the risk and in case of acceptance about the terms, conditions and premium rates.

Physical Factors

In non-life insurance physical factors are very important. The risks covered are very wide so depending upon the type of policy the consideration of physical factors vary. For examples:

- In two wheeler insurance, cubic capacity of the vehicle, make and model are important factors.
- In householder's insurance materials used in construction, nearness to a river, age of the building etc. are important.
- In cattle insurance, the age of the animals, their health conditions, availability of fodder etc. for their food, their maintenance are important
- For crop insurance, the type of crop, acreage on which they are grown, soil condition, weather condition, use of fertilizers etc. are important factors.

Moral hazard

In non-life insurance past loss experience will indicate moral hazard of the proposer. If he has lodged many claims in past further investigations are to be done to see the types of claims lodged and circumstances of losses to find out the whether they were genuine or not.

Premium Payment Options

Non-life policies are generally issued for one year and full premium is to be paid in advance, before the commencement of risk. However in the following type of policies installment premiums are allowed under Insurance Rules 1939:

- Insurance of ships
- Insurance of aircrafts
- Project insurance policies of more than 12 months
- Group medical insurance policies
- Group personal accident insurance policies.

Under section 64 VB of Insurance Act, 1938, in case of non-life insurance full premium is to be paid in advance

Non-life policies are generally issued for one year and every year they are to be renewed. For renewal a fresh premium is to be paid before the policy expires. The 'Days of Grace' are NOT allowed under non-life policies. If the renewal premium is not paid the policy will lapse.

Benefits and Deductibles in Non-Life Insurance

No-claim Bonus

No-claim bonus is generally given under the Motor insurance policy for every claim free year. A discount in premium is given, for every claim-free, completed policy period, If any claim is made during any year, full accumulated NCB is withdrawn. It is available only for Own Damage section and not for third party liability section.

The no claim bonus generally ranges from 20 percent to 50 percent. An example of rates of no claim bonuses is:

- 20 percent NCB on own-damage premium for first claim-free year
- 30 percent NCB on own-damage premium for second claim-free year
- 40 percent NCB on own-damage premium for third claim-free year
- 45 percent NCB on own-damage premium for fourth claim-free year
- 50 percent NCB on own-damage premium for fifth claim-free year

Any year a claim is made, the accumulated no-claim bonus were turn into zero.

Deductibles / Excess / Franchise

The concept of Deductibles/Excess/Franchise is used in health insurance, motor insurance, travel insurance and fire insurance, etc.

Deductible

The deductible is the portion which is not covered by the insurance. If the claim is up to the amount of deductible, it is not payable by the insurance company and if it is higher, then only the difference between the claim amount and deductible is payable.

Excess

Excess is the amount of expenses that must be paid by the insured, before an insurer will pay further expenses. An excess is an amount a policyholder must bear before the liability passes to the insurer (subject to sum insured).

The effect of an excess or deductible are the same if the claim amount is fully covered, but differ when the claim amount exceeds that minimum insured value.

Here's an example to explain the difference between deductible and excess:

Policy amount	*Rs. 5,00,000*	*Deductible*	*Excess*
Deductible/Excess	*Rs. 5,000*		
Claim-1	*Rs. 4,000*	*NIL*	*Nil*
Claim-2	*Rs. 25,000*	*Rs.20,000 (Rs.25,000 less Rs.5,000*	*Rs.20,000 (Rs. 25,000 less Rs. 5,000)*
Claim-3	*Rs. 5,00,000*	*Rs. 4,95,000*	*5,00,000*

Franchise

In case of franchise, if the amount of claim is up to that franchise, it is not paid. Once it reaches amount of 'franchise' it is paid in full, without any deduction.

Example:

Policy amount	*Rs. 5,00,000*	*Payment*
Franchise	*Rs. 5,000*	
Claim 1	*Rs. 4,000*	*NIL*
Claim 2	*Rs 25,000*	*Rs. 25,000*
Claim 3	*Rs. 1,00,000*	*Rs 1,00,000*

The purpose of deductible/ excess and franchise is to avoid smaller claims and also make the insured responsible.

Depreciation

In non-life insurance, the principle of indemnity applies. If the damaged property has depreciated due to natural wear and tear, the insurance company will pay claim which is equivalent to depreciated property value. An amount is deducted towards depreciation depending upon the life of property/machinery.

In motor insurance policy the percentage of depreciation is fixed by policy conditions. Different percentages for metal, rubber and fiber glass etc. parts are provided in the policy wordings.

Some insurers issue policies under motor insurance without depreciation for which extra premium is charged.

Under fire policy there is no fixed depreciation. It is deducted depending on total and expected balance life of the property/machinery. For example: for machinery, if total life is 20 years and if 5 years are over, 25 percent depreciation is deducted from the new value at the time of claim.

Cumulative Bonus in Health Insurance

For each claim-free year a policyholder gets a benefit known as 'cumulative' bonus. It is similar to `no claim bonus' in concept. The only difference is that instead of giving a discount, in the next year's renewal premium the health insurance company adds more benefits for the same premium paid.

However, the overall amount of benefits will not exceed a certain percentage as specified in the health-insurance policy cover.

For example: A policy has a sum insured is Rs. 1, 00,000 and Cumulative Bonus is 5 percent per year.

For 4 claim-free years, the cumulative bonus will be 20 percent. [5 percent x 4]

In the fifth year, the sum insured will be Rs. 1,00,000 + Rs. 20,000 = Rs 1,20,000

The premium charged will be the same as that for Rs 1,00,000 sum insured.

If a claim is made in any year the cumulative bonus is lost.

Co-pay in Health Insurance

Co-Pay is the amount which the insured person has to bear out of the medical expenses incurred by him for hospitalization of a particular sickness insured under a health policy. It is like an excess, but is generally a higher amount and is always expressed in terms of percentage. In excess, if the claim is less than the excess then it is not paid. Whereas under co-pay, whether the claim is big or small, it is payable after deduction of co-pay.

For example: Mr. Shenoy has taken a health insurance policy for sum Rs 1,00,000. He has opted for co-pay of 10 percent. So when he is hospitalized and submits claim for Rs 30,000, the claim payable will be Rs. 30,000 less Rs. 3,000 = Rs 27,000.

The purpose of co-pay is to make an insured exercise economy in spending on medical expenses.

Motor Insurance

Non-life Insurance Claims

Intimation of Claims

In non-life insurance, if there is a claim under the policy the same needs to be immediately reported to the insurance company. This reporting is called 'Claim Intimation'.

Few policies state specific time for intimation of a claim but all do state that the intimation is to be given at the earliest.

Timely intimation of a claim, even intimation of a likely claim, is very important as the intimation enables the insurers to take quick actions for:-

- Loss minimization
- Claim investigation
- Survey and assessment of loss
- Enforcing rights against third parties.

When an intimation is received by the insurers they may send surveyor or their representative to see the loss. In case of property losses, the insured is suggested to carry out loss minimizing measures like fire-fighting (fire loss), shifting of property to an elevated place (flood loss), segregation of damaged property and shifting of property to a safer place etc.

Early intimation helps, as evidences may be at the place of loss and are not destroyed. In case of fire loss the cause of fire can be better investigated, if questions are asked to eye witness at the site.

In case of accident, early site inspection becomes important as all the evidences and witnesses to the accident may be present there.

Survey Report

Under Insurance Act, 1938, if the amount of losses is Rs. 20,000 or more, a licensed surveyor is to be appointed to assess the loss.

A surveyor's role is very important. In case of vehicle insurance, a surveyor has to visit the spot of the accident and conduct spot survey and report to the insurers. In case major vehicle losses, he may be required to do re-inspection survey to report whether all the damaged parts have been replaced or not. He has to report whether the repair have been carried out or not.

A survey report contains the following intermediaries:

- Cause of loss
- Quantum of loss

- Comments on policy conditions to be followed for completion of claims
- Comments about admissibility of claims and compliance of terms and conditions of the policy by the insured.

FIR or First Information Report is required in the following cases:

a) Theft, burglary or housebreaking cases - Property Insurance
b) Major vehicular accident injuring third parties or damaging their properties - Motor Insurance
c) Fire incident involving injuries to any persons or causing major property loss - Fire Insurance
d) Cases involving financial frauds by employees or others cause loss to the insured - Liability Insurance
e) Death due to accident of an individual - Personal Insurance Policy

Documents for Motor Insurance Claims

In motor insurance, claims can arise due to injury or property damage to third party is loss/damage to insured vehicle is known as Own Damage chain.

1) Third Party Claim

In a third party claim, it is necessary that accident is reported immediately to the police and to the insurance company.

2) Own Damage Claim

In the event of an own-damage claim [damage due to accident, theft, etc], the same must be immediately informed to the insurance company and police.

Following documents are required in motor insurance claims:

- Claim form
- Estimate of repairs, repair bills,
- Survey report
- Vehicle documents
- FIR, in case of theft of vehicle or injury or damage to third party or property

KYC Documents for Claim Payout

In general insurance due to threats of money laundering at the claims stage, KYC norms are carried out at the settlement stage, where claim payout or premium refund is more than Rs. 1 lakh per claim or premium refund.

In cases where payments are made to service providers such as hospitals/garages/repairers etc., the KYC norms are applied on the customers on whose behalf they act.

Documents that are obtained from customer for KYC are:-

a) Proof of Identity

- Passport
- Pan Card
- Voter's Identity Card
- Driving License
- Letter from a recognizes Public Authority [as defined under section 2(h) of the Right to information Act, 2005] or Public Servant [as defined in section 2(c)] of the 'The Prevention of Corruption Act,1988'] verifying the identity and residence of the customer
- Personal identification and certification of the employees of the insurer for identity of the prospective policyholder.
- Letter issued by Unique Identification Authority of India containing details of name, address and Aadhar number
- Job card issued by NREGA duly signed by an officer of the State Government.

b) Proof of Residence

- Telephone bill pertaining to any kind of telephone connection like mobile, landline, wireless, etc. provided it is not older than six months from the date of insurance contract.
- Current passbook with details of permanent/present residence address (updated up to the previous)
- Current statement of bank account with details of permanent/present residence address(as downloaded)
- Letter from any recognized public authority
- Electricity bill
- Ration card
- Valid lease agreement along with rent receipt, which is not more than three months old as a residence proof.
- Employer's certificate as a proof of residence (certificate of employers who have in place
- systematic procedures for recruitment along with maintenance of mandatory records of its employees are generally reliable)

Health Insurance Claims

In health insurance, a claim is admissible when the insured person undergoes hospitalization. This hospitalization may be planned i.e. the patient is having a problem which is not responding to home treatment or requires an operation.

Planned Hospitalization

In such a case the third-party administrators or insurance company must be informed about the sickness or treatment along with the doctor's certificate mentioning the illness and reasons for hospitalization. This must be done before admitting to hospital. The policy number must be mentioned in the intimation letter.

Intimation is essential so that the TPA can approve Cashless facility i.e. direct payment to the hospital for the treatment and/or set the limit for payment by the insurance company (in case of cashless facility). One could also avail reimbursement facility on health insurance claims. In either case, the insurance company must be informed about the admission to the hospital.

Emergency Treatment

In case the insured person is admitted to the hospital in an emergency, (an accident or heart attack), the TPA/insurance company must be informed within 7 days of the admitting to hospital.

It must be ensured that information be sent to the TPA or the insurance company as soon as possible. The notice can be given by the insured, family members or agent or friend of the insured.

Treatment at a Non-listed Hospital

Where the hospital is not on the approved list of the insurers, the insured will have to bear all the expenses initially and submit all the documents to the TPA insurance company for reimbursement, within 15 days of discharge from the hospital. Cashless facility is available only at the network hospitals of an insurance company.

It is important to note that the Hospital where treatment is taken meets the definition of a hospital under the policy.

Post-intimation Processing of Claims

Once the TPA is informed, a claim form is issued which needs to be completed and given back to the TPA. The TPA will collect all the original bills from the hospital with all the medical reports and cash memos for purchase of medicines etc. required for the treatment during the hospital stay.

The original bills, receipts, consultation fees, prescriptions, diagnostic tests and cash memos etc. for pre-hospitalization must be preserved by the insured and submitted to the TPA on completion of treatment. The amount of past hospitalization period will be reimbursed to the insured [falling within sum insured].

If the policy has an excess or co-pay the insured will have to pay the relevant amount at the first stage and balance will be paid by the insurer through the TPA.

The payment to the insured will be made directly into the bank account, this is done to meet the requirement of the Money Laundering guidelines.

In the event of death of the insured, the amount will be paid to the legal heirs after they satisfy the insurers of this fact by submitting the IDYL documents and proof of succession/probate.

Documents Required During Health Claims

Health Insurance claim is processed after the following documents are submitted:

- **Claim intimation letter**: this mentions the policy number, the name of person to be hospitalized, the nature of the sickness or disease or injury and particulars of hospital.
- **Doctor's certificate** mentioning the health problem and the need for hospitalization
- **Claim form** duly completed

Cashless Based Claims in Health Insurance

For a claim on cashless basis, the treatment must be only at a network hospital of the Third Party Administrator (TPA). Necessary authorizing for availing the treatment on a cashless basis as per procedures laid down is required. The procedure is provided in the policy document.

The TPA will directly collect the other original documents from the hospital:

- Hospital discharge card
- All pathological reports
- Hospital bills and receipts
- Prescriptions and cash memos
- Indoor case summary
- All consultants, specialists fee bills and receipts
- All pre and post hospitalization expenses as above must be submitted by the insured on completion of treatment or 60 days (whichever occurs first).

Claims on Reimbursement Basis

In Reimbursement claim, following documents are required:

- Claim form
- Discharge summary
- Prescriptions and cash memos for expenses
- All pathological reports
- Original diagnosis report

Personal Accident Claims

For personal accident claims the procedure is similar to health insurance with a few differences:

- On intimating, the insurance company will provide a claim form which is to be completed by the insured and by the treating doctor.
- The accident needs to be reported to the police authorities if major injuries or death has occurred whether in public place or at home/private place.
- If death has occurred, a postmortem may be required. If insurers are informed immediately they will guide the persons on the requirements. A death certificate is required. If the policy had a nomination, the nominee will be paid the claim amount; otherwise legal evidence of the title is required.
- If the accident has resulted in permanent disablement the treating doctor's certificate mentioning the disability will be required. For temporary disablement the period of disablement and fitness certificate will be required.

In family personal accidental policy, in the event of death or major disablement, the policy in the name of the injured person will be cancelled. If the injured person was the insured and other family members were also covered, the insured's name will be deleted. One of the family members must fill a fresh proposal form to designate them as the new insured.

If the deceased person was a parent with minor children, the details of minor children needs to be given to the insurers for consideration of the Education Fund benefit under the policy.

If medical expenses extension has been taken, the medical report, bills, cash memos, prescriptions etc. must also be provided to the insurer.

Documents Required for Personal Accident Cover Claims

- Claim intimation letter, with the policy number, the nature of accident and injuries, if hospitalized or home treatment.
- Claim form duly completed- by the insured or treating doctor and F.I.R.

In a **death claim** on the PA cover post mortem report, Death certificate, legal heirs certificate with identification must be submitted. If minor children are the survivors their particulars (for education fund benefit) must be submitted.

For other **Capital benefit claim**s- doctor’s certificate of nature of injury and disability must be submitted.

In **Permanent Partial Disablement** claims doctors certificate on nature of disability and percentage of disability are required.

For **Total Temporary Disablement** duration of total disablement and fitness certificate for resumption of activities are required.

Original policy for cancellation.

For **medical expenses extension** all medical ills, prescriptions, cash memos, receipts etc in original must be submitted

Overseas Travel Policy Claims

Travel documents like ticket, passport etc. and claim form are to be submitted along with the following:

1) For health related claim the TPA is to be contacted, the excess amount to be settled directly with the medical service provider balance paid by TPA if consent obtained. Otherwise all expenses to be borne by insured and submitted to insurer on return home.

For PA or health related claims, the documents are the standard ones for travel insurance tool

2) For loss of baggage/delay of checked baggage- copy of the complaint to the airlines is required
3) For theft claims or liability claims, police complaint, other documentary proof including incident report must be submitted.

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Module 5

Special Topics in Insurance

Module 6: Special topics: General Insurance

- Understanding the Insurance customer
- Policyholder Protection
- Selling Insurance products
- Market operators
- Insurance documents

Understanding the Insurance Customer

Insurance Customers

Insurance is a financial service so the customers of insurance products behave like any other customer of financial services. There are many ways to classify the customers. For our purpose let us try to understand the customer through the eyes of customers.

Why do the customers purchase insurance?

- There are customers who look at Insurance for **dealing with contingencies [risk].** They are looking for an arrangement for the rainy day that might call for emergency funds.

  Most of the Non-life policies (motor insurance, personal accident insurance, travel insurance, home insurance etc) fall under this category. In life insurance, term insurance and whole-life Insurance serve this need. Health Insurance policies also fulfil this need.

- There are another category of customers who look at insurance policy as **a medium of saving money**. Such customers look for the safety of their funds with decent returns too.

  Endowment and money-back policies of life insurance companies are suitable for such category of customers.

- There is still another category of customers, who look at insurance as **investment.** They are interested in high returns and are ready to bear investment risk.

ULIPs, variable life insurance and universal life are suitable products for this category.

- Yet another category of customers purchase i**nsurance to fulfill specific transactional needs**. The money is held in separate funds for future needs.

  Insurance policies which create funds like children's education fund are examples of products which fulfil this need.

Customers should be approached with the policies that fulfill their specific needs. They should be presented with the plans, emphasizing the features that will be suitable to them.

Categories of Insured

An insured is the person who buys insurance policy. He / she is the one insured or covered under the policy terms and conditions.

The insured can be classified into the following broad categories:

1) **Retail Insured**: Individuals who purchase policies to meet their or their families' needs.
2) **Corporate Insured**:
   a) Small-scale industries
   b) Medium-scale industries
   c) Large corporates
   d) Multi-national corporations
3) **Government organizations:** organizations owned by the state of the central government.
4) **Local bodies or *grampanchayats***: Municipalities, *jhilla* boards, *gram panchayats* etc.
5) **Non-government organizations (NGOs)**: social service organizations
6) **Social sectors-** informal / formal groups operating in urbans and rural areas like trade unions, associations of persons etc.
7) **Educational institutions:** While these may also come under any of the above categories, but the differed is that they are mainly connected with educational activities.

Understanding the Insurance Needs of the Prospects

It is the responsibility of the insurance intermediary to understand the needs of their customers, prioritize them and then recommend suitable insurance policies.

The process involves the following steps:

a) Identifying the needs
b) Quantifying the needs
c) Prioritizing the needs

Identifying the Needs

An insurance intermediary needs to collect and analyze the following information for a health insurance customer:

- Details of the client in terms of their financial assets and liabilities
- Marital status
- Future financial goals of the client for themselves and their children
- Number and ages of the dependents
- Employment status, i.e. their existing grade and scope of promotion with their employment
- Income, which included salary, business income and income from other sources and investments (if any)
- Details of health status and hereditary medical conditions
- Existing protection, savings, retirement provisions (if any).

Following information must be collected in case of non-life insurance:

- The properties owned by the prospect, i.e. house, field, cattle, poultry, farm, vehicle etc.
- Approximate values of property
- Number of members in family and their status
- Income of individual and family income

Quantifying the Needs

In case of properties, the insurance intermediary has to consider the risks to which the properties are exposed. For example, flood, fire, earthquake, theft. He also has to quantify the risks and advise the prospect that in case of a major disaster how much he will suffer.

Prioritizing needs

- The client's needs must be prioritized, as their investment capacity may be limited and the total amount to be spent may be more than the surplus funds available.

- There may be a necessity to choose between life and non-life products. If prospect has limited money to pay the premium, priority may be given to insure life, than the properties on which the persons livelihood depends. These should be followed by medical insurance, and lastly accident and other properties insurance. *If the prospect has a vehicle, then its insurance should be top priority as vehicle insurance is compulsory, and in case of an accident, the liabilities could be very large.*

>> Client needs: real and perceived

It is important to understand that there is a difference between what a client thinks his needs are and what his needs really are. That is, there is a different between *real* and *perceived* needs.

Real needs are the actual needs of a client which should take priority over others, whereas perceived needs are imagined or thought to be important by the client (for example wanting to buy a bike when he is having one five-year-old two-wheeler in good working condition). His income is also not sufficient to purchase new bike.

An insurance intermediary helps a client to find out his real needs and helps him to take decisions on insurance and investments.

Finding the Right Policy for a Customer

Selecting the right policy for the right customer should be the main concern of an intermediary. He may do the short listing of products for the purpose. In this method needs and products are matched by doing the following:

1) Product short listing for each need:

One good method of selecting products for the client is to *list each of the client's needs* and *identifying the products that will fulfil the need*.

The intermediary considers all these factors and eliminates the products one by one until there is only one left – the product that is most suitable for the client in one need area.

Some of these products will be more expensive than others; some may provide additional benefits that the prospect does not need; some may provide insurance for longer than the prospect needs cover; and others may have a risk profile that does not match the prospects risk appetite.

This process is repeated for each need area.

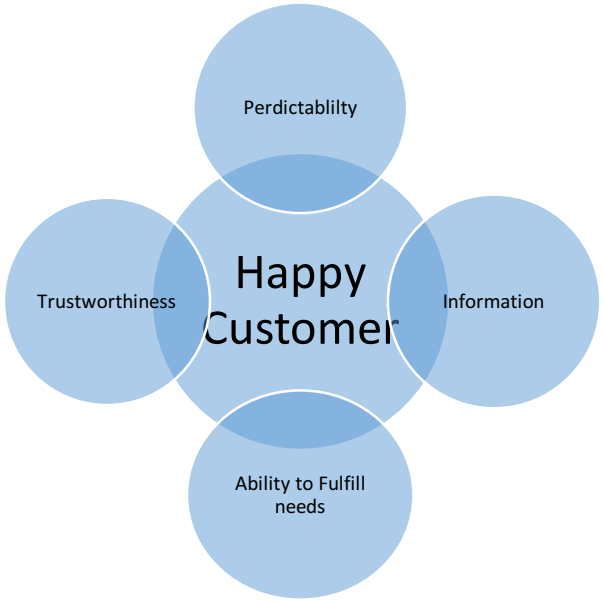
2) Making recommendations

When all information has been assembled, discussed and analyzed, the intermediary can recommend the products or portfolio of products that best meets the client's needs for the contribution they can afford to pay now and sustain in the future.

3) The process of recommendations

- While preparing recommendations, an intermediary will need to study quotations and product illustrations for the benefits their clients require.
- Where price is an important consideration, they have to locate the lowest that will satisfy a given need. Only after studying the prices and benefits available is the intermediary in a position to select products and allocate the customer's available resources in a balanced way across the product(s) recommended for each need area.

- One of the intermediary's most difficult problems is what to recommend about the customer's existing insurances. The final recommendation must certainly take existing provision into account, whether the customer was advised before, properly or not.



Policyholder Protection

The IRDA (Protection of Policyholders interests) Regulations Act of 2002 provides the duties and obligations of insurers and intermediaries, pre and post sales.

Pre-sale Obligations on Insurers and Intermediaries

There should be utmost transparency at the time of promotion and sale, so that the policyholder feels confident that he or she is being given complete information regarding the product.

The prospectus of any insurance product must state the scope of benefits, the extent of insurance cover; in an explicit manner explaining the warranties, exceptions and conditions of the insurance cover.

Full information about the riders and add-on covers also needs to be given to customer. The intermediary should explain all this to the customer.

In other words, full details and all other material information are given to the customer so that he can take decision which is in his / her benefit.

Customer relies on intermediary's advice, so the intermediary should give him impartial advice.

Proposal for insurance

- In all cases, the proposal form is required to be filled up.
- Forms and documents should be made available in local languages.
- Benefit of nomination must be explained to the proposer, he should be encouraged to avail the facility.
- Decisions regarding proposals must be communicated within 15 days from receipt of proposals by the insurer.

Post-sale Obligations on Insurers and Intermediaries

While issuing an insurance policy it is mandatory to list the terms and conditions of the insurance plan in detail. Along with the policy, a letter informing the customer about free-look period should also be sent. The insurance companies need to make sure that the insurance policy and its terms and conditions are written in an easy to understand language.

Things a General Insurance Policy Must State

A general insurance policy should clearly state:

- The name(s) and addresses of the insured and of any bank(s) etc., if involved.
- Full description of the property or interest insured.
- The location or locations of the property with respective insured values.
- Period of insurance.
- Sums insured.
- Perils covered and not covered.
- Any franchise or deductible applicable.
- Premium payable and where the premium is provisional subject to adjustment, the basis of adjustment of premium should be stated.
- Policy terms, conditions and warranties.
- Action to be taken by the insured upon occurrence of an event that is likely to give rise to a claim under the policy.
- The obligations of the insured in relation to the claim and the rights of the insurer in the circumstances.
- Any special conditions attached to the policy, clause etc.
- Provision for cancellation of the policy on grounds of misrepresentation, fraud, non-disclosure of material facts or non-cooperation of the insured.
- The address of the insurer to which all communications in respect to the insurance contract should be sent.
- The details of the riders attached to the main policy.
- Proforma of any communication the insurer may seek from the policy holders to service the policy.

Every insurer should inform the insured periodically regarding requirements to be fulfilled by the insured for lodging a claim.

Regulations with respect to Claims in Life Insurance

On receipt of intimation of claim, in cases where a surveyor has to be appointed for assessing a loss/claim, it must be done within 72 hours of intimation. If there is a delay in reporting by the surveyor takes place because of the insured's fault, the policyholder must be informed in writing.

Within 30 days of appointment, the surveyor must submit his report. If longer time is required, then the surveyor needs to get the insurer's permission. In any case the report has to be submitted within 6 months.

Any query on the report should be raised within 15 days of receipt of the report.

A surveyor must reply to insurer's query within 3 weeks.

Within 30 days of surveyors reply, the insurance company must offer claim settlement.

The claim settlement money must be paid within 7 days from acceptance of claim by the insured. In the cases of delay in the payment, the insurer will be required to pay interest at the rate which is 2% above the bank rate prevalent at the beginning of the financial year in which the claim was made.

Remedies Available under Different Acts

The various remedies available to the insurance policyholders are under the following three acts:

- Protection of Policyholder Interest
- Consumer Protection Act 1986
- Insurance Ombudsman

Consumer Protection Act, 1986

The Consumer Protection Act was passed in 1986, and was made more powerful by the Consumer Protection (Amendment) Act 1993. The act provides consumers the right to seek speedy remedy to the grievances. The act provides protection of the customer's interests and helps in settlement of consumer's disputes effectively and expeditiously.

The Act seeks to promote and protect the rights of the consumers such as: -

- The **right to be protected** against marketing of goods, which are hazardous to life and property.
- The **right to be informed** about the quality, quantity, potency, purity, standard and price of goods to protect the consumer against unfair trade practices.
- The **right to be heard and assured** that consumer's interests will receive due consideration at appropriate forums.
- The **right to seek redressal** against unfair trade practices or unscrupulous exploitation of consumers.
- The right to **consumer education**

Three tier quasi-judicial machinery at the national, state and district level has been envisaged under the act to provide simple, speedy and inexpensive redressal to the consumers' grievances.

- National Consumer Disputes Redressal Commission (National Commission)
- State Consumer Disputes Redressal Commission (State Commission)
- District Consumer Disputes Redressal Commission (District Commission)

Where to file a complaint?		
1	District Forum	Compensation sought up to Rs. 20 lakh
2	State Commission	Compensation Rs.20 lakhs to Rs. 1 crore

3	National Commission	Compensation sought exceeds Rs. 1 crore
Appeals		
1	Decision of the District Forum can be appealed in the State Commission	
2	Decision of the State Commission can be appealed in National Commission	
3	Decision of the National Commission can be appealed in Supreme Court	
Relief available to consumers		
The redressal forum may give order for one or more of the following relief	1. Removal of defects from the goods. 2. Replacement of goods. 3. Refund of consideration paid. 4. Award of compensation for the loss or injury suffered.	
Limitations		
Complaint is to be filed within 2 years from the date on which cause of action has arisen. Forums shall not entertain time-barred complaints.		

Insurance Ombudsman

This scheme was created by the government of India for individual policyholders to have their complaints settled out of the courts system in cost-effective, efficient and impartial manner.

There are **12 Insurance Ombudsman** in India, and a customer can approach the Ombudsman having jurisdiction over the insurance company office that customer has a complaint.

A customer can approach the Ombudsman with complaint if:

- The customer had first approached his insurance company with the complaint and the insurance company had not resolved it to the satisfaction of the customer.
- The insurance company had NOT responded to the customer's complaint at all for 30 days.
- The complaint pertains to any policy and the value of the claim including expenses claimed is not above Rs. 20 lakh.

Customers can complain to the Ombudsman about:

- Any partial or total repudiation of claims by an insurer
- Any dispute about premium paid or payable in terms of the policy
- Any dispute on the legal construction of the policies as far as it relates to claims
- Delay in settlement of claims
- Non-issue of any insurance document to you after you pay your premium

The Settlement Process

The Ombudsman will act as counselor and mediator and arrive at a **fair recommendation** based on the facts of the dispute. If the customer accepts this as a full and final settlement, the Ombudsman will inform the company which should comply with the terms in 15 days.

If a settlement by recommendation does not work, the Ombudsman will **pass an award** within 3 months of receiving the complaint and which will be:

a) A speaking award with the detailed reasoning

b) Binding on the insurance company, but

c) Not binding on the policyholder

An Ombudsman can also award an ex-gratia payment. Once the award is passed the customer will have to accept the award in writing and the insurance company has to be informed of it within 30 days and the insurance company has to comply with the award in 15 days after that.

Selling Insurance Products

An insurance intermediary who sells insurance products should be aware of how to sell ethically, with good communication skills. The insurance intermediary must not engage in mis-selling and try build customer loyalty with after sales services.

Art of Prospecting

Prospecting is the art of finding out probable buyers for insurance. It is a major activity, which leads to insurance selling. It is not that everybody whom an intermediary will meet will take insurance. Out of the 20 people you will meet to sell insurance, probably only 8-10 will actually show interest, and of those only 2-3 might actually buy the insurance.

Who is a Prospect?

Prospects are the people who can pay for insurance. A person with no income is not a prospect.

Prospects must have need [one or many] for insurance. Cattle owners are prospect for cattle insurance. Poultry farm owners are prospect for poultry insurance. A person with responsibilities of family needs of life Insurance. Health insurance is needed by everybody.

An intermediary should be able to inform the prospects about the underwriting rules.

An intermediary should find out and list down the people / prospects whom he can reach out to.

How to prepare a list of prospects?

- Use references: A relative, a friend or an existing policy holder. These people may provide references, if asked for.
- Centre of influence: These are important persons in area through whom others can be approached.
- Nests: These are the large groups like employees of a bank, members of gram sabha etc. Once you get entry in to their circle selling becomes easy.
- Cold canvassing: This is meeting a person whom you do not know. This is a technique which is effective; it helps in increasing customer base.
- Policy holders: Existing policyholders to whom you have sold insurance in the past can be approached for new products/enhanced cover.

Prospecting: Pre-approach

After classifying and listing the prospects, an intermediary should prepare for meeting each of them personally. But before meeting them you should collect the maximum information about the prospects through various sources and prepare yourself mentally as to what you would be talking to them and how you will be trying to convince them to go in for particular insurance policies.

Meeting with a Prospect

In a meeting with a prospect you should present the policy which suits the requirements of the prospects. During the discussion, a prospect should be told about various advantages and deficiencies of the product.

Ethical Selling

While selling insurance, insurance intermediary's main concern should be to sell products which are appropriate for the needs of the customers. Understanding the needs and advising suitable solutions to prospect is the most important job for an intermediary

While selling insurance one has to behave in ethical manner. This means that he should not suggest products which are not useful or are harmful to the clients.

Examples of unethical behavior:

- Projecting very high benefits under a plan, like telling a prospect that his investments in a life policy will become double or five times in 3-year period.

- Not making complete and true disclosures about the product and its features, or telling the client that everything is covered when they are actually not.
- Offer a rebate or inducement in return for purchasing a policy: parting with part of a commission or paying the first premium under the life policy are prohibited under Insurance Act 1938 and are punishable with fines.
- Unethical behavior is reflected in overselling of insurance, like giving clients policies of higher amounts on which he cannot pay premium for the full term.
- Under insurance: Not insuring the client's requirement fully, just to show him less premium payable. For example, issuing only fire policy but not giving him earthquake covers when the client's house is in an earthquake prone area.
- Churning: In churning, an intermediary advises a client to cancel the old policy and go in for a new plan. This may earn high commission for intermediaries but policyholder losses heavily on cancellation of policies or by surrendering them prematurely.

Use of unethical means in the sale of insurance is called misselling and results in rejection, delay in settlement of claim or client losing money because of false promises. Misselling may be beneficial for a short term, but in the long term it damages not only the image and reputation of intermediary but also of the insurance company with whom he is connected.

Communication Skills

What is Communication?

All communications require a sender, who sends a message, and a receiver of that message. The process is complete once the receiver has understood the message of the sender.

Communication may take several forms: oral, written, non-verbal and using body language. It may be face-to-face, over the phone, or by mail or internet. It may be formal or informal. Whatever the content or form of the message or the media used, the essence of communication is that whatever the receiver has understood is the same as whatt the sender wanted to send.

Communication can get distorted because of the following reasons:

- **Impressions about the sender**: there are some persons about whom everybody believes that whatever they are saying is not true.
- The message has been poorly designed or there different messages being sent through verbal, written and nonverbal forms.
- Too much or too little has been conveyed.
- The sender has not understood the receiver's culture. Difference due to usage of different language, body language.

The real challenge is to overcome these barriers.

All communications require a sender, who sends a message, and a receiver of that message. The process is complete once the receiver has understood the message of the sender.

Another important aspect of communication is one needs to be aware about the importance of listening skills. It is important to first understand before being understood.

How well you listen has a major impact on your effectiveness and on the quality of your relationships with others.

Active listening is the most important aspect of listening where we consciously try to hear and also, try to understand the complete message being sent.

Active listening consists of paying attention to the speaker, showing him by your gestures that you are listening, and providing feedback. Allow the speaker to finish each point before asking questions.

Responding appropriately with action of words is important.

By putting yourself in the other person's shoes and feeling his experience makes you an empathetic listener. Listening with empathy is an important aspect of all good customer service. It becomes especially critical when the other person is a customer with a grievance and is in a lot of pain.

Active listening →Responding appropriately → Listening with empathy to understand your customer better.

Importance of After Sales Services to You Customers

Selling insurance is like selling a piece of paper of trust. Building trust is a continuous process. Post sales services are an opportunity to consolidate and build that trust.

Insurance is a service industry, ***it's not a onetime sale of product but it is a continue process***. If you provide good service without asking, the policyholder may refer your name to others for their insurance needs.

The insurance business is about building relationships and keeping them. Maintaining a good relationship is more important than just getting business from a customer. That is why it is very important to provide good after sales service.

After sales services in insurance include:

- Delivering premium receipts and policies.
- Reminding the [policyholder about due dates of renewal
- Healing the policyholder in making payment to insurers by education him about the methods and options available to him
- Informing the policyholder about launching of a new insurance product that may be suitable for the client.

- Advising the policyholder about informing the changes in risk to the insurers and education them about the procedures to be followed in getting those changes done. For example: helping a customer getting their address or nominee changed.

- In case of claims, advising the clients or his legal heir (in case of death claims) about the procedure to be followed, forms to be filled up and documents to be collected and submitted to the insurers. If there is need of intimating to other authorities like police, fire brigade, local authority etc. policyholder should be guided about.
- Following up the claims with insures for faster settlements.

Customer Loyalty and Building Consistency

Customer loyalty is very important in insurance. If a customer remains with an intermediary or with the company for which he works it helps in growth of the company and also of the intermediary. There is no sense of bringing in more customers and losing old ones, because more time, efforts and expenses are required to bring in a new customer but to retain an old one it is not so.

Instead of always targeting for new customers it is advisable to target changed needs of old customers. This will automatically help in growth of the business and at the same time customer confidence. Because of this increased confidence and trust arising out of long-term relationships the client may refer the intermediary's name to his other friends and relatives.

In both branches life and non-life insurance, it is important to retain customer. It is more important in life insurance where for a new policy the expenses and efforts are relatively higher compared to renewals.

What happens if you lose an old customer?

- If old customers are lost the intermediary and the insurer both lose financially due to reduction in business.
- Policyholder lose benefits of insurance cover, if they do not renew their insurances or terminate before term by surrender, cancellation etc. For an intermediary, it implies loss of commissions.

Benefits of Continuity of a Customer

- You'll be able to achieve your targets
- The incomes of the insurance company and the intermediary increases because of renewals too.
- Cost of acquiring new customers is a lot more than acquiring renewals.

How to Achieve Renewals and Continuity of Customer Loyalty

- **Do need-based selling:** Always sell appropriate policies designed for the customers' needs. The number one cause of policyholder leaving is when he feels that the policy which has been sold to him does not fulfill his need.
- **Continued right advice:** The policyholder must be advised throughout the life. For achieving this it is essential that intermediary must remain in touch with him. The intermediary must remind him about all the insurance related information, including renewals.
- **Good servicing:** The intermediary should be available to the policyholder at all times for any type of insurance related services, including claims.

Dos and Don'ts for an Insurance Intermediary

What you must DO

- ✓ You must conduct business with utmost good faith and integrity, with due care and diligence.
- ✓ Identify yourself as an insurance intermediary, and show the license if a prospect demands it.
- ✓ Must to provide information about insurance products, on sale. While advising the prospect to purchase a specific insurance policy, you must to take into account needs of the prospect.
- ✓ You must keep all information given by the prospect, confidential.
- ✓ You must disclose the commissions you earn, if asked by the prospect.
- ✓ You have to indicate premium that will be charged by the insurer.
- ✓ Must explain the prospect the information and other details, and its importance that will be required for insurance.
- ✓ Inform the insurance company about any adverse health conditions, personal habits or income inconsistencies of the prospect in a confidential report, along with every proposal.
- ✓ Inform the consequences of non-disclosure and inaccuracies to prospect
- ✓ Must communicate promptly to prospect about acceptance/ rejection of a proposal.
- ✓ Advise the policyholder to effect nomination or assignment or change of address or exercise of option, as the case may be, and provide necessary assistance in these matters.
- ✓ Provide assistance to the policyholders/ claimants/ beneficiaries in submitting requirements for the settlement of claims to the insurance company.
- ✓ Forward the information received from the policyholder regarding claim or any event likely to cause claim, without delay.
- ✓ Communicate the insurance companies' decision regarding claim to the claimant without delay. You have to provide all reasonable assistance to claimant in pursuing the claim.
- ✓ Ensure that the statements made to a customer regarding the policies are neither misleading nor extravagant.

- ✓ Ensure the compliance of the following:
  a) Section 64-VB of Insurance Act 1938.
  b) Section 41 of the Insurance Act 1938, by drawing attention of the prospect
  c) Anti Money Laundering (AML) and Know Your Customer (KYC) guidelines.

What You Must Never DO

- ☒ DO NOT to solicit or accept any insurance business without a valid license
- ☒ DO NOT induce the prospect to omit any material information in the proposal form.
- ☒ DO NOT induce the prospect to submit wrong information in the proposal form or the documents submitted to insurance company for acceptance of proposal.
- ☒ Do NOT behave in discourteous manner with the prospect, the policyholder or the claimant.
- ☒ DO NOT interfere with the proposals brought by others.
- ☒ DO NOT offer different rates and terms than those offered by insurers.
- ☒ DO NOT demand or receive benefit or share of insurance money paid to a beneficiary.
- ☒ DO NOT force a policyholder to terminate an existing policy and to effect a new policy within three years from the date of such termination.

Insurance Documents

Documents are necessary to evidence the existence of a contract. The documents stand as a proof of the contract between the insurer and the insured.

The major documents of importance in insurance are the premium receipt, insurance policy, endorsements (if any made) etc.

An insurance policy is a legally enforceable contract between two parties both whom are legally qualified to the contract. It is, therefore, necessary that the terms and conditions of the agreement must be suitably documents in a manner that would make it clear to both the parties.

It is the duty of the policyholder / insured to declare all the facts that he knows about himself, his family, his health, his financial status. The questions in the proposal form must be answered correctly.

Documents Necessary at the Stage of Proposal

A proposal is filled by a proposer who wants to take an insurance policy. A proposal form has four or five key sections:

Personal Data	1) Name, address, occupation 2) Details about the type of insurance required 3) The risk cover or sum assured required 4) Name of the nominee (if any)
Details of the Previous Insurance	Details of any previous insurance policy that a person might have.
Health Data	Health-related details of the proposer and his family members. Any pre-existing diseases or lifestyle related habits must be mentioned here.
Declaration by the Proposer	The proposer affirms the veracity of the statements made in the proposal and conforms that the data submitted in the proposal are complete and correct and there is no suppression of data.

The insurer collects the following documents while considering a proposal:

- Age proof
- Income certificate
- Health medical reports
- Deformity certificate in case of certain proposers.

The insurer then weighs the 'Risks' and chooses to accept or decline the proposal.

- The insurer on acceptance of the proposal issues the first premium receipt
- Issue of First Premium Receipt indicates that the contract is concluded.

In case of certain deformities, the risk of accident can be excluded.

Important Documents

- **Standard Age Proof:**
    1) Certified extract from municipal records, recorded at the time of birth.
    2) Certificate of baptism or extract from Family Bible
    3) Extract from school or college records.
    4) Extract from service register in case of employees

5) Marriage certificates issued by Roman Catholic Church.
6) Domicile certificate.
7) Passport

- **Non-standard Age Proof:**
  1) Horoscope
  2) Elders Declaration
  3) Self-declaration
  4) Driving License
  5) Certificate issued by village panchayat
  6) Electoral role,
  7) Ration card

Policy document is issued by the insurer. The policy document which is the main part of the policy document, identifies the: office of issue of the policy, name of the policyholder, date of commencement of the policy, nominee's name, address.

The policy document is stamped as per the provision of the Stamp Act to make it completely legally enforceable document.

Renewal Premium Receipts are another important documents that are documentary proof of the payment of premiums at the time of renewals. An insurance company issues these receipts when the payment is made by the customer.

Market Operators and Market Intermediaries in Insurance

The Indian insurance market is run by several agencies, who play different roles in providing insurance to individuals.

Insurers

The Indian insurance industry is a regulated market and nobody can carry on insurance business without obtaining license from the IRDA or Insurance Regulatory Development Authority of India. An insurance company should be an Indian company, and should have minimum Rs.100 Crore paid-up capital.

A company can carry either life or non-life (general) insurance but not both. In the Indian market there are public sector insurers and private sector insurers, with or without foreign holding.

General Insurance Corporation of India, a public sector company, is an insurance company doing exclusively reinsurance business.

There is one Life Insurance Company in the public sector. Remaining 23 are in the private sector.

There are 28 insurance companies registered as non-life (General) insurance companies.

- Agriculture Insurance Company of India Limited, a public sector company, is a specialized insurer for risks related to crop insurance.

- Export Credit and Guarantee Corporation of India, a public sector company, is a specialized insurer for risks related to export credit.

- There are eight General insurance companies in the public sector. The remaining 20 General Insurance companies are in the private sector.

- There are four standalone health Insurance companies, in the private sector, specialized in health insurance.

Life Insurance Company	**Non-life insurance Company**
Aegon Religare Life Ins Co Ltd	Agricultural Insurance Co Of India
Aviva Life Ins Co Ltd	Apollo Munich Insurance Co Ltd
Bajaj Allianz Life Ins Co Ltd	Bajaj Allianz General Ins Co Ltd
Bharti Axa Life Ins Co Ltd	Bharati Axa General Ins Co Ltd
Birla Sun Life Ins Co Ltd	Cholamandalam MS General Ins Co Ltd
Canara HSBC OBC Life Ins Co Ltd	Export Credit and Guarantee Corp Ltd
DLF Pramerica Life Ins Co Ltd	Future Generali General Ins Co Ltd
Edelweiss Tokio Life Ins Co Ltd	Reliance General Ins Co Ltd
Future Generali Life Ins Co Ltd	HDFC Ergo General Ins Co Ltd
HDFC Standard Life Ins Co Ltd.	ICICI Lombard General Ins Co Ltd
ICICI Prudential Life Ins Co Ltd.	IFFCO Tokio General Ins Co Ltd
IDBI Federal Life Ins Co Ltd	L& T General Ins Co Ltd
India First Life Ins Co Ltd	Liberty Videocon General Ins Co Ltd
ING Vyasya Life Ins Co Ltd	Magma HDI General Ins Co Ltd
Kotak Mahindra Old Mutual Life Ins Co Ltd	Max Bupa Insurance Co Ltd
LIC of India	National Insurance Co Ltd
Max Life Ins Co Ltd	New India Assurance Co Ltd.
PNB Met Life Ins Co Ltd	Oriental Insurance Co Ltd
Reliance Life Ins Co Ltd	Raheja QBE General Ins Co Ltd
Sahara Life Ins Co Ltd	Star Health & Allied Insurance Co Ltd
SBI Life Insurance Co Ltd.,	Religare Health Insurance Co Ltd
Shriram Life Ins Co Ltd	Royal Sunderam Alliance General Ins Co Ltd
Star Union Dai Chi Life Ins Co Ltd	SBI General Ins Co Ltd
Tata AIG Life Ins Co Ltd	Shriram General Ins Co Ltd
	Tata AIG General Ins Co Ltd

	United India Insurance Co Ltd
	Universal Sompo General Ins Co Ltd

In addition to the above there are state insurance funds, which are not controlled by IRDA, but by respective state laws. They do insurance business which is limited to insuring state properties and projects and insuring persons working in state government departments and undertakings.

They are as under:

a) Maharashtra State Insurance Fund
b) Gujarat State Insurance Find
c) Kerala State Insurance Fund
d) Rajasthan State Insurance Fund

Postal Department also operates Life Insurance Schemes, which are available to employees of government, semi-government and public sector undertakings.

Intermediaries

An intermediary is a person or an agency who acts as a link between the insurance company and the policyholders. Several intermediaries are operating in the insurance sector. All intermediaries are regulated by relevant regulations of IRDA. All intermediaries have to obtain license and renew it from time-to-time.

Agents

An individual is allowed to become an agent for maximum one life and one non-life and one health insurance company. The agent represents the insurance company before the customer.

Corporate Agents

A corporate agent is a corporate body which acts as agent for one life, one non-life and one health insurance company.

Bancassurance

Banks can become corporate agents. They can become agents for one life, one non-life and a health insurance company

Brokers

a) Direct brokers deal with all insurance companies. They represent the client before insurance companies.
b) Re-insurance brokers acts as an intermediary, between insurance company and re-insurance companies.
c) Composite brokers can do direct insurance as well as re-insurance.

Banks as Brokers

IRDA has now allowed Banks to act as Brokers.

The Banks as Brokers Regulation (2013) has been released by IRDA empowering banks to act as Brokers. The banks can tie-up with more than one insurance company to market products of life, general and health insurance policies.

Micro insurance agents

Micro insurance agents are allowed to do only micro insurance business both in life and non-life insurance.

Village-level entrepreneur

They are CSC-registered functionary and authorized to operate the common service center under the e-governance functions of the Department of Electronics and Information Technology (DEITY), Government of India. A village-level entrepreneur is in charge of running the daily operations of the customer service center. They are empowered to market insurance products as per the recent guidelines issued by the IRDA. According to IRDA mandate insurance companies are to introduce new products for marketing by this channel.

Specialist Intermediaries

1) **Insurance Surveyors**

   The work of a surveyor is to asses losses of a policyholder for non-life insurance claims.
   Surveyors are licensed by IRDA. They are experts in evaluating losses in specific areas.
   Surveyors are generally paid fees by the Insurance Company, which engages them.
   General insurance companies hire surveyors and loss assessors, at the time of a claim.
   A surveyor inspects the property suffering a loss; examine and verify the causes and circumstances of the loss and estimate the quantum of the loss.
   Surveyors are governed by provisions of the Insurance Act, 1938, Insurance Rules 1939 and specific regulations issued by IRDA.
2) **Claim Investigators**
   Claim investigators are employed by insurance companies to investigate claims relating to theft, burglary, misappropriation of insured's money or property by their employees etc. If

insurers suspect that the insured has lodged a fraudulent claim, they may engage investigators.
In case of doubtful cases of fire the insurer may engage services of forensic experts.
Sometimes surveyors are also given work of the claim investigation: like finding out exact cause of loss etc.

3) **Medical examiners**
Medical experts (physicians, pathologists etc.) are employed by life insurers to examine the health condition of a prospective life to be insured and decide about the acceptance, extra premium to be charged, etc.
In cases of higher age or large sum-assured, life insurance companies ask for specialized tests like ECG, X-ray, TMT, stress test etc.

The various distribution channels described above have the onerous responsibility of ensuring that the insurance penetration is increased and 'every Indian is insured' and 'adequately insured'.

Regulatory Bodies

Insurance Regulatory and Development Authority of India (IRDA)

Insurance Regulatory and Development Authority (IRDA) was established in 2000 as an independent authority to regulate and develop the insurance industry by the parliament, [namely Insurance Regulatory and Development Authority Act, 1999].

The preamble to the IRDA act says:

"An act to provide for the establishing of an Authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto."

IRDA regulates working of both life and non-life insurance companies through various regulations, notifications and directives. IRDA has prescribed regulation for protecting the interest of policy holders stipulating obligations on both insurers as well as intermediaries. These regulations prescribe insurers' obligations at the point of sale, towards policy servicing and control on their expenses, investment and financial strength to meet the commitments to policyholders.

The IRDA is headquartered at Hyderabad.

Insurance Councils

Though there was a provision in Insurance act 1938 for insurance councils, IRDA brought them into existence in 2001. These are General Insurance Council and Life Insurance Council. Both of them are headquartered at Mumbai.

Chief Executive Officers of all the insurance companies are members of the council. Member (life) and Member (non-life) of IRDA is also a member of respective councils. Veterans of the insurance industry are appointed as Secretary General of councils; they act as spokespersons of the industry.

These councils deliberate, through various committees, on the issues confronting the Insurance industry. They give advice and provide inputs to IRDA and the government on various issues.

Educational Institutions

Institute of Actuaries of India (IAI)

The Institute of Actuaries of India was established in 1979. Set up on the lines of the Institute of Actuaries, London, the IAI conducts examinations in actuarial sciences.

By an Act of Parliament passed in 2006, the IAI has been given statutory status. The IAI has been recognized by the Government of India, the IRDA and other insurance related bodies and is often called upon to recommend actions required to ensure financial proprieties and disclosures for insurance companies.

It organizes and participates in seminars and workshops on developments in the actuarial profession and its practices.

The Institute of Insurance and Risk Management (IIRM)

IIRM is an international education and research organization. The Institute was set up jointly by the Insurance Regulatory and Development Authority (IRDA) of India and the State Government of Andhra Pradesh, in 2002 for promotion of International Post Graduate Diploma Courses in Insurance / Risk Management (Regular and Distance learning). International School of Actuarial Sciences (ISAS) opened on August 6, 2007 leading to a Post Graduate Diploma in Actuarial Sciences.

IIRM aims to serve the learning and developmental needs of emerging markets in the context of their contemporary challenges in Insurance sector.

Insurance Institution of India

The oldest of such institutions is the Insurance Institute of India (III). Formerly known as The Federation of Insurance Institutes (J C Setalvad Memorial), this Institute was established in the year 1955 by the Indian insurance industry for the purpose of promoting insurance education and training in the country.

The institute conducts many professional examinations like licentiate, associate and fellowship for its members. It also conducts certification program for

1. Marketing of Insurance.
2. Fire Insurance.
3. Marine Insurance.
4. Health Insurance.

The Insurance Institute of Sri Lanka and the Royal Insurance Corporation of Bhutan Insurance Institute are affiliated to the Institute.

In its role as the leading education and training provider, the III is closely associated with all the segments of the insurance industry, which includes the IRDA, Insurance companies, Brokers, Surveyors and TPA companies.

The qualifications of the III are recognized by similar institutes all over the world.

College of Insurance

The College of Insurance was founded by the III in 1966, as its training wing. It caters to the training needs of insurance personnel at different levels on technical and managerial skills.

The college attracts participants for its programs from Insurance companies, brokers, corporate agents and participants from abroad, particularly from countries in Asia and Africa.

The Government of India has recognized the College of Insurance as an approved educational 1 institution under the Colombo and SCAAP plans.

National Insurance Academy

The National Insurance Academy (NIA) was started in 1982 by the LIC, the GIC and its then 4 subsidiaries with the support of the Government of India. It was set up as a centre of excellence in insurance education and research. Located in a modern campus at Pune, about 180 km from Mumbai, the NIA conducts training sessions and seminars in its campus and in other countries in Asia and Africa.

NIA offers a two year Post Graduate Diploma Course in Management (PGDM) which is designed to meet the needs of the insurance industry.

NIA also publishes DNYANAJYOTI, which contains reports on research studies, as well as BIMAQUEST, a Journal on Insurance and Management.

Others

a) Nearly all major life and general insurance companies have training facilities at various cities.

b) Many colleges in their degree courses offer special a subject of ‘Banking and Insurance’.

c) Many management institutes have introduced insurance as one of the subjects in their financial management stream.

Third-party Administrators or TPA

Third-party administrators are intermediaries licensed by IRDA and are responsible for the processing of claims under health insurance. They are specialists in the field of health insurance. They employ medical experts and use services of specialists and super specialists in various fields of medicine to process insurance claims.

They are required to obtain a license from IRDA to be renewed from time-to-time. They should have medically qualified persons who are to be trained in insurance as per IRDA regulations.

Their main work is as under:

- To process medical insurance claims
- Enter into tie-ups with hospitals for providing 'cashless facilities'
- Advice insurers on underwriting of proposals
- Advice insurers on devising new medical covers
- Maintain data on various health insurance schemes and providing them to insurers from time to time.