Chapter 2
PRINCIPLES OF INSURANCE

Insurance in India

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 practiced by the Aryans 3000 years ago.

The first Indian Life assurance Society was called "Bombay Mutual Assurance Society Ltd."

- "Oriental Life Assurance Society Ltd" in 1874,
- "Bharat Insurance" in 1896 and
- "Empire of India" in 1897 followed it.

History of Life Insurance

In 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 namely

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

These companies had 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 business by passing the "Insurance Act" in 1912.

- This Act was comprehensively amended and passed as a New Act in 1938 for controlling Investment of funds, expenditure and Management.

- The Office of Controller 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 was 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 business i.e insurance of property) also nationalized in 1972 after the merging of 55 Indian and 52 Non-Indian companies were nationalized by forming four general insurance companies.

The Govt. India, while liberalizing the Indian economy, also felt the liberalization of the insurance sector because of lower penetration of insurance as compared to Indian population and its size and other developing countries.

Initially the Govt. 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 (LPG) the insurance sector. In 1999, the Authority known as Insurance Regulatory & Development Authority through IRDA Act 1999 was formed.

Liberalization of Insurance industry will undoubtedly benefit Indian economy, the Government, Industry, Employee, and Consumer & Society in the following manner:

Benefits to Economy

- Rapid investment
- Improve Quality to Life (New risk covers)
- Competition will bring Consumer Friendly Products
- Large Scale Mobilization of Funds
- Insurance & Reinsurance Facilities to Major Projects
- Export Projects covered at Home

Benefit to Government

- Long Term Funds for Infrastructure
- Long Term Debt Market Instruments Available
- Increased Employment Opportunities & Compensation
- Reduced Financial Burden of
- Rural Social & Backward Classes
- Contributions in Calamities (Sharing of Social Responsibilities)

Benefit to Industry

- Transfer of Technical Expertise
- Innovative Products and Pricing Options
- Improved Prospects for National Cos.
- Market Driven Economy will Benefit Customer the most

Benefit to Consumer

- Superior Quality at Lower Prices
- Wider Choice of Products
- World Class Service to the Consumer
- Increased Penetration of Insurance

Benefit to Employee

- Human Resource Development
- Exposure to 'State of the Art-Practices"
- Greater job Opportunities
- Higher Remuneration
- Professional Management Practices

Benefit to Society

- Risk cover for Large Industry. Trade & Property
- Environmental Risks get Reduced
- Hit and Run Compensations
- Crop Insurance for Covering Risk of Nature - Poor Rainfall etc.
- Socio-Economic Responsibilities Burden shared
- Education Medical wealth Accident

IRDA – INSURANCE REGULATORY & DEVELOPMENT AUTHORITY OF INDIA

- IRDA is an autonomous, statutory body tasked with regulating and promoting the insurance and reinsurance industries in India
- It was founded in 1999 and is headquartered in Hyderabad
- IRDA is a 10-member body including the chairman, five full-time and four part-time members appointed by the government of India
- Subhash Chandra Khuntia is the current Chairman of IRDA
- Mission statement of the Authority:
    1. To protect the interest of & secure fair treatment of shareholders
    2. To bring about speedy and orderly growth of the insurance industry (including annuity and superannuation payments), for the benefit of the common man, and to provide long term funds for accelerating growth of the economy
    3. To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates
    4. To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery
    5. To promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players
    6. To take action where such standards are inadequate or ineffectively enforced
    7. To bring about optimum amount of self-regulation in day-to-day working of the industry consistent with the requirements of prudential regulation

Insurers

- The Indian market is a regulated market and nobody can carry on insurance business without obtaining a license from IRDA. The insurance company should be an Indian Company, and should have minimum Rs. 100 Cr 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 27 insurance companies registered as Non-life (General) Insurance companies.
    1. Agriculture Insurance Company of India Limited., a public sector company, is a specialized insurer for risk related to Crop insurance.
    2. Export Credit and Guarantee Corporation of India, a public sector company, is a specialized insurer for risks related to export credit
    3. There are eight General insurance companies in the public sector. The remaining 20 General Insurance companies are in the private sector.
    4. There are four standalone health Insurance companies, in the private sector, specialized in health insurance.

- In all there are 24 Life Insurance companies and 27 Non-life (general) insurance companies.

INTERMEDIARIES INVOLVED IN INSURANCE INDUSTRY

An intermediary is a person or an agency who acts as a link between the insurance company and the policyholders.
In Indian Insurance market the following intermediaries are operating in the insurance sector.

Agents

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

Corporate Agents

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

Bank Assurance

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

Brokers

- Direct Brokers deals with all insurance companies. They represent the client before insurance companies.
- Re-Insurance Brokers acts as an intermediary between insurance companies and reinsurance companies.
- Composite Brokers can do direct insurance as well as reinsurance.

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 Bank has tie-ups with more than one Insurance company to market products of Life General and Health Insurance Policies.

GUIDELINES ON POINT OF SALES PERSON- LIFE INSURANCE

- IRDA extended the concept and scope of Guidelines to Life Insurers too for simple plain vanilla type of products (referred to as POS- Life Products) if each and every benefit of such product is-
    - Simple to understand
    - Stated upfront clearly
    - Fixed/ predefined
- POSP – Life Insurance – It means an individual who possesses the minimum qualifications, has undergone training and passed the examination
    - POS Person can be identified by his Aadhaar Card No or Pan card
    - Min 18 years of age & min qualification of 10th pass
    - POSP- LI is authorized to solicit & market only Point of Sales – Life Insurance Products
- A POSP-LI engaged by an insurance intermediary can sell the POS-Life Products of all such insurers whose life insurance products the respective intermediary is authorized to sell
- Products solicited and marketed by POS Person-
    - Pure Term insurance product with or without return of premium
    - Non-Linked (Non-Participating) Endowment product
    - Immediate annuity product
    - Any other product/ product category, if permitted by IRDA
- Every policy sold through the POSP-LI shall be separately identified and pre-fixed by the name “POS – (name of product)”
- Every proposal form- paper or paperless, insurance policy and other related documents shall carry provision to record the Aadhaar Card or Pan Card number in order to tag the policy to the “POS Person” who is selling the policy
- Insurance intermediary shall be responsible for the conduct of the “POS Person”, any misconduct shall make it a liable to a penalty as per provisions of Sec 102 of the Act
- Records should be maintained in electronic form which can be accessed by the Authority on a remote location basis. A format will be given where Number of Policies sold and premium collected monthly will be recorded

GUIDELINES ON POINT OF SALES – LIFE INSURANCE PRODUCTS

- Definition- “POS Product” means the simple plain vanilla type of product wherein each and every benefit is predefined and disclosed upfront clearly at the time of Sale itself and is very simple to understand
- Products solicited and marketed by POS Person-
    - Pure Term insurance product with or without return of premium
    - Non-Linked (Non-Participating) Endowment product
    - Immediate annuity product
- Any other product/ product category, if permitted by IRDA
- Life Insurers shall offer these products only as Non-Linked and Individual insurance products

- Key Features Document (KFD) – cum – Proposal Form:
    - 1st part – KFD (given to proposer/ Life Assured)
    - 2nd part- Proposal Form (Preserved by the insurer/ representative for necessary processing)
    - KFD content- Key benefits under the plan including (a) Sum Assured on Death (b) Maturity Benefit (c) Surrender Value (d) Paid Up Value, if any (e) Exclusions (f) Registered name and address of the life insurer with the logo etc
    - Every “KFD cum Proposal form” should contain unique reference number on both parts
    - Turn Around Time (TAT) for issuance of policy/ Acceptance of Risk and communication of acceptance or anything of such policy would not be more than 2 working days from the date of collection of proposal at POS
    - If the proposal is not accepted for any reason, Refund to the proposer/ Life insured within 7 days from the date of decision

- Pure Term Insurance product with or without return of premium – Product Features:
    - Min Age at entry – 18 years
    - Max Age at Maturity – 65 years
    - Policy Term – Min 5 years, Max – Depends
    - Sum Assured on Death – Max – No limit (Multiple of 50k)
    - Grace Period – Regulatory Norms
    - Revival Period – Regulatory Norms
    - Waiting Period (Other than Accidental Death)- Max period of 90 days from the date of acceptance of risk
    - Death Benefit (other than accidental): If death takes place-
- During waiting period (if any) – 100% of Premium paid

- After expiry of waiting period – Sum Assured on Death

    Accidental Death Benefit: = to Sum assured on death. No waiting period is applicable

    Maturity Benefits (Without Return of Premium)- NIL

    Maturity Benefits (With Return of Premium)- At least 100% of premium paid

    Underwriting conditions- Only non-medical underwriting

    Surrender Value- As per Regulatory provisions

    Accidental Death Benefit (in built)- Inbuilt ADB only allowed

    Commission- For the POSPs engaged by intermediaries – no commission is payable by the Insurer

    Max Sum Assured limit on a single life- Rs.25 L (excluding ADB) at Insurer level (per insurer)

- Non-Linked, Non-participating Endowment Product:

    Max age at Maturity – 65 years

    Policy term- Min 5 years, Max- 20 years

    Sum Assured on Death- Max 10L (excluding ADB)

    Sum Assured on Maturity- Guaranteed Maturity Benefit in absolute amount

    Grace Period – Regulatory Provision

    Revival Period – Regulatory Provision

    Death Benefit (other than accidental): If death takes place-

- During waiting period (if any) – 100% of Premium paid
- After expiry of waiting period – Sum Assured on Death

    Accidental Death Benefit: = to Sum assured on death. No waiting period is applicable

    Maturity Benefits – Guaranteed Maturity Benefit in Absolute amount

    Surrender Value- As per Regulatory provisions

    Waiting Period (Other than Accidental Death)- Max period of 90 days from the date of acceptance of risk

    Accidental Death Benefit (in built)- Inbuilt ADB only allowed

    Loan Facility, If any- Allowed

    Commission- For the POSPs engaged by intermediaries – no commission is payable by the Insurer

    Underwriting conditions- Only non-medical underwriting

    Max Sum Assured limit on a single life- Rs.10 L (excluding ADB) at Insurer level (per insurer)

- Immediate Annuity Product:

    Type of Immediate Annuity Only ‘Life Annuity with Return of Purchase Price on Death’ allowed

    Min/ Max age- 40 years/ 70 years

Mode of Premium- Single Premium only

Maximum Premium- No limit

Min Annuity- Regulatory provisions

Death Benefit- Return of Purchase Price

Commission- For the POSPs engaged by intermediaries – no commission is payable by the Insurer