CHAPTER-2

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AN OVERVIEW OF GENERAL INSURANCE INDUSTRIES

2.1 INTRODUCTION OF INSURANCE

General Idea

Insurance is a very familiar word for all but it is not only a word, fundamentally it is a sharing device. Many times natural disasters like Tsunami, Flood, Earthquake, Thunder etc., prove hazardous to human assets, hence to cope up with this loss large number of persons invert to save themselves from unforeseen calamities. And this contribution of many is used to help the unfortunate who suffered the loss. But there are two conditions. First is that the loss should occur as a result of natural or unexpected calamities which beyond our power. Secondly insured person should not make any gains out of insurance.

The business of insurance is concerned with the protection which is provide to the economic values of physical assets such as house, car or shops insurance, but these materialistic facilities are gift for human whose efforts make possible the creation of the assets. In that sense human life is unique source for the production of assets. As time passes the physical assets losses their value but individual becomes more valuable with experiences and skills. Unlike Physical assets, this raises his earning capacity. And this is the starting point or called aim of life insurance is to protect the income of individual and provide financial security to his family, which depends on his income today and after his premature death also.

As we all know this age is a ‘capital era’ so it is evident for human being that he or she has to secure his or her future financially. For his or her inability for earning money with passing years, one more benefit is that the investment in insurance policy develops the habit of saving. Thus Insurance is too who makes a man self-dependent and gives him strength to overcome from any adversities with triumph “Jindgi ke sath Bhi, Jindgi ke baad Bhi”
Definition of Insurance

We face a lot of risks in our daily lives. Some of these lead to financial losses. Insurance is a way of protecting against these financial losses. For a payment (premium), an insurance company will take the responsibility of compensating your financial losses.

1. Definition of Life Insurance

Life Insurance is defined as follows: “Life insurance provides a sum of money if the person who is insured dies whilst the policy is in effect”

2. Definition of General Insurance

Insurance other than ‘Life Insurance’ falls under the category of General Insurance. General Insurance comprises of insurance of property against fire, burglary etc, personal insurance such as Accident and Health Insurance, and liability insurance which covers legal liabilities. There are also other covers such as Errors and Omissions insurance for professionals, credit insurance etc.

Characteristics of the Insurance

- Sharing of risks.
- Co-Operative device
- Evaluation of risks
- Insurance is a plan, which spreads risk and losses of few people among a large number of people.
- The amount of payment depends on the nature of losses incurred.
- The insurance is a plan in which the insured transfers his risk on the insurer.
- The success of insurance business depends on the large number of people insured against similar risk.
- Insurance is a legal contract which is based upon certain principles of insurance which includes utmost good faith, insurable interest, contribution, indemnity, subrogation etc.
- The scope of insurance is much wider and extensive.

1. IC 33 Insurance (New syllabus) Balachandran page – 3
Functions of Insurance:

1. Primary Functions:

   - **Provide Protection:**
     
     Insurance can not check the happening of the risk, but can provide for the losses of risk.

   - **Collective bearing of risk:**
     
     Insurance is a device to share the financial losses of few among many others.

   - **Assessment of risk:**
     
     Insurance determines the probable volumes of risk by evaluating various factors that gives rise to risk.

   - **Provide certainty:**
     
     Insurance is a device, which helps to change from uncertainty to certainty.

2. Secondary functions:

   - **Prevention of losses:**
     
     Insurance cautions businessman and Individuals to adopt suitable device to prevent unfortunate consequences of risk by observing safety instructions.
• **Small capital to cover large risks:**

   Insurance relives the businessman from security investment, by paying small amount of insurance against larger risks and uncertainty. And contributes towards developments of larger industries.

3. **Other function:**

   Means of saving and investment.

❖ **Classification of Insurance**

   Insurance business is divided into two broad categories, life and Non life.

   Life insurance is concerned with making provision for a specific event happening to the individual, such as death.

   whereas Non-life (general) insurance is more commonly concerned with the provision for a specific event which affects a property, such as fire, flood, theft etc.

❖ **Need for General Insurance**

   Anyone who owns an asset can buy insurance to protect it against losses due to fire or theft and so on. Each one of us can insure our and our dependents’ health and well being through hospitalization and personal accident policies. To buy a policy the person should be the one who will bear financial losses if they occur. This is called insurable interest.
2.2 BENEFITS OF INSURANCE

Insurance is the instrument of security, saving and peace of mind. It provides several benefits by paying a small amount of premium to an insurance company as:

1. It encourages saving and forces thrift.
2. It provided easy settlement and protection against creditors.
3. It helps to achieve the purpose of the life Assured.
4. It can be encased and facilitates borrowing.
5. Tax relief.
6. It is superior for traditional saving vehicles.
7. security against a personal loan, housing loan or other types of loan
8. Provide a protection cover to industries, agriculture, women and child.
9. Provides a piece of mind in case of financial loss.
10. Safeguards oneself and one’s family for future requirements.
2.3 BRIEF HISTORY OF INSURANCE

The business of life insurance in India started in the year 1818 with the establishment of Oriental Life Insurance company in Calcutta.

Some of the important milestones in the Life Insurance business in India are:

- **1970**: Bombay Mutual Life Assurance Society. The first Indian Life Insurance company started its business.

- **1912**: The Indian Life Assurance Companies Act enacted as the first statute to regulate the life Insurance business.

- **1928**: The Indian Insurance companies Act enacted to enable the government to collect statistical information about both life and Non-life insurance business.

- **1938**: Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.

- **1956**: 245 Indian and foreign insurers and provident societies taken over by the central government and Nationalized. L.I.C formed by an Act of parliament, viz. LIC Act, 1956, with a capital contribution of Rs.5 Crore from the government of India.

Life Insurance Corporation Of India was established.
The General insurance business in India, on the other hand, can trace its roots to the Triton Insurance Company Ltd., the first general insurance company established in the year 1850 in Calcutta by the British.

Some of the important milestones in the general insurance business in India are: 5

- **1907**: The Indian Mercantile Insurance Ltd. set up, the first company to transact all classes of general insurance business.

- **1957**: General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices.

- **1968**: The Insurance Act amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee set up.


107 insurers amalgamated and grouped into four companies viz. the National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd. and the United India Insurance Company Ltd. GIC incorporated as a company.

- **1999**: Insurance Regulatory and Development Authority bill was passed in parliament in December 1999.

- **2000**: IRDA, independent insurance authority like SEBI established in April 2000.

- Private insurance companies are allowed since September 2000.
The IRDA opened up the insurance market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders’ interests.

**Life Insurance Players**

Some licensed life insurers operating in India.

1. Bajaj Allianz Life Insurance Company Ltd.
2. Birla Sun Life Insurance Co. Ltd.
3. HDFC Standard Life Insurance Co. Ltd.
4. ICICI Prudential Life Insurance Co. Ltd.
5. ING Vysya Life Insurance Company Ltd.
6. Life Insurance Corporation of India
8. Met Life India Insurance Company Ltd.
10. SBI Life Insurance Co. Ltd.
11. Tata AIG Life Insurance Company Ltd.
12. Reliance Life Insurance Company Ltd.
13. Aviva Life Insurance Company India Ltd.
14. Sahara India Life Insurance Co. Ltd.
15. Shriram Life Insurance Co, Ltd.
16. Bharti AXA Life Insurance Company Ltd.
17. Future Generali India Life Insurance Company Ltd.
18. IDBI Fortis Life Insurance Company Ltd.,
20. AEGON Religare Life Insurance Company Ltd.
21. DLF Pramerica Life Insurance Co. Ltd.
22. Star Union Dai-ichi Life Insurance Co. Ltd.
23. India First Life Insurance Company

The general insurance market was opened for competition in December 2000 and the four public sector companies have been made autonomous and no longer function as a subsidiary of the GIC. They have been de-linked from the parent company and made as independent insurance companies, though they continue to operate as government owned entities. Private sector general insurance companies have also been allowed to open up business in India.

Licensed non-life insurers operating in India :
1. Bajaj Allianz General Insurance Co. Ltd.
2. ICICI Lombard General Insurance Co. Ltd.
3. IIFFCO Tokio General Insurance Co. Ltd.
5. The New India Assurance Co. Ltd.
6. The Oriental Insurance Co. Ltd.
7. Reliance General Insurance Co. Ltd.
8. Royal Sundaram Alliance Insurance Co. Ltd.
9. Tata AIG General insurance Co. Ltd
10. United India Insurance Co. Ltd.
11. Cholamandalam MS General Insurance Co. Ltd.
12. HDFC ERGO General Insurance Co. Ltd.
13. Export Credit Guarantee Corporation of India Ltd.
14. Agriculture Insurance Co. of India Ltd.
15. Star Health and Allied Insurance Company Ltd.
16. Apollo Munich Health Insurance Company Ltd.
17. Future Generali India Insurance Company Ltd.
18. Universal Sompo General Insurance Co. Ltd.
19. Shriram General Insurance Company Ltd.
20. Bharti AXA General Insurance Company Ltd.
21. Raheja QBE General Insurance Company Ltd.
22. SBI General Insurance Company Ltd.
23. Max Bupa Health Insurance Company Ltd.
24. L&T General Insurance Company Ltd
2.4 INTRODUCTION TO INDIAN INSURANCE INDUSTRY

The insurance landscape in India is in the process of tremendous change. Closed to foreign competition due to nationalization in 1956, the Indian insurance industry was run by the Government for over 40 years through the Life Insurance Corporation Of India(LIC) and four general Insurance companies that spanned the length and breath of the country. While these companies had done a commendable job in helping the industry grow, the task of making an essential financial product available to the masses gave scope to several other companies, to participate in the arena.

A look at the numbers reveals all. An informal estimate has been made by various experts to assess the existing insurance market in India in terms of premium income. Out of and insurable population of 300 million, 50 million have the capacity to pay a premium of US$300 (Rs.10,500) per year, 100 million have the capacity to pay US$200 (Rs.7,000) per year and 150 million have the capacity to pay US$100(3,500) per year. On the basis the total annual insurance premium would be US$50 billion(Rs.1750bn). The official national Income(GDP) naturally excludes finance available in the parallel economy.

India has an amorphous middle-class of about 300 million people who can afford to buy life, health and disability and pension plan products. Out of this only 20% have insurance and that too covers only 25% of their needs and financial capacity. The remaining 80% have no insurance cover. The life insurance market of India therefore is practically untapped.

India has an enormous middle class that can afford to buy life, health and disability and pension plan products. The low level of penetration of life insurance in India compared to other developed nations can be judged by a comparison of per capita life premium.
India has traditionally been a high savings oriented country – often described as being on par with the thrifty Japan. Insurance sector in the US of A is as big in size as the banking industry there. This gives us an idea of how important the sector is. Insurance sector channeled the savings of the people to long term investments. In India where infrastructure is said to be of critical Importance, this sector will bring the nations own money for the nation. In three years time we would expect the 10% of the population to be under some sort of an insurance cover. This assuming a premium of Rs.5,000 on an average amount to 100 million x Rs.5,000 = Rs.500 bn.

India is the largest democracy in the world having a population more than one billion. It is 5th largest in the world in terms of purchasing power of parity(ppp). India GDP growth rate is over 6% per year on average for the last decade and saving rate is around 26% of GDP.

The insurance sector in India has come to a full circle from being an open competitive market to nationalization and back to a liberalized market again. Tracing the developments in the Indian insurance sector reveals the 360 degree turn witnessed over a period of almost two centuries.

Trough India’s Economic development, it becomes the most lucrative insurance markets in the world. Before the year 1999 there were monopoly of state run Life Insurance Corporation Of India and General Insurance of India with Four subsidiaries in general sector. In the wake of reform process and passing Insurance Regulatory Development Act (IRDA) through Indian Insurance was opened for private companies.8
2.5 INSURANCE REGULATORY DEVELOPMENT AUTHORITY, 1999 (IRDA)

- MISSION

“To protect the interests of the policyholders, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto”

On the recommendation of Malhotra Committee, an Insurance Regulatory Development Act (IRDA) passed by Indian parliament in 1993. Its main aim is to activate an insurance regulatory apparatus essential for proper monitoring and control of the Insurance industry. Due to this Act several Indian private companies have entered into the Insurance market, and some companies have joined with foreign partners.

IRDA is a revolutionary piece of legislation. The IRDA was established to regulate, promote & ensure orderly growth of the Life and General Insurance Industry.

The Authority consists of the following Members:

1. A Chairperson
2. Not more than five whole-time members
3. Not more than four Part-time members

- Functions of IRDA

1. To exercise all powers and functions of controller of insurance
2. Protection of the interests of the policy holders.

9. www.irda.com home page
3. To issue, renew, modify, withdraw or suspend certificate of registration.
4. To specify requisite qualifications and training for insurance intermediaries and agents.
5. To promote and regulate professional organizations connected with Insurance.
6. To conduct inspection/ investigation etc.
7. To prescribe method of Insurance Accounting.
8. To regulate investment of funds and margins of solvency.
9. To adjudicate upon disputes.
10. To conduct inspection and audit of insurers, intermediaries and other organizations concerned with insurance.

- **Rights of IRDA**

  It has the right to enquire into the affairs of the books and documents of the broker.

  It has the right to look into the complaints from clients of the brokers.

- **IRDA Regulations**

  In its role to protect policy holder’s interests, IRDA stipulates in its regulations relevant to claim settlement that-

  In case of death claim, all the requirements should be asked for at one time and not in the piecemeal.

  Insurer’s decision to accept or repudiate a death claim should be made within 30 days from the date of receipt of claim papers.
If an investigation is necessary, it should be completed within 6 months. In case of delay in settlements of death claim- If the delay is on the part of insurer, interest at 2% over the bank rate would be payable. If delay is due to claimant being not ready to collect the claim amount, rest at the savings bank rate is payable.12
2.6 INSURANCE SECTOR REFORMS

In 1993, Malhotra committee, headed by former Finance Secretary and RBI Governor R.N. Malhotra, was formed to evaluate the Indian Insurance Industry and recommend its future directions. The Malhotra committee was set up with the objective of complementing the reforms initiated in the financial sector. The reforms where formed at “Creating a more efficient and competitive financial system suitable for the requirement of the economy keeping in the mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms...”. In 1994, the committee submitted the report and some of the key recommendations included:

STRUCTURE

1. Government stake in the insurance companies to be brought down to 50%
2. Government should take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as independent corporations.
3. All the insurance companies should be given greater freedom to operate.

COMPETITION

1. Private companies with a minimum paid up capital of Rs.1bn should be allowed to enter the industry.
2. No company should deal in both Life and General Insurance through a single entity.
3. Foreign companies may be allowed to enter the industry in collaboration with the domestic companies.
4. Postal Life Insurance should be allowed to operate in the Rural Market.
5. Only one Statement Level Life Insurance Company should be allowed to operate in each state.

13. insurance practices- Himalaya publication page - 225
Regulatory body

1. The Insurance act should be changed.
2. An Insurance Regulatory body should be set up.
3. Controller of Insurance (Currently a part from the Finance Ministry) should be made independent.

INVESTMENTS

- Mandatory Investments of LIC life Fund in government securities to be reduced from 75% to 50%.
- GIC and its subsidiaries are not to hold more than 5% in any company (Their current holdings to be brought down to this level over a period of time).

CUSTOMER SERVICE

1. Customer should pay interest on delays in payments beyond 30 days.
2. Insurance companies must be encouraged to set up unit linked pension plans.
3. Computerization of operations and updating of technology to be carried out in the insurance industry.
1. General insurance contracts

A life insurance policy is a contract, in terms of the Indian Contract Act, 1872. A contract is defined as:

“A contract is an agreement between two or more parties to do or not to do so as to create a legally binding relationship”

A simple contract must have the following essentials:

- Offer and acceptance
- Consideration
- Capacity to contract
- Consensus ‘ad idem’ (genuine meeting of minds)
- Legality of object or purpose
- Capability of performance
- Intention to create legal relationship

1. Aleatory contract

Aleatory contract is a contract wherein the performance of one or both the parties is based on the occurrence of an event. Such insurance contracts may be a boon to one party but create a major loss for the other, as more in benefits may be paid out than actual premiums received, or vice versa (a large amount is paid by way of claim where as the amount received as premium is very small, or when there is no claim, the entire premium is retained without any outflow to the insured).

2. Contract of adhesion

The wordings of the insurance policy is written by the insurer and the insured either accepts the contract in full or rejects it but cannot modify it. Because of the one sided nature of the contract, the courts interpret the policy wordings and clauses, in case of any ambiguity, in favour of the insured.

3. Unilateral contract

Insurance contracts are unilateral in nature as only the insurer can be held accountable in a court of law.
2. Principle of utmost good faith:

- **Definition of utmost Good faith:-**
  A positive duty to voluntarily disclose, accurately and fully, all facts material to the risk being proposed, whether requested or not.

- **Material Facts:-**
  A fact that would influence the judgment of a prudent insurer in deciding whether to insure a particular risk, or the terms on which to insure it. The declaration made by the proposer, while proposing for insurance, becomes important, as the proposer certifies that the statements given by him are true and that they form the basis of the contract.

- **Disclosure of material facts:-**
  The categories of facts that must be declared are the following:
  1. Facts, which show that the particular risk represents the greater exposure than normal.
  2. External factors, those situations, which make the risk greater than would normally be expected.
  3. Any refusal or special term imposed on previous proposals by other life insurers.
  4. The existence of other life insurance policies.
  5. Full facts relating to the health of the individual taking insurance.

- **Non-Disclosure of Material Facts:-**
  There are some circumstances which are material but it is not necessary to disclose. The areas concerned are:
  - Facts of law
  - Facts of common Knowledge, which every one is supposed to know.
  - Facts which a survey would be revealed.
  - Facts which could be reasonably discovered, by reference to pervious policies and records available with the insurer.
• **The declaration:**

Proposal forms contain a declaration by the proposer to the effect that all statements and answers furnished by him in the proposal form are true. These statements and declarations shall be the basis of the contract. If any of the statements are false, the contract can be made null and void, by the insurer, and premiums forfeited.

3. **Principle of insurable Interest:**

• **Definition:**

“Relationship with the subject matter(a person) which is recognized in law and gives a legal right to insure that person”

• Insurance Interest is a legal pre-requisite for insurance

• The primary interest of a person in the object of insurable such as a house, car, machinery or life which gives him the right to take insurance and so to say, this is insurable interest.

In other words, it is not the house, the car, machinery or life that is insured but it is the pecuniary interest in the object of insurance.

4. **Principle of Indemnity:-**

• Insurance can not be used as means to make profit out of it. The mechanism of Insurance is meant to compensate losses. Simply put, Insurance should not place the insured in a better financial position after loss he enjoyed before the loss. This broadly is the principle of indemnity.

• Compensation on claim can not be more than the extent of insurable interest.

However there are some insurance policies which are an exception to the above rule, such as:
1. **Life Insurance**

Since the value of human life cannot be assessed, life insurance policies are not strict policies of indemnity. These are more of a benefit policy. However, this does not mean that one can take insurance policy for any value, as this would create a moral hazard. Most of the insurers determine the sum assured based on some benchmark, such as the earning capacity of the assured.

2. **Replacement cost insurance**

This policy offers new for old and came into vogue during the second world war. Due to high inflation in those days, the claim amount received on market value basis was found to be inadequate to carry on businesses. Such type of policies are issued under Fire and Engineering branch of insurance and they are granted for relatively new property, project insurance etc.

   In such policies no depreciation is deducted and the claim settlement is made on replacement value of the property on the date of loss.

3. **Valued insurance policies**

A valued insurance policy is another exception to the rule of indemnity. Valued policies pay the full face value of the policy whenever an insured’s loss occurs. The value of the insured property is agreed to before the policy is written. Marine insurance contracts are issued on a valued basis. Under marine insurance, the policies are generally issued for Invoice cost + Freight + Insurance + 10% being margin for profit.

For eg. marine insurance is taken for 100 cartons of readymade garments which has an invoice value of Rs 1,00,000, the freight payable for transporting it is Rs. 2,000, marine insurance payable for covering the transportation risk is Rs. 1,500. Insurance can be taken for Rs. 1,00,000 + Rs. 2,000 + Rs. 1,500 = Rs. 1,03,500 . Additional 10% can be added for the profit which the seller may make on the transaction, as the profit would be lost in case of any loss or damage while the consignment is in transit.
Hence, the value for which insurance can be taken is Rs 1,03,500 + 10% (of Rs. 1,03,500) = Rs. 1,13,850. This is the amount that will be paid by the insured to the insurer in case of loss, damage to the cartons. Claim settlements are also based on the valuation agreed upon.

Similarly while insuring obsolete machinery, antiques, works of art which does not have a regular market, the valuation is agreed prior to the commencement of the policy to avoid disputes in the event of claims.

5. **Subrogation**

Subrogation is the legal substitution of one person in another’s place. Subrogation means “stepping into the shoes” of another person. In insurance it implies if the insured has any rights against third parties, the insurer on payment of the claim takes over these rights. This is a corollary to the principle of indemnity and enforcing the principle of subrogation ensures that the principle of indemnity is upheld. In insurance, subrogation gives the insurer the right to collect from a third party, any rights which the insured has against such a third party, after paying the insured’s claim(s). A typical case of subrogation arises in automobile insurance claims. Suppose Satish is responsible for the collision of his car with Rahul’s car. Rahul may sue Satish for damages or he may collect money from his own automobile insurance. If he chooses to collect money from his own insurance, his insurance company will be subrogated to his right to sue Satish (insurance company replaces Rahul). Rahul cannot collect money for his loss both from his insurer and from Satish. Subrogation does not exist in life insurance because life insurance is not a contract of indemnity. Thus, if Mr. Rahul Kumar is killed by his neighbor’s negligence, Mrs. Kumar may collect whatever damages a court will award for her husband’s wrongful death. She may also collect the life insurance proceeds. The life insurer is not subrogated to the liability claim and cannot sue the negligent party.
2.8 INSURANCE AS A SOCIAL SECURITY TOOL

The United Nations declaration of Human Rights 1948 provides that “Everyone has a right to a standard of living adequate for the health and wellbeing of himself and his family, including food, clothing, housing and medical care and necessary social services and the right to security in the event of unemployment, sickness, disability, widowhood or the other lack of livelihood in circumstances beyond his control.”

In India, social security finds a place in our constitution. Article 41 requires the state, within the limits of its economic capacity and development, to make effective provisions for securing the right work, to education and to provide public assistance in case of unemployment, old age, sickness and disablement and in other cases of undeserved want. Parts of the state’s obligations to the poorer sections are met through the mechanism of insurance.16

Without insurance, economic condition of the family where the bread winner dies is adversely affected, pushing it down in the society.

Insurance in this sense serves a social purpose.

16. Indian constitution of India Bharat prakashan page - 242
2.9 COMPOSITION OF INSURANCE INDUSTRY

The insurance industry mainly comprises:

- **Insurance carries:**
  Insurance carries are large companies that provide insurance and assume the risks covered by the policy.

- **Insurance Agents:**
  An insurance agent takes up an agency for selling life insurance policies, while the insurance underwriter reviews insurance applications and decides whether they should be accepted or rejected.

- **Insurance surveyors:**
  Insurance surveyors are qualified investigators deputed for the assessment of losses, according to their qualifications and experience.

- **Actuaries:**
  An actuaries determines premium rates, studies, mortality trends, constructs mortality tables and lays down underwriting standards.

- **Development officers:**
  Development officers in the sector are responsible for the sale of insurance policies in the allotted territorial jurisdiction. They recruit and train the insurance agents.
2.10 IMPOTANCE OF INSURANCE IN INDIA

An insurance sector is of vital importance to every modern economy because it encourages the savings habits; second because it provides a safety net rural and urban enterprises and productive individuals. And it generates long-term funds for infrastructure building.

This characteristics of their business makes insurance companies the biggest sectors in long-gestation infrastructure development projects in all developed and developing countries. This is the most compelling reason why private sector companies which will spread the insurance habit in the societal and consumer interest required in this vital sector of the economy.

With the nation’s infrastructure in a state of insurance collapse, India couldn’t afford to be lumbered with sub-optimally performing monopoly insurance companies and therefore the passage of the Insurance Regulatory Development Authority.

- LIBERALIZATION

The opening of Insurance sector was a part of the ongoing liberalization in the financial sector of India. With the introduction of the insurance Regulatory and Development Authority (IRDA) bill, the doors were open to the private companies into this sector. The opening up of the sector gave way to the world known names in the industry to enter the Indian market through tie-ups with the eminent business houses. Insurance which was once a quiet business is becoming one of the hottest business today.

- POST LIBERALIZATION

The changing face of financial sector and the entry of several companies in the field of Non-Life, insurance segment are one of the key results of these liberalization efforts. Insurance business by way of generating

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premium income contributes significantly to the GDP. Despite the fact that the market is vast in India for the insurance business, the coverage is far less compared with the international standards. Estimates show that only 35-40 million, out of a population of 950 million, have come under the umbrella of the Insurance industry.

The potential of market is so huge that it can grow by 15% to 17% per annum. With the entry of private players, the Indian Insurance Market may finally be able to make deeper penetration in to newer segments and market size will increase rapidly, quality of service will also improve and there will be wide range of products meeting the needs of different customers. The pace for claims settlement is also expected to improve due to increased competition.

In the general insurance market the need to build trust over time is less important than in the life market because the risk assessment systems and data that are the key to success in the general insurance market are significantly underdeveloped in India even today.

**CHANNEL OF DISTRIBUTION**

Till few years back, the only mode of distribution of insurance products was through Agents. While Agents continue to be the predominant distribution channel, today a number of innovative alternative channels are being offered to consumers. A substantial shift in the distribution of Insurance in India is expected. Worldwide, Insurance products. Move along a continuum from pure service products to pure commodity products.

Initially, insurance is seen as a complex product with a high advices and service component. Buyers prefer a face-to-face interaction and place a high premium on brand names and reliability. As products become simpler and awareness increases, they become off-the-shelf, commodity products. Seller move to remote channels such as the telephone or direct mail. Insurance is sold by various intermediaries, not necessarily insurance companies. Some of them are banc assurance, brokers, the internet and direct marketing. Banks
and finance companies will emerge as an attractive distribution channel for insurance. This trend will be led by two factors which already apply in other world markets.

First, banking insurance, fund management and other financial services will all form a set of service rather than desperate ones.

Second, banks and finance companies are being driven to increase their profitability and provide maximum value to their customers. Therefore, they are themselves looking for a range of products to distribute. Though it is too early to predict, the wide spread of bank branch network in India could lead to banc assurance emerging as a significant distribution mechanism.

Insurers in India should also explore distribution through Non-financial organization. For example, Insurance for consumer items such as refrigerators can be offered at the point of sale. This piggybacks on an exciting distribution channel and increases the likelihood of insurance sales. Alliances with manufacturers or retailers of consumers with various incentives, of which insurance can be done.
**HIERARCHICAL STRUCTURE INSURANCE COMPANY:**

AN AGENT  
↓  
AN AGENCY SALES MANAGER  
(UNIT MANAGER OR DEVELOPMENT OFFICER)  
↓  
SALES MANAGER/AREA MANAGER  
↓  
BRANCH MANAGER  
↓  
REGIONAL MANAGER  
↓  
CURRENTLY AGENCY SALES HEAD

(source form discussed with General insurance officer head branch at ahmedabad)
2.11 CLASSIFICATION OF RISK

The factor that affects the risk of the individual’s life are called “hazards”. For the purpose of underwriting, hazards have been classified into the following three categories:

- **Physical hazards**
- **Occupational hazards**
- **Moral hazards**

**Physical hazards** comprises of:

- Age
- Gender
- Build
- Physical condition
- Physical impairments
- Personal history
- Family history

**Occupational hazards** comprises of:

- Out of one’s job
- Place of work
- Environment and atmosphere at job place

**Moral hazards**:

- Intention of taking the undue advantage of insurance policy.
2.12 MOSTLY ADOPTED KINDS OF GENERAL INSURANCE

Non-Life insurance can be further classified into:

1) Property Insurance

2) Personal Insurance

3) Liability Insurance

1. Types of Property Insurance:

   A) Fire Insurance

   B) Various types of Engineering Insurance

   C) Marine Insurance, etc.

2. Personal Insurance

   A) Personal Mediclaim

   B) Group Mediclaim

   C) Personal Accident Insurance (PA)

   D) Third Party Liability Insurance

3. Liability Insurance

   A) Employers Liability Insurance

   B) Public Liability Insurance

   C) Professional Indemnity Insurance

   D) Product Liability Insurance

18. Role and Importance of Non Life Insurance, S. Chand & Company, New Delhi, 2006.
2.13 GENERAL INSURANCE DOCUMENTS

General insurance documents include the following:

1. **Proposal Form**

   Proposal form usually includes all the personal details of the client as well as the necessary instructions that pertain to the policy. All answers are to be given legibly in words. Strokes of pen or dots or dashes will not be admitted as replies. It contains a declaration at the end of stating that all the statements therein are true in every respect and that if any untrue averment be continued therein, the insurer will be entitled to declare the contract as null and void and forfeit the moneys already paid.

   The policy document also makes a reference to this declaration. This declaration makes the principle of utmost good faith operational.

2. **First Premium Receipt (FPR)**

   The FPR is the evidence that the insurance contract has begun. The FPR will state that the proposal for insurance has been accepted and that the premium has been received. It will give the particulars of the policy, such as policy number, date of commencement of risk, date of maturity, date of last payment of premium, premium amount, mode, name and address of the life assured.

3. **Policy Document**

   Policy Document is an evidence of the contract and is not the contract itself. So if policy document is lost duplicate policy can be issued. Policy Document reflects terms of contracts. It contains preamble schedule, attestation, policy conditions and privileges.
4. **Policy Clauses**

   Standardized policy documents would need some modification to bring in line with the actual terms of acceptance. Putting suitable clauses by way of endorsements on the policy can do this.

   Some clauses may be imposed at the time of underwriting itself. So as to restrict some of the benefits; some examples are: Endorsement for Extra Premium, Lien clauses, pregnancy clauses, etc. While nomination is done on the policy document itself, assignments or reassignments can be done by way of passing endorsements.

5. **Other Documents**

   During the course of policy, many situations would arise when various documents will have to be obtained.

   In case of lost policy, Indemnity Bond may be needed if sum assured is very high.

   In case of missing persons, Decree of Court would be needed.

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2.14 TERMINOLOGIES USED IN INSURANCE

Different terms are used in the theory and practice of important among them are given below

1. INSURED

The party or the individual who seeks protection against a specified task and entitled to receive payment from the insurer in the event of happening of stated event is known as insured. An insured is normally in insurance policy holder.

2. INSURER

The party who promises to pay indemnity the insured on the happening of contingency is known as insurer. The insurer is an insurance company.

3. BENEFICIARIES

The person or the party to whom the policy proceeds will be paid in the event of the death or happening of any contingency is called beneficiary.

4. CONTRACT

An agreement binding at law between two or more parties is called contract.

5. PREMIUM

The amount which is paid to the insurer by the insured in consideration to insurance contract is known as premium. It may be paid on monthly, quarterly, half yearly, yearly or as agreed upon it is the price for an insurance policy.

6. INSURED SUM

The sum for which the risk is insured is called the insured sum, or the policy money or the face value of the policy. This is the maximum liability of the insurer towards the insured.

7. EXCEPTION

A peril specifically excluded from the scope of a policy is called exception.
8. PERIL
A peril is an event that cause a personal or property loss by fire, windstorm, explosion, collision premature death, sickness, floods, dishonesty etc.

9. UNDERWRITER
An insurer an official in an insurance company whose main responsibility is to accept risks.

10. HAZARD
Hazard is a condition that may creat, increase of decrease the chances of loss from a given peril.

11. EXPOSURE
An exposure is a measure of physical extent of the risk. An individual who owns a business house may be subjected to economic loss and individual loss because of his business and personal exposure.

12. CHANCE OF LOSS
It is the probable number of times in any given number of that loss will occur. The highest chance of loss is 100 percent that means the loss is certain. When the chance of loss is zero, the degree of risk is also zero.

13. ACCIDENT
An unlooked for mishap or an untoward event which is not expected or designed.

14. CASE LAW
The law which is found in the decision of law courts.

15. COMMON LAW
The law based on usage, custom and legal decisions as distinct from statute Law.
16. CONDITION
   A provision inserted in a policy to define extend or reserve rights and responsibilities.

17. COVER NOTE
   An unstamped document issued by or on behalf of insurers as evidence of insurance pending issue of policy.

18. DAMAGES
   Monetary compensation award at law for a civil wrong or breach of contract.

19. INDEMNITY
   Compensation for actual loss suffered is call indemnity.

20. REINSURANCE
   Reinsurance is a method where by the original insurer transfer all or part of risk he has assumed to another company or companies with the object of reducing his own commitment to an reducing his own commitment to an amount that he can bear for his own account commensurate with his financial resources in the event of loss. It was originally confined to offers and acceptances on individual risk known as facultative reinsurance transactions.

21. NO CLAIM BONUS
   The bonus is getting under the policy, if the claim is not reported during the policy period and after that the time renewal (in time) then as per the policy term no claim bonus is avail for the vehicle insurance policy and the rate of bonus is different in different general insurance companies, and the maximum rate should be up to 50% as per the norms.
2.15 WHAT IS CLAIM?

Claim is a natural culmination of promise made by the company at the time of entering into the contract. The promise is to pay the stipulated sum assured on the happening of insured contingency. When the contingency takes place, the insurance company can redeem its promise by paying out the claim amount.

There are three major types of claims which are as follows:

**Motor Insurance**

In case an unfortunate loss covered in the policy occurs we request you to take the following steps to get prompt service

1. Contact the policy issuing Office of United India immediately or if the accident takes place anywhere other than the City/ Town where policy issuing Office is located contact the nearest Office of United India so that survey is arranged. List of our Offices with addresses across the country with Phone Numbers are available in our Company's web site for your ready reference. Check our web site www.uiic.co.in for list of our Offices across the country

2. In case of major accidents including fire/riot losses keep the vehicle at the accident spot/ site until the spot surveyor comes to the place of accident and inspects the same. However please note that spot survey is necessary in case of accident to all commercial vehicles. Please keep the phone No. of the agent/ policy issuing Office for quick response from our side.

3. Simultaneously if there are any third party injuries/ deaths make sure to inform the nearest Police Station about the accident and also full details of injuries/ deaths or damage to any Third Party Property as the case may be. In case you provide treatment to any injured person/s in any Hospital the name of the hospital and also Doctor's Name who has given the treatment may be informed to us.
4. After completing the said formalities you may move/tow the vehicle to any authorized workshop of your choice and obtain estimate from them and the same may be submitted to us together with completed claim form (this can be obtained from any of our nearest office) for our arranging final survey. You may also please submit to the surveyor copy of the complaint lodged with the police station along with original FIR if immediately available. However in case where TP injuries are involved FIR is compulsory and the same must be submitted to the office.

5. It should be ensured that under no circumstances repair work is commenced until the final surveyor verifies the damage and gives green signal to proceed with the repairs.

6. After the repairs are carried out for partial loss claims you have to submit the cash bills for spare parts and labour and seek reimbursement if the claim is admissible.

**Fire and Engineering Insurance**

In case an unfortunate loss as covered in the policy occurs, so as to get prompt service we request you to take the following actions:

a. Immediately inform the office concerned over phone and in writing the occurrence of the claim along with the correct policy number.

b. Obtain the claim form from the office concerned, fill up the same in all respects and submit the same in our office.

c. In case the loss is very large, prompt intimation is required to send a suitable surveyor to assist you in minimizing the loss and quick settlement of claim which helps to restart the business activity. Our officer may also visit the site of loss to have a first hand information of the loss.

d. In order to help to prove your claim the surveyor or office may seek documentary evidence. You may handover photocopies of necessary documents and obtain acknowledgement.
e. Fully cooperate with the surveyors and insurance officials visiting the site of loss to examine the cause of loss, to correctly estimate the extent of loss and to work towards a quick settlement of the loss. They should be helped to take photographs of the loss and obtain statements of witnesses.

f. Necessary information, as if you are an uninsured, should be given to the local fire station, police authorities and other Civil authorities as per law and local practice. Copies of their reports should be obtained and handed over to the surveyor or office.

g. Surveyor may also be given copies of licenses, permits and certifications etc. in force to ensure that the operations are conducted as per law and as per the necessary safety standards.

h. A copy of the survey report may be handed over to you if you so wish for your record so that you are aware of the assessment made.

i. As soon as the survey report and copies of the document desired by the surveyor / insurer are complied with by you, you may keep in touch with our office for early disposal of the claim

**Health Insurance**

**FOR CASHLESS FACILITY – AVAILABLE ONLY FOR POLICIES SERVICED BY A TPA:**

a. Check if the hospital falls under the networked hospitals or not, as cashless is available only for networked hospitals.

b. For planned hospitalizations, intimations to be sent to the TPAs in advance with details of:

   Name and address of the hospital,

   c. In case of an emergency hospitalization, intimation to be sent to the TPA immediately on admission.
d. On admission, a Pre-Authorization Request for cashless is to be sent to the TPA by the hospital – duly signed by the insured and Hospital Authorities giving the details of admission, illness, proposed line of treatment and the estimated expenses.

e. Please furnish clarifications if any required by TPA.

f. On discharge from Hospital, please pay the difference of amount disallowed under the policy or limited by the sum insured.

g. Pre and post hospitalization expenses can be claimed separately after treatment. All documents in original to be submitted within 7 days to TPA, after completion of Post Hospitalization treatment.

FOR REIMBURSEMENT CLAIMS: -

a. Written intimation about hospitalisation to be sent to TPA / our office (if non TPA) immediately, and within 24 hours of hospitalisation in the case of emergency hospitalisation.

b. Before leaving the hospital, Discharge Summary, Copy of investigation report and other relevant documents may be obtained from the hospital authorities. All the documents in original to be submitted to TPA / Office within 7 days from date of discharge.

c. Documents include claim form issued by insurer, discharge summary of hospital, doctor's certificates and prescriptions, final hospital bills, laboratory and other investigation reports and bills, pharmacy bills and all related documents.

d. Pre and post hospitalization expenses can be claimed separately after treatment. All documents in original to be submitted within 7 days after completion of Post Hospitalizations treatment.

Miscellaneous Insurance:
In case an unfortunate loss as covered in the policy occurs, so as to get prompt service we request you to take the following actions:

a. Immediately inform the office concerned over phone and in writing the occurrence of the claim along with the policy number.

b. Obtain the claim form from the office concerned or the office nearest to you and fill up the same and give an estimate of the loss.

c. In case the loss is very large, prompt intimation is required to send a suitable surveyor to assist you in minimizing the loss, for quick settlement of claim and to advise you as to how best to make the claim properly and how to start up activity after the loss.

d. In order to help to prove the claim the surveyor or office may seek documentary evidence. You may hand over photocopies of necessary documents and obtain acknowledgement.

e. Kindly cooperate with the surveyors and insurance officials visiting the site of loss to examine the cause of loss, to correctly estimate the extent of loss and to work towards a quick settlement of the loss. They should be helped to take photographs of the loss and obtain statements of witnesses.

f. Necessary information as if you are an uninsured should be given to the local fire station, police authorities and other Civil authorities as per law and local practice. Copies of their reports should be obtained and handed over to the surveyor or office.

g. In case of any burglary/theft, a police F I R will have to be registered.

h. Surveyor may also be given copies of licenses, permits and certifications as are in force to establish that the operations were conducted as per law and as per the necessary safety standards.

i. A copy of the survey report may be handed over to you if you so wish for your record so that you are aware of the assessment made.
j. As soon as the survey report and copies of the document desired by the surveyor/Insurer is complied with by you, you may keep in touch with our office for early disposal of the claim.
2.16 REFERENCES

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