Chapter V

DEVELOPMENT, NATURE AND KINDS OF INSURANCE
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5.1 DEVELOPMENT

The main objective of this chapter is to make the learners understand about the development, nature and kinds of insurance.

The history of insurance can be traced back to the early civilization. As civilization progressed, the incidence of losses started increasing giving rise to the concept of loss sharing. The roots of insurance might be traced to Babylonia, where traders were encouraged to assume the risks the caravan trade through loans that were repaid (with interest) only after the goods had arrived safely - a practice resembling bottomry and given legal force in the code of Hammurabi (C. 2100 B.C.)

With the growth of towns and trade in Europe, the medieval guilds undertook to protect their members from loss by fire and shipwreck, and to provide decent burial and support in sickness and poverty. By the middle of the 14th century, as evidenced by the earliest known insurance contract (Genoa, 1347) marine insurance was practically universal among the maritime nations of Europe. In London, Lloyd’s coffee house (1688) was a place where merchants, ship owners, and underwriters met to transact business. By the end of the 18th century, Lloyd’s had progressed into one of the first modern insurance companies. In 1693, the astronomers Edmond Halley constructed the first mortality table, based on the statistical laws of mortality and compound interest. The table constructed in the
year 1756 by Joseph Dodson, made it possible to scale the premium rate to age, previously the rate had been the same for all ages.\(^2\)

Insurance developed rapidly with the growth of British trade and commerce in 17\(^{\text{th}}\) and 18\(^{\text{th}}\) centuries. Prior to the formation of insurance corporations devoted solely to the business of writing insurance, policies were signed by a number of individuals, each of who writing his name and the amount of risk he was assuming underneath the insurance proposal, hence the term underwriter.\(^3\)

The first joint stock companies to engage in insurance were established by charter in England in 1720 and in 1735.

The first insurance company in the American colonies was founded at Charleston, Later, and SC Fire Insurance Corporation was founded in New York City in 1787. The presbyterian Synod of Philadelphia was founded in 1759. This was the first life Insurance Corporation in America, for the benefit of presbyterian ministers and their dependents. After 1840, with the decline of religious prejudice against this practice, life insurance entered a boom period. In the 1830 the practice of classifying risks began. The New York fire of 1835 called attention to the need for adequate reserve to meet in expectedly large losses. Massachusetts was the first state to require companies, by law of 1837, to maintain such reserves. The great Chicago fire (1871) emphasized the costly nature of fires in structurally dense modern cities. Reinsurance, where by losses are distributed among many companies, was devised to meet such situations and is now common in other lines of insurance. The workman's compensation act, 1897, in Britain required employer’s to insure their employees against industrial accidents, public liability
insurance, fostered by legislation, made its appearance in the 1880; it attained major importance with the advent of the automobile.\textsuperscript{4}

It is submitted that analysis of above noted insurance development indicates that marine insurance is the oldest form of insurance followed by life insurance and fire insurance.

5.2 **HISTORY OF INSURANCE IN INDIA\textsuperscript{5}**

1818 Europeans started the Oriental Life Insurance Co. in Calcutta.

1870 The first Indian Insurance Company Bombay Mutual Life Insurance.

1870 The British Government enacted the Insurance Act.

1912 First Indian Insurance Act was passed with an enactment again in 1938.

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.\textsuperscript{6}

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, framed a code of conduct for ensuring fair conduct and found business practices.

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

5.3 DEVELOPMENT OF PRESENT INDIAN INSURANCE INDUSTRY

In April 1993, Government set-up a high powered committee headed by Mr. R. N. Malhotra to suggest reforms in the insurance sector and make it more efficient and competitive. The committee recommended the establishment of a strong and effective insurance regulatory authority in the form of a statutory autonomous board on the lines of SEBI. In December 1999, the insurance sector was thrown open to private sector, followed by the establishment of IRDA (Insurance Regulatory and Development Authority) in April 2000. Realizing the big potential in Indian market, companies all over the globe rushed to find a foothold in the lucrative Indian market. Development of technology and convergence of services witnessed the insurance products being offered by banks also.

It is submitted that the potential for growth of the Indian Insurance Industry can be gauged by the fact that the Indian Insurance market registered the highest growth in the Asian region even though India’s share of global insurance premium is much less as compared to developed countries like U.S., Japan, England etc.

5.4 MEANING OF INSURANCE

Insurance is a tool by which fatalities of a small number are compensated out of funds (premium payment) collected from plenteous. Insurance is a safeguard against uncertainties. Insurance is a protection against financial loss arising on the happening of an unexpected event. It is worth mentioning here that in our country, through a number of Acts of parliament, specific types of insurances are legally
enforced. For example, third party insurance under motor Vehicles Act, public liability insurance for handlers of hazardous substances under Environment Protection Act etc.

It is a well acknowledged phenomenon that there are countless risks in every sphere of life. For example, for human life there are risks of death or disability, for property, there are fire risks, for shipment of goods, there are perils of sea; and so on. The chances of happenings of these events causing losses are quite uncertain because these may or may not take place. Therefore, with this view in mind, people facing common risks come together and make their small contributions to the common fund. However, it is not possible to tell in advance, which person will suffer the loss. But it may be possible to estimate and work out that how many persons on an average out of the group may suffer losses. When risk occurs, the loss is made out of the common fund collected thereby. In this way, each and every one shares the risk. In fact, they share the loss by payment of premium, which is calculated on the likelihood of loss. The above noted notion of insurance can be made clear through following example:

**Example:** In a city, there are 5000 persons residing thereby. 4000 persons are between the ages of 20 to 60 years and are healthy & get themselves insured. It is expected that of these 30 persons may die during a year. If the economic value of the loss suffered by the family of each dying person is taken to be Rs. 50,000, the total loss would be worked out to Rs. 15,00,000. If each person of group contributes Rs. 500 a year, the common fund would be Rs. 20,00,000. This would
be enough to pay Rs. 50,000 to the family of each of the 30 dying persons. Thus the risks in cases of 30 dying persons are shared by 4000 persons.

The term 'Insurance' may be defined as a co-operative mechanism to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. The insurance is also defined as a social apparatus to accumulate funds to meet the uncertain losses arising through a certain hazard to a person insured for such hazard.

Insurance has been defined to be that in which a sum of money as a premium is paid by the insured in consideration of the insurer’s bearing the risk of paying a large sum upon a given contingency. The insurance, thus, is a contract whereby (a) certain sum, termed as premium is charged in consideration, (b) against the said consideration, a large amount is guaranteed to be paid by the insurer who received the premium, (c) the compensation will be made in a certain definite sum, i.e., the loss or the policy amount whichever may be, and (d) the payment is made only upon a contingency. More specifically, insurance may be defined as a contract where in one party (the insurer) agrees to pay to the other party (the insured) or his beneficiary, a certain sum upon a given contingency (the risk) against which insurance is required.

Insurance may be defined as a cooperative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to insure themselves against the risk. This meant that insurance provides a pool to which the many contribute a certain sum of money called the premium, and out of
which the few who suffer losses are compensated by the insurer.\textsuperscript{10}

Insurance is a contract between two parties whereby one party, insurer, undertakes, in exchange for a fixed sum called premium, to pay the other party on happening of a certain event. Insurance is a protection against a financial loss arising on the happening of an expected event. Insurance companies collect premium to provide for this protection. A loss is paid out of this premium collected from the insuring public. The insurance company acts as trustee to the amount collected through premium.\textsuperscript{11}

Insurance may be described as a social device to reduce or eliminate risk of loss to life and property. Under the plan of insurance, a large number of people associate themselves by sharing risks attached to individual. The risks, which can be insured against, include fire, the perils of sea, death, accidents and burglary. Any risk contingent upon these may be insured against at a premium commensurate with the risk involved. Thus collective bearing of risk is insurance.\textsuperscript{12}

Professor Rober Mehr and Professor Emerson Cammack have defined insurance “a social device for reducing risk by combining a sufficient number of exposure units to make these individuals losses collectively predictable. The predictable loss is then shared proportionally by all those in the combination.”\textsuperscript{13}

It is submitted that insurance cannot prevent loss of life, property or goods by death, fire or other perils. Insurance can merely provide financial compensation for the effects of misfortune. Insurance, therefore, does not protect the material property or life which is the subject–matter of the insurance, but the pecuniary
interest of the insured. It is further submitted that above noted definition's and meanings of insurance are true in the case of marine, fire and accident insurance which cover contingencies, but these do not so fully apply to life insurance where every policy becomes a claim ultimately. Hence it becomes essential to know, what is life Insurance?

5.4 (a) What is life insurance?

Life insurance is a contract for payment of a sum of money to the person assured (or failing him/her, to the person entitled to receive the same) on the happening of the event insured against. Usually the contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or at unfortunate death, if it occurs earlier. Among other things, the contract also provides for the payment of premium periodically to the corporation or insurance company by the assured.

Life insurance is universally acknowledged to be an institution which eliminates ‘risk.’ Substituting certainty for uncertainty and comes to the timely aid of the family in the unfortunate event of death of the breadwinner. By and large, Life insurance is civilization’s partial solution to the problems caused by death. Life insurance, in short, is concerned with two hazards that stand across the life – path of every person that of dying prematurely leaving a dependent family to send for itself and that of living old age without visible means of support.

It becomes pertinent to mention here that Life insurance guarantees full protection against risk of death of the assured. In case of death, full sum assured is payable. Life insurance encourages long-term saving. By paying a small premium
in easy instalments for all long period a handsome saving can be achieved. Loan can be obtained against a policy assured whenever required. Tax relief in income tax and wealth tax can be availed on the premium paid for life insurance.

5.4 (b) **What is contract of insurance?**

A Contract of insurance is a contract whereby one party undertakes, in return of a consideration called premium, to pay to the other party a certain sum of money on the happening of a certain event (death or attainment of a certain age) or to indemnify the other party against a loss arising from the risk insured (in case of property). The party which promises to pay a certain sum of money to, or to indemnify, the other party is called the insurer, and the party to whom this protection is given in exchange of premium is called the insured (or assured). The documents containing the term and conditions of the contract of insurance is called a policy, and the insured is, therefore, called a policy holder. The consideration which the insured has to pay to the insurer for the protection given to him is called premium. The amount for which a policy is issued is known as the insured amount or policy amount.

A contract of insurance is a type of contingent contract and is a perfectly valid contract. A contingent contract is a contract to do or not to do something, if some event, collateral to such contract, does or does not happen. Although a contract of insurance resembles to some extent to a wagering or gambling agreement, but in reality it is not a wagering agreement. Thus, a contract of insurance, being a contingent contract, is an absolutely valid contract. The general principles of the law of contract apply equally to such contract. As such to be a
valid contract it must fulfil the following requirements

1. There must be an agreement between the parties.
2. The agreement must be supported by consideration.
3. The parties must be capable of contracting.
4. The consent of the parties to the agreement must be, free consent, and
5. The object must not be illegal or immoral.

5.5 FUNDAMENTAL PRINCIPLES OF INSURANCE CONTRACT

There are certain fundamental principles more or less common to all classes of insurance business. These may be summarized as such;

1) UTMOST GOOD FAITH:-

The general rule of ‘caveat emptor’ (let the buyer beware) which applies to ordinary trade contracts, does not apply to insurance contracts. Insurance contracts are contracts of utmost good faith or contracts uberrimal fidei. Accordingly, it is the inherent duty of both parties to a contract of insurance to make full and fair disclosure of all material facts relating to the subject matter of the proposed insurance for example, in life insurance suffering from a disease like asthma or diabetes is a material fact where as having occasionally a headache is not a material fact.

The duty to make a full and true disclosure continues till the contract is concluded, i.e., till the proposal of the insured is accepted by the insurer, whether the policy be then issued or not, and it is not a continuing obligation.

2) INDEMNITY:-

The second fundamental principle is that all contracts of insurance are
contracts of indemnity, except those of life and personal accident insurance where no money payment can indemnify for loss of life or bodily injury.

3) **INSURABLE INTEREST:**

The insured must possess an insurable interest in the subject matter of the insurance at the time of contract, otherwise the contract of insurance will be a wagering agreement which shall be void and unenforceable. Insurable interest means some proprietary or pecuniary interest.

In the case of life insurance, insurable interest must be present only at the time of contract (i.e. when the insurance is affected). It need not be there at the time of death or when the claim is made because it is not a contract of indemnity. Thus a life insurance policy is freely assignable.

In the case of fire insurance, insurable interest must be present both at the time when the insurance is affected and at the time of loss. Being a contract of indemnity, a fire insurance policy can be assigned only to one who has acquired some interest in the subject-matter as a purchaser, mortgagee or pledgee because unless the assignee has interest at the time of loss, he cannot be indemnified.

In the case of marine insurance, insurable interest must be present at the time of the loss of subject-matter and it is not essential for the assured to have an insurable interest at the time of affecting the insurance.

4) **CAUSA PROXIMA:**

The insurer is liable only for those losses which have been proximately caused by the peril insured against. It becomes essential to mention here that although the principle of 'causa proxima' applies mostly in the case of marine and
fire insurances, it is applicable in the life insurance as well because in ‘personal accident policies’ the proximate cause of the death should be accident. In case of natural death the insurer is not liable thereon.

5) RISK MUST ATTACH:-

For a valid contract of insurance the risk must attach. If the subject –matter of insurance ceases to exist (e.g. the goods are burnt) or the insured ship has already arrived safely, at the time the policy is effected, the risk does not attach, and as a consequence, the premium paid can be recovered from the insurers because the consideration for the premium has totally failed.

6) MITIGATION OF LOSS:-

When the event insured against occurs, for example, in the case of a fire insurance policy when the fire occurs, it is the duty of the policy holder to take steps to mitigate or minimize the loss as if he was uninsured and must do his best for safeguarding the remaining property, otherwise the insurer can avoid the payment of loss attributable to his negligence. Of course, the insured is entitled to claim compensation for the loss suffered by him in taking such steps from the insurer.

7) DOCTRINE OF SUBROGATION:-

The doctrine of subrogation is a corollary to the principle of indemnity and as such applies only to fire and marine insurances. In the case of Simpson Vs. Thomson22, Lord Cairns defined subrogation thus: "a right founded on the well known principle of law that where one person has agreed to indemnify another, he will, on making good the indemnity, be entitled to succeed to all the ways and
means by which the person indemnified might have protected himself against or reimbursed himself for the loss.’’

8. **DOCTRINE OF CONTRIBUTION:-**

This doctrine applies to contracts of indemnity i.e. to fire and marine insurances. The doctrine of contribution states that in case of double insurance all insurers must share the burden of payment in proportion to the amount assured by each.

9) **TERMS OF POLICY:-**

A contract of fire insurance is for a fixed duration, usually for one year, and the liability of the insurer automatically comes to an end on the expiry of the period. A contract of marine insurances may be either for a certain period or for a particular voyage. If it is for a certain period, the liability of the insurer comes to an end after the expiry of that period even if the voyage has not yet ended. And if it is for a particular voyage, then the liability of the insurer continues till the voyage has ended even if it takes longer than a year.

A contract of life insurance is not a contract for a year only, but is a continuing contract and covers either a specified number of years or the balance of the insured's life. As a contract of life insurance covers a continuing risk, advance payment of premium every year during the whole term of policy is a condition precedent for keeping the policy in force and if the premium due is not paid within the due time plus the grace period, the policy lapses.

5.6 **NATURE OF INSURANCE**

On the basis of above noted meaning, definitions and fundamental
principles of insurance, we can observe that insurance can have following features:

(a) **RISK SHARING AND RISK TRANSFER**

Insurance is a mechanism adopted to share the financial losses that might occur to an individual or his family on the happening of a specified event. The event may be death of earning member of the family in case of life insurance, marine perils in marine insurance, fire in fire insurance and other certain events in miscellaneous insurance, e.g. theft in burglary insurance, accident in motor insurance, etc. The loss arising from these events if insured are shared by all the insured in the form of premium. Hence, risk is transferred from one individual to a group.  

(b) **CO-OPERATIVE DEVICE**

Insurance is a cooperative device under which a group of persons who agree to share the financial loss may be brought together voluntarily or through publicity or through solicitations of the agents. An insurer would be unable to compensate all the losses from his own capital. Therefore, by insuring a large number of persons, he is able to pay the amount of loss. Like all co-operative devices, there is no compulsion here on any body, to purchase the insurance policy.

(c) **RISK ASSESSMENT IN ADVANCE**

Insurance companies are risk bearers. Therefore, the risk is evaluated before insuring to charge the amount of share of an insured, herein called, consideration, or premium. The probability theory is used to evaluate the risks. Probability theory is that body of knowledge concerned with measuring the likelihood that something will happen and making estimates on the basis of this
The likelihood of an event is assigned a numerical value between 0 and 1, with those that are impossible assigned a value of 0 and those that are inevitable assigned a value of 1 the higher values are assigned to those events estimated to have a greater likelihood or probability of occurring. The compensation is made at a certain contingency insured. If the contingency occurs, payment is made.

However, in certain types of life policies, payment is not certain due to uncertainty of a particular contingency within a particular period. For example, in term insurance the payment is made only when death of the assured occurs within the specified term, may be one or two years. Similarly, in pure Endowment payment is made only at the survival of the insured at the expiry of the period.

(d) **AMOUNT OF PAYMENT**

On the occurrence of the contingency, the insurer is legally bound to make good the financial loss suffered by the insured. The amount of payment depends upon the value of loss occurred due to the particular insured risk provided insurance is there up to that amount. In life insurance, the purpose is not to make good the financial loss suffered. It is immaterial in life insurance what was the amount of loss at the time of contingency. But in the property and general insurance, the amount of loss, as well as of the happening of loss, are required to be proved.

(e) **HUGE NUMBER OF INSURED PERSONS:**

To make the insurance cheaper, it is essential to insure larger number of persons or property because the lesser would be loss of insurance and so, the lower
would be premium.  

(f) NOT TO BE CONFUSED WITH CHARITY AND GAMBLING: -

Insurance must not be confused with charity and gambling. The uncertainty is changed into certainty by insuring property and life because the insurer promises to pay a definite sum at damage, or death. In the absence of insurance the property owners could at best practice only some form of self-insurance, which may not give him absolute certainty, thus, the family is protected against losses on death and damage with the help of insurance. From the company's point of view the life insurance is essentially non-speculative; in fact, no other business operates with greater certainties. From the insured point of view, too, insurance, is also the antithesis of gambling, failure, of insurance amounts gambling because the uncertainty of loss is always looming. Insurance is not possible without premium. Charity is given without consideration. It provides security and safety to an individual and to the society although it is a kind of business because in consideration of premium it guarantees the payment of loss.

(g) INVESTMENT PORTFOLIO

Since insurers collect premiums initially and make payment later when (For Example, the insured person's death) or if (for example, an automobile accident) an insured event occurs, insurance companies maintain the initial premiums collected in an investment portfolio, which generates a return. Thus, the insurers have two sources of income, the insurance premium and the investment income, which occurs over time.

It is submitted that to understand the true nature of insurance, it also
becomes pertinent to mention here briefly the various functions of insurance;

5.7 FUNCTIONS OF INSURANCE

Insurance provides insurance policies, which are legally binding contracts for which the policy holder pays insurance premium. Under an insurance contract, insurance companies promise to pay specified sum contingent on the occurrence of future events. Based upon this, the functions of insurance may be discussed as follows:

(a) CERTAINTY:

Insurance provides certainty of payment for the risk of loss. There are different types of uncertainty in a risk. The risk will occur or not, when will occur, how much loss will be there? In other words, there are uncertainty of happening of time and amount of loss. Insurance removes all these uncertainty and the assured is given certainty of payment of loss. The insurer charges premium for providing the said certainty.

(b) RISK SHARING

When risk takes place, the loss is shared by all the persons who are exposed to the risk. The Share is obtained from each and every insured in the shape of premium without which the insurer does not guarantee protection.

(C) ASSISTS IN CAPITAL FORMATION

The insurance provides capital to the society. The accumulated funds are invested in productive channel. The scarcity of capital of the society is minimized to a greater extent with the help of investment of insurance.

(D) PREVENTION OF LOSS
The insurance companies assist financially to the health organization, fire brigade, educational institutions and other organization, which are engaged in preventing the losses of masses from death or damage. The insurance companies join hands with these institutions in preventing the loss of the society because the education in loss causes lesser payment to the assured and so more saving is possible which will assist in reducing the premium. Lesser premium invites more business and more business causes lesser share to the assured. The reduced premium will stimulate more business and more protection to the masses.

(e) RISK TRANSFER MECHANISM

The primary functions of insurance are to act as a risk transfer mechanism. Under this function of insurance, an individual can exchange his uncertainty for certainty. In return for a definite loss, which is the premium, he is relieved from the uncertainty of a potentially much larger loss. The risks themselves are not removed, but the financial consequences of some are now known with greater certainty and he can budget accordingly.\(^3\)

On the basis of above noted discussion, it is submitted that the primary function of insurance is the creation of the counter balance for risk, which is security. It can not be denied that the insurance does not eradicate or reduce the uncertainty for the individual as to whether or not the event will occur, nor does it alter the possibility of occurrence but it does decrease the extent of financial loss connected with the event.

A number of times one might think that he has wasted his money in purchasing insurance policy if loss does not occur and consequently, no financial
return are received. Some even feel that if they have not had a loss during the policy term, their premium should be returned. Both viewpoints constitute the inadequate understanding of the insurance concept. Relative to the first, it is already known that the insurance contract provides a valuable feature in the relief from the burden of uncertainty. Even if a loss is not sustained during the policy term, the insured has received something for the premium in the form of freedom from the worry of financial loss. With respect to the second, one must appreciate the fact that the operation of insurance principle is based on the contribution of the many paying the losses of the unfortunate few. If the premiums were returned to the many who did not have losses, there would be no funds available to pay for the losses of the few who did. Basically then, the insurance device is a method of loss distribution. What would be devastating loss to an individual is spread in an equitable manner to all members of the group, and it is on this basis that insurance can exist. In other words insurance meets the social commitment that every member of the society has to provide relief to those who necessitate it.

5.8 TYPES OF INSURANCE

The risks which can be insured have increased in number and extent owing to the growing complexity of the present day economic system. Insurance occupied an important place in the modern world. Insurance plays a vital role in the life of every citizen and has developed in recent times on an enormous scale leading to the evolution of many different types of insurance. In fact, now days almost any risk can be made the subject matter of contract of insurance. Even singers can now get their voice insured and dancing girls can get their legs
ensured, so that when their singing or dancing skill declines, the insurance company pays them the policy amount. As above said insurance occupies an important place in the modern world because the risk, which can be insured, have increased in number and extent owing to the growing complexity of the present day economic system. The different types of insurance have come about by practice within insurance companies, and by the influence of legislations controlling the transacting of insurance business. Generally insurance business is divided in to two main branches;

(a) **Life insurance** business.

(b) **General Insurance business.**

Broadly, Insurance may be classified in to following categories

(i) **Classification on the basis of nature of insurance.** These are as such;

(a) Life insurance

(b) Fire insurance

(c) Marine Insurance

(d) Social Insurance

(e) Miscellaneous Insurance

(ii) **Classification from business point of view:**

These are as such;

(a) Life insurance

(b) General insurance

(iii) **Classification from risk point of view:**

These may be classified as follows;
(a) Personal insurance
(b) Property insurance
(c) Liability insurance
(d) Fidelity Guarantee Insurance

5.9 CLASSES OF INSURANCE

Following are the different classes of insurance;

(a) Ordinary Life assurance

The term ordinary life assurance is being used in the insurance business to mention a particular style of doing business and is what many people recognize it as being life assurance.

(b) Term assurance

This is an oldest form of assurance. This is the simplest form of assurance. It provides for payment of the sum assured on death provided death happens within specified term.

(c) Whole life assurance

In this type of assurance the sum assured is payable on the death of the assured whenever it occurs. Premiums are payable either throughout the life of the assured or up to the age of 60 or 65

(d) Endowment Assurance

In this type of assurance the sum assured is payable in the event of death within a specified period of between 10 and 30 years.

(e) Group Life assurance

Here, employers sometimes arrange special terms for life assurance for their
employees, with the sum assured being payable in the event of death of employee during his term of service with the employer.

(f) **Key Person Insurance**

In this type of insurance Key persons insurance is a relatively, recent form of cover taken out by a company on the life of an employee who is vital to the continued profitably of the business.

(g) **Annuities**

An annuity is a method by which a person can receive a yearly sum in return for the payment to an insurance company of a sum of money. This is not a life assurance as we described it, but it is dealt with life assurance companies and is based on actuarial principles.

(h) **Industrial Life Assurance**

Originally called insurance for the masses the aim of this type of life assurance was to offer protection to those who would usually be unable to afford cover.

(i) **Disability Insurance**

There have been a number of significant developments in the market for disability insurance cover composite and specialist offices now offer a range of stand alone contracts and optional extras to life contracts.

(j) **Personal accident insurance**

The intention of the basic policy is to provide compensation in the event of an accident causing death or injury. What are termed capital sums are paid in the event of death or certain specified injuries, such as the loss of limbs or sight, as
may be defined in the policy.

(k) **Motor Insurance**

The minimum requirement by law to provide insurance in respect of legal liability to pay damages arising out of injury caused to any person. Policies with various levels of cover are available.

(l) **Marine and Transport Insurance**

Marine policies relate to three areas of risk, the hull, cargo and freight. Although hull and cargo are self explanatory, the word freight may not be: it is the sum paid for transporting goods, or for the hire of a ship.

(m) **Fire insurance**

A standard fire policy is used for many business insurances, with Lloyd's of London also issuing a standard fire policy that is slightly different in its wording. The basic intention of fire policy is to provide compensation to the insured person on the event of there being damage to the property insured.

(n) **Theft Insurance**

Theft policies have the same aim as the standard fire policy, in that they intend to provide compensation to the insured in the event of loss of the property insured.

(o) **Credit Insurance**

Traders can sustain heavy losses due to insolvency or protracted default, on the part of buyers, of their goods, and credit insurance can afford the requisite protection. For overseas trade, it may be impossible for customers to pay for goods because of the out break of war or government restrictions on remittances: this
political risk', can be recovered, along with the ordinary insolvency risk, with the export credits, guarantee department. No private insurer could bear so heavy a risk; it is one essentially for a government department.

5.10 NEW ERA FOR INSURANCE SECTOR

The liberalization of the Indian insurance sector has been the subject of much heated debate for some years. The policy makers wanted competition, development and growth of this insurance sector which is extremely essential for channelling the investments into the infrastructure sector. At the other end the policy makers had the fears that the insurance premia, which are substantial, would seep out of the country and wanted to have a cautious approach of opening for foreign participation in the sector. As one of the rate occurrences the entire debate was put on the back burner and the IRDA saw the day of the light thanks to the maturing polity emerging consensus among factions of different political parties. Though some changes and some restrictive clauses as regards to the foreign participation were included the IRDA has opened the doors for the private entry into insurance.38

It is submitted that whether the insurer is old or new, private or public expanding the market will present multitude of challenges and opportunities. However, the key issues, possible trends, opportunities and challenges that insurance sector will have still remains under the realms of the possibilities and speculations.

The insurance sector has finally been opened up for private competition. The threat of private players shaking and giving the run for incremental market
share for the public sector mammoths has been overplayed. The number of potential buyers of insurance is certainly attractive but much of the population might not be accessible. New insurers must segment the market carefully to arrive at the appropriate products and pricing. Since distribution will be a key determinant of success for all insurance companies regardless of age or ownership we can expect a total change of the distribution network. As the product move towards the mature stages of commodization (increased awareness and popularity) they could then a host of new channels like grocery stores, direct mails would emerge. Regulators must formulate strong and fair guidelines and ensure that old and new players are subject to the same rules and at the same time the government should ensure that the IRDA does not become yet another toothless tiger like TRAI.

It is worth mentioning here that IRDA has recently announced that it would not tweak its proposed guidelines on unit linked insurance products (ULIPS) even as the industry fears that the norms, to be effective from the month of September 2010, could squeeze their profits in short term. IRDA chairman J Hari Narayan told reporters on the guidelines of a FICCI event in New Delhi that, “we have considered all that (the proposed guidelines) and we do not see any need for vary from the regulations already there. We will have to balance the profits of insurance companies with what is right and proper”.

It is submitted that IRDA in June 2010 had come up with new guidelines for ULIPs under which the investments would be locked in for five years up from 3 years now. Also, the agent’s commission would be reduced and even if investors
opt out earlier, the discontinuance charges would be lower than they were before. Insurance companies are of the opinion that the capping of surrender charges and the even distribution of charges over the lock-in period of 5 years will adversely impact the profitability of companies.

The chairman of IRDA said, that “I do not think that the performance will be significantly impacted in this fiscal on next fiscal. The insurance companies would have to contain expenses to maintain revenue in the long run”.  

It is mentioned here that recently the Delhi High Court has asked IRDA to make some arrangement to provide cashless facilities to policy holders, amid the suspension of cashless treatment facility at several big hospitals by four public sector general insurer’s- New India Assurance, United India in Insurance, National Insurance and Oriental Insurance. IRDA chairman said, that the High Court given directions so we will follow the Delhi High Court’s direction to take steps on resuming cashless facility to policy holders provided by four PSU general insurers.
REFERENCES


3. Ibid

4. Ibid P 4-5

5. Supra note-1 P 304-305

6. Ibid P- 305


8. Ibid P -3


11. Supra note-2 P-2

12. Ibid.


15. Ibid P-2
Some times called as assurer (in case of life insurance) or underwriter (in case of marine insurance)

See Section 31 of Indian Contract Act.

According to section 30 of the Indian Contract Act, Wagering agreements have been declared void ab-initio.

The Principles of ‘indemnity,’ ‘Subrogation’ and ‘Contribution’ do not apply to life insurance contracts

All India General Insurance Company Vs Maheshwari, AIR (1960) Mad. 484

In the case of marine insurance, it is not essential for the assured to have an insurable interest at the time of effective the insurance but he must have insurable interest at the time of loss of the subject- matter insured (Sec-8 of the marine Insurance Act, 1963)

(1877), 3 App. Case. 279

When the same risk and the same subject matter is insured with more than one insurer, there is said to be ‘double insurance'.

Life insurance premiums may be paid annually in one lump sum or in instalments which may be half yearly, quarterly or monthly at the option of the assured

Supra note P-3

Ibid

Ibid-4
Since the life insurance contract is a contract of certainty, because the contingency of the death or the expiry of term will certainly occur, the payment is certain.

Supra note-7-P-4

In past years, tariff associations or mutual fire insurance associations were found to share the loss at cheaper rate. In order to function successfully, the insurance should be joined by a large number of persons.

Supra note-7-P-4

In fact, the insurance is just the opposite of gambling. In gambling, by bidding the person exposes himself to risk of losing, in the insurance; the insured is always opposed to risk, and will suffer loss if he is not insured.

In the early days of marine insurance, the various merchants who were having goods carried on a ship would agree to make contributions to those who may have suffered a loss during the voyage, after the loss had taken place

Supra note-9 P-7.

Orthodox British writers applied the term ‘assurance’ to life assurance and 'insurance' to other classes of insurance. But in current insurance literature, the terms assurance and insurance are interchangeably used.

General Insurance business means fire, marine or miscellaneous insurance business. See section 3(g), the general insurance business (Nationalization) Act, 1972.
Items like employer, liability insurance, crop insurance, motor vehicles insurance, and etc. fall under miscellaneous insurance business category.

Supra note-7 P 14-15.


Ibid

Ibid