CHAPTER - II

GENERAL INSURANCE
AN OVERVIEW
2.1 INSURANCE - MEANING:

Insurance is a Contract between two parties whereby one party (called the insurer) agrees to pay the other party (called an insured) a fixed sum of money on the happening of a specified contingency or event (say death or an attaining a certain age in case of human life) or to indemnify the other party from losses arising from certain specified events (in case of marine and fire insurance).

2.2 INSURANCE CONTRACT:

A contract of insurance must satisfy all the essential requirements of a contract as laid down in the law of contract. Thus, there must be a proposal and acceptance, the parties must be capable of contracting and the object must be legal. The following are the special characteristics (elements) of the contract of insurance.

(i) Offer and Acceptance: The person who wants to take up cover against particular perils offers his risk through a proposal form to the Insurance Company and it accepts the risk.
(ii) Consideration: The premium paid is the consideration and on receipt of the premium the contract comes into force.

(iii) Agreement between the parties: Both the parties should agree to the same thing in the same sense.

(iv) Capacity of the parties: Both the parties to the contract must be legally competent to enter into the contract.

(v) Legality: The object of the contract must be legal, and the contract should not violate any legal requirements.

A contract of general insurance includes all the elements of a commercial contract. In addition to the normal ingredients of a commercial contract, the general insurance contract contains the following basic principles of insurance.

2.3 BASIC PRINCIPLES OF INSURANCE

All insurance contracts are governed by the basic principles of (i) Utmost good faith (ii) Indemnity (iii) Insurable interest (iv) Subrogation and contribution (v) Proximate cause

2.3.1. UTMOST GOOD FAITH

A contract of insurance is one requiring the observance of utmost good faith. This necessity is based on the fact
that the contract of insurance transfers liability for loss from the owner of the property who knows all details of the same to the company, who agrees to indemnify the loss. It is expected, therefore, that the proposer will advise the company, everything material to a proper estimation of the risk which will enable the company to decide whether they can accept the risk, and if so, at what rate of premium. In practice, a complete proposal form is obtained from the proposer and the company relies upon information contained therein.

2.3.2 INDEMNITY

A contract of insurance is fundamentally a contract of indemnity under which only direct loss sustained as a result of the property insured being damaged or destroyed by insured peril is made good; the amount of the insured is entitled to recover is determined by the extent to which his pecuniary interest in the property has suffered there of.

2.3.3. INSURABLE INTEREST

A person who wants to insure must have insurable interest in the property to be insured. The insured must have some legal or other equitable relationship, so far as the property insured in consequence of which he is benefited by the safety or prejudiced by loss or damage.
2.3.4. SUBROGATION

By subrogation, the insured transfers his legal rights and remedies against third parties to the company, who can see the third party in the name of the insured, so that the company can extinguish or diminish their own loss. But, such an occasion would arise only when the insured had been compensated by the company for any loss or damage that he suffered, and that the same was due to the negligence of the third party.

2.3.5. CONTRIBUTION

Contribution may be defined as the right of an insurer who has paid a loss under a policy to recover a proportionate amount from other insurers who are liable for the loss.

A person is at liberty to insure his property with more than one insurance company, but he is prevented from getting more than his actual loss by way of indemnification from all the companies. The amount each insurer pays is arrived at by the formula:

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\frac{\text{Sum insured}}{\text{Total sum insured}} \times \text{Loss}
\]
2.3.6. CAUSA PROXIMA

The doctrine is based on the principles of cause and effect which states that having proved the effect and traced the cause, it is not necessary to go further. The law provides the rule - causa proxima non remote Spectator - the immediate cause not the remote or distant one should be regarded.

2.4 TYPES OF GENERAL INSURANCE POLICIES

Insurance is classified as Life Insurance and general insurance. Life insurance is the business of effecting contracts upon human life, whereas General insurance is a contract to cover risk of loss of property. The conventional classification of general insurance is as under:

(a) Fire Insurance:

This branch covers the insurance of property against risk of fire, riot, flood, earthquake, etc. This branch also includes insurance for loss of profits due to damage to property by fire or other perils.

(b) Marine Insurance:

(i) Cargo insurance: This branch deals with insurance of goods in transit by road, rail, sea or air against various
risks, such as collision, theft, sea-water damage, rain-water damage, breakage, leakage etc.

(ii) Hull Insurance: Hull insurance relates to the insurance of ocean-going steamers, motor launches, fishing vessels, etc. against such risks as fire, collision, storm, stranding, etc.

(c) ACCIDENT INSURANCE:

This branch consists of a wide variety of policies and deals with all types of insurances which are not transacted in fire or marine branches. Motor insurance, burglary insurance, fidelity guarantee insurance, personal accident and sickness insurance, public liability insurance and Workmen's compensation insurance are some of the major classes of business in this branch.

However, in modern times, general insurance is classified differently, and in order to appreciate the scope of general insurance, it is necessary that the said classification is understood clearly. The classification is as under:

a. Insurance of Person: This covers personal accident and sickness insurance
b. Insurance of Property: Buildings, motor vehicles, aircraft, steamers, boilers, machinery, furniture, fittings, cash, securities, cattle, standing crops, etc. come under the heading "property", and hence fire insurance, marine insurance, burglary insurance, engineering insurance, motor vehicle insurance, aviation, hull insurance, crop insurance and cattle insurance are the important classes of insurance falling under this classification.

c. Insurance of interest: This comprises mainly the fidelity guarantee insurance.

d. Insurance of liability: Public (third party) liability insurance, products liability insurance and professional indemnities fall under this classification.

2.5 ORIGIN OF INSURANCE

2.5.1 ORIGIN OF INSURANCE IN THE WORLD:

Insurance in the beginning emerged as a man's search for security. Insurance business was started in the fourth century by Mediterranean traders. There are evidences for insurance practices adopted by the Rhodesians in 916 B.C. However, the earliest transactions of insurance as practiced to-day can be traced to the beginning of the fourteenth
century in Northern Italy. Italian merchants who traded with India via Constantinople had to insure against risk of voyage in the Mediterranean Sea. This can be called the beginning of Marine insurance. This practice of marine insurance gradually spread northwards to the Netherlands by Europe as early as in the fifteenth century.

The birth of insurance in England took place in 1575 with the establishment of Chamber of Assurance. The Chamber played an important role in the formative period of Marine insurance in London. In 1607, the first insurance legislation was passed in order to strengthen the power of Chamber of Assurance. The early history of Marine insurance was closely linked up with Lloyds in England which was established by Edward Lloyd in 1680.

In 1720, two more companies, namely, the London Assurance and the Royal Exchange Assurance were formed under the Royal charters. These companies were dealing with Marine insurance. In 1911, the companies expanded their activities to non-marine business. To-day Lloyd is a leading insurance company at international level. Fire insurance was started in 1680 as a result of the "Great Fire" of London in 1666. Slowly other forms of insurance like the building insurance, accident insurance and Fidelity insurance were started. In
the nineteenth century new types of insurance to cover risk of Boiler explosion, insurance for engines. Electrical plants etc., was introduced. During the period employers liability insurance was also introduced. Owing to expansion of road transport, Motor vehicle insurance was introduced in 1894. Towards the end of the last century, Burglary insurance was introduced by Mercantile Accident and Guarantee Insurance Company.

This was widened gradually to include risk cover on properties, Money-in-transit and Goods-in-transit insurance and personal baggage insurance. Aviation insurance had its small beginning in 1909. This was stimulated by the world war-I. There were Group insurance companies undertaking Aviation insurance. In 1931, British Aviation Insurance Co., Limited was formed. Later several insurance companies came into existence in U.K.

The insurance market in the U.K. is highly developed to cater to the international insurance requirements. The market consists of powerful domestic insurance companies, foreign companies and Lloyd's underwriters. The market is regulated and controlled by the State through the provision of the Companies Act, 1967.
2.5.2 ORIGIN OF INSURANCE IN INDIA

History of insurance can be discussed with three stages of development namely, the early period, the pre-independent period and the post-independent period.

2.5.2.1 IN EARLY STAGE

The origin of insurance dates back to Aryan civilisation in India. The Aryans insured against loss of profit in business. References to insurance practice is also available in our "Manu Dharma Shastra". It contains rules for "Sea-form" contracts which were observed by the traders who sailed to Lanka, Egypt and Greece from Broach and Surat.

2.5.2.2 PRE-INDEPENDENCE PERIOD

Insurance in the real sense started in India at the beginning of nineteenth century. A number of insurance companies were formed in Calcutta by the East India Company between 1797 and 1810. All these companies concentrated on Marine insurance. This was followed by Fire insurance introduced by The Alliance British and Foreign Fire Insurance Company in 1825 in Madras.

Following the Alliance Company, "Royal Insurance Company" appointed their agents first in Calcutta and soon after in Bombay. Most of the manufacturing companies were
held by Britishers, hence, a number of insurance companies owned by Britishers were established. Several British based insurance companies also appointed their agents in India. "Fire insurance, first grew around the commercial community in India. The early fire insurance transactions seem to be confined to the principal cities of Calcutta, Bombay and Madras".

The insurance potential of Indian market also attracted a few American officers. It was in 1907 that the Indian Mercantile Insurance Company was established with Indian Capital when the need for purely Indian Insurance company was strongly felt on political and economic grounds. At the end of the First World War, seven large Indian insurance companies were established. Competition led to severe struggle in the market controlled by international experts in the field. Government interference and investigation were inevitable. In 1935, a special officer was appointed to investigate and to report on insurance law reforms and in 1938, the Indian Insurance Act was passed and brought into force in 1939, which incorporated the principle uniform Government control to all insurers, both foreign and Indian nature. This was an important landmark in the history of insurance.

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37 Elements of Insurance, The charted Insurance institute, London, Federation of Insurance Institute, Bombay, P.305
2.5.2.3 POST - INDEPENDENCE PERIOD:

The partition of the country in 1947 posed its own problems for the insurance industry. The cotton, wheat & jute growing territories of the Punjab, North-West Frontier province, Sind and Bengal were a highly developed market for fire insurance. The movement of population from this area, particularly of the business community affected the insurance business.

The period from 1951 onwards was marked by a rapid development of insurance business made possible by the large scale economic development through the five year plan and increasing insurance consciousness among the people.

All insurers, Indian as well as foreign, operating in India formed the India Reinsurance corporation, 1956, to provide reinsurance cover. From 1957, Principal agents ceased to exist, and only ordinary agents were permitted in view of the amendment of Insurance Act, 1938. The General Insurance Council also constituted the Tariff Committee to control and regulate rates, terms and conditions of General insurance business. The Tariff Advisory Committee operated with the Regional Committees and constituted sub-committees for fire, marine and miscellaneous general insurance.
2.5.2.4 NATIONALISATION:

"On the eve of nationalisation there were 63 Indian companies and 44 Foreign companies operating in India. The gross total premium was then Rs.1048 million". The companies mostly catered for the insurance needs of urban population.

On 13th May 1971, the Government of India took over the management of 107 units of General insurance companies and established the General Insurance Corporation of India for carrying on the business of general insurance with effect from 1st January 1973. The 107 insurers were merged under any one of the four subsidiaries of the General insurance corporation of India Ltd., viz.,

National Insurance Company Ltd.,
The New India Assurance Company Ltd.,
The Oriental Insurance Company Ltd., and
United India Insurance Company Ltd.,

All the four companies are 100% subsidiaries of General Insurance Corporation of India. The prime objective of nationalisation was making general insurance to get shifted as a city culture and to reach even the hands of rural mass.

The four nationalised companies do direct insurance business with every company having its Regional offices, Divisional offices and branch offices throughout the country. The G.I.C. does not write direct insurance on its own except for the insurance covers for the state owned airlines.

The General Insurance Corporation of India is functioning under the Ministry of Finance, Department of Economic Affairs and in consultation with the ministry, formulates the operating policy of the four companies and gives necessary guidelines to the subsidiaries for all financial matters including investment of funds.

The Indian Insurance operates through branches or agencies or local companies in thirtyone countries of the World spread over South East Asia, Middle East, Africa, Europe, North America and the Caribbean.

2.6. CURRENT PICTURE

OFFICE NETWORK:

The General insurance industry has representation in all the districts of the country through either a Divisional office or a Branch office. The expansion of Regional offices, Divisional offices and Branch offices all over India and the study area are given below.
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**BUSINESS:**

The total premium income of the General insurance industry, both domestic and foreign, increased to Rs.4070 crores for the year 1992/93 from Rs.3503 crores in the previous year.

**PROFITS:**

The industry posted a record pre tax profit of Rs.779 crores in 1992/93 as against Rs.669 crores during 1991/92. Profit after tax was higher at Rs.503 crores from Rs.428 crores in the previous year. The investment income of the industry was also higher at Rs.915 crores in 1992/93 as against Rs.809 crores in 1991/92.

**INVESTMENTS:**

The investment portfolio of the industry grew from Rs.6109 crores in 1991/92 to Rs.7359 crores in 1992/93. 70%
of accretions are deployed in socially-oriented schemes as per Government guidelines.

HUMAN RESOURCES:

The total number of employees in the General insurance industry has risen from 27033 in 1975 to 83030 in 1993.

Marketing personnel consists of Agents (Full-time/part time), who work on commission basis and Development Officers, who are full time paid employees.

CONTRIBUTION TO THE EXCHEQUER:

The industry has made contribution to the nation's exchequer to the tune of Rs.303 crores, i.e., Rs.276 crores income tax and Rs.27 crores dividend to Central Government. Corporation has maintained dividend at 25% for the year 1992/93.

FINANCIAL STRENGTH:

The paid-up capital and free reserves have increased to Rs.2646 crores as against Rs.2212 crores in the previous year thereby further strengthening the financial base of the industry.
CUSTOMER SERVICE:

The industry continued to make efforts for improving standards of service to customers. During the year 1992/93 the industry has been able to attain claims settlement ratio of 74.1% and documentation ratio of 90.1%. Grievance disposal ratio of 78.4% was obtained bringing down the number of grievances pending disposal at the end of the year.

The industry has been actively settling motor third party claims through Lok Adulats. Settlement of 20,447 MACT cases involving an amount of Rs.109.28 crores was made through 753 Lok Adulats held throughout the country during the year.

Altogether, the industry issued more than 250 lakhs policy documents during the year and settled 18.55 lakhs claims involving payment of Rs.2212 crores during the financial year.

HRD efforts in the industry during 1992/93 were primarily directed to cultivate a new climate so as to improve the Work culture and accountability in the industry and also inculcate commitment and involvement amongst all the employees. It is hoped that this would lead to significant improvement in the quality of customer service.
FOREIGN OPERATIONS :

In line with recent trends of globalisation GIC further extended their frontiers by incorporating a fully owned subsidiary company in U.K. as a private limited company on 23rd November 1992 which will enable GIC to have a presence in the large insurance market within EEC.

THRUST ON RURAL BUSINESS :

In rural insurance business the industry recorded growth better than in the previous year, as a result of intensive campaigning to popularise personal insurance policies such as householders comprehensive, personal accident policy, shopkeepers policy and other rural insurance schemes covering agricultural pumpsets, cattle, fisheries etc.,