CHAPTER - I

INTRODUCTION AND DESIGN OF STUDY
CHAPTER - I

INTRODUCTION AND DESIGN OF STUDY

1.1 INTRODUCTION

Insurance is a tool which facilitates a small number of members are compensated out of funds (Premium Payment) collected from plenteous. Insurance companies pay back for financial losses arising out of occurrence of insured events e.g., in personal accident policy death due to accident, in fire policy the insured events are fire and other allied perils like riot and strike, explosion, etc. Hence, insurance is a safe guard against uncertainties. It provides financial recompense for losses suffered due to incidence of unanticipated events, insured within policy of insurance. Moreover, through a number, of Acts of Parliament, specific types of insurance are legally enforced in our country, e.g., third party insurance under Motor Vehicles Act, public liability insurance for handlers of hazardous substances under Environment Protection Act etc.

Insurance, essentially in an arrangement where the losses experienced by a few are extended over several who are exposed to similar risks insurance is a protection against financial loss arising on the happening of an unexpected event. Insurance companies collect premium to provide security for the purpose. As loss is paid out of the premium collected from the insuring public and the insurance companies have standard proposal forms, which are to be filed up giving the details of insurance required and presented to insurance company. Depending upon
the answers given in proposal form insurance companies assess the risk and quote. The premium on payment of premium and acceptance there of by insurance company the insurance is affected.

1.2 MEANING OF INSURANCE

It is commonly acknowledged phenomenon that there are countless risks in every sphere of life. For property, there are fire risks, for shipment of goods, there are perils of sea, for human life there are risks of death or disability and so on.

Example

In a village, there are 250 houses, each valued at Rs.2,00,000. Every year one house gets burnt, resulting into a total loss of Rs.2,00,000. If all the 250 owners come together and contribute Rs.800 each, the common fund would be Rs.200000. This is enough to pay Rs.200000 to the owner whose house got burnt. Thus the risk of one owner is spread over 250 house owners of the village.

1.3 DEFINITION OF INSURANCE

Accordingly, 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. Risk is, in fact, an uncertainty of a financial loss.

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 insurers bearing the risk of paying a large sum upon a given contingency. The insurance, thus is a contract where by
a) Certain sum termed as premium, is charged is consideration

b) Against which, 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 is made only upon a contingency.

More specifically, insurance may be defined as a contract wherein 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.

**1.4 PRINCIPLES OF INSURANCE**

The insurance is based upon i) Principles of Co-operation and ii) Principles of Probability.

**i) Principles of Co-operation**

Insurance is a Co-operative device. If one person is providing for his own losses, it cannot be strictly an insurance because in insurance, the loss is shared by a group of persons who are willing to Co-operate. In ancient period the persons of a group were willingly sharing the loss to members of the group. They used to share the loss at the time of damage. They collected enough funds from the society and paid to the dependents of the deceased or the persons suffering property losses.

Lately, the Co-operation took another where it was agreed between the individual or the society to pay a certain sum in advance to be a member of the society. The society by accumulating the funds, guarantees
payment of certain amount at the time of loss to any members of the society.

Today all the insured give a premium to join the scheme of insurance. Thus, the insured are Co-operating to share the loss of an individual by payment of a premium in advance.

**Theory of Probability**

The loss in the shape of premium can be distributed only on the basis of theory of probability. The chances of loss are estimated in advance to affix the amount of premium with the help of this principle, the uncertainty of loss is converted into certainty. The probability tells about what are the chances of losses and what will be amount of losses.

The insurance on the basis of past experience present conditions, and future prospects, fixes the amount of premium without premium no Co-operation is possible and the premium cannot be calculated without the help of theory of probability and consequently no insurance is possible. So these two principles are the two main legs of insurance.

**1.5 OBJECTIVES OF THE STUDY**

The objectives of the study are as follows

1. To study the performance of general insurance and the review of the progress of oriental insurance company in Salem.
2. To study the role of General Insurance in India, Working results financial position, and reserves, investment income and liquidity and solvency position of the company.
3. To study the strength weaknesses of general insurance.
4. To offer suggestions for better performance
1.6 PERIOD OF STUDY

The period of study is from Feb 2004 - Jan 2005

1.7 COVERAGE OF AREA

The study covers the area of General Insurance with special reference to Oriental Insurance Company Limited in Salem

1.8 METHODOLOGY

The study is based on the secondary data which were collected from Annual reports 2002-03 Insurance Agency books, and other records, reports avail into the Salem GICO Ltd.

Further it has also been supplemented by holding discussions with Branch Manager.

1.9 ANALYSIS

The data were collected from the year 1997 – 2000 to 2003 to 2004. The main rod of analysis used in the study in percentage of increase or decreased ratio.

1.10 LIMITATIONS

The details regarding other miscellaneous items such as Burglary, Fidelity Guarantee, House Holders, Package etc., are not available till the year 2002 – 03 other investment income is not available in the Oriental Insurance Company Limited.

1.11 CHAPTERISATION

CHAPTER SCHEME

The study contains five chapters.