

CHAPTER 18

INSURANCE DOCUMENTATION

Chapter Introduction

In the insurance industry, we deal with a large number of forms, documents etc. This chapter takes us through the various documents and their importance in an insurance contract. It also gives an insight to the exact nature of each form, how to fill it and the reasons for calling specific information.

Learning Outcomes

- A. Proposal forms
- B. Acceptance of the proposal (underwriting)
- C. Prospectus
- D. Premium receipt
- E. Policy Document
- F. Conditions and Warranties
- G. Endorsements
- H. Interpretation of policies
- I. Renewal notice
- J. Anti-Money Laundering and 'Know Your Customer Guidelines

After studying this chapter, you should be able to:

- a) Explain the contents of proposal form.
- b) Describe the importance of Prospectus
- c) Explain the premium receipt and Sec 64VB of Insurance Act, 1938
- d) Explain terms and wordings in insurance policy document.
- e) Discuss policy conditions, warranties and endorsement.
- f) Appreciate why endorsements are issued.
- g) Understand how policy wordings are seen in courts of law.
- h) Appreciate why renewal notices are issued.
- i) Know what Money Laundering is and what an agent needs to do regarding Know Your Customer guidelines.

A. Proposal forms

As stated earlier, insurance is a contract which is reduced in writing to a policy. Insurance documentation is not limited to issuance of policies. As there are many intermediaries like brokers and agents who operate between them, it is possible that an insured and his insurer may never meet.

The insurance company comes to know the customer and his/her insurance needs only from the documents that are submitted by the customer. Such documents also help the insurer to understand the risk better. Thus, documentation is required for the purpose of bringing understanding and clarity between insured and insurer. There are certain documents that are customarily used in the insurance business.

The insurance agent, being the person closest to the customer, has to face the customer and clarify all doubts about the documents involved and help him/her in filling them up. Agents should understand the purpose of each document involved and the importance and relevance of information contained in the documents used in insurance.

1. Proposal forms

The first stage of documentation is basically the proposal form through which the insured informs:

- ✓ who he/she is
- ✓ what kind of insurance he/she needs
- ✓ details of what he/she wants to insure and
- ✓ for what period of time

Details would mean the monetary value of the subject matter of insurance and all **material facts** connected with the proposed insurance.

a) Risk assessment by insurer

- i. **Proposal form is to be filled in by the proposer** for furnishing all material information required by the insurer in respect of a risk, in order to enable the insurer to decide:
 - ✓ whether to accept or refuse to grant the insurance and
 - ✓ in the event of acceptance of the risk, to determine the rates, terms and conditions of the cover to be granted

Proposal form contains information which are useful for the insurance company to accept the risk offered for insurance. The principle of utmost good faith and the duty of disclosure of material information begin with the proposal form for insurance.

The duty of disclosure of material information arises prior to the inception of the policy, and continues throughout the period of insurance and even after the conclusion of the contract.

Example

In the case of Personal Accident policy, If the insured has declared in the proposal form that he does not engage in motor sports or horse riding, he has to ensure that he does not engage himself in such pursuits throughout the policy period. This is a material fact for the insurer who will be accepting the proposal based on these facts and pricing the risk accordingly.

Proposal forms are printed by insurers usually with the insurance company's name, logo, address and the class / type of insurance / product that it is used for. It is customary for insurance companies to add a printed note in the proposal form, though there is no standard format or practice in this regard.

Examples

Some examples of such notes are:

'Non-disclosure of facts material to the assessment of the risk, providing misleading information, fraud or non-co-operation by the insured will nullify the cover under the policy issued',

'The company will not be on risk until the proposal has been accepted by the Company and full premium paid'.

Declaration in the proposal form: Insurance companies usually add a declaration at the end of the proposal form to be signed by the proposer. This ensures that the insured takes the pain to fill up the form accurately and has understood the facts given therein, so that at the time of a claim there is no scope for disagreements on account of misrepresentation of facts.

This also serves to stress the main principle of utmost good faith and disclosure of all material facts on the part of the insured.

The declaration converts the common law principle of utmost good faith to a contractual duty of utmost good faith.

Standard form of declaration

The IRDAI has specified the format of the standard declaration in the health insurance proposal as under:

1. I/We hereby declare, on my behalf and on behalf of all persons proposed to be insured, that the above statements, answers and/or particulars given by me are true and complete in all respects to the best of my knowledge and that I/We am/are authorized to propose on behalf of these other persons.
2. I understand that the information provided by me will form the basis of the insurance policy, is subject to the Board approved underwriting policy of the insurance company and that the policy will come into force only after full receipt of the premium chargeable.
3. I/We further declare that I/we will notify in writing any change occurring in the occupation or general health of the life to be insured/proposer after the proposal has been submitted but before communication of the risk acceptance by the company.
4. I/We declare and consent to the company seeking medical information from any doctor or from a hospital who at any time has attended on the life to be insured/proposer or from any past or present employer concerning anything which affects the physical or mental health of the life to be assured/proposer and seeking information from any insurance company to which an application for insurance on the life to be assured/proposer has been made for the purpose of underwriting the proposal and/or claim settlement.
5. I/We authorize the company to share information pertaining to my proposal including the medical records for the sole purpose of proposal underwriting and/or claims settlement and with any Governmental and/or Regulatory authority.

b) Nature of questions in a proposal form

The number and nature of questions in a proposal form vary according to the class of insurance concerned.

In personal lines like health, personal accident and travel insurance, proposal forms are designed to get information about the proposer's health, way of life and habits, pre-existing health conditions, medical history, hereditary traits, past insurance experience etc.

Elements of a proposal

i. Proposer's name in full

The proposer should be able to identify herself unambiguously. It is important for the insurer to know with whom the contract has been entered, so that the benefits under the policy would be received only by the insured. Establishing identity is important even in cases where someone else may have acquired an interest in the risk insured (like legal heirs in case of death) and have to make a claim.

ii. Proposer's address and contact details

The reasons stated above are applicable for collecting the proposer's address and contact details as well.

iii. Proposer's profession, occupation or business

In some cases like health and personal accident insurance, the proposer's profession, occupation or business are of importance as they could have a material bearing on the risk.

Example

A delivery man of a fast-food restaurant, who has to frequently travel on motor bikes at a high speed to deliver food to his customers, may be more exposed to accidents than the accountant of the same restaurant.

iv. Details and identity of the subject matter of insurance

The proposer is required to clearly state the subject matter that is proposed for insurance.

Example

The proposer is required to state if it is:

- i. An overseas travel (by whom, when, to which country, for what purpose) or
 - ii. A person's health (with person's name, address and identification) etc. depending on the case
-

- v. **Sum insured** indicates limit of liability of the insurer under the policy and has to be indicated in all proposal forms.

Example

In case of health insurance, it could be the cost of hospital treatment, while for personal accident insurance this could be a fixed amount for loss of life, loss of a limb, or loss of sight due to an accident.

vi. Previous and present insurance

The proposer is required to inform the details about his previous insurances to the insurer. This is to understand his insurance history. In some markets there are systems by which insurers confidentially share data about the insured.

The proposer is also required to state whether any insurer had declined his proposal, imposed special conditions, required an increased premium at renewal or refused to renew or cancelled the policy.

Details of current insurance with any other insurer including the names of the insurers are also required to be disclosed. Especially in property insurance, there is a chance that insured may take policies from different insurers and when a loss happens, claim from more than one insurer. This information is required to ensure that the principle of contribution is applied so that the insured is indemnified and does not gain/profit due to multiple insurance policies for the same risk.

Further, in personal accident insurance an insurer would like to restrict the amount of coverage (sum insured) depending on the sum insured under other PA policies taken by the same insured.

vii. Loss experience

The proposer is asked to declare full details of all losses suffered by him / her, whether or not they were insured. This will give the insurer information about the subject matter of insurance and how the insured has managed the risk in the past. Underwriters can understand the risk better from such answers and decide on conducting medical examination or collecting further details.

viii. Declaration by insured

As the purpose of the proposal form is to provide all material information to the insurers, the form **includes a declaration by the insured that the answers are true and accurate and he agrees that the form shall be the basis of the insurance contract.** Any wrong answer will give the right to insurers to avoid the contract. Other sections common to all proposal forms relate to **signature, date and in some cases, the agent's recommendation.**

- ix. Where a proposal form is not used, the insurer shall record the information obtained orally or in writing, and confirm it within a period of 15 days thereof with, the proposer and incorporate the information in its policy. Where the insurer later claims that the proposer did not disclose any material information or provided misleading or false information on any matter material to the grant of a cover, the burden of proving it falls on the insurer.

It means the insurance company has a duty to record all the information received even orally, which the agent has to keep in mind by way of follow up.

Important

Given below are some of the details of proposal form for a health insurance policy:

1. The proposal form incorporates a prospectus which gives details of the cover, such as coverage, exclusions, provisions etc. The prospectus forms part of the proposal form and the proposer has to sign it as having noted its contents.
2. The proposal form collects information relating to the name, address, occupation, date of birth, sex, and relationship of each insured person with the proposer, average monthly income and income tax PAN No., name and address of the Medical Practitioner, his qualifications and registration number. Bank details of the insured are also now a days collected to make payment of claim money directly through bank transfer.
3. In addition, there are questions relating to the medical condition of the insured person. These detailed questions in the form are based on past claims experience and are to achieve proper underwriting of the risk.
4. The insured person is required to state full details if he has suffered from any of the specified diseases in the form.
5. Further, the details of any other illness or disease suffered or accident sustained are called for as follows:
 - a. Nature of illness / injury and treatment
 - b. Date of first treatment
 - c. Name and address of attending Doctor
 - d. Whether fully recovered
6. The insured person has to state any additional facts which should be disclosed to insurers and if he has any knowledge of any positive existence or presence of any illness or injury which may require medical attention.
7. The form also includes questions relating to past insurance and claims history and additional present insurance with any other insurer.

8. The special features of the declaration to be signed by the proposer must be noted.
9. The insured person agrees and authorises the insurer to seek medical information from any hospital / medical practitioner who has at any time attended or may attend concerning any illness which affects his physical or mental health.
10. The insured person confirms that he has read the prospectus forming part of the form and is willing to accept the terms and conditions.
11. The declaration includes the usual warranty regarding the truth of the statements and the proposal form as the basis of the contract.

Medical Questionnaire

In case of adverse medical history in the proposal form, the insured person has to complete a detailed questionnaire relating to diseases such as Diabetes, Hypertension, Chest pain or Coronary Insufficiency or Myocardial Infarction.

These have to be supported by a form completed by a consulting physician. This form is scrutinised by company's panel doctor, based on whose opinion, acceptance, exclusion, etc. are decided.

IRDAI has stipulated that a copy of the proposal form and the annexures thereof, have to be attached to the policy document and the same should be sent to the insured for his records.

2. Role of intermediary

The intermediary has a responsibility towards both parties i.e. insured and insurer

An agent or a broker, who acts as the intermediary between the insurance company and the insured has the responsibility to ensure all material information about the risk is provided by the insured to insurer.

IRDAI regulation provides that intermediary has responsibility towards the client.

Important

Duty of an intermediary towards prospect (client)

IRDAI regulation states that "An insurer or its agent or other intermediary shall provide all material information in respect of a proposed cover to the prospect to enable the prospect to decide on the best cover that would be in his or her interest

Where the prospect depends upon the advice of the insurer or his agent or an insurance intermediary, such a person must advise the prospect in a fair manner.

Where, for any reason, the proposal and other connected papers are not filled by the customer, a certificate may be incorporated at the end of proposal form from the customer that the contents of the form and documents have been fully explained to him and that he has fully understood the importance of the proposed contract.”

B. Acceptance of the proposal (underwriting)

We have seen that a completed proposal form broadly gives the following information:

- ✓ Details of the insured
- ✓ Details of the subject matter
- ✓ Type of cover required
- ✓ Details of the physical features both positive and negative
- ✓ Previous history of insurance and loss

In the case of a health insurance proposal, the insurer may also refer the prospective customer e.g. above 45 years of age to a doctor and/or for medical check-up. Based on the information available in the proposal and, where medical check-up has been advised, based on the medical report and the recommendation of the doctor, the insurer takes the decision. Sometimes, where the medical history is not satisfactory, an additional questionnaire to get more information is also required to be obtained from the prospective client. The insurer then decides about the rate to be applied to the risk factor and calculates the premium based on various factors, which is then conveyed to the insured.

Proposals are processed by the insurer with speed and efficiency and all decisions thereof are communicated by it in writing within a reasonable period.

Note on Underwriting and processing of proposals

As per IRDAI guidelines, the insurer has to process the proposal within 15 days' time. The agent is expected to keep track of these timelines, follow up internally and communicate with the prospect / insured as and when required by way of customer service. This entire process of scrutinizing the proposal and deciding about acceptance is known as underwriting.

Test Yourself 2

As per guidelines, an insurance company has to process an insurance proposal within _____.

- I. 7 days
 - II. 15 days
 - III. 30 days
 - IV. 45 days
-

C. Prospectus

A Prospectus is a document issued by the insurer or on its behalf to the prospective buyers of insurance. It is usually in the form of a brochure or leaflet and serves the purpose of introducing a product to such prospective buyers. Issue of prospectus is governed by the Insurance Act, 1938 as well as by Protection of Policyholders' Interest Regulations 2002 and the Health Insurance Regulations 2016 of the IRDAI.

The prospectus of any insurance product should clearly state the scope of benefits, the extent of insurance cover and explain in a clear manner the warranties, exceptions and conditions of the insurance cover.

The allowable riders (also called Add-on covers) on the product should also be clearly stated with regard to their scope of benefits. Also, the premium related to all the riders put together should not exceed 30% of the premium of the main product.

Other important information which a Prospectus should also disclose includes:

1. Any differences in covers and premium for different age groups or for different entry ages
2. Renewal terms of the policy
3. Terms of cancellation of policy under certain circumstances
4. The details of any discounts or loading applicable under different circumstances
5. The possibility of any revision or modification of the terms of the policy including the premium
6. Any incentives to reward policyholders for early entry, continued renewals, favourable claims experience etc. with the same insurer
7. A declaration that all its Health insurance policies are portable which means that these policies can be renewed with any other insurer who offers similar cover with the same benefits he would have enjoyed had he continued with the existing insurer.

Insurers of Health policies usually publish Prospectuses about their Health insurance products. The proposal form in such cases would contain a declaration that the customer has read the Prospectus and agrees to it.

D. Premium receipt

When the premium is paid by the customer to the insurer towards premium, the insurer is bound to issue a receipt. A receipt is also to be issued in case any premium is paid in advance.

Definition

Premium is the consideration or amount paid by the insured to the insurer for insuring the subject matter of insurance, under a contract of insurance.

1. Payment of Premium in Advance (Section 64 VB of Insurance Act, 1938)

As per Insurance Act, **premium is to be paid in advance, before the start of the insurance cover.** This is an important provision, which ensures that only when the premium is received by the insurance company, a valid insurance contract can be completed and the risk can be assumed by the insurance company. This section is a special feature of non-life insurance industry in India.

Important

- a) Section 64 VB of the Insurance Act-1938 provides that no insurer shall assume any risk unless and until the premium is received in advance or is guaranteed to be paid or a deposit is made in advance in the prescribed manner
- b) Where an insurance agent collects a premium on a policy of insurance on behalf of an insurer, he shall deposit with or dispatch by post to the insurer the premium so collected in full without deduction of his commission within twenty-four hours of the collection excluding bank and postal holidays.
- c) It is also provided that the risk may be assumed only from the date on which the premium has been paid in cash or by cheque.
- d) Where the premium is tendered by postal or money order or cheque sent by post, the risk may be assumed on the date on which the money order is booked or the cheque is posted as the case may be.
- e) Any refund of premium which may become due to an insured on account of the cancellation of policy or alteration in its terms and conditions or otherwise, shall be paid by the insurer directly to the insured by a crossed or order cheque or by postal / money order and a proper receipt shall be obtained by the insurer from the insured. It is the practice now a days to credit the amount directly to the Insured's bank account. Such refund shall in no case be credited to the account of the agent.

There are exceptions to the above pre-condition payment of premium, provided in the Insurance Rules 58 and 59. One is for payment in instalments in case of policies which run for more than 12 months such as life insurance policies. Others include payment through a bank guarantee in specified cases where the exact premium cannot be ascertained in advance or by debit to a Cash Deposit account maintained by the client with the insurer.

2. Method of payment of premium

Important

The premium to be paid by any person proposing to take an insurance policy or by the policyholder to an insurer may be made in any one or more of the following methods:

- a) Cash
- b) Any recognised banking negotiable instrument such as cheques, demand drafts, pay order, banker's cheques drawn on any schedule bank in India;
- c) Postal money order;
- d) Credit or debit cards;
- e) Bank guarantee or cash deposit;
- f) Internet;
- g) E-transfer
- h) Direct credits via standing instruction of proposer or the policyholder or the life insured through bank transfers;
- i) Any other method or payment as may be approved by the Authority from time to time;

As per IRDAI Regulations, in case the proposer / policyholder opts for premium payment through net banking or credit / debit card, the payment must be made only through net banking account or credit / debit card issued in the name of such proposer / policyholder.

Test Yourself 3

In case the premium payment is made by cheque, then which of the below statement will hold true?

- I. The risk may be assumed on the date on which the cheque is posted
 - II. The risk may be assumed on the date on which the cheque is deposited by the insurance company
 - III. The risk may be assumed on the date on which the cheque is received by the insurance company
 - IV. The risk may be assumed on the date on which the cheque is issued by the proposer
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E. Policy Document

Policy Document

The policy is a formal document which provides an evidence of the contract of insurance. This document has to be stamped in accordance with the provisions of the Indian Stamp Act, 1899.

IRDAI Regulations for protecting policy holder's interest specified what

A health insurance policy should contain:

- a) The name(s) and address(es) of the insured and any other person having insurable interest in the subject matter
- b) Full description of the persons or interest insured
- c) The sum insured under the policy person and/or peril wise
- d) Period of insurance
- e) Perils covered and exclusions
- f) Any excess / deductible applicable
- g) Premium payable and where the premium is provisional subject to adjustment, the basis of adjustment of premium
- h) Policy terms, conditions and warranties
- i) Action to be taken by the insured upon occurrence of a contingency likely to give rise to a claim under the policy
- j) The obligations of the insured in relation to the subject-matter of insurance upon occurrence of an event giving rise to a claim and the rights of the insurer in the circumstances
- k) Any special conditions
- l) Provision for cancellation of the policy on grounds of misrepresentation, fraud, non-disclosure of material facts or non-cooperation of the insured
- m) The address of the insurer to which all communications in respect of the policy should be sent
- n) The details of the riders, if any
- o) Details of grievance redressal mechanism and address of ombudsman

Every insurer has to inform and keep (the insured) informed periodically on the requirements to be fulfilled by the insured regarding lodging of a claim arising in terms of the policy and the procedures to be followed by him to enable the insurer to settle a claim early.

Test Yourself 4

No question here

F. Conditions and Warranties

Here, it is important to explain two important terms used in policy wordings. These are called Conditions and Warranties.

1. Conditions

A condition is a provision in an insurance contract which forms the basis of the agreement.

EXAMPLES:

- a. One of the standard conditions in most insurance policies states:
If the claim be in any respect fraudulent, or if any false declaration be made or used in support thereof or if any fraudulent means or devices are used by the Insured or any one acting on his behalf to obtain any benefit under the policy or if the loss or damage be occasioned by the wilful act, or with the connivance of the Insured, all benefits under this policy shall be forfeited.
- b. The Claim Intimation condition in a Health policy may state:
Claim must be filed within certain days from date of discharge from the Hospital. However, waiver of this Condition may be considered in extreme cases of hardship where it is proved to the satisfaction of the Company that under the circumstances in which the insured was placed it was not possible for him or any other person to give such notice or file claim within the prescribed time-limit.

A breach of condition makes the policy voidable at the option of the insurer.

2. Warranties

Warranties are used in an insurance contract to limit the liability of the insurer under certain circumstances. Insurers also include warranties in a policy to reduce the hazard. With a warranty, the insured, undertakes certain obligations that need to be complied within a certain period of time and also during the policy period and the liability of the insurer depends on the insured's compliance with these obligations. Warranties play an essential role in managing and improving the risk.

A warranty is a condition expressly stated in the policy which has to be literally complied with for validity of the contract. Warranty is not a separate document. It is part of the policy document. It is a condition precedent to (which operates prior to other terms of) the contract. It must be observed and complied with strictly and literally, whether it is material to the risk or not.

If a warranty is not fulfilled, the policy becomes voidable at the option of the insurers even when it is clearly established that the breach has not caused or

contributed to a particular loss. However, in practice, if the breach of warranty is of a purely technical nature and does not, in any way, contribute to or aggravate the loss, insurers at their discretion may process the claims according to norms and guidelines as per company policy. In such case, losses can be treated as compromise claims and settled usual for a high percentage of the claim but not for 100 percent.

A personal accident policy may have the following warranty:

It is warranted that not more than five Insured Persons should travel together in the same air conveyance at one time. The warranty may go on to say how the claims would be dealt if there is a breach of this warranty.

Test Yourself 5

Which of the below statement is correct with regards to a warranty?

- I. A warranty is a condition which is implied without being stated in the policy
 - II. A warranty is a condition expressly stated in the policy
 - III. A warranty is a condition expressly stated in the policy and communicated to the insured separately and not as part of the policy document
 - IV. If a warranty is breached, the claim can still be paid if it is not material to the risk
-

G. Endorsements

It is the practice of insurers to issue policies in a standard form; covering certain perils and excluding certain others.

Definition

If certain terms and conditions of the policy need to be changed at the time of issuance, it is done by setting out the amendments / changes through a document called endorsement.

It is attached to the policy and forms part of it. The policy and the endorsement together make up the contract. Endorsements may also be issued during the currency of the policy to record changes / amendments.

Whenever material information changes, the insured has to advise the insurance company who will take note of this and incorporate the same as part of the insurance contract through the endorsement.

Endorsements normally required under a policy relate to:

- a) Variations /changes in sum insured
- b) Change of insurable interest by way of taking of a loan and mortgaging the policy to a bank.
- c) Extension of insurance to cover additional perils / extension of policy period
- d) Change in risk, e.g. change of destinations in the case of an overseas travel policy
- e) Transfer of property to another location
- f) Cancellation of insurance
- g) Change in name or address etc.

Specimen Endorsements

For the purpose of illustration, specimen wordings of some endorsements are reproduced below:

Cancellation of policy

At the request of the insured the insurance by this Policy is hereby declared to be cancelled as from <date>. The insurance having been in force for a period over nine months, no refund is due to the Insured.

Extension of cover to additional member in the Policy

At the request of the insured, it is hereby agreed to include Miss. Ratna Mistry, daughter of the insured and aged 5 years with a sum insured of Rs. 3 lakhs in the policy with effect from <date>.

In consideration, thereof an additional premium of Rs..... is hereby charged to the insured.

Test Yourself 6

If certain terms and conditions of the policy need to be modified at the time of issuance, it is done by setting out the amendments through _____.

- I. Warranty
 - II. Endorsement
 - III. Alteration
 - IV. Modifications are not possible
-

H. Interpretation of policies

Contracts of insurance are expressed in writing and the insurance policy wordings are drafted by insurers. These policies have to be interpreted according to certain well-defined rules of construction or interpretation which have been established by various courts. **The most important rule of construction is that the intention of the parties must prevail and this intention is to be looked for in the policy itself.** If the policy is issued in an ambiguous manner, it will be interpreted by the courts in favour of the insured and against the insurer on the general principle that the policy was drafted by the insurer.

Policy wordings are understood and interpreted as per the following rules:

- a) An express or written condition overrides an implied condition except where there is inconsistency in doing so.
- b) In the event of a contradiction in terms between the standard printed policy form and the typed or handwritten parts, the typed or handwritten part is deemed to express the intention of the parties in the particular contract, and their meaning will overrule those of the original printed words.
- c) If an endorsement contradicts other parts of the contract the meaning of the endorsement will prevail as it is the later document.
- d) Clauses in italics over-ride the ordinary printed wording where they are inconsistent.
- e) Clauses printed or typed in the margin of the policy are to be given more importance than the wording within the body of the policy.
- f) Clauses attached or pasted to the policy override both marginal clauses and the clauses in the body of the policy.
- g) Printed wording is over-ridden by typewritten wording or wording impressed by an inked rubber stamp.
- h) Handwriting takes precedence over typed or stamped wording.
- i) Finally, the ordinary rules of grammar and punctuation are applied if there is any ambiguity or lack of clarity.

Important

1. Construction of policies

An insurance policy is proof of a commercial contract and the general rules of construction and interpretation adopted by courts apply to insurance contracts as in the case of other contracts.

The principal rule of construction is that the intention of the parties of the contract is most important. That intention must be gathered from the policy document itself and the proposal form, clauses, endorsements, warranties etc. attached to it and forming a part of the contract.

2. Meaning of wordings

The words used are to be construed in their ordinary and popular sense. **The meaning to be used for words is the meaning that the ordinary man in the street would construe.**

On the other hand, **words which have a common business or trade meaning will be construed with that meaning unless the context of the sentence indicates otherwise.** Where words are defined by laws, the meaning of that definition will be used as per laws.

Many words used in insurance policies have been the subject of previous legal decisions which will be ordinarily applied. Again, the decisions of a higher court will be binding on a lower court decision. Technical terms must always be given their technical meaning, unless there is an indication to the contrary.

I. Renewal Notice

Most of the non-life insurance policies are issued on annual basis.

There is no legal obligation on the part of insurers to advise the insured that his policy is due to expire on a particular date. However, as a matter of courtesy and healthy business practice, insurers issue a renewal notice in advance of the date of expiry, inviting renewal of the policy. The notice shows all the relevant particulars of the policy such as sum insured, the annual premium, etc. It is also the practice to include a note advising the insured that he should intimate any material alterations in the risk.

The insured's attention is also to be invited to the statutory provision that no risk can be assumed unless the premium is paid in advance.

Test Yourself 7

Which of the below statement is correct with regards to renewal notice?

- I. As per regulations there is a legal obligation on insurers to send a renewal notice to insured, 30 days before the expiry of the policy
 - II. As per regulations there is a legal obligation on insurers to send a renewal notice to insured, 15 days before the expiry of the policy
 - III. As per regulations there is a legal obligation on insurers to send a renewal notice to insured, 7 days before the expiry of the policy
 - IV. As per regulations there is no legal obligation on insurers to send a renewal notice to insured before the expiry of the policy
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J. Anti-Money Laundering and Know Your Customer Guidelines

Criminals obtain funds through their illegal activities but seek to pass it on as legal money by a process called money laundering.

Money Laundering is the process by which criminals transfer funds to conceal the true origin and ownership of the proceeds of criminal activities. By this process, money can lose its criminal identity and appear valid.

Criminals attempt to use financial services, including banks and insurance, to launder their money. They make transactions by using false identities, for example, by purchasing some form of insurance and then managing to withdraw that money and then disappearing once their purpose is served.

Steps to prevent such attempts at money laundering have been receiving efforts at government levels world-wide, including India.

The legislation of Prevention of Money Laundering Act was enacted by the government in 2002. The Anti-Money Laundering guidelines issued by IRDAI soon after have indicated suitable measures to determine the true identity of customers requesting for insurance services, reporting of suspicious transactions and proper record keeping of cases involving or suspected of involving money laundering.

According to the Know Your Customer guidelines, every customer needs to be properly identified by collection of the following documents:

1. Address verification
2. Recent photograph
3. Financial status
4. Purpose of insurance contract

The agent is therefore required to collect documents at the time of bringing in business to establish the identity of customers:

1. In case of Individuals - Collect full name, address, contact numbers of insured with ID and address proof, PAN number and full bank details for NEFT purposes
2. In case of corporates - collect Certificate of Incorporation, Memorandum and Articles of Association, Power of Attorney to transact the business, copy of PAN card
3. In case of Partnership firms - Collect Registration certificate (if registered), Partnership deed, Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf, Proof of identity of such person
4. In case of Trusts and foundations - similar to that of partnership

It is important to note here that such information also helps in cross-selling of products and is a helpful marketing tool.

Summary

- a) The first stage of documentation is the proposal form through which the insured informs about herself and what insurance she needs
- b) The duty of disclosure of material information arises prior to the inception of the policy, and continues throughout the policy period
- c) Insurance companies usually add a declaration at the end of the Proposal form to be signed by the proposer.
- d) Elements of a proposal form usually include:
 - i. Proposer's name in full
 - ii. Proposer's address and contact details
 - iii. Bank details in case of health policies
 - iv. Proposer's profession, occupation or business
 - v. Details and identity of the subject matter of insurance
 - vi. Sum insured
 - vii. Previous and present insurance
 - viii. Loss experience
 - ix. Declaration by the insured
- e) An agent, who acts as the intermediary, has the responsibility to ensure all material information about the risk is provided by the insured to insurer.
- f) The process of scrutinising the proposal and deciding about acceptance is known as underwriting.
- g) In health policies, a Prospectus is also provided to the insured and he has to declare in the proposal that he has read and understood it
- h) Premium is the consideration or amount paid by the insured to the insurer for insuring the subject matter of insurance, under a contract of insurance.
- i) Payment of premium can be made by cash, any recognised banking negotiable instrument, postal money order, credit or debit card, internet, e-transfer, direct credit or any other method approved by authority from time to time.
- j) A certificate of insurance provides proof of insurance in cases where it may be required
- k) The policy is a formal document which provides an evidence of the contract of insurance.
- l) A warranty is a condition expressly stated in the policy which has to be literally complied with for validity of the contract.

- m) If certain terms and conditions of the policy need to be modified at the time of issuance, it is done by setting out the amendments / changes through a document called endorsement.
 - n) The most important rule of construction is that the intention of the parties must prevail and this intention is to be looked for in the policy itself.
 - o) Money Laundering means converting money obtained through criminal means to legal money and laws to fight this have been introduced worldwide and in India
 - p) An agent has a responsibility to follow the Know Your Customer guidelines and obtain documents as required by these guidelines.
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Key Terms

- a) Policy form
 - b) Advance payment of premium
 - c) Certificate of Insurance
 - d) Renewal notice
 - e) Warranty
 - f) Condition
 - g) Endorsement
 - h) Money Laundering
 - i) Know Your Customer
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CHAPTER 19

HEALTH INSURANCE PRODUCTS

Chapter Introduction

This chapter will give you an overall insight into the various health insurance products offered by insurance companies in India. From just one product - Mediclaim to hundreds of products of different kinds, the customer has a wide range to choose appropriate cover. The chapter explains the features of various health products that can cover individuals, family and group.

Learning Outcomes

- A. Classification of health insurance products
- B. IRDA guidelines on Standardization in health insurance
- C. Hospitalization indemnity product
- D. Top-up covers or high deductible insurance plans
- E. Senior citizen policy
- F. Fixed benefit covers - Hospital cash, critical illness
- G. Long term care product
- H. Combi-products
- I. Package policies
- J. Micro insurance and health insurance for poorer sections
- K. Rashtriya Swasthya Bima Yojana
- L. Pradhan Mantri Suraksha Bima Yojana
- M. Pradhan Mantri Jan Dhan Yojana
- N. Personal accident and disability cover
- O. Overseas travel insurance
- P. Group health cover
- Q. Special products
- R. Key terms in health policies

After studying this chapter, you should be able to:

- a) Explain the various classes of health insurance
- b) Describe the IRDAI guidelines on standardization in health insurance
- c) Discuss the various types of health products available in the Indian market today
- d) Explain Personal Accident insurance
- e) Discuss overseas travel insurance
- f) Understand key terms and clauses in health policies