INTRODUCTION

WELCOME

Dear POS student,

Welcome you to on-line learning course on POINT OF SALES Person course which has been introduced by IRDAI (Insurance Regulatory Authority of India) the insurance regulator.

IRDAI has introduced this distribution channel especially with a view to give boost to insurance business & to increase the penetration as much as possible with less of hassle.

With this in view IRDAI decided to open a new distribution channel named Point of Sales Person to cater the insuring persons.

Initially this channel was to undergo 25 hours online training to be services by NEILIT and they were totally responsible to train online and also to take test and issue certificate. Interested persons were finding difficult in registering & training & then exam.

IRDAI decided this year, keeping in view the difficulties and provide this training from various sources IRDAI decided to pass on this responsibility to insurers as well as intermediaries who will select them for their entity.

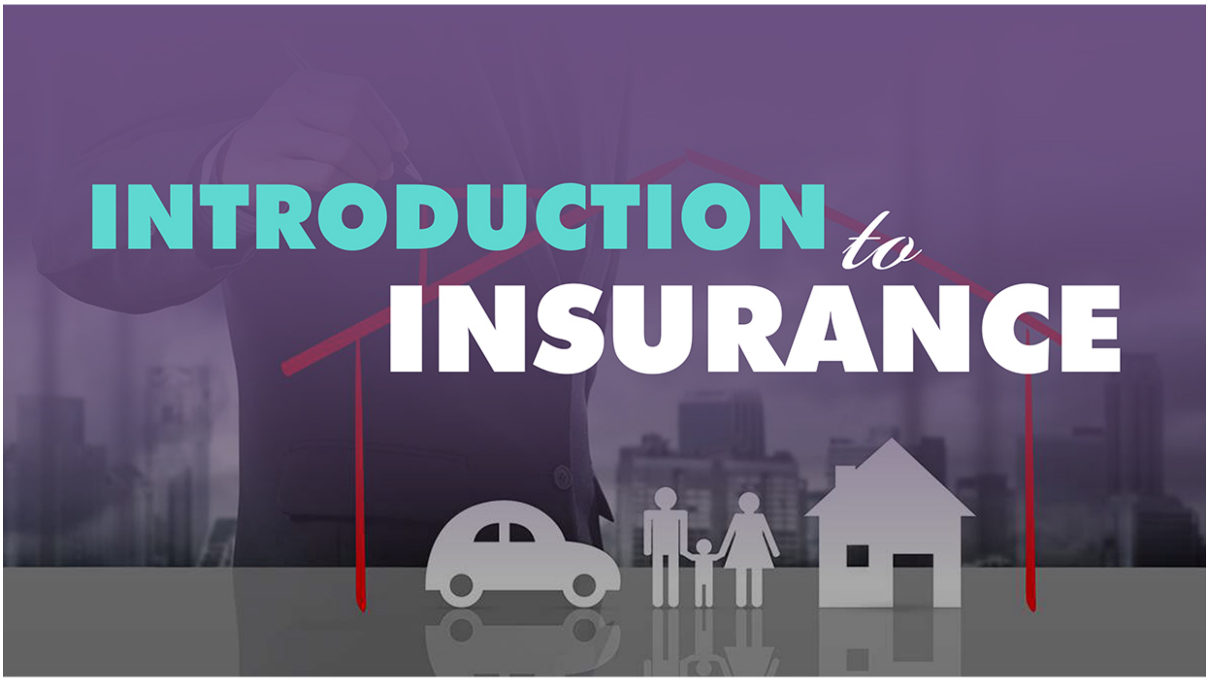
Now it's the responsibility of insurer/intermediaries to provide such facility & now they are to arrange training & examine them by taking the test after completion of 15 hours of training by them.

The qualification is only 10th pass & after 15 hours of training the participant to appear for the test of 45 minutes answering objective type of questions. Each question carry 2 marks and the participant has to attend all the 30 questions compulsorily. There is no negative marking.

Participant has a choice select the stream either life or nonlife and on passing he will work with the same sponsoring insurer or intermediary and place business to respective sponsored company. He will be signing the standard format letter to work & no sooner one decide to leave them training certificate is no more valid and he will have to take NOC from current sponsor & undergo again 15 hours training on behalf of new sponsor & pass exam.

IRDAI circular letters and performa letter is available for your information.

Best of luck and good career & good income in years to come.



Chapter 1

WHAT IS INSURANCE?

Insurance may be defined as the transfer of risk from the insured to the insurer.

The insured is the person (or firm or company) confronted by risk, who transfers the risk to the insurance company, which specialize in the assumption of risk and accepts the risk.

- The insurer accepts the risk for a fee called the “PREMIUM”.
- The insurer assesses the loss and ‘underwrites’ the risk for a “PREMIUM”.

Insurance as a security is the need of all human beings.

Man is afraid of uncertainty, fears and death. Although it is a reality, that one day each one will die; early or later, timely or untimely is the question, which has no answer.

- Man is afraid of risk & losses in future.
- Man is ever in search of security & certainty.

In early history man lived in a joint family, groups and communities to be secure.

At the earlier days, whenever an earning member would die due to disease or death, the other member of the social group (or family or clan) would contribute to bail the survivors in the family out of financial difficulties. This contribution was in the shape of food-clothing and shelter.

Later, as commercial considerations grew stronger and stronger; nucleus family growth became a common practice, and these contributions and sharing started becoming individualistic.

The ‘assurances’ which were earlier, a common practice became rare.

This is the concept of growth of Insurance.

CONCEPT OF INSURANCE

Basic concept of insurance business is protection of economic value of asset. Every asset has a value. If some asset is damaged or destroyed, the owner suffers the monitory loss. If insured insurance company pays for the loss, the extent of loss suffered by the subject is limited. Losses of unfortunate few are shared by and spread over to many exposed to the same risk.

The asset whichever is purchased or created is for the purpose of its expectation of future needs/benefits.

Loss of assets by any reason deprives the owner of the expected benefit.

Insurance helps to reduce the adverse consequences due to loss of assets.

For example a cow is purchased: milk is sold in the market and income is generated. Factory is established to produce goods and sell them and funds are generated. Another example is that of a motorcar if purchased for personal use it only provides comfort and convenience to the owner in his day-to-day requirement in normal life and there is no monitory gain rather its value reduces due to use. In case if the same car is purchased to be used as a taxi, it generates income for the owner and he gains.

Every asset has a limited life and during that time it performs to the expectation of the owner. Knowing this well, the owner keeps a provision to replace the same when the asset is not functioning satisfactorily.

But in case of early destruction or non-functioning of the asset, because of an accident or fire or any other unfortunate event the owner is deprived and suffers financially. Insurance is a method, which helps to reduce such adverse consequences.

The concept of insurance is that people exposed to the same risk pool money, and all of them share the loss suffered by a few. The insurance companies play the role of implementing the said concept collect in advance the shares in the shape of premiums and create a fund out of which the losses of few are paid.

Following example shows how insurance concept actually works.

Example :
There are 1000 motorcycles all valued at Rs. 50000/-. It is expected that out of these 10 motorcycles either are stolen or total loss during the year. The loss of each person is Rs.50, 000/-, the total loss would be Rs.5, 00,000/-. If each motorcycle owner contributes Rs.500/- the common fund would be Rs.5, 00,000/-. This would be enough to pay Rs.50, 000/- to each of the 10 owner of the motorcycle. Thus 1000 persons share the risk in case of 10 motorcycle owners.

Purpose & need of Insurance

Assets are likely to be destroyed or made non-functional due to perils like fire, floods, breakdowns, lightning and earthquake etc. Every asset is exposed to risk means possibility of loss or damage, which may or may not happen. This is because of uncertainty about the risk that insurance plays the role. Insurance becomes relevant only if there are uncertainties of occurrence of event leading to loss.

No uncertainty – No Insurance.

An asset generates income, which can be lost on early destruction due to accident. Insurance does not protect the assets but only compensates the insured by way of payment of claim.

Basically insurance covers tangible assets but in itself it is intangible product.

People are exposed to risks the consequences of which are difficult to be borne by individual.

CONCEPT OF RISK

Risk involves the chance an investment's actual return will differ from the expected return. Risk includes the possibility of losing some or all of the original investment. Different versions of risk are usually measured by calculating the standard deviation of the historical risks.

A probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through pre-emptive action.

What is hazard?

A hazard is a situation that poses a level of threat to life, health, property, or environment. Hazards can be dormant or potential, with only a theoretical risk of harm; however, once a hazard becomes "active", it can create an emergency.
A hazardous situation that has come to pass is called an incident.

Types of hazard

Hazards are generally labelled as one of five types.

Physical hazards are conditions or situations that are concerned with subject matter of insurance i.e. building, machinery or human being. The description of the same helps insurer to decide the rates to be charged. Physical hazards can be both natural and human made elements.
Chemical hazards are substances that can cause harm or damage to the body, property or the environment.

Moral Hazard relates to the human beings approach towards the insured property whether he cares for the same “Prudent as if uninsured”, if not then his moral hazard is not good and cause loss to insured property of its own to have more amount at the time of loss.
Morale hazard is not like moral hazard but his indifferent attitude towards the insured property which may cause loss without the instinct of dishonesty. It can be said moral hazard is act of dishonesty whereas morale hazard is indifferent intention with no intention to put insurer to loss.

What is Peril?

Peril is the cause of loss which is essentially important as most of the general insurance policies are not issuing comprehensive policies which cover all the risk/ cause of losses. There are so many exclusions/ conditions which deprives the insured of getting the loss.

Nature of Perils

The perils relevant to an insurance claim can be classified under three headings:

Insured perils: Those named in the policy as insured e.g. fire, lightening, storm and theft;
Excepted or excluded perils: Those stated in the policy as excluded either as causes of insured perils e.g. riot, earthquake or war or a result of insured perils e.g. certain type of explosion;
Uninsured or other perils: Those perils not mentioned in the policy at all. Smoke and water may not be excluded nor mentioned as insured in a fire policy.

2. HOW INSURANCE WORKS?

Theory of probability :
Let us assume that a particular city has a population of 1 lakh.

In the city, on an average in a year 10000 are affected by way:

- 200 people die in accident
- 800 people get injured and disabled,
- 2000 die natural death,
- 7000 die of disease

This data as per statistic is certain.

Then what is uncertain?
Uncertainty is as to who will die or get disabled during day-to-day high-risk prone fast life.
Though the number of deaths, accidents etc. is known,
What is not known is the name, age, time, place and of the 'PERSONS'.
If it is known that 200 persons are prone to accidental death in a year, it is not known which 200 individuals?
Due to this certainty, that 10000 peoples will die in an accident, or get injured and disabled or die natural death or die of disease; all 1 lakh people will fear.

- Accident

- Possibility of injury or death and its consequences to varying degree as per their age, behaviour, nature of work, environment hazards and many other factors. Grownups and breadwinners may fear more and dependents may fear less.

If in a city of 1 lakh houses & shops, there are about 1000 thefts every year, though some particular 1000 people are affected by the theft, all other (may be more than 90000) will fear theft, and will like some solution to this problem.

"Many would contribute to mitigate losses of a few".
This method of sharing losses of a few by many is the basis or core philosophy of insurance.

3. PURPOSE OF INSURANCE

Every human being has fear in his mind.

- The fear whether he will be also to meet the basic needs of the life i.e. Food, clothing and Housing (Roti, Kapda and Makkan).
- He has fear not only for himself but also for his dependents.
- The source of income to meet his basis needs may be through service or business.
- If he has able to meet his basis needs then he acquires the assets i.e. vehicles, property or jewellery etc.
- Then he gets additional fear of saving the assets from destruction. (The assets may be destroyed through accident, fire or earthquake etc. and the income may be cut off due to certainty i.e. old age and death or uncertainty i e. accident, illness or disability.)

- As you know, the old age and death is certain for every human being while the accident, illness, disability and destruction of assets may be by random.
- The number of accidents will take place but with whom is uncertain.

Therefore, to overcome these problems, **the Insurance plays a very important role.** The principal source of income of an individual comes from the compensation for work performed by him. If this source of income gets cut off then: ---

Family will make social and economic adjustments like:

- Wife may take employment at the cost of home making responsibilities
- Children may have to go for work at the cost of education.
- Family members might have to accept charity from relatives, friends etc. at the cost of their independence and self-respect.
- Family standard of living might have to be reduced to a level below the essentials for health and happiness.

4. NATURE OF INSURANCE

The basic threats which all of us may encounter to varied extent and which result in cut off of income or sudden increase in uncalled for expenses (beyond our means or higher than our earnings) i.e. dislocates the human life, are:-

- Illness (malnutrition, environment, chronic) – uncertain
- Accident (uncertain)
- Disability – Permanent or temporary (uncertain)
- Old age- (certain)
- Death – (certain)

5. NEED OF INSURANCE

To provide Security and Safety

- In general Insurance, the property can be insured against any contingency i.e. fire, earthquake etc.
- The uncertainty due to fire, accident, death, illness, disability in the human life, is compensated financially by general insurance.

- Insurance is the only way to assist and provide adequate cover at the time of sufferings.
- General Insurance provides only protection to the human life and property respectively.

ROLE OF INSURER

Companies conducting insurance business are known as ‘Insurers’. Insurers bring together persons exposed to the same risk by collecting premium from them and pay compensation to those who suffer. The insurer on the lines explained in examples determines premium. Insurer’s role is that of a trustee and has to ensure that nobody takes undue advantage of the arrangement.

In a nutshell both underwriting and claim settlement are to be done with great care.

INSURANCE AS A SOCIAL SECURITY TOOL

Social security is an obligation of the state. Subject has been included in list III of the seventh schedule of the constitution of India as “Social Security and Social Insurance” and “Welfare of labour including, inter alia, liability for workmen’s compensation, etc.” Further, Article 41 of the Directive Principles of State Policy called upon the state to make provision for public assistance in the case of, inter alia, sickness and disablement and in other cases of undeserved want.

Various laws, passed by the state for this purpose involve the use of insurance, compulsory or voluntary, as a tool of social security. The Employees State Insurance Act, 1948 provides for the Employees State Insurance Corporation to pay the expenses of sickness, disability, maternity and death and for the maintenance of hospitals, dispensaries, etc. for the benefit of industrial employees and their families, who are insured persons. The scheme operates in certain industrial areas as notified by the government.

Insurers play an important role in the social security schemes sponsored by the government i.e. Solatium Fund, the Personal Accident Social Security Scheme and the Hut Insurance Scheme. The Crop Insurance Scheme (RKBY) is also of social significance.

Rural insurance schemes are designed to provide social security to the rural families. The insurance companies have introduced special insurance schemes, at subsidised rates of premium to cover cattle and other livestock for the beneficiaries of IRDP and various other government sponsored programmes and financial institutions.

Companies of their own also offer on commercial basis insurance covers, which have the objective of social security. Examples: Janata Personal Accident, Jan Arogya, Bhavishya Arogya, Raj Rajeshwari Mahila Kalyan Yojna, etc.

ROLE OF INSURANCE IN ECONOMIC DEVELOPMENT

Insurers play a vital role in mobilizing funds for economic developments of the country. Savings out of insurance fund are utilized in investments for economic growth.

Strength of insurance company lies in that of huge amount collected and pooled together. This so collected amount is called premiums. This is known as pooling of risks.

The very existence of risk that is uncertainty concerning the future is a severe handicap in economic activities. Insurance removes the fear; worry and anxiety associated this future uncertainty and thus encourages free investment of capital in business enterprises and promotes efficient use of existing resources. Thus insurance encourages commercial and industrial development and thereby contributes to a vigorous economy and increased national productivity.

These days organization of industries, commerce and trade depends on insurance, because no bank or financial institutions lend money without having insurance cover as collateral security. Insurers are closely associated with agencies and institutions engaged in fire loss prevention, cargo loss prevention, and Industrial and road safety. Insurers have established Loss Prevention Association of India with intention of creating awareness of need of loss prevention and implementing loss prevention measure in various sectors.

Before acceptance of risk, insurer arranges for the survey and inspection of the property to be insured by a qualified engineer and other experts not only to evaluate but also to suggest improvements to avoid losses, which in turn, not only reduces the rates but also reduces the loss potentials.

Insurance ranks with export trade, shipping and banking services as earner of foreign exchange to the country. Insurers are also operating in foreign countries and earning foreign exchange and represent invisible export.

Cattle and other livestock and also equipments like pump sets are rural business. Various rural schemes provide necessary financial protection against loss or damage to poor farmers and other peoples of weaker section of society.