

CHAPTER - 1

INSURANCE SECTOR AN OVERVIEW

- 1.1 INTRODUCTION
- 1.2 RISK
- 1.3 ORIGIN AND DEVELOPMENT OF INSURANCE
- 1.4 WHAT IS GENERAL INSURANCE
- 1.5 DEFINITION OF INSURANCE
- 1.6 DIFFERENCE BETWEEN ASSURANCE AND INSURANCE
- 1.7 NATURE AND CHARACTERISTIC OF INSURANCE
- 1.8 IMPORTANCE OF INSURANCE
- 1.9 FUNCTION OF INSURANCE
- 1.10 ADVANTAGES OF INSURANCE
- 1.11 TERMINOLOGIES USED IN INSURANCE
- 1.12 BASIC PRINCIPLES OF INSURANCE
- 1.13 NATURE OF INSURANCE CONTRACT
- 1.14 CLASSIFICATION OF INSURANCE
- 1.15 IMPORTANT ASPECTS OF INSURANCE BUSINESS
- 1.16 LIMITATIONS OF INSURANCE
- 1.17 GENERAL INSURANCE PUBLIC SECTOR ASSOCIATION OF INDIA (GIPSA).
- 1.18 ORGANIZATIONAL SET UP AND MANAGEMENT OF GIC.
- 1.19 FUNCTIONS OF GENERAL INSURANCE COMPANIES
- 1.20 CAPITAL OF GENERAL INSURANCE PUBLIC SECTOR COMPANIES
- 1.21 LEGAL FRAMEWORK OF INSURANCE
- 1.22 INVESTMENT MANAGEMENT OF GENERAL INSURANCE COMPANIES
- 1.23 DUTIES, POWERS AND FUNCTIONS OF THE AUTHORITY;
- 1.24 INTRODUCTION OF IRDA & ITS SALIENT FEATURES
- 1.25 MILESTONES OF INSURANCE REGULATIONS IN THE 20TH CENTURY

- 1.26 JOB /PROFESSIONAL OPPORTUNITIES
 - 1.27 GENERAL INSURANCE BUSINESS IN ABROAD
 - 1.28 INSURANCE AND SOCIAL SECURITY
 - 1.29 CLASSIFICATION OF INSURANCE COMPANIES
 - 1.30 GENERAL INSURANCE POLICY AND TAXES
 - 1.31 PRODUCTS OF GENERAL INSURANCE COMPANIES
 - 1.32 INFORMATION TECHNOLOGY AND GENERAL
INSURANCE COMPANIES
 - 1.33 OPPORTUNITIES AND CHALLENGES
- REFERENCES

1.1 INTRODUCTION

History repeats itself, but while standing at the critical juncture of a historic event we hardly try to learn from our past experiences.

What brought insurance into being was popular concern for future uncertainty. Man wanted to protect their hard earned property from uncertainty and this simple requirement was given a shape with the innovation and improvement of insurance policy. The only principle was to make good the loss. In our country, the insurance sector was nationalized with an objective – to reach the corners of this country with insurance network; mobilize a huge resources and lend our shoulders in the nation building.

With this existing monopolistic structure, we have made remarkable towards our goal, but how far into the heart of the people as individual? This question has become very relevant as we are now standing at a critical juncture. At this age of consumerism, we must look at ourselves, we must evaluate our selves, we must compare ourselves vis-à-vis a consumer.

Insurance is an idea of the people, for the people and by the people. An insurer therefore can't be advertised to a popular sentiment. Still there is a popular saying "What insurance companies give you a big print, they take away in small print." This must be a pointer towards the policy contract which is crowded with exception, exclusions, limitations, conditions and warranties and all such "if" and "while" clause. There "if" and "while" clause and sub clause when over power the so called "big print" as a policy. The objective of insurance is defeated. No one denies the necessity for limiting insurance within a known boundary, but the dominance of this limitations mustn't mar the very basic objective of insurance.

In India, the insurance policies are drafted with all these consideration. But if we look at the organisation set-up and the delegation of power, one would observe a great effort inherent in that structure itself to popularise insurance. The organisational set-up is so nicely built, that individual requirements can be meted out the grass-root level. The operating offices are empowered to issue policy, settle claims at their discretion up to limit which covers almost each and every individuals personal need. At the grass-root level a claim say up-to Rs. 1,00,000/- can be settled, but if one look at the organisational structure at the level one would find no specialist posted at that office. Who then would settle the claim? Obviously some expertise is required to

understand the essential points and take decision at that level. What we observe in most of the cases is that the executive officer manages the same with the help of surveyor. Doesn't it simply mean that these claims can be settled without much specialisation? Doesn't this imply that at that level several ideas of insurance and common sense is sufficient.

But in individual public, who has any experience of such a claim also knows the other side of this story very well. All the "ifs" and "Whiles" clauses are highlighted and the claimant is asked to prove that the ashes are from his own property. A number of times, at the operating level the formalities are so rigid and inflexible that often these are impractical and even ironic a petty betal leaf vendor is asked to submit past three years audited balance sheet.

History repeats, sticklers to formalities do no good to the theory which man formulated for his own benefits. The birth of Buddhism and Jainism is contributed mainly to the strict formalities and rituals of the "Sanatan Dharma". To quote from the Oxford History of India by V. A. Smith "At that time the religion favoured by the "Brahmanas" as depicted in the treatises called "Brahmanas" was a mechanical, lifeless character, overlaid with cumbrous ceremonials. The formalities of the irksome ritual galled man persons, while the cruelty of the numerous bloody sacrifices was repugnant to other people sought eagerly for some better path to the goal of salvation desired by all. Look at the similarity." This is inevitable when the main theory – the guiding principles is ignored to accommodate formalities and rituals.

The insurance companies have failed to win the confidence of the general public for its procedural drawbacks. The nobility of the principle insurance has enough room to accommodate all, but the priests and "the Brahmanas" of insurance restrict access. It is high time that that these Brahmanas are identified and corrected – because we can't afford to let these people imprison insurance. We must realise that bead necklaces, rosaries, triple paint on forehead or putting on ashes, pilgrimages bath in holy rivers, meditation or image worship do not purify a man as service of fellow creatures does.

Crudraksam, tulaskastham, tripundram, bhasma-dharam, yatrah snamani homes ca japa va deva – darsonam, na etc. bhunanti mayam yatha bhuta hite ratih) quoted from Religion and Culture – Dr. S. Radhakrishnan.

The good sense which brought us together and restored to insurance for our mutual well-being will surely prevail at this critical time. The air of liberalisation has

already sent a signal to the corners of this industry and a new order of thinking is gradually taking shape. “The customer is the King” principal at all will definitely serve the basic purpose of insurance. What an individual person expect from the insurance company is not very complicated risk management but simple insurance coverage to his hard-earned property at an affordable price and timely indemnification, without much cumbersome formalities. At this age of simplification – when the bankers are providing door-service, complicated comeras ask the user to click only and leave the rest to them, funds are transferred across the world in second, televisions are programmed to give the user most smoother operations-what on earth do we working with when a small and petty claim by an insured is taking months for settlement?

It is not that we are ill-equipped. Not even that we are badly staffed. It is the attitude that matters at some pockets which creates a bad impression in the market at large. Take for example, the concept of “On Account Payment”. Often this is restored to create a marketing stunt.

Why not a regular feature? The insurance companies can settle the claim on prima-facie evidence up to 75% of the estimated assessment through “On Account payment” It was a great idea keeping with the objective of insurance. But this noble idea was not implemented to boost the image of the insurance companies for long term marketing strategy. The doomsayers play their part and chocked the smooth flow of insurance benefits. This bottleneck is manifested at various points and is the mother of all the bad names-associated with the insurance companies. The insurance companies have all the ability to take the bull by its horn, but it never dare to do so. Are the insurer imprisoned by those few so called Brahmanas, the self proclaimed protector of the industry?

The time has come for the insurance industry to come out of the clutch of this forces and manifest itself at its best picture, that of a social and humane organisation striving it best to make the world a better place to live in.

With reference to above reasons, the “Researcher” has decided to go through the study of the financial efficiency of GIPSC after the liberalization policy regime in insurance sector. Thus researcher section of problem is based on this issued i.e. financial efficiency of GIPSC.

Many people surprised when they knew that the filmstar John Abraham wish to insure his body organs for Rs. 10 crore. But its not matter of surprise. Habituated

by getting the cream of premium the insurance company gets business of various products of insurance. Life insurance company gets Rs. 20,000 crore in insurance business every year, besides the private and foreign insurance companies earn premium of Rs. 12,000 crore as income by launches the other various products. Since when India led the liberalization and privatization, many foreign companies' eyes focused on Indian insurance sector. Insurance is the field in which the nationalized insurance companies used to get whole cream from the market till year of 2000. Most of Indian companies are undertaken by the government of India. But now many private companies have enter in this field.

Foreign insurance companies are in hurry to eat the cake of insurance business in India. Today insurance business has been increased at every level of the society. What types of business or industry and what types of field or there are body organs of human being can be insured. The crucial match of cricket or football is to be insured also. The beautiful eyes or hair of famous actress is to be insured as well as the famous singers insure his/her throat. The companies of communication insured their space satellite. Before one and half decade the match was to be played India v/s Australia at the Firozshah Kotla stadium in Delhi, but it was heavy rain on the first day of the match. The next and the third day it was constant heavy rain. The manager of Oriental fire and general insurance company had feared, the match would not be started, the company have to pay Rs. 25 lacks to Delhi & District cricket association. This association had made the condition to insure that if it might be rain and the match would not be played and the ground lashed without throwing any ball the insurance company have to pay Rs. 25 lacks to cricket association.

The association had to pay Rs. 16,000/- per day as a premium to the insurance company for five days, had to pay the insure such amount. Meanwhile on the fourth day the match started and Rs. 25 lacks was saved by insurance company.

But the people come to know by that news the cricket match can be insured. The one-day match and the match of Indian Premier League also all the matches are insured now.

United India Insurance Co. Ltd. the nationalized company had started to insure the cricket match in India at first. For many years life insurance company is insured many people's life insurance, except this the people did not know about any insurance. Through against theft, accident, robbery and fire or any other event can be insured. The Life Insurance Corporation which have completed the five decades

insured of Rs. 20,000 crore last years. Many insurance companies insured various insurances freely ago. But after 1973 when central government nationalized the insurance companies after that only the five insurance companies can insured officially, except Life Insurance Corporation.

The subsidiary companies of general insurance company like National Insurance Co. Ltd., United Indian Insurance Co. Ltd., New India Assurance Co. Ltd. and Oriental Insurance Co. Ltd. receive various policy in the whole country. Those insurance companies do business of Rs. 12,000/- crore per years.

Not only India but the other countries of the world get various insurances for more business. Since many years American Insurance Company insuring the insurance which is known as contract frustration insurance. If the political relations dispute with America by any country, the American companies have to suffer the big loss. It might be possible that the products have been sealed by government of foe country. To get security against such situation the American companies are insuring of big amount to protect their interest. The Indian insurance companies insure various things and strange events.

The product liabilities insurances have became very popular. When the new product launch in the market, the customer gets silent market guarantee from the manufacturer and it is for quality of product. If the product is defective and it makes loss to the consumer he/she can claims against the company. The companies get insurance to fight against such coming liabilities. The people of circus insure of artists group who show their risky arts. The system to insure is started in defense and police service profession.

The oil and Neutral Gas company also insures of sizeable amount of its projects, when there is repairing at the middle of the sea, there is huge possibility of accident occur. Some times ago when the oil-well of Bombay-hi fired the general insurance company had paid Rs. 58 crore as insurance claim. The human being get advantages of insurances and also get the insurance of livestock to get advantages of security. When the advantages of insurance reaches to the lower class level of the society, thereafter the livestock of the village have started to insure. The farmers get insurance of accidents occurs due to shock-circuit, in the case of theft of pump. The plan to insure the livestock was started in 1975 by Ex. chairman of general insurance company Mr. Gunvant Kadiya. This plan got good overwhelming from Gujarat and Punjab. Thereafter this plan has became popular in the country. It is amazing that the

illiterate, unknown, innocent farmers and milkmen of village had frauded with the government officer, in the matter regarding to insurance of livestock. Due to the improper availability of keeping record the farmers and the milkmen used to get insurance claims amount frequently on dead livestock. The duplicate certificates were presented which had been prepared by corrupted veterinary doctors of the village. In one district of the Gujarat state the amount of claims paid three times to the customer who had insured of livestock, the event had surprised the people.

Then after the insurance companies became aware by such fraud. The matter of to insure livestock or human being keeping a side, when the competition increasing among insurance companies, the competition increasing to insure the lag to satellite. Someone goes to abroad for business and suffers by any disease he/she can get the compensation of insurance for the treatment expenses. Someone can take insurance in India and travels to abroad he apply. The Indian insurance companies insure which will be boon for the small businessman and the owner of the shopkeepers now. The loss due to strike by the employees of the factory can also be insured. If the machines of factory breakdown and the production interrupts the two types of insurance claims are matured. The claims mature of machinery and for also of loss of stops production due to damage in machinery. In India the businessman get protection of insurance against communal riots. The demand has been increased of insurance ten times more after bomb-blast and the other militant activities. The neon shine board and cell-phone tower which have been shown on high rise buildings also are to be insured. To protect the small shopkeepers packaging policy can be insured, by such insure the shopkeepers get compensation against loss from all the sides. The goldsmith and jewelry businessmen can get insurance of fraudility guarantee insurance to protect their self from such type of employees who are habituated by thefts and fraud. The Lloyds of London is most famous in insurance business. Lloyds 325 years old is not a insurance company but it is a association of underwriters who are insurance entrepreneurs. This association is popular for doing wide business of insurance in the world. It is supersonic, satellite, supertanker, aircraft, the rocket or spacecraft of Russia and America or the superstar of the film industry all of those are insured by Lloyds and do the business of \$ 400 billion per year. When the Indian companies insure of huge amount they make partnership of insurance risks with Loydes. The general insurance companies insure of Indian airlines, Air India and other every aero planes of other private companies by Loydes. This association insures for business

entrepreneurs besides insures the strange and odd risks. The Lloyds insures the world famous actress Elizabeth Teller's diamond ring, renown belle dancer Rudlotts beautiful legs, world famous Mona Lisa's paintings, and princess Anne's wedding. The persons connected with sports field also insure various insurance. The renown players of football Pale had insured of his legs of Rs. 30 Lac. Some years ago the Argentinian player had tried to crack Pale's legs because of jealousy, then after Pale Insured of \$ 75 Lac for his two lags. The world's all cricketers insure for their hands and lags at present. Some have insured for their eyes. The master of spin-balling Chandrashekar had insured of Rs. 2 Lac for his hands in his time in 1950 for the first time. Insurance companies have adopted the rule that if to insure the special part of the body the clients have to clear the reason of insurance. Most of person replays that if our specific part of the body would be crack or damaged our carrier would be stopped. The source of income would snatch. It is amazing that the music composer insures his ear and fingers, besides the "tester" who are doing work of identify the smell of whisky of whiskey distillery or the workers of tea industry also get insurance of their nose. Piano player Binifred Atval and Zubin Mehta had insured their hands. To insure the aero planes of airlines and satellite inset is launched the big field in insurance business.

In 1963 the NASA (National Aeronautics and Space Administration) has insured the first launched inset satellite. Since then the Lloyds has insured millions of insurances. The inset series of Indian inset are insured Rs. 60 to 70 crore. This responsibility of insurance is taken by all the Indian insurance companies.

As a premium companies get more income from motor vehicle owners than industrialists. Since 1958 it was started to insure the vehicle related accidents the Indian insurance companies get income as a premium by insurance companies more than 12 crore vehicles. There are many frauds and faults in motor vehicle insurance. Apart from this protection against medical expenses can be insured. This way insurance reached to the space from earth and from eye and ear to satellite. Naturally the insurance business will be increase day by day.

1.2 RISK

1.2.1 THE CONCEPT OF RISK

The term may be defined as the possibility of adverse results flowing from any occurrence. Risk arises therefore out of uncertainty. It can also represent the possibility of an outcome being different from the expected. The notion of an indeterminate outcome is implicit in the definition of risk because the outcome must be in question. When risk is said to exist, there must always be at least two possible outcomes. It is known for certain that a loss will occur, there is no risk. At least one of the possible outcomes is undesirable. This may be a loss in the generally accepted sense in which something an individual possesses is lost or it may be a gain smaller than the gain that was possible.

The term risk as used in insurance business also means either a peril to be insured against (e.g. fire is a risk to which property is exposed) or a person or property protected by insurance.

1.2.2 DEFINITION OF RISK

The word "Risk" has been defined in many different ways by economists, insurance managers, and scholars.

According to Knight—"Risk as measurable uncertainty".

According to Willett "Risk as the objectified uncertainty regarding the occurrence of an undesirable event"¹.

According to M. Ahamad "Capability to estimate risk factors in a way to overcome any kind of uncertain burden and manage the organisation for the sake of future survival".

According to Pfeffer "Risk as a combination of hazards measured by probability".

According to the above definitions it is evident that risk involves the nature of uncertain losses. As it can be viewed as a physiological phenomenon that is meaningful in terms of human experiences and reactions. Another way it can also be viewed as an objective phenomenon that may or may not be recognized as we are uncertain about many types of losses that may or may not occur for causes yet to be recognized.

1.3 ORIGIN AND DEVELOPMENT OF INSURANCE

1.3.1 THE HISTORY OF GENERAL INSURANCE IN WORLD

The growth of insurance industry is associated with the general growth of industry, trade and commerce. The origin of insurance services may be traced back to 14th Century in Italy when ships carrying goods were covered under different perils. The systematic and orderly beginning of the insurance industry took place in UK at Lloyds coffee house in Tower Street in London. In developing countries, insurance sector has assumed special significance as it has the potential to speed up the rate of growth of the economy.

Insurance Industry assists the development process of an economy in several ways. Primarily, it acts as mobiliser of savings, financial intermediary promoter of investment activity, stabilizer of financial market, risk manager and an agent to allocate capital resources efficiently. Although the insurance industry has grown rapidly in the industrialized countries. Its growth in developing countries has neither been satisfactory nor in tandem with the growth of other sectors of the economy. The 12 most industrialized countries in the world still account for 88% of global premium volume. The share of developing countries is extremely low. The slow growth insurance services in developing countries calls for an in-depth analysis of the nature and pattern of the evolution of these services policies pursued to develop the insurance industry and constraints there of also need close examination.²

1.3.2 THE INDIAN HISTORY OF GENERAL INSURANCE

Regrettably, the Indian insurance industry has lagged behind even amongst the developing countries of the world. Although general insurance services started in India about 150 years ago, their growth has been dilatory, as reflected by low insurance penetration and density. Several factors are responsible for this state of affairs, the chief being the monopoly status of the industry till recently. The life insurance business was nationalized in 1956 and the general insurance industry in 1973. The lack of competition has impeded the development of insurance industry in India, resulting in low productivity and poor quality of customer services.

The process of liberalization and globalization of the Indian economy started in earnest in mid-1980s. The market mechanism was the motivating factor underlying the new economic policy. In consonance with the new economic policy, insurance

sector was opened up for the private sector in 1999. The new competitive environment is expected to benefit the consumers, industry and the economy at large. The consumer will have a greater choice in terms of number and quality of products, low premium rates, efficient after sales services while the economy will benefit in terms of larger flow of savings, increased availability of investible funds for long-term projects, enhanced productivity and growth of multiple debt instruments.

LIC

Life Insurance had its beginning in ancient Rome, where citizens formed burial clubs that would meet the funeral expenses of its members as well as help survivors by making its payments.

The first stock company to get into the business of insurance was chartered in England in 1720. In the year 1735 saw the birth of the first insurance company in American Colonies in Charleston. In 1759, the Presbyterian Synod of Philadelphia sponsored the first Life Insurance Corporation in America. However, it was after 1840 that Life Insurance really took off in a big way.³

The 19th century saw huge developments in the field of insurance with the newer products being devised to meet growing needs.

The history of insurance in our country is somewhat darkened. The earliest reference of life insurance was available in the days of East India Company, when the policies were taken only by the British officers. The policy was issued by British officers in sterling currency. Oriental was the first foreign insurance company established in India in 1818. Foreigners, orphans and widows were become subject matter for the oriental company. The company started accepting the Indians in 1934 due to the efforts of Babu Muttylai seal. 'Bombay Life', a company had issued short term policies for 2-3 years in 1823. Raja Ram Mohan Roy, the man who pleaded for protecting widows through government insurance 'Bombay Mutual Life Assurance Society' was established by some prominent citizens of Bombay in 1871. European merchant also started 'Bombay Insurance Society' in 1893 by voluntary efforts. Mr. Curstjee Furdoonju was the first insured person of India. This policy was insured in 1848 by royal Insurance which started in 1845. It was the beginning of the Indian insurance venture.

1.3.3 BACKGROUND

Prior to Nationalization, 107 companies including branches of some foreign insurance companies, operated in the country – Under the General Insurance Business Nationalisation Act 1972, these were amalgamated and grouped in to 4 operating companies viz.

National Insurance Company Ltd.

Head Office – Kolkata

The New India Insurance Company Ltd.

Head Office – Mumbai.

The Oriental Insurance Company Ltd.

Head Office – New Delhi.

The United India Insurance Company Ltd.

Head Office – Chennai.

They became subsidiaries of a holding company namely General Insurance Corporation of India which came into being on January 1, 1973.

The paid-up capital of GIC is fully subscribed by the government of India, and that of the 4 companies, fully by GIC. All the five entities are thus government companies registered under the companies Act. Although established under act of Parliament. All the five companies have Boards of Directors. The GIC Board has a fulltime Chairman assisted by 2 Managing Directors. The Chairman and Managing Directors are member of the board. The Additional Secretary (Insurance Division) is ex. officio nominee member on the Board. There are part time members on the Board nominated by Government from among Chief Executives of Financial Institutions (LIC, State Bank, Exim Bank, IDBI) and prominent representatives of special interests, social and economic groups. The Chairman-cum-Managing Directors of the four companies are permanent invites on the Board.

The GIC as a holding company is responsible for superintending, controlling and carrying on the business carry or direct business operations on all Indian basis. The GIC does not carry on direct insurance operations expecting, Aviation Insurance of the National Carriers. It has reinsurance arrangements with the 4 companies where under 20% of their business is ceded by the companies to GIC. It also administers the corp. Insurance scheme on behalf of Government.

The companies follow a four tier organisational structure as under

- Head Office
- Regional Office
- Divisional Office
- Branch Office

1.4 WHAT IS GENERAL INSURANCE

Man has always been in search of security and protection from the beginning of civilization. The urge in him lead to the concept of insurance. The basis of insurance was the sharing of the losses of a few amongst many. Insurance provides financial stability and strength to the individuals and organization by the distribution of loss of a few among many by building up a fund over a period of time.

1.5 DEFINITION OF INSURANCE

The term insurance has been defined by different experts on the subject. The views expressed by them through various definitions can be classified in to the following three categories for the convenience of the study.

- A. General Definitions
- B. Functional Definitions
- C. Contractual Definitions

A) GENERAL DEFINITION

The general definition are given by the social scientists and they consider insurance as a device to protection against risks, or a provision against inevitable contingencies or a co-operative device of spreading risks.

Some of such definitions are given below

1. In the words of John Magee, “Insurance is a plan by which large number of people associate themselves and transfer to the shoulders, of all risks that attach to individuals.”
2. In words of Sir William Bevridges, “The collective bearing of risk is insurance”.

3. In the words of Boone and Kurtz, “Insurance is a substitution for a small known loss (the insurance premium) for a large unknown loss which may or may not occur”.
4. In the words of Thomas, “Insurance is a provision which a prudent man makes against for the loss or inevitable contingencies, loss or misfortune”.
5. In the words of Allen Z. Mayerson, “Insurance is a device for the transfer to an insurer of certain risks of economic loss that would otherwise come by the insured.
6. In the words of Ghosh and Agarwal, “Insurance is a co-operative form of distributing a certain risk over a group of persons who are exposed to it”.

B) FUNCTIONAL DEFINITION

These definitions are based on economic or business oriented since it is a device providing financial compensation against risk or misfortune.

1. In the words of D. S. Hansell “Insurance may be defined as a social device providing financial compensation for the effects of misfortune, the payment being made from the accumulated contributions of all parties participating in the scheme”.
2. In the words of Robert I. Mehr and Emerson Commack “Insurance is purchased to off-set the risk resulting from Hazards which exposes a person to loss”.
3. In the words of Riegel and Miller, “Insurance is a social device where by the uncertain risks of individuals may be combined in a group and thus made more certain, small periodic contributions by the individuals providing a fund, out of which, those who suffer losses may be reimbursed”.

C) CONTRACTUAL DEFINITION

These Definitions consider as a contract to indemnify the losses on happening of certain contingency in future. It is a contractual relationship to secure against risks. Some of such definitions are

1. In the words of Justice Tindall, “Insurance is a contract in which a sum of money is paid to the assured as consideration of insurer’s incurring the risk of paying a large sum upon a given contingency.
2. In the words of E. W. Patterson, “Insurance is a contract by which one party, for a compensation called the premium, assumes particularly risks of the other party and promises to pay him or his nominee a certain or ascertainable sum of money on a specified contingency.
3. In the words of Justice Channel, “Insurance is a contract where by one person, called the insurer, undertakes in return for the agreed insurer, undertakes in return for the agreed consideration called premium, to pay to another person called insured, a sum of money or its equivalent on specified event”.

1.6 DIFFERENCE BETWEEN ASSURANCE AND INSURANCE

The terms “Assurance and Insurance are commonly used in insurance contracts. On historical point of view, the word “Assurance is more older used in all types of insurance contracts by the end of 16th century. But, from the year 1826, this term is used to indicate life insurance only and the word “Insurance” for all other types of insurance like marine, fire, etc. This is because that in life insurance, there is an assurance from the insurer to make payment of the policy either on the maturity or on death. Thus, the word “Assurance” indicates certainly on the other hand, the word insurance is used against indemnity insurance, the insurer is liable to indemnity only in case of loss to property or goods, otherwise not⁴. In brief, the differences between the two terms are given in the following table below.

Difference between Assurance and Insurance (or Life Insurance and indemnity (General/Non life) insurance.

TABLE - 1.1
DIFFERENCES BETWEEN ASSURANCE AND INSURANCE

Basis of Difference	Assurance	Insurance
1. Scope	This term is used only in life insurance and therefore the scope is comparatively limited.	This term is used for all other types of insurance and therefore, the scope is wider.
2. Renewal of Policy	The life insurance contract is a continuing contract and it will not lapse unless the premium is regularly paid.	It is not certain that the event insured against may happen or not.
3. Element of investment	The element of investment is present in assurance since there is certainty of receiving payment either on death or on maturity of the policy.	It lacks the element of investment since there is no certainty of receiving payment.
4. Assurance	The insurer gives assurance to the insured to pay the claim in any case, either on maturity or death.	The insurer only promises to secure the property in case of actual loss.
5. Amount of Claim	The policy amount is paid to the assured in full on the maturity or on death along with bonus, etc. announced by the insurance company from time to time.	The payment of claim is subjected to the element of actual loss but not more than the insured sum.

Basis of Difference	Assurance	Insurance
6. Insurable Interest	In a life policy, the insurable interest is one that required by law and such interest is not measurable in terms of money.	In indemnity insurance the assured is required to have an insurable interest in terms of policy.
7. Relationship	The word “Assurance” indicates a relationship with principle of insurance.	The word ‘insurance’ only represents the behavior of insurance.
8. Principle of indemnity	Principle of indemnity does not apply in life assurance. The sum assured is payable irrespective of any profit or loss and the full extent of the amount insured.	Principle of indemnity is the basis of insurance contracts.
9. Certainty of event	The event is bounded to happen sooner or later.	It is not certain that the event insured against may happen or not.
10. Insured Sum	Insurance policy for any amount or any number of policies can be taken in this case.	In insurance, the policy amount is restricted to market value of assets; not more than that. This is because that indemnity cannot be more than the value of asset.
11. Certainly of payment of claim	Payment of claim either on maturity of the policy or on death of the assured is certain.	There is no certainly to receive payment since it is paid only in case of loss of the property insured.

Basis of Difference	Assurance	Insurance
12. Insurable interest on the date of the policy or the policy falls due.	In life insurance insurable interest is to be proved at the date of the contract and it is not necessarily be present at the time, when the policy falls due for claim.	In marine insurance, the insured must be have insurable interest on the subject matter at the time of loss, but not necessarily be present at the time of effecting the policy.

1.8 NATURE AND CHARACTERISTIC OF INSURANCE

Insurance follows important characteristics – These are follows

1) SHARING OF RISK

Insurance is a co-operative device to share the burden of risk, which may fall on happening of some unforeseen events, such as the death of head of family or on happening of marine perils or loss of by fire.

2) CO-OPERATIVE DEVICE

Insurance is a co-operative form of distributing a certain risk over a group of persons who are exposed to it (Ghosh & Agarwal). A large number of persons share the losses arising from a particular risk.

3) LARGE NUMBER OF INSURED PERSONS

The success of insurance business depends on the large number of persons insured against similar risk. This will enable the insurer to spread the losses of risk among large number of persons, thus keeping the premium rate at the minimum.

4) EVALUATION OF RISK

For the purpose of ascertaining the insurance premium, the volume of risk is evaluated, which forms the basis of insurance contract.

5) AMOUNT OF PAYMENT

The amount of payment in indemnity insurance depends on the nature of losses occurred, subject to a maximum of the sum insured. In life insurance, however, a fixed amount is paid on the happening of some uncertain event or on the maturity of the policy.

6) PAYMENT OF HAPPENING OF SPECIFIED EVENT

On happening of specified event, the insurance company is bound to make payment to the insured. Happening of specified event is certain in life insurance, but in the case of fire, marine or accidental insurance, it is not necessary. In such cases, the insurer is not liable for payment of indemnity.

7) TRANSFER OF RISK

Insurance is a plan in which the insured transfers his risk on the insurer. This may be the reason that many persons observe, that insurance is a device to transfer some economic losses which would have been borne by the insured themselves.

8) SPREADING OF RISK

Insurance is a plan which spreads the risk & losses of few people among a large number of people. John Magee writes, "Insurance is a plan by which a large number of people associate themselves and transfer to the shoulders of all, risk attached to individuals".

9) PROTECTION AGAINST RISKS

Insurance provides protection against risk involved in life, materials and property. It is a device to avoid or reduce risks.

10) INSURANCE IS NOT CHARITY

Charity pays without consideration but in the case of insurance, premium is paid by the insured to the insurer in consideration of future payment.

11) INSURANCE IS NOT A GAMBLING

Insurance is not a gambling. Gambling is illegal, which gives gain to one party and loss to other. Insurance is a valid contract to indemnify against losses. Moreover,

insurable interest is present in insurance contracts it has the element of investment also.

12) A CONTRACT

Insurance is a legal contract between the insurer and insured under which the insurer promises to compensate the insured financially within the scope of insurance policy, the insured promises to pay a fixed rate of premium to the insurer.

13) SOCIAL DEVICE

Insurance is a plan of social welfare and protection of interest of the people. Rieged and Miller observe “Insurance is of social nature”.

14) BASED UPON CERTAIN PRINCIPLE

Insurance is a contract based upon certain fundamental principles of insurance, which includes utmost good faith, insurable interest, contribution, indemnity, cause proxima, subrogation etc, which are operating in the various fields of insurance.

15) REGULATION UNDER THE LAW

The government of every country enacts the law governing insurance business so as to regulate, and control its activities for the interest of the people. In India General Insurance Act 1972 and the Life Insurance Act 1956 are the major enactment in this direction.

16) WIDE SCOPE

The scope insurance is much wider and extensive various types of policies have been developed in the country against risk of fire, marine, accident, theft, burglary, life, etc.

17) INSTITUTIONAL SETUP

After nationalisation, the insurance business in the country is operation under statutory organization setup. In India, the General Insurance Companies and the Life Insurance Corporation and subsidiary companies of General Insurance Corporation are operating the various fields of insurance.

18) INSURANCE FOR PURE RISK ONLY

Pure risks give only losses to the insured, and no profits. Examples of pure risks are accident, misfortune, death, fire, injury, etc., which are all the sided risks and the ultimate results in loss. Insurance Companies issue policies against pure risk only, not against speculative risks. Speculative risk have chances of profit of losses.

19) BASED ON MUTUAL GOODWILL

Insurance is a contract based on good faith between the parties. Therefore, both the parties are bound to disclose the important facts affecting to the contract before each other. Utmost good faith is one of the important principles of insurance.

1.8 IMPORTANCE OF INSURANCE

As the industrial revolution comes with cutthroat competition, the chances of uncertainty are also increasing day by day. Insurance plays significant role for not only an individual or for not only an individual or for a family but it has spread over the entire nervous system of the nation. According to the famous philosopher J. Royce, Insurance Principles comes to be more and more used and useful in modern affairs. Not only does it serve the ends of individuals, it tends more and more both to pervade and transform our modern social order. It brings into new synthesis, not merely pure and applied sciences, but private and public interests, individual prudence and a large regard for the general welfare, thrift and charity.

One famous author named “Dinsdale” also explains the importance of insurance as under.

“No one in modern world can afford to be without insurance.” Insurance provides various advantages to various fields. One can classify the importance as under.⁵

GRAPH -1.1

IMPORTANCE OF INSURANCE

Individual Aspects	Economic Aspects	Social Aspects	National Aspects
Security	Safety against risk	Stability in family life	Increase the national savings
Encourage the habit of forced thrift	Basis of Credit	Development of employment opportunity	Helps in development opportunities
Provide mental peace	Protection from the loss of key man	Encourage alertness	Develops the money market
Increase efficiency	Encourage loss prevention methods	Contributes to the development of basic	Earns foreign exchange
Contribution to the conservation of health	Reduction of cost		Capitalizes the savings
Cover for legal liability	Promote foreign trade		
Security to the mortgaged property	Development of big industries		
Posterior economic independence	Increase in efficiency		
Locovrages Savings	Protection to employees		
Provision for the future			
Awareness for the future			
Credit Facility			
Tax exemption			

1.9 FUNCTION OF INSURANCE

Insurance becomes very useful in today's life. It plays significant role in this competitive era. One should know the functions of insurance. According to Sir William Beveridge the functions of insurance can be divided into three categories.

- 1) Primary Functions
- 2) Secondary Functions
- 3) Indirect Functions

1. PRIMARY FUNCTION

(A) TO PROVIDE PROTECTIONS

The most important function of insurance is to provide protection against risk of loss. It is one check the reality of the misfortune happening, and pay the cost of damages of losses.

(B) TO PROVIDE CERTANTITY

We know future is totally uncertain. Any misfortune happening may occur at any stage of life. The amount of loss and time of losses both are uncertain. No doubt better planning and administration can reduce the chances of happening these types of accidents but it requires lots of attention towards strengths and weaknesses, special knowledge of the field after all these precautions, the uncertainty remains steady. Insurance provides certainty towards the losses. The policy holders pay the premium to by certainty.

(C) DISTRIBUTION OF RISK

It is a co-operative effort where the risk is distributed among the group of people. Thus, no one have to bear the losses occurred due to uncertainty.

2. SECONDARY FUNCTION

(A) HELPS IN ECONOMIC PROGRESS -

Insurance plays an important role in economic progress. It gives fully certainty to the industrialists towards the risks. The entrepreneurs can more concentrate on

innovative and profitable techniques of the production. They should not require thinking over the risks.

The industrialists can establish new industries in environment. Thus, industries have got development in economic and commerce of the nation.

(B) IN PREVENTS LOSSES

Insurance plays vital role in preventing the losses. The amount of premium be minimized by using such appliances like the fire extinguisher. If one uses interior machinery which may be caused for misfortune, the amount of premium will be high. Thus, indirectly, insurance provides help to minimize the chances of risks. It will be useful for the agencies which are directly related with the same function like,

- a) Loss prevention association of India.
- b) The salvage crops of loss prevention association of India.
- c) Survey and inspection of risks, etc.

3. INDIRECT FUNCTION

(A) A FORCED SAVINGS

Life Insurance is also a method of savings in India. Income Tax Act gives relief in payment of income tax because government wants to habituate general public to save money. It encourages the habit of thrift and savings among the people. Thus, it becomes compulsory savings to people of nation.

(B) PROMOTE FOREIGN TRADE

It is compulsory to take marine insurance policy in foreign trade in India. Foreigners can't issue the foreign trade bill unless the cargo is fully insured. Thus foreign trade is totally depends upon the insurance sector of the nation. It gives relief to entrepreneurs from the uncertainty of foreign trade.

(C) OTHERS

Insurance provides certainties towards risks in entrepreneurship. It gives confidence in general public. It is one of the important source of investment which develops the trade and commerce of the nation.

1.10 ADVANTAGES OF INSURANCE

1. INVESTMENT OF FUNDS

In the course of their business, insurance by the way of premiums collect vast sums. Especially in life business much of it can be invested profitably over long periods. This benefits the nation as a whole because insurers are required by law to invest the major portion in government securities and other approved investment, out of which nation-building activities are undertaken.

2. REDUCTION OF COST INSURANCE

Income earned by investment of accumulated funds further increases the fund and goes to reduce the cost of insurance for otherwise the premiums would have to be higher to next extent.

3. EFFECT ON PRICES

Manufacturers pass on the consumer, the cost of insurance along with other production cost. Still it is beneficial to the consumers because without insurance the cost would have been much more.

4. INVISIBLE EXPORT

Providing insurance service overseas is our invisible export, like export of material goods and the profit brought in is contribution to the favorable balance of trade.

5. REDUCING COST OF SOCIAL SERVICES

No victim or heirs of a deceased victim of motor accidents now a days goes without compensation from insurance funds built out of compulsory insurance of motor vehicles and this is no small benefit social relief.

1.11 TERMINOLOGIES USED IN INSURANCE

Different terms are used in the theory and practice of important among them are given below

1. INSURED

The party or the individual who seeks protection against a specified task and entitled to receive payment from the insurer in the event of happening of stated event is known as insured. An insured is normally in insurance policy holder.

2. INSURER

The party who promises to pay indemnity the insured on the happening of contingency is known as insurer. The insurer is an insurance company.

3. BENEFICIARIES

The person or the party to whom the policy proceeds will be paid in the event of the death or happening of any contingency is called beneficiary.

4. CONCRACKT

An agreement binding at law between to or more parties is called conctract.

5. PREMIUM

The amount which is paid to the insurer by the insured in consideration to insurance contract is known as premium. It may be paid on monthly, quarterly, half-yearly, yearly or as agreed upon it is the price for an insurance policy.

6. INSURED SUM

The sum for which the risk is insured is called the insured sum, or the policy money or the face value of the policy. This is the maximum liability of the insurer towards the insured.

7. EXCEPTION

A peril specifically excluded from the scope of a policy is called exception.

8. PERIL

A peril is an event that cause a personal or property loss by fire, windstorm, explosion, collision premature death, sickness, floods, dishonesty etc.

9. UNDERWRITER

An insurer an official in an insurance company whose main responsibility is to accept risks.

10. HAZARD

Hazard is a condition that may creat, increase of decrease the chances of loss from a given peril.

11. EXPOSURE

An exposure is a measure of physical extent of the risk. An individual who owns a business house may be subjected to economic loss and individual loss because of his business and personal exposure.

12. CHANCE OF LOSS

It is the probable number of times in any given number of that loss will occur. The highest chance of loss is 100 percent that means the loss is certain. When the chance of loss is zero, the degree of risk is also zero.

13. ACCIDENT

An unlooked for mishap or an untoward event which is not expected or designed.

14. CASE LAW

The law which is found in the decision of law courts.

15. COMMON LAW

The law based on usage, custom and legal decisions as distinct from statue Law.

16. CONDITION

A provision inserted in a policy to define extend or reserve rights adn responsibilities.

17. COVER NOTE

An unstamped document issued by or on behalf of insurers as evidence of insurance pending issue of policy.

18. DAMAGES

Monetary compensation awarded at law for a civil wrong or breach of contract.

19. INDEMNITY

Compensation for actual loss suffered is called indemnity.

20. REINSURANCE

Reinsurance is a method whereby the original insurer transfers all or part of risk he has assumed to another company or companies with the object of reducing his own commitment to an amount that he can bear for his own account commensurate with his financial resources in the event of loss. It was originally confined to offers and acceptances on individual risk known as facultative reinsurance transactions.

21. NO CLAIM BONUS

The bonus is given under the policy, if the claim is not reported during the policy period and after that the time renewal (in time) then as per the policy term no claim bonus is available for the vehicle insurance policy and the rate of bonus is different in different general insurance companies, and the maximum rate should be up to 50% as per the norms.

1.12 BASIC PRINCIPLES OF INSURANCE

The mechanism of insurance involves a contractual agreement in which the insurer agrees to provide financial protection against a specified set of risk for a price called the premium.

It is hence essentially an intangible product. The insurance customer cannot see or feel the product he or she is buying. And though the policy document does give the comfort that the coverage is on; generally no real service is delivered until a claim occurs.

In normal commercial transactions, the legal maxim “Caveat Emptor” Latin for “Let the buyer Beware” operates. This means that the buyer takes the risk regarding the quality or condition of the property purchased. This in turn, implies that the buyer has the opportunity to examine the product before purchase since, in view of what is stated in the preceding paragraph, the insurance customer has no such opportunity, insurance transactions need be governed by special principles in order to protect the interests of the contracting parties, particularly the customer.⁶

It is in view of this that the contracts are governed by certain special basic legal principles. These make insurance contracts very unique and different from other kinds of commercial contracts. As one shall see below, there are, however, differences between life and general insurance with regard the application, of the principles. One shall indicate these in the course of the discussions.

The basic principles are

➤ **Insurable Interest**

The legal right to insure – it is a must for an insurance contract to have validity. This principle is also relevant to both life and general insurance.

➤ **The principle of indemnity**

It determines the extent of insurer’s liability in the case of loss. The need for determining the liability is however, largely applicable to general insurance alone.

➤ **The principle of contribution**

The corollary of the indemnity – principle exclusively applicable to general insurance. It tells us how the liability is to be met when the insured has taken insurance with more than one insurer.

➤ **The principle of subrogation**

Another corollary of the indemnity principle and again exclusively applicable to general insurance, refers to the rights that an insurer has paid him an indemnity.

➤ **The Principle of Utmost Good Faith**

The duty of insured and the insurer to disclose all relevant facts. This is relevant to both life and general insurance.

➤ **The Principle of Proximate Cause**

The rule that determines how to proceed with processing a claim lodged by an insured, when a loss could apparently be traced to more than one event, some of which are not covered by the insurance contract.

1. THE PRINCIPLE OF INSURABLE INTEREST

The existence of insurable interest is an essential ingredient of any insurance contract. Insurable interest is the pre-requisite for insurance.

A common definition used for insurable interest is “The legal right to insure arising out of financial relationship, recognized under law, between the insured and the subject matter of insurance.” therefore, just as the owner of a house or a factory has an insurable interest in the house or factory, the bank that has lent money for the construction of the house or the factory too has an insurable interest in these to the extent of the outstanding loan amount since in the event of the damage or destruction of the property, the bank stands to lose a part or the whole of the money lent.

A person who wants to insure must have insurable interest in the property to be insured. The essentials of insurable interest are

1. There must be a property capable being insured.
2. Such a property must be subject matter of interest.
3. The insured should have a legal relation to the subject matter insurable interest could arise in a number of ways such as
 - 1) Ownerships
 - 2) Mortgagee
 - 3) Trustee
 - 4) Bailee
 - 5) Lessee

In fire insurance, the insurable interest must exist throughout the contract.

It must exist

- a. At the inception i.e. while placing the proper for insurance.
- b. During the currency of the policy, i.e. the interest should not cease during the period of insurance.
- c. At the time of loss i.e. in the event of fire accident the insured should continue to have the interest in the property to claim insurance money.

It can be seen that insurable interest has three essential elements;

- 1) There must be property, right, interest, life or potential liability capable of being insured.
- 2) Such property, right interest, life or potential liability must be the subject matter of insurance.
- 3) The insured must bear a legal relationship to the subject matter such that he stands to benefit by the safety of the property, right interest, life or freedom of liability. By the same token, he must stand to lose by any loss, damage, injury or creation of liability.

An insurance contract essentially promises by operation of an insured peril. It could, therefore be said that, in the strictest sense, fire insurance policy covers not the property per se, compensation to cover the damage or loss. The banker who has lent money would be eligible to recover his outstanding loan amount from the claim amount.

The above points would be clear when one makes a distinction between the subject matter of insurance and the subject matter of an insurance contract. The former (subject matter of insurance) relates to property being insured against, which has an intrinsic value of its own. The subject matter of an insurance contract on the other hand is the insured's pecuniary interest in that property. It is only when the insured has such an interest in the property that he has the legal right to insure an example of this, as stated earlier, is the interest of the bank such interest is required to make the insurance contract enforceable by law. Lack of it would render the contract void.

It is worth mentioning that it is the principle of insurable interest that distinguishes insurance from gambling or wager agreements. In the latter insurance, for example one could insure somebody else's property and then be tempted to deliberately bring about the loss to collect the claim under the policy.

Referring to life insurance, a person is deemed to have insurable interest on his own life to an unlimited extent, as in the event of his pre-mature death, there will be loss of his future earnings of individual. However by application of the human life value of concept, reasonable estimate can be made. Insurance companies, therefore, limit the amount of insurance, taking into account the proposer's present income and age.

The limiting factor in life insurance is the proposer's capacity to pay premium for insurance on own life.

Spouses are presumed to have insurable interest in each other's life. However in case of other members of the family, insurable interest is not presumed to exist. A person cannot, therefore, insure, say his brother or sister though they may dependent on him.

2. THE PRINCIPLE OF UTMOST GOOD FAITH

The principle of utmost good faith is mostly discussed in the context of the duty of the insured towards the insurer, though it is equally applicable to the insurer's duty towards the insured.

In insurance contract, the proposer is the only person who is deemed to have known all the facts of the subject matter of insurance and the insurer is to completely rely on what the proposer has disclosed. The proposer, should therefore, furnish all material facts concerning the property proposed insurance which would enable the insurance company to decide the appropriate rates and the terms and condition.⁷

The duty of disclosure of material facts continues throughout the contract and the insured should advice the insurance company wherever change occurs in the property insured.

The insured need not disclose the facts of the following nature

- 1) Facts which would diminish the risk of insured peril, e.g. Appointing a night watchman.
- 2) Which are presumed to have been known to the insurer, e.g. large scale rioting in the area.
- 3) Facts which could be understood from the information already furnished e.g. Customary process in an industry.
- 4) Which ought to have been enquired but omitted by the insurer. This will be construed as warranty by the insurer.

For example, information about one's property or person including one's health, habits, personal history, family history, etc., are known only to the person taking insurance and rarely are public knowledge. Yet these issues are important for assessing the risk and deciding the rate of premium to be charged. The insurance company can know most of these facts only if the prospect comes forward to disclose them truthfully.

It may be argued that insurers could take steps to ascertain the facts. For example in property insurance, the insurer could survey the property while in long

term insurance one can insist on medical reports and special reports from a panel of doctors/specialists appointed by them. The risk can be assessed accordingly.

However, the important point to not is that there may be certain aspects of health that may not be easily detected in a routine medical examination. To illustrate a person suffering from hypertension or diabetes can manage to hide these facts if he were to appear for medical examination after taking the appropriate medicines – similarly it may not be easy to detect past history of health and family history in a routine medical examination. In property insurance it may not be feasible to examine each and every property being proposed for insurance, and the hazards to which it is being exposed in minute detail.

It is for the above reasons that law subjects insurance contracts to a higher obligation – Good Faith Contracts become utmost Good Faith Contracts when it comes to insurance. The proposer has to disclose everything that is relevant to the subject matter of insurance, as the insurer knows nothing about them.

3. THE PRINCIPLE OF INDEMNITY

The object of insurance is to place insured in the same financial position as was just before the loss. This principle prevents the insured from making a profit out of loss and ensures public interest at large.

For example, if a sofa-set insured and is destroyed by fire, the insurance company will make good to loss by taking into consideration the depreciation and wear the tear of the sofa-set having been in use by the insured for some time. It will not be true indemnity to pay the price of a new sofa-set as the insured has enjoyed the use of the sofa-set for some years. If the insurance company pays him the money to get a new sofa-set, it may tempt him to set fire to the sofa so that he could get a new sofa-set for old at insurance cost.

For a building damaged by fire measure of indemnity is the cost of repairing the building to its pre-fire condition. For machinery the measure of indemnity is the cost of repair, if the machinery is destroyed by fire the market value of such a machine after taking in to consideration wear and tear and depreciation. For stock in a retail shop the measure is the cost of replacement at wholesale rate. For manufacturer it is the cost of labour, fuel, and overheads. The indemnity is for the net loss suffered by the insured and therefore, if there by any salvage of the damaged property, the value of the salvage is deducted from the amount of loss.

In marine insurance, the indemnity is in the manner and the insured. It is so provided in the marine insurance act 1963.

In the case of personal accident policies it is not possible to place a value on life as such. Hence personal accident policies are called benefit policies.

There are four methods of indemnification and they are.

- 1) Cash payment
- 2) Repair
- 3) Replacement
- 4) reinstatement

In case of life insurance, however, the economic value of a human life cannot be measured precisely before death. It could in fact be unlimited. Hence, life insurance cannot strictly be a contract of indemnity. This does not however, mean a person can be granted life insurance for an unlimited amount.

4. THE PRINCIPLE OF SUBROGATION

Subrogation is principle, which applied to all contracts of indemnity. It means that after payment of the loss the insurer gets the right of taking all steps to recover any money in compensation from a third party. Technically speaking “Subrogation is the right, which an insurer gets, after he has indemnified the loss, to step into the shoes of the insured and avail himself of all the rights against their party in respect of loss indemnified.”

The subrogation principle prevents the insured of collecting the twice of the same loss at first instance, and wrong doer would escape liability at second. It strengthens the ares of insurer in cases of possibility of one recovery of misdoings, stealing or damaging made by third party and recovering the goods indemnified.

5. CONTRIBUTION

The contribution is the right of an insurer who has paid a loss under a policy to recover a proportionate amount from other insurer who is liable for the loss. Such situations only arise

- (a) When different insurer has agreed to contribute the loss by way of collecting proportionate premium.
- (b) The policies are in existence at the time of loss.
- (c) The policies are legally enforceable at law.

- (d) The interest covered under all the policies are same, and effected in favour of a common insured.

Indemnity is also governed by the principle of contribution. The insurer is liciple of to contribute proportionately loss to the extent of its interest. If a property has been insured with more than one insurer, in the event of a loss the insured will get a proportionate part of the loss from each insurer, so that the insured does not make a profit out of the settled claim.

1. 6 THE PROXIMATE CAUSE

The proximate cause can be defined as “the active efficient cause that sets in motion a train of events which brings about a result, without the intervention of any force started and working actively from a new independent force.”

In other words, it specifies the indemnification of losses concurrent with the perils specified under insurance contracts and not in genera.

Properties are exposed to various perils like fire, earthquake, explosion, perils of sea, war, riot, civil commotion and so on, and policies of insurance covering various combinations of such perils can be procured. Policies of insurance usually afford protection against some of these perils, expressly exclude certain perils from the cover, and by implication other perils are covered. The insurer’s liability under the policy arises only if the cause of the loss is a peril insured against and not as expressly excluded or other peril.

1.13 NATURE OF INSURANCE CONTRACT

Insurance contracts like other contracts are governed by the general principles of the law of contract as codified in the Indian contract act 1872, which prescribed the following essential elements in order for contract to be legally valid ⁷

- (i) Offer and acceptance
- (ii) Consideration
- (iii) Agreement between parties
- (iv) Capacity of the parties
- (v) Legality of the contract

➤ **OFFER & ACCEPTANCE**

To make the contract valid, the offer made by one party is to be accepted by another party. The offer thus made is known as proposal and may be orally, or in writing. Brief detail of risk are usually submitted along with period of insurance desired and status of person or property. Specified proposal forms are used for this purpose for various types of insurance. Acceptance of an offer is not valid until communicated in form of cover note or by a letter of acceptance subject to payment of premium.

➤ **CONSIDERATION**

Consideration can be defined as “the act or promise offered by the one party and accepted by the other as the price of that promise”. In general insurance contracts “premium” is the consideration from the insured for “the promise to indemnity” is the consideration from the insurer. According to insurance Act, 1938 (64 VB) as amend in 1968, payment of premium in advance is a pre-requisite for contract to be valid.

➤ **AGREEMENT BETWEEN THE PARTIES**

For validity of legal contract, the principle of “CONSENSUS ad idem” is to be followed i.e. both parties should agree to the same thing in same sense. The risk, perils and the sum insured must be agreed by both the parties for a specified period and consent must be arising out of common intension.

➤ **CAPACITIES OF THE PARTIES**

The Indian contract Act states “Every person is competent to contract who is of the age of maturity according to the law to which he/she is subject and who is of sound mind and is not disqualified from contracting by my law to which he is subject.”

➤ **LEGALITY OF CONTRACT**

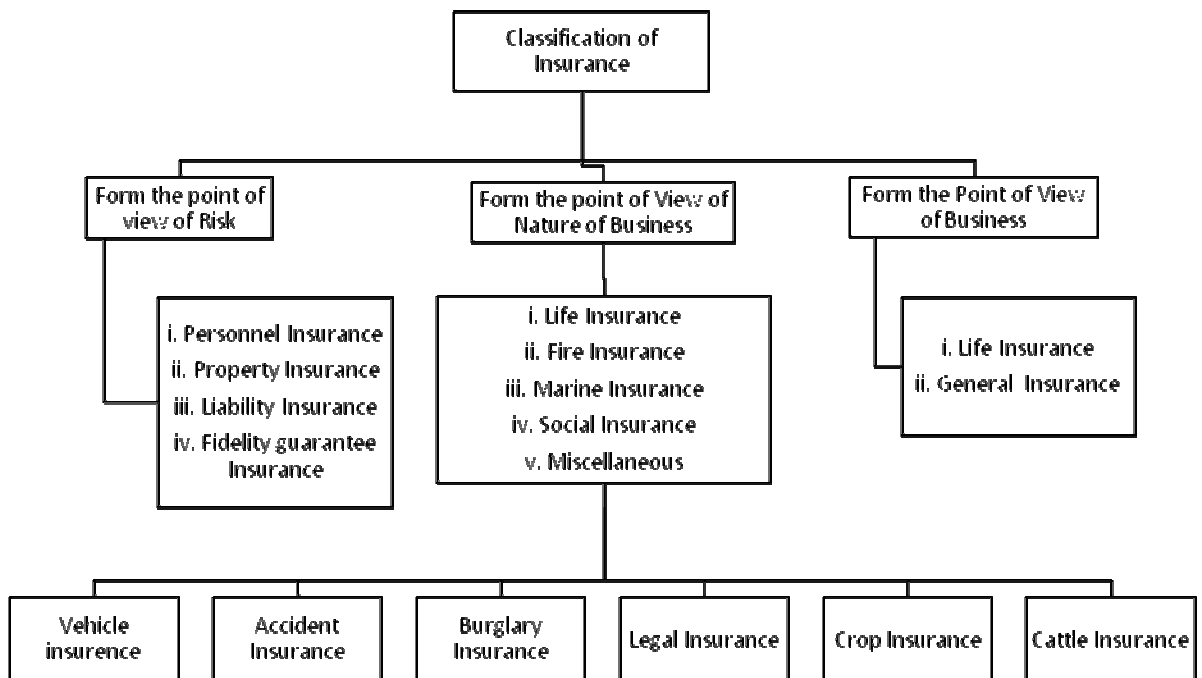
The subject matter of the contract must be legal. Section 23 of the Indian Contract Act states “The object of an agreement is unlawful unless”.

- (a) It is forbidden by law.
- (b) Is of such nature that, if permitted, it would defeat the provisions of any law or is fraudulent.

- (c) Involves or implies injury to the person and property of another or.
- (d) The courts regard it as immoral or opposed to public policy.

1.14 CLASSIFICATION OF INSURANCE

GRAPH -1.1
CLASSIFICATION OF INSURANCE.



1.15 IMPORTANT ASPECTS OF INSURANCE BUSSINESS

1. ACTUARY

An ACTUARY is a person who has passed specialized examinations ducted by the Actuarial Society of India or the Institute of Actuaries, London. Actuaries are technical experts who have received specialist training in the mathematics of insurance. Their job is to ensure that the insurance products provided by the company are mathematically sound. They undertake various activities like calculation of mortality rates, estimating expenses to be incurred by the insurance company in administrating various policies, and determining the rate of return that will be earned by the company on its investments. Based on the above, they decide on the premiums to be charged on various policies. As is obvious from the above, a good actuary has to be a good economist, a good statistician as well as a good security analyst. Every

insurance company requires good actuaries to continuously study its operations and advise the management on the appropriateness of their policies.

2. UNDERWRITING

An UNDERWRITER scrutinizes, analyzes and takes the decisions on the proposals received for insurance. While analyzing the risks arising from the insurance applications, the underwriters ensure that the company issues the maximum possible policies while keeping the risk of loss within acceptable limits. Any applications that pose reasonable risks are accepted and those posing lower or higher than average risks are accepted at lower or higher rates" of premium than normal. Any applications posing unreasonable risks are declined. The job of accepting or declining the proposals of insurance received by a company and deciding on the premium at which to accept the proposals is done by the underwriting department.

3. POLICY OWNER SERVICES

The employees in this area are the ones who issue the actual policy" documents. They also ensure customer satisfaction by attending to various requirements arising during the duration of a contract like nominations, assignments, alterations, etc. These employees are basically responsible for maintenance of policy records, proressiml, customer requests and informing policy-owners about any material changes that affect their policies.

4. CLAIM ADMINISTRATION

The employees in this area are responsible for the actual settlement of claims. They analyze the claims received against .various policies. After thoroughly studying the claims, they decide whether the claim is valid. They calculate the benefit amounts for settlement of all valid claims. Any claims that are found invalid are rejected.

5. MARKETING

The marketing department studies consumer behavior needs and wants. On the basis of these studies, they give suggestions for new products which can satisfy those needs. The marketing executives also develop marketing plans, design promotional material for the different products, market the products to the customers and provide

them services. The marketing department's role starts even before the inception of a product and carries on well after the product has been sold to the customer.

6. INVESTMENT

The employees in this area manage the company's assets and investments. They study the financial markets in order to give recommendations on the best avenues of investments so that the company can maximize its returns.

7. ACCOUNTING

As in any other organization, the accountants in an insurance company keep records of the income and expenses. They keep track of the income from premiums and investments as also the expenses for running the office, agents' commission, claim payments, etc. They prepare the reports and statements which show the financial position of the company. The policy holders, shareholders, and insurance regulators can get to know the financial status of the insurance company from these reports.

8. INFORMATION SYSTEM

The employees looking after this area provide their services to all the departments of an insurance company. They design and maintain computer systems so that any required information can be easily retrieved at any time. They also develop and test new systems and procedures for the company, install them and ensure that they operate efficiently and effectively.

9. LEGAL AND COMPLIANCE

The employees in this department play an important role in ensuring that the company is complying with all the regulations and laws in the country. They develop the policy forms, contracts for agents, etc., in line with the existing rules and regulations and also advise the staff and management on any legal issues. In case there is any dispute arising out of a claim, the attorneys from the legal department defend the company's position.

These, then, are the different activities carried out by the various departments in an insurance company. An equally important activity which has not been covered above is the distribution of the different products of the insurance companies. This distribution is carried out by various components of the distribution channel.

10. DISTRIBUTION CHANNELS

These are routes by which the product prepared by the producer reaches the ultimate consumer. Thus, the distance between the producer and the consumer is bridged by the distribution channel.

In the case of insurance companies, the distribution system is a network of individuals and organizations that are involved in making the insurance products available to the customers. They form a link between the insurance company and the buyers of insurance products.

The various components of the distribution channel in an insurance company are

1. AGENTS

An insurance agent is an agent licensed under section 42 of the Insurance Act, 1938. He/she receives payment by way of commission for procuring insurance business. He/she is also responsible for business relating to the continuance, renewal or revival of policies of insurance. An agent could also be a corporate agent i.e. a company or firm could also be an agent.

The primary function of an agent is to procure business for the insurance company. However, the agent can only procure business for the particular insurance company which he/she represents, and for no other company.

Once the insurance contract has been put into force, the agent has to ensure continuance of the policy through regular payment of renewal premiums. In case of a claim, the agent should help the insured in proper settlement of claims.

2. INSURANCE BROKERS

An individual or firm, whose full-time occupation is the placement of insurance business with insurance companies, is known as an insurance broker. The broker receives brokerage as a percentage of the premium from the insurer.

The main difference between an agent and a broker is that there are no restrictions on the procurement of business by a broker for various different insurance companies, while the agent can only procure business for that particular company which he represents.

Insurance brokers give advice to the insured without charging them.

3. INSURANCE CONSULTANTS

Insurance consultants are usually specialists who give advice to consumers who wish to buy insurance products. However, unlike the brokers, they get paid by the insured for this advice.

4. BANKING OUTLETS

These days, there has been a trend of using outlets of banks for distribution of insurance products. The logic behind this is that, as both banks and insurance companies target the same segments of population, using the bank outlets for distribution of insurance products, it can help in saving overheads as well as infrastructure costs. The concept of banc assurance has gained importance in the banking sector which is good for the insurance sector.

1.16 LIMITATIONS OF INSURANCE

In spite of number of advantages of insurance, it has certain limitations. On account of such limitations, the benefits of insurance could not be availed in full. These limitations are

- All the risks cannot be insured. Only pure risks can be insured and speculative risks are not insurable.
- Insurable interest (financial interest) in the subject matter of insurance either at the time of insurance or at the time of loss, or at both the times must be present, in the absence of which the contract of insurance becomes void.
- In case the loss arises from the happening of the event cannot be valued in terms of money, such risks are not insurable.
- Insurance against the risk of a single individual or a small group of persons are not advisable, since it is not practicable due to higher cost involved.
- Another important limitation is that the premium rates are higher in our country & as such, certain category of people cannot avail the advantage of insurance. The main reason for the higher rate of premiums is the higher operating cost.
- It becomes difficult to control moral hazards in insurance. There are certain people who mystifies the insurance plans for their self-interest by claiming false claims from insurance companies.

- Insurance is not a profitable investment. Its main object is to provide security against risks; insurance business cannot be a source to acquire profits. Certain specified risks can be insured with co-operation of the government only; such as, unemployment insurance, insolvency of banks, food insurance, etc.

1.17 GENERAL INSURANCE PUBLIC SECTOR ASSOCIATION OF INDIA (GIPSA).

GIPSA was formed on May 2002. Four units of General Insurance Co. Ltd.

- a. New India Insurance Co. Ltd.
- b. National Insurance Co. Ltd.
- c. United Insurance Co. Ltd.
- d. Oriental Insurance Co. Ltd.
- e. Above four companies are followers of general insurance public sector association of India in terms of administration and the matter they are concerning to wages decided by GIPSA. Otherwise all four units have their own board of directors and also they are corporate units. All the above insurance companies have their individual corporate body.

1.17.1 FUNCTIONS OF GIPSA -

- a. The carrying of any part of the general insurance business if it thinks it desirable to do so.
- b. Aliding, assisting and advising the companies in the matter of setting up standards of conduct and sound practice in general insurance business and in rendering efficient service to policy holder.
- c. Advising the companies in the matter of controlling their expenses and investment of funds.
- d. Issuing direction to companies in relation to the conduct general insurance business.

1.18 ORGANIZATIONAL SET UP AND MANAGEMENT OF GIC.

1.18.1 NEW INDIA INSURANCE CO. LTD.

The New India can claim to be the largest non life insurer not only in India but in the whole afro Asia region, excluding Japan. The New India was incorporated on 23rd July, 1919 and commenced transacting business on 14th October, 1919. There was hardly any Indian insurance company of significance till that time.⁸

The emergence of such a major national enterprise during this period British rule was not a coincidence. It was a product of historical forces. The birth of New India was the result of emergence of the Indian National movement for independence of the country, Mahatma Gandhi had emphasized that Indian political liberation without economic infrastructure in the country.

Thus sir Dorab Tata was inspired by this swadeshi movement to setup a large comosite company to provide sound and efficient insurance protection to the Indians.

New India is a leading global insurance group, with offices and branches throught India and various countries abroad. The company services he Indian subcontinent with a network of 1068 offices, comprising 26 regional offices, 393 Divisional Offices and 648 Branches. With approximately 21,000 employees, New India has a largest number of specialist and technically qualified personnal at all levels of management, who are empowered to underwrite and settle claims of high magnitude.(2007-08)

The Gross Premium was Rs. 1143.63 Crores in 2007-08. Company's foreign operations were affected by major claims in miscat (Gonu Cyclone), Dubai (Major fire claims) and curacao (Freezone Fire). The foreign exchange ezrning during the year 2007-08 amounted to Rs. 6.87 Crores towards dividend and repatriation of management fees companies Associate and subsidiary companies.

The New India Insurance Co. Ltd. has been working in countries like Abu Dhabi, Dubai, Behrens, Kuwait, Muscat, Saudi Arabia, Aruba, Curacao, Mauritius, Philippines, Hong Kong, Thailand, Australia, Fiji, Auckland and Japan.

Overseas operational results for the year ended 31st March 2008 in all above countries given below.

TABLE - 1.2
FOREIGN BUSINESS OF NIACL

Sr. No.	Particulars	2006-07		2007-08	
		Rs. in Crores	%	Rs. in Crores	%
1	Gross Premium (Direct+Accepted)	1143.63	-3.6	1186.85	5.7
2	Net premium	932.07	-5.0	981.441	1.9
3	Incurred Claims	693.55	74.4	567.92	57.9
4	Commission	236.16	25.3	240.65	24.5
5	Expenses of Management	88.92	9.5	97.01	9.9
6	Other Income	-2.04	-0.2	-0.15	0.0
7	Underwriting Profit/ Loss before Reserve Strain	-88.6	-9.5	75.71	7.7
8	Reserve Strain/Release	-18.53	-2.0	55.27	5.6
9	Underwriting Profit/Loss after Reserve Strain	-70.07	-7.5	20.44	2.1
10	Investment Income	113.7	12.2	99.42	10.1
11	Net Profit/Loss	43.63	4.7	119.86	12.2

1.18.2 ORIENTAL INSURANCE CO. LTD.

The Oriental Insurance Company Ltd. was incorporated at Bombay (Mumbai) on 12th September 1947. The company was a wholly owned subsidiary of the Oriental Government Security. Life Assurance Co. Ltd. and was formed to carry out general insurance business. The company was a subsidiary of life insurance corporation of India from 1950 to 1973 (till the general insurance business was nationalized in the country). In 2003 all shares of our company held by the general Insurance Corporation of India has been transferred to central government.⁹

The company is a pioneer in laying down systems for smooth and orderly conduct of business. The strength of the company lies in its highly trained and motivated work force that covers various disciplines and has vast expertise. Oriental specializes in devising special covers for large projects like power plants, petrochemicals, steel and chemicals plants. The company has developed various types of insurance covers to cater to the needs of both the urban and rural population of

India. The company has a highly technically qualified and competent team of professionals to render the best customer service.

Oriental Insurance made a modest beginning with a first year premium of Rs. 99.46 in 1950. The goal of the company was “Service to Clients” and achievement there of was helped by the strong traditions built up overtime.

FOREIGN BUSINESS

Oriental with its head office at New Delhi has 23 Regional Offices and nearly 900 operating offices in various cities of the country. The company has overseas operations in Nepal, Kuwait and Dubai. The company has a total strength of around 16,000 employees.(2007-08) The oriental insurance co. ltd.’s foreign operations in Nepal, Dubai, Kuwait and the Run-off account in London together yielded a Gross Direct Premium of Rs. 92.07 Crores during the year 2007-08 as against Rs. 92.26 Crores during the previous year. The net premium was higher at Rs. 90.37 Crores as against Rs. 86.77 Crores last year and the net incurred claims during this year in respect of foreign operations were Rs. 81.47 Crores with a net incurred claims ratio of 90.16%. The major losses that contributed to the deficient are flood in the 1st week of January 2008 and a major fire in the month of march, 2008 in Al Quoz Industrial area, events of an unusual nature that have severally affected the Dubai operations.

TABLE - 1.3
FOREIGN BUSINESS OF OICL

(Rs. in Crore)

Sl.	Particulars	Nepal		Dubai		Kuwait		Others (Run Off)	Total
		Amount	%	Amount	%	Amount	%	Amt.	Amount
1	Gross Direct Prem.	1707.21		3244.53		4255.53			9207.27
2	Premium(Net)	1385.3	81.14	3440.48	106.04	4211.13	98.96		9036.91
3	Commission(Net)	130.56	9.42	1051.77	30.57	1258.78	29.89		2411.11
4	Incurred Claim(Net)	448.09	32.35	4872.88	141.63	2830.57	67.22	-4.05	8147.49
5	Reserve Strain	95.39	6.89	64.51	1.88	-113.52	-2.7	0	46.38
6	Management Expenses	276.33	19.95	180.44	5.24	199.39	4.73	20.46	676.62
7	Under-writing Surplus(+)/Deficit(-)	434.93	31.4	- 2729.12	-79.32	35.91	0.85	-16.41	- 2274.69
8	Exchange Gain(+)/Loss(-)	-10.77	0.78	-143.35	-4.17	-69.84	-1.66	-9.52	-233.48
9	Interest & Other Income	179.19	12.94	120.76	3.51	68.13	1.62	2.42	370.5
10	Net Surplus(+)/Deficit (-)	603.35	43.55	- 2751.71	-79.98	34.2	0.81	-31.61	- 2137.67

1.18.3 NATIONAL INSURANCE CO. LTD.

National Insurance Company Limited was incorporated in 1906 with its registered office in Kolkata consequent to passing of the general insurance business nationalisation act 1972, 21 foreign and Indian Companies were amalgamated with it and national became a subsidiary of general insurance corporation of India, which is fully owned by Government Insurance Business (Nationalisation) Amendment Act, on 7th August 2002, National has been linked from its holding company GIC and presently operating as a Government of India undertaking.¹⁰

National Insurance Company Ltd. is one of the leading public sector insurance companies India, carrying out non life insurance business. Headquarter in Kolkata, NIC's network of above 1,000 offices, manned by more than 16,000 skilled personal, is spread over the length and breadth the country covering remote rural areas, town-

ships and metropolitan cities. NIC's foreign operation are carried out from its branch offices in Nepal and Hong Kong.

Befittingly, the product ranges of more than 180 policies offered by NIC cater to the diverse insurance requirements of its 10 million policyholders. Innovative and customized policies ensured that even specialized insurance requirements are fully taken care of.

The company services the Indian sub continent with a network of 1000 offices comprising 24 Regional offices, 309 divisional offices, 561 branch offices and 71 DAB offices.(2007-08) At present, the company has operation in Nepal only.

FOREIGN BUSINESS ;

Hong Kong

Hong Kong Branch stopped accepting new business with effect from 18-02-2002.

TABLE - 1.4
FOREIGN BUSINESS OF NICL

(Rs. in Crore)

Particulars	Nepal		Hongkong		Total	
	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07
Gross Direct Premium	14.74	12.70	0.00	0.00	14.74	12.70
Net Premium	11.67	9.83	0.00	0.00	11.67	9.83
Net Incurred Claims	5.20	7.21	-4.12	-11.76	1.08	-4.55
Net Commission	1.24	1.03	0.00	0.00	1.24	1.03
Expenses of Management	1.69	1.89	0.37	0.87	2.06	2.76
Decrease/Increase in Reserve for unexpired risks	0.93	0.48	0.00	-0.38	0.93	0.10
Investment and other income	1.29	1.19	0.81	1.08	2.10	2.27
Foreign Exchange Gain/Loss	0.17	-0.04	-2.25	-1.27	-2.08	-1.38
Net Profit(+)/Loss(-)	4.07	0.37	2.31	11.08	6.38	11.45

1.18.4 UNITED INDIA INSURANCE COMPANY LTD.

United India Insurance Company Ltd. was incorporated as a Company on 18th February 1938. General Insurance Business in India was nationalized in 1972. 12 Indian Insurance Companies, 4 co-operative insurance societies and Indian operations

of storegion of Life Insurance Corporation of India were merged with United India Company limited. After nationalization United India has grown by leaps and bounds and has 18300 work force spread across 1340 offices providing insurance cover to more than 1 crore policy holders. The company has variety of insurance cover to more than 1 crore policy holders. The company has variety of insurance products to provide insurance cover from bullock carts to satellites¹¹

United India Co. Ltd. has 25 regional offices, 1 regiona cell, 3 large corporate brokers and units, 361 divisional offices, 677 branch offices, 271 micro offices. The head office of United India Co. Ltd. is as Chennai. The Company's employees strength of class I officers is 4135, class II 2129, class III 8444 and class IV 2573.(2007-08)

FOREIGN BUSINESS;

Underwriting operations at Hong Kong ceased with effect from 01-04-2002 and New India looks after our run off portfolio since then. An actuarial valuation as on 31-03-2008, 40 claims are outstanding as against 70 last year.

Statement of run-off operations in Hong Kong Agency for the year ended 31-03-2008

TABLE - 1.5
FOREIGN BUSINESS OF UIICL

(Rs. In crore)

Details	Fire	Miscellaneous	Total
Net Premium	0 (0)	0 (0)	0 (0)
Incurred Loss	0 (0)	0.12 (-25.28)	0.12 (-25.28)
expenses of Management			0.52 (0.73)
Other income & Outgo			0.67 (-4.19)
Underwriting Profit/Loss			0.03 (21.15)
Investment Income			1.01 (0.79)
Net Profit			1.04 (21.15)

PATTERN OF ORGANIZATION

BOARD OF DIRECTORS

FUNCTIONS OF BOARD OF DIRECTORS

1. To determine the long-term policies of the company.
2. To take decision for doing any work prescribed under the Act.
3. Decentralization & delegation of authority at different levels.
4. Tasks to be assigned to top level, which are not delegated to lower levels.
5. Constitution of committees according to requirements.
6. To take decision in regard to promotions & conditions of services of important officers.

COMMITTEES OF THE COMPANY

The Board of Directors has power to appoint different committees for the effectively discharging, directing & control as well as advising the Board of directors in such matters. Some of the important committees are as below

1. Executive Committee
2. Investment Committee
3. Personal Advisory Committee
4. Building Advisory Committee
5. Development Advisory Committee
6. Budget Advisory Committee
7. Legal Advisory Committee
8. Policy holders Service Advisory Committee

THE CHAIRMAN

The chairman of the GIC is the Chief Executive Officer of the Company. He heads all the committee of the Company. But he has no authority to exercise the power of investment committee.

In the matters of investment of funds, the Chairman has to follow the advice of Investment Committee. But he can ask the Board of Directors to reconsider any decision or advice given by the committee. There are restrictions on exercise of powers of the Chairman, but in emergencies he has all the powers of the Company.

THE MANAGING DIRECTOR

The Managing Director is the whole time officer of the Company. He discharges all the functions entrusted to him by the executive committee of the Company. The Company can appoint one or more persons as Managing Director. The Managing Director needs not be a member of the Board. He delegates some of his powers to the officers working in different levels, but before such delegation taken place, prior approval of the Board of Directors / Chairman is necessary.

OFFICES OF THE GIC & DEPARTMENTS

For the effective management & control of the GIC, the offices of the Company are divided into

- Head Office
- Regional Office
- Divisional Office
- Branch Office

IMPORTANT DEPARTMENT IN HEAD OFFICE

For the purpose of discharging these functions, some departments have been set up in the Central Office. The important departments are

1. Development Department
2. Investment Department
3. Corporate Department
4. Organization Planning Department
5. Policy holder Servicing Department
6. The Finance & Accounts Department
7. The Actuarial Department
8. Audit & Inspection Department
9. Legal & Mortgage Department
10. Group & Superannuation Department
11. Personal Department
12. Vigilance Department
13. Electronic Data Processing Department
14. Integration Department

15. Publicity Department
16. Foreign Department

FUNCTIONS OF HEAD OFFICE.

The important functions of the Central office are as under

1. Determination of requisite policies & plans.
2. Issues directions to Zonal & Divisional Offices from time to time.
3. Establishing co-ordination between Zonal & Divisional Office.
4. Exercise control over Divisional & Branch Offices through Zonal Offices.
5. Investment of Funds of the Corporation.
6. Organizing meetings of Zonal Managers & Annual General Meetings of Divisional Managers.
7. Supervision of the activities of Divisional & Branch Offices & auditing of their accounts.
8. Standardization of work methods, fixation of premium rates, arrangement of re-insurance, publicity, etc.

REGIONAL OFFICE

COMMITTEES OF THE REGIONAL OFFICE

1. Regional Advisory Board/committee
2. Employees & Agents Relations Committee
3. Regional Managers

IMPORTANT DEPARTMENT IN REGIONAL OFFICES

1. The Personal & Industrial Relations Department
2. The Development Department
3. The Estates Department
4. The Legal & Mortgage Department
5. The Accounts Department
6. The Actuarial Department
7. Building and Engineering Department
8. Office Services Department
9. Regional Training Department

FUNCTIONS OF REGIONAL OFFICE.

- To control the functioning of the officers & employees to prepare the development planning of insurance business in the particular zone.
- It evaluates the quantum of risk involved in revival of policies, which are beyond the powers of Divisional Office.
- To take policy decisions in technical matters received from subordinate offices in the zone.
- To advise & guide the Divisional Offices on the principles, practices & methods of accounting system.
- It also plays advisory role in personnel & legal matters, management of corporation's office buildings, purchase of stationary, furniture & equipment, printing of forms & other documents, etc.

The roles of two committees are very important with organization & management of zonal offices. They are

DIVISIONAL OFFICES

IMPORTANT DEPARTMENT IN DIVISIONAL OFFICES

The departments under divisional offices are as follows

1. Planning Department
2. Policy holder Servicing Department
3. Accounts & Cash Department
4. Claim Department
5. New Business Department
6. Office Service Department
7. Legal & Mortgage Department
8. Marketing Department
9. Personal & Industrial Relations Department
10. Data Processing Department
11. Branch Support Department
12. Establishment Department
13. Mailing Department

FUNCTION OF DIVISIONAL OFFICE.

- Approval of the budget proposals of branch / divisional office.
- Evaluate the monthly progress reports.
- Accepting the proposals of common supervision.
- Issues of directions for inter departmental cooperation.
- Give suggestions to top officers for improvement in policies towards work methods & policies.
- Efforts to increase goodwill of the corporation.
- Consideration of matters where collective efforts are needed.
- Discharging of functions delegated by top authority.
- To consider the matters, which improve the efficiency of every unit of the corporation?

BRANCH OFFICES

IMPORTANT DEPARTMENT IN BRANCH OFFICES

Usually the following departments are setup in a branch office.

1. New Business Department
2. Policy holder Servicing Department
3. Account Department
4. Office Service Department
5. Sales & Development Department
6. Claim Department
7. Machine Department

1.19 FUNCTIONS OF GENERAL INSURANCE COMPANIES

Section 19 of the Act lays down the functions of the acquiring companies to be

- (1) To carry on general insurance business and to develop it to the best advantage of the community, subject to the rules it any made in this behalf by the Central Government under s 89 of the act and subject to its memorandum and articles of association and
- (2) To act so far as may be on business principles and in conformity with any directions that may have been issued to it by the GIC s19(4) clarifies that the GIC and the acquiring companies may enter into reinsurance contracts or

treaties for the protection of their interests for the protection of their interests, subject to rules if any made by the Central Government in this behalf.⁸

- (3) Each acquiring company shall so function under this Act as to secure that general insurance business is developed to the best advantage of the community.
- (4) In the discharge of any of its functions, each acquiring company shall act so far as may be on business principles and where any directions have been issued by the Corporation, shall be guided by such directions.
- (5) For the removal of doubts it is hereby declared that the Corporation and any acquiring company may, subject to the rules, if any, made by the Central Government in this behalf, enter into such contracts of reinsurance of reinsurance treaties as it may think fit for the protection of its interests.¹²

1.20 CAPITAL OF GENERAL INSURANCE PUBLIC SECTOR COMPANIES

No insurer carrying on the business of general insurance in India or after the commencement of the IRDA Act 1999 shall be registered unless he has

- (1) A paid up equity capital of rupees one hundred crore, in case of person carrying on the business of age.
- (2) Paid up equity capital of rupees two hundred crore in case of a person carrying on exclusively the business of re-ins provided that in determining the paid up equity capital specified under the deposit to be made under section 7 and any.¹¹

1.21 LEGAL FRAMEWORK OF INSURANCE

1.21.1 HISTORY OF INSURANCE LEGISLATION IN INDIA

Up to the end of nineteenth century, the insurance was in its inspectional stage in India. Therefore, no legislation was required till that time. Usually the Indian Companies Act, 1883 was applicable in business concerns, banking and insurance companies. New Indian Insurance companies and Provident Societies started at the time of national movement; but most of them were financially unsound. It was asserted that the Indian Companies Act, 1883 was inadequate for the purpose. Therefore, two Acts were passed in 1912, namely, Provident Insurance Societies Act

V of 1912 and Indian Life Insurance Companies Act VI of 1912. These two Acts were in pursuit of the English Insurance Companies Act of 1909 with the difference that the Indian Life Insurance Companies related to life insurance only and excluded the non-life business from its fold. The Act put the life insurance business in India on sounder footing and resulted in creating a healthier atmosphere than before. It was also instrumental in the dissolution of some unsound Indian as well as non-Indian life offices or in the merging of some of them with the others. The legislation in India was confining to life business because there were very few general insurance companies and did not call for any legislation. To prevent financial weakness the insurers were required to keep certain stated deposits. The Indian insurers were required to submit returns giving particulars of their business. The foreign insurers were exempted from submitting separate particulars regarding the business done in India. Some English companies ceased to underwrite further business with a view to avoid submission of reports to the Government of India. Some Indian Companies, which conducted business on assessment or on actuarially unsound basis, either dropped or mortgaged them to conform to actuarial requirements. The policies issued by these companies were not less than Rs. 1,000. The aim of the Provident Insurance Societies Act, 1912 was to govern Provident Insurance Societies which were engaged in issuing life policies worth Rs. 1,000 or less and marriage and disease policies, of every nominal amount. This act was purely based on the Friendly Societies Act.¹³

These two enactments were governing only life insurance. There was no control on general insurance since such businesses were not so developed. Besides, there were the following defects of these Acts

1. The control and enquiry was slight. Non-compliance of rules and regulations was not strictly penalized.
2. The foreign companies were to submit report of their total business both in India and outside India. But separate particulars regarding business done in India were not demanded and the absence of these made it impossible to get any idea of the cost of procuring business in India for foreign companies and comparing them with similar data of the Indian companies.
3. The Government Actuary was not vested with the power to order investigation into the conduct of a company even when it appeared that the company was insolvent under the power of exemption.

4. Any one can start life insurance business only with the sum of Rs. 25,000. It was too low to prevent the mushroom growth of companies. Foreign insurer was not bound to deposit a certain sum of life policy issued in India.

These defects were compelling the above Acts to be replaced. Public was aware of the fact that the Indian companies in foreign countries or in England were directed to have a certain sum in the shape of reserve as contrary to above regulation. The law in India was not in line with the law in force in other countries. Persistent demands were made by various important public bodies in the country for statutory provisions which would provide for disclosure and publication of the business carried on in India by foreign companies. After a few years it was realized that there should be another efficient and adequate act.

So, the Government placed a bill for essential amendment of the Act, in 1924. The bill was containing a wide scope of insurance business. The bill came to the legislative assembly after thorough comments by different bodies.

During the time, an important thing happened miraculously about the enactments of insurance business in England. The Government of India thought it fit to watch the course of new legislation on Insurance Law in England. Great Britain appointed Clauson (under the chairmanship of Mr. A.C. Clauson) Committee to report the possible and required changes in the Legislation. Therefore, the Government of India thought it wise to postpone the bill to include the reports of Clauson Committee. The Clauson Committee submitted its report in February 1927, but the Government of England took not action on its recommendations. The Government of India in 1928 passed stopgap legislation with the main object of collecting statistics regarding insurance matters so that the information collected would be of value when the time would come to pass a comprehensive Act. This act was not very comprehensive. The Government of India wanted to wait the English Legislation, which was expected to be passed in 1929 or so and base the law for India on the British model, but the legislation was not passed in Britain. The slow progress of events in Britain again reviewed the agitation for amendment of the law of Insurance in India.

Since the Act of 1928 was not very comprehensive, demand for another act was made. The Government accepted the genuine demand and appointed one special officer for investigations the special and required reform of legislation in 1935. He was a well-known Calcutta Solicitor and was placed on special duty to report on the

amendments necessary to modernize insurance legislation in India. His report was considered by the Advisory Committee (comprising representatives of all branches of insurance) appointed by the Government of India. The committee made several changes and the Government of India introduced the bill in the Legislative Assembly in 1937 and after much debate and several changes; it emerged as the Insurance Act of 1938.

1.21.2 INSURANCE LAWS IN INDIA

There are mainly four laws are concerned with the insurance business of India are as follows.

- A. Insurance Act, 1938
- B. Life Insurance Corporation Act, 1956
- C. General Insurance Business (Nationalization) Act, 1972
- D. Insurance Regularity and Development Authority Act, 1999 (IRDA)

A. INSURANCE ACT, 1938

The insurance act originally passed in the year 1938 however It amended for several times, It latest amendment of the insurance act was the, the IRDA itself when it became the authority to perform many tasks required to be done under the insurance act such as issuing licenses, issuing registration certificates, monitoring compliance with the provisions of the Act, issuing directives, laying down norms. The all above said functions were performed by the controller of Insurance earlier as per the Insurance Act, 1938. The provisions of the Act may be briefly described as follows.

REGISTRATION

To obtain the certificate of registration is compulsory to the every insurance company. The Registration should be renewed annually. The paid up capital must be of Rs. 100 crores for life insurance or general and Rs. 200 crores for re-insurance business.

Every insurer has to deposit in cash or appioved securities, a sum equivalent io 1 % In life insurance or 3% in general insurance of the. total gross premium in-any financial year commencing after 31st March, 2000 with the Reserve Bank of India. The amount is not being exceeding Rs. 10 crores. The deposit amount is Rs. 20 crores for re-insurance businesses.

Every insurance company must keep the accounts^ separately of all receipts and payment in respect of each class of insurance business such as the marine or miscellaneous insurance.

Insurers must invest his assets only in those investments which approved under the provisions of the Act. Every insurance company has to do a minimum insurance business in the rural or social sector, as may be specified in the order. The authority can be investigated the affair of the insurer at any time.

LICENSING OF AGENTS

License is the pre requirement for becoming the agent. Person can't work as an insurance agent unless he has obtained a license from the authority. There is some disqualification for being as per the act expect the minor age or having unsound mind as follows

1. Being unsound mind.
2. Being convicted of criminal misappropriation or criminal breach of trust or cheating or Forgery or Abetment or Attempt to commit any such offence.
3. Being found to have been guilty of or connived at any fraud, Dishonesty or misappropriation against any insured on insurer.

LICENSING OF SURVEYORS AND LOSS ASSESSORS

No insurer can settle any claim equal to or exceeding Rs. 20000/- without the report on the loss from a licensed surveyor. The person can act as a surveyor or loss assessor only after obtaining license from the authority. The authority can't issue the license without get satisfaction about the applicant that he

- a. Has been in presence as a surveyor loss accessor on the date of commencement of the IRDA Act, 1999.

Or

- b. Possesses any of the qualifications specified in the act e.g. degree in engineering, chartered accounting, diploma in insurance etc.
- c. Does not suffer from any of the disqualification specified for grant of agent's license.

If the applicant for the surveyor is the company of a firm, the requirements must be satisfied to all the directors or the partners, as the case may. Limits have been

laid down for the extent of the management expenses of the insurers. The commission to an insurance agent shall not exceed 15% of the premium payable under fire, marine or miscellaneous insurance policies. Rebate is not only parting of commission by the agent but also changing less than the tariff rate of premium by the way of inducement to the insured.

SOLVENCY MARGIN

The authority for the insurer also decides the solvency margin. The act clarifies how the assets and liabilities have to be determined and the extent to which the assets are to exceed the liabilities. These provisions exist to ensure the adequacy of insurer's solvency

PAYMENT OF PREMIUM BEFORE ASSUMPTION OF RISK

A risk can be assumed by the, insurance company after receiving the premium or a guarantee that the premium will be paid within the prescribe time. Sometimes agents collect the premium amount and dispatch or deposited to the insurance company. They have to deposit the money within the 24 hours except the bank and postal holiday. The agent has to deposit the premium in full without deducting his commission. If any refund of, the premium will be due, the insurer directly shall paid the amount to the insured by crossed or order cheque or by postal money order.

B. LIFE INSURANCE CORPORATION ACT,1956

Life Insurance Business in India was nationalized with effect from January 19, 1956. On the date, the Indian business of 16 non-Indian insurers operating in India and 75 Provident Societies were taken over by Government of India. Life Insurance Corporation of India, Act was passed by the Parliament on June 18, 1956 and came into effect from July 1, 1956. Life Insurance Corporation of India Commenced its functioning as a corporate body from September 1, 1956. Its working is governed by the LIC Act. The LIC is a corporate having perpetual succession and a common seal with a power to acquire hold and dispose of property and can by its name sue and be sued. Certain important provisions of the Act (as amended by IRDA Act, 1999) are discussed as follows

Important Provisions of Life Insurance Corporation Act, 1956

1. Constitution
2. Capital
3. Functions of the Corporation
4. Transfer of Services
5. Set-up of the Corporation
6. Committee of the Corporation
7. Authorities
8. Finance, Accounts and Audit
9. Miscellaneous

C. GIBNA (THE GENERAL INSURANCE BUSINESS NATIONALIZATION ACT 1972)

The General Insurance Business Nationalization Act was passed in 1972 to set up the general insurance business. It was the nationalization of 107 insurance companies into one main company called General Insurance Corporation of India and its four subsidiary companies with exclusive privilege for transacting general insurance business.¹⁴

This act has been amended and the exclusive privilege ceased on and from the commencement of the insurance regulatory and development authority act 1999. General Insurance Corporation has been working as a reinsurer in India. Their subsidiaries are working as a separate entity and plays significant role in the public sector of general insurance.

D. INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY- 1999

In 1993, Malhotra Committee headed by former Finance Secretary and RBI Governor. R. N. Malhotra was formed to evaluate the Indian Insurance Industry and recommend its future direction. The committee was set up with an objective of complementing the reforms in the Indian Financial Sector. The reforms were aimed at "Creating a mere efficient and come positive financial system suitable for the requirement of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an .important part of the overall financial system where it was necessary to address the need for similar reforms."¹⁵

MALHOTRA COMMITTEE RECOMMENDATIONS

In 1994, the committee submitted the report and gave the following recommendations now in the point forms.

STRUCTURE

- Government stake in the insurance companies to be brought down to 50%.
- Government should take over the holdings of GIC and its subsidiaries so that there is subsidiaries can act as Independent Corporation.
- All the insurance companies should be given greater freedom to operate.

COMPETITION

1. Private companies with a minimum paid up capital of Rs.1 billion should be allowed to enter the industry.
2. No company should deal in both life and general insurance through a single entity.
3. Foreign companies may be allowed to enter the industry in collaboration with the domestic companies.
4. Postal Life Insurance should be allowed to operate in the rural market.
5. Only one State Level Life Insurance Company should be allowed to operate in each state.
6. The Insurance Act should be changed.
7. An Insurance Regulatory body should be set up.
8. Controller of Insurance (Currently a part from the Finance Ministry) should be made independent.

INVESTMENT

Mandatory Investments of LIC Life Fund in government securities to be reduced from 75% to 50%.

GIC and its subsidiaries are not to hold more than 5% in any company.

First mortgage of immovable property is allowed, if property is situated in India or any other country where the insurer is carrying on insurance business provided

1.22 INVESTMENT MANAGEMENT OF GENERAL INSURANCE COMPANIES

1. First mortgage of immovable property is allowed, if property is situated in India or any other country where the Insurer is carrying on insurance business provided that if the mortgage is in a leasehold property the outstanding lease is not less than 15 years and the value of the property exceeds one third or if the property consists of building by one half of the mortgage money.
2. The insurer is also permitted to invest 25% of the assets in other than in approved investment. The 25% limit shall be applied on assets including other than Approved Investment. The unanimous approval of all directors other than directors interested is also necessary.
3. Investment in any one company other than banking or investment company shall not be more than 10% of the assets of the insurer or 10% of the subscribed capital and debentures of the company, whichever is less.
4. No insurer shall invest in Private Limited Company.
5. An Insurer shall not keep more than 10% of his assets in fixed and current deposit or in both with one banking company or co-operative society doing banking business. In calculating the limits, premiums credited in proceeding 60 days or amounts deposited during proceeding 30 days for payment of claims shall be excluded. All assets which may be offered as security for any loan taken for investment or payment of claims or which may be kept as security deposit with bank for acceptance of policies be kept free of encumbrances. The loan taken shall be repaid in three months.

CUSTOMER SERVICE

LIC should pay interest on delays in payments beyond 30 days.

Insurance companies must be encouraged to set up unit linked pension plans.

Computerization of operations and updating of technology to be carried out in the insurance industry.

Overall the committee strongly felt that in order to improve the customer services and increase the coverage of the insurance industry should be opened up to competition. But at the same time, the committee felt the need to exercise caution as any failure on the part of new players could ruin the public confidence in the industry.

The Act passed in 1999, which has the main objective as follows

"To provide for the establishment of an authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry. The authority has been established under the provision of the act.

The authority shall consist some members as follows;

- i. A chairperson,
- ii. Not more than five whole time members,
- iii. Part time members (not more than four)

All the members are appointed by the central government. The persons are able, who have ability, integrity, knowledge or experience in life insurance, general insurance, actuarial science, finance economics law, accountancy; administration or any other discipline which would be useful to the authority in the opinion of the central government.

1.23 DUTIES, POWERS AND FUNCTIONS OF THE AUTHORITY

The authority has the powers and functions include

- i. Registration of insurers, intermediaries and agents.
- ii. Regulation of the terms and the conditions of the contracts of insurance
- iii. Promoting and regulating professional organizations connected with the insurance and re insurance business.
- iv. Monitoring investment of funds and solvency margins of insurance companies.

There is a committee, which advised the authority. The committee is known as the Insurance Advisory Committee. The committee consists of not more than 25 members excluding ex officio members. The members are the representative of the interest of commerce, industry, transport, agriculture, consumer forum, surveyors agents, intermediaries, organizations engaged in safety and loss prevention, research bodies and employees association in the insurance sector. The insurance advisory committee is advised the authority on the matters relating to the making decision of the regulations.

The authority has issued a number of regulations, which have to be complied with the insurance companies. Only Indian insurance companies will be given

Registration to transact in insurance business. An Indian company has been defined as a company under the company Act 1956 and, in the paid up capital of which, the holding of a foreign company, directly or through its subsidiaries and / or nominees, does not exceed 26%.

The paid up capital of the insurance (whether life or general) company will have to be not less than Rs. 100 crores and in the case of companies wanting to transact reinsurance business the paid up capital will have to be not less the Rs. 200 crores. The insurers have to maintain their assets up to specified limit as per the provisions of the authority at any time. Every insurance company has to appoint an actuary, who must be approved by the authority. The duty of the actuary is

- i. The assets are valued in the appropriate manner.
- ii. The liabilities are evaluated as required.
- iii. The prescribed margins for maintaining solvency are complied with.

The authority has also issued regulations with regard to advertisement. These regulations are applicable to all advertisement whether it issued by the insurance company or an insurance intermediary includes an agent. The scope of the advertisement is wide which includes almost any public communication, which recommends a sale of an insurance policy. The provision mentions that each advertisement should have full disclosures of the product mentioned and of the advertiser including license and Registration number. Advertisement, which is issued by agents, must be approved by the insurer in writing before issue.

There are certain other acts which directly or indirectly affects the general insurance businesses which are as follows

MARINE INSURANCE ACT, 1963

The act is specially formulated for the marine insurance business. It codifies the law relating to Marine Insurance. There are only few exception from the U.K. Marine Insurance Act, 1905. Underwriters have thorough knowledge about how to pursue rights of recovery from carriers or bailees under subrogation proceedings. In addition to the Marine Insurance Act, 1963 the following laws govern the practice of marine insurance.

THE CARRIAGE OF GOODS BY SEA ACT,1925

The act specifies the minimum rights, liabilities and immunities of a ship owner in respect of loss or damage to cargo carried. The act specifies three aspects of a ship owner's liabilities towards cargo owners as follows.

- i. The circumstances when the ship owner is deemed to be liable for loss or damage to cargo,
- ii. The circumstances when the ship owner is exempted from liability such as when loss or damage is caused by events outside his control, e.g. perils of the sea.
- iii. The limits of liability of a ship owner for loss of a damage to cargo calculated in monetary terms per package or unit of cargo.

THE MERCHANT SHIPPING ACT,1958

It provides protection to ship owners. The ship owners liability arises up to certain maximum sums for certain losses, provided the incident giving rise such claims has arisen without the actual fault or priority of the ship owner, whether the claims relates to loss of life, personal injury, or damage to property on land or water. It also confers an obligation on the ship owner to send his ship to sea in a sea worthy and safe condition,

THE BILL OF LADING ACT, 1855

Bill of leading is an evidence of the contract of carriage of goods between the ship owner and the shipper, as an acknowledgement of the receipt of the goods on board the vessel. It is a document of title. This document requires in connection with settlement of marine cargo claims.

THE INDIAN PORTS ACT,1963

The act described the liability of port trust- authority for loss of or damage to goods whilst in their custody. It also defines the prescribed time limit for filing monetary claim on, or suit against the Port Trust Authorities.

THE CARRIERS ACT, 1865

The act defines the rights and liabilities of truck owners or operators who carry goods for public hire in respect of loss or damage to goods carried by them. It

also mentions the time limit within which notice of loss or damage must be filed with the road carriers.

INDIAN RAILWAYS ACT, 1989

The act deals with various aspects of railway administration; there are also provisions, which are relevant to marine insurance. The provisions of the relate to rights and liabilities of railways as carries of goods.

The tribunals deal with claims for cargo loss, personal injuries, and refund of excess freight.

THE INDIAN POST OFFICE ACT, 1898

The act defines the liability of the government for loss, wrong delivery, delay or of damage to any postal article in course of transmission of post.

THE CARRIAGE BY AIR ACT, 1972

This act defines the liability of the air carrier for death of or injury to passages and for loss of or damage to registered luggage and cargo. It also prescribes the maximum limits of liability for death, Injury, damage etc., it specifies the time limits within which claims have to be filed on the air carrier. The provisions also apply to domestic carriage with some changes.

MULTIMODAL TRANSPORTATION ACT, 1993

This is the act for the persons who engage in more than one mode of transportation such as rail, road, sea or air. The act specifies limits of liability of the operator, contents of documents issued by them, notice of loss etc.

THE MOTOR VEHICLES ACT, 1988

The act specifies for compulsory third party insurance of motor vehicles, no fault liability, solution fund for victims of 'Hit and run' victims of motor vehicle accidents

THE INLAND STEAM VESSELS ACT, 1977

The act is in relation to the insurance of mechanically propelled vessels against third party risks. It makes the same insurance compulsory for owners or operators of inland vessels to insure against legal liability for death or bodily injury of

third parties or of passengers carried for hire or reward and for damage to property of third parties. It prescribes the limits of the liability.

PUBLIC LIABILITY INSURANCE ACT, 1991

It deals with the immediate relief to the persons affected by accidents arising of hazardous substances. It also deals with that this liability, which is on 'no fault' basis, has to be compulsorily insured.

THE WORKMAN'S COMPENSATION ACT, 1923

It describes the payment by employers to their employee / workmen, of compensation for injury by accident or disease, arising out of and in the course of employment.

SALE OF GOODS ACT

The act relates with the rights and obligations of sellers and buyers of goods like the merchantable quality of goods, the point or time at which ownership transfers from sellers to buyer.

THE INDIAN STAMP ACT, 1899

A policy of insurance must be stamped as per the schedule of rates for various classes of insurance prescribed in the act. A policy can't be enforced 'in a court of law' if it is not stamped.

EXCHANGE CONTROL REGULATIONS

Generally, premiums and the amount of the claim are payable in Indian currency, rupees. The regulations describe the circumstances when premiums and claims can be paid in foreign currency and the procedure for obtaining permission from the reserve Bank of India.

CONSUMER PROTECTION ACT, 1986

The objective to pass this act is to provide for better protection of the interests of consumers and for the settlement of consumers disputes.

It is applicable to the buyers of goods and services. Insurances have been defined as a service, for the purpose of the act. The buyer of insurance is a consumer.

The customer or consumer, who thinks that the service given to Mm was deficient, can file a complaint under the act before the respective forum for redressal. Forums are appointed at different levels to hear grievances.

The procedure for filling a complaint is very simple in all the redressal agencies namely, District Forum, State Commission, National Commission, There is no fee for filling a complaint or filling an appeal. No advocate is required for the purpose of filling a complaint. If the forum is satisfied about the allegations contained in the complaint, the forum can issue the order directly to the opposite party to do one or more of the following things such as.

- To return to the complainant the price (premium) or as the case may be the charges paid by the complainant.
- To pay such amount as may be awarded by it as compensation to the consumers for any loss or injury suffered by the consumer due to the negligence of the opposite party.
- To remove the defects or deficiencies in the services in question.
- To discontinue the unfair trade practices or the restrictive trade practice or not to repeat them.
- To provide for adequate cost to parties.

The majority of insurance consumer disputes with the three forums are in the nature of

- a. Delay in settlement of claims
- b. Non settlement of claims
- c. Repudiation of claims
- d. Assessment of loss

INSURANCE OMBUDSMAN

Ombudsman traces its history to Sweden was back in 19Un century and it literally means an authority who is empowered to-investigate individual complaints against public authorities, departments etc. later it has been adopted in many countries including UK, Australia etc.

In India the idea of insurance ombudsman (IO) was first mooted in the year 1998. Central government by the powers conferred on it by sub section (I) section 114 of insurance act 1938, has set up an ombudsman specifically for insurance sector.

Main objective of insurance ombudsman is redressal and settlement of disputes arising between insured and insurer. Insurance ombudsman is a quasi judicial body established for speedy settlement of disputes in fair, impartial and judicial manner.

The proceedings before insurance ombudsman are summary proceedings without involving any cost and they are speedy too. Thus, the main advantage of IO is its cost effectiveness and expeditious settlement of disputes. Insurance ombudsman is open to all individuals where the claim amount is less than Rs. 20 lakhs. Powers of insurance ombudsman include examining the complaints regarding

- Partial or total repudiation of claims
- Delay in settlement of claims
- Legal construction of policy (Policy wordings)
- Premium paid or payable
- Non issue of insurance documents to customers after receipt of premium.

Therefore the insurance ombudsman cannot attend to all complaints. Following are the instances where the insurance ombudsman cannot entertain a complaint.

- Any complaint which falls outside the territorial limits of the ombudsman.
- Any complaint where the claim amount is more than 20 lakhs.
- Any dispute / issue / complaint which is under trial in any other judicial or quasi judicial body.
- Where the complaint is not regarding personal lines of business.
- Where the complaint is filed by any artificial juristic person.
- Any complaint which is lodged after one year from the date of issue of first reply by the insurer.

First step to seek redress under IO scheme is that insured has to apply in writing to the IO under whose jurisdiction the insurer falls. Complaint can be filed either by the insured or his legal heirs and should clearly state the name and address of the insurer against whom the complaint is made, nature and circumstances giving rise to dispute, nature of loss sustained by the complainant and relief sought from IO. Further, complainant has to substantiate his claim with all the documentary evidences. It would be for a maximum of month. After hearing both the parties IO may pass an award, which if acceptable to the complainant, is sent to insurer for final execution.

Insurer has to comply with the award within 15 days and same has to be informed to the IO.

If the grievance is not settled on a mutually agreeable basis, IO gives a speaking award within a period not exceeding three months. If the complainant is not satisfied with the award, he can appeal in any other forum or court, however such facility is not available to the insurer. To this extent IO is a one sided system.

Here it may be noted that award passed by the IO has to be complied with, by the insurer within the specified time i.e., 15 days. However, if the insurer opts for non compliance of the award, there is nothing an IO can do that is to say that it has no judicial powers for the execution of award given by it, like other judicial systems like consumer forums, civil courts etc.

A specific feature of the IO is that no advocates are allowed to represent insurer/complainant to argue their respective cases. Further IO being a non judicial authority, does not have the powers of summoning particular persons / witness and examining them on oath. Another specific feature of IO is that it can pass award for exgratia settlement of disputes, while such powers of exgratia settlement are not vested with other redressal mechanisms such as consumer courts etc.

1.24 INTRODUCTION OF IRDA & ITS SALIENT FEATURES

INTRODUCTION

The Government of India realized the necessities of setting-up Insurance Regulatory and Development Authority (IRDA) in 1999. The IRDA was set-up to provide for the establishment of an Authority, for protecting the interests of holders of insurance policies, to regulate, promote and insurer orderly growth of the insurance industry and for matters connected therewith or incidental thereto. With the birth of IRDA, the Government amended the insurance Act, 1938, the Life insurance Corporation Act, 1956 and the General Insurance Business (Nationalization) Act, 1972 for the sake of proper control] at apex level."¹⁶

SALIENT FEATURES

The Government introduced IRDA Bill in 1999, which was passed by the parliament. The salient features of IRDA Act, 1999 are as under:

- The Authority may make rules and regulations dealing with various matters such as to provide for fee relating to registration of insurers, manner of suspension or cancellation of registration, manner and procedure of disinvesting excess share capital, time and manner of investment of assets held by an insurer, the requisite qualifications and practical training of insurance agents/intermediaries, passing of examination by them, the preparation of balance sheet, profit and loss account and a separate account of receipts and payments and revenue account, valuation of assets and liabilities, etc. amongst various other matters
- "Indian Insurance Company" defined to mean a company registered under the Companies Act, 1956 with foreign equity not exceeding 26% of total equity shareholding including equity holding of Non-resident Indians (NRIs), Foreign Institutional Investors (FIIs), and Overseas Corporate Bodies (OCBs) have been allowed to carry on Insurance Business (Life Insurance, General Insurance and Re-insurance).
- After commencement of Insurance Company, the Indian promoters can hold more than 26% of the total equity holding for a period of ten years, the balance shares being held by non-promoter Indian Shareholders that will not include equity of foreign promoters, and share holding of FIIs. N'RI's add OCBs.
- After the permissible period of ten years, excess equity above the prescribed level of 26% will be disinvested as per a phased programme to be indicated by IRDA. The Central Government is empowered to extend the period of ten years in individual cases and also to provide for higher ceiling on shareholding of Indian promoters in excess of which disinvestments will be required
- Of foreign promoters, the maximum of 26% will always be operational. They will thus be unable to hold any equity beyond this ceiling at any stage.
- The Insurance Company, in the event of shares are sought to be transferred by an Individual, Firm, Group, Constituents of a Group or Body Corporate under the same management, jointly or severally exceeds 1% of the paid-up capital of the insurance company, shall register such transfer only after obtaining the previous approval of the authority.

- All the powers presently being exercised under the Insurance Act, 1938 by the Controller of Insurance (COI) will be transferred to the Insurance Regulatory and Development Authority (IRDA).
- The Central Government by notification supersede the Authority for such period not exceeding 6 months and appoint a person to be the Controller of Insurance. This power is to be exercised only in the event the Authority is unable to perform its functions or discharge its duties or has persistently defaulted in complying with the Central Government directions or when such super-session is necessary in public interest.
- The minimum amount of paid-up capital is Rs. 100 crore in case of life insurance as well as general insurance and Rs. 200 crore in case of re-insurance.
- Solvency margin (excess of assets over liabilities) to be maintained at not less than Rs. 50 crore for life as well as general insurers and Rs. 100 crore for re-insurer.
- Insurance Companies to deposit in cash and/or approved securities with RBI a sum equal to 1% of the gross premium written in India in any financial year commencing after 31.03.2000 subject to a maximum of Rs.10 crores. However, in case of re-insurance business the maximum limit is Rs. 20 crores.
- In non-life sector, IRDA would give preference to companies providing health insurance.
- No insurer shall directly or indirectly invest the funds of the policyholders outside India. The authority may specify the time and manner and other conditions of the investments of assets of the insurer and may also issue directions relating thereto.
- Insurance agents to undergo training for a period not exceeding 12 months and to pass the examination as may be specified by regulations to be framed by the authority. Existing License Holders are however exempt from it.
- The intermediary and/or insurance intermediary will also have to undergo a 12 months training and will be required to pass the specified examination. Intermediary will include insurance brokers, re-insurance brokers, insurance consultants, surveyors and loss assessors.

- Every insurer shall provide life insurance or general insurance policies (including insurance for crops) to the persons residing in the rural sector, workers in the unorganized or informal sector or for economically vulnerable or backward classes of the society and other categories of persons as may be specified by regulations made by IRDA.
- Failure to fulfill the social obligations would attract a fine of Rs. 25 lacks in case the obligations are still not fulfilled, license would be cancelled.

1.25 MILESTONES OF INSURANCE REGULATIONS IN THE 20TH CENTURY

Year Significant Regulatory Event

1912	The Indian Life Insurance Company Act
1928	Indian Insurance Companies Act
1938	The Insurance Act Comprehensive Act to regulate insurance business in India
1956	Nationalization of life insurance business in India with a monopoly awarded to the Life Insurance Corporation of India
1972	Nationalization of general insurance business in India with the formation of a holding company General Insurance Corporation
1993	Setting up of Malhotra Committee
1994	Recommendations of Malhotra Committee published
1995	Setting up of Mukherjee Committee
1996	Setting up of (interim) Insurance Regulatory Authority (IRA) Recommendations of the IRA
1997	Mukherjee Committee Report submitted but not made public
1997	The Government gives greater autonomy to Life Insurance Corporation, General Insurance Corporation and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector
1998	The cabinet decides to allow 40% foreign equity in private insurance companies - 26% to foreign companies and 14% to Non-resident Indians and Foreign Institutional Investors

- 1999 The Standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26V The IRA bill is renamed the Insurance Regulatory and Development Authority Bill
- 1999 Cabinet clears Insurance Regulatory and Development Authority Bill
- 2000 President gives Assent to the Insurance Regulatory and Development Authority Bill

Source:Tapan Sinha, CRIS Discussion Paper Series- 2005 III, The University Of Nattingham, Mexico

1. DETAILED STANDARDS

As part of new framework, detailed standards should be issued covering the constitution and methods of calculation of reserves and provisions and the amount of credit for amounts recoverable under reinsurance arrangements of ensure that all companies follow sound policies while accounting and actuaries practices used by most companies are in line with best international practices, the insurance section should be able to challenge all assumptions used by actuaries in the valuation of technical provisions especially in case of smaller companies.

2. CAPITAL ADEQUACY STANDARDS

Capital adequacy standards should be brought in line with best international practice. The solvency margin based on the volatility of losses should be introduced to complement the solvency margin that is based on net premiums.

3. RISK MANAGEMENT

Consolidation of the insurance industry needs to be promoted to insure Souder compltitiooon and greater safty. This can be achieved by raising the level of minimum capital and introduction risk – based capital requirements as wed as by encouraging weak firms to merge with other firms or exit the market.

4. INSURANCE INFORMATION BUREAU

An insurance information bureau should be crated with date on underwriting policies, loss claims, and incidents of insurance fraud. The bureau should facilitate sharing of these data by all licensed companies and should contribute toward higher underwriting standards. competition policy should been the practice of tied sales

where by customers of large companies are forced to by several services from the same group.

5. SPECIAL CONSIDERATION

Consideration needs to be given to the creation of a compensation fund to cover the unpaid claims of tailing companies, an a protect policy holders especially in connection with life and non-life annuity policies special provisions would be require the submission of reorganization plans and facilitate the re-insurance and or transfer of policies. These measures would protect the assets of failed companies from the expenses of protracted liquidation and thus maximize the amounts available for distribution to policy holder and other clients.

INTERIM PROVISIONS FOR MANAGEMENT OF INDIAN INSURANCE COMPANIES

1. Notwithstanding any contained in the Companies Act or in the memorandum and articles of association of any Indian insurance company, on and from the appointed day and until a new board of directors of the Indian insurance company is duly constituted, the management of the company shall continue to vest in the Custodian in charge of the management of the undertaking of that company immediately before the appointed day by virtue of the provisions contained in the General Insurance (Emergency Provisions) Act, 1971, and the Custodian shall be entitled, subject to such directions as the Central Government may issue in this behalf, to exercise all the powers and do all acts and things as may be exercised or done by the company or by its board of directors.
2. Nothing contained in sub-section (1) shall be deemed to pervent the Central Government from appointing any other person to take charge of the management of the undertaking of any Indian insurance company during the period referred to in that sub section if for any reason it becomes necessary so to do, and any person so appointed may exercise all the powers and do all acts and things which a Custodian may exercise or do under sub-section (1).
3. The Custodian referred to in sub-section (1) and the person appointed under sub section (2) shall be entitled to such salaries and other allowances as the Central Government may specify in this behalf and shall hold office during the pleasure of the Central Government.

POWER OF CENTRAL GOVERNMENT TO TRANSFER EMPLOYEES.

The Company may at any time transfer any officer or employee from an acquiring company or the Corporation to any other acquiring company or the Corporation, as the case may be, and the officer or employee so transferred, shall continue to have the same terms and conditions of service as were applicable to him immediately before such transfer.

POWER OF CENTRAL GOVERNMENT TO ISSUE DIRECTIONS.

The Company and every acquiring company shall, in the discharge of its functions, be guided by such directions in regard to matters of policy involving public interest as the Central Government may give.¹⁷

1.26 JOB /PROFESSIONAL OPPORTUNITIES

The Insurance sector offers the following job opportunities

1. The Actuary
2. Professional Underwriters
3. Marketing of Insurance policies
4. Software Professionals
5. Investment professionals
6. Administrative officers
7. Development officers
8. Insurance Brokers
9. Insurance Surveyors and
10. Insurance Agents

1.27 GENERAL INSURANCE BUSINESS IN ABROAD

Insurance plays an important role not only in national economy but also in international economy.

Marine cargo insurance, for example provides risk coverage for shippers and importers and the banks which finance international trade. This role becomes all the more important in the context of an active government policy to encourage exports.

When we go through these propositions in relation to a single business house, we observe that in the end there is an economic effect for the consumption of society. A mere extension of these to the entire business world.¹⁸

This environment, in the present day is tending to be more and more complex. In its macro level, it has to take, into account the government style, the capital market, domestic sector and foreign sector. These things put together influence the structure and tend of the national economy.

Competition in the market has led to exploration of new innovative and diversified channels of distribution for capturing wider market which will provide cost-effective services to policy holders. These alternatives channels will also build strong and effective customer relationship. Entry to private players in the market has explored new channels on the lines of developed economics. Besides, traditional intermediaries as corporate agent, broker and new methods like bancassurance, direct marketing, telemarketing, independent financial advisors and sale of policy through internet would play a crucial role in penetrating the insurance market in India. Cooperative societies, village panchayats and post offices have been identified to tap the rural market segment.

The basic principles of insurance operations is “spread of risk” which is achieved not only by accepting large number of risks in as many classes of insurance as possible but also by a geographical spread internationally.

This is possible through an active inward and outward reinsurance exchange programme with as many countries as possible.

1.28 INSURANCE AND SOCIAL SECURITY

The path of insurance has been evolved to look after the interests of people from uncertainty by providing certainty of compensation at a given contingency. The insurance principle comes to be more useful in modern affairs. It not only serves the ends of individuals, or of special groups of individuals, but also tends to spread through and renovate modern social order.

A. SOCIAL SECURITY TO INDIVIDUALS

1. INSURANCE PROVIDES SECURITY AND SAFETY

The insurance provides safety and security against the loss on a particular event. In case of life insurance, payment is made when death occurs or the term of insurance is expired. The loss to the family at a premature, death and payment in old-age are adequately provided by insurance. In other words, security against premature death and old-age sufferings are provided by life insurance. Similarly, the property of insured is secured against loss on a fire in fire insurance. In other insurance, too, this security is provided against the loss at a given contingency. The insurance provides safety and security against the loss of earning at death or in old-age, against the loss at fire, against the loss of damage, destruction or disappearance of property, goods, furniture and machines, etc.

2. INSURANCE OFFERS PEACE OF MIND

The security wish is the prime motivating factor. This is the wish, which tends to stimulate to work more. If this wish is unsatisfied, it will create a tension which may manifest itself in the form of an unpleasant reaction causing reduction in "work. The security banishes fear and uncertainty. Fire windstorm, automobile accident and death are almost beyond the control of human agency and on occurrence of any of these events may frustrate or weaken the human mind. By means of insurance, however, feeling of insecurity may be eliminated.

3. INSURANCE PROTECTS MORTGAGED PROPERTY

At the death of the owner of the mortgaged property, the property is taken over by the lender of money and the family is deprived of the use of the property. At the damage or destruction of the property, he will lose his right to get the loan replayed. The insurance will provide adequate amount to the dependents at the early death of the property-owner to pay-off the unpaid loans. Similarly, the mortgagee gets adequate amount at the destruction of the property.

4. INSURANCE ELIMINATES DEPENDENCY

What would happen at the death of the husband or father, the annihilation of family needs no elaboration. Similarly, at destruction of property and goods, the family would suffer a lot. It brings reduced standards of living and the suffering may

go to any extent of begging from the relatives, neighbors, or friends. The economic independence of the family is reduced or, sometimes, lost totally. What can be more pitiable condition than this that the wife and children are looking at others more benevolent than the husband and father in absence of protection against such dependency? The insurance is here to assist them and provide adequate amount at the time of sufferings.

5. LIFE INSURANCE ENCOURAGES SAVING

The elements of protection and investment are present only in case of life insurance. In property insurance, only protection element exists. In most of the life policies elements of saving predominates. These policies combine the programs of insurance and savings. The saving with insurance has certain extra advantages

- Systematic saving is possible because regular premia are required to be compulsorily paid. The saving with a bank is voluntary and one can easily omit a month or two and then abandon the program entirely
- In insurance the deposited premium cannot be withdrawn easily before the expiry of the term of the policy. In contrast to this, the saving which can be withdrawn at any moment will finish within no time.
- The insurance will pay the policy-holder money irrespective of the premium deposited while in case of bank-deposit only the deposited amount along with the interest is paid. The insurance thus, provides the wished amount of insurance and the bank provides only the deposited amount.
- The compulsion or force to pay premium in insurance is so high that if the policy-holder fails to pay premiums within the days of grace, he subjects his policy to lapsation and may get back only a very nominal portion of the total premia paid on the policy

For the preservation of the policy, he has to try his level best to pay the premium. After a certain period, it would be a part of necessary expenditure of the insured. In absence of such forceful compulsion elsewhere life insurance is the best mode of saving.

6. LIFE INSURANCE FULFILS THE NEEDS OF A PERSON

The needs of a person are divided into

- a. Family needs,
- b. Old-age needs,
- c. Re-adjustment needs,
- d. Special needs, and
- e. The clean-up needs

B. SOCIAL SECURITY TO BUSINESS

The insurance has been useful to the business society also. Some of the uses are discussed below

1. UNCERTAINTY OF BUSINESS AND LOSSES IF REDUCED

In world of business, commerce and industry a huge number of properties are employed. With a slight slackness or negligence, the property may be turned into ashes. The accident may be fatal not only to the individual or property but to the third party also. New construction and new establishment are possible only with the help of insurance. In absence of it, uncertainty will be to the maximum level and nobody would like to invest a huge amount in the business or industry. A person may not be sure of his life and health and cannot continue the business up to longer period to support his dependents. By purchasing policy, he can be sure of his earning because the insurer will pay a fixed amount at the time of death. Again, the owner of a business might foresee contingencies that would bring great loss. To meet such situations they might decide to set aside annually a reserve, but it can not be accumulated due to death. However, by making an annual payment, to secure immediately, insurance policy can be taken.

2. BUSINESS EFFICIENCY IS INCREASED WITH INSURANCE

When the owner of a business is free from the impact of losses, he will certainly devote much time to the business. The carefree owner can work better for the maximization of the profit. The new as well as old businessmen are guaranteed payment of certain amount with the insurance policies at the death of the person; at the damage, destruction, or disappearance of the property or goods. The uncertainty of

loss may affect the mind of the businessmen adversely. The insurance, removing the uncertainty, stimulates the businessmen to work hard.

3. KEY MAN INDEMNIFICATION

Key man is that particular man whose capital, expertise, experience, energy, ability to control, goodwill and dutifulness make him the most valuable asset in the business and whose absence will reduce the income of the employer till the time such employee is not substituted. The death or disability of such valuable lives will, in many instances, prove a more serious loss than that by fire or any other hazard. The potential loss to be suffered and the compensation to the dependents of such employee require adequate provision, which is met by purchasing adequate life-policies. The amount of loss may be up to the amount of reduced profit, expenses involved in appointing and training of such persons and payment to the dependents of the key man. The term Insurance Policy or Convertible Term Insurance Policy is more suitable in this case.

4. ENHANCEMENT OF CREDIT

The business can obtain loan by pledging the policy as collateral for the loan. The insured persons are getting more loans due to certainty, of payment at their deaths. The amount of loan that can be obtained with such pledging a policy will not exceed the cash value of the policy. In case of death, this cash value can be utilized for settling the loan along with the interest. If the borrower is unwilling to repay the loan and interest, the lender can surrender the policy and get the amount of loan and interest thereon repaid. The redeemable debentures can be issued on the collateral of capital redemption policies. The insurance properties are the best collateral and the lenders grant adequate loans.

5. BUSINESS CONTINUATION

In a business, particularly partnership business may get discontinued at the death of any partner, although the surviving partners can restart the business. But in both the cases the business and the partners will suffer economically. The insurance policies provide adequate funds at the time of death. Each partner may be insured for the amount of his interest in the

partnership and his dependents may get that amount at the death of the partner.

1.29 CLASSIFICATION OF INSURANCE COMPANIES

These are establishments, which provide insurance to the people. Insurance Act, 1938 provides a framework for the registration of various insurers. According to it, the following types of insurance companies are allowed in India;

1. PROPRIETARY COMPANIES

Companies having a specified minimum share capital of Rs. 100 crores are incorporated under the Indian Companies Act, 1956 and registered as per section 2(2) 7 A of Insurance Act. All the new players in the field fall under this category.

2. MUTUAL COMPANIES

Profits of these companies are shared by the policyholders who own them. These are not allowed to operate in India.

3. CO-OPERATIVE INSURANCE COMPANIES

These are registered under the Co-operative Societies Act, 1912. It will also have a share capital of Rs. 100 crores of which foreign entity will not hold more than 26 per cent. [Section 2(2) 8A of Insurance Act, 1938]. No such company has so far been registered.

4. SPECIALIST COMPANIES

An insurance company which opts for some specialized branch of insurance falls under this category. Example can be of Health insurance, Terrorism insurance, etc.

5. PROVIDENT SOCIETY COMPANIES

With the opening of Insurance to private sectors, the entry of these companies have been allowed. A Provident society company is that which writes life insurance policies for a sum up to Rs. 1000 or an annuity up to Rs. 100. This type of company is similar to the industrial life companies in U.K. For such types of Insurance

Companies, rules for registration and share capital are different from other types of companies. Refer to sections 65 to 94 of Insurance Act, 1938.

6. CAPTIVE INSURANCE COMPANIES

A large organization may start its own insurance company and pass on its entire insurance business to its subsidiary. This subsidiary will be the Captive Insurance of its Parent Organization. To prevent that captive companies do not become the personal arm of big houses, IRDA have made it mandatory for these companies to transact at least 50% of its business from outside its parent organization.

7. COMPOSITE COMPANIES

A single company doing life and non-life insurance business is called a Composite Company. However, in the interest of business and people IRDA do not allow such companies in India. A separate company for each branch of business can be set up by the same promoters.

8. GOVERNMENT AIDED INSURANCE

There are risks of high magnitude, such as failure of crop, epidemic or catastrophic occurrence, for which no insurance company is capable of undertaking any financial relief. In our country Government have come to finance some schemes through the two National Insurers, Examples are

- a. Scheme for Landless Agriculture Labour Scheme (through LIC)
- b. Scheme for borrowers of Rural Integrated Development Programs (through LIC)
- c. Crop Insurance through GIC
- d. Credit Guarantee Corporation of Government
- e. Postal Life Insurance for Government and some special category of employees administered by the Postal Department.

INSURANCE COMPANIES IN INDIA

As on March 31, 2006, there were 31 insurance companies operating in India. Of these 15 were general insurance companies and 16 life insurance companies as listed below.¹⁷

Insurance Companies operating in India as on March 31, 2008 were

TABLE - 1.6
GENERAL INSURANCE COMPANIES IN INDIA

Sr. No.	Name of the Company	Date of Registration
	Public Sector Companies	
1	National Insurance Co. Ltd.	1.1.1973
2	The New India General Insurance Co. Ltd.	1.1.1973
3	The Oriental Insurance Co. Ltd.	1.1.1973
4	United India Insurance Co. Ltd.	1.1.1973
5	Agriculture Insurance Co. of India Ltd. (only crop insurance)	1.4.2003
6	Export Credit & Guarantee Corporation Ltd. (only credit insurance)	27.8.2002
	Private Sector Companies	
1	Bajaj Allianz General Insurance Co. Ltd.	2.5.2001
2	Cholamandalam MS General Insurance Co. Ltd.	15.7.2002
3	HDFC Chubb General Insurance Co. Ltd.	27.8.2002
4	ICICI Lombard General Insurance Co. Ltd.	3.8.2001
5	IFFCO Tokio General Insurance Co. Ltd.	4.12.2000
6	Reliance General Insurance Co. Ltd.	23.10.2000
7	Royal Sundaram Alliance Insurance Co. Ltd.	23.10.2000
8	Tata AIG General Insurance Co. Ltd.	22.01.2001
9	Star Health and Allied Insurance Co. Ltd.	March 2006

TABLE - 1.7**LIFE INSURANCE COMPANIES IN INDIA**

Sr. No.	Name of the Company	Date of Registration
	Public Sector Company	
1.	Life Insurance Corporation of India	01.09.1956
	Private Sector Companies	
1	HDFC Standard Life Insurance	23.10.2000
2	Max New York Life Insurance Co. Ltd.	15.11.2000
3	ICICI Prudential Life Insurance Co. Ltd.	24.11.2000
4	Kotak Mahindra Old Mutual Life Insurance Ltd.	10.01.2001
5	Birla Sun Life Insurance Co. Ltd.	31.01.2001
6	Tata AIG Life Insurance Co. Ltd.	12.02.2001
7	SBI Life Insurance Co. Ltd.	30.03.2001
8	Ing Vysya Life Insurance Co. Ltd.	02.08.2001
9	Bajaj Allianz Life Insurance Co. Ltd.	03.08.2001
10	Met Life India Insurance Co. Pvt. Ltd.	06.08.2001
11	AMP Sanmar Life Insurance Co. Ltd.*	03.01.2002
12	Aviva Life Insurance Co. India Pvt. Ltd.	14.05.2002
13	Sahara India Life Insurance Co. Ltd.	06.02.2004
14	Shriram Life Insurance Co. Ltd.	17.11.2005
15	Reliance Life Insurance Co. Ltd.	29.09.2005
16	Bharti Axa Life Insurance Co. Ltd.	July 2006

Source - IRDA Annual Report 2005-06.

* Amp Sanmar Life insurance Co. Ltd. Now Converted in Reliance Life Insurance Co. Ltd.¹⁸

As can be seen from the table, of the 15 general insurers, 9 were private and the remaining 6 public sector companies. Among the life insurers, there was only public sector company, viz. Life Insurance Corporation of India. The remaining 15 were private life insurers. Prior to the opening up of the insurance sector in 2000, however, there were only two players in the Market, the Life Insurance Corporation of India, writing life business and the General Insurance Corporation of India (GIC)

dealing with general insurance business, operating through its four subsidiaries, viz., National Insurance Company Ltd., the New India Assurance Company Ltd., The Oriental Insurance Company Ltd., and United India Insurance Co. Ltd. The four subsidiaries have now been delinked from GIC. GIC now operates as the national reinsurer. Unlike an insurance company, a reinsurance company does not accept business from the end customer, but acts as the insurer for insurance companies, thus, helping to pool the risks that are reinsured with it by all the companies.

1.30 GENERAL INSURANCE POLICY AND TAXES

Some important benefits available under various plans are highlights below

1. DEDUCTION FROM INCOME FOR PAYMENT OF MEDICLAIM INSURANCE PREMIUM

Under the provisions of section 80-D of Income-Tax, sum of health insurance in case of senior citizen Rs. 15,000/- for individual or his/her spouse or child or parents get tax rebate from Income-Tax.¹⁹

An individual income from business of profession, he/she can get tax rebate from Income-Tax for the own or hired vehicle's expense (it should be revenue expense) by debited accounting entry in profit & loss account.

1.31 PRODUCTS OF GENERAL INSURANCE COMPANIES

1. NATIONAL INSURANCE COMPANY LTD.²⁰

A. Personal Line insurance

1. Motor Policy
2. Household Policy
3. Personal Accident Policy
4. Critical Illness Policy
5. NRI Accident Policy
6. Amartya Siksha Yojana Policy
7. Rajrajeshwari Mahila Kalyan Yojana Policy
8. Bhagyashree Child Welfare Policy
9. Traffic Accident Policy
10. Niwas Yojana Policy
11. Baggage Policy

12. Mediclaim Policy
13. Motor Policy – Private Car
14. Professional Indemnity for Doctors
15. Star National Swasthya Bima Policy
16. PARIVAR – Mediclaim for Family
17. VIDYARTHI-Mediclaim for Students
18. UCO Medi + Care Bima Policy
19. VARISTHA Mediclaim for Senior Citizens
20. BIO National Swasthya Bima
21. Overseas Mediclaim
22. Baroda Health Policy

B. Rural Line Insurance

1. Cattle/Livestock Insurance
2. Sheep and Goat Insurance
3. Elephant Insurance
4. Dog Insurance
5. Brackish Water Prawn Insurance
6. Silkworm (Sericulture) Insurance
7. Janata personal Accident Insurance
8. Horticulture/Plantation Insurance
9. Kishan Agriculture Pumpset Insurance

C. Industrial Line Insurance

1. Erection All Risks Insurance (EAR)
2. Contractors All Risks Insurance (CAR)
3. Machinery Insurance (MI)
4. Electronic Equipment Insurance (EEI)
5. Consequential Loss (Fire) Policy
6. Standard Fire and Special Perils Policy
7. Workmen Compensation Insurance
8. Product Liability Insurance
9. Public Liability Insurance

D. Commercial Line Insurance

1. Burglary (Business Premises) Policy
2. Shopkeepers Policy
3. Bankers Indemnity Policy
4. Office Package Policy
5. Glass Insurance
6. Money Insurance
7. Jewellers Block Policy
8. Extended Warranty Policy
9. Directors and Officers Liability Policy
10. Fidelity Guarantee Policy
11. Marine Cargo Insurance

2. ORIENTAL INSURANCE COMPANY LTD²¹.

- Comprehensive Health Insurance Scheme
- Electronic Equipment Insurance Policy
- Group Mediclaim Policy
- Householders Insurance Policy
- Individual Mediclaim Policy
- Kissan package Insurance
- Motor Cycle Package Policy
- Nagrik Suraksha Policy
- Office Umbrella policy
- Overseas Mediclaim Business and Holiday
- Overseas Mediclaim Employment and Study
- pedal Cycle Insurance Policy
- Personal Accident – Individual
- private Car Package Policy
- Shopkeeper's Insurance Policy
- Swasthya Bima Policy
- Sweet Home Insurance Policy

Products

- Individuals / Family
- Health-Mediclaim/Overseas Mediclaim/ Personal Accident
- Professionals
- Business/Office/Traders
- Engineering/Industry
- Motor Vehicle-Private/Commercial
- Agriculture/Sericulture/Poultry
- Animals/Birds
- Aviation
- Marine

3. THE NEW INDIA INSURANCE COMPANY LTD²².

PERSONAL

- Pravasi Bhartiya Bima Yojana Policy
- Health Plus Medical Expenses Policy
- Mediclaim policy
- Personal Accident Policy
- Overseas Mediclaim Policy
- Household Policy
- Motor Policy
- Money Insurance
- Rasta Apatti Kavach (Road Safety Insurance)
- Suhana Safar Policy
- TV/VCR/VCP Insurance
- Mobile/Cellular Phone Insurance
- Other personal Insurance

INDUSTRIAL

- Fire Policy
- Burglary Policy
- Machinery Breakdown Policy

- Electronics Equipment Policy
- Consequential Loss Policy
- Contractors All Risk Policy
- Marine cum Erection / Storage cum Erection Policy
- Advance Loss of profit / Delay in Startup Policy
- Contractor Plant and Machinery Policy
- Mega Package Policies

COMMERCIAL

- Jewellers Block Policy
- Bankers Indemnity Policy
- Shopkeepers Policy
- Marine Cargo Policy
- Plate Glass Insurance
- Special Contingency Policy
- Neon Sign Insurance
- Multi Peril Policy for L.P.G. Dealers
- Fidelity Guarantee Insurance Policy
- Marine Hull Policy
- Aviation Insurance

LIABILITY

- Public Liability Policy
- Products Liability Policy
- Professional Indemnity Policy
- Directors and Officers Liability Policy
- Lift (Third Party) Insurance
- Employer's Liability Policy
- Carrier's Liability Insurance
- Liability Insurance Act Policy
- Golfers Indemnity Insurance
- Universal Health Insurance Scheme

- Jan Arogya Bima Policy
- Raj Rajeshwari Mahila Kalyan Yojana
- Bhagyashree Child Welfare Policy

4. UNITED INDIA INSURANCE COMPANY LTD²³

a) Package Policy - Section I

Section I (Own Damage - OD) of Package Policy

Section I of package policy covers loss or damage to the vehicle and / or accessories due to

- Accidental external means
- Fire, Self ignition, lightning
- Burglary, house breaking or theft
- Terrorist activity
- Riot, Strike and Malicious Damage
- Earthquake
- Flood, cyclone and Inundation etc
- While in transit by rail, road, air, elevator, lift or inland waterways
- Landslide or workslope

None of the above perils can be excluded from the scope of a policy.

Loss or damage to accessories by burglary/house breaking/theft

1. For private car it is covered
2. In case of Motorised Two Wheelers this can be covered on payment of an additional premium at 3% of the IDV of such accessories
3. Loss or damage to Lamp, Tyres, mudguard and / or bonnet side parts, bumpers etc., can be covered on payment of additional premium. This is applicable only to Commercial Vehicles.

If the vehicle is disabled in an accident, cover is provided for the reasonable cost of the following

- Its removal to nearest repairers
- The cost of reasonable repairs immediately necessary

(a) Package Policy - Section II

Section II (Liability) of Package Policy

1. Liability to third parties bodily injury and or death and property damage
2. Personal accident cover for the owner driver for a specified sum insured

The following are payable under Section II of the Package Policy subject to the limit of liability laid down in the Motor Vehicles Act

- The insured's legal liability for death / disability of third party
- Loss or damage to third party property
- Claimant's cost as decided by the court
- All costs and expenses incurred with company's written consent
- In case of death of an Insured person, entitled to indemnity for a liability incurred under this policy, his legal representative will be indemnified in place of insured, if he observed all conditions as the insured himself.

Related Policies

- Workmens Compensation Policy
- Public Liability Insurance
- Product Liability Insurance
- Professional Indemnity Insurance

Miscellaneous Policies

- Accident & Hospitalisation Policies
- Social Policies
- Rural Policies
- Travel Policies
- Package Policies
- Business Policies

Industrial Policies

- Boiler & Pressure Plant Policy
- Contractors Plant & Machinery Policy
- Deterioration of Stock
- Electronic Equipment Policy
- Machinery Breakdown Policy
- Industrial All Risk Policy

1.32 INFORMATION TECHNOLOGY AND GENERAL INSURANCE COMPANIES

With the opening up of the Insurance industry the domestic companies are no longer insulated from the changes taking place around the world. The need of the hour is to devise a Comprehensive, “Information Technology” strategy to help itself in this atmosphere of turmoil.

The fanatical services industry the world over is undergoing a major transformation.

Today companies are actively pursuing new initiatives such as data Warehousing E-commerce and componentization. The objection is to get clarity around product, Channels And Service Features. This in turn will help in designing the distribution blue print so that the right product reach the right customers through the right customers through right channels in the possible time.

It service providers will play a key role in the areas of systems integration re-engineering and system emigration.

The liberalization process has led to the strong emergence of foreign and private players in the insurance market which has facilitated the entire approach of insurance towards their customers to spread insurance coverage, As IT is changing insurance sector, investment in IT is strategically, important to increase profitability, operational Efficiency and developing and maintain and customer relationship. There are two types of operational and analytical IT applications which provide secure electronic system to overcome the problems of cumbersome and paperwork in tune with rest of financial service industry But the basic issues in insurance as marketing, distribution, new business and claim management need to be emphasized. The focus of the now companies is on revenue generation, growth through geographical expansion, customer acquisition and a need to capture a sizable share. Simultaneously, they are grappling with the issue of expansion, innovation and differentiation in products and services, knowledge dissemination, target marketing, developing alternative channels, maintaining underwriting discipline and implementing a effective service delivery model with optimizing costs.

1.33 OPPORTUNITIES AND CHALLENGES

Insurance is a contract between two parties whereby one party called insurer undertakes in exchange for a fixed sum called premium, to pay the other party called

insured a fixed amount of money on the happening of certain event. Insurance indemnifies assets and income. Every asset (living and non living) has a value and it generates income to its owner. The income has been created through the expenditure of effort, time and money. Every asset has expected life time during which it may depreciate and at the end of the life period it may not be useful, till then it is expected to function. Some times it may cease to exist or may not be able to function partially or fully before the expected life period due to accidental occurrences like burglary, collisions, earthquakes, fire, flood, theft etc. these types of possible occurrences are "risks". Future is uncertain; no body knows what is going to happen? It may or may not? Insurance is the concept of risk management the need to manage uncertainty on account of above stated risks. Insurance is a way of financing these risks either fully or partially. Insurance business in India can be broadly divided into two categories such as Life Insurance and General Insurance of Non-life Insurance.

In the coming years, insurers would face the most difficult challenge to provide returns as compared to other financial options. Return on investment are going down, therefore there is pressure on insurance companies to produce better operational results to safeguard the interest of insuring public investment regulation should ensure that both security and profitability requirement are respected. It should promote the diversification, spread and liquidity of investment portfolios as well as the maturity and currency matching of assets and liabilities. Regulation must include a list of admitted assets on which ceilings may be set and requirement on the way in which investment should be valued. Public insurance companies have been showing their persistent faith in government securities. Investment management should consider increasing investment in equity as the long term option, especially when the stock market is doing well by substantial positive results. IRDA should allow securitized assets as an eligible investment option, with the objective to achieve optimization of return and immunization of risk, there is need to replace of traditional approach of investment with the dynamic quality initiatives.

The investment management of fund require multifaceted skills for assessing the characteristics of the liabilities, aspirations of the policy holders and other factors which have a bearing on the investment policy for identifying relevant asset allocation strategies, and/or assts and putting strong organization in place for efficient management of funds.

The future growth of insurance industry depends on continuing macroeconomic stability, sound irrigation and avoidance of company failures and scandals that would more the good reputation of the industry.

Two new draft insurance bills are under consideration. These aim to modernise the legal team work and address most of the current gaps in regulation and the responsibilities of directors, on internal control and risk management systems, and on the duties of actuaries and auditors. They also require the creation of separate subsidiaries for engaging in loan term and general insurance. The following are the same challenges needed to be taken by the insurance sector to improve services.

CONCLUSION

This chapter deals with an overview of insurance sector. The chapter covers introduction of insurance with number of terms of insurance like risk insured, insurer, beneficiaries, control etc. The chapter also reveals the history of general insurance in world as well as in India, background and definition of general insurance, importance and function of general insurance, Advantages and limitations insurance. The chapter reveals basic principles of insurance, nature of insurance business, classification of insurance and the organisational set-up and management of general insurance public sector companies, The chapter deals with the legal framework of Insurance, the policy of general insurance companies, products of general insurance companies and finally the opportunities and challenges before the insurance industry in India as well as in the world.

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