MANONMANIAM SUNDARANAR UNIVERSITY

Tirunelveli

DIRECTORATE OF DISTANCE AND CONTINUING EDUCATION

M.COM

INSURANCE AND RISK MANAGEMENT

I YEAR

INSURANCE AND RISK MANAGEMENT

OBJECTIVES

1. To familiarize the student's competence in Insurance at an advanced level.
2. To focus on increasing proficiency in the basic Insurance, rules, policy, Risk in the workplace, etc.
3. To impart knowledge on the principles of life insurance and types of policies.
4. To teach students on the nature and types of non-life insurance policies.
5. To make the students understand on the various aspects of risk management.

UNIT–I

Introduction to Insurance - History of Insurance in world and India- Need for Insurance - Nature and Working of Insurance- Major Types of Insurance and their Features - Importance of Insurance Industry - Role of Insurance in Economic Development - Insurance and Social Security - Reforms in the Insurance Sector- IRDA- Privatization and Liberalization in India- Indian Insurance Market- New Entrants to the Indian Insurance Market.

UNIT–II

Life Insurance Nature and Policy types: Nature of Life Insurance-Principles of Insurance- Terms used in Insurance- Life Insurance Product - Various Schemes - Characteristics of an Insurable risk - Role of Insurance-Factors influencing Demand for Insurance - First Premium - Renewal - Mode of Premium Payment - Limited Period Payment and Single Premium - Lapse & Revival - Paid Up Policy - Deferment Period - Nomination & Assignment of Policy - Bonus - Surrender Value.

UNIT–III

Non-Life Insurance and Policy types: Introduction of General Insurance- Concept and Need Essential Features and Requirements of Fire Policy, Loss of Profits Policy, Marine Cargo Policy, Marine Hull Policy and Motor Insurance Policy including Vehicle and Third Party Insurance- Miscellaneous Policies like Personal Accident, Fidelity Guarantee, Health & Medi-claim, Burglary and Loss of Baggage, Co-insurance, Double insurance and Re-insurance - General Insurance Cover Notes - Certificates of insurance - Open Policy - Floater –Excess - Franchise - Claims - Salvage – Coinsurance - Loss: Total Loss, Actual or Constructive Loss- Valued Policy - Agreed Value - Full Value - First Loss – Increased Value - Insurance Time or Institute Cargo Clauses – Solatium.

UNIT–IV

Insurance Market: Life and Non-Life Insurers Firms in India: Public Sector Pioneers in Life and General Insurance Activities - Role of Insurance Agents and Brokers - Surveyors - Medical Examiners - Third Party Administrators Regulators: Insurance Regulatory and Development Authority (IRDA) of India- Insurance Councils - Ombudsmen - Educational Institutes - Councils -Tariff Advisory Committee - Insurance Pricing: Factors and Determinants.

UNIT–V

Insurance Customers and Risk Management: Individual and Corporate Insurance Customers - Nature of Insurance Customers: Mind Set as to Insurance- Investment or Risk Management - Compulsion Vs Voluntarism- Ethical Behavior - Risk Management Attitude- Control of Risk- Avoidance, Prevention, Reduction, Retention or Transfer- Factors Influencing Policyholder Satisfaction- Retention of Customers by Insurers.

LEARNING OUTCOME

After the completion of the course, the students must be able to:

1. Gain competence on Insurance at an advanced level
2. Describe the basic Insurance rules, policy, Risk in the workplace, etc
3. Gain knowledge on the principles of life insurance and types of policies
4. Understand the nature and types of non-life insurance policies
5. Familiarize on the various aspects of risk management

UNIT –I

Introduction to Insurance –

History of Insurance in world and India- Need for Insurance - Nature and Working of Insurance- Major Types of Insurance and their Features - Importance of Insurance Industry - Role of Insurance in Economic Development - Insurance and Social Security - Reforms in the Insurance Sector- IRDA- Privatization and Liberalization in India- Indian Insurance Market- New Entrants to the Indian Insurance Market.

BRIEF HISTORY OF INSURANCE

The story of insurance is probably as old as the story of mankind. The same instinct that prompts modern businessmen today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era – past few centuries – yet its beginnings date back almost 6000 years. Life Insurance in its modern form came to India from England in the year 1818. Oriental Life Insurance Company started by Europeans in Calcutta was the first life insurance company on Indian Soil. All the insurance companies established during that period were brought up with the purpose of looking after the needs of European community and Indian natives were not being insured by these companies. However, later with the efforts of eminent people like Babu Muttylal Seal, the foreign life insurance companies started insuring Indian lives. But Indian lives were being treated as sub-standard lives and heavy extra premiums were being charged on them. Bombay Mutual Life Assurance Society heralded the birth of first Indian life insurance company in the year 1870, and covered Indian lives at normal rates. Starting as Indian enterprise with highly patriotic motives, insurance companies came into existence to carry the message of insurance and social security through insurance to various sectors of society. Bharat Insurance Company (1896) was also one of such companies inspired by nationalism. The Swadeshi movement of 1905-1907 gave rise to more insurance companies. The United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative Assurance at Lahore were established in 1906. In 1907, Hindustan Co-operative Insurance Company took its birth in one of the rooms of the Jorasanko, house of the great poet Rabindranath Tagore, in Calcutta. The Indian Mercantile, General Assurance and Swadeshi Life (later Bombay Life) were some of the companies established during the same period. Prior to 1912 India had no legislation to regulate insurance business. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an actuary. But the Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage.

The first two decades of the twentieth century saw lot of growth in insurance business. From 44 companies with total business-in-force as Rs.22.44 crore, it rose to 176 companies with total business-in-force as Rs.298 crore in 1938. During the mushrooming of insurance companies many financially unsound concerns were also floated which failed miserably. The Insurance Act 1938 was the first legislation governing not only life insurance but also non-life insurance to provide strict state control over insurance business. The demand for nationalization of life insurance industry was made repeatedly in the past but it gathered momentum in 1944 when a bill to amend the Life Insurance Act 1938 was introduced in the Legislative Assembly. However, it was much later on the 19th of January, 1956, that life insurance in India was nationalized. About 154 Indian insurance companies, 16 non-Indian companies and 75 provident were operating in India at the time of nationalization. Nationalization was accomplished in two stages; initially the management of the companies was taken over by means of an Ordinance, and later, the ownership too by means of a comprehensive bill. The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of India was created on 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost.

Modern insurance is a legacy of the British occupation, with the industrial revolution in the West and mainly in England boosting trade and shipping during the 17th century. These factors had largely contributed to the rise of the insurance industry in India, a large country producer of raw materials needed by England.

The life business began in 1818 in Calcutta with the establishment of Oriental Life Insurance Company. The first non-life insurance company was not set up until 32 years later. Its name was Triton Insurance, a company founded by some British in Calcutta.

For over a century, the market had been dominated by representation offices and branches of foreign, mostly British insurers. Among these entities are Albert Life Assurance, Royal Insurance and Liverpool & London Globe Insurance, companies which had prospered considerably in India, prompting strong competition with other market players.

The marginalization of local companies pushed the Indian government to nationalize life insurance activities in 1956. For its part, non-life insurance was not nationalized until 1972.

Life Insurance Corporation (LIC) was established in 1956, taking over the portfolio of 245 national and foreign companies. LIC had tapped into life operations monopoly from 1956 to the late 1990s and the opening of the insurance sector to private investors.

Some of the important milestones in the life insurance business in India are:
1818: Oriental Life Insurance Company, the first life insurance company on Indian soil started functioning.

1870: Bombay Mutual Life Assurance Society, the first Indian life insurance company started its business.

1912: The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.

1928: The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

1938: Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.

1956: 245 Indian and foreign insurers and provident societies were taken over by the central government and were nationalized. LIC formed by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of India.

The General insurance business in India, on the other hand, can trace its roots to the Triton Insurance Company Ltd., the first general insurance company was established in the year 1850 in Calcutta by the British.

In the non-life insurance, the portfolios of the 107 companies present on the market in 1972 were pooled up into four large national companies whose head offices are based in the four corners of the country:

- National Insurance Company (Calcutta),
- New India Insurance Company (Mumbai),
- Oriental Insurance Company (Delhi),
- United India Insurance Company (Madras).

These four national companies are overseen by General Insurance Corporation (GIC) whose head office is in Bombay. GIC, created in 1972, intervened on the market as a national reinsurer and shareholder of the four direct companies.

The government will not reopen the doors of the Indian insurance market to the private sector until the early 2000s. The entry into activity in 1999 of the Insurance Regulatory and Development Authority (IRDAI) marked the end of State monopoly and the opening of the market to private and foreign investment.

Some of the important milestones in the general insurance business in India are:

1907: The Indian Mercantile Insurance Ltd. set up, the first company to transact all classes of general insurance business.

1957: General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices.

1968: The Insurance Act amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee set up.

1972: The General Insurance Business (Nationalisation) Act, 1972 nationalised the general insurance business in India with effect from 1st January 1973.

1974: 107 insurers amalgamated and grouped into four companies viz. the National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd. and the United India Insurance Company Ltd. GIC incorporated as a company.

HIGHLIGHTS OF INDIAN INSURANCE

1818
- Creation of Oriental Life Insurance Company in Calcutta. Endowed with British capital, the company ceased operations in 1834

1829
- Creation of Madras Equitable Life Insurance Company

1850
- Creation of Triton Insurance Company; the first non-life insurance company set up by the British

1870
- Enactment of the British Insurance Act

1871
- Creation of Bombay Mutual Life Assurance Society, the first nationally owned insurance company

1897
- Creation of Empire of India Life Assurance Company

1907
- Creation of Indian Mercantile Insurance, the first company to market all non life classes of business

1912
- Publication of the first Life Insurance Companies Act

1914
- First publication of insurance market results

1928
- Enactment of the Indian Insurance Companies Act, a law that authorizes the government to collect statistical data on the life, non-life and pension transactions of Indian and foreign insurers

1938
- Updating the Insurance Act. Introducing new standards for controlling insurance activities

1947
- Creation of Oriental Insurance Company in Mumbai, the first non-life state-owned company. It is currently based in Delhi

1950
- Adoption of the decision to nationalize the insurance market

1956
- Nationalisation of the life market
- Creation of Life Insurance Corporation (LIC), which takes over the portfolios of 154 Indian insurers, 26 foreign insurers and 75 pension companies, that is a total of 245 entities

1957
- Creation of the General Insurance Council, a body reporting to the Insurance Association of India, which is responsible for developing a Code of Conduct in non life insurance

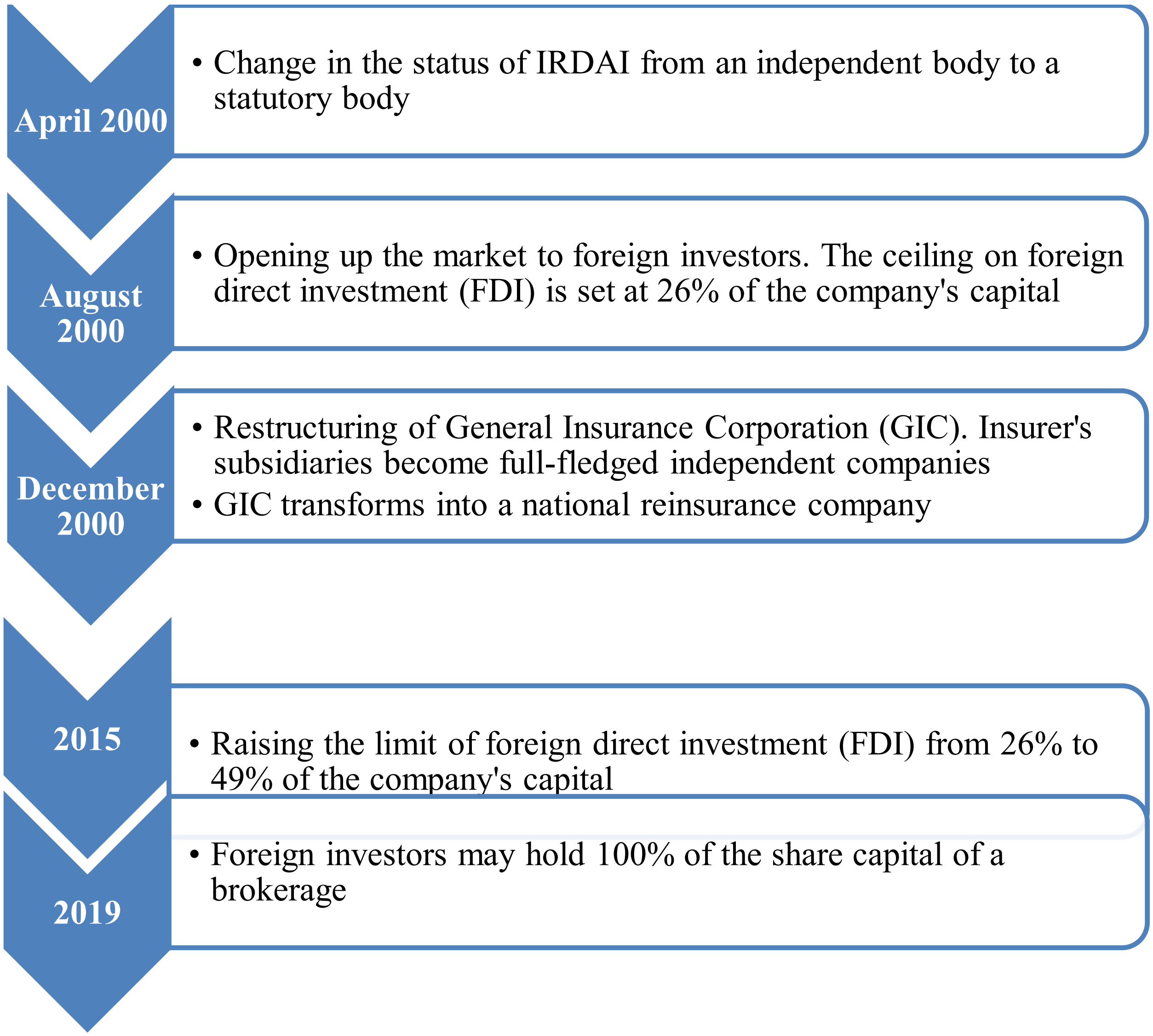
1968
- Amendment of the Insurance Act: the amendments include investment regulation, minimum solvency margin determination and the creation of a tariff advisory committee

1972
- Nationalization of non life insurance "General Insurance Business Act". The activities of 107 property and casualty insurers are divided into four national entities
- General Insurance Corporation (GIC) begins

1993
- Setting up a committee to reform the insurance sector

1994
- Reform Committee report delivered: reform committee calls for market reopening to private sector

1999
- Creation of the Insurance Regulatory and Development Authority (IRDAI), an independent body responsible for overseeing the insurance industry



NEED FOR INSURANCE:

Life of everyone is full uncertainties. Nobody knows what is going to happen in next moment. This element of unknown situation always hounds around the mind of a person and keeps him worried to think as to what will happen in future in case of any mishappening. This worry is to think about the future of the person and his family. Among a number of worries the main and very important is economic uncertainty of himself or his family.

If anyone is satisfied with his present earnings, he also thinks whether or not his present day capacity of earning will last for long. Perhaps there remains an iota of fear that it may not last for the long. On this very point everyone thinks about to secure his future.

Under the impression of securing future one thinks about the adoption of saving and investment plans. He not only thinks about himself but also about his family. In case of any miss happening everyone is worried as to what shall happen to his family.

Everyone knows that there is no substitute in case of death of an earning member of the family and no compensation is able to fulfill the gap in case of death of the earning member. But for supporting economically upto some extant the method adopted is known as insurance.

The life insurance is such a cover that provides security to the family of insured in case of his death. Life Insurance in such cases provides some solutions to the worries of family members.

Once upon a time it was very difficult to convince people for getting an insurance cover but today it has become a need of the day. Today the life insurance does not cover the risk of life only but also provides many added benefits also in the field of saving and investments.

People need insurance because the unexpected does happen. Whether it is a fire, a car wreck, illness or a death, the financial consequences can be devastating if you are uninsured. Insurance helps people have peace of mind when life's unexpected events happen.

Need for insurance are as follows:

Insurance acts as a financial back-up at the time of emergency. None of us know what the future holds. Unexpected emergencies such as injury, accidents, illness, and even death can leave the family facing tremendous emotional strain. Insurance plans help emotionally and financially so that one can focus on rebuilding the life.

Insurance makes retirement secure

A retirement policy is a type of insurance plan that helps to save a part of the income over a long-term period and ensures financially secure post-retirement. The accumulated income will be given back to the insured person as a pension.

Insurance helps in securing future

Present life might be stable with a steady income flow that meets the family's needs. But life is uncertain. Some unforeseen crises can shake life. With the term insurance, one will be securing his/her family to receive a lump sum amount to take care of their needs.

Insurance encourages savings

Several life insurance plans, such as a money-back policy, help create regular savings by allocating some funds in the form of a premium every year. Unlike a basic life insurance plan that gives money back at the time of maturity, a money-back policy pays an amount to the policyholder after a few years of investing in the policy.

Insurance gives peace of mind

Along with financial security, insurance gives peace of mind. Home insurance policy will help to get coverage for damages to the home. **Medical insurance** plan will help at the time of hospitalization. Any insurance plan comes in handy at the time of crisis.

NATURE OF INSURANCE

Contract

Insurance is a contract between the insurance company and the policy holder wherein the policyholder (insured) makes an offer and the insurance company (insurer) accepts his offer. The contract of insurance is always made in writing.

Consideration

Like other contracts, there must be lawful consideration in insurance also. The consideration is in the form of premium which the insured agrees to pay to the insurer.

Co-operative Device

All for one and one for all is the basis for cooperation. The insurance is a system wherein large numbers of persons, exposed to a similar risk, are covered and the risk is spread over among the larger insurable public. Therefore, insurance is a social or cooperative method wherein losses of one are borne by the society.

Protection of financial risks

An insurer is protected from financial risks which can be measured in terms of money. As such insurance compensates only financial or monetary loss or risks.

Risk sharing and risk transfer

Insurance is a social device for division of financial losses which may fall on an individual or his family on the happening of some unforeseen events. The loss arising out of the events are shared by all the insured in the form of premium. Therefore the risk is transferred from one individual to a group.

Based upon certain principles

The insurance is based upon certain principles like insurable interest, utmost good faith, indemnity, subrogation, causa-proxima, contribution, etc.

Regulated by Law

Insurance companies are regulated by statutory laws in almost all the countries. In India, life insurance and general insurance are regulated by Life Insurance Corporation of India Act 1956, and General Insurance Business (Nationalization) Act 1972, and IRDA Regulations etc.

Value of Risk

Before insuring the subject matter of the insurance contract, the risk is evaluated in order to determine the amount of premium to be charged on the insured. Several methods are being adopted to evaluate the risks involved in the subject matter. If there is an expectation of heavy loss, higher premiums will be charged. Hence, the probability of occurrence of loss is calculated at the time of insurance.

Payment at contingency

An insurer is liable to pay compensation to the insured's only when certain contingencies arise. In life insurance, the contingency — the death or the expiry of the term will certainly occur. In such cases, the life insurer has to pay the assured sum.

In other insurance contracts, the contingency — a fire accident or the marine perils, may or may not occur. So, if the contingency occurs, payment is made, otherwise no payment need to be made to the policyholders.

Insurance is not gambling

An insurance contract cannot be considered as gambling as the person insured is assured of his loss indemnified only on the happening of such uncertain event as stipulated in the contract of insurance, whereas the game of gambling may either result into profit or loss.

Insurance is not a charity

Premium collected from the policyholders under insurance is the cost of risk so covered. Hence, it cannot be taken as charity. Charity lacks the element of contract of indemnity and compensation of loss to the person whosoever makes it.

WORKING OF INSURANCE

The insurer and the insured get a legal contract for the insurance, which is called the insurance policy. The insurance policy has details about the conditions and circumstances under which the insurance company will pay out the insurance amount to either the insured person or the nominees. Insurance is a way of protecting the insured and his family from a financial loss. Generally, the premium for a big insurance cover is much lesser in terms of money paid. The insurance company takes this risk of providing a high cover for a small premium because very few insured people actually end up claiming the insurance. This is why one gets insurance for a big amount at a low price. Any individual or company can seek insurance from an insurance company, but the decision to provide insurance is at the discretion of the insurance company. The insurance company will evaluate the claim application to make a decision. Generally, insurance companies refuse to provide insurance to high-risk applicants.

TYPES OF INSURANCE AND THEIR FEATURES

1. GENERAL INSURANCE

General insurance policies are one of the types of insurance that offer coverage in the form of sum assured against the losses incurred other than the death of the policyholder. Overall, general insurance comprises different types of insurance policy that offer financial protection against losses incurred due to liabilities such as bike, car, home, health, and similar. These various general insurance types of insurance policies include:

1.1. HEALTH INSURANCE

Health insurances are types of insurance policy that covers the expenses incurred due to medical care. Health insurance plans either pay or reimburse the amount paid towards the treatment of any illness or injury. Different types of insurance policy cover varied medical care expenses.

It usually offers protection against:

a) Hospitalization

b) Treatment of critical illnesses

c) Medical bills post hospitalization

d) Daycare procedures

There are a few types of health insurance plans also cover the cost of resident treatment and pre-hospitalization expenses.

Different types of Health insurance plans available in India include:

1. **Individual Health Insurance:** Offers coverage to only an individual
2. **Family Floater Insurance:** Allows the entire family to get coverage under a single plan, which usually covers husband, wife, two children
3. **Critical Illness Cover:** Specialized types of health insurance that offers coverage against various life-threatening illnesses like stroke, heart attack, kidney failure, cancer, and similar others. Policyholders get a lump sum amount on diagnosis of a critical illness.
4. **Senior Citizen Health Insurance:** These types of insurance plans cater to all individuals above 60 years of age
5. **Group Health Insurance:** Offered by an employer to its employee
6. **Maternity Health Insurance:** This insurance type covers medical expenses for prenatal, post-natal, and delivery stage, offering protection to both the mother and the newborn
7. **Personal Accident Insurance:** These types of insurance plans cover financial liabilities arising due to accidental injuries, disability, or death

1.2. MOTOR INSURANCE

Motor insurances are types of insurance that offer financial assistance in case your bike or car get involved in an accident. Various types of Motor insurance policies in India include:

1. **Car Insurance:** Individually owned four-wheelers are covered under this plan. The car insurance types include- third-party insurance and comprehensive cover policies.
2. **Bike Insurance:** These are types of insurance policy where individually owned two-wheelers are covered against accidents

3. **Commercial Vehicle Insurance:** This is one of the insurance types, which offers coverage to any vehicle used for commercial purposes

1.3. HOME INSURANCE

Home insurance policy offers comprehensive protection to the contents and structure of your house against any physical destruction or damage. In other words, this insurance type will provide coverage against any natural and human-made calamity, such as fire, earthquake, tornado, burglaries, and robbery.

Different types of home insurance policies include:

1. **Home Structure/Building Insurance** – Protects the structure of the house against damage during any calamity
2. **Public Liability Coverage** – Provides coverage against any damage to a guest or third-party on the insured residential property
3. **Standard Fire and Special Perils Policy** – Coverage against damages caused due to fire outbreaks, natural calamities (e.g., landslides, rockslides, earthquakes, storms, and floods), and anti-social human-made activities (e.g., explosions, strikes, and riots)
4. **Personal Accident** – Provides financial coverage to you and your family against any kind of permanent dismemberment or sudden demise to the insured individual, anywhere around the world
5. **Burglary and Theft Insurance** – Provides compensation for stolen goods in case of a burglary or theft
6. **Contents Insurance** – Provides compensation for loss of furniture, vehicles, and other appliances in case of a fire, theft, flood, or riots
7. **Tenants' Insurance** – Provides financial protection to you (as a tenant) against any loss of personal property living in a rented house
8. **Landlords' insurance** – Provides coverage to you (as a landlord) against contingencies such as public liability and loss of rent

1.4. FIRE INSURANCE

Fire insurance policies are different types of insurance coverage that compensate any losses incurred due to a fire breakout with a sum assured. These types of insurance policy usually provide a significant amount of coverage to help both individuals and companies to reopen their places after incurring extensive damage due to fire. These insurance types cover war risk, turmoil, riots losses as well.

Different types of fire insurance in India are –

1) Valued policy

2) Specific Policy

3) Floating Policy

4) Consequential Policy

5) Replacement Policy

6) Comprehensive Fire insurance policy

1.5. TRAVEL INSURANCE

Travel insurance is a type of insurance policy, providing financial protection for the insured and his loved ones while the visit to any place in India or abroad. Whether insured is travelling solo or with his loved ones, the travel insurance coverage will help to ensure a peaceful journey. The travel insurance policy coverage takes care of any issues that the insured may face during the trip such as loss of baggage, flight cancellations, loss of passport, personal and medical emergencies.

Different types of travel insurance policies include:

1) Domestic Travel Insurance: Within the country

2) International Travel Insurance: For any trips or vacations outside of India

3) Individual Travel Insurance: If the insured is travelling alone

4) Student Travel Insurance: If the insured is going abroad for further studies

5) Senior Citizen Travel Insurance: For senior citizens, ageing between 60 to 70 years

6) Family Travel Insurance: For any family vacations

2. LIFE INSURANCE

Life insurance plans offer coverage against unfortunate events like death or disability of the policyholder. Besides financial protection, there are various types of life insurance policies that allow the policyholders to maximize their savings through regular contributions into different equity and debt fund options. Life insurance policy is to secure the family's financial future against life's uncertainties. The policy coverage comprises of a large amount, which is payable to the loved ones if anything happens to the insured. With this insurance type, the insured has the flexibility to choose the life insurance policy period, coverage amount, and payout option based on the financial requirements. Different types of life insurance policy are as follows:

2.1. TERM LIFE INSURANCE

Term insurance is the purest and most affordable among the types of insurance policy in which, you can opt for a high life cover for a specific period. You can secure your family's financial future with a term life insurance plan by paying a low premium (term insurance plans generally do not have any maturity value, and thus, offer lower rates of premium than other life insurance products.) If anything happens to you within the policy period, your loved ones would receive the agreed Sum Assured as per the payout option chosen (some term insurance types offer multiple payout options as well)

2.2. WHOLE LIFE INSURANCE

Whole life insurance plans, also known as 'traditional' life insurance plans, provide coverage for the entire life of the insured individual, as opposed to any other life insurance instrument that offers coverage for a specific number of years. While a whole life insurance plan offers to pay a death benefit, the plan also contains a savings component, which helps accrue a cash value throughout the policy term. The maturity age for whole life insurance policy is 100 years. In case, the insured individual lives past the maturity age, the whole life plan will become matured endowment.

2.3. ENDOWMENT PLANS

Endowment plans essentially provide financial coverage to the policyholder against life's uncertainties, while allowing them to save regularly over a certain period. Upon maturity of the endowment plan, the policyholder receives a lump sum amount if he or she survives the policy term. If anything happens to you (as Life Insured), the life insurance endowment policy pays the complete Sum Assured to your family (beneficiaries)

2.4. UNIT-LINKED INSURANCE PLANS

Unit Linked Insurance Plans are types of insurance policy that offer both investment and insurance benefits under a single policy contract. A portion of the premium that you pay towards a Unit Linked Insurance Plan is allocated to a variety of market-linked equity and debt instruments. The remaining premium contributes towards providing the life cover throughout the policy tenure. In this investment-cum-insurance type product, you have the flexibility to choose the allocation of premium into different instruments as per your financial requirements and market risk appetite.

2.5. CHILD PLANS

Child plans are types of insurance policy that helps you financially secure your child’s life goals such as higher education and marriage, even in your absence. In other words, child plans offer a combination of savings and insurance benefits that aid you in the financial planning for your child’s future needs at the right age. The sum of money received on Maturity under this insurance type can be used to fulfill the financial requirements of your child.

2.6. PENSION PLANS

Pension plan, also known as retirement plan, is a type of investment plan that aids you in accumulating a portion of your savings over an extended period. Essentially, a pension plan helps you deal with financial uncertainties post-retirement, by ensuring that you continue to receive a steady flow of income even after your working years are over. In other words, a pension plan can be a type of insurance in India that allows you to create a financial cushion for your life post-retirement, in which you contribute a specific amount of money regularly until your retirement. Subsequently, the accumulated amount is given back to you as annuity or pension at regular intervals.

IMPORTANCE OF INSURANCE INDUSTRY

Insurance has evolved as a process of safeguarding the interest of people from loss and uncertainty. It may be described as a social device to reduce or eliminate risk of loss to life and property. Insurance contributes a lot to the general economic growth of the society by provides stability to the functioning of process. The insurance industries develop financial institutions and reduce uncertainties by improving financial resources.

Provide safety and security:

Insurance provide financial support and reduce uncertainties in business and human life. It provides safety and security against particular event. There is always a fear of sudden loss. Insurance provides a cover against any sudden loss. For example, in case of life insurance financial assistance is provided to the family of the insured on his death. In case of other insurance security is provided against the loss due to fire, marine, accidents etc.

Generates financial resources:

Insurance generate funds by collecting premium. These funds are invested in government securities and stock. These funds are gainfully employed in industrial development of a country for generating more funds and utilised for the economic development of the country. Employment opportunities are increased by big investments leading to capital formation.

Life insurance encourages savings:

Insurance does not only protect against risks and uncertainties, but also provides an investment channel too. Life insurance enables systematic savings due to payment of regular premium. Life insurance provides a mode of investment. It develops a habit of saving money by paying premium. The insured get the lump sum amount at the maturity of the contract. Thus life insurance encourages savings.

Promotes economic growth:

Insurance generates significant impact on the economy by mobilizing domestic savings. Insurance turn accumulated capital into productive investments. Insurance enables to mitigate loss, financial stability and promotes trade and commerce activities those results into economic growth and development. Thus, insurance plays a crucial role in sustainable growth of an economy.

Medical support:

A medical insurance considered essential in managing risk in health. Anyone can be a victim of critical illness unexpectedly. And rising medical expense is of great concern. Medical Insurance is one of the insurance policies that cater for different type of health risks. The insured gets a medical support in case of medical insurance policy.

Spreading of risk:

Insurance facilitates spreading of risk from the insured to the insurer. The basic principle of insurance is to spread risk among a large number of people. A large number of persons get insurance policies and pay premium to the insurer. Whenever a loss occurs, it is compensated out of funds of the insurer.

Source of collecting funds:

Large funds are collected by the way of premium. These funds are utilized in the industrial development of a country, which accelerates the economic growth. Employment opportunities are increased by such big investments. Thus, insurance has become an important source of capital formation.

ROLE OF INSURANCE IN ECONOMIC DEVELOPMENT

1. **Saving and Insurance**

Saving involves refraining from present consumption. The investment can take place only when there are savings. The relationship between saving, investment and growth of GDP can be explained as:

$$G = S / K.$$

$G\ S\ K \quad G = \frac{S}{K}$

Where G – Rate of GDP growth, S – Saving Ratio and K – Capital output ratio.

Insurance companies lead to economic development by mobilizing savings and investing them into productive activities. Indian insurance companies are able to mobilize long-term savings to support economic growth and also facilitate economic development by providing insurance cover to a large segment of our people as well as to business enterprise throughout India.

2. **Capital Formation and Insurance**

Capital formation maybe defined as increase in capital stock of the country consisting of plant, equipment, machinery, tools, building, means of transport, communication, etc. The process of capital formation envisages three essential steps. These are:

a) **Real saving:** Mobilization of saving through financial and non-financial intermediaries to be placed at the disposal of investor.

b) **The act of investment:** The contribution of insurance companies in the process of capital formation appears at all these stages. Insurance services act as a tool to mobilize saving, function as financial intermediary and at times also indulge in direct investment. Also govt. has made regulations under which every insurer carrying on business of life insurance shall invest 25% of funds in Govt. securities and not less than 15% in infrastructure and social sector. The importance of Indian insurance industry is gauged by the fact that annual amount of investible funds of LIC and GIC and its subsidiaries amounted to over Rs. 20,000 crore and Rs. 10,000 crore are invested in nation building activities, housing and other infrastructural areas.

c) **Increased Employment:** Prior to the liberalization of insurance sector in India, the opportunities for employment were limited with the LIC of India as sole employer. While some of the professionals left the country looking for opportunities elsewhere, those who remained worked within the confines and constraints of public sector monopoly. This has further constrained the opportunities for exposure to the development in rest of the world. Liberalization and the opening up of sector to private players has now created a vast opportunity for employment.

3. **Obligation to Rural and Social Sector**

The insurer is required to fulfill their obligation towards rural and social sector. For this, Life insurers are required to have 5%, 7%, 10%, 12%, 15% of total policies in first five years respectively in rural sector. Likewise General Insurers are required to have 2% 3% and 5% thereafter of total gross premium income written in first five financial years respectively in rural sector.

4. **Insurance as financial intermediary**

Financial intermediaries perform the function of channelizing saving into domestic investment. They facilitate efficient allocation of capital resources, which in turn improve productivity and economic efficiency which result in reduced capital output ratio. The insurance companies perform extremely useful function in economy as financial intermediaries.

These are as follows:

a) **Reduction in transaction cost:** Insurers help in reducing transaction cost in economy by collecting funds from policyholders and investing the same in different projects scattered over different regions. It is a specialized and time consuming job.

b) **Creating liability:** The policyholders, in case of loss, are not required to wait for a long period for the amount of claim. It improves their liquidity.

c) **Facilitates Economies of scale in Investment:** Insurers are in the position of financing large projects, railways power projects, etc. These large projects create economies of scale, facilitate technological innovation and specialization and thus promote economic efficiency and productivity.

5. **Promotes Trade and Commerce**

The increase in GDP is positively correlated to growth of trade and commerce in economy. Whether it is production of goods and services, domestic or international trade or venture capital projects, insurance dominates everywhere. Even banks demand insurance cover of assets while granting loans for purchase of assets. Thus insurance covers, promotes specialization and flexibility in the economic system that play contributory role in healthy and smooth growth of trade and commerce.

6. **Facilitates efficient capital allocation**

Insurance provides cover to large number of firms, enterprises and businesses and also deploy their funds in number of investment projects. The vast pool of knowledge and expertise so gained enable them to distinguish between productive and high return projects. Therefore, they promote efficient and productive allocation of capital resources, which in turn lead to increased productivity and efficiency in the system.

7. **Encouraging Financial Stability and Reducing Anxiety**

Insurer promotes financial stability in economy by insuring the risks and losses of individuals, firm and organizations. Because of uninsured large losses, firm may not be able to compensate for it leading to its insolvency which may cause loss of employment, revenue to supplier & Govt., loss of products to customer, etc. Moreover, it relieves the tensions and anxiety of individuals by securing the loss of their lives and assets.

8. **Reducing Burden on Govt. Exchequer**

Insurance companies, particularly life insurers provide a variety of insurance products covering needs of children, women and aged etc under social security network and thereby reduce the burden on Govt. exchequer in providing these services. This Govt., saves expenditure on these items and amount can be utilized for more productive projects. Insurance companies play an important role in economic development of country.

INSURANCE AND SOCIAL SECURITY

The concept of social security is a broader term, which includes both social insurance and social assurance. The difference between the two lies in the scope of operation. Social insurance is primarily aimed at protection from want and hunger, whereas social security besides want and hunger also helps removal of squalor, diseases, ignorance and exploitation. Social assistance is supplemented in nature rather than substitutive. The benefits of social insurance are admissible to those who are so insured and make their regular contribution towards it. Social insurance is an institution jointly operated by industrialists, workers and Government. Social Insurance benefits are allowed to tall injured persons irrespective of their status, economic need whereas the benefit of social security is allowed strictly on the basis of needs and requirements. Social Security provides a foundation of income on which workers can build to plan for their retirement. It also provides valuable social insurance protection to workers who become disabled and to families whose breadwinner dies. Social security is an incentive for development. Substituting the gear of risk and inadequacy of working class through social security improves efficiency of the workman. Poverty constitutes a danger to prosperity everywhere. There is thus a changed trend of thought that want is not only undesirable, but also unnecessary under all circumstances. The testimony for this and its acceptance by all nations can be found is the Universal Declaration of Human Rights. Hence, it has been declared that the right of Social security is one of the significant human rights.

Social Insurance and Social Assistance

Social security is a very comprehensive term. The two important means of providing social security are social insurance and social assistance. Thus, it may be called to be the two faces of the same coin. Both of these are part of a social security system.

Social insurance

Social Insurance is one of the devices to prevent individual from falling to the death of poverty, misery and to help him in times of emergencies. Insurance involves the setting aside of some money in order to provide compensation against loss resulting from a particular emergency. Thus, social insurance is a co-operative device which aims at granting adequate benefits to the insured on the compulsory basis in time of unemployment, sickness and other emergencies. Thus social insurance implies both that it is compulsory and that men stand together with their fellows.

This is based on the principles of compulsory mutual aid. The principal elements of social insurance are:

(i) Social insurance is financed by contributions which are normally shared between employers and workers, with perhaps, state participation in the form of a supplementary contribution or other subsidy from the general revenue.

(ii) Participation is compulsory with few exceptions.

(iii) Contributions are accumulated in special funds out of which benefits are paid.

(iv) Surplus funds not needed to pay, current benefits are invested to earn further income.

(v) A person's right to benefit is secured by his contribution record without any test of need or means.

(vi) The contribution and benefit rates are often related to what the person is or has been earning.

Social assistance

Social assistance refers to the assistance rendered by the society to the poor and needy persons voluntarily without placing any obligation on them to make any contribution to be entitled to relief such as workmen's compensation, maternity benefit and old age pension etc. Thus, one may say that a social assistance scheme provides benefits for persons of small means granted as of right in amount sufficient to meet a minimum standard of need and financed from taxation.

Social assistance represents the unilateral obligations of the community towards its dependant group. It is provided by the society or the government to the poor and needy individual. The principal features of social assistance are:-

(1) the whole cost of the Programme is met by the State and local units of Government (2) benefits are paid as of legal right in prescribed categories of need

(3) in assessing the need, a person's other income and resources are taken into account certain resources such as a reasonable level of personal savings are disregarded

(4) the benefit grant is designed to bring a person's total income upto a community determined maximum taking into account other factors such as family size and unavoidable fixed obligations such as rent grants are not related to applicant's previous earnings or customary standard of living.

The difference between social insurance and social assistance are as follows:

a) Social assistance is purely a government affair while social insurance is partly financed by the State.

b) Social assistance is given gratis while social insurance is granted to those persons who pay a contribution.

c) Besides, a social insurance does not insist upon a means test upon a means test and benefits are granted without it while social assistance is granted only if certain conditions prescribed by the Government are fulfilled.

REFORMS IN INSURANCE SECTOR

1. **Insurance Laws (Amendment) Act, 2015**

The Insurance Laws (Amendment) Bill, 2015 was passed by the Lok Sabha on 4th March, 2015 and by the Rajya Sabha on 12th March, 2015, thus paving the way for major reform related amendments in the Insurance Act, 1938, the General Insurance Business (Nationalization) Act, 1972 and the Insurance Regulatory and Development Authority (IRDA) Act, 1999. The Insurance Laws (Amendment) Act 2015 enacted on 23rd March, 2015 has seamlessly replaced the Insurance Laws(Amendment) Ordinance, 2014, which came into force on 26thDecember 2014..

The Amendment Act removed archaic and redundant provisions in the legislations and incorporated certain provisions to provide Insurance Regulatory and Development Authority of India (IRDAI) with the flexibility to discharge its functions more effectively and efficiently. It also provided for enhancement of the foreign investment cap in an Indian Insurance Company from 26% to an explicitly composite limit of 49% with the safeguard of Indian ownership and control.

2. Promoting Reinsurance Business in India:

The Insurance Laws (Amendment) Act, 2015 enabled foreign reinsurers to setup branches in India and also enabled Lloyds and its members to operate in India through setting up of branches for the purpose of reinsurance business or as investors in an Indian Insurance Company within the 49% cap.

3. Redressal of Public Grievances (Notification of Insurance Ombudsman Rules, 2017):

In exercise of the powers conferred by section 24 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999) and in supersession of the Redressal of Public Grievances Rules, 1998 the Central Government has notified Insurance Ombudsman Rules, 2017 on 27.04.2017.The objects of these Rules is to resolve all complaints of all personal lines of insurance, group insurance policies, policies issued to sole proprietorship and micro enterprises on the part of Insurance companies and their agents and intermediaries in a cost effective and impartial manner.

4. Convergence of life and accident insurance schemes to PMJJBY and PMSBY:

In view of decisions taken in the meeting of Committee of Secretaries on Convergence of Insurance Schemes held on 9th May, 2017 all Ministries / Departments except Ministry of Labour and Employment (for Aam Aadmi Bima Yojana (AABY)) have converged their life and accident insurance schemes to PMJJBY and PMSBY as on 1st June, 2017.

5. Listing of Public Sector General Insurance Companies

To promote the objective of achieving higher levels of transparency and accountability, the Cabinet Committee on Economic Affairs, chaired by the Prime Minister Shri Narendra Modi has on 18th January, 2017 given its ‘in principle’ approval for listing the five Government owned General Insurance Companies namely General Insurance Corporation of India, The New India Assurance Company Ltd., United India Insurance Company Ltd., Oriental Insurance Company Ltd. and National Insurance Company Ltd. in the stock exchanges.

The shareholding of these Public Sector General Insurance Companies (PSGICs) will be divested from 100 percent to 75 percent in one or more tranches over a period of time. During the process of disinvestment, existing rules and regulations of Securities and Exchange Board of

India (SEBI) and Insurance Regulatory and Development Authority of India (IRDAI) will be followed.

6. Investments of the Insurance sector:

As on 31st March, 2016 the accumulated total investments held by the insurance sector was Rs.26.90 lakh crore. During 2015-16, Assets under Management (AUM) had grown by 11.71 per cent. Public sector insurers continue to contribute a major share of 79.24 per cent in total investments, though investments by private sector insurers are growing at a fast pace in recent years.

7. Rural and Social Sector Business:

The life insurers underwrote 68.99 lakh policies in the rural sector, viz., 25.8 per cent of the new individual policies underwritten (267.08 lakh policies) by them in 2015-16. LIC underwrote 25.70 per cent of the new individual policies and private insurers underwrote 26.3 per cent of the new individual policies in the rural sector. LIC covered 226.04 lakh lives and private insurers covered 111.13 lakh lives in the social sector. The non-life insurers excluding standalone and specialised insurers underwrote gross direct premium of Rs.10950.9 crore in the rural sector, viz., 12.51 per cent of the gross direct premium underwritten (Rs.87522.91 crore) by them in 2015-16. Public sector insurers underwrote 12.88 per cent of their gross direct premium and private insurers underwrote 12.07 per cent in the rural sector. In the social sector 1897.46 lakh lives were covered during the year 2015-16. The contribution of private sector was 150.89 lakh lives and public sector accounted for 1746.56 lakh lives. All the public and private sector non-life insurance companies including standalone health insurance companies have fulfilled the obligations in the rural and social sector for the year 2015-16.

8. Micro insurance

In order to facilitate penetration of micro insurance to the lower income segments of population, IRDAI has formulated the micro insurance regulations. Micro Insurance Regulations, 2005 provide a platform to distribute insurance products, which are affordable to the rural and urban poor and to enable micro insurance to be an integral part of the country's wider insurance system. There were 27041micro insurance agents operating in the micro insurance sector at the end of 2015-16 (as against 22761 agents in 2014-15). In micro-insurance-life, the individual new business premium in the year was Rs.31.71 crore through 9.10 lakh policies (as against Rs.28.89 crore under 8.16 lakh policies in 2014-15) and the group business amounted to Rs.302.43 crore premium for 292.54 lakh lives (as against Rs.315.60 crore for 231.28 lakh lives in 2014-15). Individual death claims paid under micro insurance portfolio for the year 2015-16 amounted to Rs.20.47 crore on 14059 policies (as against Rs.21.57 crore on 13138 policies in 2014-15) and in the group category Rs. 414.02 crore was paid as death claims on 132256 lives (as against Rs.426.62 crore on 133268 lives in 2014-15).

9. Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT)

The Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) (AML/CFT) guidelines for the insurance sector were issued in March 2006. The sector entered into the ninth year of an effective AML/CFT regime in 2015-16. IRDAI works closely with various departments of the Ministry/agencies in the implementation of AML/CFT guidelines and has initiated various measures towards effective accomplishment of the AML/CFT guidelines in the insurance sector.

Insurance Regulatory and Development Authority of India (IRDA)

Insurance Regulatory and Development Authority of India is an autonomous statutory body that is responsible for regulating, protecting and promoting Insurance and re-insurance industries in India. It was constituted under The Insurance Regulatory and Development Authority Act, 1999 an Act of The Parliament of India.

Organizational Structure:

As per the section 4 of IRDA Act 1999, specifies the composition of the Authority. The Authority is a 10 member team consisting of

- A Chairman
- Five whole time members
- Four Part-time members

IRDA's head office is at Hyderabad where all the major activities including ensuring the financial stability of insurers and monitoring market conduct of various regulated entities is carried out from the Head office. IRDA's regional offices are at Mumbai and New Delhi. The New Delhi regional office focuses on spreading consumer awareness and handling of insurance grievances besides providing the required support for inspection of Insurance companies. The office is also responsible for licensing of surveyors. The Mumbai regional office functions in the same manner but in the Western region.

Regulatory Framework:

The Insurance Act, 1938 is the chief Act overseeing the Insurance sector in India. It gives the forces to IRDAI to outline guidelines which set out the administrative structure for the management of the entities working in the division. Further, there are sure different Acts which administer explicit lines of Insurance business and capacities, for example, Marine Insurance Act, 1963 and Public Liability Insurance Act, 1991.

IRDA's Mission:

Policyholders

- To protect the interest and ensure fair treatment to policyholders.
- To realize quick and efficient development of the Insurance business (counting annuity and superannuation installments), to support the normal man, and to give long term assets to quickening development of the economy.
- To set, advance, screen and implement expectations of integrity, money related adequacy, reasonable dealing of those it directs.
- To guarantee rapid settlement of real cases, to prevent Insurance cheats and different acts of malpractices and set up viable complaint redressal cell.
- To advance decency, straightforwardness and systematic procedure in money related markets managing Insurance and construct a solid administration data framework to uphold elevated requirements of budgetary sufficiency among showcase players.
- To make a move where such measures are insufficient or inadequately implemented.
- To achieve the ideal measure of self-regulation in the everyday working of the business steady with the necessities of the prudential guideline.

Supervisory Role:

- To give licenses to (re) Insurance organizations and Insurance intermediaries
- To secure the interests of policyholders.

- To control speculation of assets by Insurance organizations, proficient associations associated with the (re)Insurance business; support margin of solvency.
- To call for data from, undertaking assessment of, leading enquiries and examinations of the elements associated with the Insurance business.
- To determine essential capabilities, set of accepted rules for the middle person or Insurance delegates, specialists and surveyors.
- To recommend the structure and way in which books of record will be kept up and articulation of records will be rendered by safety net providers and other Insurance delegates.

RECENT INITIATIVES TAKEN BY IRDA

a) Insurance Marketing firms: IRDA had recently brought in the new concept of intermediaries in the insurance distribution known as Insurance Marketing Firm (IMF). The regulations came into effect from 21-01-2015 which covers insurance soliciting and servicing activities of the Insurance Marketing Firm, and its functionaries including Insurance Sales Person (ISP). It is expected that the standalone marketing firms will be established with the objective of distributing the insurance products which will pave the way for penetration of insurance. In order to encourage more firms to pioneer as IMFs, they are also permitted to simultaneously, market other financial products such as mutual funds of mutual fund companies; pension products of PFRDA; and other financial products marketed by Investment advisors of SEBI etc. IMFs are expected to help in increasing insurance penetration.

b) Common Service Centers: The Authority permitted use of Common Service Centres (CSC) as a distribution channel for selling and servicing insurance products. Guidelines are issued to permit both Life and General Insurers in India to market certain categories of Retail Insurance Policies and Services through M/s CSC e-Governance Services India Limited (CSC-SPV) and its Common Service Centers Network. The Authority approved products suitable for sale in rural areas through this channel, which would help in rural penetration of insurance in a big way. At present more than 1,00,000 CSC are operating in the rural areas in India with one each for a cluster of six villages. The number of CSC is likely to increase to 2.5 Lac in the near future.

c) Web Aggregators: Web aggregator maintains/owns a website and provides information pertaining to insurance products and comparisons of price of different Insurers and offers leads to Insurers. The Authority had issued Regulations for Web-Aggregators on 3-12-2013

d) Insurance Repositories: Insurance Repository (IR) is to provide and empower the policyholders with a facility to keep insurance policies in electronic form at one place and to undertake changes, modifications and revisions in the insurance policy with speed and accuracy in order to bring about efficiency, transparency and cost reduction in the issuance and maintenance of insurance policies. Based on the above, the Authority issued licenses to 5 IRs. Nearly 4 lakhs accounts were opened and out of these nearly 2 lakhs policies were converted in to electronic form.

e) Issuance of electronic Insurance Policy: Consequent upon promulgation of Insurance Laws (Amendment) Act 2015, IRDA has come out with IRDA (Issuance of e-Insurance Policies) Regulations, 2016 in respect of Issuance of electronic policy and submission of electronic proposal form of insurance policies

RECOGNISING HEALTH INSURANCE AS A SEPARATE CLASS OF BUSINESS:

Insurance Laws (Amendment) Act 2015 recognized Health Insurance as a separate class of business. Section 2 (6c) of the Act defines Health Insurance Business as; "health insurance business" means the effecting of contracts which provide for sickness benefits or medical, surgical or hospital expense benefits, whether in-patient or out-patient travel cover and personal accident cover. It is one of important milestones for the Indian Insurance Business. Recognition of health insurance as a standalone class of business is expected to usher in an era of improving access to health services to all segments of population, thereby reducing the share of ‘out of pocket’ expenses in the overall medical expenses. Recognizing health insurance as a class also encourages new players to enter this field as standalone health insurers.

NOTIFICATION OF IRDA (HEALTH INSURANCE) REGULATIONS, 2016:

A pro-policyholder framework of Health Insurance Regulations was brought in the year 2013. Based on the experience gained and feedback from stakeholders, it was felt that there is a need for revisiting the regulatory framework concerning the Health Insurance for reasons like enhancing the scope for product innovations, making provisions to reward healthy behavior of policyholders etc. Accordingly, Authority constituted a Committee of Experts on 29th December, 2014, to visit/re-visit the regulatory framework on Health Insurance and the committee submitted its report to the Authority on 24th April, 2015. Taking into consideration the recommendations of the Committee of Experts as also the feedback of the stakeholders, the Authority revisited the existing Regulatory framework and notified IRDA (Health Insurance) Regulations, 2016 on 18th July 2016. These IRDA (Health Insurance) Regulations, 2016 inter alia covered /addressed the following areas:

1. Permission to launch Pilot Products
2. Wellness and Preventive Features
3. Health plus Life Combo Products
4. Facilitation to offer Group Products under Use and File Procedure
5. Protection of interests of Policyholders
6. Enabling Business environment
7. Enhancing scope of Health Insurance
8. Claim cost control and mitigation of Frauds
9. Benchmarks for Hospitals

PRIVATIZATION AND LIBERALIZATION IN INDIA

Privatization is defined here as the transfer of ownership and control of business entities and activities from State into private hands. To some extent the current wave of privatization represents a countermove to the expansion of public enterprises (PES) in developing countries that had characterized the post-World War II period when many PEs were established as a consequence of nationalization policies which were the prevailing credo of the time. ideological motives played a certain role, in many cases PES were established in order to help governments pursue a variety of political, social and strategie economic objectives which were considered difficult to achieve through private enterprises.

LIBERALIZATION

The complete regulation of insurance coverage enterprise in India was introduced into impact with the enactment of the Insurance Act, 1983. It tried to create a robust and highly effective supervision and regulatory authority in the Controller of Insurance with powers to direct, advice, examine, register and liquidate insurance coverage companies and so forth. However, consequent upon the nationalization of insurance coverage enterprise, most of the regulatory features had been taken away from the Controller of Insurance and vested in the insurers themselves. The Government of India in 1993 had arrange a excessive powered committee by R.N.Malhotra, former Governor, Reserve Bank of India, to look at the construction of the insurance coverage trade and advocate adjustments to make it extra environment friendly and aggressive holding in view the structural adjustments in different elements of the monetary system on the nation.

Malhotra Committee's Recommendations

The committee submitted its report in January 1994 recommending that personal insurers be allowed to co-exist together with authorities companies like LIC and GIC companies. This suggestion had been prompted by a number of elements equivalent to want for larger deeper insurance coverage protection in the economic system, and a a lot a larger scale of mobilization of funds from the economic system, and a a lot a larger scale of mobilization of funds from the economic system for infrastructural growth. Liberalization of the insurance coverage sector is at the least partly pushed by fiscal necessity of tapping the large reserve of financial savings in the economic system. Committee's suggestions had been as follows:

- Raising the capital base of LIC and GIC as much as Rs. 200 crores, half retained by the federal government and relaxation bought to the general public at massive with appropriate reservations for its staff.
- Private sector is granted to enter insurance coverage trade with a minimal paid up capital of Rs. 100 crores.
- Foreign insurance coverage be allowed to enter by floating an Indian company ideally a three way partnership with Indian companions.
- Steps are initiated to arrange a robust and efficient insurance coverage regulatory in the shape of a statutory autonomous board on the strains of SEBI.
- Limited quantity of non-public companies to be allowed in the sector. But no agency is allowed in the sector. But no agency is allowed to function in each strains of insurance coverage (life or non-life).

- Tariff Advisory Committee (TAC) is delinked kind GIC to perform as a separate statuary physique below obligatory supervision by the insurance coverage regulatory authority.
- All insurance coverage companies be handled on equal footing and ruled by the provisions of insurance coverage Act. No particular dispensation is given to authorities companies.
- Setting up of a robust and efficient regulatory physique with unbiased supply for financing earlier than permitting non-public companies into sector.

Competitors to authorities sector:

Government companies have now to face competitors to personal sector insurance coverage companies not solely in issuing varied vary of insurance coverage merchandise but additionally in varied points in phrases of customer support, channels of distribution, efficient methods of promoting the merchandise and so forth. privatization of the insurance coverage sector has opened the doorways to improvements in the way in which enterprise may be transacted. New age insurance coverage companies are embarking on new ideas and less expensive approach of transacting enterprise. The thought is obvious to cater to the utmost enterprise on the least value. And slowly with time, the age-old norm prevalent with authorities companies to increase by organising branches appears getting misplaced. Among the methods that appear to catching up quick as a substitute for cater to the agricultural and social sector insurance coverage is hub and spoke association. These together with the individuals of NGOs and Self Help Group (SHGs) have finished with most of the promoting of the agricultural and social sector insurance policies.

The predominant challenge is from the business banks which have huge community of branches. In this regard, you will need to point out right here that LIC has entered into an association with Mangalore primarily based Corporations Bank to leverage their infrastructure for mutual profit with the insurance coverage monolith buying a strategic stake 27 per cent, Corporation Bank has determined to desert its plans of selling a life insurance coverage company. The financial institution will act as a company agent for LIC in future and obtain fee on insurance policies bought by means of its branches. LIC with its department community of near 2100 workplaces will enable Corporation Bank to arrange extension facilities. ATMs or branches were established within its premises. Corporation Bank would in flip implement an efficient Cash Flow Management System for LIC.

INDIAN INSURANCE MARKET

Insurance industry in India has seen a major growth in the last decade along with an introduction of a huge number of advanced products. This has led to a tough competition with a positive and healthy outcome. Insurance sector in India plays a dynamic role in the wellbeing of its economy. It substantially increases the opportunities for savings amongst the individuals, safeguards their future and helps the insurance sector form a massive pool of funds. With the help of these funds, the insurance sector highly contributes to the capital markets, thereby increasing large infrastructure developments in India.

At present, LIC, New India, National Insurance, United insurance and Oriental are the only government ruled entity that stands high both in the market share as well as their contribution to the Insurance sector in India. There are two specialized insurers – Agriculture Insurance Company Ltd catering to Crop Insurance and Export Credit Guarantee of India catering to Credit Insurance. Whereas, other private insurers (both life and general) have done a joint venture with foreign insurance companies to start their insurance businesses in India.

Life Insurance Companies:

- Aegon Life Insurance Co. Ltd.
- Aviva Life Insurance Co. India Ltd.
- Bajaj Allianz Life Insurance Co. Ltd.
- Bharti AXA Life Insurance Co. Ltd.
- Birla Sun Life Insurance Co. Ltd.
- Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd.
- DHFL Pramerica Life Insurance Co. Ltd.
- Edelweiss Tokio Life Insurance Co. Ltd
- Exide Life Insurance Co. Ltd.
- Future Generali India Life Insurance Co. Ltd.
- HDFC Standard Life Insurance Co. Ltd.
- ICICI Prudential Life Insurance Co. Ltd.

- IDBI Federal Life Insurance Co. Ltd.
- India First Life Insurance Co. Ltd
- Kotak Mahindra Old Mutual Life Insurance Ltd.
- Max Life Insurance Co. Ltd.
- PNB MetLife India Insurance Co. Ltd.
- Reliance Life Insurance Co. Ltd.
- Sahara India Life Insurance Co. Ltd.
- SBI Life Insurance Co. Ltd.
- Shriram Life Insurance Co. Ltd.
- Star Union Dai-Ichi Life Insurance Co. Ltd.
- Tata AIA Life Insurance Co. Ltd.

General Insurance Companies:

- Aditya Birla Health Insurance Co. Ltd.
- Bajaj Allianz General Insurance Co. Ltd.
- Bharti AXA General Insurance Co.Ltd.
- Cholamandalam General Insurance Co. Ltd.
- Future Generali India Insurance Co.Ltd.
- HDFC ERGO General Insurance Co. Ltd.
- ICICI Lombard General Insurance Co. Ltd.
- IFFCO-Tokio General Insurance Co. Ltd.
- Kotak General Insurance Co. Ltd.
- L&T General Insurance Co. Ltd.
- Liberty Videocon General Insurance Co. Ltd.
- Magma HDI General Insurance Co. Ltd.
- Raheja QBE General Insurance Co. Ltd.
- Reliance General Insurance Co. Ltd.
- Royal Sundaram Alliance Insurance Co. Ltd
- SBI General Insurance Co. Ltd.
- Shriram General Insurance Co. Ltd.

- TATA AIG General Insurance Co. Ltd.
- Universal Sompo General Insurance Co.Ltd.

Health Insurance Companies

- Apollo Munich Health Insurance Co.Ltd.
- Star Health Allied Insurance Co. Ltd.
- Max Bupa Health Insurance Co. Ltd.
- Religare Health Insurance Co. Ltd.
- Cigna TTK Health Insurance Co. Ltd.

This collaboration with the foreign markets has made the Insurance Sector in India only grow tremendously with a high current market share. India allowed private companies in insurance sector in 2000, setting a limit on FDI to 26%, which was increased to 49% in 2014. IRDAI states – Insurance Laws (Amendment) Act, 2015 provides for enhancement of the Foreign Investment Cap in an Indian Insurance Company from 26% to an Explicitly Composite Limit of 49% with the safeguard of Indian Ownership and Control. Private insurers like HDFC, ICICI and SBI have been some tough competitors for providing life as well as non-life products to the insurance sector in India.

NEW ENTRANTS TO INDIAN INSURANCE MARKET

The insurance industry is undergoing profound change. But this disruption is not just digital-harsh market conditions, demanding customers and innovative new market entrants are just some of the forces transforming the insurance industry. But where there is a challenge, there is an opportunity. And all the sources of disruption mentioned above can be harnessed to become a source of growth. As the traditional business model of insurance firms is disrupted by both external and internal forces, insurers are facing increasing pressure to innovate and adapt. The following major trends could shape and upend the insurance industry over the coming years, with profound implications for both policyholders and insurers.

New Customers + New World = New Solutions

Customers of today are fundamentally different from their parents and grandparents. Not only did their needs, knowledge and expectations expand exponentially over the past decade, but the blending of technology with our everyday lives has created a new kind of consumer: a digital native. Customers became the disruptive force in the insurance industry. With so much focus on instant gratification, endless choice and consistent change are omnipresent. With comparison sites, ratings and testimonials a click away, customers are quick to abandon sign-up processes as soon as they encounter friction.

The Shift in Culture from Legacy to Innovation

Insurance always had the reputation of a very conservative industry. This, too, is rapidly changing. In an effort to push their digital transformation initiatives forward and satisfy the demands of modern consumers, insurers today became early adopters of the latest technologies.

Digital-first insurers and tech giants entering the insurance space are one of the forces pushing the industry as a whole toward an innovative mindset. Digital transformation is no longer something to be proud of; rather, it is a matter-of-fact force that drives the industry forward. The need to innovate as a matter of strategy becomes increasingly apparent to insurance leaders. As a result, we're seeing a shift toward an innovation-focused culture. This digital culture empowers insurers to innovate when it comes to age-old insurance problems such as risk assessments, claims processing and policy sales. Digital culture itself is shifting in step with the insurance IT landscape. In the past, digital culture meant focusing on building everything internally. But this approach has been slowing insurers down, especially when they're faced with the relentless pace of digital transformation. Today, innovative-thinking IT departments are more open to turning to external specialist tools and integrating new third-party technologies to achieve their goals. IT departments are becoming less so the laborers of digital transformation and becoming the leaders in innovation enablement instead.

Customer Interactions Become a Customer Journey

Customers don't look at every single interaction with their insurer in isolation. Rather, they treat any communication, no matter the channel, as a part of the whole. This shift toward digital journeys reveals how insurers are building and maintaining their customer relationships. Delivering an excellent experience is now a matter of survival. From customers' website and mobile app to social media profiles and email campaigns, insurers must always deliver the best customer experience. To build deeper relationships with customers throughout the entire customer journey from application to cross-selling, insurers must build engaging, personalized journeys at every step of the way. We are entering a new era of innovation and giant technological leaps in the insurance industry. These are the exciting times we are living in.

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UNIT –II

Life Insurance Nature and Policy types:

Nature of Life Insurance-Principles of Insurance-Terms used in Insurance- Life Insurance Product - Various Schemes - Characteristics of an Insurable risk - Role of Insurance-Factors influencing Demand for Insurance - First Premium - Renewal - Mode of Premium Payment - Limited Period Payment and Single Premium - Lapse & Revival - Paid Up Policy - Deferment Period - Nomination & Assignment of Policy - Bonus - Surrender Value.

NATURE OF LIFE INSURANCE:

Issued in the name of the policyholder

One of the primary features of life insurance plans is that it is issued only in the name of the policyholder. A policyholder is basically the individual who purchases a life insurance policy and pays the requisite premiums.

Generally, for a typical life insurance plan, there tends to be just one policyholder. That's not always the case. Some plans, like a joint life insurance plan, allow to have more than one policyholder.

Flexible premium payments

A policyholder to enjoy a **life cover**, he/ she is required to pay premiums to the insurance service provider. Policyholder can also choose the frequency of premium payments that he/she wish to make. For instance, one can choose to pay the premiums for the life insurance policy as a lump sum amount. Or alternatively, could choose to pay them at periodic intervals such as monthly, quarterly, half-yearly, or annually.

Customizable tenure

When one purchases a life insurance policy, one is required to choose the tenure of the plan. The policy offers protection only until the end of the selected tenure, which is known as the policy term. The life cover is only valid during this tenure. This tenure can be customized according to the needs and requirements. For instance, one can simply choose tenure of 20 years if life insurance coverage is required for the next 20 years. There are also some life insurance plans that offer whole life coverage, meaning that they are valid till the policyholder attains 99 or 100 years of age. This varies from one plan to another.

Customizable sum assured

The sum assured component of a life insurance plan is the pay-out that policyholder's nominee gets from the insurance service provider in the event of demise of the policyholder. Just like the tenure of a life insurance plan, one can also customize the sum assured when purchasing the policy. The premium to be paid for a life insurance policy depends on the sum assured. So, for example, the premium for a life insurance plan with Rs. 1 crore as the sum assured is likely to carry a higher premium than a similar plan with just Rs. 50 lakhs as the sum assured.

Pay-out on death or on maturity

Another one of the important feature of life insurance is that the insurance service provider pays out the sum assured only under one of two incidents - upon the death of the policyholder or upon the maturity of the life insurance plan. For pure term insurance plans, pay-outs are only made on death. When the insurer pays out the sum assured to the nominee in the event of the policyholder's death, the pay-out is termed as death benefit. Similarly, when the pay-out is made to the policyholder themselves on maturity of the policy, it is termed as maturity benefit.

Ability to assign nominees

Nominees are the individuals who are entitled to receive the sum assured in the event of the policyholder's demise. Nominees usually need to be assigned at the time of purchase of a life insurance policy itself. However, one can also choose to assign them at a later point as well. One can also choose to switch the nominees at any point during the tenure of the life insurance plan.

Features an investment component

Not all life insurance policies stick to just providing a life cover. Unit Linked Insurance Plans (ULIPs) and savings plans also come with an investment component over and above a life cover. This feature ensures that policyholder gets benefits that are paid on maturity.

Savings

Life insurance is also a potent instrument for savings. Life insurance is the best instrument to provide security in the event of happening of such contingency.

Dreams come true

Every person lives in dreams— dreams of very high education for children, very decent marriages to daughters, etc. Life insurance makes such dreams come true even if the dreamer is no more.

Collateral Security

Own shelter has become an essential to everyone. Many institutions offer mortgage loans for purchase / construction of a house / flat. Life insurance acts as a collateral security in respect of such loans. Without such security, the same shelter, considered an asset as long as the house purchaser is alive, will become a liability to the family if he dies before repayment of the entire loan. To repay the outstanding loan, the property will have to be disposed off. Circumstances will make it a distress sale and it will fetch much less than its reasonable market value.

Financial Independence

Life insurance provides financial independence in old age. The lump sum maturity value of a policy when received can be invested to yield interest sufficient to meet expenses after retirement from work-life. Or the same money can be utilized to purchase an annuity. While still young, an individual can purchase a deferred annuity and fund the same in easy installments.

Protects Creditors

Organizations or individuals, who are in credit business, can ensure for themselves recovery of loan when a debtor dies. They can obtain a group / individual life insurance policy on the lives of debtors. So if a debtor dies, the policy will repay the outstanding loan.

Protects Partnership firm

A partnership firm can insure the lives of the partners to the extent of capital invested by each in the business, In case of the death of a partner, the danger of withdrawal of capital by the legal heirs of the deceased partner can be met from the proceeds of the policy, Otherwise, there is the risk of financial problems for the partnership business,

Provides fund for replacement

Under key man insurance, an organisation can insure the lives of executives, whose expertise greatly contributes to their profits. In case of the death of a key man, the money provided by the insurance can be utilized to recruit a new person who is equally capable as a replacement.

PRINCIPLES OF LIFE INSURANCE:

The principles of insurance are the set of rules which are applicable to the agreement entered in by insurer and insured. The contract of insurance is based on certain fundamental principles; some of them are common to life, fire, marine and miscellaneous insurance.

Fundamental principles of insurance are divided in to two groups i.e. Primary Principles and Secondary Principles. These are discussed as follows.

PRIMARY PRINCIPLES

Primary principles of insurance are the basic principles of insurance. These are the backbone of insurance contract. Generally these principles are in all types of insurance contract.

These principles are as follows:

Principle of Insurable Interest

Insurable interest means interest of the insured in the subject matter of insurance. Prof. Hansell has defined insurable interest as "a financial involvement in which is able to be insured". It is the basic condition of insurance contract that insured must possess insurable interest in the subject matter of insurance. The insured should have monetary relationship with the subject matter. This monetary relationship must be legally acceptable. Insurable interest is the pecuniary interest whereby the insured is benefited by the existence of the subject matter and is prejudiced by the death or damage of the subject matter. In other words policy holder (insured) is economically benefited by the survival or the existence of the subject matter and suffers economic loss vice versa. This principle is applicable to all types of insurance contract.

When should insurable interest exist?

Generally, in life insurance contract the insurable interest should exist at the time of taking insurance, while in marine insurance it should exist at the time of indemnification. In case of fire and accident insurance it should exist both the time.

Who can hold Insurable Interest?

Husband and wife - Husband and wife both have unlimited insurable interest in each other's life. They can insure each other. For other relatives the right to insure does not arise e.g. father, mother, independent son or daughter etc. unless some economical interest in each other.

Partners - All partners have a mutual insurable interest in each other. The death of any partner may cause an economical loss to other partner.

Debtors and Creditors – A creditor has a right to insure the life of debtor to the extent of his debt.

Trustee's – Trustee's, attorney, administrator have a right to insure property entrusted to them.

Owner – Legal owner of the property has insurable interest in the said property.

Landlord and tenant – They have insurable interest to the extent of the rent.

Employers and employees – They have insurable interest in each other. Employer has right to insure the key employees as well as employee can insure the life of employer.

Principle of Indemnity

It is the important principle of the insurance contract. It is applicable to all types of insurance contract excluding life insurance. Insurance is a contract of Indemnity. Indemnity means a security against loss or compensation for loss. Such compensation will be equal to the loss to the property. In other words the insured cannot earn any profit out of this contract. Indemnity restores the policy holder to the same financial position after a loss as he can enjoy immediately prior to the loss. Once the policy holder is indemnified, he has to surrender all his rights relating to the damaged property to insurance company.

Methods of Indemnification:

Usually there are three methods of indemnification. They are as follows.

Cash Payment – It is most suitable and user friendly method of payment of loss of indemnity. Under this method actual loss is evaluated and payment in cash is done to the insured.

Replacement / Reinstatement – Generally this method is used in fire insurance. Both the parties prefer to settle the claim through replacement. The insurance company replaces a new part the whole property. More prevalent in case of fire insurance for the rebuilding of premises to the former conditions.

Repairs – Under this method with the consent of the policyholder insurance company repairs the damaged part of the property. Generally it is used for repair of the motor vehicles.

Principle of Utmost Good Faith

Insurance contract is based upon the mutual trust and confidence between the policy holder and insurance company. Utmost good faith means faith on each other; this means each party to proposed contract is legally responsible to reveal to the other party all material information relating to subject matter. Material information means the information on which the decision of the other party to enter into contract depends. In other words material fact means a fact that would influence the mind of a prudent underwriter in assessing the risk. The policy holder should disclose and provide all the facts to the insurance company otherwise the contract will become invalid.

The responsibility of disclosing all the material information relating to the subject matter lies with insured. Material fact includes the following:

- The fact or information which increases the risk of the insurance company. In case of life insurance, facts about life and health, family history, habits, hereditary disease, risk increases due to profession etc.
- In case of marine insurance, possibility of risk due to improper maintenance of ship.
- In case of burglary insurance, past history of burglary if any.

However certain facts are not included in material fact which is as follows:

- The fact or information which reduces the risk of the insurance company.
- The information which are in the insurance contract.
- The information easily obtained by insurance company etc.

Principle of Probability

The theory of probability is the basis of insurance contract. The principle of Probability means the chances of happenings of event and expected amount of loss. Though the chances of incurring loss to any property depend upon so many factors and rates of premium are fixed in advance by considering these factors. This theory is helpful for understanding the chances of losses and expected amount of losses. From the view point of insurance company the law of large numbers is an important law. Probability of happening of certain event is applicable for large number. But very few insured suffers loss and they get compensation.

Principle of Co-operation

Professor Hansell defined insurance as a social device providing financial compensation for the effects of misfortune and the payment being made from the accumulated contributions of all parties participating in the scheme. In other words insurance is a co-operative measure for providing security against losses. The loss occurs due to unfortunate event is divided into groups of people. This concept of insurance came into existence from ancient period. The loss is compensated through social fund created by collecting money in the form of premiums by way of co-operative efforts. It is the systematic mechanism of combining each other as a group who are expected to loss and actual loss suffered by anyone of them is shared by all in the form of premium.

Secondary Principles of Insurance

Basically insurance contract is the contract of indemnity. Secondary principles are the outcome of the principle of indemnity. It includes the following.

Principles of Subrogation

Subrogation means to exercise for own benefit, all rights and remedies which insured possess against the third party. In other words for own benefit, the insurance company comes to possess all the rights of the insured against the third person as regards the subject matter can be claimed by the insurer after paying the claim.

According to Elelyn Thomas, "It is the right to which one person has to stand in the place of another and avail him of all the rights and remedies of the other." This principle is the outcome of the principle of the indemnity. It is applicable only when loss to the property is fully compensated. The payment of compensation twice to the owner of the property is avoided. e.g. If motor car of the insured is damaged by accident, insurance company may pay full amount of compensation to Mr. A. In such case insurer will become entitle to all the rights of insured subject matter against third party who is responsible to damage. Insured cannot claim amount for damage from third party and insurance company at a time. If he gets excess amount, it should be returned to the insurance company. The right of subrogation may take place in any one of the following ways;

- Right arising out of tort
- Right arising out of contract
- Right arising out of salvage
- Right arising out of contract

Principle of Contribution

The principle of contribution is applicable when the policy holder takes the insurance from two or more insurance companies on same risk or subject matter. In such case payment towards compensation to insured by insurance company is to be made proportionately. In other words the insurance company can call other insurance company similarly liable to the same insured to share the cost of payment of compensation. This principle ensures equitable distribution of losses between different insurance companies. Under this principle insured cannot be prohibited from taking more policies of the same property or risk with different insurance companies but he is not allowed to make profit by way of double insurance. For example, Mr. A has taken insurance of his house valued Rs.6 lakh with two companies amounting to Rs. 6,00,000 and Rs. 3,00,000 respectively. House is fully destroyed by fire in such case both the companies compensate the loss by contributing proportionately as Rs. 400000 and Rs. 200000 (i.e. 2:1) respectively and not fully.

Principle of Mitigation of Loss

The term mitigation means to minimize or take efforts to minimize. This principle places a duty on the part of the policy holder to make every effort and to take all such steps to minimize the loss to the subject matter when unfortunate event takes place. In other words under this principle it is the duty of insured to take necessary steps to minimize the loss, as if the owner of the uninsured property takes. That means under this principle he is expected to take prudent action to minimize the loss and to save whatever is left. He must take efforts to save the property from damages in case of accident. If he fails to do so and it is found that he was silent or negligent at the time of unfortunate event, the insurance company can avoid the amount of claim.

Principle of Causa Proxima

Causa Proxima is the Latin word. It means Proximate Cause i.e. nearest cause. Thus Proximate Cause of loss is that cause which is nearest in effectiveness and not remote cause. At the time of payment of compensation, insurance company will consider the cause for loss which is an active cause that leads for mishap and loss occur to subject matter. Generally this principle is used when actual cause of mishap is not found out or cannot be fixed. If there are more than two causes operated at the same time as a cause of loss and real cause is not found, in such case insurance company is liable to pay loss or compensation by considering nearest cause of loss. Generally this principle is used in marine insurance.

TERMS USED IN INSURANCE

Life insurance is a safety net that keeps the family financially protected in the absence of the policyholder. It is an integral part of financial planning. There are different types of life insurance policies available today while the term life insurance being the most popular one.

Term life insurance is one of the simplest and most cost-effective insurance plans. That being said, most people get overwhelmed with the complex jargon and technical phrases used in insurance policy contracts. It is important to be aware of such terms to make a well-informed decision while buying a policy. Here's a glossary of some of the commonly used expressions used in term life insurance policies.

Policyholder

The policyholder is the one who proposes the purchase of the life insurance policy and pays the premium. The policyholder is the owner of the policy and she/he may or may not be the life assured.

Life assured

Life assured is the insured person. Life assured is the one for whom the life insurance plan is purchased to cover the risk of untimely death. Primarily, the breadwinner of the family is the life assured. Life assured may or may not be the policyholder. For instance, a husband buys a life insurance plan for his wife. As the wife is a homemaker, husband pays the premium, thus the husband is the policyholder, and wife is the life assured.

Sum assured (coverage)

Life insurance is meant to provide a life cover to the insured. The financial loss that may arise due to the passing away of the life assured is generally chosen as a life cover when buying a life insurance plan. In technical terms, 'Sum Assured' is the term used for an amount that the insurer agrees to pay on death of the insured person or occurrence of any other insured event. One may come across the term 'sum assured' at the time of comparing policies online, when buying life insurance plan, and in the policy document. The sum assured is the amount that the life insurance company will pay to the nominee if the insured person dies during the policy tenure. The sum assured is chosen by the policyholder at the time of purchase.

Nominee

The 'nominee' is the person (legal heir) nominated by the policyholder to whom the sum assured and other benefits will be paid by the life insurance company in case of an unfortunate eventuality. The nominee could be the wife, child, parents, etc. of the policyholder. The nominee needs to claim life insurance, if the life assured dies during the policy tenure.

Policy tenure

The 'policy tenure' is the duration for which the policy provides life insurance coverage. The policy tenure can be any period ranging from 1 year to 100 years or whole life, depending on the types of life insurance plan and its terms and conditions. Many a times, it is also referred to as policy term or policy duration. The policy tenure decides for how long the company is providing the risk coverage. However, in the case of whole life insurance plans, the life coverage is till the time life assured is alive.

Maturity age

Maturity age is the age of the life assured at which the policy ends or terminates. This is similar to policy tenure, but a different way to say how long the plan will be in force. Basically, the life insurance company declares up front the maximum age till which the life insurance coverage will be provided to the life insured. For instance, you are 30 years old, you opt for a term plan with a maturity age of 65 years. That means the policy will have coverage till you are 65 years old, which also means, the maximum policy tenure for a 30-year-old is 35 years.

Premium

The premium is the amount policyholder has to pay to keep the life insurance plan active and enjoy continued coverage. If the policyholder is unable to pay the premium before the payment due date and even during the grace period, the policy terminates. There are various options on how the policyholder can pay the premium – regular payment, limited payment term, single.

Premium payment term/mode/ frequency

Regular Premium Payment - policyholder can pay premium regularly throughout the policy term either – monthly, quarterly, half-yearly or yearly.

Limited Premium Payment – policyholder can choose to pay the premiums for a limited amount of time. In this option, policyholder does not pay till the end of the policy term, but for a certain pre-fixed number of years. For example, 10 years, 15 years, 20 years, and so on.

Single Premium Payment – policyholder can also choose to pay the premium for the entire duration of the plan as a lumpsum in one single go.

Riders

Riders are an additional paid-up feature to widen up the scope of the base life insurance policy. Riders are bought at the time of purchase or on policy anniversary. There are different types of riders that can be bought along with the base plan. However, number and type of riders will differ from insurer to insurer.

Plus, the terms and conditions may differ from one insurance to another. However, here's the list of some well-known riders offered by life insurance companies.

- Accidental Death Benefit Rider
- Accidental Total and Permanent Disability Benefit Rider
- Critical illness Cover
- Hospital Cash
- Waiver of Premiums

Death Benefit

The 'Death Benefit' is what life insurance company pays to the nominee in case the life assured dies during the policy tenure. The death benefit can be the sum assured or even higher than that, which may include rider benefit (if any), and/or other benefits, Except in the case of term insurance – where there is no accrued bonus or guaranteed additions.

Survival/Maturity Benefit

Maturity benefit is the amount that the life insurance company pays when the life assured outlives the policy tenure. Survival benefit is paid when the life assured completes the pre-defined number of years under the policy. There is no survival or maturity benefit in term plans. However, in other life insurance policies policyholder may find survival benefit or the maturity benefit paid under the plan.

Free-look Period

It is applicable to all new life insurance policies purchased. Free-look period is a time frame during which one may choose to return the purchased policy. If policyholder is not comfortable with the terms and conditions, policyholder can return the policy within the Free-look period. The insurance company after deducting the expenses incurred on medical examination, stamp duty charges and other charges will refund the remaining premium. IRDA specifies free-look period in life insurance is 15 or 30 days after receiving the policy document.

Grace Period

If policyholder couldn't pay the renewal premium for your policy on time, life insurance company gives an extension in the number of days after the premium payment due date. A 'Grace Period' can be period of 15 days in case of monthly premium payment mode, and 30 days in case of annual premium payment mode. If the policyholder does not pay the premiums even before the end of grace period, the policy gets lapsed.

Surrender Value

If the policyholder decides to discontinue the plan before the maturity age, the life insurance company pays an amount to the policyholder, this is called Surrender Value. But policyholder must clearly read the terms and conditions whether a plan offers any surrender value or not, and if there is a surrender value, how much it will be. Not all life insurance plans have surrender value.

Paid-up Value

In case the policyholder discontinues after payment of premium for a specified period of time, Insurance companies will offer the policyholder an option to convert his policy into a reduced paid-up policy. Under this option the sum insured is reduced in proportion to the number of premiums paid. If other benefits related to the sum insured are payable, these benefits will now be related to the reduced sum insured, which is the paid-up value.

Revival Period

The policy lapses when the policyholder does not pay the premium even during the grace period.

However, if the policyholder still wants to continue, the insurance company provides an option of re-activating the lapsed policy. This must be done within a specific period of time after the grace period ends. This specified period is known as a revival period. To reinstate the lapsed policy, the life insurance company will put forward the request to the team for approval.

Underwriters

Underwriters evaluate the risk involved in insurance. The process of risk evaluation starts before the issuance of insurance policy, and ends with settlement of the claim. Only with the approval of Underwriters, policy is issued to the policyholder. And only after clearance from the Underwriter, the company pays the claim benefit to the nominee.

Tax benefits

All the premiums paid towards the life insurance plan are eligible for deductions under Section 80 (C) of Income Tax Act, 1961. The maximum amount that one can claim as deductible is Rs.1.5 lakh. The benefits paid to the policyholder/nominee are tax-free under Section 10 (10D) of Income Tax Act, 1961.

Exclusions

Before buying any life insurance, one has to read 'Exclusions' carefully. These are things that are not covered under a life insurance policy, and against which if claimed, insurance company wouldn't pay any benefit. For instance, Suicide is an exclusion in any life insurance plan.

Claim Process

In case, the life assured passes away during the policy tenure, the nominee needs to lodge a claim to receive the death benefit as mentioned in the policy

LIFE INSURANCE PRODUCTS AND SCHEMES

Life insurance has always been considered an essential financial tool. However, not many people know that there are several types of life insurance products. Each of these can be helpful in their own unique ways. While some provide protection to the chief earning member's family, others can be seen as an investment or retirement tool.

- **Term insurance**
- **Term insurance with return of premium**
- **Unit Linked Insurance Plans**
- **Endowment plans**
- **Money back policy**
- **Whole life insurance**
- **Group life insurance**
- **Child Insurance Plans**
- **Retirement Plans**

Term Insurance Plan

Term life insurance is a type of life insurance that provides a death benefit to the beneficiary only if the insured dies during a specified period. If the policyholder survives until the end of the period, or term, the insurance coverage ceases without value and a payout or death claim cannot be made. Term life insurance is income replacement that remains active for a specified number of years. Term life insurance is one of the most affordable types of life insurance. It can further be classified into level term insurance, decreasing term life insurance and increasing term life insurance. The term insurance plan is one of the most sought-after types of life insurance policies in India. This is one of the types of life insurance policy in India that is for a specific period of 10, 20, 30 or more years, hence the name. While some other types of life insurance policy offer maturity benefits, term insurance does not. It is one reason why term insurance, being the best insurance policy in India, is comparatively cheaper than other types of life insurance schemes. Term insurance is pure life cover, unlike other types of life insurance policies which have a saving component. One can also opt for a significant life cover at a lower premium as compared to other types of life insurance policy which are costlier but have built-in saving components.

Term Insurance with Return of Premium

A term insurance plan is amongst the types of life insurance policies that provides a death benefit but no maturity benefit. Among the many life insurance types, a term insurance with return of premium is one of the best insurance policies in India, which also give the maturity benefits. It is one of the types of term insurance plans that give back the premiums policyholder pays on surviving the policy period. When one calculates the premium for term insurance, one gets a clear understanding about the unique requirements, explore rider options, and also choose appropriate policy term. Doing so helps to ensure investing in the most suitable types of life insurance policies for the policyholder and his family. If the policyholder wants to support long term goals in life, for example, the policyholder could opt for a whole life insurance, and the factors to be considered here will be different. Keep in mind the age and personal needs the policyholder should determine the most needed types of life insurance policies.

Unit Linked Insurance Plan (ULIP)

ULIPs are a type of life insurance plan that provide with a dual advantage of protection and flexibility in investment. It is a type of life insurance where the cash value of a policy varies according to the current net asset value of the underlying investment assets. The premium paid by ULIPs is used to purchase units in investment assets chosen by the policyholder. A ULIP is one of the types of life insurance policies in India that fulfill both these aspects. Amongst different types of life insurance, it is the one that offers life cover along with investment opportunities. Being one of the types of life insurance, it has a lock-in period of five years, which makes it a long-term investment instrument that comes with risk protection. ULIPs also allow for balance of funds as per market dynamics.

Endowment Policy

An endowment policy is defined as a types of life insurance policies that is payable to the insured if he/she is still living on the policy's maturity date, or to a beneficiary otherwise. Endowment life insurance plans provide you with a dual combination of protection and savings. In this policy, if the insured dies during the term of the insurance policy, the nominee receives the sum assured plus the bonus or participating profit or guaranteed additions, if any. The bonus or profit is paid for the number of years that the insured survives in the policy term. Endowment policies are one of the types of life insurance policies that provide with the combined benefit of life insurance and savings. Along with giving the life cover, these types of life insurance help to save money regularly over a period to get a lump sum at maturity. What makes them one of the most useful types of life insurance policies is that they help fulfill long-term goals in life. The policyholder will also get the maturity amount if he/she survives the policy tenure. Endowment policies, being one of the most appropriate types of life insurance plans, also help the policyholder to create a financial cushion for the family to meet various financial objectives in life.

Moneyback Policy

Money back policy gives the money during the policy tenure. It gives the policyholder a percentage of the sum assured at regular intervals during the policy term. If the policyholder lives beyond the term of the insurance policy then the policyholder will receive the remaining portion of the corpus and the accrued bonus also at the end of the policy term. But in case of an unfortunate event before the full term of the insurance policy is over; the beneficiaries are entitled to receive the entire sum assured regardless of the number of installments paid out. Money back policies are the most expensive insurance options offered by insurance companies as they provide returns to the insured during the policy tenure. The purpose of investing in the insurance policy in India for the loved ones can be to create wealth over an extended period. However, most of the types of life insurance do not provide any provision to get funds before their tenure ends. It is where a money back policy plays a vital role in solving the problem of liquidity. As the name suggests, money back policies are one of the popular types of life insurance policies in India that give money back regularly. It pays a percentage of the assured sum throughout the policy tenure, unlike other types of life insurance plans that offer no returns till maturity.

Whole Life Insurance

Whole life insurance is an insurance plan that provides the policyholder coverage throughout the lifetime provided the policy is in force. Whole life insurance policies also contain a cash value component that increases over time. The policyholder can withdraw the cash value or take out a loan against it as per the convenience in addition, in case of the policyholder's unfortunate demise before the pay back of the loan the death benefit to the beneficiaries will be reduced. As a life insurance policyholder, the policyholder gets the benefits depending on the types of life insurance policies he/she has chosen. What distinguishes a whole life insurance plan from other life insurance types is that it provides insurance coverage to the insured for the entire life, up to 100 years of age. Typically, the death benefit, under a whole life insurance, is payable to the beneficiary in the case of the untimely demise of the policyholder. On the other hand, the policyholder is eligible to receive a maturity benefit under a whole life insurance policy if the policyholder crosses 100 years of age. Another significant feature of such whole life insurance plans is that some offer the option to pay premium for the first 10-15 years while to get the benefits for the entire life.

Group Life Insurance

Just like group health insurance, group life insurance is one of the types of life insurance policies that cover a group of people under one master policy. Such life insurance types are generally provided as part of an employment benefit. A unique feature of these types of life insurance products is that the policyholder will get the insurance cover if the policyholder remains a part of the group. It is different from the individual types of life insurance plans in which the coverage continues throughout the chosen policy tenure.

Child Insurance Plans

When it comes to life insurance types, a child plan is an investment+insurance plan that helps the policyholder to meet his/her child's financial needs. A child insurance plan will help to create wealth for the child's future needs like education. One can start investing in these plans from the birth of the policyholder's child. There is flexibility of investing the hard earned money into several funds on the basis of the financial condition and goals in mind.

Retirement Plans

Retirement plan helps to build corpus for the policyholder's retirement, thereby helping to live independently financially and without worries. Most of the child plans provide annual installments or one time payout after the age of 60 years. In case of an unfortunate event, life assured passes away during the policy term - immediate payment is payable to the nominee by the insurance company. Death benefit will be higher of coverage or fund value or 105% of premiums paid. Vesting Benefit will be payable if the life assured survives the maturity age. In which case, payout will be fund value which has to be utilized for buying an annuity. These plans provide the policyholder with income during retirement is called the Retirement Plan.

These plans are offered by life insurance companies in India and help the policyholder to build a retirement corpus. On maturity, this corpus is invested for generating a regular income stream which is referred to as pension or annuity. Retirement Plans are amongst the types of life insurance policies that provide financial security and help the policyholder with wealth creation after the retirement. With Retirement Plan, the policyholder will get a sum of money as pension in the vesting period. In case of the policyholder's untimely demise during the policy term, nominee will get the death benefits. Retirement Plans comes with death benefit as well as vesting benefit providing protection to the policyholder and the family members.

VARIOUS SCHEMES

SCHEMES OF INSURANCE	OVERVIEW
Term Life Insurance	Provides full risk cover against any type of eventuality.
Whole Life Insurance	Offers life insurance coverage till 100 years of age.
Endowment Life Insurance Policy	Provides the combined benefit of life insurance cum saving.
Money-Back Insurance Policy	Provides periodic returns along with the benefit of life insurance cover
Savings & Investment Insurance Plans	Provides an opportunity to save and gain long-term investment returns.
Retirement Insurance Plans	Helps to create a retirement corpus, so that you can retire gracefully.
ULIP Life Insurance Plans	Offers the benefit of investment cum life insurance.
Child Insurance Policy	Helps to secure the future of your child.
Group Life Insurance plan	Offer life insurance coverage to a group of people under a single plan

CHARACTERISTICS OF AN INSURABLE RISK

Risks that can be insured by private companies typically share seven common characteristics:

Large number of similar exposure units

Since insurance operates through pooling resources, the majority of insurance policies are provided for individual members of large classes, allowing insurers to benefit from the law of large numbers in which predicted losses are similar to the actual losses. Exceptions include Lloyd's of London, which is famous for insuring the life or health of actors, actresses and sports figures. However, all exposures will have particular differences, which may lead to different rates.

Definite Loss

The loss takes place at a known time, in a known place, and from a known cause. The classic example is death of an insured person on a life insurance policy. Fire, automobile accidents, and worker injuries may all easily meet this criterion. Other types of losses may only be definite in theory. Occupational disease, for instance, may involve prolonged exposure to injurious conditions where no specific time, place or cause is identifiable. Ideally, the time, place and cause of a loss should be clear enough that a reasonable person, with sufficient information, could objectively verify all three elements.

Accidental Loss

The event that constitutes the trigger of a claim should be fortuitous, or at least outside the control of the beneficiary of the insurance. The loss should be 'pure,' in the sense that it results from an event for which there is only the opportunity for cost. Events that contain speculative elements, such as ordinary business risks, are generally not considered insurable.

Large Loss

The size of the loss must be meaningful from the perspective of the insured. Insurance premiums need to cover both the expected cost of losses, plus the cost of issuing and administering the policy, adjusting losses, and supplying the capital needed to reasonably assure that the insurer will be able to pay claims. For small losses these latter costs may be several times the size of the expected cost of losses. There is little point in paying such costs unless the protection offered has real value to a buyer.

Affordable Premium

If the likelihood of an insured event is so high, or the cost of the event so large, that the resulting premium is large relative to the amount of protection offered, it is not likely that anyone will buy insurance, even if on offer. Further, as the accounting profession formally recognizes in financial accounting standards, the premium cannot be so large that there is not a reasonable chance of a significant loss to the insurer.

Calculable Loss

There are two elements that must be at least estimable, if not formally calculable: the probability of loss, and the attendant cost. Probability of loss is generally an empirical exercise, while cost has more to do with the ability of a reasonable person in possession of a copy of the insurance policy and a proof of loss associated with a claim presented under that policy to make a reasonably definite and objective evaluation of the amount of the loss recoverable as a result of the claim.

Limited risk of catastrophically large losses

Insurable losses are ideally independent and non-catastrophic, meaning that the one losses do not happen all at once and individual losses are not severe enough to bankrupt the insurer; insurers may prefer to limit their exposure to a loss from a single event to some small portion of their capital base, on the order of 5 percent. Capital constrains insurers' ability to sell earthquake insurance as well as wind insurance in hurricane zones. In commercial fire insurance it is possible to find single properties whose total exposed value is well in excess of any individual insurer's capital constraint. Such properties are generally shared among several insurers, or are insured by a single insurer who syndicates the risk into the reinsurance market.

ROLE OF INSURANCE

Insurance has evolved as a process of safeguarding the interest of people from loss and uncertainty. It may be described as a social device to reduce or eliminate risk of loss to life and property. Insurance contributes a lot to the general economic growth of the society by providing stability to the functioning of the process. The insurance industries develop financial institutions and reduce uncertainties by improving financial resources.

Provides safety and security

Insurance provides financial support and reduces uncertainties in business and human life. It provides safety and security against particular event. There is always a fear of sudden loss. Insurance provides a cover against any sudden loss. For example, in case of life insurance financial assistance is provided to the family of the insured on his death. In case of other insurance security is provided against the loss due to fire, marine, accidents etc.

Generates financial resources

Insurance generate funds by collecting premium. These funds are invested in government securities and stock. These funds are gainfully employed in industrial development of a country for generating more funds and utilised for the economic development of the country. Employment opportunities are increased by big investments leading to capital formation.

Life insurance encourages savings

Insurance does not only protect against risks and uncertainties, but also provides an investment channel too. Life insurance enables systematic savings due to payment of regular premium. Life insurance provides a mode of investment. It develops a habit of saving money by paying premium. The insured get the lump sum amount at the maturity of the contract. Thus life insurance encourages savings.

Promotes economic growth

Insurance generates significant impact on the economy by mobilizing domestic savings. Insurance turn accumulated capital into productive investments. Insurance enables to mitigate loss, financial stability and promotes trade and commerce activities those results into economic growth and development. Thus, insurance plays a crucial role in sustainable growth of an economy.

Medical support

A medical insurance considered essential in managing risk in health. Anyone can be a victim of critical illness unexpectedly. And rising medical expense is of great concern. Medical Insurance is one of the insurance policies that cater for different type of health risks. The insured gets a medical support in case of medical insurance policy.

Spreading of risk

Insurance facilitates spreading of risk from the insured to the insurer. The basic principle of insurance is to spread risk among a large number of people. A large number of persons get insurance policies and pay premium to the insurer. Whenever a loss occurs, it is compensated out of funds of the insurer.

Source of collecting funds

Large funds are collected by the way of premium. These funds are utilized in the industrial development of a country, which accelerates the economic growth. Employment opportunities are increased by such big investments. Thus, insurance has become an important source of capital formation.

FACTORS INFLUENCING DEMAND FOR INSURANCE

Age

This is an obvious and not surprising factor that affects the Life Insurance premium, the age of the policyholder. If the policyholder is young the rates will be lower in comparison to someone older. The possibility of a young individual contracting a life threatening disease or to pass away in their youth is very unlikely. The insurance companies believe that the policyholder make many premium payments before they have to write a cheque for the policyholder's family.

Gender

Insurance companies aren't against gender equality, but they believe there is a different life expectancy for different genders. As per the studies and statistical findings, women are believed to live 5 years more than men at the minimum. Therefore making women pay the premium for a larger period of time but at lower rate is a plus point for the women.

Smoking

Smoking puts the policyholders at a higher risk of all ailments, so if the policyholder is a smoker that that's as good as raising a red flag to the insurance companies. Most smokers pay a premium twice as much as non - smoker does, thus affecting the premium to a huge extent.

Medical history

There's isn't much one can do with the gene pool they come from. If a policyholder has a medical history of serious illnesses like cancer, heart diseases, or any other, then that makes them susceptible to get these from a hereditary perspective which increases the individual's premium by a larger margin than if their gene pool wasn't.

Health records

The policyholder will also need to provide his/her own health records. These records will ensure that the policyholder doen't have any chronic diseases or potential health issues and keep the premium also in check instead of making a difference to it.

Drinking

Drinking of alcohol is injurious to health in more ways than one. If the policyholder is a heavy consumer of alcohol this can affect the premium at higher insurance rates. Insurance companies ensure to ask the applicant if they are smokers or drinkers.

The Policy

The policy itself also affects the premium, the longer the tenure of the policy the larger the amount of the benefit at the time of death, as the policyholder is paying it for that period of time. Short term policies are more expensive that long term.

Profession

Policyholder's profession also plays an important role in the premium, any policyholder working in the mining industry, oil and gas, fisheries or any other dangerous profession has to pay higher premiums.

Lifestyles choices

Many insurers have a higher premium for people who love to takes risks for the thrill of it. Like cars races, climbing treacherous mountains or other high risk activities. Thus the premium will be more than the normal premium.

Obesity

Obesity is another factor that affects the premium as a policyholder, being obese can lead to a number of health problems like Osteoarthritis, High Blood Pressure, Cancer, Stroke, Coronary Heart Disease, causing overall health problems in the future and thus the premium rates are higher.

FIRST PREMIUM

Initial Premium — the amount paid at the inception of an insurance contract. An insurance premium is the amount of money an individual or business pays for an insurance policy. Insurance premiums are paid for policies that cover healthcare, auto, home, and life insurance. Once earned, the premium is income for the insurance company. It also represents a liability, as the insurer must provide coverage for claims being made against the policy. Failure to pay the premium on the individual or the business may result in the cancellation of the policy. The insurance company stipulates that an individual or business periodically pay them a specific amount of money as premium for the availing and maintenance of their insurance policy and coverage. Insurance companies consider many factors while determining the premiums, particularly in case of life insurance. These include the chances of claims being made by the policyholder, medical conditions, smoking and other lifestyle habits, area of residence, nature of employment and so on. There are actuaries tapped by insurers for working out the chances of claims being made by the insured individual for critical ailments or life-threatening diseases like cancer/heart attacks across multiple age groups. The higher the risks linked to the individual, the higher will be the premium for life insurance. Premiums can be paid through monthly, half-yearly or even annual installments. Customers can also pay the entire amount as a one-time payment for the whole policy term prior to the commencement of coverage in some cases. The insurance premium is what insurance companies make use of when it comes to ensuring coverage for all liabilities linked to the policy. The premium may also be invested by the insurance company in securities for earning returns and covering some of the costs tied to the coverage. After depositing the premium amount through cheque and after encashing the cheque company may issue or send:

- Receipt-Simple acknowledgment of money deposited by the applicant.
- Cover note or temporary policy- it is the evidence that the insurer has accepted the policy and the insured has remitted the premium.
- Referred to the Head office for further approval- it may in the case of heavy amount, which is beyond the power of the authority of the company, to which the applicant had given the proposal along with cheque.
- Money is in Suspense Amount- information that the applicant money has been deposited in an account in which in future it may be refunded if the same is not appropriated or utilized for the purpose for which it was remitted.

RENEWAL

The end of the effective period of an insurance policy, at which time the insurance provider may change the premiums charged to the insured before a new policy period begins. Insurance policies don't last forever, at least not without changing. Most policies have a policy period of one year. During this period, the insurance provider won't make changes to the policy's premiums or coverage. When the policyholder starts a new insurance policy, the premium is locked-in for the length of the contract's policy period. It's usually one year, but some policies renew twice a year. Sometimes, the premium or coverage change during the first weeks of a newly issued policy. It might take a little while for the insurance company to confirm that a new customer meets their underwriting guidelines. The policy can change as a result, but once the premium is settled, it won't change again until renewal time. The insurance renewal happens at the end of the policy period. At renewal time, the insurer adjusts coverage and premiums before starting the next policy period. Premiums can either increase or decrease. The insurer can also choose not to renew the policy, though they'll only do that in certain uncommon circumstances. The timing of insurance renewal isn't the same for everyone; it's based on when the policy went into effect, so it can be any day of any month. The insurance company will send their customers a notice of renewal about one month before each renewal happens. This notice tells the customer how their premiums will change after the renewal, and if there are any adjustments to their coverage. If the insurer changed any of their underwriting guidelines during the year, they may request more information from their customers. For example, they may have started asking new customers what kind of plumbing system their home has. If they don't have this information from an existing customer, they'll ask for it at renewal time before adjusting that customer's premium. If the insurer made any enhancements to the policy's coverage during the year, this will usually be included with the renewal as well.

Requirements for Renewal:

Renew Policy on Time

Generally in case of discontinuance of premiums, insurance companies provide 15 to 30 days grace period before lapsing the health policy. As per regulations, health insurers are not liable for any of the payments covered under the plan during the period of lapse. Policyholders may miss out on benefits ranging from critical illness cover to tax exemptions if the policy gets lapsed. Such lapses are risky, especially for those with pre-existing medical conditions. Even though insurers send out renewal notices for approaching due dates, it is still the duty of the insured to make sure that the policy is renewed well before the due date.

Adding Members to the Policy

If after a certain period, the policyholder decides to add more family members to the policy, he/she can do that at the time of renewal. Policyholders can also take out names from the coverage and make changes to the existing terms during renewal. For example, if a person decides to add his parents to the existing family floater plan covering him, his wife and child, he can do the same at the date of health insurance policy renewal.

Option to Increase the Sum Assured

Individuals can raise the sum assured on their health policies by giving a request at the time of renewal. Companies mostly impose certain terms and conditions for increasing the insured sum, such as medical tests and no claim history. Therefore one has to be prepared for the waiting periods if he plans to apply for an increase in sum assured. However, sometimes it happens that the sum insured is within the range of maximum coverage assured under the policy. In such situations, the policyholder cannot make use of this option.

Check for Changes in Policy Terms

IRDA has made it compulsory that the any changes in terms and conditions of the policy has to be communicated three months in advance to the policyholder and the same has to be notified to the regulator for approval. If revised terms are not acceptable to the person holding the policy, he/she can opt for another policy, similar to the initial terms of the existing one.

Documents to be Carried on the Day of Renewal

If the policyholder wishes to continue his policy with the same branch of the company, he/she must carry the policy renewal notice. Where the insured decides to change the branch, he/she will have to produce the following documents:

- Last year’s policy
- Policy renewal notice
- Proposal form
- Photographs
- Cheque for the proposed amount
- Mandate letter

Disclose New Health Conditions

Medical insurance being a yearly contract, the terms can be revised due to the health changes that happen during the year. Therefore, policyholders should bring to the notice of the insurer, any of the newly developed health conditions during the previous term. As per IRDA regulations the health insurer cannot impose new conditions but can ask for documents in support of the policyholder's declaration.

Always Keep the Receipt Safe

Policyholder should inform his/her closest member about the changes he/she has made to the policy and always keep the receipt in a safe custody. This is essential, because at the time of claim they have to be fully aware of the conditions of the policy. Also make them known of any of the cashless identification cards and other documents that are important for making claims.

Additional Information about Policy Renewal

- Insurance companies do not allow the policyholder to make any claims for the period between policy lapse and its renewal. Renewal has to effect before the expiry of the grace period
- Policyholders are eligible for the same benefits of the policy initially insured, in case they decide to migrate
- Insured persons can opt to change their agents or brokers at any time by simply making a request mentioning the reason for the change
- No claim bonuses are available at the end of each year if the policyholder makes no claims during the year.
- Customers while choosing a different insurance provider for the plan must notify the existing insurer in 45 days advance
- In case the insurer rejects renewal application, the customer has the right to seek explanation

MODE OF PREMIUM PAYMENT

Regular Premium Payment	**Payment of premium throughout the policy tenure on a monthly or a yearly basis.**
Single Premium Payment	Payment of entire premium at the time of purchase.

Limited Premium Payment	This option allows to pay the premium for a limited period, but the life insurance cover continues throughout the policy tenure. The number of years of premium payment is typically lesser than the policy term.

Regular Premium Payment

This is the most common and preferred mode of premium payment used by most policyholders. With regular mode, the premium payments for the term life Insurance are made on a periodic basis, at a regular frequency. The premiums for the policy could be paid yearly, monthly, quarterly, or half yearly based on the individual preference of the policyholder. Regular premium payments are popular since they result in the premiums becoming quite affordable. As the process of premium payments is stretched over a long period of time, it avoids placing a heavy, one-time financial strain on the policyholder. It also offers immense flexibility to the life insurance policyholder. This is because if at any time, the policyholder wishes to discontinue the policy due to change in circumstances or reduced liabilities, he or she can do so.

Single Premium Payment

This is one of the less frequently chosen modes of premium payment for life insurance policies. With single premium payments, the policyholder is required to make a one-time complete, upfront payment of premiums, regardless of the duration of his policy. It might be tempting to believe that a one-time premium payment might prove to be cheaper in the long run. However, financial advisors say that when factored for inflation, single premium payments can often cost policyholders much more than other payment modes. An advantage of the single premium payment mode, however, is that there will be no non-payment of premiums and that the policy will never lapse. However, most people do not have the means to make a large upfront payment such as required in this case. Hence, people who should buy life insurance with single premium payment are those who can afford the one-time financial burden and want to protect themselves against a policy lapse.

Limited Premium Payment

Another option of premium payment for the life insurance is the limited premium payment mode. With this option, policyholders can pay the premium for their entire policy in a limited period of time, such as 5 or 10 years. The premiums payments are therefore taken care of within a short time period while the insurance benefits for the same can continue for a long time. The downside of limited premium payments is that the premium amounts for this mode are generally higher than regular payments. However, it does have a few key advantages. It is an ideal payment option for those who do not wish to keep paying premiums over a long stretch of time. It is also a preferred option for those who wish to retire before the term of the life insurance policy ends. By paying off their premiums beforehand, they can reduce the financial burden of premiums from their post-retirement lives.

LAPSE OF POLICY

Once an insurance policy lapses, the protection which comes with it ends. This indicates that the beneficiaries will not receive payment in case of your sudden death. The money which was paid as premium is forfeited. If the policyholder does not want to forego the benefits which the insurance policy offers the policyholder can consider reviving the life insurance policy within the stipulated time period laid down by the insurance company before the policyholder's contract matures. Policy lapse is a situation where the policyholder can no longer avail the benefits and cover provided under a policy. Once the policyholder's policy lapses, the policyholder cannot use any feature of the policy and will lose the right to make a claim against it. Insurance policies require the policyholder to pay a certain premium amount to keep the insurance plan in force. If the insured individual fails to pay the premium on time or at all, it will result in a lapsed policy. To put it simply, it means that the life insurance contract between the insured and the insurer will become inactive. A lapsed policy occurs both in case of missed premium payment and if cash surrender value is exhausted in case of a permanent life insurance policy. The policyholder and their family will no longer be entitled to receive life coverage or insurance policy benefits in case of a lapsed policy. It is important to note that the policyholders are entitled to a grace period after the due date of premium payment before the policyholder end up with a lapsed policy. It is the duration when the insured can pay the premium without any penalty charges. However, a lapsed policy does not mean that all hope is lost. There are specific ways the policyholder can make sure his/her family stays financially secure even after lapsed life insurance policy.

REVIVAL OF LAPSED POLICY

It is important to note that the revival procedure will vary across policies and companies. If the policyholder has not paid the premium for six months, LIC will charge an 8% interest on the premium (this depends on the nature and duration of the policy) for the deferred payment and the risk cover will extend up to six months. This means that as a policy holder if he/she has defaulted on the premium payments for six months, the life cover is still available. The policyholder can avail this benefit if he/she has paid the premium for at least a minimum of three years. If the policyholder wants to revive the policy in the seventh or the eighth month, he/she will have to produce a personal health statement.

The primary reason behind buying a life insurance cover is to provide financial support to the family when the policyholder is not present. But, the efforts can go futile when the policy lapses. If anyone wants to revive the policy there are certain points which the policyholder need to consider:

Understanding reinstatement

Reinstatement of the policy or the documents required for revival will depend on the time between the date of lapse and the date on which the policyholder requests the revival.

Paying the right premium

To revive the policy which has lapsed the policyholder need to pay the unpaid premium along with the interest rate which is specified by the insurer. In some cases the policyholder may have to pay a penalty.

Processing of the policy

In most cases a certificate of insurability or a health certificate needs to be given to the insurance company. This statement needs to be supported by address proof documents.

Fresh terms and conditions can be imposed

As revival of the policy is a fresh contract between the policyholder and the insured company, the insurer may impose new terms and conditions.

PAID-UP INSURANCE POLICY

Paid-up policy is a policy that can be converted to a paid-up policy once it acquires a surrender value which is typically after 2-3 annual premiums (traditional) or 5 years (ULIP's).A paid-up policy is one that requires no further premium payments and continues to provide benefits till maturity. A policy can be converted to a paid-up policy once it acquires a surrender value which is typically after 2-3 annual premiums are paid for traditional plans. For ULIP's, there is a lock-in period of 5 years. Paid-up value is usually calculated as number of paid premiums X sum assured /total number of premiums. In case of a paid-up ULIP, the policy administration charges, mortality and fund management charges continue to be applicable and negatively impact the fund value. This is a useful option when one is stuck with an inappropriate product due to wrong selection and can be opted for instead of surrendering the policy to avail of a life cover.

Requirements of making a policy paid-up

There are certain conditions which need to be fulfilled if the policyholder wants to make the policy paid-up. These conditions depend on the type of policy the policyholder has. Here are the requirements –

In case of traditional plans

Paid-up is allowed under traditional plans depending on their premium paying terms –

- **For limited premium plans**, payment at least two full years' premium.
- **For regular premium plans**, payment at least three full years' premium.

In case of ULIPs

If the policyholder has a ULIP, he/she has to pay at least five years' premium amount to make his/her policy eligible for becoming paid-up. If that's not done, the policy is deemed to have been surrendered. The company then pays the surrender value and terminates the plan.

DEFERMENT PERIOD:

Benefits are payable to the insured when they become incapacitated and are unable to work for a period of time. The deferred period is the period of time from when a person has become unable to work until the time that the benefit begins to be paid. It is the period of time an employee has to be out of work due to illness or injury before any benefit will start accumulating, and any claim payment will be made. The deferment period is generally a part of deferred annuity plans. These are retirement plans that also offer the benefit of a life cover. When the policyholder buys a retirement plan that offers a deferred annuity benefit, the policyholder needs to pay his/her premiums for a specified number of years. After this, the deferment period kicks in. During this period, neither do the policyholder has to make any payments to the insurer, nor does the insurer make any annuity payouts. And once the deferment period ends, the policyholder's annuity payouts begin. So, the deferment period is the period after which the annuity payouts are made in a deferred annuity plan.

NOMINATION AND ASSIGNMENT OF POLICY

The nomination is a right given to the policyholder that authorizes him/her to appoint a person (usually a close family member) to receive the benefits in the event of the death of the life assured. The person who is appointed by the policyholder to receive the benefit is called a Nominee. The nomination is governed under Section 39 of the Insurance Act, 1938.

Beneficial Nominees

As per the law, any immediate family member (like spouse, children or parents) nominated by the policyholder is entitled to receive the monetary benefits and will be the beneficial owner of the claim benefits. It is important to note that only immediate family members can be termed as Beneficial Nominees.

Minor Nominees

Many individuals appoint their children as beneficiaries of their life insurance policies. Minor nominees (who are less than 18 years of age) are not considered eligible to handle claim amounts. For this, the policyholder needs to assign an appointee or custodian. The claim amount is paid to the appointee until the minor turns 18.

Non-family Nominees

These types of nominees can be distant relatives or even friends as the beneficiary of the life insurance policy.

Changing Nominees

Policyholders can change their nominees as many times as they want, but the latest nominee should supersede all previous ones.

ASSIGNMENT

Assignment of the policy refers to the transfer of rights, title, and policy ownership from the policyholder to another person or entity. The person involved in assigning/transferring the policy is called assignor, and the person/institution to which it is assigned is called the assignee. The assignment is regulated under Section 38 of the Insurance Act, 1938. The assignment is categorized under two different types, i.e. Absolute Assignment and Conditional Assignment.

Absolute Assignment

Under the absolute assignment, all rights, title and interest are transferred by the assignor to an assignee without reversion to the assignor (in case of any event). It shifts the ownership of the insurance policy to other parties without any terms and conditions. This assignment is usually done for money consideration such as raising a loan, out of love or affection towards family members.

Conditional Assignment

It means that the transfer of rights will happen from the Assignor to the Assignee subject to certain terms and conditions. If the conditions are fulfilled, only then the policy will be transferred.

Parameters	Nomination	Assignment
Source	It is made through mentioning the names of the nominees	It is made through an endorsement on the contract policy
Policy Ownership	Policy ownership does not change under nomination, it continues with the policyholder	It involves transferring rights/ownership from the assignor (policyholder) to the assignee (person/entity)
Purpose	It offers the nominee to avail claim benefits in case of death of the life assured	The life assured will transfer all his/her right/ownership of the policy to another person/institution
Consideration	Nomination does not support consideration	The assignment might/might not support consideration
Witness	It is not required in the nomination	Without a witness the assignment will be considered invalid
Right to sue	The nominee cannot sue the policyholder of the policy	Assignee has the right to sue the assignor of the policy

Policy Amount	The nominee is entitled to avail the claim benefits in case of death of the life assured	Assignee is entitled to receive the policy money

BONUS

Insurance companies invest a huge portion of the premiums collected in government-secured debt instruments and a minor portion in equities. Based on the earnings received from these investments, the insurer distributes profits to participating policyholders. The rate of bonus is determined by various factors, such as return on fundamental assets, level of bonus announced in the previous year and other actuarial factors. To become eligible for the bonus, it is mandatory that the policy should be participating or 'with profits' type. The bonus amount is paid upon maturity or death of the policyholder. For example, for a term of 30 years, bonus will be paid only after 30 years. However, if the policyholder dies after the 10th year, the insurer will pay bonus accumulated until that day to the nominee.

TYPES OF BONUSES

Compound Reversionary Bonus

The calculation is done on the basis of compound interest. The yearly bonus is added to the sum assured and the next year's bonus is calculated on the new sum assured amount. For instance, Mr. Raj has a participating policy of Rs 10 lakhs and it earned a bonus of 4% throughout the policy tenure which will be Rs 40,000. This amount will be then added to the sum assured, i.e, Rs 10 lakhs in this case, and bonus will be computed on this new sum assured.

Cash Bonus

An insurance company might decide to dole out the yearly bonus accrued in cash to its policyholders when the year ends. Also known as cash bonus, it is calculated as a percentage of the annual premium and gives the insured an advantage in terms of receiving the bonus in hand as cash year on year unlike accruing it till maturity. It is given to the policyholder on a yearly basis and it is computed as a percentage of the yearly premium. For example, if the sum assured is Rs 2 lakhs, cash bonus rate is 4% and the annual premium is Rs 12,000, then the bonus paid to the policyholder will be Rs 480 (4% of 12,000).

Interim Bonus

Usually, bonus declaration is to be done by the end of a financial year, however in cases where the death of the insured or policy maturity happens before that, the life insurance company declares an interim bonus. This is because while the policy might have accrued a bonus from the last financial year, the maturity or claim date falls between two bonus declaration dates. Hence there may be a short duration for which the policy may miss out on the bonus. To ensure that the policyholder or their beneficiaries are not at a disadvantage, a bonus is added on a pro rata basis as per interim bonus rates announced by the insurer. It is paid on those policies that mature or are claimed between two bonus announcement dates. While the policy has already accumulated bonus of the previous year, there is a gap between the bonus declaration date and maturity date of the policy. In such a case, the insurer calculates the bonus on the basis of interim policy rates.

Terminal Bonus

A one-time bonus also referred to as persistency bonus is paid by the best life insurance policy in India to the policyholder for running the policy for a determined period as per the insurer's discretion. It is paid only when the policy matures or upon the death of the insured. Policies which have been surrendered or acquire paid-up value are excluded. This bonus is dependent on the performance of the policy over the years and is subject to the insurer declaring it, in order to benefit policyholders.

SURRENDER VALUE

If a policyholder decides to terminate the policy before maturity, the amount which the insurance company will pay to the policyholder is known as surrender value. If the policyholder does a mid-term surrender, he would get a sum of what has been allocated towards savings and earnings on them. A surrender charge would be deducted from this amount and this varies from policy to policy. If the policyholder terminates the cover after five years, then as per the recent IRDAI directive, life insurance companies can't levy any surrender charges. The policy holder will then get the fund value of his investment only.

TYPES OF SURRENDER VALUE

Guaranteed surrender value

Guaranteed surrender value is mentioned in the brochure and is payable after the completion of 3 years. It is 30% of the premiums paid, excluding premium for the first year. It also excludes any additional premium paid for riders and any bonus that the policyholder may have received from the insurer.

Special surrender value

Special surrender value = (Original sum assured * (No. of premiums paid/No. of premiums payable) + total bonus received) * surrender value factor

When one stops paying premiums after a certain period, the policy continues but with lower sum assured. This sum assured is called the paid up value.

Paid up value = original sum assured * (No. of premiums paid/No. of premiums payable)

Surrender value factor is a percentage of paid up value plus bonus. For the first three years, this factor is zero and keeps increasing from third year onwards. It varies from company to company and depends on factors such as the type of policy, time to maturity of policy, completed years of policy, philosophy of company's customers, industry practices as well as fund performance in particular policies. Not all companies mention surrender value factor in their brochures.

Not All Policies will Acquire Surrender Value

A policy acquires surrender value only when premiums for full three years have been paid to the insurance company. Also, not all policies will acquire surrender value. Only policies such as ULIPs or endowment policies that have a savings component embedded will partially return the amount invested for life cover. Pure term plan with no savings element will lapse and all the benefits associated with them will cease to exist.

Using Surrender Value Effectively

Loans against life insurance policies can be availed to the extent of 80%-90 % of the surrender value. Hence, surrender value of the policy is used to calculate the loan amount the policyholder would be eligible for. The policyholder also has the option to pledge the policy to bank and borrow against it. However, borrowing in the initial years of the policy is not suggested as the policyholder would acquire low surrender value.

To Surrender or Not To Surrender:

By surrendering a policy, the customer loses out on all the benefits of the scheme and receives a much lower amount than the premiums he has already paid. In ULIPs particularly, the insurer loses a large amount of premium paid in the initial years, most of which goes towards agent's commission and other charges, and only the remaining amount is directed to the fund. Hence, surrendering an endowment policy is advisable when the received money can be invested in another product, generating higher returns than the original policy till completion of its tenure.

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UNIT –III

UNIT–III

Non-Life Insurance and Policy types:

Introduction of General Insurance- Concept and Need Essential Features and Requirements of Fire Policy, Loss of Profits Policy, Marine Cargo Policy, Marine Hull Policy and Motor Insurance Policy including Vehicle and Third Party Insurance- Miscellaneous Policies like Personal Accident, Fidelity Guarantee, Health & Medi-claim, Burglary and Loss of Baggage, Co-insurance, Double insurance and Re-insurance - General Insurance Cover Notes - Certificates of insurance - Open Policy - Floater –Excess - Franchise -Claims - Salvage – Coinsurance - Loss: Total Loss, Actual or Constructive Loss- Valued Policy - Agreed Value - Full Value - First Loss – Increased Value - Insurance Time or Institute Cargo Clauses – Solatium.

NON-LIFE INSURANCE AND POLICY TYPES

INTRODUCTION TO GENERAL INSURANCE

General insurance helps us protect ourselves and the things we value, such as our homes, our cars and our valuables, from the financial impact of risks, big and small – from fire, flood, storm and earthquake, to theft, car accidents, travel mishaps – and even from the costs of legal action against us. And we can choose the types of risks we wish to cover by choosing the right kind of policy with the features we need. In general, insurance works by spreading the cost of unexpected risks among a large number of people in the same region who share similar risks. When the policyholder takes out an insurance policy, he/she has to pay a monthly or annual premium. That money joins the premiums of many thousands of other policyholders and goes into a big pool of funds. With any luck, the policyholder will never need to draw on that pool. But if the policyholder happens to be one of the unlucky ones affected by an unexpected calamity, perhaps through severe weather or accident, that pool of funds can be used to help the policyholder up to the limit he/she has selected in the policy. If things go wrong, the insurer may either repair or replace the items that have been lost or damaged, depending on the terms of the policy. The policyholder may also have the choice of receiving a cash settlement for the amount of money agreed in the policy.

CONCEPT AND NEED OF FIRE INSURANCE

Fire insurance was born as a result of the “Great Fire.” Fire insurance is a contract that indemnifies the insured for losses incurred. This contract does not aid in the control or prevention of fire, but it does pledge to compensate for the damage. Fire insurance is a contract between two parties, namely, the insurer and the insured, under which the insurer agrees to compensate the insured for losses incurred in exchange for the insured paying an amount known as the “Premium.” A fire insurance contract is described as “an arrangement” in which one party, in exchange for a consideration, agrees to indemnify the other party for financial loss sustained as a result of the certain subject matter being damaged or destroyed by fire or other defined perils up to an agreed sum.

Fire insurance is a form of property insurance that offers extra compensation for loss or damage to a building that has been damaged or destroyed by a fire. Fire insurance can be capped at a rate lower than the expense of the damages incurred, necessitating the purchase of a separate fire insurance policy. The policy reimburses the policyholder for losses on either a replacement-cost or a real cash value basis. While some home owners insurance plans offer fire coverage, some homeowners can find it insufficient. The word fire insurance refers to a form of property insurance that covers fire-related damage and damages. Most plans provide some form of fire insurance, although homeowners may be eligible to buy extra coverage in the event that their property is destroyed or damaged by fire. Purchasing extra fire coverage helps to offset the cost of replacing, repairing, or rebuilding property that exceeds the property insurance policy's cap. General exclusions such as war, nuclear risks, and similar perils are common in fire insurance policies.

The word "fire" must meet two requirements:

(a) There must be actual fire or ignition; and

(b) The fire must be accidental.

The property must have been harmed or burned by fire. If the property is destroyed by heat or smoke without being ignited, it is not protected by the term "fire."

FEATURES AND BENEFITS OF FIRE INSURANCE

Covenant of Good Faith

The policy is on the premise of faith between the insurer and the insured. It is essential for both the parties to reveal all the facts at the time of policy initiation.

Covenant of Indemnity

It is an indemnity policy wherein the insurer is liable to cover for the loss that occurred. In case of a fire-break with no loss, no insurance liability will be offered.

One-year Policy

The term fire insurance policy is generally for a year but it can be renewed depending on the terms and conditions mentioned in the policy schedule.

Insurable Interest

The policy is valid when the insured has an insurable interest in the insured property. In case a loss occurs, such interest may be required. This is beneficial to the insured by the survival of the insured property and under a situation of destruction may face a loss as well.

Direct Loss

If the root cause of the loss or damage is fire, one may avail of this.

Personal Right

In case of any loss/damage under any unfortunate circumstances, the insured amount will be provided to the person whose name is mentioned in the policy document.

Personal Insurance Contract

The important feature this policy requires is being pellucid completely. An insurer needs to know the behaviour of the insured. Moreover, only the policyholder can transfer the policy with the consent of the insurer. Besides, an insurer has all the rights to terminate the policy on the grounds wherein the possession of goods is transferred to a third-party.

Property Description

While buying a fire insurance policy it is imperative to give a proper account of the possession. This is essential because as per the location addressed in the document of the policy, the claims will be settled if in case any unfortunate event occurs at the insured place. In case if there is any change, it needs to be brought into the notice of the insurer to avoid further upshot.

TYPES OF FIRE INSURANCE IN INDIA

Specific Policy

Under this policy, for a certain property, a specified sum insured is determined and in case of any loss, the compensation will be provided for the loss provided it is less than the determined amount.

Comprehensive Policy

This policy provides extensive coverage not only against fire-related perils but also provides coverage against any other perils, such as robbery, burglary, civil rampage, etc.

Valued Policy

At the initiation of the policy, the value of a particular property is determined. On the premise of the value of the property, the insurance of the policy is decided wherein the insurer will pay the value in the case of destruction of property by fire.

Floating Policy

This type of policy is best suited for owners who run a business of import and export. This policy will provide the policyholder with coverage securing the goods lying at various places. It is to be noted that the goods need to belong to the same individual under one sum assured and one premium covering all the perils related to the goods.

Consequential Loss Policy

A fire outbreak in a workplace like a factory may disrupt the workforce that is production might go down but the fixed expenses continue at the same price. This policy essentially provides coverage for consequential loss or loss of profits. On the premise of loss of sales, the loss of gains is calculated.

Replacement Policy

In this policy, the insurance provider assures compensation for the loss of the premise of the property's market value. After contemplating the depreciating value o the property, the amount that is to be compensated is calculated. The compensation provided will be at the replacement price, which implies that the new asset will be of the price that has been lost. It is to be noted that there will not be any additional expense as the compensation provided will be on the new asset's market price.

PROCEDURE FOR FIRE INSURANCE

When an individual or a business needs to insure their property, they must fill out a proposal form. The form includes columns for details about the insured land. The proposal includes information about the house, its location, and its contents. All of the questions on the questionnaire must be answered correctly by the insured. A fire insurance policy is based on trust. When an underwriter receives a request, he or she evaluates the potential loss. The plan may be approved upon receipt, or a surveyor may be dispatched to evaluate it. The contract is established when the underwriter approves the proposal. Occasionally, a cover note is released immediately, and the policy is submitted later. The insurer is obligated to indemnify the liability under a cover notice.

The risk coverage begins with the payment of the premium. A fire insurance policy is typically provided for one year, although it can be reviewed on a regular basis. The insurance agent notifies the insured two weeks before the policy's expiration date so that it can be extended. However, once the program expires, there is a two-week grace period. The insured will renew it during the grace period, and insurance coverage is maintained in the meantime. The insured must have an insurable interest in the property to be insured both at the time the policy is taken out and at the time the loss occurs. If the insurable interest is transferred to another individual, the insurance policy terminates unless the policyholder agrees to extend it.

PRINCIPLES OF FIRE INSURANCE

Following are the principles of fire insurance:

- Insurable Interest
- Principle of Good Faith
- Principle of indemnity.
- Proximate Cause
- Doctrine of Subrogation.
- Warranties

Insurable Interest

Insurable interest is the general concept of insurance without which an insurer cannot be legally applied because insurance without insurable interest is a gambling transaction. Insurable interest exists where the subject matter is in such a position that the insured may incur loss during the period of harm and may benefit from its safety. The insurable interest in fire insurance must be present at the time of contract and must continue over the term of the policy and at the time of failure. If the property is sold to another party, the insurance contract will be null and void. Similarly, if no insurable interest exists at the time of insurance, the policy is null and void. To be considered an insurable interest, the following conditions must be met.

There must be a tangible entity that can be damaged or destroyed by fire.

The subject matter of insurance must be the object.

The insured must be in a legally recognized partnership in which the insured benefits from the subject-protection matter or is prejudiced by its loss.

The 'pecuniary interest' is the insurable interest. Fire insurance is a private agreement between the insured and the insurer. As a result, the transfer of interest will render the contract null and void.

The following individuals have an insurable interest in the subject matter at hand:

1. If he is the lawful or equal owner, the owner of the property or asset, whether fixed or present, has an insurable interest. The holder may be a sole or joint holder. As trustee of all the land, the partial owner will carry out a policy for the maximum value. A life tenant with the right to use the property for the rest of his life has only an insurable interest.
2. An agent has an insurable interest in his principal's land.
3. A partner has an equal stake in the company's assets.
4. A borrower has an insurable interest in the property on which he has a debt lien.
5. It is owned by an insurer in relation to risks underwritten by him for the purpose of reinsurance.
6. If the subject matter is mortgaged, the mortgagor has an insurable interest in the full value of the subject matter, and the mortgagee has an insurable interest in any amount due to become due under the mortgage.
7. A bailee can insure any article or property that has been bailed. He can be a gratuitous bailee or a bailee for a reward.
8. A trustee has an insurable interest under the property placed in his or her care.

Principle of Good Faith

The arrangement of fire insurance is one in which the observance of the utmost good faith (uberrima files) by all parties is critical. The highest level of good faith in fire insurance has two components: first, the disclosure of relevant evidence, and second, the protection of the insured property. Both the insurer and the insured must have clear details on the subject matter of the injury. Since he knows something about the subject matter, the insured must honestly and completely reveal all of the details requested. The insured is therefore expected to reveal any relevant facts that he is aware of even though it was not requested by the insurer; a material truth is one that affects the insurer’s decisions. The decision could be about accepting, declining, or determining the premium. House design is an example of material reality in the context of fire insurance. If the assured fails to behave in good faith, the contract can be prevented by the other parties. It was irrelevant to argue that the insured was unaware of the fact and thus unable to report it. In a given situation, the insured is required to be aware of all relevant evidence. The insurer must also report any relevant information of which he is aware.

The protection of the property is the second step of good faith. Thus, good faith is required not only during contract negotiations but also during the policy’s duration and when filing claims. Any changes made after the start of the risk must be communicated to the insurer. The insured or his agents, as well as the insurer, must take all necessary precautions to avoid or minimize damage. Since the insured is close to the house, he must act to avoid fires and, if a fire does occur, he must do everything possible to extinguish it. In such instances, he must behave as though he were uninsured.

Exceptions to the good faith principles:

1. The insured is not expected to reveal details in the following situations.
2. All of the circumstances that reduce the risk.
3. All information is known or fairly believed to be known by the insurer.
4. The detail that is well known.
5. Those facts that the insurer should have known in the ordinary course of his business or that the insurer should have reasonably inferred from the information provided.
6. Certain details are unnecessary to reveal due to a condition or warranty.

Principle of indemnity

The theory of indemnity seeks to compensate the insured for a loss suffered, and the reimbursement should be designed to put him in as close to the same financial condition after the loss as he was before the incident. The insured does not make a claim in excess of the sum needed to recoup the actual loss. The insurers agree to make good the insured’s loss by cash reimbursement, reinstatement, or substitution, so that the insured is completely indemnified, but only up to the amount insured. The law forbids any insurance that allows the insured to benefit from the loss of the item lost. It will reduce the incentive to ruin the insured property in order to protect the capital. The guaranteed sum is not a measure of indemnity; rather, it establishes a maximum amount up to which the damage can be indemnified. The real sum of indemnity would be the market value of the subject matter lost or injured by fire at the time and location of the fire's occurrence. It will never go over the guaranteed number. When the real loss exceeds the guaranteed amount, only the insured sum is charged; nothing else is paid. However, this theory does not apply when the policy is a respected policy. In this case, the source of indemnity would be the insured value, which was specified in the policy when it was taken, rather than the real cash value of the property at the time of failure. The real loss is not taken into account in a respected policy. In the case of valued policies, the sum of the claim can be greater or less than the real loss at the time of the burn.

Proximate Cause

The rule is that the immediate cause, rather than the remote cause, is to be considered as causa proxima non-remota spectatur. The proximate trigger is important in fire insurance. The theory of proximate cause has already been thoroughly explored. When paying a claim, the insurer still considers the proximate cause. If the insured property is burnt but the fire was caused by an excepted peril, the legal situation is determined by whether the excepted peril was proximate.

Proximate cause is the active efficient cause that initiates a chain of events that results in a result without the interference of any power. It is a powerful, successful, and proximate cause to the exclusion of all other causes that are too distant. If the loss is due to the insured perils, the insurer is responsible for the loss as a direct and inevitable consequence of the direct causal relationship being formed.

Doctrine of Subrogation

Subrogation refers to the right of one person to act in the place of another and assert the latter's rights and remedies. Subrogation is merely a corollary to the concept of indemnity. According to the principle of indemnity, the insured can only know the actual value of the loss or harm to the property, and it follows that if the damaged property has any value left or the guaranteed can reclaim the lost property or has any right against the third party about that property. These must be forwarded to the insurer. If the insured is permitted to keep them, he would have known more than the actual loss, which is in violation of the indemnity principle. If the assured wishes, he will sue the third party, and if he recovers damages, the insurer is released from liability. If the insured has received the full amount of his loss, any amounts gained from a third party are the insurer's property up to the amount of their disbursement. As per common law, the right to subrogation is exercisable until the insurer has paid the claim made against him.

Warranties

The proposal form's contents are expressly incorporated into the regulation, which forms the warranty. Warranty is the assurance given by the assured that something specific will be done or will not be done, or that certain conditions will be met, or that he affirms or denies the existence of a certain state of truth. Warranties that are listed in the policy are referred to as express warranties, whereas those that are not mentioned in the policy are referred to as implied warranties. The special articles and property that are exposed to fire must be sent to the fire safety senders. When the policy is affected, the subject matter of insurance must remain and should be known in the event of a loss. The identification is based on the location, municipal number, surroundings, and a detailed description of the location; a breach of warranty allows the insurer to prevent the claim. Warranties must be followed literally, and a violation of warranty renders the relevant item of the policy invalid, even though no increase in risk is involved. Any warranty to which the property insured or any item thereof is or may be made subject shall apply and continue to be in effect from the time the warranty attaches and shall be a bar to any claim in respect of such property or item, whether it raises the risk or not. The condition specifies that a warranty is attached for the duration of the policy, and if a warranty is not followed during this period, the insured will not entertain any claim for the property or object affected. However, if the policy is extended and a warranty violation occurred prior to the renewal date rather than after it, and a failure occurs after the renewal is affected, a claim may be made. Failure to comply with a warranty prior to the current renewal period of a policy does not exclude a lawsuit. Non-compliance with a contract results in the loss of coverage only during the time of policy in which the violation occurred. These are the cases in which insurance concepts are applied in fire insurance.

LOSS OF PROFIT POLICY IN FIRE INSURANCE

The Consequential Loss (fire) policy covers Loss of Gross Profit and /or increase in cost of working due to reduction in turnover / output due to operation of peril covered in the Standard Fire & Special Perils Policy. The material damage Policy indemnifies the loss to the property insured due to the operation of insured perils. Even if the coverage is adequate and the claim is settled on reinstatement value basis, the insured still has other losses which may ruin him. These losses are the loss of business and financial loss as the consequence of operation of the peril and at times are larger than the material damage loss.

In case of a major fire the insured if has opted for a policy on market value basis has to contribute a sizeable part of the reconstruction cost due to:

- Deduction on account of depreciation
- Under insurance if the value at risk is more than the Sum insured
- Items not covered in the policy
- Excess as applicable

Benefits of the Fire Loss of Profit Insurance Policy

- Protection from loss of net trading profit.
- Standing charges.
- Protection from loss of wages.
- Auditor fees are covered by the insurance policy.
- Increased cost of working.
- Accidental failure of public electricity / gas / water supply
- Damage to customer's premises due to perils covered under Fire Policy
- Damage to Supplier's premises due to perils covered under Fire Policy

Sum Insured and Premium

The Fire Loss of Profit Insurance Policy covers the gross profit of the indemnity period selected. This indemnity period is the maximum period required to put the business back into normal operation after damage to insured property by an insured peril and can vary from 6 months to 3 years. For indemnity periods up to one year, the annual gross profit should be selected as sum insured. The premium on a Fire Loss of Profit Insurance Policy depends on the annual gross profit, the chosen indemnity period and any selected extensions.

Exclusions to the Fire Loss of Profit Insurance Policy

- Loss of gross profit due to a peril not covered under the Fire policy
- Difference between the value of stock at the time of fire and at the time of subsequent replacement
- Deterioration of undamaged stock after fire
- Cost of documentation for Fire and Loss of Profits claim
- Loss of goodwill
- Third party claims

MARINE INSURANCE

Ever since the ancient times, international trade has relied heavily on sea routes for transportation. Well before airplanes or trains were invented, ships have been the primary mode of trade related transport. However, sea routes in the old days were plagued by plenty of risks like bad weather, attacks by sea pirates, collision, etc. All these perils have given rise to the need for marine insurance which is believed to the very first form of developed insurance. Marine insurance, like many other types of insurance, helps protect not only the ship but also the cargo contained and being transported by the ship.

There are 3 types of marine insurance – cargo insurance, freight insurance and hull insurance – which have been designed for ships, boats, and for cargo being transported on either of these two carriers. Marine insurance is a compulsory requirement for all ship / yacht owners, who are using their vessel for commercial or transportation purposes.

Benefits of Marine Insurance Plan:

Marine insurance is helpful for a variety of reasons.

- It provides all-round coverage against a wide variety of risks faced while at sea.
- Most marine insurance providers offer claim survey assistance worldwide, along with claim settlement assistance.

- Different marine insurance providers offer a variety of options and plans under marine insurance policies to suit different budgets and requirements.
- Marine insurance covers can often be customized and adjusted to meet specific needs and budgets of the customers.
- Often, marine insurance policies do provide extensions to provide protection against damages caused due to riots, strikes and other such perils.

Marine Insurance Covers:

The primary objective of a marine insurance policy is to protect your finances and assets while they are being transported via sea. However, different insurance companies offer multiple types of marine insurance policies. Due to this reason, there is no standard list of risks against which every marine insurance policy which will provide protection. Though most marine insurance policies do provide cover against damages or losses to expensive cargo, some policies may while some may not provide extended cover against cross border civil disturbances or against pirates.

Following is a list of some of the common instances or losses which marine insurance provides cover against:

- Import or export shipments.
- Goods which are being transported via sea, rail, air, road or post.
- Goods being transported by coastal vessels which ply between different ports inside the country.
- Goods which are transported via vessels plying along rivers.
-

Marine Insurance Policy Exclusions:

Some of the common exclusions of most marine insurance policies are listed as below:

- Routine wear and tear or ordinary leakage.
- Incorrect and inadequate packaging of goods being transported.
- Damage caused due to delay.
- Damage caused wilfully or intentionally.

- Damage caused due to civil commotion, strikes, war, riot, etc.
- Any damage or loss occurring due to bankruptcy or financial default of the owner of the transport vessel.

Companies Providing Marine Insurance Plan:

In India, there are various major banks and financial institutions which provide marine insurance. Some of the top providers are

- Bharti AXA,
- ICICI Lombard,
- New India Assurance Co. Ltd.,
- United India Assurance Co. Ltd.,
- Tata AIG,
- HDFC ERGO,
- Royal Sundaram,
- Chola Insurance, etc.

MOTOR INSURANCE

Motor Insurance is a type of insurance policy which covers the vehicles from potential risks financially. Policyholder's car or two wheeler is provided financial security against damages arising out of accidents and other threats. In India, motor insurance is mandatory. Motor insurance is a unique insurance policy meant for vehicle owners to protect them from incurring any financial losses that may arise due to damage or theft of the vehicle. Whether the policyholder has a private car, a commercial vehicle, or a two-wheeler, he/she can purchase a motor insurance policy.

Types of Motor Insurance

Motor Insurance for Specific Vehicles - Private Car Insurance and Commercial Car Insurance

Private car insurance is bought by personal car owners using their car for personal use. There are different types of policies which a car owner can choose.

Commercial car insurance is to be bought by people who own taxis or use their car for commercial purposes.

Motor Insurance Policies

Third Party Car Insurance Policy

As per the Motor Vehicles Act of 2019, it is mandatory to avail a Third Party Cover. Without it, one will be driving the car unlawfully on the road and would result in a penalty and/or fine. This cover offers coverage against legal liability caused to a third party due to his/her car or vehicle. In simple terms, Third Party insurance covers injury or death caused to a third person by the vehicle along with damage caused to a property. Here's one interesting feature of the cover. As per the Motor Vehicles Act, the claimant is not obliged to prove negligence of the driver that was responsible for the accident. As the name suggests, Third Party Insurance only covers third party liabilities. It does not cover damage to the vehicle or theft. Considering the nature of the cover, the premium is also low.

Own Damage Car Insurance Policy

An Own Damage car insurance policy helps the policyholder stay covered against the damages caused to the car due to accidents like fire, theft, etc.

In case of an accident, an own damage cover compensates the policyholder for expense to repair or replace parts of the car damaged in the accident.

This policy covers the cost of damages to the car due to-

Natural calamities like floods, earthquake, fire and more

Man-made calamities like vandalism, riots and terror attacks

Damage to the car or the belongings in the car in case of an accident

Theft or malicious acts

Comprehensive Car Insurance Policy

With comprehensive car insurance, the policyholder gets the benefits of Third Party Liability cover along with Own Damage coverage. As the name indicates, it offers in-depth, end-to-end protection for the policyholder and his/her car. The key feature of this insurance is that it covers theft of the car in addition to damage due to a number of reasons. If the policyholder has this cover and his/her car gets stolen, the policyholder can breathe easy knowing the fact that it will be covered.

Comprehensive insurance covers a number of perils such as vandalism, fire damage, floods, damage due to natural calamities like tornado, wind storm etc, glass breakage (e.g. windshield), damage due to falling object and so on. The policyholder can also amplify the protection with add-on covers such as Personal Accident cover, Electrical Appliances cover, Zero Depreciation cover and much more.

PERSONAL ACCIDENT POLICY

We all are exposed to the risks of accidents in our day to day lives. Despite all possible precautions accidents do occur which may result into disablement or loss of limbs or sometimes even death. This policy provides compensation in the event of insured sustaining injuries, solely and directly from an accident caused by violent, visible and external means, resulting into death or disablement be it temporary or permanent. Personal Accident Insurance offers financial compensation in the event of bodily injuries leading to total/partial disability or death caused due to accidents. This policy ensures the financial stability of an individual and his family if he/she gets injured or unfortunately dies in an accident.

Benefits of owning a Personal Accident Insurance Policy

Nobody wants to get into an accident, but it’s an unfortunate reality for a lot of people every year; while one can’t plan for when and where one can surely prepare oneself against the trauma of the event. When a major car wreck happens, or a simple trip and fall incidence happens, then is the time when one will realize the advantage of having a personal accident cover. Since the number of vehicles is increasing exponentially in India, chances of meeting a road accident have increased to another level. It's always better to be safe than sorry; It is advised to buy a personal accident insurance policy to get a financial cushion against such mishaps.

Advantages of having a personal accident insurance policy:

- Family security
- Worldwide coverage
- No requirement of medical tests and documentation

- Substantial coverage at low premium
- Reimbursement of medical expenses
- Education fund for children
- Easy and hassle-free claim process

FIDELITY GUARANTEE INSURANCE

Leading insurance companies offer an innovative product called fidelity bond/guarantee insurance. This type of insurance is basically a contract of insurance and guarantee. The standard principles of general insurance are not applicable to fidelity bond/guarantee insurance, and this makes the product really unique.

Though it is impossible for fidelity guarantee insurance to ensure that every employee in the organisation is completely honest yet it does compensate the organisation for any financial loss incurred as a result of dishonest activities conducted by employees. The organisation will be compensated for the financial loss undergone, only within the stipulated limits of the insurance policy.

Benefits of Fidelity Bond Insurance:

As this insurance protects organisations from any financial loss suffered as a result of acts of dishonesty conducted by an employee, it is of utmost importance for every company to buy this policy. The benefits of holding a fidelity bond/guarantee insurance policy have been stated below: –

- As an organisation which employs different kinds of people, nobody can take guarantee that they will be completely honest throughout their employment tenure. It is pretty common for certain employees to indulge in acts of dishonesty and forgery and harm the company in turn. This insurance policy safeguards the company from financial losses arising due to forgery, money misappropriation (defalcation), embezzlement, and other dishonest acts by employees. These situations usually arise due to misuse of the employment capacity by cashiers, accountants, etc.
- Fidelity guarantee insurance assures that as an organisation the hierarchy is maintained and the employees are weary of performing any malpractices.

- It protects the reputation, standing and employee reputation and the employer.
- It ensures absolute transparency in accounts checking and standard supervision within the organisation.

Fidelity Insurance covers:

As per this insurance policy the insurer covers the insured organisation against a pecuniary loss (only if it is direct) due to acts of fraud/dishonesty conducted by any employee, under the following situations –

- Coverage shall also be provided during unhindered service with the organisation, and its discovery during the existence of the policy. This is also valid within a year/12 calendar months of the policy expiration.
- In case of demise, termination or retirement of the employee with 12 calendar months of such an event; whichever event occurs earlier.
- Depending on the requirement of this cover being applicable to a single employee or a group of employees there are three types of plans, namely individual policy, collective policy, and floating policy.
- Fidelity Guarantee Insurance Policy Exclusions:
- The called fidelity bond/guarantee insurance doesn't provide coverage for –
- There is no coverage for any consequential loss, unlike a pecuniary loss.
- If the loss incurred is not in terms of finances or goods of the organisation, then it isn't covered.
- The act of dishonesty by the employee should be committed during the tenure of the specified duties.
- If an employee under the policy had quit the organisation earlier, but was re-employed again, any loss resulting out of this act will not be covered (if the consent of the insurer hasn't been obtained before reappointing him).
- If the loss has been incurred due to wrong/bad accounting process, and not as an act of dishonesty; it is not covered.

Types of Fidelity Guarantee Insurance:

Individual Policy - This policy provides coverage to an individual for a stipulated amount.

Collective Policy - This policy provides coverage to a group of employees. It depends on the organisation to place the guarantee amount on each employee (depending on their position and job roles).

Blanket Policy – Sometimes an organisation buys the policy not by naming individuals to be guaranteed, but on the basis of groups/categories/teams. It could usually be accounts team, store-keeping team, clerical team, etc.

Floater Policy – Only one amount is depicted in the policy. This is representative of the Insurer's liability. This is valid in context to one person and also total liabilities of the entire set of guaranteed employees. The minimum number of guaranteed individuals required to avail this policy is 5.

The limit for each employee can be either fixed independently or together in a group. In either case, the compensation for any loss incurred will be provided only up to the stipulated limit as mentioned in the policy contract. The higher the limit (depending on the need), the better it is for the organisation and the employees.

Fidelity Insurance Claims Process:

To settle a fidelity bond/guarantee insurance claim, the organisation must inform the insurance company immediately about any act of fraud conducted by any employee. It should immediately suspend/default/take disciplinary action against the employee depending on the situation. The 'act of infidelity' must be furnished with every possible proof, indicating the same. If the loss incurred has come into light only during the time of stock-taking, or due to some security failure, the insurance company is not liable for the same. To settle the claim, one must provide a "proof of loss" to the insurance company stating the amount of recovery.

A forensic audit must be done, and the cost of paying these auditors is also included the cover. These auditors shall verify and approve the amount lost by the insured. Coverage is not provided to the policyholder's overhead and in-house expenses.

It is a universally known fact that such high profile frauds are extremely complicated, and that is the reason the policyholder is required to furnish the insurance company with so much proof. It is the policyholder's responsibility to ensure investigation, forensic audit, accounts tallying, flawless documentation, and other proofs substantiating the claim of financial loss.

Hence, to settle a fidelity bond/guarantee insurance claim without any hassle, an organisation must be adept at the following -

- Investigation
- Interrogation
- Documentation
- Proof of Loss
- Law Enforcement Liaison
- Forensic Accounting

MEDI CLAIM AND HEALTH INSURANCE

A Mediclaim policy is a sort of health insurance policy in which the insurer reimburses the policyholder for medical expenses incurred in treating their medical condition. If one has a medical insurance policy, one can submit the bills to the insurance company for payment. Alternatively, one can opt for the cashless treatment option which makes the insurance company and hospital administrator responsible to settle the medical bills. Medi claim Insurance policies are indemnity-oriented plans. They reimburse the policyholder the cost of medical expenses up to the sum assured. The policyholder is required to submit hospital bills detailing the actual expenses incurred, and a successful claim can be either cashless i.e. directly to the healthcare provider, or to the policyholder as a repayment. These policies may have some limitations while providing cover for critical illnesses, heart and cancer diseases which may require special health insurance cover or fixed benefit cover plan.

A common area of confusion for most people is the difference between health insurance and Mediclaim, often mistaking one for the other. Even though both offer financial protection during emergencies, Mediclaim is not just another word for health insurance.

A Mediclaim policy is a sort of health insurance policy in which the insurer reimburses the policyholder for medical expenses incurred in treating their medical condition. If the policyholder has a medical insurance policy, the policyholder can submit his/her bills to the insurance company for payment. Alternatively, the policyholder can opt for the cashless treatment option which makes the insurance company and hospital administrator responsible to settle the medical bills.

Mediclaim insurance is designed to provide policyholders with financial backup during medical emergencies.

the policyholder needs to know the following things about Mediclaim insurance:

Provides Coverage - It covers the cost of hospitalization due to accident, surgery, or critical illness throughout the policy period.

Premium Payments - Like all other forms of health insurance, the policyholder must pay the premium amount to avail the benefits of Mediclaim.

Renewal Terms - However, Mediclaim comes with a pre-specified insurance cover, and the policyholder needs to renew the policy at the end of every term to keep enjoying the perks.

Settlement Options - As per preference, the policyholder can either opt for Mediclaim offering cashless hospitalization or reimbursement settlement. Cashless hospitalization Mediclaim is much more convenient as the bills are settled by the insurance provider directly with the hospital. Whereas the reimbursement method requires the policyholder to settle the expenses from his/her own pocket, and the total amount is then reimbursed by the insurer.

In comparison, fixed benefit health insurance plans give the policyholder cover against specific diseases or conditions including heart ailments and cancer. These new-age policies give the policyholder the claim amount on first diagnosis irrespective of the actual medical costs. The policyholder doesn’t need to find a network hospital or file for reimbursement claims. This is because fixed benefit health insurance plans send the policyholder the cover amount as soon as a diagnosis is made. So, the policyholder can get treated at a hospital of his/her choice.

MEDICLAIM INSURANCE	HEALTH INSURANCE
Mediclaim insurance extends to expenses incurred before and after, and during hospitalisation.	Health insurance pays a defined amount of funds, irrespective of treatment costs, for a pre-determined illness or condition.
Mediclaim insurance claims are usually processed based on diagnostic reports, written consultation with doctors, discharge card, treatment bills, medicine bills and other documents.	Claims under health insurance plan are usually processed based on diagnostic reports confirming the insured illness or condition. There is no hassle of submitting bills, documents and other expenses to the insurance company.
Mediclaim insurance policies reimburse the policyholder /healthcare provider for the expenses actually incurred up to the sum assured limit.	Health insurance plans pay a fixed lump sum amount, regardless of the policyholder's actual expenses.
Mediclaim insurance plans provide cashless facility i.e. direct reimbursement to healthcare provider, only at network hospitals. In non-network hospitals, the policyholder has to pay and the insurer will reimburse later.	Health insurance plans pay the money to the policyholder directly, often even before treatment starts.
Mediclaim insurance plans usually do not pay any assured monthly payout if the policholder is diagnosed with any major illness/condition.	On the diagnosis of a predetermined major condition/illness, some fixed benefit health insurance plans will pay the policyholder a portion of the base Sum Assured every month for a fixed period of time.
Some health insurance plans require the policyholder to pay a part of his/her expense, while the rest is paid by the insurer.	Health insurance plans do not require the policyholder to pay any part of the defined amount.

Types of Mediclaim Policies

Many people are often under the impression that there is only one type of Mediclaim policy, but it has several variations. The most popular Mediclaim policies available to policy buyers are as follows:

Individual Mediclaim

An individual Mediclaim plan covers expenses borne by the policyholder during hospitalization. As the name suggests, it only provides coverage to the insured. Individual Mediclaim is best suited for those living alone or without any dependents.

Family Floater Mediclaim

Family floater Mediclaim is basically the same as an individual policy. However, besides the policyholder, family plans also offer coverage to the policyholder's spouse, children, and parents. It is an excellent option for anyone wanting to secure their immediate family under one premium.

Senior Citizen Plans

A senior citizen Mediclaim plan is designed to cater to the medical needs of people above the age of 60 years. It specifically covers expenses for age-related diseases and illnesses, which are not included in basic Mediclaim policies. You can get a senior citizen plan for your parents, in-laws, or anyone who has crossed the age of 60 in your family.

Critical Illness Mediclaim

It is not news that treatments for chronic ailments like cancer, cardiovascular diseases, and kidney failure can take a financial toll and hence investing in critical illness Mediclaim is a smart choice. These policies offer cover for medical expenses, including hospitalization and treatments for serious conditions.

Personal Accident Policy

Personal accident Mediclaim policies provide medical cover against partial disability, total disability, and accidental death. Although it is not a must-have plan, personal accident Mediclaim further secures the policyholder and his/her loved ones' future.

BURGLARY INSURANCE

A burglary insurance policy is a type of crime insurance that covers losses resulting from burglary. Put simply, burglary refers to when someone uses force to unlawfully enter someone else's property - even if they did not steal anything in the end.

Types of losses insured include:

- Theft of property from closed premises such as a home, place of business or automobile.
- Damage caused by the intruder in the process.

Even though the words burglary, robbery, and theft are often used interchangeably in real life, they are actually very different legally speaking and in the insurance world. The definitions are nuanced but in the insurance world, burglary is defined as theft when force was used to unlawfully enter someone else's property. In order for an insurer to recognize the claim, the policyholder has to file a police report and show some signs of forced entry such as a broken window or scratch marks on the door. If the policyholder does not have these things, the insurer will not count it as a burglary and therefore he/she would not have coverage.

BAGGAGE INSURANCE

Baggage insurance is an important part of a travel insurance plan. However, it can also be taken as standalone insurance. During a flight, in case the baggage is lost or its contents get damaged due to fire or other reasons, the policyholder can get the reimbursement for the loss through a baggage insurance. Baggage is the "personal goods belonging to the insured". The insurance also covers the loss the policyholder faces due to baggage delay. Thus, baggage insurance ensures a peaceful and relaxed travelling, considering the fact that many a times, the airlines authorities do not provide a satisfactory solution to such problems.

Baggage insurance is a type of insurance that protects the accompanied baggage of a traveller from any unforeseen damage or loss. The term 'baggage' refers to the personal items or goods belonging to the insured traveller that they carry during their travel. It provides comprehensive coverage to the accompanied baggage from any loss due to unforeseen events such as fire, theft, riots, strikes, accident and terrorist activity. A baggage insurance policy also protects the insured's check-in baggage from any damage or loss caused during the flight or by the airline staff. It also covers any delay in the arrival of the checked-in baggage by the airline in the form of reimbursement of any expenses incurred on essential items such as clothes, toiletries, medicines, etc. In fact, some travel insurance policies also protect the additional baggage purchased during the trip. Baggage insurance can be purchased as part of a travel insurance policy as well as a standalone insurance policy. The travellers can decide on the basis of their requirements and thus, ensure a stress-free trip.

Types of Baggage Insurance

A traveller needs to find an insurance policy that fulfils his travel needs. To fulfill the requirements of different kinds of travellers, baggage insurance in India is of three types:

Single Trip Baggage Insurance

This type of baggage insurance policy covers any damage to the accompanied luggage of the insured traveller for a single trip. It begins with the start of the trip and expires as soon as the trip ends. This type of baggage insurance is suitable for people who travel occasionally, mostly as tourists.

Multi-Trip Baggage Insurance

This type of baggage insurance policy protects the luggage against any unforeseen damage or loss for multiple trips. The exact number of trips that are covered under this policy depends on the terms and amount of premium paid by the insured traveller. This type of travel insurance is best suited for frequent fliers and business travellers.

Baggage Insurance for a Specific Item

This kind of baggage insurance policy covers a specific item that has been insured by the traveller from any loss or damage throughout the duration of the trip. It is made for people who travel with expensive and valuable items and any damage or theft to such items can lead to huge financial loss. For instance, travellers can get their laptop, professional camera, musical instruments, etc. insured under this type of baggage insurance policy.

DOUBLE INSURANCE AND REINSURANCE

Double insurance is described as an insurance arrangement in which a particular subject or risk is insured with multiple insurance policies of the same insurer, or with multiple insurers, for the same period. It is made to attain security and satisfaction, which the insurers will make good the loss occurred to the insured. In the event of loss, the insured can claim compensation from all the insurers under the concerned policies. However, the total amount of compensation cannot exceed the actual loss incurred to him, and so the insurers will contribute, in the proportion of the sum insured.

Reinsurance is a product offered by insurance companies to other insurance companies to cover large losses. When an insurance company is not capable of bearing the entire loss arising out of the insurance provided to the insured, then it can go for reinsurance, in which a part of the risk is reinsured, with another insurer. Usually, the insurance company chooses reinsurance, when the insurance amount is high, and a single insurance company cannot bear it easily. The original insurer cedes (gives) a proportion of its business to another insurer, in essence, the risk is signed and accepted by that insurance company. In finer terms, reinsurance is a contract between the ceding company (original insurer that shifts a part of the risk) and the reinsurer, for sharing the risk of the insurance policy, in exchange for a share of the insurance premium. In the event of loss, the amount of claim will be borne in the proportion; they've agreed to share the risk of loss.

Double insurance is a form of insurance, wherein the individual/company insures a particular property with more than one insurer or with multiple policies from the same insurer. Double insurance is not exactly same as **reinsurance**, as it is a transfer of risk on a policy by the insurance company, by insuring the same with another insurer. So, there exist a fine line of differences between double insurance and reinsurance.

BASIS	DOUBLE INSURANCE	REINSURANCE
Meaning	Double insurance refers to a situation in which the same risk and subject matter, is insured more than once.	Reinsurance implies an arrangement, wherein the insurer transfer a part of risk, by insuring it with another insurance company.
Subject	Property	Original insurer's risk
Compensation	It can be claimed with all insurers.	It can be claimed from the original insurer, who will claim the same from reinsurer.
Loss	Loss will be shared by all the insurers in proportion of the sum insured.	The reinsurer will only be liable for the proportion of reinsurance.

Aim	To assure the benefit of insurance	To reduce the risk of the insurer
Interest of insured	Insurable interest	No interest
Consent of insured	Necessary	Not necessary

COVER NOTES

A cover note is a temporary document issued by an insurance company that provides proof of insurance coverage until a final insurance policy can be issued. A cover note is different from a certificate of insurance or an insurance policy document. A cover note features the name of the insured, the insurer, the coverage, and what is being covered by the insurance. A cover note is a temporary certificate of insurance issued by the Insurer before the issuance of a policy after the Insured has given a duly filled in proposal form and has paid the premium in full.

A cover note is valid for a period of 60 days from the date of issue of the cover note and the insurer shall issue the Certificate of Insurance before the cover note expires.

CERTIFICATE OF INSURANCE

A certificate of insurance (COI) is issued by an insurance company or broker. The COI verifies the existence of an insurance policy and summarizes the key aspects and conditions of the policy. For example, a standard COI lists the policyholder's name, policy effective date, the type of coverage, policy limits, and other important details of the policy. Without a COI, a company or contractor will have difficulty securing clients; most hirers will not want to assume the risk of any costs that might be caused by the contractor or provider.

Certificate of Insurance refers to the document that contains all the crucial details regarding an insurance policy in a comprehensive and standardized format. This is used as a proof of policy's current status, coverage details, risk exposure and protection against third-party liability. In other words, it captures the complete snapshot of an insurance policy in a single standardized form, which primarily includes the name of the policyholder, effective date, of the policy, policy limits and type of coverage.

Certificates of Insurance are used in situations where liability and significant losses are of concern and require one, which is most business contexts.

What is a certificate of insurance used for?

Small-business owners and contractors often have a COI granting protection against liability for workplace accidents or injuries. The purchase of liability insurance will usually trigger the issuance of an insurance certificate. A business owner or contractor may have difficulty winning contracts. Because many companies and individuals hire contractors, the client needs to know that a business owner or contractor has liability insurance so that they will not assume any risk if the contractor is responsible for damage, injury, or substandard work.

Importance of Certificates of Insurance

- **Proof of Insurance Status**

  This is the summary of the insurance policy with an effective date and policy holder's name. Hence, it serves as proof of whether or not insurance is the effect.
- **Quick Access to Information**

  This is the abridged version of the entire insurance policy. Hence, it conveniently provides quick access to the required information.
- **Transfer of Liability**

  The hiring company can comfortably reduce its risk liability by collecting the certificates from the third-party contractors. In this way, the hiring company can transfer the loss to the third party's insurer in case something goes wrong.

TYPES OF CERTIFICATE OF INSURANCE

Certificate of Liability Insurance

Typically, companies that are involved in a business transaction or relationship require liability insurance. For instance, the landlord of a leased commercial property can request the lessee to provide the certificate of liability insurance to absolve themselves from any liabilities arising out of the lessee's business operations.

Certificate of Workers Compensation Insurance

In case of construction jobs or other similar huge projects, the project management companies or general contractors are required to provide certificates of workers compensation insurance. It safeguards the contractors against various potential work-related risks, and it is a mandatory requirement in most of the states.

Certificate of Car Insurance

This type of certificate of insurance may be seen in the form of an insurance ID card or a full-sized form issued by the insurer on the policy holder's request. Usually, banks or lenders can request a certificate if they suspect that the borrower of the car loan is not having adequate insurance coverage.

ACTUAL TOTAL LOSS

This kind of loss occurs when the goods are completely destroyed or damaged beyond recognition or initial state. If the policyholder is deprived of the insured goods, that too would be considered as an actual total loss of goods. Example: If a ship carrying your cargo sinks or is completely destroyed due to a fire or other covered reasons, then this will be considered as an actual total loss. If the policyholder can't trace their ship or get their goods back, this too will be considered as an actual total loss under which they are entitled to claim the full amount of lost goods. However, it's important to remember that once the claim is settled, the title of goods will be transferred to the insurer. If they receive any amount from the sale of the damaged goods, then the policyholder can't claim any part from that amount.

CONSTRUCTIVE TOTAL LOSS

This usually happens when the cargo needs to be abandoned as it is not commercially viable to retrieve them. This can happen due to certain situations; the cargo may not be destroyed completely but it is not economically practical to repair or restore it to its original state. This is common when ships are damaged as the cost of repairs may exceed the ship's value. For Example: If the cargo is safe but the cost of retrieving it is more than the cargo's cost, it is better to abandon it. In such a case the policyholder surrenders the interests to the insurer and gives them notice of abandonment. They can raise a claim for total loss.

VALUED POLICY

An insurance policy in which the amount payable in the event of a valid claim is agreed upon between the company and policyholder when the policy is issued and is not related to the actual value of a loss. A valued policy is a type of property insurance policy in which a set value is established to cover total losses. With such policies, the exact worth of the insured items or property at the time of loss is irrelevant, because the value of the covered property has already been established. A policy in which the company and the policyholder agree to the amount to be paid in the event of total loss of property, regardless of the value of the property.

AGREED VALUE

Agreed value, also known as "guaranteed value," is the amount your insurance company will reimburse you when the insured item is damaged or lost. Agreed value differs from other policies in that the policyholders are guaranteed to get the full amount agreed upon in the policy in the event of a loss.

In most cases, the policyholder and the insurer will have to agree on the value of an item before beginning a policy. Property will go through an appraisal to provide proof of value to the insurance company. The clause should be easy to find and clear with its wording. With this insurance type, the insured value of the property won't depreciate over the course of the policy, though the policyholder will have to have the property appraised at the start of each term for renewal.

Most insurers do not offer agreed value insurance, and those that do will usually only offer coverage for high-value or unique items, such as classic or antique cars. The policyholder may need to find a special insurer or a standard provider that has a specialty insurance partner. Another property type that is commonly insured under agreed value coverage is jewelry. The policyholder can get the expensive jewelry replaced at the same value for a higher premium. The policyholder will have to provide a recent bill of sale or have an appraisal done to be approved for this type of coverage.

If lower rates are the highest priority, a stated value policy could be the best option, but If the policyholder needs to protect the property from depreciation and avoid a substantial loss, agreed value insurance is the right coverage.

INSURANCE TIME OR INSTITUTE CARGO CLAUSES

Institute cargo clauses come embedded in a marine insurance policy that covers cargo in transit. These clauses are there to specify what kind of items covers in the cargo in case of any loss or damage to the shipment. It is interesting to note; institute cargo clause can cover anything from the cargo to the container that holds its value along with the transport mode used to ship the items.

Mainly, there are three basic sets of institute cargo clauses; A, B, C. Coverage is directly related to the policyholder's insurance premium. It means, the higher the marine insurance premium the policyholder pays; the more would be the coverage he/she gets.

Here are the three institute cargo clauses as detailed below:

Institute Cargo Clause A:

It is considered to be one of the widest marine insurance coverages and therefore, the policyholder should be ready to pay the high premium for this as the policyholder would be getting the extensive cover.

Institute Cargo Clause B:

Considered to be slightly a restrictive cover and therefore, the premium is moderate. The policyholder mainly asks for coverage for some more valuable items or only a partial cargo.

Institute Cargo Clause C:

It is the most restrictive coverage, and the policyholder should be ready to pay the low premium. However, as the premium would be low, the policyholder's coverage would also be less.

Each of the institute cargo clauses mentioned above restricts goods that are in transit. The items shipped would be in transit only if they have left from the original location and are still in transit to the destination.

SOLATIUM

Solatium fund to Compensate Accident Victims in Hit and Run Cases

In 'Hit & Run' cases, accident victims are eligible for compensation through a Special Fund constituted in terms of Section 163 of the Motor Vehicles Act, 1988 called 'Solatium Fund'. The amount of Compensation is Rs 25,000/- in the event of death and Rs 12,500/- for grievous injuries. A portion of the Gross Written Premium is contributed towards this Fund every year by both Public and Private Insurers. However, in case the vehicle is without insurance, the victims/dependents have the right to claim compensation from the owner/driver under Motor Vehicles Act, 1988.

Hit and Run

The Motor Vehicles Act, 1988 is a piece of social legislation and its provisions are designed to protect the rights of road accident victims where the identity of motor vehicle causing the accident cannot be established. The relevant legal provision is enshrined in Section 161 of Motor Vehicles Act where a "hit and run motor accident" is defined as an accident arising out of the use of a motor vehicle or motor vehicles the identity whereof cannot be ascertained in spite of reasonable efforts for the purpose. This Scheme came into force from 1.10.1982.

This Section provides for payment of compensation (solatium) as follows:

- In respect of the death of any person resulting from a hit and run motor accident, fixed sum of compensation is Rs.25,000
- In respect of grievous hurt to any person resulting from a hit and run motor accident, fixed sum of compensation is Rs.12,500

Hit & Run Claims Procedure

The victim of the "hit-and-run" vehicle or his legal representative shall make an application to the Claim Enquiry Officer in each Taluka. After due enquiries, the Claims Enquiry Officer will submit a report together with certificate of post mortem or injury certificate to the claims settlement commissioner who will either the District Collector or the Deputy Commissioner at the District level. He will process the claims and sanction the payment within 15 days from the receipt of report from Claim Enquiry Officer and communicate sanction order to the nominated office of the Insurance Company. The compensation under Hit and Run Accident cases is made from a Solatium Fund which is contributed by General Insurance industry under an agreed formula. The administration of claims is done by New India Assurance Co Ltd which has nominated one Divisional Manager in each district at District Level Committee which is headed by District Collector.

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UNIT –IV

UNIT–IV

Insurance Market: Life and Non-Life Insurers Firms in India:

Public Sector Pioneers in Life and General Insurance Activities - Role of Insurance Agents and Brokers - Surveyors - Medical Examiners - Third Party Administrators Regulators: Insurance Regulatory and Development Authority (IRDA) of India- Insurance Councils - Ombudsmen - Educational Institutes - Councils -Tariff Advisory Committee - Insurance Pricing: Factors and Determinants.

INSURANCE MARKET

LIFE AND NON-LIFE INSURERS IN INDIA

Life Insurance Companies:

- Aegon Life Insurance Co. Ltd.
- Aviva Life Insurance Co. India Ltd.
- Bajaj Allianz Life Insurance Co. Ltd.
- Bharti AXA Life Insurance Co. Ltd.
- Birla Sun Life Insurance Co. Ltd.
- Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd.
- DHFL Pramerica Life Insurance Co. Ltd.
- Edelweiss Tokio Life Insurance Co. Ltd
- Exide Life Insurance Co. Ltd.
- Future Generali India Life Insurance Co. Ltd.
- HDFC Standard Life Insurance Co. Ltd.
- ICICI Prudential Life Insurance Co. Ltd.
- IDBI Federal Life Insurance Co. Ltd.
- IndiaFirst Life Insurance Co. Ltd
- Kotak Mahindra Old Mutual Life Insurance Ltd.
- Max Life Insurance Co. Ltd.
- PNB MetLife India Insurance Co. Ltd.
- Reliance Life Insurance Co. Ltd.
- Sahara India Life Insurance Co. Ltd.
- SBI Life Insurance Co. Ltd.
- Shriram Life Insurance Co. Ltd.
- Star Union Dai-Ichi Life Insurance Co. Ltd.
- Tata AIA Life Insurance Co. Ltd.

Non-Life Insurance Companies:

- Aditya Birla Health Insurance Co. Ltd.

- Bajaj Allianz General Insurance Co. Ltd.
- Bharti AXA General Insurance Co.Ltd.
- Cholamandalam General Insurance Co. Ltd.
- Future Generali India Insurance Co.Ltd.
- HDFC ERGO General Insurance Co. Ltd.
- ICICI Lombard General Insurance Co. Ltd.
- IFFCO-Tokio General Insurance Co. Ltd.
- Kotak General Insurance Co. Ltd.
- L&T General Insurance Co. Ltd.
- Liberty Videocon General Insurance Co. Ltd.
- Magma HDI General Insurance Co. Ltd.
- Raheja QBE General Insurance Co. Ltd.
- Reliance General Insurance Co. Ltd.
- Royal Sundaram Alliance Insurance Co. Ltd
- SBI General Insurance Co. Ltd.
- Shriram General Insurance Co. Ltd.
- TATA AIG General Insurance Co. Ltd.
- Universal Sompo General Insurance Co.Ltd.

Health Insurance Companies

- Apollo Munich Health Insurance Co.Ltd.
- Star Health Allied Insurance Co. Ltd.
- Max Bupa Health Insurance Co. Ltd.
- Religare Health Insurance Co. Ltd.
- Cigna TTK Health Insurance Co. Ltd.

PUBLIC SECTOR INSURANCE COMPANIES

Life Insurance Corporation of India

LIC of India was incorporated on 1st September, 1956 by amalgamating 243 Companies by the Act of Parliament called Insurance Act, 1956. LIC is governed by the Insurance Act 1938, LIC Act 1956, LIC Regulations 1959 and Insurance Regulatory and Development Authority Act 1999. As on 31st March, 2016, LIC has 8 Zonal Offices, 113 Divisional Offices, 2048 Branch Offices, 73 Customer Zones, 1401 Satellite Offices and 1240 Mini Offices in India. The Corporation has Branch Offices in Fiji, Mauritius and United Kingdom. It also operates through Joint Venture(JV) Companies in overseas Insurance Market, namely Life Insurance Corporation (International) B.S.C.(c), registered in Manama (Bahrain); Kenindia Assurance Company Ltd. registered in Nairobi; Life Insurance Corporation (Nepal) Ltd. registered in Kathmandu; Life Insurance Corporation (Lanka) Ltd. registered in Colombo and Saudi Indian Company for Co-operative Insurance(SICCI) registered in Riyadh. LIC has also formed a Joint Venture Company Life Insurance Corporation (LIC) of Bangladesh Limited between Life Insurance Corporation of India, Strategic Equity Management Ltd and Mutual Trust Bank Ltd on 14.12.2015. A Wholly owned subsidiary, Life Insurance Corporation (Singapore) Pvt Ltd. has been established on 30.4.2012. Among the above two joint ventures (JVs), Kenindia Assurance Co. Ltd., Nairobi, Kenya and Saudi Indian Company for Co-operative Insurance (SICCI), Riyadh, Kingdom of Saudi Arabia are composite companies transacting life and non-life business; and two JVs, LIC (Nepal) Ltd. &SICCI are listed on their respective Stock Exchanges.

GENERAL INSURANCE CORPORATION OF INDIA

The General insurance industry was nationalized in 1972 and 107 insurers were grouped and amalgamated into four Companies – National Insurance Co. Ltd., The New India Assurance Co. Ltd., The Oriental Insurance Co. Ltd. and United India Insurance Co. Ltd. The GIC was incorporated in the year 1972 and the other four companies became its subsidiaries. In November 2000, GIC was notified as the Indian Reinsurer, and its supervisory role over its subsidiaries was brought to an end. From 21 March 2003, GIC's role as a holding company of its subsidiaries also came to an end and the ownership of the subsidiaries was transferred to the Government of India. The Corporation has its head office in Mumbai and 3 liaison offices in India (Delhi, Kolkata and Chennai), 3 branches in foreign countries (London, Dubai and Kuala Lumpur) and 1 representative office in Moscow. It also has 2 foreign subsidiaries (GIC Re South Africa and GIC Re India Corporate Member Ltd. in UK). As on 31.03.2016 the employee strength of the Corporation is 558. The authorized capital is Ra.1000 crore while the paid-up equity capital of the company is Rs.430 crore.

THE NEW INDIA ASSURANCE COMPANY LIMITED

The company was founded by Sir Dorabji Tata on July 23rd, 1919 and nationalized in 1973 with merger of Indian companies. The Company has 2329 offices and the employee strength is 18783 as on 31.03.2016. The company provides insurance services to the customers having over 170 products catering to almost all segments of general insurance business. The authorized capital and paid-up equity capital of the company is Rs.300 crore and Rs.200 crore respectively.

UNITED INDIA INSURANCE COMPANY LIMITED

United India Insurance Company Limited was incorporated in 1938. With the nationalization of General Insurance business in India, 12 Indian Insurance Companies, 4 Cooperative Insurance Societies and Indian operations of 5 Foreign Insurers, besides General Insurance operations of southern region of Life Insurance Corporation of India were merged with United India Insurance Company Limited. The Company has 2080 offices and employee strength of 16345 as on 31.03.2016. The company provides insurance services to the customers catering to almost all segments of general insurance business. The authorized capital and paid-up equity capital of the company is Rs.200 crore and Rs.150 crore respectively.

THE ORIENTAL INSURANCE COMPANY LIMITED

The Oriental Insurance Company Ltd was incorporated in the year 1947. In 2003 all shares of the company held by the General Insurance Corporation of India were transferred to the Government of India. The Company has 1924 offices in the country and has employee strength of 13923 as on 31.03.2016. The company provides insurance services to the customers catering to almost all segments of general insurance business. The authorized capital and paid-up equity capital of the company is Rs.200 crore.

NATIONAL INSURANCE COMPANY LIMITED

The Company was incorporated in the year 1906. After nationalization it was merged, along with 21 foreign and 11 Indian companies, to form National Insurance Company Ltd. The Company has 1998 offices all over India and employee strength of 15079 as on 31.03.2016. The company provides insurance services to the customers catering to almost all segments of general insurance business. The authorized capital and paid-up equity capital of the company is Rs.200 crore and Rs.100 crore respectively.

AGRICULTURE INSURANCE COMPANY OF INDIA LIMITED

'Agriculture Insurance Company Of India Limited' (AIC) was incorporated to exclusively cater to the insurance needs of the persons engaged in agriculture and allied activities in India under the Companies Act, 1956 on 20th December 2002. General Insurance Corporation of India (GIC), NABARD and four public sector general insurance companies have contributed towards the share capital of the Company. The Authorized Share Capital of the Company is Rs. 1500 crore with initial Paid-up Equity Share Capital of the Company of Rs. 200 crore. The Company having received approval from Insurance Regulatory & Development Authority (IRDA) commenced its business operations w. e. f. 1st April, 2003. The total number of employees as on 31st March, 2015 is 274 all over the country. It has its Head Office in New Delhi, 17 Regional Offices in various State Capitals and 3 one man offices at District levels.

ROLE OF INSURANCE AGENTS AND BROKERS

AGENT

An agent can work for any one life insurance and one general insurance company and the appointment of an agent will be as per regulation prescribed by IRDA as given below:

Issue of License:

IRDA or an officer authorized by it in this behalf will issue a license. These Regulations will specify authorizes designated persons, being officers of Insurers to issue such license for three years

The license may be to act as an

- Agent for the "Life Insurer" or
- Agent for the "General Insurer" or
- Agent as a "Composite Insurance Agent" means Agent for life insurance as well as general insurance.

Qualification

A person must:

- Be at least 18 years of age.
- Have passed 12th standard or equivalent examination if he is to be appointed in a place with population of 5,000 and more or 10th standard otherwise.
- Have undergone practical training in an approved Institute, in life or general insurance as the case may be for 50 hrs. (on renewal for 25 hours) spread over 3 to 4 weeks for either of the licenses, and 75 hours spread over 6 to 8 weeks for composite license There are relaxations in the hours of Training for some Professionals, like CA's, MBA, Associates/Fellows.
- Have passed the examination conducted by Insurance Institute of India or any other examination body recognized by the authority. He will have to qualify 2 hrs written test by obtaining 50 marks out of 100 marks.
- The fees for each license is prescribed as Rs. 250/-. If the application for renewal is late but made before expiry of the license than Rs. 100/- will be charged extra. In case license has expired already then application for renewal will normally be turned down but if hardship is proved then license may be renewed.

Disqualification

A person would be debarred from obtaining a license if he is found to be

- A minor.
- Of unsound mind declared by court of competent jurisdiction.
- Guilty of criminal breach of trust, misappropriation, cheating, forgery or abetment or attempt to commit any such offence.

Code of Conduct

Every person holding a license, shall adhere to the code of conduct as specified like identify himself and the insurance company of whom he is an insurance agent, Disclose his license to the prospect on demand, disseminate the requisite information in respect of insurance products offered for sale by his insurer, disclose the scales of commission in respect of the insurance product offered for sale, if asked by the prospect, indicate the premium to be charged by the insurer for the insurance product offered for sale, about proposal form etc.,

No insurance agent shall, like solicit or procure insurance business without holding a valid license; induce the prospect to omit any material information in the proposal form; induce the prospect to submit wrong information in the proposal form or documents submitted to the insurer for acceptance of the proposal; behave in a discourteous manner with the prospect; interfere with any proposal introduced by any other insurance agent, offer different rates, advantages; terms and conditions other than those offered by his insurer; etc.

Cancellation of License

The designated person may cancel a license of an insurance agent, if the insurance agent suffers, at any time during the currency of the license, from any of the disqualification as stated above and recover from him the license and the identity card issued earlier. Even on non performance of minimum business expectation by the Insurer the agency can be terminated.

CORPORATE AGENT:

The provisions of appointment of an agent are applicable for the Corporate Agent subject to the additional provisions as explained below:

- Corporate Agent can be only firm or company.
- Insurer may decide on case to case basis for having share capital of Rs 15 lakhs.

A person known as Principal Officer should be qualified as Associate of Insurance Institute of India Mumbai (AIII) and if a corporate in existence then within 3 years from the date of renewal the principal office should acquire the said qualifications.

BROKERS

An insurance broker is a new distribution channel introduced in 2002 by IRDA. The insurance broker is professional and expert organization who deals with all insurance companies and area of operation is on all India bases.

a. **Direct broker:** It means the broker can deal in life and general insurance business.
b. **Reinsurance broker:** It means the broker can deal with reinsurance business.
c. **Composite broker:** It means the broker can deal with reinsurance and life & general insurance business.

Requirements of Capital:

a. Minimum amount of capital requirement is as mentioned below:

Category - Minimum Amount (Rupees).

- Direct broker-fifty lakhs
- Reinsurance broker-two hundred lakhs
- Composite broker-two hundred and fifty lakhs

b. The capital in the case of a company limited by shares and a cooperative society shall be in the form of equity shares.

c. The capital in the case of other applicants shall be brought in cash.

d. The applicant shall exclusively carry on the business of an insurance broker as licensed under these regulations.

e. No part of the capital of an applicant shall be held by a non-Indian interest beyond 26% at any time.

Principal Officer

In any insurance broking firm a person called Principal Officer will be responsible for insurance business and day to day function of the broking firm.

To become the principal officer he should fulfill the following criteria:

The Principal Officer should have minimum qualification of graduation or as prescribed by IRDA. The principal officer of the applicant should have received at least one hundred hours/fifty hours of theoretical and practical training from an institution recognised by the Authority from time to time. He has to pass an examination, at the end of the period of training conducted by the National Insurance Academy, Pune or any other examining body recognised by the Authority.

Validity of license

A license once issued shall be valid for a period of three years from the date of its issue, unless the same is suspended or cancelled by IRDA.

Fees:

Category	**Amount**
Direct broker	Rs 20,000/-

Reinsurance Broker	Rs 40,000/-
Composite broker	Rs 5,00,000/-

Direct Broker Rs 20,000/- at the time of license and every year 0.5% of brokerage earned. minimum Rs 25,000/- & maximum Rs 1,00,000/

Reinsurance Broker Rs 40,000/- at the time of license and every year 0.5% of brokerage earned. minimum Rs 75,000/- & maximum Rs 3,00,000/

Composite Broker Rs 50,000/- at the time of licenses and every year 0.5% of brokerage earned. minimum Rs 1,25,000/- & maximum Rs 5,00,000/

Professional indemnity insurance

Every insurance broker shall take out and maintain and continue to maintain a professional indemnity insurance cover throughout the validity of the period of the license. The amount of indemnity should be three times of the brokerage earned during the last year or Rs 50.00 lakhs whichever is higher.

AGENTS Vs BROKERS

FEATURES	AGENTS	BROKERS
Representation	Insurance agents represent only one company, and they sell products in the company's lineup. In addition to selling policies, agents also focus on improving the brand image of the company they represent.	Brokers typically sell insurance products belonging to different companies in the market. They do not have any allegiance to a particular company and sell products based on the requirements of customers.
Training	Since insurance agents represent a particular company, they receive in-house training from their respective companies on various products offered.	Brokers are not trained by any specific companies since they sell a wide range of products. There are external courses that can be taken by brokers before they start selling insurance products.

Licensing	Agents who have received training must obtain a license as per the regulations put forth by the Insurance Regulatory and Authority Development of India (IRDAI).	Brokers must be licensed by the IRDAI in order to operate in the market. They are expected to meet a certain level of business regulations before they can get the broker license.
Accountability	An insurance company is accountable for the actions of its agents. IRDAI has the right to penalise an insurance company for any wrongdoings of its insurance agents.	Brokers have bigger accountability as they are not backed by any specific company. Brokers are bound to offer multiple products to their clients and disclose the prices of these products. Brokers can get sued for any misleading information they provide to their clients.
Knowledge	Insurance agents have in-depth knowledge in the products offered by their own companies. Although they are not required to know about all products in the market, they may have some knowledge about their competitor's products just for the sake of comparison.	Insurance brokers are required to have knowledge about multiple products in the market. They are bound to explain various products that seem best fit for the requirements of their clients. Also, they are accountable for the information they provide to customers. Hence, extensive knowledge about multiple products is a mandatory requirement for brokers.
Compensation	The commissions offered to agents are typically higher than that of brokers. The incomes earned by agents are relatively stable as they provide service under the wing of only one company. Companies may pay extra compensation based on	Brokers sell multiple products, and commissions are based on the sale they make. Brokers must advise their clients about the products they sell and charge a fee from the companies. Based on the type of policies sold, brokers could experience variations in

	the performance of agents.	their income.
Personalised service	Agents may be able to provide personalised service to their clients since they have a limited customer base for the products they sell. Moreover, agents represent the image of a company and they act accordingly to ensure personalised service.	Brokers offer good service for their clients with the help of their professional knowledge. However, the wide customer base they have might prevent them from offering personalised service to their clients.
Volume of business	For insurance agents, the volume of business is limited since they deal with the products of only one company.	Brokers, on the other hand, have access to multiple insurance products in the market, and their volume of business is often much higher.

INSURANCE SURVEYORS

Regulation 12 of the IRDAI (Insurance Surveyors and Loss Accessors) Regulations, 2015 mandates appointment of Surveyors and Loss Assessors either by Insurance or Insurer to assess loss under a policy of Insurance in respect of (a) Motor Insurance - above Rs. 50,000/- (b) other than Motor Insurance above Rs. 1,00,000/-. Further the required qualification to become surveyor has also been laid down in Annexure-I of schedule I of the above said Regulation. A surveyor & Loss Assessor shall assess losses of only those departments which are specified in his/her license.

IRDAI (Insurance Surveyors and Loss Accessors) Regulations, 2015

The enactment of IRDA Act, 1999, authorized IRDAI to license eligible persons to act as Surveyor and Loss Assessors (SLA). IRDAI framed the (Insurance Surveyors & Loss Assessors) Regulations, 2015 under powers vested under Section 42D, 42E, 64 UM and 114A of the Insurance Act, 1938 and section 14 and 26 of IRDA Act, 1999. The said regulations, specifies the eligibility criteria, training and examination requirements for grant of license to applicants to act as Surveyor and Loss Assessors. The said regulations also specify the Duties and

Responsibilities & Code of Conduct for surveyors licensed by IRDAI. The Code of Conduct specifies the professional and ethical requirements for conduct of their professional work. It elaborates on the code which, inter alia, stipulates that a surveyor and loss assessor shall behave ethically and with integrity in professional pursuits, shall strive for objectivity in professional and business judgment, act impartially when acting on instructions from an insurer in relation to a policyholder's claim under a policy issued by that insurer, conduct himself with courtesy and consideration to all people with whom he comes into contact during the course of his work.

Licenses are issued to both individuals and firms/companies to act as Surveyor and Loss Assessors. There are eight areas in which surveyors could be licensed to work, depending on their qualifications. These are Fire, Motor, Miscellaneous, Engineering, Marine cargo, Marine Hull, Loss of Profit and Crop Insurance.

IRDAI is empowered to cancel the license of Surveyors & Loss Accessors where it is found that he/she suffers from any of the disqualifications mentioned in section 42D of the Insurance Act, 1938 or has knowingly contravened any provisions of the Insurance Act 1938 or the IRDA Act, 1999 or the Rules and Regulations made under these Acts.

Further the IRDA (Protection of Policyholders' Interests) Regulations, 2002 also stipulates the time limit for appointment of surveyors, which is 72 hours from date of intimation of claim to insurers/ occurrence of the event resulting in loss or damage and submission of survey report by surveyors, which is one month from the date of appointment by insurer. The said regulation casts responsibility on the policyholder to co-operate with the surveyor and provide him with all the information/ documents to enable him to assess the loss. Delay, if any, in the submission of the report by the surveyor should be communicated to the insurer and insured.

MEDICAL EXAMINERS

A medical claim examiner works in the insurance field to ensure that medical services providers submit insurance claims correctly and in a timely manner. In other words, a career as a medical claim examiner means investigating insurance claims, confirming that the billed costs are accurate, and that the treatments and procedures that a patient receives are commensurate with their diagnosis. Though medical claims examiners aren't trained medical practitioners, they must possess an intimate knowledge of medical procedures in order to fulfill the duties of their job.

Requisites to become a Medical Examiners

Medical terminology

During their training, medical claims examiners are schooled in various medical terms, including common medical terminology that must be understood in order to evaluate medical claims.

Research protocols

When studying to become a medical claims examiner, students develop skills necessary to conduct research, including building analytical and problem solving skills.

Data entry

Much of a medical claim examiner's job is investigating claims and conducting research. As such, they must be able to record data accurately and efficiently, often into an insurance company's proprietary software.

10-key computer skills

Workers in this field have to enter a lot of numerical data, which necessitates being proficient in 10-key computer data entry.

Data analysis

Not only do medical claim examiners need to be able to collect data, but they must also possess the ability to analyze data, interpret data, and make educated assumptions about what the data is telling them.

Privacy laws

Various state and federal laws ensure a patient's privacy. Students in a medical claim examiner training program must be intimately familiar with such laws.

Insurance procedures

Medical claims examiner students learn different procedures for insurance claims, including how to review them, reasons for denying a claim, and how to process approved claims.

Customer service

Though medical claims examiners don't often have direct contact with patients, training programs nevertheless offer instruction in how to interact with customers and colleagues in a positive manner.

Medical billing procedures

Future medical claims examiners learn about the medical billing process, including the typical cost of procedures, terminology used in medical billing, and electronic medical billing practices.

THIRD-PARTY ADMINISTRATOR

TPA is the abbreviation for **Third-party Administrator**. As the name suggests, it is someone or some organization that is a third party and an administrator. **Third-party Administrator** is someone who is not the first or the second party in a health insurance contract (not directly involved) and assists in the administrative aspect of the services mentioned in the contract.

TPA in Health Insurance

The scope of health insurance is a lot wider than other general insurance categories like vehicle or travel insurance. Due to this wide scope, health insurance involves a plethora of terminologies. This is the reason why probably potential and current policyholders perceive health insurance to be filled with complexities. From the outset, this does seem intricate, entangled, and maze-like. But it is simple to understand if the policyholder focuses on one component at a time instead of getting overawed by the entirety of it. For example, not everyone might know about the concept of Third-party Administrators (TPA) in health insurance.

A TPA in health insurance is an entity that is a third party in a health insurance agreement and administers the claim settlement aspect of the contract between a policyholder and the insurer.

Here are some points about TPA:

- TPA is a link between the insurer and the insured in the case of a hospitalization claim.
- TPA is chosen by the health insurance company.
- TPA's facilitate the claim settlement process by administrating tasks such as dealing with documents and settling hospital bills.

- TPAs are licensed by the Insurance Regulatory and Development Authority of India (IRDAI)
- Insurers associate with TPAs for a smooth claim settlement process.
- One TPA can be associated with several insurers.

ROLE OF TPA IN HEALTH INSURANCE

Role of TPA in health insurance is as follows:

Connecting Link

Whenever there is a hospitalisation claim, the policyholder directly or indirectly meets the TPA. The TPA offers the ID card and a Unique Identification Number to the patient, which helps in claim settlement. Thus, the TPA is the link between the insurance company and the policyholder when it comes to availing the hospitalisation cover and processing claims.

Record Keeping

Crucial records related to the policyholder when admitted as a patient are maintained by the TPA. The records are stored in a dedicated database.

Claim Settlement

The role of a TPA is integral to the Cashless Claims settlement process. The coordination between the insurer and the hospital is crucial in a Cashless Claims process as the bill is settled directly between these two parties. The TPA offers back-end support in such situations.

Continuous Support

Several TPAs have a 24×7 support system where policyholders can raise their queries and get to know the answers seamlessly. Call centers and mobile applications help to offer such kind of support.

Empanel Hospitals

TPAs also perform duties related to hospital empanelment. They check whether the hospitals meet the set criteria and are being a part of Network Hospitals (tie-ups for hassle-free claim settlement).

Extra Services

Some TPAs might also offer additional services related to ambulances, extra beds, medicine supply, etc. to the policyholder.

Benefits of Third-Party Administrators in Health Insurance for Policyholders:

The benefit of TPAs for the insurance company is obvious—they get assistance for settling claims.

Health insurance TPA benefits the policyholders in the following ways:

- Hand-holding during hospitalization.
- Providing ID cards to policyholders/patients.
- Assistance regarding the right kind of documentation.
- Efficient Cashless Claims settlement process.
- 24×7 customer support.
- Simplification of the entire claim settlement process.

INSURANCE REGULATORY FRAMEWORK

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (IRDA)

Insurance Regulatory and Development Authority of India is an autonomous statutory body that is responsible for regulating, protecting and promoting Insurance and re-insurance industries in India. It was constituted under The Insurance Regulatory and Development Authority Act, 1999 an Act of The Parliament of India.

Organizational Structure:

As per the section 4 of IRDA Act 1999, specifies the composition of the Authority.

The Authority is a 10 member team consisting of

- A Chairman
- Five whole time members
- Four Part-time members

IRDA's head office is at Hyderabad where all the major activities including ensuring the financial stability of insurers and monitoring market conduct of various regulated entities is carried out from the Head office. IRDA's regional offices are at Mumbai and New Delhi. The New Delhi regional office focuses on spreading consumer awareness and handling of insurance grievances besides providing the required support for inspection of Insurance companies. The office is also responsible for licensing of surveyors. The Mumbai regional office functions in the same manner but in the Western region.

Regulatory Framework:

The Insurance Act, 1938 is the chief Act overseeing the Insurance sector in India. It gives the forces to IRDAI to outline guidelines which set out the administrative structure for the management of the entities working in the division. Further, there are different Acts which administer explicit lines of Insurance business and capacities, for example, Marine Insurance Act, 1963 and Public Liability Insurance Act, 1991.

IRDA's Mission:

- To protect the interest and ensure fair treatment to policyholders.
- To realize quick and efficient development of the Insurance business (counting annuity and superannuation installments), to support the normal man, and to give long term assets to quickening development of the economy.
- To set, advance, screen and implement expectations of integrity, money related adequacy, reasonable dealing of those it directs.
- To guarantee rapid settlement of real cases, to prevent Insurance cheats and different acts of malpractices and set up viable complaint redressal cell.
- To advance decency, straightforwardness and systematic procedure in money related markets managing Insurance and construct a solid administration data framework to uphold elevated requirements of budgetary sufficiency among showcase players.
- To make a move where such measures are insufficient or inadequately implemented.
- To achieve the ideal measure of self-regulation in the everyday working of the business steady with the necessities of the prudential guideline.

Supervisory Role:

- To give licenses to (re) Insurance organizations and Insurance intermediaries
- To secure the interests of policyholders.
- To control speculation of assets by Insurance organizations, proficient associations associated with the (re)Insurance business; support margin of solvency.
- To call for data from, undertaking assessment of, leading enquiries and examinations of the elements associated with the Insurance business.
- To determine essential capabilities, set of accepted rules for the middle person or Insurance delegates, specialists and surveyors.

- To recommend the structure and way in which books of record will be kept up and articulation of records will be rendered by safety net providers and other Insurance delegates.

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (IRDAI)

Insurance is a federal subject in India. The primary legislations which deal with various aspects relating to accounts and audits of insurance business are as under:

a. The Insurance Act 1938; Insurance (Amendment) Act 2000;
b. Insurance Rules 1939
c. The companies Act 1956
d. The general insurance business (Nationalization) Act, 1972
e. The Insurance Regulatory and Development Authority Act, 1999
f. The Insurance Regulatory and Development Authority Regulations 2002.

The Insurance Act 1938 controls the working and the activities of companies carrying on Insurance business. In 1956 Life Insurance business was nationalized and the Life Insurance Corporation Act of 1956 brought into existence the Life Insurance Corporation (LIC) which enjoyed 'monopoly' over Life Insurance business in India till the year 2000.

In 1963 Marine Insurance Act was passed to regulate Marine Insurance business. General Insurance business was also nationalized on 131h May 1971. The General Insurance Corporation was set up which, along with its subsidiaries controlled general insurance business in India.
The Insurance Regulatory and Development Authority Act was passed by parliament in 1999 to regulate the total Insurance business in India. The Insurance Act 1938 was also amended by the enactment of Insurance (Amendment) Act 2000. As a result of continued liberalization policies of the Central Government, the Insurance business has also been opened to the Private Sector.

Insurance Act

The Insurance Act, 1938 amended in 2002 has 120 sections divided into two parts.

Part-I deals with defining the terms used in the Act. According to this Act IRDA is the authority for regulating insurance business in India.

Part — II is further divided into Part-IA, Part-III3 and Part-TIC. Insurance business can be done by a public company, a society under the Co-operative Societies Act and body corporate incorporated under the law of any country outside India not being in the nature of the private company (Sec 2C). A certificate of Registration for a particular business shall be obtained from the Authority (IRDA (Section 3). The authority is also empowered to cancel the registration (See-II). The Registration shall be renewed annually (Sec-3A).

The Insurer shall not be registered by a name identical to that by which an insurer is in existence (Sect-5). After the commitment of the Act a paid up equity capital of Rs. 100 crores shall be maintained for carrying of life insurance or general insurance business. The paid-up capital shall be Rs. 200 crores in case of carrying of business excluding the business as a reinsurane (Sec-6). No promoter shall hold more than 26 percent of the paid-up capital (Sec-6AA). Every insurer shall deposit with the Reserve Bank of India (RBI) a surrender value upto 1 percent of total cross premium in any financial year in case of general insurance business 3 percent of the premium shall be deposited with Reserve Bank of India (RBI) (Sec-7).

Competition Act 2002

The competitions Act 2002 was promulgated with a view to establish a commission to prevent the practices which are having adverse effect on competition, to promote competition and sustained competition in market, to protect the interest of consumers and to ensure freedom of trade carried on by other participants in markets. The Act has sixty six sections comprising three chapters.

The first chapter deals with preliminary and Chapter II deals with Anti competitive commission agreements Chapter-III deals with constitution, functions and powers of competitive, functions and powers of competitive commission. The service insurance is also under the preview of the Act.

Prohibition of Anti Competitive Agreements

This Act has the object of preventing anti-competitive agreements accordingly.

- No agreement in respect of production of goods and services likely to cause an appreciable adverse effect on competition with India.

- Acquisition, merger or amalgamations are subject to regulation.

To promote competition, Competitive Commission of India (CCI) was established. The commission has a perpetual succession and a common seal with power to promote competition in commodity and service markets. Among other things, `the commission is to eliminate practices having adverse effect on competition, and to protect the interest of the consumers (Section -18). The commission is empowered to enquire into allegations with regard to prevention of competition. No business agreement can create barriers to new entrants in the market.

Upon enquiry if the commission is of the view that an enterprise is in a dominant position in contra version of section 4 of the Act the Commission may pass orders to discontinue such an agreement for dominant position, impose penalty which may not be more than 10 percentage of the average of the turnover for the last three proceeding financial years, award compensation to the aggrieved party and can recommend the Central Government for the division of that enterprise.

REGULATIONS ISSUED BY IRDA

Till 1999 the insurance sector was controlled by Controller of Insurance as per the provisions of Insurance Act 1938 but after formation of the IRDA it is felt by the Authority that the most of the provisions of this Act were irrelevant in the present scenario of the country. Therefore the Authority issued various regulations, as deemed fit, to develop the insurance sector in the country.

Procedure of

- Granting of license to companies to start insurance business
- Approval of insurance product
- Appointment of different Insurance intermediary
- Investing the insurance premium
- Accounting & audit
- Miscellaneous important provisions of Insurance Act

PROCEDURE OF GRANTING OF LICENSE TO COMPANIES TO START INSURANCE BUSINESS

No person can carry on Insurance business unless & until he has obtained a certificate from the Authority for a particular class of Insurance business. For e.g. A person can start life Insurance, marine Insurance, fire Insurance, health Insurance etc. But a life Insurance business cannot be combined with other type of Insurance business. Those who are already in Insurance Business like General Insurance Corp., National Insurance, New India Assurance, and Oriental Insurance & United India Insurance have to obtain a fresh certificate within 3 months from the date of commencement of this Act or before such date as fixed by the Govt.

Even those insurers for whom the registration was not necessary, before the commencement of this Act will require the registration certificate.

To get the registration certificate the following procedure is to be followed: Every application in the prescribed form (IRDA/R1) for registration shall be made with the following enclosures:

1. A certified copy of Memorandum and Articles of association if the applicant is a company.
2. The name, address & the occupation of the directors of the company.
3. A statement of the class of insurance business proposed to be carried on.
4. A statement indicating the sources that will contribute the share capital.

On receiving the above documents IRDA will verify the contents and may ask for additional information if any. The Authority may ask the Principal Officer to appear to their office for any information or clarification.

If the Authority is satisfied with the information and documents provided with the application form (IRDA/R1), the Authority may ask for an additional application in the prescribed form (IRDA/R2) which should be accompanied with the following documents:

1. Every Insurer shall deposit in cash or in approved securities or partially in cash or partially in approved securities as per the stipulation

In case of Life Insurance business, sum to be deposited is equivalent to 1% of his total gross premium written in India in any financial year commencing after the 31st day of March 2000 not exceeding rupees ten crores (Rs.10 crores).

In the case of General Insurance business sum to be deposited is equivalent to 3% of his total gross premium written in India in any financial year commencing after 31/3/2000 not exceeding rupees ten crores (Rs.10 crores). In case of reinsurance business, a sum of rupees twenty crores (Rs.20 crores)

If the business is to be done in marine Insurance only & relates exclusively to country craft or its cargo or both, the amount to be deposited is Rs. 1,00,000/- (Rs.1 lakh) only.

2. A declaration verified by an affidavit from the "Principal Officer" that the equity capital of the company has been complied with. The paid up equity excluding preliminary expenses and registration charges should be Rs. 100 crores for life or General Insurance business and Rs.200 crores for the Reinsurance business. If any insurer is carrying on business of insurance already then within 6 months from the commencement of the Act the paid up capital should be as per the prescribed limits in the Act.

3. A certified copy of the published prospects and of the standard policy forms of the insurer.

4. Statement of assured rate, advantages, terms & conditions to be offered in connection with Insurance policies.

6. The certificate from the actuary that such rates are workable & sound.

In the case of marine accident & miscellaneous Insurance business other than workmen's compensation & motor car Insurance the available forms, prospects and statements are to be submitted.

Refusal of Registration

- If the Authority refuses the registration the reason for such decision will be intimated to the applicant.
- The Applicant whose application has been rejected can file an appeal before the Central Govt. within 30 days from the date on which a copy of the decision is received.
- The decision of the Govt. shall be final and shall not be questioned before any court.

Cancellation of Registration

The Authority has the right to cancel the certificate of registration either wholly or in so far as it relates to a particular class of Insurance business if any of the conditions specified for registration is not complied with.

Renewal of Registration

Every year the registration is to be renewed and the application is to be made to the Authority before 31st Dec. of the preceding year with the prescribed fees i.e.,

- 1/4th of 1% of premium received or Rs. 5 crores whichever is less.
- It should not be less than Rs. 50,000 in each class of business.
- For reinsurer companies 1/4th of 1% will be considered of total premium in respect of facultative reinsurance accepted in India.
- Fees to be paid in Reserve Bank of India.

Regulation for Product Approval

No Insurance Company can sell any insurance product unless until the product is approved by the Authority.

Life Insurance Products

The life Insurance products are classified as:

- Linked Business,
- Non-Linked Business.
- Non-life/General Insurance Business.

An insurer who wishes to introduce a new product or to make changes to any existing product or to withdraw an existing product shall submit the application in the prescribed proforma to IRDA with full details and reasons to make changes in any existing product or to withdraw an existing product. The insurer shall not commence selling the product in respect of which additional information has been sought by the Authority until the Authority confirms in writing. If no such information is sought by the Authority, the insurer can commence selling the product in the market.

Period of Approval File & use

Within 15 days (earlier 30 days) of the receipt of the application the Authority may seek additional information with regard to the product, and the insurer shall not commence selling the product in respect of which additional information has been sought by the Authority, until the Authority confirms in writing having noted such information. If no such information is sought by the Authority, the insurer can commence selling the product in the market, as set out in the application after the expiry of the said 15 days (earlier 30 days) period. This procedure is known as "File & use."

LEGAL FRAMEWORK OF INSURANCE BUSINESS

There is always an element of uncertainty about the future. This compels man to take necessary steps to protect himself against unforeseen calamities. Man is always fighting for safety since the early age of life. Man's life has to face calamities in different forms. Whether certain or uncertain, all future events are collectively known as "risk".

Life and property re exposed to various types of risks. The business of insurance comes to the rescue of man and protects him against risks. Under an insurance contract, one party, called an insurer, undertakes to indemnify the loss caused to another party, called an insured, on the happening of a specified event, say destruction of property by fire, in consideration of a fixed periodic amount, termed premium. The document containing the terms of such a contract is known as policy and the sum with which the person or property is insured is called the amount of policy.

LEGAL FRAMEWORK FOR INSURANCE BUSINESS:

The primary legislations which deal with various aspects relating to accounts and audits of an insurance business areas under:

1. The Insurance Act, 1938 (Including Insurance Rules, 1939);
2. The Insurance Regulatory and Development Authority Act, 1999;
3. The Insurance Regulatory and Development Authority Regulations; 2000
4. The Companies Act, 1956; and
5. The General Insurance Business (Nationalization) Act, 1972 GIBNA 1972

On account of amendment in the Section 3(11) of the Income Tax Act, 1961 providing for uniform accounting year, all Insurance Companies also close their annual accounts on 31st March each year w.e.f. accounting year ending 31st March, 1989. It has also been made mandatory according to the provisions of IRDA Act, 2000.

INSURANCE OMBUDSMAN

The Offices of Insurance Ombudsman are under the administrative control of Council for Insurance Ombudsmen (CIO), which has been constituted under the Insurance Ombudsman Rules, 2017. Office of Insurance Ombudsman is an alternate Grievance Redressal platform which has been setup with an aim to resolve grievances of aggrieved policyholders of all personal lines of insurance, group insurance policies, policies issued to sole proprietorship and micro enterprises, against Insurance Companies and their agents and intermediaries in a cost-effective and impartial manner.

There are 17 Ombudsman Centres, covering the country, situated in Ahmedabad, Bengaluru, Bhopal, Bhubaneswar, Chandigarh, Chennai, Delhi, Guwahati, Hyderabad, Jaipur, Kochi, Kolkata, Lucknow, Mumbai, Noida, Pune and Patna.

The Insurance Ombudsmen are appointed by the Council for Insurance Ombudsmen in terms of Insurance Ombudsman Rules, 2017 (as amended from time to time) and empowered to receive and consider complaints alleging deficiency in performance required of an insurer (including its agents and intermediaries) or an insurance broker, on any of the following grounds:

- Delay in settlement of claims.
- Any partial or total repudiation of claims by the life insurer, general insurer or health insurer.
- Disputes over premium paid or payable in terms of insurance policy.
- Misrepresentation of policy terms and conditions at any time in the policy document or policy contract.
- Legal construction of insurance policies in so far as the dispute relates to claim.
- Policy servicing related grievances against insurers and their agents and intermediaries.
- Issuance of life insurance policy, general insurance policy including health insurance policy which is not in conformity with the proposal form submitted by the proposer.
- Non-issuance of insurance policy after receipt of premium in life insurance and general insurance including health insurance.
- Any other matter arising from non-observance of or non-adherence to the provisions of any regulations made by the Authority (IRDAI) with regard to protection of policyholders' interests or regulations, instructions or guidelines issued by the IRDA or of the terms and conditions of the policy contract, in so far as such matter relates to issues referred to the above clauses.

COUNCIL FOR INSURANCE OMBUDSMEN

The Offices of Insurance Ombudsman are under the administrative control of Council for Insurance Ombudsmen (CIO), which has been constituted under the Insurance Ombudsman Rules, 2017. Office of Insurance Ombudsman is an alternate Grievance Redressal platform which has been setup with an aim to resolve grievances of aggrieved policyholders against Insurance Companies and its Intermediaries or Insurance Brokers in a speedy and cost-effective manner. The Council acts as a forum that brings together a number of stakeholders in the sector. It promotes and regulates all discussions between the Government, the Regulatory Board and the public. This body was established in accordance with Section 64 of the Insurance Act, 1938. It operates through a number of sub-committees that oversee its functioning and includes all insurance companies in India. It is claimed that there are a total of 24 life insurers working with it to offer a variety of new and traditional products.

The aim of this Council is to play a complementary part in assisting India's insurance industry to keep up to the quality where it is known for its vibrancy and trustworthiness, helping people on their journey of prosperity.

The mission of the Life Insurance Council, as stated, revolves around the following points:

- To serve as an active forum to assist, advise and assist insurers in maintaining high standards of conduct and service to policyholders.
- Interact in policy matters with the Government and other bodies.
- Participate actively in the spread of insurance awareness in India.
- Take steps to develop and retrain education
- Help India enjoy the benefits of global insurance policies.

One of the main formative functions of this Board is that it provides an active platform for discussion—a place where all concerns about insurance policies can be raised, addressed and resolved. It also builds a lot of awareness about the subject, and constantly hosts conferences that bring together like-minded individuals in the insurance industry. In 2018, it came up with the idea of a 100-crore multimedia campaign that focused on raising awareness about insurance policies and trying to remove the misconceptions that might hover around it.

The main objective of the campaign would be to ensure that life insurance as a category is better understood and to bring home the point that it can play a key role in goal-oriented financial planning. The Board, among other things, is actively working to take action against insurance fraud. It also acts as a mediator for dialogues and information to be exchanged with foreign insurance companies and works forward to meetings to further discuss the common interest of insurance companies around the world.

TARIFF ADVISORY COMMITTEE (TAC)

TAC is the Statutory Body under Insurance Act 1938. Tariff Advisory Committee controls and regulates the rates, advantages, terms and conditions that may be offered by insurers in respect of General Insurance Business relating to Fire, Marine (Hull). Motor, Engg and Workmen Compensation. The main task of Tariff Advisory Committee is to regulate and control the rates, benefits, terms and conditions offered by life insurance companies in India.

The TAC Board has been reconstituted with seven members representing the present General Insurance Industry and eight members from government and Industry. The Controller of Insurance cum Chairman IRDA is the Chairman of TAC. TAC consists of Chairman, vice chairman and eight members. Tariff Advisory Committee has been designated by IRDA as the data repository for the non-life insurance industry. The transaction level data on Motor, Health and other lines are being collected for the Repository presently.

The Tariff Advisory Committee ("Advisory Committee") is a body corporate, which controls and regulates the rates, advantages, terms and conditions offered by insurers in the general Insurance business. The Advisory Committee has the authority to require any insurer to supply such information or statements necessary for discharge of its functions. Any insurer falling to comply with such provisions shall be deemed to have contravened the provisions of the Insurance Act. Every Insurer is required to make an annual payment of fees to the Advisory Committee of an amount not exceeding in case of reinsurance business in India, one percent of the total premiums in respect of facultative insurance accepted by him in India; and in case of any other insurance business, one percentage of the total gross premium written direct by him in India.

Powers of the TAC

1. Power to control rates, advantages, terms and conditions in respect of risk other than life (general insurance): The Act empowers TAC to control and regulate the rates, advantages, terms and conditions offered by the insurers in respect of any class of risk and it shall be binding on all insurers. However, in certain cases it may permit any insure

for a limited period (not exceeding 2 years) to adopt different rates from those fixed by it, subject to such conditions as may be imposed by TAC.

2. TAC may require by notice under section 64 UE any insurer to supply necessary information within the period specified by it and failure to do so would be deemed as contravention of the Act.
3. Section 64 UE empowers the Authority to depute any of its officers to make personal inspection of accounts, ledger etc. in order to verify accuracy of statements furnished by the insurer.
4. TAC is also empowered to make arrangements for inspection on application of the insurer under sub- section (4) in respect of risks, adjustment of losses etc.
5. TAC is empowered to constitute regional committees.
6. The authority has been empowered under section 64 UB to make regulations in respect of functions to be performed by the TAC, terms of the office of its members. procedure for election & other matters relating to the transaction of its business.

INSURANCE PRICING

The term insurance premium is the amount that the policyholder needs to pay to the insurance company for a specific tenure in return for the insurance coverage they want to have. The policyholder can choose from three different premium payment options offered by the term insurance policy; these three options include single pay, limited pay and regular pay. To choose the most comprehensive plan at a lower premium rate, it is important to note the various factors that determine the term insurance premium rate.

FACTORS AND DETERMINANTS OF INSURANCE PRICING

Age

This is an obvious and not surprising factor that affects the Life Insurance premium, the age of the policyholder. If the policyholder is young the rates will be lower in comparison to someone older. The possibility of a young individual contracting a life threatening disease or to pass away in their youth is very unlikely. The insurance companies believe that the policyholder will make many premium payments before they have to write a cheque for the policyholder’s family. This is one of the most important factors that affect the term insurance premium rate. With the increase in age, the premium rate of the term insurance plan also increases. This is because old people are more prone to health complications, which, in turn, poses a higher risk to the insurer, whereas younger individuals are considered healthy. Thus, it is advised to buy a term insurance plan while being young so that one can get maximum coverage at a minimum premium rate.

Gender

Insurance companies aren't against gender equality, but they believe there is a different life expectancy for different genders. As per the studies and statistical findings, women are believed to live 5 years more than men at the minimum. Therefore affecting the premium they pay, making them pay the premium for a larger period of time but at lower rate which is a plus point for the women. This factor is related to mortality. Women, in general, have a longer lifespan than men. Thus, many life insurance companies offer lower premium rates to female insurance buyers. On top of this, women can also avail the of premium discounts.

Medical history

This is another major factor that impacts the term insurance premium rate. The insurance companies ask for medical records before issuing the policy. In case a policy buyer has a history of medical conditions such as heart disease, diabetes, etc., then the premium amount of the policy increases automatically. In some cases, the insurer may even reject the application. There's isn't much one can do with the gene pool they come from. If a policyholder has a medical history of serious illnesses like cancer, heart diseases, or any other, then that makes them susceptible to get these from a hereditary perspective which increases the individual's premium by a larger margin than if their gene pool wasn't.

Smoking habits

Smoking puts the policyholders at higher risk of all ailments, so if the policyholder is a smoker that that's as good as raising a red flag to the insurance companies. Most smokers pay a premium twice as much as non - smoker does, thus affecting the premium to a huge extent. The health risk related to smoking includes lung diseases, cancer, etc. Thus, a person with a smoking habit tends to be risky for the insurance company. Therefore, the insurance company charges a high premium rate for buyers who smoke.

Marital status

The marital status of an individual plays an important role while processing the policy application and deciding the premium amount of the plan. If an individual chooses a joint term insurance plan, he will need to pay a higher premium as compared to an individual term insurance policy.

Occupation

Some occupations like soldiers, pilots, gas industry workers, anglers, etc. are considered risky by the insurance company. Therefore, an individual working in any of these occupations are required to pay a higher premium as compared to people working in a safe environment like shops, offices, schools, etc. Profession also plays an important role in the premium payment, any policyholder working in the mining industry, oil and gas, fisheries or any other dangerous profession pays higher premium amounts

Lifestyles choices

Many insurers have a higher premium for people who love to takes risks for the thrill of it. Like speeding cars, climbing treacherous mountains or other high risk activities. Thereby premium is substantially more than the others.

Obesity

Obesity is another factor that affects the premium, as a policyholder, being obese can lead to a number of health problems like Osteoarthritis, High Blood Pressure, Cancer, Stroke, Coronary Heart Disease, causing overall health problems in the future. Thus obesity also increases the premium rates.

Health records

Policyholder will also need to provide the own health records. These records will ensure that the policyholder doesn’t have any chronic diseases or potential health issues and keep the premium also in check instead of making a difference to it.

Drinking

Drinking of alcohol is injurious to health in more ways than one. If the policyholder is a heavy consumer of alcohol this can affect the premium at higher insurance rates. Insurance companies ensure to ask the applicant if they are smokers or drinkers.

Policy

Policy itself also affects the premium the policyholder has to pay, the longer the tenure of the policy the larger the amount of the benefit at the time of death, since the policyholder is paying it for that period of time. Short term policies are more expensive that long term.

These are the various factors that determine the term insurance premium rate.

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UNIT –V

Insurance Customers and Risk Management:

Individual and Corporate Insurance Customers - Nature of Insurance Customers: Mind Set as to Insurance- Investment or Risk Management - Compulsion Vs Voluntarism- Ethical Behavior - Risk Management Attitude- Control of Risk- Avoidance, Prevention, Reduction, Retention or Transfer- Factors Influencing Policyholder Satisfaction- Retention of Customers by Insurers.

INSURANCE CUSTOMERS AND RISK MANAGEMENT

REGULATORY COMPLIANCE

Insurance industry regulations change often, and compliance is mandatory. For instance, there are regulations such as CCPA and GDPR for data privacy and security; accounting standards such as IFRS and GAAP. There are also certain market conduct regulations such as New York's Regulation 187 that places certain responsibilities on insurers. Insurance providers need to be extremely vigilant in adhering to the strict guidelines imposed by these regulations in order to be compliant.

Technology Readiness

The right technology can put an organization ahead by enabling it to derive distinct competitive advantage. An organization that uses an Open Source API or microservices can potentially be more flexible, robust, and agile with more autonomous teams that can deliver change quickly. Technologies such as cloud, IoT, and Blockchain can greatly enhance operations and enable the organization to provide highly differentiated customer experiences with sophisticated digital capabilities.

Business Models

Given changing consumer demands as well as an evolving technology landscape, insurance companies need to constantly re-invent themselves by exploring new business models. Whether it is adoption of a new value chain or delivering new-age "phygital" (physical + digital) experiences, companies need to think like disruptors. The disruption may not be just in the immediate industry but could also be a cross-industry disruption. For example, lots of the insurance carriers are moving away from agent-based physical selling to phigital selling.

Risk

Every business has to deal with a certain number of risks such as location risks, market risks, concentration risks etc., and insurance is no different. Given the fast pace of change, companies might also face certain talent risks or the risk of technology debt. Each of the risks has the potential to snowball into a major issue that could threaten the organization's survival.

Given this, the ability to mitigate risks and prepare back-up plans is the key for survival of insurance players.

Efficiency

Running a highly efficient business is a huge operational advantage for insurance companies. Efficiency, whether it is cost efficiency or operational efficiency, can be achieved in a number of ways such as through cost takeout by rebadging existing deals. Automation is an important tool to increase operational efficiency. On the people front, building a futuristic workforce by enabling people with the right tools, data, and training can help to greatly increase productivity and efficiency. Leveraging ecosystem partnerships can help streamline processes and make the organization more efficient. For instance, a leading international reinsurance and insurance group was keen to bring in efficiencies through new age technologies to help achieve cost optimization. The results were achieved through a core/flex model, with core having fixed capacity and the "flex" taking care of monthly variance in demand. The company achieved savings of $2.5 million, a 64 percent increase in productivity, and 16% decrease in cost per unit.

Speed

In a competitive environment, the speed at which a company responds to change matters. Quick product introductions provide a first mover advantage. Similarly, it is important that timeline-based market commitments are honored. Distributed agile adoption can help greatly speed up response times for insurance companies. While each of these factors is definitely interconnected, evaluating a company on each of these separately can provide a useful framework to determine competitive readiness. It can also be a useful guide to help determine strategies for the future.

INDIVIDUAL INSURANCE CUSTOMERS

Individual Insurance is a health policy that the policyholder can purchase. Individual policies are also called personal health plans. The person one who buys policies for his/her personal use is said to be as Individual Insurance Customers.

RISK MANAGEMENT STRATEGY FOR INDIVIDUALS

Risk management for individuals is the process of identifying threats to the value of household assets and developing an appropriate strategy for dealing with these risks. The risk management strategy provides a framework that allows a household to decide when to avoid, reduce, transfer, or self-insure those risks.

There are typically four key steps in the risk management process:

1. Specify the objective.
2. Identify risks.
3. Evaluate risks and select appropriate methods to manage the risks.
4. Monitor outcomes and risk exposures and make appropriate adjustments in methods.

Specify the Objective

The overarching objective of individual risk management is to maximize household welfare through an appropriate balance of risk and safety. Risk represents a possible decrease in future spending caused by unexpected events, such as a market crash, a physical disability, the premature death of a primary earner, or health care expenses. As with investments, this objective is achieved by deciding how much risk a household is willing to bear in order to achieve its long run spending goals.

Identify Risks

Households face a significant number of risks, including earnings, premature death, longevity, property, liability, and health risks. Each of these risks is associated with a potential loss of financial and/or human capital, and individuals should address each of them to determine how best to address the possibility of loss.

Evaluate Risks and Select Appropriate Methods to Manage the Risks

The existence of a risk exposure does not necessarily require the purchase of an insurance product. The appropriate risk management strategy considers the magnitude of the risk and the range of options available to address that risk.

Risk avoidance involves avoiding a risk altogether. For example, one way to avoid the risk to human and financial capital from riding a motorcycle is to simply not own or ride one.

Risk reduction involves mitigating a risk by reducing its impact on an individual's welfare, either by lowering the likelihood that it will occur or by decreasing the magnitude of loss (for example, by wearing a helmet when riding a motorcycle).

Risk retention involves retaining a risk and thus maintaining the ability to finance the cost of losses; when funds are set aside to meet potential losses, the individual is said to be self-insured.

Monitor Outcomes and Risk Exposures and Make Appropriate Adjustments in Methods

Appropriate risk management method has to be selected, be monitored and updated as the household moves through the life cycle. It is advisable to annually review an insurance/risk management program, including all the ongoing risk exposures and risk management methods. As an individual's goals and personal and financial situation change, these changes will affect risk exposures and optimal risk management strategies. In addition to an annual review, every life change such as a birth, marriage, inheritance, job change, relocation, divorce, or death should trigger a review of the risk management plan.

FINANCIAL STAGES OF LIFE

Individuals tend to follow a predictable pattern during their lifetimes: They invest in education early in life, embark on a career, start families, accumulate assets, fund growing household expenses, transition into retirement, and ultimately pass on wealth through bequests. In each of these life-cycle stages, the household faces unique goals and risks that require appropriate investment and risk management strategies.

Defining financial stages of life in clear and concise terms does pose a challenge because all individuals are different; however, financial stages are a useful construct when thinking about risk management and the optimal forms of insurance and other products to consider at different ages. Therefore, the financial stages of life for adults are divided into the following seven stages:

- Education phase
- Early career
- Career development
- Peak accumulation
- Pre-retirement

- Early retirement
- Late retirement

Education Phase

The education phase occurs while an individual is investing in knowledge (or human capital) through either formal education or skill development. In theory, the education phase could begin as early as when an individual starts primary school, but this phase typically involves the period when the individual starts developing more specific human capital by attending college or trade school or undertaking an apprenticeship. In some cases, an individual in the education phase may be largely financially dependent on his or her parents or guardians and have little, if any, accumulated financial capital. There is generally little focus on savings or risk management at this point; however, some individuals in this phase may already have families and could benefit from products, such as life insurance, that hedge against the risk of losing human capital.

Early Career

The early career phase normally begins when an individual has completed his or her education and enters the workforce. This stage may begin as early as age 18 (16 in some countries) or as late as the late 20s (or even early 30s), depending on the level of education attained, and generally lasts into the mid-30s. During this period, the individual often marries, perhaps has young children, may purchase a home, and usually begins to save for their children's college expenses. Sometimes, a career-related relocation occurs that could have negative short-term financial implications. Significant family and housing expenses may not allow for much retirement savings. Insurance may be especially valuable during this phase because human capital represents such a large proportion of total wealth and family members are highly dependent on the human capital of one or two individuals to fund expected future consumption.

Career Development

The career development phase normally occurs during the 35-50 age range and is often a time of specific skill development within a given field, upward career mobility, and income growth. This phase often includes accumulation for the children's college educations as well as expenditures for college. Concern intensifies about retirement income planning and financial independence. Higher earners will begin building wealth beyond education and retirement objectives and may make large purchases, such as a vacation home, or travel extensively. Retirement saving tends to increase at a more rapid pace during this phase compared with the early career phase.

Peak Accumulation

In the peak accumulation phase, generally during the ages of 51-60, most people either have reached or are moving toward maximum earnings and have the greatest opportunity for wealth accumulation. This phase may include accumulating funds for other goals and objectives, but it is usually a continuation of retirement income planning, coordination of employee benefits with investment and retirement strategies, and travel. Investors following a life-cycle portfolio strategy will begin to reduce investment risk to emphasize income generation for retirement (particularly near the end of this period) and become increasingly concerned about minimizing taxes, given higher levels of wealth and income. There is also potentially more career risk in this phase because if an individual was to lose his or her job, it might be relatively difficult for that individual to find another job with similar pay.

Pre-retirement

The pre-retirement phase consists of the few years preceding the planned retirement age, and it typically represents an individual's maximum career income. Many people in this phase continue to restructure their portfolios to reduce risk and may consider investments that are less volatile. There is further emphasis on tax planning, including the ramifications of retirement plan distribution options.

Early Retirement

The early retirement phase in the cycle is generally defined as the first 10 years of retirement and, for successful investors, often represents a period of comfortable income and sufficient assets to meet the expenses. For individuals who are forced to retire because of injury or unemployment, this time may be one of shifting expectations and may involve changing to a lifestyle more commensurate with the individual's savings. This is generally the most active period of retirement and is when an individual is less likely to suffer from cognitive or mobility limitations. The primary objective of the retiree is to use resources to produce activities that provide enjoyment. Some retirees seek a new career, and many will look for a job (part time or full time) that has less stress. It is important to note that upon entering retirement, the need for asset growth does not disappear. For many households, the length of retirement could exceed two decades; given this potential horizon, it is important to continue taking an appropriate level of investment risk in retirees' portfolios.

Late Retirement

The late retirement phase is especially unpredictable because the exact length of retirement is unknown. This uncertainty about longevity for a specific individual is known as longevity risk, the risk after retirement which could be very short or very long. Physical activity typically declines during this phase, as do mobility. Although many individuals live comfortably and are in good health until their final days, others experience a long series of physical problems that can deplete financial asset reserves. Cognitive decline can present a risk of financial mistakes, which may be hedged through the participation of a trusted financial adviser or through the use of annuities.

INDIVIDUAL RISK EXPOSURES

Earnings Risk

Earnings risk, within the context of personal risk management, refers to the risks associated with the earning potential of an individual—that is, events that could negatively affect the individual's human and financial capital. Health issues can affect earnings, and some health risks are a function of the occupation itself. For example, a construction worker is likely to face higher health-related earnings risk than the average worker. Aside from health issues, unemployment and underemployment represent major factors in earnings risk. Sometimes, an employee's job performance or a poor "fit" may lead to job loss, but many people find themselves without a job through no fault of their own.

Premature Death Risk

The term premature death risk, which is sometimes referred to as mortality risk, relates to the death of an individual earlier than anticipated, whose future earnings, or human capital are expected to pay for financial needs and aspirations of the individual's family. These needs include funding day-to-day living expenses, such as food, housing, and transportation, as well as paying off debts, saving for a child's education, and providing for a comfortable retirement for the surviving spouse. An individual's death may also lead to a reduction in the income of the surviving spouse because some family responsibilities of the deceased individual must now be performed by the surviving spouse (assuming the spouse does not remarry). For a young family, the effect can be especially tragic because the increase in household lifestyle that might have accompanied the career of the deceased may never occur (again, if there is no remarriage).

Longevity Risk

Longevity risk within the context of financial planning relates to the uncertainty surrounding how long retirement will last and specifically the risks associated with living to an advanced age in retirement (e.g., age 100). An extended retirement period may deplete the retiree's resources to the point at which income and financial assets are insufficient to meet post-retirement consumption needs. A common question posed to financial planners is, "How much money do I need to have when I retire?" The answer is dependent on the lifespan of the individual, and longevity is a key variable that can only, at best, be estimated. Other important variables include the nominal rate of return on the portfolio, the rate of inflation, additional sources of income (and whether those sources are adjusted for inflation), and the level of spending. Determining how large a fund an individual will actually have at retirement depends on the amount and timing of contributions, the nominal rate of return, and the amount of time until retirement.

Property Risk

Property risk relates to the possibility that a person's property may be damaged, destroyed, stolen, or lost. There are, of course, many different possible events relating to property risk. A house may catch fire, an automobile may be involved in a collision or be damaged in a hailstorm, or a valuable necklace may be lost. In the context of property risk, direct loss refers to the monetary value of the loss associated with the property itself.

Liability Risk

Liability risk refers to the possibility that an individual or household may be held legally liable for the financial costs associated with property damage or physical injury. In general, one may be liable because of one's action-or inaction when one is legally responsible for taking action--bodily injury, property damage, or other loss which is incurred by another person or entity.

Health Risk

Health risk refers to the risks and implications associated with illness or injury. Direct costs associated with illness or injury may include coinsurance, copayments, and deductibles associated with diagnostics, treatments, and procedures. In some countries, health care costs for individuals can be significant. Obviously, the risk associated with these costs varies considerably both across and within countries and must be considered as a risk to financial capital. Health factors typically have a significant impact on the premiums individuals pay for life, disability, and long-term care insurance

Insurance and Annuities

An individual's balance sheet provides a comprehensive overview of the asset categories held to fund current and future spending. Each of these categories involves some risk of a random loss. Managing these risks involves assessing possible loss exposures and considering market and non-market solutions to both address the possibility of and reduce the magnitude of a loss.

CORPORATE INSURANCE CUSTOMERS

Corporate insurance may be defined as a type of insurance which can be used by large organizations to cover up various operational risks such as theft, financial losses, employees' health benefits and accidents. Such an insurance plan is also known as business insurance and it is of great benefit for the officers who are involved or were involved with the company and obviously for the company itself. In this regard, it should be noted that the protection has certain limits. The officials of the company are held responsible for any personal actions which will not be covered by this insurance.

Types of Corporate Insurance

Corporate Insurance is a provision through which organizations can cover their losses. The types of corporate insurance are as follows:

Property Insurance

In case the property of an organization gets damaged by incidents such as natural calamity, fire, workers unrest, vandalism etc., and property insurance can help cover the losses. Some Insurance plans cover all types of incidents with an exception of very few ones under their all-risk policies. On the other hand, there is another type of property insurance that is known as peril specific policies which provide financial cover only for those losses that are listed in the policy.

Professional Liability Insurance

This type of insurance is also called Errors and Omission Insurance and protects the business formal types of negligence claims and certain mistakes. It differs from one industry to another and is addressed through an industry specific customized policy. This type of corporate insurance is mandatory for any organization that deals with accounting, finance, consulting, healthcare, law and practice.

Workers' Compensation Insurance

A company should add workers compensation insurance in its insurance; is the moment its first employees are hired. It covers the medical treatment expenses of the employees and provides compensation in case of death or disability of the employee while he/she is working for the company.

Group Health Insurance

Group health insurance is one of the most important corporate insurance. Group Health Insurance offers healthcare benefits to a group of people i.e. the employees of an organization. Generally this insurance plan is uniform in nature and offers the same benefits to all the members of the group.

Product Liability Insurance

Business which manufactures products for mass consumption in the general market, then should definitely have Product Liability Insurance. Even if the manufacturer is sure that the products are flawless and safe, the best option to protect a manufacturing business is with the help of this specific type of corporate insurance.

Business Interruption Insurance

There are likely to be incidents when certain events and occurrences can interrupt the normal course of the business. This insurance will help cover up the losses one faces in this interruption period. Business interruption insurance is the best for a retail store or for the type of business in which one needs a physical endpoint to get in touch with the customers.

NATURE OF INSURANCE CUSTOMERS

1. They are in control – with the price transparency created by aggregators, lots of new entrants to the market and the ease of swapping providers, the insurer is now at the consumer's beck and call

2. They are well educated – with the ease of online pre-purchase research and the plethora of alternative information sources such as blogs and social media about insurance products available, there is not the same level of need for brokers and financial advisers as previously

3. High experience expectations – they are used to the personalised, consistent, easy and often fun experience offered by the data giants of the day (online and retail industries in particular) and these expectations transfer to their insurance provider also.

4. They expect authenticity – any communication must be relevant, personalised and engaging, for example Aviva's Drive app encourages good driving and delivers personalised scores for premium discounts, rather than communicating for the sake of it.

MINDSET AS TO INSURANCE

As insurers try to transform themselves and stay competitive amid this dynamic environment, there are six distinct levers that determine the success of these efforts. These six levers constitute the six dimensions of what we might call the Insurance Cube, to understand the buyers' mindset. The first three faces of the cube are trends in technology, regulations, and business models. The other three are factors are risk, efficiency and speed.

(a) Technology Readiness -The right technology can put an organization ahead by enabling it to derive distinct competitive advantage. An organization that uses an Open Source API or micro services can potentially be more flexible, robust, and agile with more autonomous teams that can deliver change quickly. Technologies such as cloud, IoT, and Block chain can greatly enhance operations and enable the organization to provide highly differentiated customer experiences with sophisticated digital capabilities.

(b) Regulatory Compliance - Insurance industry regulations change often and compliance is mandatory. For instance, there are regulations such as CCPA and GDPR for data privacy and security; accounting standards such as IFRS and GAAP.

Insurance providers need to be extremely vigilant in adhering to the strict guidelines imposed by these regulations in order to be compliant.

(c) Business Models -Given changing consumer demands as well as an evolving technology landscape, insurance companies need to constantly re-invent themselves by exploring new business models. Whether it is adoption of a new value chain or delivering new-age "phygital" (physical + digital) experiences, companies need to think like disruptors. The disruption may not be just in the immediate industry but could also be a cross-industry disruption. For example, lot of the insurance carriers is moving away from agent-based physical selling to phigital selling.

(d) Risk -Every business has to deal with a certain number of risks such as location risks, market risks, concentration risks etc., and insurance is no different. Given the fast pace of change, companies might also face certain talent risks or the risk of technology debt. Each of the risks listed above has the potential to snowball into a major issue that could threaten the organization's survival. Given this, the ability to mitigate risks and prepare back-up plans is the key for survival of insurance players.

(e) Efficiency- Running a highly efficient business is a huge operational advantage for insurance companies. Efficiency, whether it is cost efficiency or operational efficiency, can be achieved in a number of ways such as through cost takeout by rebadging existing deals. Automation is an important tool to increase operational efficiency. On the people front, building a futuristic workforce by enabling people with the right tools, data, and training can help to greatly increase productivity and efficiency. Leveraging ecosystem partnerships can help streamline processes and make the organization more efficient. For instance, a leading international reinsurance and insurance group was keen to bring in efficiencies through new age technologies to achieve cost optimization.

(f) Speed - In a competitive environment, the speed at which a company responds to change matters. Quick product introductions provide a first mover advantage. Similarly, it is important that timeline-based market commitments are honored. Distributed agile adoption can help greatly speed up response times for insurance companies.

While each of these factors is definitely interconnected, evaluating a company on each of these separately can provide a useful framework to determine competitive readiness. It can also be a useful guide to determine strategies for the future.

INVESTMENT OR RISK MANAGEMENT

INSURANCE AS INVESTMENT

Investment in life insurance

Life insurance lessens the financial problems loved ones might run into if an unfortunate event occurs. But this is not the only benefit of life insurance. Many life insurance products also offer investment options. One can choose to tap into the stock market's high return-potential with Unit Linked Insurance Plans (ULIPs) or play it safe and get guaranteed returns with traditional endowment policies.

Ensuring risk cover

Life insurance offers financial protection against life's uncertainties. In case any unwanted event occurs, the nominee receives the assured benefits. This can help them meet their living costs as well as fulfill their life goals.

Building the habit of saving

Paying life insurance premiums regularly makes policy in force. Such disciplined, systematic payments inculcate a habit of savings in you. When the policyholder has to pay the insurance premium, he/she tends to spend less to make sure he/she has the premium amount ready on time. With budgeting and prioritizing spending, the policyholder develops the inclination to save more and build up the funds to finance life's milestones.

Saving on income tax

Life insurance premiums paid is eligible for deductions* on taxable income. As per Section 80C of the Income Tax Act, 1961, the policyholder can avail deductions up to ₹ 1.5 lakh for such premiums. If the policyholder has added a health-based rider with life insurance plan, the policyholder can get further deductions up to ₹ 25,000 under Section 80D. Moreover, the proceeds from life insurance are also exempted from taxes* under the provisions of Section 10(10D). These benefits, not generally found in other investment products, can reduce the income tax liability and effectively increase the savings.

Protecting your money

Many life insurance plans guarantee a sum assured. Such plans keep the hard-earned money safe from market conditions. Many reputed insurance companies also offer bonuses, helping the policyholder's investments grow. The returns from life insurance plans can help to meet the life goals, such as children's higher education, or financial freedom in retirement. It can also be borrowed against policy's cash value in case of financial emergencies.

Navigating the capital market

ULIPs allow the policyholder to switch the funds around different asset classes. In a downturn, the policyholder can shift the allocations to debt funds, thereby minimising the losses.

When the market recovers, the policyholder can change over to equities, and see the profits soar. The policyholder also has the option to switch to better-performing funds. By remaining patient and continuing investing throughout the policy tenure, the policyholder can earn excellent profits.

Gain peace of mind

While wealth can give the desired lifestyle, peace of mind is priceless. Life insurance guarantees this peace. Buying life insurance assures the policyholder that loved ones' needs will be met in every exigency.

RISK MANAGEMENT

Risk management is the process of identification, analysis, and acceptance or mitigation of uncertainty in investment decisions. Risk is inseparable from return in the investment world. Alpha is a measure of excess return; money managers who employ active strategies to beat the market are subject to alpha risk.

Principles of Investment Risk

(a) Prediction is Very Difficult - Especially if it's about the Future -Asset management firms are paid to make predictions, and every prediction has a margin of error. Investment risk management seeks to understand these margins of error and to use this understanding to aid the decision-making process in the presence of uncertainty

(b) Investing is Not a Game - Over even longer periods than the decades since 1900, history indicates that virtually all financial markets ultimately do not survive. Even over periods where financial markets were continuously in operation, the rules governing these markets were in constant flux. Investing in financial markets is not a game in which the rules are clearly specified and known in advance.

(c) Clarity is Imperative - There is a separation of duties between investment managers and their clients. It is rare that a client will hire an investment manager and place no constraints on investment activities. Typically, some part of the capital markets will be specified: a mutual fund might be required to invest in US small cap growth equities; a sovereign wealth fund might hire a manager to put money to work in the European credit markets. The investment manager must clearly indicate which risks it will take and which risks it will not. The client must understand which decisions the manager is making and which decisions the manager is leaving to the client.

TYPES OF RISK MANAGEMENT

ENTERPRISE RISK MANAGEMENT:

Enterprise Risk Management is a strategic framework that checks the potential risks that have adverse impacts over the enterprise. These risks could be in terms of risk related to resources, product and services or the market environment in which the enterprise operates. Enterprises develop risk management capabilities to deal with these risks and a proper action plan. Enterprises must note down all the possible risks that may occur and prepare a set of action plans depending on the nature of risk.

The business sector has its own risks and opportunities. Managing these risks properly and making full use of the business opportunities are termed as enterprise risk management. It helps in developing the business by adding value to the particular business. Certain amount of risk is associated with all types of business operations. At the same time, there are a number of growth opportunities that are also related to the business.

For the overall development, it is essential that these risks are hedged properly so that they cannot cause any kind of loss to the business or even if it causes any harm, the effects can be minimized as much as possible. On the other hand, it is also necessary that the provided opportunities are used in the best possible way.

Types of Enterprise Risk Management

There are two types of enterprise risk management.

These are the RIMS and COSO.

Both these types share some common objectives like locating the hidden risk factors and providing solutions to hedge the risk. At the same time, these risk management strategies are also conscious about monitoring the development of the risk hedging strategy. The monitoring activities are also very important to take hold of the market opportunities. Application of RIMS or COSO depends on the particular situation and is subjected to the approval of the management.

Uses of Risk Management

The business sector uses the model of enterprise risk management to develop such machinery that is worthy enough to mark definite events that would cause any kind of loss or profit to the businesses. Enterprise risk management also helps in categorizing these risks so that they can be handled appropriately. At the same time, there may be one or more departments in a company to handle the risk factors. Enterprise risk management also has the responsibility of increasing coordination between these departments. Apart from these, there are some other functions also.

These functions are as follows:

Identifying the potential customer base and designing the products according to their needs

Taking care of the legal procedures related to the business

Assuring continuous generation of funds

Operational management

Developing the quality of customer service internal audit

OPERATIONAL RISK MANAGEMENT:

Operational risks are present in every enterprise. These risks arise due to the execution of the business functions of the enterprises. Enterprises need to assess these risks and prepare action plans to meet the impact of risk.

At the primary level, operational risk management deals with technical failures and human errors like:

- Mistakes in execution
- System failures
- Policy violations
- Legal infringements
- Rule breaches
- Indirect and direct additional risk taking

Operational risk management is an important form of risk management. In commercial enterprises, operational risk management is the supervision of different types of operational risk occurring on a daily basis. Credit risk or market risk is not a part of operational risk. Operational risk management is also known as ORM. With the help of operational risk management, various types of operational risks are managed that occur on a daily basis. These risks include the risk of loss consequent to poor or unsuccessful internal methods, machinery and human resource, or extraneous happenings.

Advantages of Operational Risk Management

- Decrease in losses arising from operations
- Reduced auditing/compliance expenses
- Decreased vulnerability to risks in the future
- Early sensing of illegitimate functions

Types of Operational Risk

According to the Basel Committee on Banking Supervision, the events, which lead to operational risks, can be categorized into the following types:

External Fraud: Risk arising from fraudulent activities from a third party, for example, robbery, theft, phishing or hacking.

Internal Fraud: Risk arising from fraudulent activities from internal parties.

Products, Customers and Business Practices: Risk resulting from inadvertent or careless failure to satisfy a professional responsibility to particular customers (involving fiducial and appropriateness necessities) or from the characteristics of configuration of a commodity.

Workplace safety and employment practices: Risk arising from non-compliance with health, employment, or safety acts or from disbursal of claims related to personal injury or from inequality/unfair treatment

System failure and business interruptions: Risk resulting from interruptions of business operations or system breakdown. These include telecommunication, computer software, or computer hardware failure and equipment failure.

Damages to tangible properties: Risk resulting from damages or losses of tangible properties due to natural calamity or other occurrences.

Execution, supply and process management: Risk arising from failure in process management or transaction processing due to poor association with vendors and commercial service providers.

Miscellaneous Risks: Performance & maintenance miscommunication, Transaction seizure, Missed responsibility or deadline Data entry, preservation or loading fault, Accounting mistake, System/Model malfunctioning, Failure in delivery, Entity assignment fault, Failure in reference data preservation, Failure from collateral management, Unsuccessful compulsory reporting liability, Reporting & monitoring failure, Client Intake & Paperwork Erroneous external report (incurring loss), Incomplete or misplaced legal documents, Overlooked client disclaimers/permissions, Unauthorized access offered to accounts, Client/Customer Account Management, Careless damage or loss of customer assets, Inappropriate customer records (îcurring loss), Failure on behalf of commercial partners and non-client vendors and vendor disagreements

FINANCIAL RISK MANAGEMENT:

The process of financial risk management can be defined as minimizing exposure of a firm to market risk and credit risk using various financial instruments. Financial risk managers also deal with other risks related to foreign exchange, liquidity, inflation, non-payment of clients and increased rate of interest. These risks affect the financial position of the enterprise.

Financial Risk Management is a method of producing or adding value to a company through utilizing financing mediums for handling vulnerability to risk, specifically market risk and credit risk. Financial risk management is an important form of risk management.

Financial risk management is a type of risk management, which tries to add value in a company through implementation of financing mediums (cash instruments and derivative instruments) to handle risk exposure, especially from market risk and credit risk.

With the help of financial risk management, a number of financial risks can be handled, which include the following:

- Shape risk
- Foreign exchange risk
- Sector risk

- Volatility risk
- Inflation risk
- Liquidity risk

The characteristics of financial risk management resemble the features of common risk management and the process of financial risk management involves identification of financial risk, evaluating the financial risk and strategies to deal with those risks.

Financial risk management concentrates on the appropriate time and manner for hedging implementation of cash instruments and derivative instruments to address pricey risk exposures.

In the banking industry all over the world, the Basel Accords are usually chosen by multinational or global banking institutions for identifying, describing and disclosing credit risk, operational risk and market risks.

Application of Financial Risk Management

Theories of financial economics suggest that a company should go for a project at the time it grows in shareholder value. In addition, financial theory demonstrates that the management of the company is not able to produce shareholder (who are also known as the investors of the company) value through undertaking a project, which the shareholders are able to perform for themselves at equal expenses. At the time when this concept is implemented towards financial risk management, it denotes that management of a company should not go for hedging risks, which the shareholders are able to hedge on their own at similar expenses.

This idea is corroborated by the hedging irrelevance proposition, which says that in case of a perfect market, a company is not able to perform value creation through hedging a risk while the cost of carrying the risk within the company is equal to the cost of carrying it away from the company. In reality, no financial market is a perfect market. This indicates that the management of a company has a large number of options to generate value for the shareholders utilizing financial risk management.

MARKET RISK MANAGEMENT

Enterprises need to understand the risks present in the market, inherent to the industry or arising out of competition. Enterprise needs to properly assess it and develop the capabilities. It deals with different types of market risks, such as interest rate risk, equity risk, commodity risk, and currency risk.

Market Risk Management

The concept of Market risk management has gained importance in the recent times as it has been giving the business organizations a particular risk model that becomes all the more useful when the company is opening or closing business activities. The process of market risk management comes with some essential features that help it to be more effective.

Uses of Market Risk Management

The process of market risk management has a number of applications in the context of today's global market. Its most basic use lies in the fact that it furnishes the business concerns with a particular risk structure. This risk structure comes in handy especially when a particular company is operating either in its closing or opening phase.

Main Characteristics of Market Risk Management

Following are the principal characteristics of the system of market risk management:

World limit management: This process is at the base of the various trading plans that are used across the world as well as their applications. This process also makes sure that the amount of loss that may be faced by a particular company while carrying out business transactions is not more than what is being expected by that organization.

The various market risk management systems make sure that the various information related to the market are relevant as far as the parameters of input in case of the market risk calculations are concerned.

Indicators: These are applicable only in the case of banks and certain businesses. These are normally used in order to find out the problems that may be related to market risks.

CREDIT RISK MANAGEMENT

Managing credit risk is one of the fundamental works of the financial institutions. Credit portfolio management is largely becoming essential for the enterprise to keep track of risk. It deals with the risk related to the probability of nonpayment from the debtors. Credit risk management is extremely important as far as the overall financial stability of the financial institutions like the banks is concerned. The credit risk management situations in most banks are not exactly impressive and thus this process becomes all the more important. The basic aim of the system of credit risk management is to reduce the potential of credit risk that may be faced by a particular creditor.

Importance of Credit Risk Management

The credit risk management is of utmost importance for the banks and other financial institutions that have been the chief sources of credit for many years. It has been observed that the financial institutions that are able to manage their credit risks properly are functioning well.

Situations of Credit Risk Management

The most important factor in this case has been the absence of proper credit rules for the debtors. At times it has also been noticed that the companies have not been able to manage their portfolios in a proper way. The banks and other financial institutions that are dealing in credit services have not always been able to take into account the various economic factors that have contributed to a decline in Credit Risk Management. The basic aim of the process of credit risk management is to minimize the levels of credit risk that a particular institutional creditor like a bank faces when it lends money to a particular borrower. The system of credit risk management accomplishes that by keeping the levels of the risk faced by a bank within certain acceptable standards.

QUANTITATIVE RISK MANAGEMENT

Quantitative Risk Management is a very important process in the context of the modern day business world. It primarily deals with the concepts of risk and hazard and tries to reduce the chances of the occurrence of any form of financial loss. The concepts of hazard and risk are important in the context of quantitative risk management.

As far as the process of quantitative risk management is concerned the concept of hazard is a very important one. Hazard has been defined as a situation or group situations whereby there is a chance of financial loss. Risk is explained as the possibility of financial losses.

Risk is also regarded as a combination of these three factors:

Possibilities of a hazard

Possibilities of high losses being suffered as a consequence of the accident

Possibilities of a hazard leading to an accident

Inputs of Quantitative Risk Analysis

The inputs of the process of Quantitative Risk Analysis are as follows:

- Organizational Process Assets
- Risk Register
- Project Scope Statement
- Project Management Plan
- Risk Management Plan

The organizational price assets are basically information regarding a particular project that is similar to the one that is being analyzed. This sort of information is taken from project archives. They may also be the study results of risk specialists as well as a database of proprietary risk.

The Risk Register performs a similar function to the risk management plans. It also categorizes and prioritizes the various aspects of the process of quantitative risk analysis. The project management plans are made up of the cost management plans and the schedule management plans. The former shows ways to run the project and the later deals with the financial aspects of the project.

The primary function of the process of quantitative risk management is to deal with the various elements of the phenomenon of risk by trying to bring down the possibilities of such mishaps. It also tries to limit the extent of loss that may take place if a hazard happens.

COMMODITY RISK MANAGEMENT:

It handles different types of commodity risks, such as price risk, political risk, quantity risk and cost risk. Commodity Risk Management is very important to provide coverage to all those groups that are related to the commodity market. These groups are exposed to maximum financial risks when there is any natural disaster or man-made disturbance. Commodity market in every country faces some of the common risks. These risks are caused by natural disaster as well as external factors like wars, political instability and so on. If not covered properly, these risks can cause huge financial loss to a number of groups.

Groups Facing Commodity Risk

There are a number of groups that mostly face the commodity risk. Primarily they are the farmers, producers and plantation companies who face these risks. At the same time, the purchasers and exporters of commodities also come under the shadow of commodity risk. Last but not the least, is the national governments that are also bound to share these risks with others. Commodity Risk Management Firms render services that are related to the management of commodity risks.

WEATHER RISK MANAGEMENT

The weather risks are very important for the farmers, plantation companies and the exporters. Heavy rain, drought, cyclones or other types of natural disaster cause huge harm to several groups. These groups need sufficient coverage against the natural disasters to remain financially secured. There are a number of insurance products offered to cover these risks. These are self insurance, crop insurance, index based insurance and many more.

PRICE RISK MANAGEMENT

There have been a number of incidents where crop prices have fallen suddenly because of over-production or something else. In these situations the farmers and plantation companies face huge financial losses. At the same time, there are many farmers who borrow from banks and other financial organizations for farming. These people are exposed to maximum risk due to price volatility. As a part of commodity risk management, many firms offer insurance products as well as other instruments to provide security to these people. The national governments also try to control the market volatility as much as possible. At the same time, there are many countries that offer guaranteed minimum income for a number of crops.

BANK RISK MANAGEMENT

It deals with the handling of different types of risks faced by the banks, for example, market risk, credit risk, liquidity risk, legal risk, operational risk and reputational risk.

Bank Risk Management is used mostly in the financial Management which involves market risk as well as credit risk management. Bank Risk Management gives an idea of future risks and also promotes prudent risk taking behavior.

Need for Bank Risk Management

Repeated financial disasters faced by financial, non-financial and government bodies have created the need for bank risk management policies. Apart from regulatory requirements, bank risk management is needed by the bank managers for the following reasons:

- Creation of benchmarks for calculation of reward-risk ratios.
- Investment of capital is directed to options with high reward risk ratios.
- Estimation of the probable losses.

This leads to wise risk taking decision by investors as the risk monitoring part is already put in place. Banks also learn to handle their available liquidity well.

The Risks Encountered in Bank Risk Management

Performance risk-This occurs in case where employees are not properly monitored.

Credit risk-Sometimes the associates are unable to honor their payment obligations. This leads to a change in the net value of assets of the bank

Operational risk-This arises due to the failure of banks to properly execute their various operational procedures. Untimely collection of revenues, inability in collection, and the like falls in this category of operational risk.

Market risk-Change in market conditions leads to change in the net asset value of banks. These factors are changes in prices of finished products, fluctuation in exchange rates, equity rates change and also the oscillating interest rates.

Characteristics of Bank Risk Management Policies

One of the characteristics of bank risk management policies is that it needs to be updated on a regular basis. Banks that are involved in trading go in for intraday risk management on selective areas. Regular measurement of the overall risks faced by the bank is necessary.

Regulators are however, more interested at knowing the overall risks as compared to the individual portfolio items. Another characteristic of bank risk management policy is that it is usually not carried out in a decentralized fashion. The economic theory of risk management states that the risk of a particular portfolio is usually not determined by a simple addition of the component risks.

Bank risk management policies despite their worthiness are resource intensive. They demand considerable time and money. But violation of prescribed regulations in the capital market attracts heavy penalty. So managers do a cost benefit analysis whenever portfolio composition changes.

Types of Risk Measurement Approaches

Value at risk analysis:

Distribution on asset return is used for the purpose of estimation.

Scenario analysis:

A prediction is made regarding the change in the value of a portfolio. The resultant estimated figure is the estimated loss. A detailed analysis of the types of risk measurement approaches which entails description of intricate analytical methods is avoided here.

Non-profit Risk Management

Non-profit Risk Management is carried out by non-profit organizations. It mitigates the adverse effects arising out of risk factors. Different organizations may have different goals. In order to achieve the same they must use their resources efficiently.

Steps of Non-profit Risk Management

Identification of problems: This refers to identification of areas of operation where problems might crop up due to unforeseen events. It is this uncertain event, which we refer to as risk. Normally risks adversely affect the functioning of an organization. So risk management essentially provides the organization with a backup plan.

Formulation of plans: This deals with the preparation of an action plan. It is done with a view to mitigate the difficulties arising out of risk situations.

Determination of compensation package in case of an eventuality: What the ideal compensation package will be determined in case of an eventuality.

CURRENCY RISK MANAGEMENT

Currency risk can be termed as a sudden fall in the value of a particular currency. This happens due to unexpected shifts in the currency exchange rates. To avoid or minimize losses caused by these incidents, proper currency risk management strategy is very essential. Currency risks are related to the floating exchange rates. The currency exchanges are done for a number of reasons. Nowadays, cross border commercial activities are growing at a rapid pace. Almost everything starting from goods to technologies are exchanged between the traders of different countries.

These transactions are subjected to currency risk because floating exchange rates are minimizing the chances of fixing the value of a particular currency. On the other hand, there are forex market traders who are involved in trading of currencies of different countries.

These traders participate in the activities of one of the most liquid world financial markets. A large number of banks, individuals as well as several national governments are involved in these activities. These institutions as well as the individual investors are also in need of currency risk management because the forex market rates and trends change very quickly.

Two types of risks are managed by currency risk management strategies. These are the systematic risk and unsystematic risk. Systematic risks are all those risks that affect each and every kind of investments. Interest rate risk, market risk as well as inflation risk, all are considered as systematic risks. On the other hand, there are the unsystematic risks like business and financial risk. Unsystematic risk affects some definite businesses and not the entire market.

One of the most common currency risk management tool is the forward exchange contract. According to these contracts that are signed between the potential seller and purchaser of a particular currency, the exchange rates are fixed before the actual transaction. The transaction takes place in the future but due to the contract, if the exchange rate of that currency changes at the time of transaction, the purchaser and the seller are not affected.

There should also be a definite trading strategy that can be very helpful in hedging the currency risks. These strategies should be developed after analyzing the market averages or market indexes properly. On the other hand, there are certain theories regarding the trading process in the currency market. These are also very helpful for currency risk management. All these are specialized things and one may seek professional assistance from the currency risk management firms for the purpose.

PROJECT RISK MANAGEMENT

Deals with particular risks associated with the undertaking of a project. Project risk management focuses on the management of various types of risks related to a project. The process of Project Risk Management is carried out in a number of steps. Nevertheless, there are two principal phases of project risk management and they are assessment of risk and risk control. Project risk management deals with different types of uncertainties and constraints related to a project (known as project risks). A project risk is a probable origin of variation from the plan of the project and it may have a positive or negative influence on the project. Project risks having negative characteristics are known as threats and project risks bearing positive characteristics are known as opportunities.

Efforts are always on to minimize the threats and maximize the opportunities. Project risks can be minimized with the help of eliminating or decreasing them. There are two main phases of project risk management and assessment and control of risk. Assessment of risk may be carried out at any point of time within the duration of the project. However, the earlier it is performed, the better it is for the organization. Risk control is always dependent on a proper risk assessment. On the other hand, if risk control measures are not undertaken, there is no use of performing a risk assessment.

Process of Project Risk Management

Identification of Risk: The project risks are identified by examining the whole project plan.

Analysis of risk: Risk analysis can be quantitative or qualitative in nature. In this process, the manner in which the project risks may influence the project performance in terms of expenses, time period or satisfaction of the necessity of the customer is ascertained.

Prioritization of risk: According to this process, it is determined that which risks require total elimination, which risks require continuous supervision and monitoring and which risks are not important to supervise.

Project Risk Control involves the following steps:

Avoidance of risk: A plan is chalked out as to how project risks can be eliminated or avoided.

Risk transfer: In this way, risk is transferred by buying insurance policies.

Risk mitigation: A number of measures are taken beforehand for minimizing the impact of risk.
Contingency plan: For risks that are regarded as important, a contingency plan is prepared in advance before those risks occur.

Risk acceptance: Certain risks are accepted because they are regarded as small and do not influence the performance of the company to a significant degree.

Measure and control: Observing the outcomes of the risks that have been detected and handling them to a favorable or productive end.

INTEGRATED RISK MANAGEMENT

Integrated risk management refers to integrating risk data into the strategic decision making of a company and taking decisions, which take into account the set risk tolerance degrees of a department. In other words, it is the supervision of market, credit, and liquidity risk at the same time or on a simultaneous basis, Integrated Risk Management formulates strategies effectively to counter uncertainties and to capitalize on available opportunities. Proper implementation of it leads to consolidation of shareholder value base. In government sector this leads to confidence building among masses.

Use of Integrated Risk Management

Integrated Risk Management is used by the corporate sector as well as the government sector. Today's world is full of uncertainties. The companies are expected to take that into account and perform well. The government sector is also expected to show a lot more efficiency and transparency under all circumstances. Here in comes the integrated risk management plans.

Purpose of Integrated Risk Management

The purpose is to provide a guideline for pursuing a systematic risk management policy and to Foster the growth of a risk smart employee base. They learn to be responsible risk takers. The Propose is also to ensure personalized risk management policies for various departments Hone the decision making and priority fixing skills of concerned persons are enhanced.

Steps in Developing an Integrated Risk Management Framework

- Risk profile development
- Putting in place an integrated risk management plan
- Implementing the integrated risk management plan
- Making the risk management learning process a continuous one.

The integrated risk management followed by business organizations is a continuous process. It gives a systematic framework to handle risks. Risks or uncertainties are unavoidable in everyday life. They affect the day-to-day functioning of corporate and government organizations. Hence the idea is to put up a foolproof back up plan. The plan starts with identification of the risk factors. It is followed by putting up a risk management plan.

Integrated risk management is carried out keeping in view the long-term goals and objectives of a corporate organization. Integrated risk management framework helps a business organization to attain its set goals by cushioning the destabilizing effects of risks. Integrated risk management also fosters the concept of shared responsibility and adaptability.

TECHNOLOGY RISK MANAGEMENT:

It is the process of managing the risks associated with implementation of new technology. With the increasing use of information technology in the activities of banks the system of Technology risk management has become important. The process deals with finding out the weaknesses in a particular operation and then using the most suitable strategy to deal with it. There is couple of approaches in this case but their use depends on the factor of profitability.

Technology Risk Management

The system of technology risk management is used in order to deal with the various risks that may arise in the use of technological tools. This process is especially applicable in case of the banking industry. It has been observed that the risk management strategies that are useful in other cases are generally not applicable when it comes to technology risk management.

Important parts of Technology Risk Management

The most important part of technology risk management is to find out the various weak points that are there in the operational system. The technological risks come into play when the banking organizations use the information technology that is at their disposal.

Processes of Technology Risk Management

As far as the process of technology risk management is concerned after the weaknesses are detected, the authorities function in order to eliminate them by developing the proper strategy. The banks nowadays work as per three approaches.

Risk management with the help of internal processes

In such cases controls are extremely important.

Risk transfer by buying insurance coverage

Risk management with the help of outsourcing

In such cases the required work is outsourced to external bodies

Normally it has been seen that the companies that need to take technology risk management steps opt for any of the above-mentioned steps. All these choices provide the users with specific advantages as well as disadvantages. However, the choice is normally made after judging the profitability of each one of the options.

SOFTWARE RISK MANAGEMENT:

It deals with different types of risks associated with implementation of new softwares.

IT RISK MANAGEMENT:

It is a part of enterprise risk management as most modern enterprises largely depend on the information technologies and there is certain inherent risks associated with the technologies. Most modern enterprises need to face it and prepare plans to deal with these risks.

COMPULSION VS.VOLUNTARISM

Deductibles in Car Insurance

Deductible is part of the claim and is to be paid by the policyholder before the insurance company takes the responsibility of the remaining claim.

Types of Deductibles:

Compulsory Deductible in Car Insurance

The compulsory deductible amount is fixed by the insurer and has to be paid compulsorily by the policyholder whenever any claim arises. As per IRDA, the amount of Compulsory Deductible for four-wheelers of less than and equal to 1500cc is Rs.1000 and of Greater than 1500cc is Rs.2000. The insurer may charge a higher deductible if the car is older and presents a larger risk of claim or for cars with higher cubic capacities or in other circumstances where the risk of claim is perceived to be higher.

There is no lowering of premium for compulsory deductibles and premium is calculated taking into consideration other factors such as IDV, make and model.

Voluntary Deductible In Car Insurance

This is the limit chosen by the policyholder to meet a part of the claim from his own pocket before raising it to the insurer. The amount depends on the policyholder who chooses the limit factoring in his affordability and risk. Choosing a higher amount of Voluntary Deductible causes a lowering in premiums through discounts.

Difference between Compulsory Deductible and Voluntary Deductible

Compulsory Deductible	Voluntary Deductible
It is compulsorily fixed by the insurers	This is chosen by the policyholder and is not mandatory
The level of compulsory deductible has no effect on the premium rate	Higher the level of Voluntary Deductible, lower is the premium rate
In case of claim, only the compulsory	In case of claim, the policyholder has to pay

deductible level needs to be paid which is low	both the compulsory deductible part and the voluntary deductible chosen, the total of which is higher

Ethical behavior in insurance

Ethical Issue in insurance Business

Currently there is high level of market indiscipline going on in insurance business. In the pursuit of the operators in this market to get their own share from the market, they engage in all sorts of unethical practices such as; rate cutting, thrashing basic facts that policy holders should know from them. They are more concerned in the premium they will get from the insured and not in carrying risk which is supposed to be the primary objective.

One of the legal principles that bind insurance business is that every insured should contribute equitably to the insurance pool in proportion to the risk they are bringing into the pool. One of the standards is being misplaced since clients are charged different rates for the same risk. Another implication of this is that it leaves little reserve in the hand of underwriters after removing running cost of the policies and management expenses. And this in turn makes it very difficult for underwriters to meet their major obligation which is claims settlement. Unluckily this has led to loss of greater percentage of the industry’s revenue and as result poor performance of this business due to under – pricing of its products and services.

Ethics play key role in making trust and a good relationship, doing things in the right way that it should be done. A lot of insurance companies in India urge ethics but they do not act it. The mindset of businessmen as “business is business” has done lot of harm to their business. It has rendered them to be irresponsible and personally insensitive. Players in this market are supposed to put themselves in the shoes of their customers and should work with empathy. The nature of insurance business has to do with trust between them and their clients. In this case ethics in insurance business can be measured in terms of the standards on which insurance transactions are based.

Below are mentioned some of the challenging issues found in Insurance sector:

a) Premium Collection issues: This is another challenge identified to be affecting this business in India. These intermediaries are the distributing channels that stand between the insured and insurers. It has been reported that insurance brokers and agents are fund of collecting premium from insured and not remitting to insurance companies. These people use premium for other things and quickly run to remit when claim occur.

b) Problem of solvency: Cash flow problem is a confrontation to insurance business in India. It can be said that these sectors live from hand to mouth. Based on this investors are chased away from this market as no one is ready to embark on an investment that will not be viable.

c) Lack of Standards: It has been observed that there is lack of standard for this business in India, despite the fact that there are recognized regulating bodies. Every player in this market act the way they like.

d) Attitude of Government: The failure of government to inject fund into this business has made it impossible for them to attract investors as they cannot pay dividend not to talk of declaring bonus to shareholders.

e) Poor Management: A sizeable number of practitioners managing insurance business are not competent enough to manage this business. And this has really done a great harm to the business as insurance business itself.

f) Lack of Integrity and Trust: Successful insurance companies evolve around trust which is absent. The major if not the only reason of insured taking up an insurance policy is to have their claims settled in case of mishap. The image of insurance company can simply be determined by their ability and attitudes to claims settlement.

Challenges for personnel in claims administration;

- long procedure involved in processing claims
- inadequate human resources
- inadequate material resources
- circumstantial determinism

- relationship management
- lack of understanding of insurance terms and conditions by insured
- bad negotiation by distributing channels
- inflexibility in the part of supervisors
- insincerity on the part of repairers
- logistics problem
- inability of insured to produce documents to process their claims
- Delay in remitting premium by insurance brokers
- Untimely notification of renewal notice to insured by underwriters
- Cash flow issue

Ethical issues are found common in insurance business.

- Failure in identifying the customer's needs and recommend products and services that meet their needs.
- Conflicts between personal benefits and proper performance of employees responsibilities
- Unethical remarks about competitors, their products, or their employees or agents
- Lack of expertise or skills to competently perform one's duties
- Misrepresenting in terms and conditions while selling products to customers.
- Failure to provide prompt, honest responses to customer inquiries and requests
- Failure to provide products and services of the highest quality in the eyes of the customer
- Conflicts of interest involving business or financial relationships with customers, suppliers or competitors
- Failure to identify the customer's needs and recommend products and services that meet those needs.
- Misrepresenting or concealing limitations in one's abilities to provide services.
- Failure to provide prompt, honest responses to customer inquiries and requests.

Unethical Insurance Practices

(a) Failure to communicate- An insurance company may fail to notify the policyholder when it makes a decision regarding the insurance, or the company may fail to return the calls or emails after an accident.

(b) Delaying settlement-Similarly, an insurance provider may delay the claim for settlement without a justifiable cause.

(c)Unreasonable demands-In connection with delaying settlement, an insurance company may make unreasonable demands meant to stall the settlement process, such as asking the policyholder for an unreasonable number of documents and claiming the process cannot begin until the company receives all these documents. If the policyholder fails to meet these demands, the insurance company may deny the claim.

(d)Changing or cancelling the insurance policy-An insurance company may make sudden changes to its policy in response to a claim filed making it impossible for the claim to go through. Often, companies will cite the new policy as a reason to deny the claim.

(e)Unethical investigating- Sometimes the company may fail to properly investigate the claim, or simply refuse to investigate at all and tell the claim is denied.

(f) Withholding policy information -The insurance company should disclose the entire policy to the policyholder, including any policy limits. Withholding information or refusing to inform clients of policy limits constitutes an unethical insurance practice.

(g) Conflict of interest -When an insurance adjustor tries to handle both the policyholder's claim and the claim from the other party, a conflict of interest necessarily arises.

(h) Unreasonably low settlements - If an insurance company offers the policyholder a settlement that seems unreasonably low, the policyholder may be a victim of an unethical insurance practice.

(i) Threats-An insurance company may refuse to pay unless the client does something or doesn't do something. This constitutes a threat.

(j) Restrictive definitions-In some cases, an insurance company may fail to pay the client because the situation does not meet the company's set of criteria. For example, an insurance company may refuse to pay a client who has had a heart attack if the client's medical condition does not meet the definition of a heart attack as laid out in the insurance company's policy.

(k) Overcharging -Watch for agency fees or extra expenses that come in addition to the initial payment demanded by an insurance company, or expenses that are not specified in the quote given by the insurance company.

Insurance avoidance

Avoidance — a risk management technique whereby risk of loss is prevented in its entirety by not engaging in activities that present the risk. For example, a construction firm may decide not to take on environmental remediation projects to avoid the risks associated with this type of work.

Reduction mean in insurance

Reduction in coverage means a change made by the insurer which results in a removal of coverage, diminution in scope or less coverage, or the addition of an exclusion. Reduction in coverage does not include any change, reduction, or elimination of coverage made at the request of the insured.

Risk Retention

It is nothing than presuming that we are going to incur certain losses on a particular issue but at the same time are not willing to transfer such risks to another party.

For example in an individual case a person's decides to bear all the losses caused to his property by himself and never cares to get his property insured means all the risk shall be retrained by that particular individual and in case of any eventuality he shall only be paying from his own pocket for the losses caused to his property.

FACTORS INFLUENCING POLICYHOLDER'S SATISFACTION

Insurance is a contract between the policy holder and the insurer such that the insurer guarantees any event in the insurance range and in return, the policy holder should continuously pay a fee for the so-called insurance. Insurance services are in definition intangible and according to the declarations; they are promises and contracts held by a selling median to the customer which requires making trust between the seller and the customer from the initial point of the contract.

It is important to mention that service providers are very effective in the segments of selling insurance. They can examine the viewpoint of the customers about the goods and services of the company. Being confident about the quality of the services of the insurance company is very critical leading to the surveillance of the company. In this respect insurance companies should predict special integrated plans for attracting the buyers and maintaining the existing policy holders so that they can increase customers' satisfaction to be able to proceed in the competitive world of today by presenting better/higher quality services.

Quality is defined as preparedness of the services or goods for the user who requires design quality, accordance, accessibility and suitability of the location of presenting services. The international standards institute has defined "quality" as 'all of the properties/specifications of a product/service which have the ability of satisfying customers' need. Customers evaluate services quality by comparing what they expect/predict with what the services presenter practically offers. Therefore, services quality may be defined as the difference between customers' expectations from the services and their understanding of the real performance of the services.

Customers evaluate services quality from five various dimensions, that is, assurance, empathy, reliability, responsiveness and tangibility. There are various reasons which show why organizations should look for presenting higher-quality services to their customers some of which are: increasing customers' expectations; competitors' activities; environmental factors; easy access to the internet; the concept of services; and the difficulty of its understanding by the customers.

Presenting better services to the customers, causes repeated shopping, extending word of mouth advertisements and the organization's profitability. Customers evaluate service quality by comparing what they expect with what the service provider actually presents. Therefore, quality may be defined as the difference between customers' expectations and their understanding of the actual performance of the company.

Parasuraman et al. (1985) classified more than 200 features of service quality. These features were obtained via interviews with the customers of four different service departments, that is, banks, the organizations presenting credit cards, service companies of repair and maintenance, and phone communications center.

They presented a standard for evaluating service quality according to 10 potential factors by using these 200 features which are:

- Tangible factors: Loans, appearance and the facilities of the provider such as staff's appearance and make up, equipment's modernity, etc.
- Reliability: the extent which makes the services believable such as the organizations' fame and validity, staff's behavior, etc.
- Responsiveness: The ability to reaching the complaints and improving the services in an effective manner.
- Credibility: The ability of presenting services at the first time in a correct manner.
- Competence: The ability of the staff to offer their information, knowledge and skills in presenting effective services.
- Courtesy: Being respectful with friendly behavior to the customers.
- Security: Lack of risk and doubt.
- Availability: The ease of access and making relationships with the organization in order to solve the customers' needs.
- Communications: Acknowledging the customers about how to present services such that they are understandable for the customers.
- Understanding the Customers: The identification of customers' needs/wants, paying special attention to them and knowing loyal customers.

RETENTION OF CUSTOMERS BY INSURERS

Offer a solid product

This almost goes without saying, but it's still absolutely crucial. It all starts with the products insurer offers. Products must be helpful to the customers, otherwise, there's little hope of retaining customers in the long term.

Understand who the customers are and what drives them

Customer segmentation is the practice of categorizing customers according to common characteristics—e.g. price-sensitive customers, service-sensitive customers, etc. This is the bedrock of the agency: Sales and marketing strategies will be built around the customers' needs and expectations.

Understand where the referrals come from

Referrals are an important part of customer retention because if a customer comes to theagency through a referral, they have a much higher likelihood of staying with the agency long-term. This is also true for customers who refer others. Capitalize on this longevity by setting up a referral program that's going to benefit the customers in the long run. (This will also benefit the business, of course.) This program could be as simple as giving referrers a gift card or a percentage off their premiums. The most important thing about a referral program is that it should be "in the faces" of customers, so they know how they will benefit from providing referrals. Every communication the agency sends needs to highlight friend and family referrals, so it is always top-of-mind.

Be an expert communicator

Stay in front of customers at all times to develop relationships with them. The most important aspect of communication with both customers and prospects is to have a cadence of regular communication through various methods of outreach: via phone, email, mail, text, etc. In that same vein, one of the biggest mistakes an agent can make in regard to communication is to sign on new customers without having an explicit process in place for contacting them. When this happens, there is no idea whether that customer is happy, dissatisfied, or on the verge of churning. It also gives other agents an opportunity to get in front the customers, and there is a risk of losing their business.

Other recommended methods of communication include:

- Have annual or semi-annual meet-and-greets—this allows and even incentivizes people in the community to stop by the agency in person.
- Survey customers about the agency's services and products. There are a number of free survey tools available online, or it can be as simple as having the producers asks customers a few questions over the phone. This will help to address the shortcomings and learn more about the customers, including how they feel about pricing, products, and overall customer service.

Focus on multi-lining customers signed into multiple products

People who have only one product offering from the agency are more likely to cancel than those who have multiple products. The more products insurer can get them signed onto, the more likely they are to stay with the company. This way the agency's offerings become much more "sticky," helping increase the overall retention.

Reduce lapsing cancellations by providing an autopay option

When customers forget to pay bills, their services/contracts are immediately cancelled—it's the common cause of customer loss. Setting up an automatic payment option can help reducing lapsing. Companies must consider offering discounts to encourage customers to sign up for autopay.

Set expectations when on boarding customers

From the day a customer signs up, explain the benefits of sticking with for the long-term. For example, set the expectation during on-boarding that customers will be incentivized when renewal time comes—such as a reduction of their deductibles after the first year. This way the company shall greatly improving the chances that a customer will remain loyal, and potentially heading off rate shopping when that policy comes up for renewal. Another thing to mention when on-boarding customers is to share that, when it comes to claims, a more tenured customer may have an easier time through the claims process because they have a longer track record.

Adding value during an active policy period – Insurance companies need to augment their business and act as a service partner in the customer's life. Instead of being present only when an accident has happened, they can be their partners and support their customers in pro-active maintenance of the items they are insuring. For example, an auto insurance company may take care of reminding a vehicle's regular maintenance and provide that as an offering among its network of service providers. Such an offering would not only reduce the chances of a future accident but also would improve customer satisfaction as well.

Ease of doing business

Insurance companies need to support their policyholders from a regulation standpoint. Be it handling communication with the mortgagee, deducting the premium via automated payment plans, or making the various documents available in the insurer's mobile app, insurers need to be omnipresent and support their customer through various channels. Procedural needs from policyholders should not create a negative stimulus, forcing them to shop around. The use of state-of-the-art software systems does go a long way in this context.

Better processing of claims

In the event that a loss resulting in a claim does happen, processing the claim needs to be fast and accurate. An insurance company will have processes and procedures in place to handle the claim, but they also may need to support their customers mentally during these times. Combining automation to handle the processes and procedures with manual interaction to relieve policyholder stress will result in a favorable outcome in the mind of a claimant and continue to serve as a testimony for repeat business.

Increase the perceived value of the product

Insurance is a business (perhaps the only one) where neither the consumer nor the company wants the transaction– an actual loss, to happen. Insurers can differentiate themselves at times of loss, and if there is no such event, it becomes very difficult for an organization to deliver its value. In the event, Insurer had not got an opportunity to deliver value to its customers, they can work around that by increasing the perceived value of their product with time. Some of the tactics here could be adding additional coverages based on the need of the policyholder (e.g., adding additional identity theft coverage at renewal) or issuing smart devices to measure usage. This may help the insured in increased savings and help pre-empt a loss by providing a warning of, say, a water leak in the house.

Personal Service

Insurance companies can often feel like large, faceless corporations, primarily because consumers often deal with agents or representatives via the Internet or phone. Companies can increase retention rates by providing greater degrees of personalized customer service to existing policyholders. This can mean assigning a single agent to handle the needs of individual clients, giving customers a point person to connect with if they have questions or concerns about their policy, coverage or renewal options.

Discounted Rates

Insurance companies can potentially increase retention rates by offering discounts for clients who have more than one policy with the agency. For example, a client who has health, life and auto insurance with an agency might be enticed to renew a contract if offered a more favorable rate on all three policies than a customer who only pays for life insurance coverage. “Bundling” insurance products helps the customer save money, an effective retention tool in itself, but it also makes it more difficult for them to drop a provider. The idea of shopping for and reinstituting a number of new policies with a new insurer can make clients think twice before terminating services.

Policy Payout

Customers may be motivated to change insurance companies if they have a difficult time filing and collecting on legitimate claims. Some insurance companies have a reputation for repeatedly denying claims or refusing policy payouts due to technicalities. A customer who is denied legitimate coverage or who has to cut through significant red tape to get the benefits due to him may be more likely to seek coverage through another agency in the future. Quickly pay policy proceeds on qualified claims to help maintain a good relationship with the client.

Benefits and Options

Insurance jargon can be difficult for clients to fully understand. Take the time to educate clients about their benefits, rights and responsibilities, and be open to answering questions at any time, but particularly during policy renewal talks. Keep clients apprised of insurance industry changes that might impact them, and tell them about rate increases and the introduction of new products that may be beneficial to them. This personalized level of service can help create an ongoing relationship a client is unlikely to abandon.

Those brands that have a high level of tenure across their customer base will be incurring significantly less churn and cost than those with low customer tenure.

Insurance companies make their money by selling insurance policies and collecting premiums from consumers, and they pay out policy claims when necessary. Retaining customers not only makes the insurance company profitable, it helps offset new customer recruitment advertising and marketing costs.

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Customer retention is a very important economic issue for the insurance industry, since acquiring new customers costs 7 to 9 times more than retaining existing ones. According to IBM, the cost of acquiring new customers in the insurance sector is constantly increasing.

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