INSURANCE PRODUCTS AND SERVICES

INTRODUCTION

- Insurance is a contract between two parties whereby one party agrees to undertake the risk to which another party is exposed in exchange for a consideration known as premium and promises to pay a certain sum of money to the other party on the happening of an event.
- Insurance is a subject matter of solicitation. Insurance is not to be sold.
- Insurance is a basic form of risk management which provides protection against possible loss to life or physical assets.
- A person who seeks protection against such loss is termed as insured, and the company that promises to honor the claim, in case such loss is actually incurred by the insured, is termed as Insurer.
- In order to get the insurance, the insured is required to pay to the insurer a certain amount, termed as premium, on a periodical basis i.e. monthly, quarterly, annually, or even one-time.
- A contract of insurance is a contract of utmost good faith (i.e., Uberrimae fides contract). The doctrine involves disclosing all material facts applicable to all forms of insurance.

INSURANCE TERMS

- **Insured -** A person or company acquiring insurance.
- **Beneficiary -** The person or legal entity who will receive the policy benefit if the death of insured occurs.
- **Insurance Premium -** The amount payable by the insured in return for cover against specified risks, often paid in instalments.
- **Sum Assured -** In a life assurance policy (for example, whole life assurance or endowment assurance), the sum assured is the minimum amount payable to the assured or his/her dependants on the death of the assured.

  <u>sum assured = 0.5 * policy term* annual premium</u>

Classification of Insurance

- Insurance is classified into two categories on the basis of service offered and loss that is insured against i.e., Life Insurance and General Insurance.
- Life Insurance: Insurance provided for the payment of a sum of money on the death of insured person due to natural causes or on the expiry of a certain number of years if the insured person is then alive, fall within the purview of life insurance.
- The insured periodically pays certain amount (premium) depending on his age and health status, during his lifetime and also the value that is attached to life and tenure of the insurance contract (policy).
- There are two types of Life Insurance Policies : i) Whole Life Policy, amount payable on event of death and ii) Endowment Policy, policy maturing at the end of certain period of time or death whichever is earlier.

Classification of Insurance

- General Insurance: Insurance other than life insurance fall within the purview of General insurance.
- General insurance covers loss of every other physical or non-possession. The loss may be due to fire, theft, accident, etc. General Insurance Policies are for one year renewable every year.
- A general insurance policy may be termed as a contract of indemnity, as the insurer normally makes good the loss suffered.
- The premium amount is dependent on the value of the asset and probability of such loss occurring.
- The general insurance is of the following types: i) fire insurance ii) marine insurance iii) miscellaneous insurance, insurance against loss from such events as accident, theft, etc.

Basic Principles of Insurance

- Principle of Insurable Interest: It is the legal right to insure. No person can obtain insurance without having insurable interest in the subject matter of insurance. In case of Life Insurance policies, the insurable interest should be existing at the time of taking the policy while in case of general insurance, insurable interest should be proved at the time of loss, when and where it occurs.
- Assignment: It means the transfer of rights and liabilities of an insured person to another person who has acquired insurable interest in the insured property.
- Nomination: Under life insurance policies, the life assured can nominate a person to receive the policy money in case of a death of the insured.
- Utmost Good faith (Uberrimae Fides): There should be no fraud or deceit by either party to the contract.
- Indemnity: In General insurance policy, this clause ensures that the insured is indemnified i.e., after the loss he will placed in the same financial position in which he was immediately before the occurrence of the loss.

Basic Principles of Insurance

- Principle of causa proxima (Proximate cause): It means a direct uninterrupted cause. If the proximate cause of loss is an event insured against by the policy, the loss is payable.
- Principle of contribution states that the insured can claim compensation to the extent of actual loss either from all insurers or from any one insurer.
- Principle of subrogation is applicable to fire and marine insurance states that the insurer has the recovery right for the subject matter to which the contract of insurance relates.
- Principle of loss minimization relates to the duty of the insured to exercise reasonable care to minimize the loss of insured property.

ORIGIN AND GROWTH OF INSURANCE SECTOR

- Oriental life Insurance Company was incorporated at Calcutta in **1818**, followed by Bombay Life Assurance Company in **1823** and Triton Insurance Company for General Insurance in **1850**. By **1938** there were 176 insurance companies.
- Insurance regulation formally began in India through the passing of two acts
  - the Life Insurance companies Act of 1912 and
  - the Provident Fund Act of 1912.
- However the first comprehensive legislation was introduced with the Insurance Act of 1938 that provided strict state control over insurance business in the country.
- LIC was set up in 1956 as a result of amalgamation of 245 private life insurance companies into a public sector organization.
- Payments that are payable by LIC are guaranteed by none other than Government of India.
- General Insurance, nationalized in 1973, is handled by GIC (General Insurance Corporation) through its 4 subsidiaries i.e., United India Insurance, Oriental Insurance, National Insurance and New India Assurance.

INSURANCE SECTOR REFORMS

- In 1992, Malhotra Committee- headed by former Finance Secretary and RBI Governor R.N. Malhotra- was formed.
- The objective was to evaluate the Indian insurance industry and recommend its future direction.
- The Malhotra committee was set up with the objective of complementing reforms in the insurance sector.

The reforms were aimed at:

- Creating a more efficient and competitive financial system suitable for the requirements of the economy.
- Keeping in mind the structural changes currently underway in insurance sector and
- Recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms.

This committee recommended radical reforms in insurance sector and suggested that private sector be allowed entry in insurance sector.

ROLE OF IRDA

The Insurance Act, 1999 brought about several crucial policy changes in the insurance sector of India and it was followed by the formation of the Insurance Regulatory and Development Authority (IRDA) in 2000.

- Its primary function is to protect investors' interest by ensuring transparency, disclosure, keeping prices affordable and making sure that investors get paid by insurers.
- It has evolved a set of operational guidelines to deal with maintaining the solvency of insurers.
- It has also evolved guidelines for functioning and entry of intermediaries. Licensing of agents and brokers are required to check their indulgence in activities such as twisting, fraudulent practices, rebating and misappropriation of funds.
- As per the IRDA Regulations for preparation of Financial Statements & Auditors' Report, all non life insurers are required to prepare separate revenue accounts for fire, marine and miscellaneous business.

IRDA is the regulator of both life and general insurance.

INSURANCE PRODUCTS/SERVICES

The Insurance products/services includes:

1) **Life Insurance** - Life Insurance is a contract between the insured and the insurer wherein the insured pays a certain amount as premium to the insurer at regular intervals, and in return, the insurer promises to pay a specified sum upon the occurrence of insured's death. These are mainly divided into 6 groups.

   A) Term insurance policy – It provides pure risk cover/payment of sum assured only if the insured dies during the specified period.

   B) Whole life insurance policy – It guarantees a death benefit cover throughout the life. The assured sum is paid whenever death of the assured occurs. Premiums have to be paid throughout the life of the assured or for a shorter period.

   C) Endowment insurance policy – It is a plan in which assured sum is paid either on death of the assured or after a fixed term.

***D) Annuities* (Pension Plan)**- It is a form of insurance in which the insurer makes a series of payment to the annuitant/his dependent over a number of years in return for a payment in lump sum or in installments.

***E) Money back insurance policy* –** The money-back plan provides life insurance cover for a specific period & during the term of the policy, the insured receives tax-free, fixed proportions of the sum assured at regular intervals. On maturity, the insured receives the balance portion of the sum assured, if any, *plus* the bonus/participating profit/ guaranteed addition for the term of the policy, if any, or the value of the investment. In the event of death of the insured during the term of the policy, the nominee still receives the entire sum assured .

F) ULIP (Unit – Linked Insurance Products) - It is a policy in which benefits depend on the performance of the investment portfolio as it combine insurance protection and investment in a managed fund.

G) Key Man Insurance policy, offered by LIC, aims at insuring the loss suffered by the company from the resignation/death of the person insured ("key man" of the company). This type of insurance recognizes that profits depend on key man of the company.

2) **General insurance -** Insurance against risk of loss to assets (movable and immovable property) like car, house, accident etc. is covered under General or Non-life Insurance. The most popular general insurance plans are mentioned hereunder.

***A) Fire Insurance* -** Fire insurance provides protection against damage to property caused by accidents due to fire, lightening or explosion, It also includes damage caused due to other perils like storm, burst pipes, earthquake, aircraft etc.

B) Marine Insurance – Marine Insurance is one of the oldest branches of insurance. The Marine Insurance Act, 1963 is the basis for transaction of marine insurance in India.

Marine insurance policy is a policy under which the insurer undertake to indemnify the insured against losses that occur during transit by road, rail, sea or air.

Marine insurance further includes:

Marine Cargo - Marine cargo policy provides protection to the transit of goods from one place to the other by road, rail, sea or air.

Marine Hull - Marine hull policy provides protection against damage to ship and its machinery caused due to the perils of the sea. It covers three-fourth of the liability of the ship owner.

C) Miscellaneous Insurance - It includes motor/accidental insurance, health/medical insurance, liability insurance etc.

Miscellaneous insurance covers several classes of insurance i.e.,

Motor Insurance: This is covered under Motor Vehicles Act, 1939 and as amended from time to time. The vehicles covered are private cars, commercial vehicles, motor cycles and scooters. The types of cover are : Comprehensive cover and Third party liability

It is an insurance policy that provides coverage for vehicle. It provides reimbursement expenses for repair/replacement of the parts of the vehicle or compensation for any loss caused due to an accident or theft. But the owner or driver should have Personal Accident cover.

Burglary Insurance: This is for losses due to burglary, housebreaking and theft.

Fidelity Guarantee Insurance: It is an **insurance** policy designed to indemnify the **Insured** (the employer) for the loss of money or property sustained as a direct result of acts of fraud, theft or dishonesty by an employee in the course of employment.

Personal Accident Insurance: Insurance against accidental injuries resulting in death and disability or for disablement arising out of sickness.

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Liability Insurance: It is the risk financing to protect the purchaser (the "**insured**") from the risks of **liabilities** imposed by lawsuits and similar claims. It protects the **insured** in the event he or she is sued for claims that come within the coverage of the **insurance** policy.

Engineering Insurance: Engineering insurance refers to the insurance that provides economic safeguard to the risks faced by the ongoing construction project, installation project, and machines and equipment in project operation.

Aviation Insurance: **Aviation insurance** is **insurance coverage** geared specifically to the operation of **aircraft** and the risks involved in **aviation**.

Cattle Insurance: This insurance provides cover against the death of animals within the geographical area specified in the policy arising out of death or accident.

Crop Insurance: This provides cover against unavoidable loss of production due to one or more of the following cause: climatic reasons, pest infestation, plant diseases, war, riots, strikes.

Household Policy: Policy covers risks of different types and protects the house as well as personal effects and household goods.

Jewellery Insurance: It is an insurance policy that provides protection for jewellery, even at home or at bank lockers.

Cont.

Health Insurance Schemes: Health insurance is a type of **insurance coverage** that pays for medical and surgical expenses incurred by the **insured**. **Health insurance** can reimburse the **insured** for expenses incurred from illness or injury, or pay the health care provider directly (cashless policy).

The Group Hospitalization scheme have been in existence for a long time, but it was only for corporate clients. GIC devised health insurance covers for individuals/families in 1981. But in 1986, GIC, revised the scheme and launched MEDICLAIM. It consists of two parts : Scheme A – Mediclaim (Hospitalization and Domiciliary hospitalization) along with personal accident insurance and Scheme B – provides only Mediclaim.

Critical Illness Policy: Policy provides exclusive benefit to individuals in the age group 20-65 years who are unexpectedly diagnosed for treatment of critical ailments like Coronary Artery Surgery, Cancer, Renal Failure, Major Organ Transplant, Stroke or Multiple Sclerosis.

Basic Difference between Life Insurance and General Insurance:

Life Insurance	General Insurance
Life insurance is the coverage against any mishappening to life of the insured person.	General insurance provides protection to movable and immovable property against unforeseen events.
Premium amount is larger.	Premium amount is lower.
Minimum policy term is 10 years.	Minimum policy term is 1 year and renewal of the policy is done thereafter.
After the premium term is over the insured person will get the premium amount along with interest known as sum assured.	The insured person will get nothing other than the claim.