KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University)
(Established Under Section 3 of UGC Act, 1956)
Coimbatore – 641 021

Department of Commerce

Syllabus

		Semester – II			
		L	T	P	C
17CMP204	**INSURANCE AND RISK MANAGEMENT**	4	-	-	4

Course Objective

- ❖ To create awareness among students on various insurance policies and the procedures followed on availing policies

Learning Outcome

- ❖ The course consists of types of risks, risk management, Life and General Insurance

Unit – I

Introduction to Risk Management : The Concept of Risk – Risk Vs Uncertainty – Types of Risks: Market Risk, Credit Risk, Operational Risk, Interest Risk, Business Risk, Systematic Risk – Classifying Pure Risks – Methods of Handling Pure Risks – Risk Management Process – Risk Financing Techniques – Risk Management Objectives – Risk Management Information System (RMIS) – Risk Control

Unit - II

Risk Management by Individuals: Factors affecting individual demands for insurance – Risk Management by Corporations – Corporate Risk Management Process – Types of Risk Managing Firms

Unit – III

Growth and Development of Indian Insurance Industry – Regulations of Insurance Business and the Emerging Scenario – Introduction to Life and General Insurance – Life

Insurance: Features of Life Insurance – Essentials of Life Insurance Contract – Kinds of Insurance Policies – Premium Determination – Life Policy Conditions

Unit –IV

Fire Insurance – Fire Insurance Contracts – Fire Insurance Coverage – Policies for Stocks – Rate Fixation in Fire Insurance – Settlement of Claims – Marine Insurance: Marine Insurance Contract – Types of Marine Insurance – Marine Cargo Losses and Frauds – Settlement of Claims

Unit – V

Miscellaneous Insurance: Motor Insurance – Employer's Liability Insurance – Personal Accident and Sickness Insurance – Aviation Insurance – Burglary Insurance – Fidelity Guarantee Insurance – Engineering Insurance – Cattle Insurance – Crop Insurance

SUGGESTED READINGS

Text Book

1. **Gupta, P.K. (2015).** *Insurance and Risk Management.* New Delhi. Himalaya Publishing House.

References

1. **Mishra, M.N. and Mishra, S.B. (2012)**. *Insurance Principles and Practice.* New Delhi. S. Chand and Sons.
2. **Periasamy (2011)**. *Insurance Principles and Practice.* New Delhi. Himalaya Publishing House.

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LECTURE PLAN
DEPARTMENT OF COMMERCE

STAFF NAME : S. SAMBATH KUMAR
SUBJECT NAME : INSURANCE AND RISK MANAGEMENT
SUBJECT CODE : 17CMP204
SEMESTER : II CLASS : I M.COM.

Unit - I

S. No.	Lecture Duration (Hr)	Topics to be Covered	Support Materials
1	1	Introduction to Risk Management : The Concept of Risk	T1 [3-5]
2	1	Risk Vs Uncertainty	T1 [4]
3	1	Types of Risks: Market Risk, Credit Risk	W1
4	1	Operational Risk Interest Risk	
5	1	Business Risk Systematic Risk	
6	1	Classifying Pure Risks	T1 [7-8]
7	1	Methods of Handling Pure Risks	T1 [8-9]
8	1	Risk Management Process	T1 [11-13]
9	1	Risk Financing Techniques	T1 [14-17]
10	1	Risk Management Objectives	
11	1	Risk Management Information System (RMIS)	T1 [17-20]
12	1	Risk Control	T1 [17]
13	1	Recapitulation and Important Questions Discussion	
Total No. of Hours Planned for Unit - I			**13 Hours**

Unit - II

S. No.	Lecture Duration (Hr)	Topics to be Covered	Support Materials
1	1	Risk Management by Individuals	T1 [23]
2	1	- Identification of Potential Losses - Evaluation of potential Losses	T1 [24]
3	1	- Selecting the Appropriate Techniques for handling Losses - Review the Program periodically	T1 [24 – 25]
4	1	Factors affecting individual demands for insurance	T1 [25-26]
5	1	Risk Management by Corporations	T1 [26-27]
6	1	Corporate Risk Management Process	T1 [27]
7	1	Types of Risk Managing Firms	T1 [27]
8	1	Recapitulation and Important Questions Discussion	
Total No. of Hours Planned for Unit - II			**8 Hours**

Unit - III

S. No.	Lecture Duration (Hr)	Topics to be Covered	Support Materials
1	1	Growth and Development of Indian Insurance Industry	T1 [104-105]
2	1	Regulations of Insurance Business and the Emerging Scenario	
3	1	Introduction to Life and General Insurance	R2 [122-124]
4	1	Life Insurance: Features of Life Insurance	
5	1	Essentials of Life Insurance Contract	
6	1	Kinds of Insurance Policies - Policies According to Duration	R2 [128 – 136]
7	1	- On the basis of payment - On the basis of participation in profit	R2 [136 – 137]
8	1	- On the basis of the Number of persons assured	R2 [137 – 143]
9	1	- On the basis of Method of Payment of policy amount	
10	1	Premium Determination	T1 [110-119]
11	1	Life Policy Conditions	T1 [162 – 167]
12	1	Recapitulation and Important Questions Discussion	
Total No. of Hours Planned for Unit - III			**12 Hours**

Unit - IV

S. No.	Lecture Duration (Hr)	Topics to be Covered	Support Materials
1	1	Fire Insurance: Introduction and Meaning	R2 [287-290]
2	1	Fire Insurance Contracts	
3	1	Fire Insurance Coverage	
4	1	Policies for Stocks	
5	1	Rate Fixation in Fire Insurance - System of Rate Fixation	R1 [298 – 300]
6	1	- Principles of Rate Fixation - Tariff Rates	R1 [300-301] R1 [301-302]
7	1	Settlement of Claims	R1 [303-307]
8	1	Marine Insurance: Introduction and Meaning	R2 [249-257]
9	1	Marine Insurance Contract	
10	1	Types of Marine Insurance	R2 [262 – 270]
11	1	Marine Cargo Losses and Frauds	
12	1	Settlement of Claims	
13	1	Recapitulation and Important Questions Discussion	
Total No. of Hours Planned for Unit - IV			**13 Hours**

Unit - V

S. No.	Lecture Duration (Hr)	Topics to be Covered	Support Materials
1	1	Miscellaneous Insurance: Motor Insurance	R2 [342-349]
2	1	Employer's Liability Insurance	R1 [348-350]
3	1	Personal Accident Insurance	R2 [323 -327]
4	1	Sickness Insurance	
5	1	Aviation Insurance	T1 [320-322]
6	1	Burglary Insurance	
7	1	Fidelity Guarantee Insurance	R2 [337-339]
8	1	Engineering Insurance	R2 [358-359]
9	1	Cattle Insurance	R2 [355-358]
10	1	Crop Insurance	R2 [328-335]
11	1	Recapitulation and Important Questions Discussion	
12	1	Previous Year ESE Question Paper Revision	
13	1	Previous Year ESE Question Paper Revision	
14	1	Previous Year ESE Question Paper Revision	
Total No. of Hours Planned for Unit - V			**14 Hours**
Total No. of Lecture Hours: 60 Hours			

Text Book

T1 - Gupta, P.K. (2015). *Insurance and Risk Management.* New Delhi, Himalaya Publishing House.

Reference Books

R1- Mishra, M.N. and Mishra, S.B. (2012). *Insurance Principles and Practice.* New Delhi, S. Chand and Sons.

R2- Periasamy (2011). *Insurance Principles and Practice.* New Delhi, Himalaya Publishing House.

Website

W1 – http://kalyan-city.blogspot.in/2012/01/types-of-risk-systematic-and.html

UNIT – I

INTRODUCTION TO RISK MANAGEMENT

Introduction to Risk Management : The Concept of Risk – Risk Vs Uncertainty – Types of Risks: Market Risk, Credit Risk, Operational Risk, Interest Risk, Business Risk, Systematic Risk – ClassifyingPure Risks – Methods of Handling Pure Risks – Risk Management Process – Risk Financing Techniques – Risk Management Objectives – Risk Management Information System (RMIS) – Risk Control

Concept of Risk

Risk is part of every human endeavor. From the moment we get up in the morning, drive or take public transportation to get to school or to work until we get back into our beds (and perhaps even afterwards), we are exposed to risks of different degrees. What makes the study of risk fascinating is that while some of this risk bearing may not be completely voluntary, we seek out some risks on our own (speeding on the highways or gambling, for instance) and enjoy them. While some of these risks may seem trivial, others make a significant difference in the way we live our lives. On a loftier note, it can be argued that every major advance in human civilization, from the caveman's invention of tools to gene therapy, has been made possible because someone was willing to take a risk and challenge the status quo.

Risk is the potential of loss (an undesirable outcome, however not necessarily so) resulting from a given action, activity and/or inaction. The notion implies that a choice having an influence on the outcome sometimes exists (or existed). Potential losses themselves may also be called "risks". Any human endeavor carries some risk, but some are much riskier than others.

1. The probability of something happening multiplied by the resulting cost or benefit if it does.
2. The probability or threat of quantifiable damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive action.

Uncertainty

Uncertainty is at the very core of the concept of risk itself. It is uncertainty about the outcome in a given situation. Uncertainty does not exist in the natural order of things though there are a number of outcomes, which are uncertain. For example: the weather for the test match; the possibility of being made redundant; the risk of having an accident. There is surely uncertainty surrounding all of these events.

In 1921, Frank Knight summarized the difference between risk and uncertainty thus: "Uncertainty must be taken in a sense radically distinct from the familiar notion of Risk, from which it has never been properly separated. The essential fact is that "risk" means in some cases a quantity susceptible of measurement, while at other times it is something distinctly not of this character; and there are far-reaching and crucial differences in the bearings of the phenomena depending on which of the two is really present and operating. It will appear that a measurable uncertainty, or "risk" proper, as we shall use the term, is so far different from an un-measurable one that it is not in effect an uncertainty at all."

Risk is incorporated into so many different disciplines from insurance to engineering to portfolio theory that it should come as no surprise that it is defined in different ways by each one. It is worth looking at some of the distinctions:

(a) **Risk versus Probability:** While some definitions of risk focus only on the probability of an event occurring, more comprehensive definitions incorporate both the probability of the event occurring and the consequences of the event. Thus, the probability of a severe earthquake may be very small but the consequences are so catastrophic that it would be categorized as a high-risk event.

(b) **Risk versus Threat:** In some disciplines, a contrast is drawn between risk and a threat. A threat is a low probability event with very large negative consequences, where analysts may be unable to assess the probability. A risk, on the other hand, is defined to be a higher probability event, where there is enough information to make assessments of both the probability and the consequences.

(c) **All outcomes versus Negative outcomes:** Some definitions of risk tend to focus only on the downside scenarios, whereas others are more expansive and consider all variability as risk. The engineering definition of risk is defined as the product of the probability of an event occurring, that is viewed as undesirable, and an assessment of the expected harm from the event occurring.

Risk = Probability of an accident * Consequence in lost money/deaths

In contrast, risk in finance is defined in terms of variability of actual returns on an investment around an expected return, even when those returns represent positive outcomes. Building on the last distinction, we should consider broader definitions of risk that capture both the positive and negative outcomes.

Types of Risk

- Systematic risk.
- Unsystematic risk.

The meaning of systematic and unsystematic risk in finance:

- **Systematic risk** is uncontrollable by an organization and macro in nature.
- **Unsystematic risk** is controllable by an organization and micro in nature.

A. Systematic Risk

Systematic risk is due to the influence of external factors on an organization. Such factors are normally uncontrollable from an organization's point of view.

It is a macro in nature as it affects a large number of organizations operating under a similar stream or same domain. It cannot be planned by the organization.

The types of systematic risk are depicted and listed below.

- Interest rate risk
- Market risk
- Purchasing power or inflationary risk

1. Interest rate risk

Interest-rate risk arises due to variability in the interest rates from time to time. It particularly affects debt securities as they carry the fixed rate of interest.

The types of interest-rate risk are depicted and listed below.

- Price risk
- Reinvestment rate risk.

Price risk arises due to the possibility that the price of the shares, commodity, investment, etc. may decline or fall in the future.

Reinvestment rate risk results from fact that the interest or dividend earned from an investment can't be reinvested with the same rate of return as it was acquiring earlier.

2. Market risk

Market risk is associated with consistent fluctuations seen in the trading price of any particular shares or securities. That is, it arises due to rise or fall in the trading price of listed shares or securities in the stock market.

The types of market risk are depicted and listed below.

- Absolute risk,
- Relative risk,
- Directional risk,
- Non-directional risk,
- Basis risk and
- Volatility risk.

Absolute risk is without any content. For e.g., if a coin is tossed, there is fifty percentage chance of getting a head and vice-versa.

Relative risk is the assessment or evaluation of risk at different levels of business functions. For e.g. a relative-risk from a foreign exchange fluctuation may be higher if the maximum sales accounted by an organization are of export sales.

Directional risks are those risks where the loss arises from an exposure to the particular assets of a market. For e.g. an investor holding some shares experience a loss when the market price of those shares falls down.

Non-Directional risk arises where the method of trading is not consistently followed by the trader. For e.g. the dealer will buy and sell the share simultaneously to mitigate the risk

Basis risk is due to the possibility of loss arising from imperfectly matched risks. For e.g. the risks which are in offsetting positions in two related but non-identical markets.

Volatility risk is of a change in the price of securities as a result of changes in the volatility of a risk-factor. For e.g. it applies to the portfolios of derivative instruments, where the volatility of its underlying is a major influence of prices.

3. Purchasing power or inflationary risk

Purchasing power risk is also known as inflation risk. It is so, since it emanates (originates) from the fact that it affects a purchasing power adversely. It is not desirable to invest in securities during an inflationary period.

The types of power or inflationary risk are depicted and listed below.

- Demand inflation risk and
- Cost inflation risk.

Demand inflation risk arises due to increase in price, which result from an excess of demand over supply. It occurs when supply fails to cope with the demand and hence cannot expand anymore. In other words, demand inflation occurs when production factors are under maximum utilization.

Cost inflation risk arises due to sustained increase in the prices of goods and services. It is actually caused by higher production cost. A high cost of production inflates the final price of finished goods consumed by people.

B. Unsystematic Risk

Unsystematic risk is due to the influence of internal factors prevailing within an organization. Such factors are normally controllable from an organization's point of view. It is a micro in nature as it affects only a particular organization. It can be planned, so that necessary actions can be taken by the organization to mitigate (reduce the effect of) the risk.

The types of unsystematic risk are depicted and listed below.

- Business or liquidity risk,

- Financial or credit risk and
- Operational risk.

1. Business or liquidity risk

Business risk is also known as liquidity risk. It is so, since it emanates (originates) from the sale and purchase of securities affected by business cycles, technological changes, etc.

The types of business or liquidity risk are depicted and listed below.

- Asset liquidity risk and
- Funding liquidity risk.

Asset liquidity risk is due to losses arising from an inability to sell or pledge assets at, or near, their carrying value when needed. For e.g. assets sold at a lesser value than their book value.

Funding liquidity risk exists for not having an access to the sufficient-funds to make a payment on time. For e.g. when commitments made to customers are not fulfilled as discussed in the SLA (service level agreements).

2. Financial or credit risk

Financial risk is also known as credit risk. It arises due to change in the capital structure of the organization. The capital structure mainly comprises of three ways by which funds are sourced for the projects. These are as follows:

- Owned funds. For e.g. share capital.
- Borrowed funds. For e.g. loan funds.
- Retained earnings. For e.g. reserve and surplus.

The types of financial or credit risk are depicted and listed below.

- Exchange rate risk
- Recovery rate risk
- Credit event risk
- Non-Directional risk

- Sovereign risk and
- Settlement risk.

Exchange rate risk is also called as exposure rate risk. It is a form of financial risk that arises from a potential change seen in the exchange rate of one country's currency in relation to another country's currency and vice-versa. For e.g. investors or businesses face it either when they have assets or operations across national borders, or if they have loans or borrowings in a foreign currency.

Recovery rate risk is an often neglected aspect of a credit-risk analysis. The recovery rate is normally needed to be evaluated. For e.g. the expected recovery rate of the funds tendered (given) as a loan to the customers by banks, non-banking financial companies (NBFC), etc.

Sovereign risk is associated with the government. Here, a government is unable to meet its loan obligations, reneging (to break a promise) on loans it guarantees, etc.

Settlement risk exists when counterparty does not deliver a security or its value in cash as per the agreement of trade or business.

3. Operational risk

Operational risks are the business process risks failing due to human errors. This risk will change from industry to industry. It occurs due to breakdowns in the internal procedures, people, policies and systems.

The types of operational risk are depicted and listed below.

- Model risk,
- People risk,
- Legal risk and
- Political risk.

Model risk is involved in using various models to value financial securities. It is due to probability of loss resulting from the weaknesses in the financial-model used in assessing and managing a risk.

People risk arises when people do not follow the organization's procedures, practices and/or rules. That is, they deviate from their expected behavior.

Legal risk arises when parties are not lawfully competent to enter an agreement among themselves. Furthermore, this relates to the regulatory-risk, where a transaction could conflict with a government policy or particular legislation (law) might be amended in the future with retrospective effect.

Political risk occurs due to changes in government policies. Such changes may have an unfavorable impact on an investor. It is especially prevalent in the third-world countries.

Methods of Handling Pure Risk

There are four ways an organization can deal with identified risk. As outlined below, these decisions have a number of impacts on time, money and resources for an organization. For a little humor, I added some graphics to depict what each decision reflects in terms of an ostrich. If the risk was a lion, it can accept (stand), mitigate (run), avoid (head in sand) or transfer (rabbit). It will make sense once you read further.

Acceptable

Accepting the risk is a business decision that is reflective on the level of "acceptable risk level," or the willingness for organization to assume the risk. This does not mean that an organization that does not know their risks can accept an unknown. Thus as noted above, we have already determined the level of risk and we are now determining the best course of action.

Many times I have briefed the CIO and executive management on risks that we identified, and far too often I get the response, "I know, I am willing to accept some level of risk." Of course, I follow-up with, "what is your acceptable level of risk for the organization?" This of course is a rhetorical question. They do not know, but really do not want to deal with the identified risks and use this as a way to dismiss the findings.

In many instances the risks identified are insignificant to the organizational risk portfolio, and thus can truly be accepted, assuming the organization has an Enterprise Risk Management (ERM) structure.

Avoid

Many business leaders confuse avoiding risk and Accepting risk. Let's make it very clear. Avoiding risk means you are going to do ***nothing*** with the identified risks. How does this differ from Accepting risk? When you accept the risk, you are actually doing something; you have chosen to accept the risk and the impacts to that decision, right or wrong.

During the financial industry collapse (late 2000), economists for these financial institutions were providing risk forecasts to decisions makers, based on subprime mortgage practices. However, these risks were avoided, or ignored. The financial institutions therefore fell into financial ruins and requested bailout funding from the government. Unfortunately, your business probably won't get bailout money if you decide to avoid risks. If they had truly accepted the risk, they would have been prepared to deal with the consequences.

Organizations and industry segments that, as a whole, decide to avoid risks, usually introduce government oversight to reduce the risk. Thus the Dodd-Frank law was passed to reduce the risks that financial institutions were unknowingly accepting. Recently in the presidential debates, you heard the Dodd-Frank law being discussed and that the government needs to reduce oversight and interference in banking operations. While I agree, let's also agree that by the financial institutions avoiding the risk, we are all paying for that mistake.

Mitigate

While it may be cost restrictive to reduce all risks, certainly based on the level of acceptable risk, the remaining should be mitigated. Mitigating risk means that you are reducing risks by implementing controls, fixes or other countermeasures that have a direct affect on the risks identified.

Residual risk is the risk after you have mitigated a portion of the identified risks. By focusing on residual risk, you can make more informed business decisions, specifically the cost of mitigating and the benefits gained from these controls.

Residual Risk = Identified Risk – Mitigated Risk Controls

Transfer

Many organizations are turning towards transferring risk as an alternative to the options above. Transferring risk can take various forms, including cyber liability insurance and outsourced services. However, in many instances, some residual risk remains.

Specifically for cyber liability insurance, companies should be using this to reduce their acceptable risk or reduce the financial exposure in event of an incident. However, buying cyber liability insurance without an understanding of your acceptable level of risk means you may be trying to mitigate your risk by transferring, which is never the case.

Case in point, organizations are transferring risk from processing credit cards transactions. The organization is assuming that if an outsourced provider performs this function, they are free and clear in the event of a breach. However, in most instances, the organization has the contractually obligation with their merchant bank; therefore if a breach occurs, there will be liabilities/fines associated to the organization. The organization would need to prove that the outsourcer was negligent and attempt to recoup/recover the fines they incurred.

Risk Management Process

According to the standard ISO 31000 "Risk management – Principles and guidelines on implementation, "the process of risk management consists of several steps as follows:

Establishing the context

This involves:

1. Identification of risk in a selected domain of interest
2. Planning the remainder of the process
3. Mapping out the following:
   - The social scope of risk management
   - The identity and objectives of stakeholders
   - The basis upon which risks will be evaluated, constraints.
4. Defining a framework for the activity and an agenda for identification
5. Developing an analysis of risks involved in the process

6. Mitigation or solution of risks using available technological, human and organizational resources.

Identification

After establishing the context, the next step in the process of managing risk is to identify potential risks. Risks are about events that, when triggered, cause problems or benefits. Hence, risk identification can start with the source of our problems and those of our competitors (benefit), or with the problem itself.

- **Source analysis** - Risk sources may be internal or external to the system that is the target of risk management (use mitigation instead of management since by its own definition risk deals with factors of decision-making that cannot be managed).
  Examples of risk sources are: stakeholders of a project, employees of a company or the weather over an airport.
- **Problem analysis** - Risks are related to identified threats. For example: the threat of losing money, the threat of abuse of confidential information or the threat of human errors, accidents and casualties. The threats may exist with various entities, most important with shareholders, customers and legislative bodies such as the government.
  When either source or problem is known, the events that a source may trigger or the events that can lead to a problem can be investigated. For example: stakeholders withdrawing during a project may endanger funding of the project; confidential information may be stolen by employees even within a closed network; lightning striking an aircraft during takeoff may make all people on board immediate casualties.
  The chosen method of identifying risks may depend on culture, industry practice and compliance. The identification methods are formed by templates or the development of templates for identifying source, problem or event. Common risk identification methods are:
- **Objectives-based risk identification** - Organizations and project teams have objectives. Any event that may endanger achieving an objective partly or completely is identified as risk.

- **Scenario-based risk identification** - In scenario analysis different scenarios are created. The scenarios may be the alternative ways to achieve an objective, or an analysis of the interaction of forces in, for example, a market or battle. Any event that triggers an undesired scenario alternative is identified as risk – see Futures Studies for methodology used by Futurists.
- **Taxonomy-based risk identification** - The taxonomy in taxonomy-based risk identification is a breakdown of possible risk sources. Based on the taxonomy and knowledge of best practices, a questionnaire is compiled. The answers to the questions reveal risks.
- **Common-risk checking** - In several industries, lists with known risks are available. Each risk in the list can be checked for application to a particular situation.
- **Risk charting** - This method combines the above approaches by listing resources at risk, threats to those resources, modifying factors which may increase or decrease the risk and consequences it is wished to avoid. Creating a matrix under these headings enables a variety of approaches. One can begin with resources and consider the threats they are exposed to and the consequences of each. Alternatively one can start with the threats and examine which resources they would affect, or one can begin with the consequences and determine which combination of threats and resources would be involved to bring them about.

Assessment

Once risks have been identified, they must then be assessed as to their potential severity of impact (generally a negative impact, such as damage or loss) and to the probability of occurrence. These quantities can be either simple to measure, in the case of the value of a lost building, or impossible to know for sure in the case of the probability of an unlikely event occurring. Therefore, in the assessment process it is critical to make the best educated decisions in order to properly prioritize the implementation of the risk management plan.

Even a short-term positive improvement can have long-term negative impacts.

Take the "turnpike" example. A highway is widened to allow more traffic. More traffic capacity leads to greater development in the areas surrounding the improved traffic capacity. Over time, traffic thereby increases to fill available capacity. Turnpikes thereby need to be expanded in a seemingly endless cycles. There are many other engineering examples where expanded capacity (to do any function) is soon filled by increased demand. Since expansion comes at a cost, the resulting growth could become unsustainable without forecasting and management.

The fundamental difficulty in risk assessment is determining the rate of occurrence since statistical information is not available on all kinds of past incidents. Furthermore, evaluating the severity of the consequences (impact) is often quite difficult for intangible assets. Asset valuation is another question that needs to be addressed. Thus, best educated opinions and available statistics are the primary sources of information. Nevertheless, risk assessment should produce such information for the management of the organization that the primary risks are easy to understand and that the risk management decisions may be prioritized. Thus, there have been several theories and attempts to quantify risks. Numerous different risk formulae exist, but perhaps the most widely accepted formula for risk quantification is: Rate (or probability) of occurrence multiplied by the impact of the event equals risk magnitude.

Risk control

Risk management is a series of steps whose objectives are to identify, address, and eliminate software risk items before they become either threats to successful software operation or a major source of expensive rework. (Boehm, 1989)

Risk financing techniques

"Risk Financing" presents basic concepts and theory relative to risk management. State agencies should recognize that application of risk financing techniques may depend upon appropriate enabling legislation before implementation may occur.

Retention of Risk

The financing of risks and losses is said to be "retained" if the funding source for payment of the losses originates from and remains within the organization until the loss is actually paid. The state of Texas retains risks unless specific insurance is purchased, and such insurance purchases are authorized by legislation. Financing risks through retention can be accomplished by any of the following techniques.

Expensing of Losses

Current expensing of losses involves the payment of losses directly from the current operating budget or appropriation. That is, the loss is "expended" or paid out of the current year's operating funds. Current expensing typically does not provide for a formally recognized funding source from which losses are paid. Therefore, expensing of losses is suitable only for payment of small losses such as repairing or replacing a broken typewriter. Expensing is not suitable for funding large losses.

Reserves

Reserves may be established in two ways.

(1) **Unfunded Reserve** – An unfunded reserve is established when the state agency recognizes a loss will occur, but specific funds or assets are not set aside from which the loss may be paid. An example of an unfunded reserve is an account that is established to track uncollectible fees or taxes owed to the state.

(2) **Funded Reserve** – A funded reserve is created when funds are set aside specifically for payment of losses. The funded reserve cannot be utilized for any other purpose than payment of claims. An example of a funded reserve might be the establishment of a fund from which tort claims against the organization are paid.

Borrowing

Borrowing is a method that may be utilized by an organization to pay for losses that have not been previously funded or insured. However, state agencies are not able to borrow since all appropriations and funding sources must be approved by the Legislature. Therefore, borrowing is not an option for state agencies as a risk financing technique.

Self Insurance

Self insurance by the state involves the establishment of an entity within state government which functions in the same manner as a commercial insurer. "Premiums" are collected from the various agencies, commissions, and institutions of higher education, etc. within the state, and claims and losses are adjusted and paid from the fund created by the "premiums" paid. Self insurance is practical only for large entities. An example of this is the Workers' Compensation Payment program administered by SORM.

Transfer of Risk

The financial burden of losses can be transferred from the entity incurring the loss to an outside entity. This may be accomplished through the purchase of commercial insurance or through a contractual transfer.

Insurance Transfer of Risk

Insurance is a contractual relationship that exists when one party (the Insurer) for a consideration (the Premium) agrees to reimburse another party (the Insured or third party on behalf of the Insured) for a loss to a specified subject (the Risk) caused by designated contingencies (the Hazards or Perils). When commercial insurance is purchased the insured entity pays premiums to the insurer. The insurer then pools the premiums paid by all insured entities that have purchased the same type of insurance. In this manner the risks are "spread" among all insured, and premiums are kept to a minimum. The insurer is then legally responsible for payment of all claims and losses, subject to the terms, exclusions and limitations of the policy, rather than the entity incurring the claim or loss.

Contractual Transfer of Risk

Contractual transfer of risk involves a legal transfer of the financial responsibility for payment of losses, but does not involve the purchase of insurance. Such non- insurance transfers typically involve the use of a "hold harmless agreement. Such an agreement may be required by a state agency that allows the use of public facility by a third party. The state agency would require the third party to sign a contract to hold the state agency harmless for losses that may arise due to the third party's use of the facility. The contract would need to specify the type of losses that fall within the contract. A state agency should check with the agency's general counsel regarding applicability of hold harmless agreements.

Risk Management Information Systems (RMIS)

Risk Management Information Systems are typically computerized systems that assist in consolidating property values, claims, policy, and exposure information and provide the tracking and management reporting capabilities to enable you to monitor and control your overall cost of risk.

The management of risk data and information is key to the success of any risk management effort regardless of an organization's size or industry sector. Risk management information systems/services (RMIS) are used to support expert advice and cost-effective information management solutions around key processes such as:

- Risk identification and assessment
- Risk control
- Risk financing

Objectives of Risk Management

Risk management has important objectives. These objectives cab be classified as follows:

Pre-loss Objectives- important objectives before a loss occurs include economy, the first objective means that should prepare for potential losses in the most economical way. The second objective is the reduction of anxiety. And the final objective is to meet any legal obligations for eg:- government regulation may require a firm to install safety devices to protect workers from harm, and to label consumer products appropriately.

Post-loss Objectives- The most important post- loss objective is survival of the firm. The second post- loss objective is to continue operating. For some firms, the ability to operate after a loss is extremely important. The third post-loss objective is stability of earning. Fourth post- loss objective is continued growth of the firm. And finally the objective of social responsibility is to minimize the effects that a loss will have on other persons and on society.

Possible Questions

PART – A (1 Mark)

Online Questions

PART – B (6 Marks)

1. Define the term Risk and explain the various types of Risk.
2. List out the various ways of Risk Financing Techniques.
3. Determine the classifications of pure risk in detail.
4. List out the Distinctions between Risk and Uncertainty.
5. Illustrate about the Risk Management by Objectives.
6. Determine the overview of the concept of risk.
7. Elucidate the Risk Management Process.
8. Determine the methods of Handling Pure risk.
9. Describe the Risk Management Information System.
10. Enumerate the Identification in Risk Management Process.

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Deemed to be University Established Under Section of UGC Act, 1956

Coimbatore - 641 021

Depatartment of Commerce

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Insurance and Risk Management (17CMP204)

Unit I

S. No	Questions	Option I	Option II	Option III	Option IV	Answer
1	The danger of losses from the unforeseen circumstances in future refers to	perils	hazard	risk	damage	risk
2	_____ involved those losses that occur even if there were no changes in the economic	dynamic risk	static risk	fundamental risk	particular risk	static risk
3	Risk that are not suited to treatment by insurance refers to _____	static risk	property risk	dynamic risk	liability risk	dynamic risk
4	Choosing not to ride in a car is an example of	shifting risk	risk reduction	risk avoidance	risk assumption	risk avoidance
5	Which risk-management technique does self-insurance satisfy?	risk reduction	risk assumption	risk avoidance	shifting risk	risk assumption
6	To be insurable, a risk must have potential losses that are	under the control of the insured	centrally located	predictable	immeasurable	predictable

7	Most firms shift their risks by	buying an insurable poicy	establishing self-insurance fund	establishing a safety program	installing smoke alarm	buying an insurance policy
8	Which type of coverage pays for damages intentionally caused by another	property damage liability coverage	comprehensive policy	collision insurance	product liability coverage	comprehensi ve policy
9	When a firm buys insurance to cover losses caused by riots, the firm is said to be	transferring risk	using risk	avoiding risk	risk assumption	transferring risk
10	Purchasing an insurance is a technique used to	assume risk	shift risk	reduce risk	avoid risk	shift risk
11	What is concerned with the conversion of a firm's assets and earning power	dynamic risk	static risk	fundamenta l risk	particular risk	static risk
12	Fundamental risk is also termed as	static risk	property risk	dynamic risk	liability risk	dynamic risk
13	Unemployment, war, inflation, earthquake etc., are the examples of	pure risk	particular risk	personal risk	fundamental risk	fundamental risk
14	Any risk involved in a situation where there is a possibility of gain refers to	liability risk	personal risk	pure risk	speculative risk	speculative risk

15	Direct or consequential losses refers to	pure risk	particular risk	property risk	dynamic risk	property risk
16	Spreading of risk is otherwise termed as	shifting of risk	acceptance of risk	reduction of risk	diversification of risk	diversificatio n of risk
17	The principle of prevention is better than cure refers to	avoidance of risk	reduction of risk	transfer of risk	shifting of risk	avoidance of risk
18	Insurance is a risk management technique involving	transferring risk	using risk	avoiding risk	risk assumption	transferring risk
19	Risk management follows a systematic process which involves _____ steps	3	5	7	9	5
20	Organisations are mainly concerned with managing	pure risks	speculative risks	personal risks	other isks	pure risks
21	The first step in risk management process is	risk avoidance	risk identification	insurance	risk evaluation	risk identificatio n
22	Which of the following steps in the risk process management helps to determine sum	risk identification	risk retention	risk transfer	risk evaluation	risk evaluation

23	Main emphasis of risk management is on	risk retention	reduction of cost of handling risk	risk transfer	insurance	reduction of cost of handling risk
24	When the subject is partially lost by a peril insured against, it is called	general average loss	constructive total loss	actual loss	particular average loss	particular average loss
25	Risk management requires	knowledge	analytical skill	knowledge of technology	periodical review of objectives	analytical skill
26	Individuual risk management doe not include	identification of pure risk	application of technique	handling of loss	identification of factors	identificatio n of factors
27	Which of the following is not personal risk?	loss of income	unemployment	premature death	loss of building	loss of buliding
28	Which of the following is not a liability risk?	negligent driving	liability towards non-fulfillment of objectives	payment of legal fees	liability towards creditors	liability towards creditors
29	_____ is an example of active risk retention	buying a motor vehicle	trandferring the loss	assuming the risk	use of risk avoiding techniques	risk assumption
30	Non-transfer instrument is an instrument used to transfer	pure risk	speculative risk	financial risk	exchange rate risk	pure risks

31	Which of the following is not passive risk?	ignorance	indifference	laziness	taking motor insurance	taking motor insurance
32	Risks that insurance firms will not assume	uninsurable risks	insurable risks	endorsemen ts	pure risks	uninsurable risks
33	Cost of injury or death due to hazrads at the work place are covered under	product liability insurance	life insurance	mal practice	public liability	public liability
34	Insurance that provides protection for a stated period is defined as	straight life insurance	single payment insurance	term insurance	limited payment insurance	term insurance
35	Insurance provides security against	risk	losses	both risk and losses	hazrads	both risk and losses
36	In insurance the risk is	certain	uncertain	both cretain and uncertain	indentifiable risks	both certain and uncertain
37	An untoward event which is not expected or designed	risk	accident	loss control	hazard	accident
38	____ is a social device for eliminating or reducing the loss of society from	premium	policy	insurance	contract	insurance

39	Risk is evaluated on the basis of	Variability theory	Contingency theory	Probability theory	Law of demand	probabilty theory
40	From the following, which one is not a type of risk?	speculative risk	dynamic risk	fundamenta l risk	quantitative risk	quantitative risk
41	From the following, which is not an example of fundamental risk?	war	unemployment	inflation	burning of a house	burning of a house
42	______ is also termed as group risk	fundamental static	property risk	liability risk	static risk	fundamental risk
43	________ is based on the principle of co-operation	indemnity	insurance	claim	subrogation	insurance
44	______ risk is defined as the relative variation of actual loss from expected loss	subjective risk	pure risk	objective risk	expected risk	objective risk
45	The Law of Large number can be applied more easily to ____	pure risk	objective risk	acceptable risk	subjective risk	pure risks
46	_____ is a process of indentifying loss exposure faced by an organisation and selecting the	insurance management	risk management	bancassura nce	exposure management	risk management

47	**A lien can be placed on one's income and financial assets to satisfy a legal**	**pure risk**	**liability risk**	**dynamic risk**	**acceptable risk**	**liability risk**
48	Business and individual should insure potentially serious losses before relatively	measurable loss	determinable loss	catatrophic hazard	large loss	large loss
49	______ refers to the causes of loss or the contingency that may cause a	loss risk	peril	danger	hazrd	peril
50	From the following, which one is a type of risk?	quantitative risk	subject risk	property risk	fundamental risk	fundamental risk
51	The main reason for self insurance is that the organisation believes that it has	large funds to finance loss	no intention to insure	no interest in transferring risk	no chance of incurring loss	large funds to finance loss
52	Speculative risk covers	all business risks	property risks	personal risks	sickness risk	all business risk
53	Risk management information systems are	software tools	management system	managemen t tools	social system	software tools
54	Risk manager is the person who manages the	risk	risk management functions	tries to avoid occurrence of risk	identify the risk	risk management functions

55	Insurance is	risk transferring and sharing	management function	a principle	qualitative technique	risk transferring and sharing
56	When the subject is totally lost by a peril insured against, it is called	general average loss	constructive total loss	actual loss	particular average loss	general average loss
57	A company conducts research to avoid loss in marketing a new product is called as	product research	market research	loss avoidance research	loss evading activity	market research
58	Which of the follwing is not real risk	theft	fire	death	committing suicide	committing suicide
59	Catastrophic risk affect adversely	large number of persons	small number of persons	particular area	particular group of people	large number of persons
60	The type of risk that are covered by insurance are	real monetary value	non-monetary value	particular loss	specific loss	real monetary value

UNIT II

RISK MANAGEMENT BY INDIVIDUALS AND CORPORATIONS

Risk Management by Individuals: Factors affecting individual demands for insurance – Risk Management by Corporations – Corporate Risk Management Process – Types of Risk Managing Firms

Risk Management by Individuals

Risk management is an indispensable tool since it is considered as a complex task that requires a lot of analytical skills. For its effectiveness risk management programme should be reviewed periodically to analyse whether the objectives are been attained. Individual risk management refers to the identification of pure risk faced by an individual or family and to the selection of most appropriate technique for treating such risk.

Risk Management Process

In order to reduce the risk element basic steps have been allowed under individuals risk management. The following are such steps:

1) Identification of potential losses: The process of risk management for individuals begins with identifying of potential losses which can arise to the following risks.

a) Personal risk

- Risk arising due to loss of earned income to the family because of pre mature death of family head.

- Insufficient income and financial assets during retirement

- Loss of earned income from unemployment

b) Property risk

- Direct physical damage to a home and personal property because of fire, lightning, flood, earthquake or other causes.

- Theft of valuable personal property including money, securities and antiques

- Theft of a car, motor cycle etc., or direct physical damage

c) Liability risk

- Legal liabilities arising out of defamation of character and similar exposures

- Legal liability arising out of the negligent operation of a car, motor cycle, boat, or recreational vehicle

- Legal liability arising out of business or professional activities

- Payment of attorney fees and other legal defense cost

2) Evaluation of potential Losses

Estimating the frequency and severity of potential losses is the most appropriate technique which is used to deal with the risk. For example, the chance that your home will be totally destroyed by certain natural calamity – thunder, storm, flood, earthquake etc., is relatively small, but the severity of the loss can be catastrophic potentials. Certain techniques such as retention are more appropriate for handling situations where loss frequency is high and loss severity is low, such losses should not be insured.

3) Selecting the appropriate techniques for handling losses

Losses are managed by selecting the most appropriate method for handling potential losses. Some of the methods are discussed below:

a) Loss control: It is a method by which frequency and severity of losses are controlled.

For example, car theft can be prevented by locking the car, removing the key from the ignition and installing anti theft device. Wearing a helmet reduces the severity of a head injury in two-wheeler accidents. Having a fire extinguisher on the premises reduces the severity of a fire.

Thus occurrence of any loss could be controlled by having loss control devices properly installed.

b) Avoidance: Apart from controlling the other substitute for preventing losses to occur is avoidance, a method for handling potential losses.

Example: one can avoid risk by not travelling on a lonely road in the night and not to drive a vehicle with poor breaks.

c) Retention: It means the amount of loss that you bear it at all some loss occurs. Risk retention can also be further classified into-

Active risk retention: It is risk that one aware of the risk and plan to retain part or all of it. Example-One can retain losses of car by buying Motor insurance for the car in case the car meets with an accident or eventually if it gets stolen.

Passive risk retention: Risk on the other hand could also be retained passively because of ignorance, indifference, or laziness. This could be dangerous if the retained risk could be result in catastrophic loss.

d) Non-insurance transfers: It is an instrument by which a pure risk is transferred to a party other than an insurer

For example: Risk associated with a defective music system is transferred to a retailer by purchasing an extended – warranty contract that makes the retailer responsible for repairs after warranty expires.

e) Insurance: It is one of the cheapest mode generally used by individuals for risk management. Individuals use life insurance and non-life coverage for personal, property and liability risks.

IV Review the program periodically

The risk management program must be reviewed periodically to find out deviations if these are significant, it requires a modification or complete renewal of the whole model.

Factors Affecting Individuals Demand for Insurance

Individual demand for insurance depends on various factors, sometimes particular to an individual. However, following factors are generally common:

1. **Price for risk transformation:** The cost of insurance vis-à-vis other products.

2. **Perception towards losses:** If the individual feels that insurer's calculation of risk and expected losses is better than his own, he will opt for insurance cover.

3. **Income and wealth states:** Insurance demand, logically, is positively correlated with the income and wealth of the potential insured.

4. **Social insurance programs:** If good social program by government t is available according to the satisfaction of the individuals, demand for insurance program will be lower.

5. Nature of losses: Insurance cover for non-monetary losses like mental tension and pain, psychological suffering are generally not very common and also legal structure takes care of these partially e.g., Specific Relief Act

Corporate Risk Management

Risk management by business firm differs substantially from risk aversion by individuals. Diversification is one of the strategies pursued by the business firms to tackle risk by spread into number of businesses. Individual shareholders diversify risk by spreading their investments in various stocks. However, for a given firm the perception is different. What is important is the variability of cash flows for the firm being a separate entity. Though “corporate insurance contracts and shareholder’s diversification are alternative mechanisms for diversifying pure risk for shareholders”. Yet, “any corporate activities that reduce the variability of corporate cash flows will not necessarily reduce the shareholders risk, because shareholders already may have diversified away the risk.”

Business insurance purchases can

1) Provide an efficient method of purchasing claims processing and loss control services.

2) Reduce the expected cost of financing losses

3) Reduce the likelihood that the firm will have to raise costly external capital for new investment projects and thereby increases the likelihood that it will adopt good investment projects;

4) Reduce the likelihood of financial distress and thereby improve the terms at which the firm will be able to contract with other claimants, such as employees suppliers, lenders and customers; and

5) Reduce expected tax payments.

Doubts are sometimes raised whether the diversification by shareholders is cheaper or the insurance mechanism. Since, the cost of buying a mutual fund is lower than an individual stock it look a cheaper option compared to insurance were the prices include margin and administrative costs. But, even if the shareholders are diversified, insurance can enhance value by restricting losses.

Corporate Risk Management Models

Corporate risk management, in a classical sense, has been viewed in terms of cost management primarily focusing on financial risks. However, in present scenario, the focus has changed to holistic view rather than as new approach. "Risk management can be viewed as a means to improve efficiency of other activities of the firm. Or, a firm may extend its internal risk management process for providing risk management products demanded by its customers.

Corporate Risk Management as a Control Exercise

Risk controlling firms use risk management or internal management and control. In these firms, the focus is on cost/ loss aspects, popularly known as negative effects of risk, rather than as a business opportunity**.** The main areas of concern in these firms are:

a) Maintenance of risk tolerance levels as per expectations of stockholders;

b) Using risk control tools enhances efficiently of their business operations,

c) Maintenance of sound governance process which should provide support required for the design, implementation and evaluation and fine tuning of the risk management process.

Process of Corporate Risk Management

In case of business organization, following process of risk management modeling is generally followed.

1) To analyse the risk profile of the firm and the changes brought by fluctuations in the factors that influence the cash flows relating to assets and liabilities.

2) To restructure the factors depending on the nature of the risk and organizational strategies of manage them.

3) To develop a model, dynamic in nature which keeps a continuous watch on actual risk undertaken, relative to that targeted.

4) Comparison of actual with target calls for corrective action and application of suitable risk transformation products.

The process of risk management needs to be aimed not only to meet the requirements of internal policies and guidelines but also to improve the efficiency at other activities of the firm.

Thus, the process of risk management is dynamic in nature, however it gives managers an opportunity to realign goals and ensure that the needs of the firm and design of the risk management system fits together.

Types of risk managing firms

Business firms, on the basis of risk perception can be classified as follows:

1) **Risk controllers**: These are the firms which use risk management for purely internal control purposes.

2) **Efficient enhancers**: These are firms that use their risk control tools to operate their business more efficiently. They focus more on the strategic issues

relating to risk management rather than tactical or implementation issues, which are the main issues of concern of the risk controllers. Generally, these firms use customized software solutions

3) **Risk transformers**: These are optimistic and view the risk management as a business opportunity and the main focus area is on design of new financial products for risk management.

Possible Questions

PART – A (1 Mark)

Online Questions

PART – B (6 Marks)

1. Determine the Risk Management by Corporations.
2. "Risk Management by Individual" – Discuss.
3. Enumerate the types of risk managing firms with suitable examples.
4. Enumerate the term, "Corporate Risk Management Process".
5. Point out the factors affecting individual demands for insurance.
6. Describe the individual risk management process.
7. Explain the term corporate risk management models.
8. Explain the corporate risk management control exercise.

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S. No.	Questions	Option I	Option II	Option III	Option IV	Answer
1	Individuals adopt, _____ to reduce risk	spreading the investment	stop making investment	selling investment	purchase less risk investment	spreading the investment
2	Business insurance purchase reduces expected	tax payments	expected losses	expenses	expected profits	tax payments
3	Insurance ocver for non-monetary loss is taken care of by	specific relief Act	Insurance Act	Workmaen's Compensation Act	Factories Act	Specific Relief Act
4	What is required for Risk management process?	sound governance	sound financial position	sound strategy	sound management	sound governance
5	Corporate risk mangement process aimed at maintenance of	tolerence level	production level	profit level	financial position	tolerence level
6	The main focus of Risk controlling firms is on ________	negative aspects of the risk	positive aspects of the risk	both positive and negative aspects of the risk	efficiency aspects of the risk	negative aspects of the risk

7	Risk management can be viewed as extending provision of risk management	demanded by the customers	expected by the customers	needed by the customers	not required by the customers	demanded by the customers
8	_______ is the strategy pursued by the business firms to tackle risk	diversification	systematisation	spreading	controlling	diversification
9	Risk controllers use risk mangement for purely ______	internal control purposes	external control purposes	either for external or for internal purposes	policy purposes	internal control purposes
10	Efficient use of risk control tools aimed to	operate business efficiently	increase profits	control effectively	ensure uninterrupted running of business	operate business efficiently
11	The focus of eficiency enhancers in using risk control tools is on	strategic issues	non-strategic issues	control issues	sales issues	strategic issues
12	Efficient enhancers generally use	customised software solutions	readymade software solutions	self made software solutions	purchased software solutions	customised software solutions
13	Risk transformers are	optimistic	pessimistic	more cautious	more purposeful	optimistic
14	Risk transformers view the risk management as a	business opportunity	business struggle	business hurdle	business nuisance	business opportunity

15	Risk transformers always aimed at designing	new financial products	new insurance products	new control devices	new strategies	new financial products
16	Business organisations assess the factors influencing _____	cash flows	profitability	sales	HR practices	cash flows
17	In corporate risk management, the factors are restructured considering	organisational strategies	organisational opportunities	organisational risks	organisational problems	organisational strategies
18	Model to handle risk comparison of actual risk with targetted risk is made	continuously	whenever required	periodical	when it is demanded by management	continuously
19	Risk management aimed at	improving the efficiency	improving the profitability	reducing the losses	reduces the risk	improving the efficiency
20	Risk management is	static	dynamic	fluctuating	any of these	dynamic
21	Managers use risk mangement as an opportunity to	increase sales	realign goals	identify strategy to control risk	identify opportunity	realign goals
22	Income and wealth states of the insurer will have ______ on potential insurance	positive correlation	negative correlation	no correlation	high degree of positive correlation	positive correlation

23	In case of availability of good social insurance programe, the	low	high	average	good	low
24	Individuals apt for insurance cover when insurers calculation of risk is	better	good	excellent	bad	better
25	Price for risk transformation is the cost of insurance to the	insurer	insured	agent	third party	insurer
26	What is the cheapest mode of individual risk management?	insurance	self insurance	avoidance	active risk transfer	insurance
27	Buying a motor insurance is an example of	active risk retention	passive risk retention	smart risk retention	slow risk retention	active risk retention
28	Being indifferent is an example of	active risk retention	pasive risk retention	smart risk retention	slow risk retention	passive risk retention
29	Not driving a vehicle with poor brake is an example of	loss avoidance	loss assumption	loss retention	loss acceptance	loss avoidance
30	Severity of head injury, can be reduced by	wearing helmets	driving slowly	keeping the brake in control	any of these	wearing helmets

31	A theft can be prevented by	locking the car	parking in the parking area	insuring	appointing security	locking the car
32	A method which controls the frequency and severity of losses is	loss control	loss retention	loss transfer	loss assumption	loss control
33	When loss severity is low, such losses ____	insured	retained	transferred	avoided	insured
34	Retention is the most appropriate technique when the frequency and severity is	high	low	medium	moderate	high
35	The most important aspect of dealing with the risk is estimating the	frequency and severity of loss	frequency and amount of loss	frequency of occurrence of loss	possibility of insurance	frequency and severity of loss
36	Which is not the legal liability?	Liability out of defamation of character	liability out of negligence	liability out of operating a car	liability arising out of business	liability out of defamation of character
37	Which is not the property risk?	damage to property on account of fire	theft of jewels	physical damage to motor car	liability on negligence	liability on negligence
38	Which is not personal risk?	loss of income due to death	insufficient income on retirement	loss of income due to unemployment	physical damage	physical damage

39	The evaluation of personal loss should consider	loss frequency	loss severity	loss amount	loss nature	loss severity
40	Potential losses should be evaluated in terms of	loss frequency	loss severity	loss nature	regularity of occurrence	loss frequency
41	Individual risk management programme is started with idetification of	potential losses	potential opportunities	opotential profits	potential techniques	potential losses
42	The purpose of individual risk management is to select the most	to treat the risk	to reduce the risk	to avoid the risk	to close the risk	to treat the risk
43	Review of risk mangement programme is carried to see	objectives attained	profits are gained	the programme is on the right path	whether review is needed	objectives are attained
44	Risk management programme should be reviewed	periodically	whenever needed	demanded by the management	demanded according to the situation	periodically
45	Risk management is considered as a	simple task	complex task	hard task	easy task	complex task
46	Risk mangement is an	indispensable tool	important tool	effective tool	ineffective tool	indispensabl e tool

47	Who is optimistic in dealing with the risk?	risk transformers	risk providers	risk handlers	risk avoiders	risk transformers
48	Purchase of an insurance is the aim of	reducing risk	prompt tax payment	fulfill the regulatory requirement	reduce the tax burden	reduce tax paymnet
49	Negative aspect is main aim of	risk controlling firms	insurance companies	individuals	corporate undetakings	risk controlling firms
50	Maintaining the brake in good condition helps to prevent	accident	loss	taking insurance	risk mangement	accident
51	Insurance is the cheapest mode of controlling the risk for	individuals	corporates	co-operatives	public sector undertakings	individuals
52	What is considered in evaluating personal loss?	loss frequency	loss severity	loss amount	loss nature	loss severity
53	Realigning goals by managers is used in	risk management	risk controling	risk reducing	risk transferring	risk management
54	Business opportunity is viewed as risk mangement by	risk transformers	risk controllers	risk takers	risk providers	risk transformers

55	When is the demand for insurance low?	availability of good social insurance	reduced loss environment	less efficient insurers	possibility of risk	availability of good social insurance
56	Give an example for passive risk retention	being indifferent	buying a motor vehicle	not thinking about insurance	transferring the property	being indifferent
57	What is the cost of insurance?	price for risk transformation	premium paid	amount of expected loss	amount of reduction in profit	price for risk transformati on
58	For whom insurance is the cheapest mode of risk management?	for corporates	for individuals	for the government	for the local bodies	for individuals
59	Give an example for risk avoidance	not driving vehicle with poor brake	not purchasing a car	not purchasing an insurance	not using motor car	not driving vehicle with poor brake
60	Who consider loss severity in evaluating losses?	individuals	corporates	insurance companies	both individuals and corporates	individuals

Unit – III

GROWTH AND DEVELOPMENT OF INDIAN INSURANCE INDUSTRY

Growth and Development of Indian Insurance Industry – Regulations of Insurance Business and the Emerging Scenario – Introduction to Life and General Insurance – Life Insurance: Features of Life Insurance – Essentials of Life Insurance Contract – Kinds of Insurance Policies – Premium Determination – Life Policy Conditions

Growth and Development Indian Insurance Industry

Insurance has had a very positive impact on India's economic development. The sector is gradually increasing its contribution to the country's GDP. In addition, insurance is driving the infrastructure sector by increasing investments each year. Further, insurance has boosted the employment scenario in India by providing direct as well as indirect employment opportunities. Due to the healthy performance of the Indian economy, the share of life insurance premiums in the gross domestic savings (GDS) of the households sector has increased. The increased contribution of the insurance industry from the household GDS has been ploughed back into the economy, generating higher growth.

1. Contribution of insurance to infrastructure

Generally, countries with strong insurance industries have a robust infrastructure and strong capital formation. Insurance generates long-term capital, which is required to build infrastructure projects that have a long gestation period. Concurrently, insurance protects individuals and businesses from sudden unfavorable events. A well developed and evolved insurance sector is needed for economic development as it provides long-term funds for infrastructure development and simultaneously strengthens the risk taking ability.

2. Contribution of insurance to FDI

The importance of FDI in the development of a capital deficient country such as India cannot be undermined. This is where the high-growth sectors of an economy play an important role by attracting substantial foreign investments. Currently, the total FDI in the insurance sector, which was INR50.3 billion at the end of FY09, is estimated to increase to approximately INR51 billion in FY10. It is difficult to estimate, but an equal amount of additional foreign investment, can roughly flow into the sector if the government increases the FDI limit from 26% to 49%. The insurance sector, by virtue of attracting long-term funds, is best placed to channelize long-term funds toward the productive sectors of the economy. Therefore, the growth in their premium collections is expected to translate into higher investments in other key sectors of the economy. Therefore, the liberalization of FDI norms for insurance would not only benefit the sector, but several other critical sectors of the economy.

3. Contribution of insurance to employment

Insurance helps create both direct and indirect employment in the economy. Alongside regular jobs in insurance, there is always demand for a range of associated professionals such as brokers, insurance advisors, agents, underwriters, claims managers and actuaries. The increasing insurance business has increased the demand for highly skilled professionals as well as semiskilled and unskilled people.

4. Insurance Contributes Positively to Economic Growth

The deepening of insurance markets makes a positive contribution to economic growth. While life insurance is causally linked to growth only in higher income economies, nonlife insurance makes a positive contribution in both developing and higher income economies. Some research suggests that the positive contribution of life insurance to growth is primarily through the channel of financial intermediation and long term investments. However, it is important to note that these studies do not address the important contributions to individual and social welfare from risk management.

5. Strong Complementarities between Insurance and Banking

Insurance and banking system deepening appear to play complementary roles in the growth process. Although insurance and banking separately each make positive contributions to growth, their individual contributions are greater when both are present. There is also some evidence that the development of insurance markets contributes to the health of securities markets.

Regulations of Insurance Business and Emerging Scenario

Although some federal regulations affect insurance directly, such as the Fair Credit Reporting Act and a few programs that make coverage for catastrophic losses available, such as FEMA's (Federal Emergency Management Agency) National Flood Insurance Program, insurance is regulated primarily at the state level.

State Insurance Regulation

Insurance is closely regulated for the good of the insurance industry and the general public. Each state has its own laws and regulations to regulate the insurance business conducted within its boundaries.

Each state has an *insurance department* headed by an official charged with the responsibility for controlling insurance matters within that state. These officials are called directors, superintendents, or commissioners of insurance, depending on the state where they hold office, but they all perform similar duties. The term "commissioner" applies in most states.

Collectively, the commissioners of all states form a body known as the *National Association of Insurance Commissioners (NAIC)*, which meets at regular intervals to exchange information and provide coordination of the regulatory measures of each state. Through its recommendations, much of the nation's insurance laws take shape. Although nonbinding on individual states, the NAIC's recommendations are generally followed.

Regulation of Companies

State regulation of insurance companies affects numerous aspects of their formation and operations, ranging from capital and surplus requirements to investment and marketing practices. State laws require the reporting of financial data and payment of premium taxes, and specifically prohibit a number of unfair or deceptive practices.

Admitted and Non-admitted Companies

One of the duties of an insurance department is to determine which insurance companies will be allowed to do business in the state. A company that meets the insurance department's standards and is authorized to do business in a state is called an *admitted* or *authorized insurer*. An insurance company that is not authorized to do business in a state is a *non-admitted* or *unauthorized insurer*. A non-admitted insurer can only do business in the state under special circumstances.

Domestic, Foreign, and Alien Companies

Although a company can conduct business in several states, it is formed and incorporated in only one state. Within its home state, an insurance company is known as a *domestic* company. Within states other than the state in which it is incorporated, an insurance company is a *foreign* company. A company that is incorporated in a country other than the United States, but doing business in the states, is known as an *alien* company.

Financial Regulation

In addition to examining and authorizing companies to conduct business within the state, the state insurance department keeps close watch over the financial health of all companies doing business within its boundaries.

Various regulations are designed to preserve insurance company solvency, to detect financial problems, and to protect insureds in the event that insolvency occurs. State laws impose capital and surplus requirements on insurers, require the preparation of annual financial statements, and require periodic examinations of insurers. These laws establish initial financial requirements and help in the early detection of financial problems. If an insurer falls into a hazardous financial condition, the insurance department attempts to rehabilitate the company. If an insurer becomes insolvent, the insurance department will handle the liquidation.

In many states, the public is also protected by one or more *insurance guaranty associations* that provide funds for payment of unpaid claims when an insurer becomes insolvent.

Company Ratings

There are several organizations that rate the financial strength of insurance carriers, based on an analysis of a company's claims experience, investment performance, management, and other factors. These organizations include A.M. Best, Standard & Poor, and Moody's. These ratings are one of the most widely used indicators of financial health (or the lack of it) in the insurance industry.

Regulation of Agents

Many insurance regulations are directed toward governing the qualification and behavior of insurance agents. As the primary source of contact between insurance companies and members of the general public, it is important that agents be properly educated and act in an ethical and professional manner.

Licensing

The state insurance department devotes much of its time to working with insurance agents. One of its most important duties with regard to agents is licensing. It is illegal for someone to sell insurance without first obtaining a license from the state to do so.

To make sure that agents will be prepared to undertake their substantial responsibilities, each state requires its agents to pass a licensing exam to receive a license. This exam is administered by the state insurance department. An agent may only offer insurance in the states where he or she holds the proper license. For example, an agent who is licensed to sell insurance only in his or her resident state of Indiana could not provide insurance on an Indiana customer's lake home located in Michigan. However, the Indiana agent could obtain a nonresident agent license from Michigan, and in that case he or she could sell coverage on property located in that other state.

Codes Regulating Agents

In addition to licensing, the state is responsible for the way agents conduct business within the state. State insurance codes are very specific about the standards agents must meet.

A *fiduciary* is a person who stands in a special relationship of trust to another person. Agents have fiduciary duties toward their clients, especially regarding the handling of premiums.

Agents cannot *misrepresent* or falsely advertise the terms or benefits of a policy or the financial condition of the company. Agents must make complete, accurate statements about the product being sold.

Twisting is a form of misrepresentation in which the agent convinces the client to cancel already existing insurance and buy another policy from the agent, to the detriment of the insured. Twisting is illegal.

Rebating is giving or offering some benefit other than those specified in the policy—such as cash, gifts, or securities—to induce a customer to buy insurance. For example, an agent might kick back part of a commission to the customer, thus lowering the price of the insurance in return for the business. Rebating is illegal in all but two states.

Agents can be in violation of the law if they *unfairly discriminate* against insured people. This means that an insured cannot be given a lower or higher rate than another insured in identical circumstances. It also means that the agent cannot accept a bribe from a client to provide insurance or lower the premium.

Form and Rate Filings

Another important function performed by state insurance departments is approval, or ratification, of the policy forms, endorsements, and rates used by companies doing business in their states. *Rates* are the basic charges an insurance company sets for various types of insurance.

In some states, called *prior approval* states, the insurance company must obtain official approval before using new forms and rates.

In *file and use* states, a company can begin using forms and rates as soon as they have been filed. The state eventually reviews the filing and officially accepts or rejects it. With *use and file* states, insurers must file rates and forms within a certain period of time after they are first used.

In *open competition* states, the state allows the companies to compete openly with the forms and rates they select, subject only to requirements of adequacy and nondiscrimination.

In some states, for some lines of insurance, the use of unique state forms or rates can be *mandatory* for any company doing business in the state.

Rating Organizations

Some states establish their own rates for certain types of insurance and require all companies to use these mandatory rates. For most types of insurance, however, the company must establish the rates and submit them to the state.

Rate-making involves collecting extensive and accurate financial, operational, premium, and loss records. To assist the insurance company in collecting these statistics, certain central *service bureaus* have been established. These organizations—made up of numerous individual insurance companies—gather, pool, and analyze statistics from all the member companies. The bureau then establishes *loss costs* based on these combined figures and files them with individual states. Loss costs represent the key component of an insurance rate—how much an insurance company needs to collect to cover expected losses.

Member companies can use these loss costs combined with factors covering their own expenses and profit margins to establish finished rates. Companies must file rates with the state but can do this by referencing the service bureau's loss costs and filing their own individual factors reflecting expenses and profit. Some companies do not belong to a service organization and collect their own statistics and file independently.

Companies that use bureau filings sometimes *deviate* from the published rates by charging something either higher or lower than the recommended rate. Deviations are usually permitted within a specified range, provided that the insurer is consistent in applying the same deviation to all similar risks.

One of the largest services bureaus is the *Insurance Services Office*, commonly referred to as ISO, which files both loss costs and standardized forms on behalf of its member companies. The *National Council on Compensation Insurance, Inc. (NCCI)* is a rating bureau that has jurisdiction over the workers compensation field. The *Surety Association Of America* functions as a rating bureau for surety bonds. There are numerous other rating bureaus.

Enforcement

An important area of regulatory responsibility for the state insurance departments is enforcement of the many laws and rules that apply to the conduct of the companies, agents, and types of insurance transacted within the state. The department is responsible for seeing that the insurance business within its jurisdiction operates in compliance with these codes and standards. Reported violations must be investigated, and appropriate penalties assessed. Violations can result in fines, license suspension or revocation, suspension or revocation of a company's authority to do business in the state, and, in some cases, imprisonment.

Federal Regulation

Although most insurance operations are regulated by the states, there are some areas where the federal government has exercised its regulatory authority. For example, federal law imposes penalties for *fraud and false statements* made in connection with insurance transactions. Anyone engaged in the insurance business who makes a false material statement or report or willfully and materially overvalues any land, property, or security in connection with financial reports or documents presented to an insurance regulatory official or agency for the purpose of influencing their actions can be subject to punishment. Any insurance officer, director, or agent who willfully embezzles, abstracts, purloins, or misappropriates any of the moneys, funds, premiums, credits, or other property of an insurer can be punished accordingly. Punishments can consist of substantial fines and/or periods of imprisonment for up to 10 years.

Life Insurance

Most people have a basic understanding of insurance. You receive financial compensation when an insured event occurs. Consider auto insurance, for example. If your car is in an accident or stolen, your insurance company provides compensation according to the terms outlined in your insurance policy.

On the surface, life insurance is pretty straightforward. When the insured person dies, the policy pays a prearranged amount to the designated beneficiary. The following parties are generally involved in a life insurance policy:

- **The Insured**: The person on whose life the policy is based.
- **The Beneficiary**: The person who receives the payment.

- **The Owner**: The person responsible for payment of premiums. It is typically the insured, but it could be the beneficiary.
- **The Insurer**: The insurance company that issues the policy promising payment.

Traditionally, both spouses have life insurance policies in order to protect their family in case one of them dies.

Why purchase life insurance?

The main purpose of any life insurance policy is to protect your family and loved ones against the risk of financial uncertainty. **Life insurance can provide** for the welfare of your family in face of your death. If you have a spouse, three kids, a mortgage, car payments, and credit card bills, what would happen to them if you were suddenly to die? Would your family have enough money to keep the house, car, pay off credit card debt, and send your children to college?

Life insurance can guard your family and loved ones from potential financial disaster.

Features of Life Insurance

1. **Waiver of premium**. This feature pays the premium of a policy if you become seriously ill or disabled.
2. **Accelerated death benefit.** This feature allows you to receive cash advances against the death benefit of your policy if you're diagnosed with a terminal illness. Many people with this benefit use the money to help pay for treatment and other expenses when they have only a short time to live.

3. **Guaranteed purchase option.** With this feature, you can purchase coverage at designated future dates or life events without proving you're in good health.
4. **Long-term care riders**. Some life products include this option, which allows you to use the benefits of your policy to pay for long-term care in exchange for a reduced life benefit.
5. **Spouse or child term riders**. Life policies with this feature allow you to purchase term life insurance for your spouse or dependent child, up to age 26. This option can be a more affordable way to purchase coverage if you can't afford separate policies.
6. **Cash value plans.** This type of policy pays out upon your death and also accumulates value during your lifetime. You can use the cash value as a tax-sheltered investment, as a fund from which you can borrow and use to pay the policy premiums later.
7. **Mortgage protection**. This feature, typically found on term life policies, will pay your mortgage if you die.
8. **Cash withdrawals and loans**. Many universal and whole life policies allow you to withdraw or borrow money, using the cash value of the policy as collateral. Interest rates tend to be relatively low. You can also use the cash value of your life policy to pay your premiums if you need or want to stop paying premiums for a period of time. You must pay back the loan or your beneficiaries will receive a reduced death benefit.
9. **Survivor support services.** Some life policies offer services that provide objective financial and legal assistance to beneficiaries.
10. **Employee assistance programs.** This feature makes resources available to you for problems that can affect your personal and professional life. Resources are usually free and help address issues

such as substance abuse, stress, marital problems, legal concerns and major life events.

Essentials of Life Insurance Contract

Utmost good faith

All types of contracts of insurance depend upon the contracts of utmost good faith. Both parties (insurer and insured) in the contract must disclose all material facts for the benefit of each other. False information or non-disclosure of any important fact makes the contract avoidable. So the conditions to show utmost good faith are very strict on the part of the insured.

Insurable Interest

The insured must possess an insurable interest in the object insured. It may be defined as a financial interest in the subject matter of contract. When you insure your belonging, you should take it to be worth the money being spent on it. The presence of insurable interest is a legal requirement. So an insurance contract without the existence of insurable interest is not legally valid and cannot be claimed in Court. The object of this principle is to prevent insurance from becoming a gambling contract.

Principle of indemnity

All types of contracts except life and personal accident insurance are contract of indemnity. According to them, the insurer undertakes to indemnify or compensate the insured against a loss of the subject matter of insurance due to insured cause. In life insurance the question of indemnification does exist. This is because the loss of life cannot be estimated in term of money. If no event happens, the insured does not receive any amount, and in such a case the premiums paid by him become the profit of the insurer.

Doctrine of subrogation

This principle applies to the contract of indemnity only i.e. marine and fire. It lays down a principle which is quite equitable. According to this doctrine, when a loss occurs and the insurer pays as for a total loss, he is entitled to all the rights and remedies which the insured has against a third party in respect of loss so paid for. It prevents the insured being indemnified from two sources in respect of the same loss. Suppose 'A' has damaged 'B's motor car negligently. If 'A' pays 'B's loss in full. 'B' cannot collect the same from the insurance company. On other hand if 'B' applied to his insurance company for indemnity under policy, he will not be permitted to collect the damages from 'A'. And the latter case the insurance company will be entitled to collect the amount.

Types of life insurance

While the idea of life insurance may be pretty basic, there are some complexities to consider. The most important point to remember is that there are several different types of life insurance products, which can make it difficult to select the right one for your family and your financial needs.

There are two basic forms of life insurance — term life and permanent life, the latter of which comes in several flavors. Here's a quick breakdown of the basic policy types:

Term life

Term Life is the simplest and (typically) cheapest form of life insurance. Term life is designed to provide coverage for a fixed period of time, such as 5, 10, or

20 years. The premium for the term policy is guaranteed for the duration of the term; if it is a renewable policy, the premium will increase with each renewal. The premiums for renewals are generally guaranteed when the original policy is issued. Because term life policy is for a specific period of time and the payout does not increase, the overall cost of term life insurance is usually very low. The other three common types of life insurance are permanent policies &mash; they last for the entire life of the insured, not just for a fixed period of time.

Whole life

Whole Life policies, for example, are designed to provide you and your loved one with coverage until your death. Unlike term life, there are no fixed periods for whole life coverage. Whole life is sometimes referred to as “cash value” insurance because it builds cash value over your lifetime. Whole life coverage contains both investment and insurance components. The investment portion invests your premiums, earns interest, and accumulates a cash value. On the other hand, the policy also has a stated insurance coverage amount that is paid upon the death of the insured.

Variable life

Variable life policies allow you to invest your premiums in the stock market. While a variable policy may offer more significant returns, it’s also at the mercy of stock market performance. In a poor performing market, the overall death benefit/cash value of the policy may decline — but never below a defined level. As a result, the policy may be more expensive because you may have to pay more to keep the policy active because less money is available to cover the policy’s premiums.

Universal life

Universal life is a popular option that acts like whole life. It is a renewable policy — the investment component, premiums, and death benefits can be renewed and changed based upon the policy owner's needs. The policy owner has flexibility over the policy — money can be moved between the insurance and investment components of the policy. The premiums, unlike whole life policies, can be paid out of interest from the accumulated savings.

Types of Life Insurance Policies

1. Term Plan – pure risk cover
2. Unit linked insurance plan (ULIP) – Insurance + Investment opportunity
3. Endowment Plan – Insurance + Savings
4. Money Back – Periodic returns with insurance cover
5. Whole Life Insurance – Life coverage to the life assured for whole life
6. Child's Plan – For fulfilling your child's life goals like education, marriage, etc.
7. Retirement Plan - Plan your retirement and retire gracefully

1. Term Life Insurance

Term insurance is the simplest form of life insurance plan. Easy to understand and affordable to buy. A term plan provides death risk cover for a specified period. In case the life assured passes away during the policy period, the life insurance company pays the death benefit to the nominee. It is a pure risk cover plan that offers high coverage at low premiums. There's an option to add riders to widen up the coverage. The death benefit is payable as lump sum, monthly payouts, or a combination of both. There's no payout if the life assured outlives the policy term. However, these days there are companies offering Term Plans with Return of Premiums (TROPS), where insurance companies payback all the paid premium amount in case the life assured outlives the term period. But, such plans are costlier than the vanilla term insurance plan.

Example:

An individual non-smoker male who is looking for a term life plan of Rs.1 crore cover, will cost him approximately Rs.6, 800 to Rs.10, 500 per year.

AGE	TERM	SUM ASSURED	ANNUAL PREMIUM RANGE
25 years	40 years	Rs.1 Crore	Rs.6,800 – Rs.10,500

Best known for: High sum assured (coverage) at a low premium.

Benefit of Term Plan: In case of an untimely death of the breadwinner, family is supported with an enormous amount of money – sum assured, which helps them to replace the loss of the income caused due to the breadwinner's death. Moreover, the money could be utilized to pay off loan, monthly household expenses, child's education, child's marriage, etc.

2. Unit Linked Plans (ULIPs)

A unit linked plan is a comprehensive combination of insurance and investment. The premium paid towards ULIP is partly used as a risk cover (insurance) and partly is invested in funds. One can invest in different funds offered by the insurance company depending on his risk appetite. The insurance company then invests the accumulated amount in the capital market i.e. in bonds, equities, debts, market funds, or a hybrid funds.

Example:

TERM	SUM ASSURED	ANNUAL PREMIUM	FUND VALUE
20 years	Rs.2 lakh	Rs.20,000	Depending on the fund value at the time of maturity.

Best known for: Long-term investment option with much more flexibility to invest.

Benefit of ULIP: Invest money as per your risk appetite. You have the option to invest either in equity, debt or in hybrid funds through the life insurance company with complete transparency.

3. Endowment Plans

Endowment plan is another type of life insurance plan, which is a combination of insurance and saving. A certain amount is kept for life cover – insurance, while the rest is invested by the life insurance company. In an endowment plan, if the life assured outlives the policy term, the insurance company offers him the maturity benefit. Moreover, endowment plans may offer bonuses periodically, which are paid either on maturity or to the nominee under death claim. On death, the death benefit is payable to the nominee. Endowment plans are also commonly known as traditional life insurance, although, there is an investment component but the risk is lower than the other investment products and so are the returns.

Example:

TERM	SUM ASSURED	ANNUAL PREMIUM RANGE	BONUS
30 years	Rs.10 lakh	Rs.20,000 – Rs.25,000	Depending on the Bonus at the time of maturity.

Best known for: Long-term saving option for people with much lower risk appetite for investment.

Benefit of Endowment Plan: Long-term financial planning and an opportunity to earn returns on maturity.

4. Money Back Life Insurance

Money back plan is a unique type of life insurance policy, wherein a percentage of the sum assured is paid back to the insured on periodic intervals as survival benefit. Money back plans are also eligible to receive the bonuses declared by the company from time to time. This way, policyholder can meet short-term financial goals.

Example:

TERM	SUM ASSURED	ANNUAL PREMIUM RANGE	PERIODIC RETURNS	MATURITY BENEFIT
20 years	Rs.5 lakh	Rs.20,000 – Rs.25,000	A percentage of Sum Assured paid on regular intervals	Accrued bonuses/Guaranteed Money Back + Coverage

Best known for: Short-term investment product to meet short-term financial goals.

Benefit of Money Back Plan: Short-term financial planning and an opportunity to earn returns on maturity.

5. Whole Life Insurance

A whole life insurance policy covers the life assured for whole life, or in some cases, up to the age of 100 years. Unlike, term plans, which are for a specified term. The sum assured or the coverage is decided at the time of policy purchase and is paid to the nominee at the time of death claim of the life assured along with bonuses if any. However, if the life assured outlives the age of 100 years, the insurance company pays the matured endowment coverage to the life insured. The premiums are higher as compared to term plans. Whole life insurance plans also offer partial withdrawals after completion of premium payment term.

Example

PREMIUM PAYING TERM	SUM ASSURED (WITH GUARANTEED MATURITY SUM ASSURED)	ANNUAL PREMIUM RANGE	MATURITY BENEFIT
20 years	Rs.3 lakh	Rs.10,000-Rs.15,000	Guaranteed Sum Assured + non-guaranteed bonus (if any) + non-guaranteed terminal bonus (if any)

Best known for: Life coverage for whole life.

Benefit of Whole Life Plan: Lifelong protection to the insured and an opportunity to leave behind a legacy for heirs.

6. Child Plan

Child plan helps to build corpus for child's future growth. Child plans help to build funds for child's education and marriage. Most of the child plans provides annual installments or one time payout after the age of 18 years. In case of an unfortunate event, the insured parent passes away during the policy term - immediate payment is payable by the insurance company. Some child plans waive off the future premiums on death of the life insured and the policy continues till maturity.

Example

TERM	SUM ASSURED	ANNUAL PREMIUM RANGE	PERIODIC RETURNS	MATURITY BENEFIT
20 years	Rs.18 lakh	Rs.1 lakh	Lump sum payouts on regular interval	Maturity benefit + guaranteed returns + non-guaranteed accumulated bonus (if any)

Best known for: Building funds for your child's future.

Benefit of Child Plan: Helps in fulfilling your child's dream.

7. Retirement Plan

Retirement plan helps to build corpus for your retirement. Helping you 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.

Best known for: Long-term savings and retirement planning.

Benefit of Retirement Plan: Helps in building corpus for retirement.

Premium Determination

The insurance firm calculates it and we can only chose to accept or reject the offer. However, knowing how to calculate premium of life insurance and the key deciding factors can help us understand what we are factually looking at in our premium calculations.

Factors that influence how insurance premium is calculated

Personal factors

Age

It is best to get life insurance as early as possible, since age and life insurance premiums are directly proportional. Age affects how insurance premium is calculated crucially - younger people are healthier and therefore get the best premiums, while older people, more prone to health problems, pose a higher risk to insurers, hence premiums are higher too.

Gender

It is seen that women normally go to doctors more often than men, and are generally diagnosed for risky health conditions earlier. Therefore, they end up paying lesser towards their life insurance premiums.

Weight and height

Insurers consider height and weight as they indicate a person's body mass index. Obese people are more likely to suffer from weight-related medical disorders and this affects how insurance premium is calculated.

Medical history

Self and family : Your health history is a critical factor in your premium computation. Health disorders, past or current, and family history of ailments, are the main contributing factors. However, the extent to which your medical history influences your premium depends on the severity of your previous illnesses, or health issues you may currently be suffering from. For instance, if you can prove that you have fully recovered from a serious health disorder, for instance, cancer, or can show that you are taking good care of a chronic problem like diabetes, then the evidence could lead to lowering your premium. However, this reduction depends on the life insurance companies and the type of insurance applied for. Particularly in case of cancer recovery, most insurers do not offer protection until the individual proves that he/she has been in remission for a minimum of five years.

Whether your family medical history is factored in depends on the severity of the health condition, number of close family members affected, and their age when they fell ill.

Marital status

Marital status plays an important role while processing insurance applications and deciding the premium. As a couple, if you take joint life insurance, you should remember that such policies work on a first-death basis, meaning there is no payout on the second partner's demise.

Dependents

The number of dependents you have plays a role in calculating the amount of protection you need. More protection needed translates to a higher premium.

Occupation

Some occupations are deemed riskier than others by insurers who formulate how to calculate premium of life insurance. Pilots, soldiers, anglers, offshore oil or gas industry workers, etc. can expect higher premiums compared to those working in comparatively safer environments like offices, shops, or schools.

Income

Insurers consider your income to evaluate if you will be able to afford regular premium payments.

Debts

Any outstanding debts, including loans, mortgages, credit card bills, etc. are major influencers towards the amount of protection you need.

Smoking and alcohol consumption

Insurers do not make distinctions between whether you are a light or heavy smoker - you will be classified as a smoker irrespective, causing your premium to skyrocket.

Similarly, excessive alcohol consumption could lead to a rise in insurance premiums because it increases the chances of suffering from alcohol-related health problems.

International travel

If you have visited places that pose potential health risks, for instance, you travelled to a country with a high incidence of tropical diseases or HIV, then the premium calculation will be on the higher side. Your premium is also affected if you regularly travel abroad for work.

High-risk hobbies

Participating in high-risk hobbies such as horse riding, rock climbing, motorsports, sky diving, etc. could affect premiums negatively as it increases the likelihood of accidents.

Insurer-Related Factors

Mortality cost

This is the amount to be paid by life insurance firms on insurance policies. Insurers consider the applicant's age, health history (self and family), driving records, employment, hobbies, etc. while determining how to calculate the premium of life insurance.

Operating cost

The total operational costs that insurance firms incur towards marketing and non-marketing expenses like maintenance, rent, salaries, legal fees, agents' commission, etc. influence their life insurance policy and how insurance premium is calculated.

Interest
Insurance firms invest policyholders' premiums in bonds, stocks, real estate, etc., on the presumption that a specific rate of interest will be earned on the invested funds. This interest earning is another critical factor used when insurers determine how to calculate premium of life insurance.

Policy-Related Factors

Whole versus Term
A life insurance policy that covers until death, also called a whole-of-life policy, usually involves higher premiums in comparison with a term insurance policy, which offers cover only for a fixed number of years.

Decreasing payouts
How insurance premium is calculatedis influenced by whether you opt to have the quantum of protection decrease year after year, or whether you decide on having a fixed amount of cover for the entire policy duration.

Covers
In case of couples who take a joint life cover, premiums are higher because the policy is more likely to see a claim at some point. Including a critical illness cover for serious health disorders like diabetes, hypertension, heart disease, etc. increase monthly premiums. This cover can be very expensive, especially for those aged 60 years and above, or those suffering from pre-existing medical conditions.

Life Policy Conditions

Payment of Premiums:

A grace period of one month but not less than 30 days is allowed where the mode of payment is yearly, half-yearly or quarterly and 15 days for monthly payments. If death occurs within this period, the life assured is covered for full sum assured.

Non-forfeiture regulations:

If the policy has run for atleast 3 full years and subsequent premiums have not been paid the policy shall not be void but the sum assured will be reduced to a sum which will bear the same ratio as to the number of premiums paid bear to the total number of premiums payable.The concessions regarding claim in the above case is explained in the appropriate section.

Forfeiture in certain events:

In case of untrue or incorrect statement contained in the proposal, personal statement, declaration and connected documents or any material information with held, subject to the provision of Section 45 of the Insurance Act 1938, wherever applicable, the policy shall be declared void and all claims to any benefits in virtue thereof shall cease.

Suicide:

The policy shall be void, if the Life Assured commits suicide (whether sane or insane at the time) at any time or after the date on which the risk under the policy has commenced but before the expiry of one year from the date of commencement of the policy.

Guaranteed Surrender Value:

After payment of premiums for at least three years, the Surrender Value allowed under the policy is equal to 30% of the total premiums paid excluding premiums for the 1st year and all extra premiums.

Salary Saving Scheme:

The rate of installment premium shown in the schedule of the policy will remain constant as long as the employee continues with the employer given in the proposal. On leaving the employment of said employer the policyholder should intimate the Corporation. In case of the Salary Saving Scheme being withdrawn by the said employer, the Corporation will intimate the same to the policyholder. Thereafter the 5% rebate given under Salary Saving Scheme will be withdrawn.

Alterations:

After the policy is issued, the policyholder in a number of cases finds the terms not suitable to him and desires to change them. LIC allows certain types of alterations during the lifetime of the policy. However, no alteration is permitted within one year of the commencement of the policy with some exceptions. The following alterations are allowed.

- Alteration in class or term.
- Reduction in the Sum Assured
- Alteration in the mode of payment of premiums
- Removal of an extra premium
- Alteration from without profit plan to with profit plan
- Alternation in name
- Correction in policies
- Settlement option of payment of sum assured by installments

- Grant of accident benefit
- Grant of premium waiver benefit under CDA policies
- Alteration in currency and place of payment of policy monies

A fee for the change or alteration in the policy is charged by the Corporation called quotation fee and no additional fee is charged for giving effect to the alteration.

Duplicate Policy:

A duplicate policy confers on its owner the same rights and privileges as the original policy. The following are the requirements for issuing a duplicate policy:

1. Insertion of an advertisement at the policyholder's cost in one English daily newspaper having wide circulation in the State where the loss is reported to have occurred. A copy of the Newspaper in which the advertisement appeared should be sent to the servicing office one month after its appearance. If no objection has been lodged with LIC regarding the policy in question, a duplicate policy will be issued after complying further requirements, i.e., Indemnity Bond and payment of charges for preparing duplicate policy and stamp fee.

2. However, the requirement of advertisement and Indemnity Bond may be dispensed with or modified in certain circumstances as given below :

- Loss of policy by theft
- Destruction of policy by fire
- Loss of policy while in custody of an office of government
- Mutilated or damaged policy
- Policy in torn and a part of it is missing

- Policy partially destroyed by white ants

Age Proof accepted by LIC:

The Proofs of age, which are generally acceptable to the Corporation, are as under:

- Certified extract from Municipal or other records made at the time of birth.
- Certificate of Baptism or certified extract from family Bible if it contains age or date of birth.
- Certified extract from School or College if age or date of birth is stated therein.
- Certified extract from Service Register in case of Govt. employees and employees of Quasi-Govt. institutions including Public Limited Companies and Pass port issued by the Pass port Authorities in India.

Alternative Age Proofs which are accepted:

- Marriage certificate in the case of Roman Catholics issued by Roman Catholic Church.
- Certified extracts from the Service Registers of Commercial Institutions or Industrial Undertakings provided it is specifically mentioned in such extracts that conclusive evidence of age was produced at the time of recruitment of the employee.
- Certificate of Birth granted by Syedna v. Molana Badruddin Sahib of Baroda
- Identity Cards issued by Defence Department.
- A true copy of the University Certificate or of Matriculation/Higher Secondary Education, S.S.L. Certificate issued by a Board set up by a State/Central Government.

- Non- standard age proof like Horoscope, Service Record where age is not verified at the time of entry, E.S.I.S. Card, Marriage Certificate in case of Muslim Proposer, Elder's Declaration, Self-declaration and Certificate by Village Panchayats are accepted subject to certain rules.

Nomination:

The nominee is statutorily recognized as a payee who can give a valid discharge to the Corporation for the payment of policy monies. Nomination will be incorporated in the text of the policy at the time of its issue. After the policy is prepared and issued and if no Nomination has been incorporated the assured can ordinarily affect the nomination only by an endorsement on the policy itself. A nomination made in this manner is required to be notified to the Corporation and registered by it in its records. A nomination is not required to be stamped. Any change or cancellation of nomination should be given in writing only by the Life Assured.

Nomination under Joint Life Policy can only be a joint nomination. Nomination in favour of a stranger cannot be made as there is no insurable interest and moral hazard may be involved. Nomination in favour of wife and children as a class is not valid. Specific names of the existing wife and children should be mentioned. Where nomination is made in favour of successive nominees, i.e., nominee "A" failing him to nominee "B" failing whom nominee "C", the nomination in favour of one individual in the order mentioned will be considered. Where the nominee is a minor, an appointee has to be appointed to receive the monies in the event of the assured's death during the minority of the nominee. No nomination can be made under a policy financed from HUF funds.

In the case of first endorsement of nomination the date of registration of nomination will be the date of receipt of the policy by the servicing office and in case of any other nomination or cancellation or change thereof, the date of receipt of the policy and/or of notice whichever is later, will be the date of registration.

Assignment:

An assignment has an effect of directly transferring the rights of the transferor in respect of the property transferred. Immediately on execution of an assignment of the Policy of life assurance the assignor forgoes all his rights, title and interest in the Policy to the assignee. The premium/loan interest notices etc. in such cases will be sent to the assignee. In case the assignment is made in favor of public bodies, institutions, trust etc., premium notices/receipts will be addressed to the official who has been designated by the institutions as a person to receive such notice. An assignment of a life insurance policy once validly executed, cannot be cancelled or rendered in effectual by the assignor. Scoring of such assignments or super scribing words like 'cancelled' on such assignment does not annul the assignment. And the only way to cancel such assignment would be to get it re-assigned by the assignee in favor of the assignor.

There are two types of assignments:

1. **Conditional Assignment** whereby the assignor and the assignee may agree that on the happening of a specified event which does not depend on the will of the assignor, the assignment will be suspended or revoked wholly or in part.

2. **Absolute Assignment** whereby all the rights, title and interest which the assignor has in the policy passes on to the assignee without reversion to the assignor or his estate in any event.

Re-assignment:

Status of your policy indicates if your policy is in force or has lapsed due to non-payment of premium. It also provides other important information with respect to your policy, for your reference.

Concessions for claims during the lapsed period:

1. If the policyholder has paid premiums for atleast 3 full years and subsequently discontinued paying premiums, and in the event of death of the life assured within six months from the due date of the first unpaid premium, the policy money will be paid in full after deduction of the unpaid premiums, with interest upto date of the death.
2. If the policyholder has paid premiums for atleast 5 full years and subsequently discontinued paying premiums and in the event of death of the life assured within 12 months from the due date of first unpaid premium, the policy money will be paid in full after deducting the unpaid premiums, with interest upto date of the death.

Revivals:

If the premium under a policy is not paid within the days of grace the policy lapses. Revival is a fresh contract wherein the insurer can impose fresh terms and conditions. A policy can be revived under the following types of revival:

1. **Ordinary Revival**

If a revival of the policy is effected within 6 months from the due of first unpaid premium no personal statement regarding health is required and the policy is revived on collection of delayed premium plus interest. The rate of interest to be charged for such delayed premium will depend on the date of commencement of the policy.

2. Revival on non-medical basis

For revival of the policy on non-medical basis the amount to be revived should not exceed the prescribed limit for non-medical assurance taken by the life assured.

3. Revival on medical basis

If a policy cannot be revived under ordinary revival or revival on non-medical basis it can be revived with medical requirements. The medical requirements will depend upon the amount to be revived.

4. The other schemes for revival are

A. Special Revival Scheme
B. Revival by installment
C. Loan- cum- revival
D. Survival Benefit- cum- revival

Policy Loans:

The Corporation can grant a loan to the policyholder against his policy as per the terms and conditions applicable to the policy. The requirements for granting a loan are as under :

a) Application for loan with an endorsement of terms and conditions of the loan being placed on the policy.
b) Policy to be assigned absolutely in favour of the Corporation
c) A receipt for the loan amount

The maximum loan amount available under the policy is 90% of the Surrender Value of the policy (85% in case of paid up policies) including cash value of bonus.

- Loans are granted on policies as per Conditions and Privileges printed on the back of the Policy Bond.
- It is mentioned in the policy whether a particular policy is with or without loan facility.
- The rate of interest charged on policy loan is declared by the Corporation every year and they are plan specific.
- Interest on loan is payable half yearly.

The minimum period for which a loan can be granted is six months from the date of its payment. If repayment of loan is desired within this period the interest for the minimum period of six months will have to be paid.

In case the policy becomes a claim either by maturity or death within six months from the date of loan interest will be charged only upto the date of maturity/death.

Claims Settlement Procedure

The settlement of claims is a very important aspect of service to the policyholders. Hence, the Corporation has laid great emphasis on expeditious settlement of Maturity as well as Death Claims.

The procedure for settlement of maturity and death claims is detailed below :

Maturity Claims:

1) In case of Endowment type of Policies, amount is payable at the end of the policy period. The Branch Office which services the policy sends out a letter informing the date on which the policy monies are payable to the

policyholder at least two months before the due date of payment. The policyholder is requested to return the Discharge Form duly completed along with the Policy Document. On receipt of these two documents post dated cheque is sent by post so as to reach the policyholder before the due date.

2) Some Plans like Money Back Policies provide for periodical payments to the policyholders provided premium due under the policies are paid up to the anniversary due for Survival Benefit. In these cases where amount payable is less than up to Rs.60,000/-, cheques are released without calling for the Discharge Receipt or Policy Document. However, in case of higher amounts these two requirements are insisted upon.

Death Claims:

The death claim amount is payable in case of policies where premiums are paid up-to-date or where the death occurs within the days of grace. On receipt of intimation of death of the Life Assured the Branch Office calls for the following requirements:

a) Claim form A – Claimant's Statement giving details of the deceased and the claimant.
b) Certified extract from Death Register.
c) Documentary proof of age, if age is not admitted.
d) Evidence of title to the deceased's estate if the policy is not nominated, assigned or issued under M.W.P. Act.
e) Original Policy Document

The following additional forms are called for if death occurs within three years from the date of risk or from date of revival/reinstatement.

a) Claim Form B – Medical Attendant's Certificate to be completed by the Medical Attendant of the deceased during his/her last illness.
b) Claim Form B1 – if the life assured received treatment in a hospital.
c) Claim form B2 – to be completed by the Medical Attendant who treated the deceased life assured prior to his last illness.
d) Claim Form C – Certificate of Identity and burial or cremation to be completed and signed by a person of known character and responsibility.
e) Claim form E – Certificate by Employer if the assured was employed person.
f) Certified copies of the First Information Report, the Post-mortem report and Police Investigation Report if death was due to accident or unnatural cause.

These additional forms are required to satisfy ourselves on the genuineness of the claim, i.e., no material information that would have affected our acceptance of proposal has been withheld by the deceased at the time of proposal. Further, these forms also help us at the time of investigation by the officials of the Corporation.

Double Accident Benefit Claims:

Double Accident Benefit is provided as an inject to the life insurance cover. For this purpose an extra premium of Rs.1/- per Rs.1000/- S.A is charged. For claiming the benefits under the Accident Benefit the claimant has to produce the proof to the satisfaction of the Corporation that the accident is defined as per the policy conditions. Normally for claiming this benefit documents like FIR, Post-mortem Report are insisted upon.

Disability Benefit Claims:

Disability benefit claims consist of waiver of future premiums under the policy and extended disability benefit consisting in addition of a monthly benefit payment as per policy conditions. The essential condition for claiming this benefit is that the disability is total and permanent so as to preclude him from earning any wage/compensation or profit as a result of the accident

Claims Review Committees:

The Corporation settles a large number of Death Claims every year. Only in case of fraudulent suppression of material information is the liability repudiated. This is to ensure that claims are not paid to fraudulent persons at the cost of honest policyholders. The number of Death Claims repudiated is, however, very small. Even in these cases, an opportunity is given to the claimant to make a representation for consideration by the Review Committees of the Zonal office and the Central Office. As a result of such review, depending on the merits of each case, appropriate decisions are taken. The Claims Review Committees of the Central and Zonal Offices have among their Members, a retired High Court/District Court Judge. This has helped providing transparency and confidence in our operations and has resulted in greater satisfaction among claimants, policyholders and public.

Insurance Ombudsman

- The Grievance Redressal Machinery has been further expanded with the appointment of Insurance Ombudsman at different centers by the Government of India. At present there are 12 centres operating all over the country.
- Following type of complaints fall within the purview of the Ombdusman
    a) any partial or total repudiation of claims by an insurer;

b) any dispute in regard to premiums paid if payable in terms of the policy;
c) any dispute on the legal construction of the policies in so far as such disputes relate to claims;
d) delay in settlement of claims;
e) non-issue of any insurance document to customers after receipt of premium.

- Policyholder can approach the Insurance Ombudsman for the redressal of their complaints free of cost.

Possible Questions

PART – A (1 Mark)
Online Questions

PART – B (6Marks)

1. Point out the conditions for life policy with suitable example.
2. Explain the special features of Insurance Regulatory and Development Authority.
3. State the Nature of Insurance Contract and explain its essentials?
4. Define General Insurance and explain the Significance of General Insurance.
5. State the different types of life insurance policies.
6. Enumerate the features of Life Insurance.
7. Describe the growth and development of Insurance Industry.
8. Explain the types of Life insurance.
9. Determine the needs of Life insurance in Human Life.

KARPAGAM ACADEMY OF HIGHER EDUCATION
Deemed to be University Established Under Section of UGC Act, 1956
Coimbatore - 641 021
Depatartment of Commerce
I M. Com.
Insurance and Risk Management (17CMP204)
Unit III

S. No.	Questions	Option I	Option II	Option III	Option IV	Answer
1	Which one of the following does not belong to the main products of life insurance?	Endowment	personal accident insurance	term	whole life	personal accident
2	Which one of the following does not belong to the major general insurance private sector companies in India?	Bajaj Alliance	Royal Sundaram	Reliance General	Oriental Insurance	Oriental Insurance
3	When was the Oriental Life Insurance Company established?	1818	1834	1938	1907	1818
4	When was Life Insurance sector nationalised?	1834	1907	1938	1956	1956
5	When was Triton Insurance Company Ltd established?	1834	1850	1907	1938	1850
6	When was the Indian Mercantile Insurance established?	1907	1938	1957	1973	1907
7	When was the General Insurance Council formed?	1938	1957	1973	1971	1957

8	When was the Export Credit Guarantee Corporation of India established?	1938	1957	1973	1971	1957
9	When was general insurance business nationalised?a	1938	1971	1973	1991	1973
10	When was the General Insurance Corporation of India incorporated?	1971	1972	1973	1993	1972
11	When was the Insurance Regulatory and Development Authority constituted?	1938	1971	1993	1999	1999
12	Insurance was developed as a result of the existence of	loss	hazard	risk	indemnity	risk
13	Legal liability does NOT arise from	contract	obligation to others	criminal acts	negligence	negligence
14	The main purpose of insurance is to	provide compensation	provide security	share the losses	create investment	share the losses
15	Which of the following is NOT a contract of indemnity?	Fire insurance	medical insurance	liability insurance	life insurance	life insurance

16	Which of the following does NOT fall into the category of general insurance?	business interruption	crime insurance	hail insurance	health insurance	health insurance
17	A material fact is one that	describe the risk	influence the acceptance of the risk	not disclosed	must be disclosed by law	must be disclosed by law
18	A certain percentage of the sum assured is paid periodically according _______ policy	term	endowment	money back	group insurance	money back
19	The principle of indemnity does not apply to _______ insurance	burgulary	fire	marine	life and personal	life and personal
20	Transfer of rights and remedies of the insured after indemnity refers to ________	insurable interest	subrogation	proximate cause	money back policy	subrogation
21	Insurance is based on the principle of _____	co-operation	democracy	equality	welfare	co-operation
22	The person whose risk insured is called ________	insured	insurer	indemnifier	assurer	insured
23	The person who agrees to compensate the loss arising from the risk is called ________	insurer	insured	assured	indemnifier	insurer

24	______ policy matures on the death of or on his attainment of a particular age is called	endowment policy	money back policy	claim policy	whole life policy	endowment policy
25	_______ policy issued on the basis of the number of persons assured is called	annuity	multiple life	single life	level	multiple life
26	Assignment of policy means _______	transfer of rights	transfer of premium	transfer of surrender value	transfer of maturity value	transfer of rights
27	A wilful and intentional act on the part of the self destroyer is called _____	death	suicide	murder	accident	suicide
28	The Central office of Life Insurance Corporation of India is located at ________	New Delhi	Kolkatta	Mumbai	Chennai	Mumbai
29	Risk insured against death is a contract of ______	assurance	agreement	indemnity	guarantee	assurance
30	A document which provides evidence of the contract of insurance is ______	proposal form	policy form	cover note	certificate of insurance	policy form
31	Life insurance in the present form came to India from	The UK	The USA	Canada	Germany	The UK

32	Life insurance company was set up in the year _____	1824	1823	1822	1821	1823
33	Life Insurance Corporation was formed with a capital contribution of ______	Rs.10Crore	Rs.5 crore	Rs.15 crore	Rs.20 crore	Rs.5 Crore
34	The term assurance refers to _______	Life insurance	marine insurance	fire insurance	health insurance	life insurance
35	The policies where the premium is payable throughout the life of the insured is called as	whole life policy	renewable policy	term policy	sinking fund policy	whole life policy
36	With profit policy is also termed as _____	multiple life policy	participating policy	level premium policy	lumpsum policy	participatin g policy
37	Committee of Reforms on Insurance sector during 1993 is headed by	R. N. Malhotra	S. Narashiman	Manmohan Singh	P. Chidambara m	R.N. Malhotra
38	The constitution of IRDA consists of not more than ______members	10	7	9	8	9
39	When the risk occurs, the loss is made good out of ______	common fund	profit	specific fund	capital fund	common fund

40	Under life insurance, the risk is	certain	uncertain	not certain	specific	certain
41	The organisation structure of LIC refers to _____	two-tier	three-tier	four-tier	five-tier	four-tier
42	With increase in age, the risk on life ________.	increases	decreases	remains the same	does not considered	increases
43	Risk of mortality is considered to be _____________	more on male life	more on female life	no differentiatio n	same on life of both	more on male life
44	Notification of alteration in risk is a condition ______________.	precedent to liability	subsequent to liability	precedent to contract	subsequent to contract	subsequent to contract
45	Group insurance is ideally suited for covering __________.	affluent persons	weaker sectios	both weaker section and employer	employee group	employee group
46	With profit policy facilitates participation in _____	regular profts	participation in capital profits	profit on winding up	profit on sale of assets	regular profit
47	The insurer who grants a guarantee from the direct insurer is called as ______ Insurer	direct	ceding	re-insurer	double	re-insurer

48	The proportion of the risk which the direct insurer holds on his account refers to	line	retention	retrocession	ceding	retention
49	When the same risk and subject matter is insured with more than one insurer is called	double	over	reinsurance	external	double
50	When the amount for which a subject matter insured is more than its actual value, it is called	double	over	reinsurance	crop	over
51	Insurance business is based on __________.	Newtons Law	Parkinsons Law	Boyles Law	Law of large number	Law of Large numbers
52	On the death of the bread-earner, two losses occur in the family one is loss of human life and the other	earning power	loss of insurance	loss of investment	loss of deposit	earning power
53	In case a business firm sets up a private fund to payout the losses if happens, then that is	self insurance	individual insurance	group insurance	family insurance	self insurance
54	Master policy is issued for ___________.	individual	group	permanent	term	group
55	For the introduction of a group scheme, we need a _________.	homogeneous	different	small	large	homogeneo us

56	The ________ has the right to receive the amount assured in the event of death of the	Nominee	employer	friend	third party	nominee
57	Nomination can be done at the inception of the policy by providing details of nominee in	white paper	proposal form	premium receipt	bond paper	proposal form
58	Nomination can be done only by a _________ who is a major holding Policy Bond in his own name.	employer	legal advisor	policy holder	insurance company	policy holder
59	A life insurance policy from LIC may be assigned only after a period of ________.	10 years	5 years	3 years	1 year	5 years
60	In which of the following types of insurance, should insurable interest present at the time of policy is	Fire insurance	life	marine	life and marine	life

UNIT – IV

FIRE INSURANCE

Fire Insurance – Fire Insurance Contracts – Fire Insurance Coverage – Policies for Stocks – Rate Fixation in Fire Insurance – Settlement of Claims – Marine Insurance: Marine Insurance Contract – Types of Marine Insurance – Marine Cargo Losses and Frauds – Settlement of Claims

Elements of Fire Insurance Contract

1. Features of General Contract

As Fire insurance is a contract, it should satisfy all the features of general contract.

(a) Proposal

The fire insurance proposal can be made either verbally or in writing. A printed proposal form is used for this purpose, in which the proposer furnishes the necessary information of the property to be insured. The description of the subject matter of insurance is the bases of contract for assessing the risk and fixing the premium.

(b) Acceptance

The insurer will assess the risk after receiving the proposal form. When the contents and the subject matters are not very high amount, the insurer may accept the proposal. When the subject matters are of larger amount and where the involvement of hazard is variable or unknown in nature, the insurer may send his Surveyor to survey the property. Based on the Surveyor's report the proposal will be accepted. The unknown proposers are required to submit an evidence of respectability.

(c) Commencement of Risk

As soon as the proposal is accepted, risk will commence irrespective of the fact that no policy was issued and no premium was paid. Where risks are unknown and tremendous, the payment of premium will be the basis of the completion of the contract. The risk will commence only when the premium has been paid and not before that.

(i) Cover Note

The insurer issues a 'Cover Note' or 'Interim Protection Note' when the risk was accepted provisionally or subject to the condition of payment of premium. This note will cover the property so far the final policy has not been issued. If loss occurs before issue of policy the cover note will be sufficient to prove insurance. The cover note, however, is not taken at part to the policy.

Fire Insurance Coverage

Some of the properties that are covered under the policy are:

1. Building:
- Both under construction and completed projects
- Interiors, partitions, and electrical
2. Plant & Machinery, equipments and accessories
- Both new and second-hand
- Obsolete machinery
3. Some other contents which are covered are cables, pipelines, furniture, fixture, household goods, etc.

Here are the risks covered under a fire insurance policy:

- **Fire**: Destruction or damage caused to the insured property due to natural heating, fermentation or spontaneous combustion or when it is undergoing any heating or drying process can't be treated under damage to fire. For instance, if paints or chemicals are kept in a factory, and they catch fire while undergoing heat treatment; the same will not be covered under the policy. Similarly, if any public authority orders the burning of insured property, then also it will be excluded from the policy.

- **Lightning**: The impact of lightning can result in fire or any other kind of damage, like cracks in a building due to a lightning strike, etc. Both fire and other damages caused by lightning are covered under this peril.
- **Explosion/Implosion**: Explosion means sudden, violent burst with a loud voice. An explosion occurs when the pressure within the vessel reaches to the atmospheric pressure. The impact of the explosion can also lead to fire damage. On the other hand, implosion means bursting inward. It usually happens when the external pressure is more than the internal pressure.
- **Aircraft Damage**: It includes loss or damage caused to the property directly by aircraft and aerial devices.
- **Riot, Strike, and Terrorism Damage**: When a person acts with others to disturb the public peace, (other than war or invasion) it is called a riot, strike or terrorist activity. Any loss or damage caused to the insured property by any such activity or by the action of any lawful authority in suppressing such disturbances or minimizing consequences is covered. Though terrorism is excluded from most of the policies, it can be added as an extension by paying an extra premium.
- **Storm, cyclone, typhoon, and flood**: These are all types of violent natural disturbances which can cause damages to your property and therefore, they are covered.
- **Impact Damage**: Any damage caused to the insured property when it comes in direct contact with rail/road vehicle or animal is covered. However, such vehicles or animals should not belong to the insured in any way.

- **Subsidence and Landslide including Rockslide**: While subsidence occurs when the land or building sinks to a lower level, landslide usually occurs on a hill when the landslides down. Any damage or destruction caused to the insured property due to subsidence and landslide is covered. However, normal cracking, defective design, and destruction due to the use of defective materials are not covered.
- **Bursting and/or overflowing of water tanks, Apparatus and Pipes**: Loss or damage caused to the insured property by water on account of bursting or overflowing of water tanks and pipes is insured.
- **Missile Testing Operations**: Any damage caused due to missile testing operations is covered.
- **Leakage from Automatic Sprinkler Installations**: Any damage caused to the insured place when water accidently discharged or leaked out from automatic sprinkler installations is covered.
- **Bushfire**: It covers damages caused due to burning, whether accidental or otherwise, of bushes and jungles and the cleaning of lands by fire. However, it doesn't include damages caused by a forest fire.

Procedure to Settle the Fire Insurance Claim

A) If there are any damages or losses arising due to fire then the policy holder should immediately inform the insurance company in writing and with estimated amount of loss.

B) Survey Report: If the amount of loss is small (i.e. up to Rs. 20,000/-), the insurance company may depute an officer to survey the loss and decide on the settlement of the loss on the basis of the claim form and the officer's report. However, in large losses, an independent surveyor duly licensed by the Government is appointed to give a report on the loss.

The survey report would generally deal with the following matters:

(i) Cause of loss.

(ii) Extent of loss.
(iii) Under-Insurance, if any.
(iv) Details and value of salvage, and how it has been disposed of or proposed to be disposed of.
(v) Details of expenses (e.g. fire brigade expenses). (vi) Compliance with policy conditions and warranties.
(vi) Details of other insurance policies on the same property, and the apportionment of the loss and expenses among co-insurers.

C) Claim form: The policy holder will submit the claim form with the following information :

(i) Name and address of the Insured.
(ii) Date of loss, time and place from where the fire started.
(iii) Cause of fire.
(iv) Details of the property damaged such as description, etc.
(v) Value at the time of fire, value of salvage and the amount of loss.
(vi) Details of other policies on the same property giving the name of the insurer, policy number and sum insured.
(vii) Fire Brigade report details.
(viii) F.I.R. at the nearest police station regarding third party liability, if any.

D) Settlement of claim: On the basis of the claim form and the survey report, decision is taken about the settlement or otherwise of the loss.

Rate Fixation in Fire Insurance

The rate fixation in fire insurance is not as scientific as in life insurance. The physical hazard can be estimated satisfactorily but the moral hazard, being varied and unknown, cannot be ascertained so correctly. While calculating the premium, various relevant factors of both the hazards are properly estimated and evaluated.

The premium must be adequate enough to provide for full payment of claims including catastrophic losses, expenses of management and a margin of profit. The tariff offices follow the collective system of tariff rating.

After nationalisation of general insurance businesses, the tariff rating is applied. The basic principles of premium rating are physical hazard, classification of risk, past loss experience, discrimination differentiates, industrial and non industrial risks.

Process of Rating

The actual process of rating consists of three steps: 1. Classification, 2. Discrimination and 3. Fixing rates or schedule rating.

1. Classification:

Properties to be insured are of various nature and risk. Since the premium is fixed in relation to the class of risk, the properties are classified accordingly. Properties are generally divided into three main classes, viz., (i) common or ordinary, (ii) hazardous and (iii) doubly hazardous.

Different premium rates are fixed for each class. These classifications do not hold good for a long time because of varied nature of risk. Now the risks are classified into various classes according to factors affecting fire risk.

(i) Construction or Structure:

The construction of the building has always been of great importance in rating. Building made of brick will be sounder than the building made of wood. Today, the construction of building is divided into two types of structure. First fire-proof building and second, building without fireproof.

The height of the building, the area, the number of unprotected floor openings, construction of walls, floors, roof, etc., is considered in calculating the fire hazard.

(ii) Occupancy:

The risk considerably varies according to the nature of occupancy, i.e., the use to which the building is devoted. One building may be used as a dry goods store or hardware store, or furniture-store or for residential purposes.

The building may have different risks because of the different substances and processes which they contain and the different uses to which they are put. There is inherent connection between the building and its contents. It is essential for companies to change their rates to meet changing business conditions.

Rate making in fire insurance does not present constant factors. Justice demands that the insurer should recognise the important changes. A building occupied as a residence or an office is a better risk than a retail shop.

A storeroom used for the storage of highly combustible goods is more hazardous from a fire insurance viewpoint than a grocery shop. The process of manufacture, the nature of raw materials used, the type of machinery are important factors to influence the physical hazard.

(iii) Nature of Flooring:

The nature of flooring influences the risk to a greater extent. Existence of wooden floors in the building introduces an additional physical hazard. Wooden floor becomes a fuel in the event of fire. It may collapse easily causing damage to property.

The risks inspection in based upon general features, lighting, heating and power; process of manufacture, exposures appliances, management and supervision and so on. A risk inspection report must satisfy three essential requirements of clarity, conciseness and completeness. The report must be free from ambiguities.

(iv) Height:

The height adds difficulty in fighting a fire on the upper floors. There may be risk of water damage to property on the lower floors when water is used to extinguish a fire on the upper floors. The floors involve heavy risk of collapse of the upper floors.

(v) Floor and wall opening:

Openings in the floor for lifts and belts constitute higher physical hazard. It may cause greater chances of ignition of fire and difficulty of extinguishing the fire.

(vi) Exposure:

The chances of risk may differ from property to property according to the degree of exposure. A building or property may be situated in a congested conflagration locality involving greater danger to the property. Exposure stands second as a cause of fire and is more than the occupancy hazard.

(vii) Lighting, Heating and Power:

The fire may occur due to short-circuit. Combustion can also arise from faulty installation and dampness. The lighting system e.g. by gas or oil, leakage of fuel and naked flames cause more hazard to property.

(viii) Place or Situation:

The location of the property, nature of adjoining premises, the distance from a fire brigade station or the source of water supply, the degree of congestion in the area are some of the important factors to influence the degree of risk.

(ix) Protection:

The availability of protection against fire influences the degree of risk. The protection facilities may be public or private. When protection facilities are available the fire may be extinguished in its incipiency.

The fire extinguishing apparatus, water supply, police system, etc. can reduce the degree of risk. Smaller premium is charged where modern devices for preventing and extinguishing fires are present. It would be injustice to charge the same rate for all types of risk.

(x) Time:

The time of loss must be kept into consideration. The annual loss ratio is by no means uniform every year. So, the rate fixation must account for good or bad years to determine approximately the real loss. Therefore, a long period of time is taken into consideration while calculating the premium.

2. Discrimination:

The differentiation of the rates for individual risks in a particular class is known as discrimination. Each additional feature of risk is charged extra premium. The better types of risks are encouraged and attracted by the insurer. Lesser premium is charged where fire extinguishing appliances or fire-resisting construction are present.

The tariff system is based on the law of average and graded schedule is formulated where different rates are ascertained for the different types of risks. Thus, the different risks are put in a specified class, and are differentiated from each other according to the merits and demerits of the individual risk.

It aims at a more equitable basis of rating. For example, dwelling house is a class and, therefore, all the dwelling houses are put in the same class. Since the dwelling houses are of different type, the class may be sub divided into several classes according to the degree of hazard.

An appropriate discount could be given for those houses which have fire extinguishing appliances, nearness to fire brigade station and absence of exposure in the vicinity. There are Non-manufacturing risks.
Industrial/Manufacturing risks, Utilities located outside the industrial, manufacturing risks, storage risks and Tank farms risks.

3. Schedule Rating:

It is a plan by which hazards with respect to any particular risk are measured. It is defined as, "an empirical standard for the measurement of relative quantity of fire hazard. Schedule rating takes into consideration the various items influencing the peril of fire. It is based on the theory that the aggregate fire hazard of any risk is capable of ultimate analysis into its component factors to each of which could be assigned an appropriate charge.

A standard or average premium is determined as a base for calculating the premium. The average premium rate for a class of risk is determined taking into account the total loss and the sums assured during a period of year. The period should be such that the experience of good as well as bad years may be taken into account.

A large number of items, as far as possible, are taken so that the law of average may apply. Larger the number, the more representative will be the rate of premium. Where L represents the losses and V represents the values of insured amount. The rate arrived at will be net premium which is just sufficient to meet all the losses in that particular risk. This basic or net premium is loaded with expenses of management, commission, rents and a margin for profit to arrive at the gross premium or office premium.

The rate so calculated is called 'normal rate' or average rate for the particular group. In each group, risks may differ from one another and in order to maintain equity between different types of risk and between the insurer and the insured, it is necessary to apply the principle of discrimination, i.e., differentiation, of individual risks in a group taking into account their particular features.

Extra rates are provided for bad features, i.e., for inferior construction, timber flooring, height, situation in a congested area and discounts are granted for good features, i.e., for fire extinguishing appliances, automatic sprinklers etc. The rebate will be allowed taking into account the efficacy of the means adopted. The schedule contains name and address of the proposer, brief description of the property insured, sum insured, period of insurance, perils covered, rates of premium and the serial number of the cover note.

Types of Marine Insurance

a) Special Declaration Policy

This is a form of floating policy issued to clients whose annual estimated dispatches (i.e. turnover) by rail / road / inland waterways exceed Rs 2 crores. Declaration of dispatches shall be made at periodical intervals and premium is adjusted on expiry of the policy based on the total declared amount. When the policy is issued sum insured should be based on previous year's turnover or in case of fresh proposals, on a fair estimate of annual dispatches. A discount in the rates of premium based on turnover amount (e.g. exceeding Rs.5 crores etc.) on a slab basis and loss ratio is applicable.

b) Special Storage Risks Insurance

This insurance is granted in conjunction with an open policy or a special declaration policy. The purpose of this policy is to cover goods lying at the

Railway premises or carrier's godowns after termination of transit cover under open or special declaration policies but pending clearance by the consignees. The cover terminates when delivery is taken by the consignee or payment is received by the consignor, whichever is earlier.

c) Annual Policy

This policy, issued for 12 months, covers goods belonging to the insured, which are not under contract of sale, and which are in transit by rail / road from specified depots / processing units to other specified depots / processing units.

d) "Duty" Insurance

Cargo imported into India is subject to payment of Customs Duty, as per the Customs Act. This duty can be included in the value of the cargo insured under a Marine Cargo Policy, or a separate policy can be issued in which case the Duty Insurance Clause is incorporated in the policy. Warranty provides that the claim under the Duty Policy would be payable only if the claim under the cargo policy is payable.

e) "Increased Value" Insurance

Insurance may be 'goods at destination port' on the date of landing if it is higher than the CIF and Duty value of the cargo.

Types of Marine Insurance

- **Cargo Insurance**

  Cargo insurance caters specifically to the cargo of the ship and also pertains to the belongings of a ship's voyagers.

- **Hull Insurance**

  Hull insurance mainly caters to the torso and hull of the vessel along with all the articles and pieces of furniture in the ship. This type of marine insurance is mainly taken out by the owner of the ship in order to avoid any loss to the ship in case of any mishaps occurring.

- **Liability Insurance**

  Liability insurance is that type of marine insurance where compensation is sought to be provided to any liability occurring on account of a ship crashing or colliding and on account of any other induced attacks.

- **Freight Insurance**

  Freight insurance offers and provides protection to merchant vessels' corporations which stand a chance of losing money in the form of freight in case the cargo is lost due to the ship meeting with an accident. This type of marine insurance solves the problem of companies losing money because of a few unprecedented events and accidents occurring.

Marine Cargo Losses and Faurd

1. TOTAL LOSS

Total loss can be further classified into Actual Loss and Constructive Loss

A. **ACTUAL LOSS**: Actual Total Loss in Marine Insurance may occur when;

(i) The insured cargo is physically destroyed such that there is no possibility of salvage or recovery of the goods.

(ii) The insured cargo is damaged that it ceases to be a thing or description insured. E.g. cement bag turns into concrete due to sea-water contact.

(iii) The cargo is irretrievably lost. For example, when the ship sinks, the cargo can be retrieved only after a long time and the salvaged goods cannot be of any value to the insured.

B. **CONSTRUCTIVE LOSS**: Constructive Total Loss can take place when the cargo is damaged to such an extent that the cost of saving and repairing or reconditioning of the goods is more than the value of the goods.

2. AVERAGE LOSS

If loss is less than total cost, it is called an average loss. Average loss may be Particular or General.

A. PARTICULAR AVERAGE LOSS: There are two types of particular average losses i.e. the Total loss of a part of goods and Goods arrived in damaged condition.

(i) Total loss of a Part of Goods: When a part of total consignment is lost, this method is applied. Value will be arrived by multiplying the number of items lost with per unit value declared in the invoice.

(ii) Arrival of Damaged Goods: In case, the goods arrive in a damaged condition at the point of destination, the consignee or his agent and ship surveyor attempt to arrive at the agreed percentage of depreciated value of goods for settlement. Say, the depreciated value is arrived at 30%, insurance company will pay the balance 70% of the declared value. If both the parties fail to arrive at a settlement, the damaged goods will be sold, locally, in the open market. To arrive at the claim amount, the sale proceeds will be deducted from the wholesale value of those goods at that place and time where damaged goods are sold. The claim amount and sale proceeds are given to the insured. Auction charges and other incidental expenses have to be borne by the insurer. If the damaged goods can advantageously be repaired, the underwriter pays the repair charges to the insured, not exceeding the insured value.

(B) General Average Loss: This may occur whether the goods are insured or not. It results from an intentional sacrifice or expenditure incurred by the master of the vessel to save the ship or goods from danger for the common benefit of the owners of the ship and goods. It needs to be emphasized that the sacrifice or expenditure should be made knowingly, but prudently, and in a reasonable manner.

General average loss in a Marine Insurance would arise in the following circumstances:

(i) Some goods are thrown to lighten the ship when the ship is caught in a rough weather.

(ii) Make payment to the nearby agency to tow the ship in danger of sinking to the nearby safe port or

(iii) Pour water to extinguish fire.

When general average loss occurs, Master of the ship reports the matter of loss to the port authorities. An Average Adjuster is appointed for preparing the statement of general average adjustment and fixing the contribution to be made by the owner of the vessel and various shippers. After cargo owners make payment of their contribution, the shipping company gives delivery of goods to the concerned owners.

The preparation of general average adjustment is a complex accounting operation. This job is normally entrusted to the professionally trained average adjuster.

The average adjuster also gives a certificate of contribution to the shippers in respect of the amount of contribution, payable by different parties. The insured would be able to get the contribution certificate from the shipper, soon after payment. The insured can get settlement of claim from the insurance company, producing the evidence of contribution certificate and its payment.

Procedure of Claim Settlement

As the risk coverage are different for import/export and inland (with in India) consignments, the procedure of claim settlement is explained separately.

Claims Documents

Claims under marine policies have to be supported by certain documents which vary according to the type of loss as also the circumstances of the claim and the mode of carriage. The documents required for any claim are as under:

a) Intimation to the Insurance company: As soon as the loss is discovered then it is the duty of the policyholder to inform the Insurance company to enable it to assess the loss.

b) Policy: The original policy or certificate of insurance is to be submitted to the company. This document establishes the claimant's title and also serves as an evidence of the subject matter being actually insured.

c) Bill of Lading: Bill of Lading is a document which serves as evidence that the goods were actually shipped. It also gives the particulars of cargo.

d) Invoice: An invoice evidences the terms of sale. It also contains complete description of the goods, prices, etc. The invoice enables the insurers to see that the insured value of the cargo is not unreasonably in excess of its cost, and that there is no gross overvaluation. The original invoice (or a copy thereof) is required in support of claim.

e) Survey Report: Survey report shows the cause and extent of loss, and is absolutely necessary for the settlement of claim. The findings of the surveyors relate to the nature and extent of loss or damage, particulars of the sound values and damaged values, etc. It is normally issued with the remarks "without prejudice," i.e. without prejudice to the question of liability under the policy.

f) Debit Note: The claimant is expected to send a debit note showing the amount claimed by him in respect of the loss or damage. This is sometimes referred to as a claim bill.

g) Copy of Protest: If the loss or damage to cargo has been caused by a peril of the sea, the master of the vessel usually makes a protest on arrival at destination before a Notary Public. Through this protest, he informs that he is not responsible for the loss or damage. Insurers sometimes require to see the copy of the protest to satisfy themselves about the actual cause of the loss.

h) Letter of Subrogation : This is a legal document (supplied by insurers) which transfers the rights of the claimant against a third party to the insurers. On payment of claim, the insurers may wish to pursue recovery from a carrier or other third party who, in their opinion, is responsible for the loss. The authority to do so is derived from this document. It is required to be duly stamped. Some of the other documents required in support of particular average claims are Ship survey report lost overboard certificate if cargo is lost during loading and unloading operation, short landing certificate etc.

i) Bill of entry: The other important document is bill of entry issued by the customs authorities showing therein the amount of duty paid, the date of arrival of the steamer, etc., account sales showing the proceeds of the sale of the goods if they have been disposed of; repairs or replacements bills in case of damages or breakage; and copies of correspondence exchanged between the carriers and the claimants for compensation in case of liability resting on the carriers.

Inland Transit Claims (Rail / Road)

In regard to claims relating to inland transit, the documents required to be submitted to the insurers in support of the claim are:

(a) Original policy or certificate of insurance duly endorsed.

(b) Invoice, in original, or copy thereof.

(c) Certificate of loss or damage (original) issued by carriers.

(d) If goods are totally lost or not delivered, the original railway receipt and / or non-delivery certificate / consignment note.

(e) Copy of the claim lodged against the railways / road carriers (By Regd. A.D.)

(f) Letter of Subrogation, duly stamped.

(g) Special Power of Attorney duly stamped. (Railway Claims).

(h) Letter of Authority addressed to the railway authorities signed by the consignors in favour of consignees whenever loss is claimed by consignees.

(i) Letter of Authority addressed to the railway authorities signed by the consignors in favour of the insurers

(j) Letter of Undertaking from the claimant in case of non-delivery of consignment.

(k) Claim Bill, after adjusting salvage value proposed.

Possible Questions

PART – A (1 Mark)
Online Questions

PART – B (6 Marks)

1. Explain about the Settlement of Fire Insurance coverage in detail.
2. Elucidate the Marine Cargo Losses and Frauds.
3. Define Fire Insurance contract and explain its essential elements.
4. Describe the different kinds of Marine Insurance Policies.
5. Explain about the Fire Insurance coverage's with examples.
6. How to settle the claims in Marine Insurance?
7. Describe the Types of Marine Insurance.
8. Determine the rate fixation in fire insurance.
9. Explain the policies of stock in fire insurance.
10. Describe the settlement of claims in fire insurance.

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Insurance and Risk Management (17CMP204)
Unit IV

S. No.	Questions	Option I	Option II	Option III	Option IV	Answer
1	A person employed to do any act for another to represent dealing with a third person refers to	principal	worker	agent	development officer	agent
2	This policy covers all risks to the ship and its cargo while the ship is at particular port	voyage policy	floating policy	time policy	port risk policy	port risk policy
3	Fire insurance can be taken in respect of	movable and immovable property	person	immovable prpoperty only	on stock	movable and immovable property
4	Except life insurance, ther term of other insurance is	12 months	24 months	6 months	36 months	12 months
5	In marine insurance, insurable interest is enough at the time of	claim	loss	maturity	throughout the policy	loss
6	In fire insurance, insurable inteest is enough at the time of	effecting policy	loss	maturity	throughout the policy	effecting policy and loss
7	_____ is an agreement whereby the researcher agrees to indemnify the insured against marine losses	life insurance	fire insurance	marine insurance	public liability insurance	marine insurance

8	______ are those terms, which are implied in every contract of marine insurance unless they	guarantee	express warranties	implied warranties	waiver clause	implied warranties
9	_______ are those terms, which are written on the policy	valuation clause	express warranties	implied warranties	memorandum clause	express warranties
10	Notice of abandonment is necessary in the case of ______	actual total loss	constructive total loss	partial total loss	bothactual and partial total loss	constructive toal loss
11	When the subject matter insured is destroyed wholly, it refers to _____	actual total loss	constructive total loss	partial total loss	bothactual and partial total loss	actual total loss
12	The person for whom such act is done or who is represented is called ____	principal	worker	agent	development	principal
13	Maritime perils is also called as _____	perils of sea	moral hazard	wagering	ship perils	perils of sea
14	_______ policy in which the limits of the risks are determined by place of particular	valued	time	voyage	unvalued	voyage
15	______ policy which covers risks during	floating	wagering	valued	mixed	mixed

16	The term runoff or fully declared refers to _____	floating policy	wagering policy	builders risk policy	open cover policy	floating policy
17	Wagering policy is otherwise termed as	policy proof of interest	open policy	risk p[olicy	open cover policy	policy proof of interest
18	Which of the following contract is not legally enforceable?	contract of insurance	wagering contract	sale of goods	contract of business	wagering contract
19	The Head office of the New India Assurance & Co. Ltd. is located at ____	New Delhi	Kolkatta	Chennai	Mumbai	Mumbai
20	The Head office of Oriental Insuarance Company is located at	New delhi	Chennai	Kolkatta	Mumbai	New Delhi
21	The subscribed capital of GIC is contributed by the Central Government is _____	Rs.5 crore	Rs.10 Crore	Rs.15 crore	Rs.20 crore	Rs.5 crore
22	The Head office of the National Insurance Co. Ltd is located at _____	Mumbai	Kolkatta	Bangalore	Hyderabad	Bangalore
23	The Head office of the United India Insurance Co. Ltd. is located at _____	Mumbai	Chennai	Bangalore	New delhi	Chennai

24	The Oriental Life Insurance Company came to India during ______	1919	1818	1899	1888	1818
25	The insurer who grants guarantee from the direct insurer is called as ____	direct insurer	ceding insurer	reinsurer	double insurer	reinsurer
26	The proportion of the risk which the direct insurer holds on his own account refers to	line	tetention	retrocession	ceding insurer	retention
27	A reinsurance of reinsurance refers to _____	line	retention	retrocession	cession	terocession
28	Reinsurance is also termed as _____	insurance of insurance	reinsurance of reinsurance	double insurance	over insurance	insurance of insurance
29	When the same risk and subject matter is insured with more than one insurer is called as	double insurance	over insurance	reinsurance	non-proportional reinsurance	double insurance
30	When the amount for which a subject matter is insured is more than its actual value, it is called	double insurance	reinsurance	over insurance	external insurance	reinsurance
31	When the subject matter is partially lost by a peril insured against, it is called ______	general average loss	constructive loss	actual total loss	particular average loss	particular average loss

32	Cargo ship caught by fire is an example of _____	general average loss	constructive loss	actual total loss	particular average loss	actual total loss
33	An international code of York Antwerp Rules applied to _____	marine loss	loss of fire	loss of crop	loss of human lofe	marine loss
34	______ policy is granted only in respect of stock of inventories of the insured under fire	floating	declaration	replacement	valued	floating
35	Under fire insurance loss of profit policy is also called as	average policy	consequential loss policy	specific policy	adjustable policy	consequentia l losspolicy
36	General insurance business was nationalised under the General Insurance	1971	1972	1973	1974	1972
37	What is a floating policy?	standard fire policy	policy covering different time period	goods in different palces	renewable marine policy	goods in different places
38	Claim forms are not compulsory in ____	fidelity guarantee	marine cargo	machinery breakdown	othes	marine cargo
39	For settlement of claims, Insurer requires proper knowledge of ___________.	law, principles & practice	law only	principles and practice only	none of theabove	law, principles and practice

40	The burden of poof of the loss is within the scope of policy is upon the	insurer	insured	surveyor	lawyer	insured
41	________ provides guidelines to decide whether the loss is caused by an insured,	indemnity	proximity clause	standard claims	trip sheet	proximity clause
42	One who shares the risk under an insurance policy or policies is known as __________.	assurer	insurer	co-insurer	agent	co-insurer
43	A policy protecting a group of persons, usually employees of a firm generally called as	fire	group	marine insurance	automobile	group
44	The period of time for which the policy will normally remain in existence is known as	policy term	policy note	proposed time	grace time	policy term
45	Insurance is a written agreement between the insurer and the	people	individuals	institutions	insured	insured
46	______ means to make good the actual loss and nothing more than the actual loss	indemnity	subrogation	contribution	premium	indemnity
47	Insurable interest means _______ interest	individual	social	monetary	non-monetary	monetary

48	Which of the following contract of insurance is not based on the principle of indemnity?	fire insurance	marine insurance	life insurance	fidelity insurance	life insurance
49	Property is the subject matter of	life insurance	crop insurance	guarantee insurance	liability insurance	fire insurance
50	Marine insurance do not cover loss or damage to the	ship	cargo	maruine adventure	fidelity cover	fidelity cover
51	Marin insurance for one year is meant for	voyage	sea loss	ship	cargo	voyage
52	FPR means	First Premium Receipt	Fourth Premium Receipt	First Policy Receipt	First Plocy Record	First premium Receipt
53	_______ is a voluntary termination of the insurance contract by the policy holders	report	surrender	prospectus	cover note	surrender
54	What type of insurance is concerned with overseas trade?	life insurance	non-life insurance	fire insurance	marine insurance	marine insurance
55	A marine insurance is a contract of	indemnity	increment	maturity	guarantee	indemnity

56	Which is not the subjectmatter of insurance?	hull insurance	cargo insurance	freight insurance	fire insurance	fire insurance
57	The body or frame of the ship or vessel and its machinery	cargo	freight	hull	voyage	hull
58	The goods or commodities carried in a ship is called	hull insurance	cargo	freight insurance	wares	cargo
59	Time policy is taken in case of	hull insurance	cargo insurance	freight insurance	fire insurance	hull insurance
60	Policy term refers to	period of policy	terms of policy	conditions of claim	conditions of settlement	period of policy

UNIT – V

MISCELLANEOUS INSURANCE

Miscellaneous Insurance: Motor Insurance – Employer's Liability Insurance – Personal Accident and Sickness Insurance – Aviation Insurance – Burglary Insurance – Fidelity Guarantee Insurance – Engineering Insurance – Cattle Insurance – Crop Insurance

Motor Insurance

Motor insurance protects your vehicle against losses arising from unforeseen risks. It basically covers financial losses arising from accidents, theft and other natural calamities. Motor insurance is a contract for an automobile in which the insurance company agrees to pay for your financial loss resulting from a said specified event.

Why Motor Insurance

In India, nearly 4 lakh people meet with accidents every month. Fatalities in road accidents in India are moving up at a compounded annual rate of four per cent. Considering the high number and the poor state of roads, Motor insurance is a necessary requirement. By law, Motor Insurance is mandatory. Motor Insurance provides financial cover not only to you but also covers damages to third party (people travelling with you). Motor Insurance also protects you from losses arising from natural calamities like cyclone, earthquake etc.

Types of Motor Insurance

a. **Third Party Insurance**

This insurance is mandatory by law. It protects a policy holder against losses which arise due to bodily injury/death to a third party or any damage to property. Here third party includes people travelling with you or whom the insured person injures and claims damages at the time of accident. But this insurance does not protect you, your vehicle and co-passengers against losses which arise due to bodily injury/death.

b. **Comprehensive Insurance**

In addition to third party coverage, this policy covers you, your car and co-passengers against damages /losses arising from unforeseen calamities, hence it is prudent to purchase this policy.

Benefits from Motor Insurance

It is a financial safety net that can help you offset the cost of

- Bodily injuries to yourself or others
- Lost wages due to injury
- Benefits to survivors when an accident results in death
- Lawsuits brought against you as the result of an accident
- Repairs made to your car due to damage caused in an accident

Coverage level of Motor Insurance

The cover level of Motor insurance can be the insured party, the insured vehicle, third parties (car and people). The premium of the insurance is dependent on certain parameters like gender, age, vehicle classification, etc.

Motor Insurance not cover

Motor Insurance does not cover loss due to wear and tear, breakdown, accidents due to drunken driving and war perils. The insurance also does not cover failure or breakage when the vehicle is used outside the geographical area.

Employer's Liability Insurance

The policy covers statutory liability of an employer for the death of or bodily injuries or occupational diseases sustained by the workmen arising out of and in course of employment.

Who can be insured?

Any employer whether as a Principal or contractor engaging "workmen" as defined in WC Act to cover his liability to them under statute and at common law. Employer can cover Employees who do not qualify as "Workmen" under separate table.

Scope

a. To pay all sums which the insured is legally liable to pay the employees in respect of personal injury by accident or diseases 'arising out of and in the course of the employment'.

b. Insured's liability arising either under common law or the laws set out in the schedule Workmen's Compensation Act 1923.

c. Costs or expenses incurred by the insured with the consent of the company, to defend any claims are paid in addition.

Exclusions

i. Any injury by accident or disease directly attributable to war and nuclear risk.

ii. Insured's liability to employees of contactors to the insured.

iii. Any liability of the insured which attaches by virtue of an agreement. iv. Any compensation for diseases mentioned in Part 'C' of Workmen's Compensation Act- 1923.

Premium

Premium rating is governed tariff. It depends on the nature of work carried on by the insured. Tariff prescribes 2 forms of insurance

Table-A: Indemnity against legal liability for accident to employees under

i. Workmen's Compensation Act 1993

ii. Fatal Accident Act 1855

iii. Common Law

Table-B: Indemnity against legal liability

1. Fatal Accident Act 1855
2. Common Law

Table A policies may be extended to cover insured's liability for contractor's workmen.

Personal Accident And Sickness Insurance

Insurance remains a much debated topic for Indians, especially because of the fact that considering savings, insurance basically doesn't pay. But when one considers the picture of exigencies where a proper insurance plan can prevent your savings from being damaged, insurance becomes very crucial. An accident insurance plan is basically something that provides for accidental death benefit, disabilities (total or partial) and the expenses that come across in term of hospitalisation, transportation of patient and family and repair of vehicle or residence. Other miscellaneous expenses might also be covered under such plans.

While going for an accident insurance plan, there are some key factors to account for when considering the benefits that are provided. These things can be mentioned as the following and they also form the base criteria through which different plans from different insurers are compared.

1. **Plan Basis** – Plans can be either in individual or family floater option. While an individual plan works best for bachelors and spinsters, a family floater option will be ideal and economical when one has at least 4 or more members in the family and he/she is the primary earner.
2. **Age Limits** – Entry ages are key to having a good insurance plan because contingencies relating to life and health can come at any time. Most plans do not have a cover ceasing age though there might be maximum entry ages. The more extensive the range of entry ages, the better a plan is.
3. **Sum Assured** – Most accident insurance plans come with a cap of sum assured of up to INR 1 crore or more and have a minimum sum assured too, ranging from INR 2 lakhs and more. Based on the profession one is in, a higher sum assured is always preferable.
4. **Accidental Death Benefit** – This is the value of the Sum assured and additional bonuses. The more the bonuses, the better the plan.
5. **Disability Factors** – Plans can cover permanent or temporary disability that is total or partial. Having the maximum number of options available always helps.
6. **Medical Expenses and Ambulance Charges** – In cases of accidents, immediate healthcare is always required and that too, at the nearest possible location. Ambulance charges might be required when push comes to shove. Covering both of these aspects is a sign of a good insurance plan.
7. **Bonuses** – Some plans might offer bonuses for dependent kids in the case of an accident. That is especially helpful if the treatment period is stretched long or the policyholder passes away.

Aviation Insurance

The aviation industry is susceptible to a series of risks and threats, especially with respect to technical operations of an aircraft, and the consequent dangers. Aviation insurance is a specialised insurance which has been formulated to provide coverage to the specific operations of an aircraft and other possible risks in aviation. This type of insurance is quite different from other types of transportation insurance. The clauses, terms, limits in aviation insurance are quite unique.

Different aviation insurance policies provide a series of options tailor-made to suit the varied needs of each customer. The types of coverage provided are extremely specific to each plan, and it is of utmost importance to understand these nuances before choosing which plan to buy. There have been various instances of a customer assuming that his/her plan has a certain coverage, only to find out that they were never covered for that particular type of mishap. To avoid getting into such a situation, you must consult a qualified aviation insurance expert. This insurance professional will help you identify and differentiate between different types of aviation insurance plans, and also clarify your doubts related to the same.

The concept of aviation insurance has gained momentum only of late. A series of aircraft disasters (especially the mysterious disappearance of Malaysia Airlines with over 200 passengers on board) have not only prompted more and more people to buy aviation insurance, but it has also increased the number of claims by a huge margin. As aircraft disasters continue and are on arise, it is being looked at as a very risky affair to fly. This has led to a lot of fear and consequently the need for aviation insurance.

Benefits of Aviation Insurance Policy

- In this age when all of us are hard-pressed for time, and are required to travel (for business or for leisure) taking a flight has become an indispensable part of our lives. Though flying comes with a huge amount of life risks, it is unavoidable. Be it turbulent weather, terrorist activities leading to hijacks, mysterious disappearance of flights, auto/technical failure, or a plane crash; taking a flight is never devoid of these life threatening dangers. As they say, better safe than sorry; a comprehensive aviation insurance policy covers you against the aforementioned dangers.
- In flight insurance provides coverage against damages that can happen to the aircraft while it is mid-air (in motion). Though this is expensive, it is worth it as most accidents happen when a plane is mid-air.
- You are protected from a series of natural weather turbulences and also man-made calamities.
- You are duly compensated for any damages sustained which can happen after you have boarded a flight.

Aviation Insurance Policy Covers

As mentioned earlier, aviation insurance offers protection against a wide array of perils, dangers, risks and damages to policyholders. Given that aircrafts are extremely prone to technical failures, accidents, terrorist activities, and such like, aviation insurance is extremely crucial. The coverage provided by different aviation insurance policies have been listed below –

In-flight coverage

This provides coverage against damages that can happen to the aircraft while it is mid-air (in motion). Though this is expensive, it is worth it as most accidents happen when a plane is mid-air.

Hull all risk

This coverage is ideal for flying clubs which operate small planes, private jets belonging to celebrities/politicians/business tycoons, aircrafts used for agricultural praying, etc. The policy covers any physical loss/damage faced by the insured plane. It also protects the plane against total loss and disappearance.

Hull/Spares War Risk

Protection is provided to the insured plane and its spares in case of loss or damage resulted by anti-social activities like war, invasion, riots, hostilities, martial law, strikes, civil commotion, malicious activities and sabotage.

Loss of License

It is a mandate for every aircraft crew member to hold a valid license. A license can be suspended on medical grounds leading to a financial loss for the crew member. This cover takes care of the financial loss incurred. The crew member can get the coverage in case of permanent total disablement or temporary total disablement due to bodily injury or illness.

Spares All Risk Insurance Policy

If any loss/damage is incurred to the spares, tools, equipment and supplies of the insured aircraft or any damages caused to a property by the aircraft, it is covered.

Burglary insurance

Burglary insurance is an insurance policy that provides financial compensation for loss or damage caused to property and valuable items due to burglary or house breaking. The policy offers insurance cover to the following:

1. Cash, jewellery and other valuables kept in a specified locked cupboard.

2. Damage caused to the property and premises due to actual or attempted burglary and house breaking
3. If it is a business premise, damage caused to furniture, stock of goods and other property within the business premise.

The burglary insurance policy would pay financial compensation to the insured if any of the items specified above are stolen or damaged due to burglary or house breaking.

Benefits - covers your property against burglary

This policy provides cover for property contained in business premises, stocks owned by you or held in trust and/or commission. It can be further extended to cover cash, valuables, securities kept in a locked safe or cash box in locked steel cupboard.

The policy provides cover for the following occurrences:

- Loss or damage to insured property due to burglary and/or housebreaking.
- Damage to premises caused by burglars during burglary or attempts at burglary The policy pays actual loss / damage to the insured property caused by burglary / house breaking subject to the limit of sum insured.
- If the sum insured is not adequate, the policy pays only proportionate loss. There is also a provision in the policy to cover bulk items on "first loss" basis, wherein a percentage of total stock stored can be taken as that exposed to the risk of burglary and housebreaking. The premium is charged on this percentage selected only. A nominal premium is charged on the balance stock.

- The policy can be extended to cover riot, strike, malicious damage and theft. Further, policies can be issued on declaration basis and on floater basis for stocks.

Main exclusions

The policy will not pay for loss or damage:

- For goods held in trust / commission, Cash,jewellery, curios, title deeds, business books (unless specifically insured).
- Due to shop lifting, acts involving you or your family members / employees.
- Due to war perils, riot & strike (covered by payment of additional premium), natural calamities and nuclear perils.
- For items stolen from a safe using a key or duplicate key, unless it is obtained by violence or threat.

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 is 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. Please note that the organisation will be compensated for the financial loss undergone, only within the stipulated limits (as stated in the policy wordings) 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 but this policy. The benefits of holding a called 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 your hierarchy is maintained and your 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 –

- You will be entitled for coverage on and after the day the insurance policy commences.

- 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, you 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. Please note, that 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

Engineering Insurance

The rapid industrialization of our country has led to increasing use of machines in industry. Though use of machinery results in increased production capacities, in the event of accident and breakdowns, they can be potential sources of financial loss and could even result in the closure of business. In spite of proper care and maintenance of machinery, mishap may yet occur. Sometimes the extent of damage may be quite high and may also lead to fatal or non-fatal injuries to human beings nearby.

The remedy for such losses is offered by means of the pecuniary protection given under Oriental's engineering insurance policies.The various engineering policies offered by us may be divided under the following three major heads:

1. Project Insurance
2. Operational Machineries Insurance
3. Business Interruption Insurance

Project Insurance:

Before an industry is set up, it involves project planning, financing, procurement of land, land levelling and earthwork, excavation of land, placing orders and procurement of machineries from various places, storing these machineries and other equipments connected with the project in safe conditions, erecting the equipments as per a planned schedule and finally testing and commissioning the erected plant and machinery for their rated capacity.

The engineering policies, recommended at the project stage can be any one of the following three covers:

1. Erection All Risks (also know as Storage Cum Erection Insurance)
2. Contractors (Construction) All Risks Insurance
3. Contractor's Plant and Machinery Insurance

Operational Machineries Insurance

After the completion of testing and commissioning and commencement of commercial production, the machineries that are installed and working in a specified premises can be covered under any of the following policies (depending upon the nature and type of plant and machinery):

1. Machinery Breakdown Insurance
2. Boiler And Pressure Plant Insurance

3. Electronic Equipment Insurance
4. Civil Engineering Completed Risks Insurance
5. Deterioration Of Stocks Insurance - Refrigeration Plant (Stock) Policy

Business Interruption Insurance (Consequential Loss Insurance)

Following property damage, due to break down of the machinery / electronic equipment or explosion of a boiler covered under the respective material damage policies, there may be an interruption in the operations and leading to loss of gross profits during such interruption periods. Such loss of gross profit is covered under business interruption policies:

This insurance covers additional cost of working also, to resume production.

Know more about our various 'engineering' products:

1. Erection All Risks (also know as Storage Cum Erection Insurance) / Marine-cum-Erection Insurance
2. Contractors (Construction) All Risks Insurance
3. Contractor's Plant and Machinery Insurance
4. Machinery Breakdown Insurance
5. Business Interruption Insurance following:
   a. Machinery Breakdown
   b. Electronic Equipment Breakdown
   c. Boiler Explosion
6. Advanced Loss of Profit/ Delay in start-up
7. Boiler And Pressure Plant Insurance
8. Electronic Equipment Insurance
9. Deterioration Of Stocks Insurance - Refrigeration Plant (Stock) Policy (Potatoes)
10. Civil Engineering Completed Risks Insurance

Crop Insurance

When Agriculture is synonymous to disasters and risks beyond our control, it is necessary to take precautionary measures to control damage faced by farmers. A crop insurance plan assists in the stabilization of crop production and reduces the negative impact it has on the lives of the farmers. Considering the current scenario, crop insurance has become a necessity for agricultural-related issues.

Each year, there are new technologies invented to help farmers get more produce from their investments. Since the new investments are risky, insurance packages help the farmer to try new technologies. The insurance companies allow farmers to get insurance covers for the new technologies such that if they fail, farmers will not get losses as the insurance company compensates them.

Advantages of Crop Insurance

Farmers who take crop insurance protect their crop from unforeseen setbacks. Considering that majority of the farmers livelihood is dependent on the quality and quantity of the yield they produce, crop insurance aids in fighting poverty.

The advantages of crop insurance are,

(i) Stability in Income: It protects the farmers against losses caused by crop failure. It acts like a tool that allows farmers to manage their yield and price risks.

(ii) Minimal Debts: Farmers are able to repay their loans even during the time of crop failure with the support of the right insurance partner.

(iii) Technological Advancement: Insurance companies work along with Agri platforms who use IOT to enhance agriculture practices and reduce farmers losses. This helps farmers to understand latest technological advancement and improve their crop production.

(iv) Yield Protection: Crop Insurance protects farmers against production loss for crops. It also offers preventive planting and replant security.

(v) Provides Awareness: Insurance companies provide awareness campaigns to help farmers understand the effect of natural calamities and also protect their farms.

Cattle Insurance

Raising livestock and poultry to sell can be unpredictable and risky. That's why a solid and affordable livestock or poultry insurance policy is a necessity. This insurance protects your investment from those unexpected events and accidents that can decimate your animals and your livelihood. Farm animal insurance can be customized to cover your specialized animal group, whether you have cattle, pigs, sheep, emu, goats, chickens or any combination of these on farm.

Special Features of Cattle Insurance

1. In a Cattle Insurance, the word cattle refers to Cows & Buffaloes, Stud Bulls, Bullocks, He Buffaloes, Calves & Heifers.
2. Cattle Insurance policy is usually given for a period of 12 months or for a long term of 3 to 5 years as per term of loan.
3. The Insurance policy covers risks such as loss due to death, accident, illness or disease of the animal.

4. A Certificate from the qualified veterinary officer is necessary for accepting the proposal and also to fix the value of the cattle which forms the basis for loss settlement in Cattle Insurance policy.
5. The policy also covers transit of cattle from the place of purchase to stable located within 80 K.M. For transit above the stipulated distance, additional premium @ 1% is charged.

Benefits of Cattle Insurance

1. Cattle Insurance pays for the market value of the animal prior to the accident or the sum insured whichever is less.
2. A certificate from the veterinary surgeon will be necessary to claim the amount in the case of death of the cattle.

The Basics of Cattle Insurance

Cattle and other livestock face mortality risks caused by accidents, sickness and disease. There are blanket coverages that apply to most livestock and poultry, and specialty coverages for specific groups of farm animals, such as cattle, sheep, goats, pigs, hogs, chickens, and emus.

The starting point for your operation will likely be farm or farm operations coverage and a limited animal mortality policy. Normally, these can be combined into a farm package that will protect your facilities, structures and your livestock or poultry in the event of death caused by accident or injury. Some insurers may include a more comprehensive animal mortality policy that includes sickness and disease or policy options for a specialized type of animal.

There are three ways to cover your animals

- **Individual coverage:** This insurance usually covers higher-value animals on an individual basis. The animals are listed on the policy according to some identifying marker or description, such as an ear tag, and covered for a specific dollar amount.

- **Blanket coverage:** This type of policy allows you to insure all your farm property for a predetermined value. It includes structures, equipment, tools and livestock.
- **Herd Coverage:** This is the simplest and most prevalent type of insurance for livestock. This coverage allows you to insure a specific number of animals, for example, 200 diary cattle or 500 pigs.

Per-head cost will be determined by the coverage you choose. Obviously, the per-head price for an individual policy will be more than the per-head cost of the blanket or herd policy. Keep in mind that some farm policies may cover certain broad perils, but exclude sickness and disease. Make sure you understand the details of your coverage.

These policies cover a broad range of death causes and may be divided into two kinds of coverage:

- **Comprehensive Coverage:** A broad peril coverage that includes accidents, sickness, disease and iunjury; normally includes theft
- **Limited Coverage:** Covers a specific list of incidents, such as:
    i. **Accidents**: Drowning, shooting, loading and unloading, falling objects, fire, smoke, electrocution, explosions
    ii. **Weather events:** Flooding, lightening, wind, hail
    iii. **Natural disasters:** Earthquakes, volcanic eruption, sinkholes
    iv. **Crimes and civil unrest:** Theft, vandalism
    v. **Systems breakdowns:** Water, heating
    vi. **Animal attacks**
    vii. **Collision or other death while transporting**

Possible Questions

PART - A (1 Mark)

Online Questions

PART – B

1. Point out the risks covered under Motor Insurance with examples.
2. “Burglary Insurance in India” – Give an overview.
3. Determine the Cattle Insurance Schemes with suitable examples.
4. “Crop Insurance in India is not very popular” – Discuss it.
5. Determine the Employer’s Liability Insurance Schemes in detail.
6. Enumerate the term Engineering Insurance.
7. Explain in detail about the Aviation Insurance
8. Enumerate the Fidelity Insurance.
9. Give an overview of coverage’s in cattle insurance.

KARPAGAM ACADEMY OF HIGHER EDUCATION
Deemed to be University Established Under Section of UGC Act, 1956
Coimbatore - 641 021
Depatartment of Commerce
I M. Com.
Insurance and Risk Management (17CMP204)
Unit V

S. No.	Questions	Option I	Option II	Option III	Option IV	Answer
1	The insurer agrees to compensate the insured in consideration of a sum of money is called	premium	policy	subject matter	loss	premium
2	The things or property insured is called	subject matter	insurable interest	policy	premium	subject matter
3	The document which lays down the terms of the contract of insurance is called	subject matter	policy	premium	insurable interest	policy
4	The interest which the insured has in the subject matter of insurance is called	premium	insurable interst	ownership	liability	insurable interest
5	A contract of insurance is ____________ agreement	contingent	constant	special	limited	contingent
6	__________ is a valid contract between the insured and the insurer is called	policy	insurance	waranties	conditional	insurance
7	Motor insurance provides insurance cover to	private vehicles	commercial vehicles	motor cycles	all of these	all of these

8	Employee's state Insurance Corporation was established in	1968	1988	1958	1948	1988
9	Burglary insurance policy covers the risk	theft	voyage	perils	any of these	theft
10	______ refers to the right of an insurer to refuse admittance of the claim by the insured	replication	repudiation	dufalication	retention	repudiation
11	Insurance providing financial support to farmers in the event of a crop failure due to drought or flood is called	cattle	crop	burglary	fir	crop
12	Property insurance may not include	burglary	fidelity	insolvency	sickness	sickness
13	Rashtriya Krishi Bima Yojana is known as	crop insurance	hull insurance	property insurance	sickness insurance	crop insurance
14	Crop insurance scehme came into existence in India in	1998	1999	1997	2000	1999
15	Crop insurance covers the risk of	Natural fire	storm	drought	all of these	all of these

16	Which of the following is not a horticulture crop?	grape	litrus	banana	coffee	coffee
17	Motor vehicle insurance begin in _____	UK	USA	India	Japan	UK
18	Public liability insurance Act establishted in	1990	1991	1992	1993	1991
19	From the following, which is not a type of Public Liability Risk Insurance?	industrial risk insurance	industrial all risk insurance	non-industrial risk insurance	business premises insurance	business premises insurance
20	Provides evidence of insurance to the Police and Registration Authoritires under Motor Vehicle Act	endorsement	policy form	certificate of insurance	cover note	certificate of insurance
21	Medical expenses insurance is also known as	personal insurance	liability insurance	mediclaim	fidelity	mediclaim
22	The risk of individuals and families are covered under	personal insurance	property insurance	liability insurance	risk insurance	personal insurance
23	In ____, the individual risk is offered by an insurer for acceptance or rejection by re-insurer	treaty reinsurance	facultative reinsurance	pool reinsurance	stock reinsurance	facultative reinsurance

24	Health insurance can be availed by people aged between	10 and 100	7 and 75	5 and 75	10 and 70	5 and 75
25	A health insurance should be	continuous	risk free	simple	free from regulation	continuous
26	______ enables to recoup the losses suffered by people consequent on house breaking	burglary	fire	perils	risk insurance	burglary
27	The corpus fund created with the contributions from the Central and state governments is on the basis of	60:40:00	55:45:00	50:50:00	25:75	50:50:00
28	______ are extra benefits under the policy	riders	loans	death benefits	claim benefits	riders
29	An exceptionally large risk is known as	great risk	jumbo risk	giant risk	large risk	jumbo risk
30	______ is a form of health insurance against loss by accidental bodily injury	property	marine	personal	accident	accident
31	Higher the percentage of ______in GDP, lower the insurance penetration	agriculture	reinsurance	banking	business	agriculture

32	_________ insurance is the one where the loss is not due to physical damage but due to disonesty of the employees	liability	pecuniary	motor	personal	pecuniary
33	Personal accident plan is suppliment to	life insurance	fire insurance	marine insurance	health insurance	life insurance
34	Personal accident plan can also be issued on	12 months	less than 12 months	less than 6 months	less than 3 months	less than 12 months
35	Personal accident plan is restricted to persons between	7-70 year	5-70 years	8-70 years	9-70 years	5-70 years
36	Personal accident plan is not applicabe to one of the following persons	working in mines	working in electrical installation	mountaineeri ng	wood working macinists	wood working macinists
37	Which one of the following is not an additional benefit in personal accident plan without additional premium	education of children	funeral expenses	cumulative bonus	life running expenses of legal heirs	life running expenses of legal heirs
38	Janath personal accident plan is meant for	low income group	high income group	middle incomr group	to any person	low income group
39	Group personal insurance covers	homogeneo us group	hetrogeneo us group	assorted group	any group	homogeneo us group

40	In case of burglary insurance, the insurershould declare the probable highest amount as it contains	average clause	condition clause	additional clause	without condition claues	average clause
41	Baggage insurance policy does not cover	wearing clothes	personal effect	jewellary & camera	all these	jewellary & camera
42	In money in transit ploicy, cover is granted only to	commercial & industrial houses	individuals	co-operatives	partnership firms	commercial & industrial houses
43	The loss indemnified under livestock insurance is to	loss due to accident/natural death	intentional loss	livestock of more than 8 years	any loss	loss due to accident/natural death
44	Public liability insurance covers the loss of	death of third party	property of third party	negligent act	all of these	all of these
45	Government guarantee policy is meant for guaranteeing	the fidelity of government employees	given by the government	premium paid by the government	policy provided by the government	the fidelity of the government employees
46	Court bond policy is meant to the person appointed by the court viz.,	liquidator	lawyer	pleader	judge	liquidator
47	In case of aircraft insurance, the following loss is not covered	standard component parts	mechanical failure	damage caused by fire	damage caused by explosion	mechanical failure

48	In india sickness, medical treatment, accident death cover are covered under	miscellaneous insurance	life insurance	separate insuance	general insurance	miscellaneous insurance
49	The product liability insurance covers legal liability arising out of	defective manufactures	loss of product	loss of sale of product	loss of manufacture	defective manufactures
50	The product liability insurance covers legal liability arising out of	defective manufactures	loss of product	loss of sale of product	loss of manufacture	defective manufactures
51	______ are used as a valuable tool/ aid to rate making & underwriting	engineering services	market research	personnel management	legal advices	engineering services
52	______ helps lower the cost of insurance as well as increase its availability	deductible decisions	objective decisions	selective decision	all the above	deductible decision
53	______ is a memorandum specifying some of the details of the property or liability policy to be issued by the	binder	subrogation	indemnity	endorsement	binder
54	______ is a form of health insurance against loss by accidental bodily injury	property insurance	marine insurance	persoonal insurance	accidental insurance	accidental insurance
55	Unemployment can result from	business cycle downsizing	seasonal factors	imperfection in labour market	all the above	all the above

56	In group insurance the rate premium is comapratively	less	more	moderate	higher than the individual policy	less
57	Commercial guarantee are	simple contract	special contract	ordinary contract	noted contract	simple contract
58	Court bonds are	simple contract	special contract under seal	ordinary contract	noted contract	special contract under seal
59	Integrated Rural Development Programme is funded by	Central governemnt	State Governmen t	local government	insurance companies	Central governmme nt
60	Act liability policy provides for __________ in regard to liabilities arising out of use of motor vehicles	compulsory insurance	simple insurance	risk insurance	free insurance	compulsory insurance

Register No.:………….

[17CMP204]

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed University Established Under Sec 3 of UGC Act, 1956)

Eachanari Post, Coimbatore – 641021

(For candidates admitted from 2017 onwards)

FIRST INTERNAL EXAMINATION, JANUARY 2017

I M.COM – SECOND SEMESTER

INSURANCEAND RISK MANAGEMENT

DATE :

TIME : 2 Hours **Max.Marks:50**

PART – A (20x1=20)

Multiple Choice Questions

1. ______ "possibility of loss or injury; peril."

   (a)Risk (b) Risk free (c) Insurance (d) Uncertainty

2. _______ "indefinite, indeterminate" and "not known beyond a doubt."

   (a)Risk (b) Risk free (c) Insurance (d) Uncertainty

3. Risk is present when future events occur with ________ probability.

   (a)Measurable (b) Immeasurable (c) accurate (d) No Probability

4. uncertainty is present when the likelihood of future events is _______ or incalculable

   (a)Measurable (b) Immeasurable (c) definite (d) indefinite

5. _______ is the risk of loss due to a debtor's non-payment of a loan.

   (a)Credit risk (b) Business risk
   (c) Purchasing power risk (d) Interest rate risk

6. ________ is the risk that the value of an investment will decrease due to moves in market risk factors.

   (a) Credit risk (b) Market risk
   (c) Purchasing power risk (d) Interest rate risk

7. ________ is the risk that the relative value of a security, especially a bond, will worsen due to an interest rate increase.

   (a) Credit risk (b) Market risk
   (c) Purchasing power risk (d) Interest rate risk

8. _________ is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

   (a) Credit risk (b) Market risk
   (c) Operational risk (d) Interest rate risk

9. ________ means that you are reducing risks by implementing controls, fixes or other countermeasures that have a direct affect on the risks identified.
(a) Credit risk (b) Market risk
(c) Mitigating risk (d) Interest rate risk

10. Risks are related to identified threats
(a) threat (b) opportunity
(c) weakness (d) strength

11. Risk arising due to loss of earned income to the family because of premature death of family head is called _______
(a) Property risk (b) Liability risk
(c) Personal risk (d) Interest rate risk

12. The process of risk management is _______in nature.
(a) Static (b) Dynamic (c) Static and dynamic (d) Certain

13. Diversification is one of the strategies pursued by the business firms to tackle risk by spread into number of businesses.
(a) Portfolio (b) Diversification
(c) Securitization (d) Factoring

14. General Insurance is having ______type of contract
(a) Guarantee (b) Indemnity (c) Long term (d) Short term

15. General Insurance is a/an____________
(a) Contract of Insurance (b) Contract of Assurance
(c) non Life Insurance (d) Life Insurance

16. Period of General Insurance coverage is_______
(a)Long period (b) 5 years (c) 3 years (d) Short period (upto 1 year)

17. General Insurance Corporation was established during the year_______
(a)1972 (b) 1951 (c) 1956 (d) 1965

18. Extent of coverage in General Insurance of___________
(a)Full (b) Parital loss
(c) Partial loss and Total loss (d) Total loss

19. The condition that may increase the chance of loss_________
(a) Peril (b) risk (c) uncertainty (d) hazard

20. Physical condition that increase the chance of loss from any peril is called as______
(a) hazard (b) physical hazard (c) peril (d) Risk

PART – B (3x2=6Marks)
Answer All the Questions

21. What is Uncertainty?
22. What is pure risk?
23. What is personal liability?

PART – C (3x8=24Marks)
Answer All the Questions

24. (a) Explain the various types of risks with suitable example.

(Or)

(b) What are the methods used to handle the pure risk? Explain the methods in detail.

25. (a) Describe the risk management by an individual in detail.

(Or)

(b) Discuss the difference between Risk and Uncertainty

26. (a) Describe the pure risk and its classification.

(Or)

(b) Enumerate the corporate risk management in detail.

Register Number____________

[17CMP204]

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed to be University)
(Established Under Section 3 of UGC Act, 1956)
Coimbatore – 641021
(For the candidates admitted from 2017 onwards)

SECOND INTERNAL EXAMINATION – MARCH, 2018
I M. Com. – SECOND SEMESTER

INSURANCE AND RISK MANAGEMENT

Time duration : 2 Hrs **Maximum Marks: 50**
Date : 22/03/2018

PART – A (20 X 1 =20 Marks)

Multiple Choice Questions

1. When was the Oriental Life Insurance Company established?
(a) 1818 (b) 1834 (c) 1938 (d) 1907

2. When was Life Insurance sector nationalized?
(a) 1834 (b) 1907 (c) 1938 (d) 1956

3. In marine insurance, insurable interest is enough at the time of
(a) claim (b) loss (c) maturity (d) throughout the policy

4. In fire insurance, insurable interest is enough at the time of
(a) effecting policy and loss (b) loss
(c) maturity (d) throughout the policy

5. _____ is an agreement whereby the researcher agrees to indemnify the insured against marine losses
(a) life insurance (b) fire insurance
(c) marine insurance (d) public liability insurance

6. ______ are those terms, which are implied in every contract of marine insurance unless they are expressly excluded
(a) guarantee (b) express warranties
(c) implied warranties (d) waiver clause

7. Motor vehicle insurance begin in _____
(a) UK (b) USA (c) India (d) Japan

8. Public liability insurance Act established in
(a) 1990 (b) 1991 (c) 1992 (d) 1993

9. From the following, which is not a type of Public Liability Risk Insurance?
(a) industrial risk insurance (b) industrial all risk insurance
(c) non-industrial risk insurance (d) business premises insurance

10. Provides evidence of insurance to the Police and Registration Authorities under Motor Vehicle Act
(a) endorsement (b) policy form
(c) certificate of insurance (d) cover note

11. When was the General Insurance Council formed?
(a) 1938 (b) 1957 (c) 1973 (d) 1971

12. When was the Export Credit Guarantee Corporation of India established?
(a) 1938 (b) 1957 (c) 1973 (d) 1971

13. _______ are those terms, which are written on the policy
(a) valuation clause (b) express warranties
(c) implied warranties (d) memorandum clause

14. Notice of abandonment is necessary in the case of ______
(a) actual total loss (b) constructive total loss
(c) partial total loss (d) Both actual and partial total loss

15. When the subject matter insured is destroyed wholly, it refers to _____
(a) actual total loss (b) constructive total loss
(c) partial total loss (d) Both actual and partial total loss

16. The person for whom such act is done or who is represented is called ____
(a) principal (b) worker (c) agent (d) development

17. A contract of insurance is ___________ agreement
(a) contingent (b) constant (c) special (d) limited

18. _________ is a valid contract between the insured and the insurer is called
(a) policy (b) insurance (c) warranties (d) conditional

19. Motor insurance provides insurance cover to
(a) private vehicles (b) commercial vehicles
(c) motor cycles (d) private, commercial vehicles, motor cycles

20. Employee's state Insurance Corporation was established in
(a) 1968 (b) 1988 (c) 1958 (d) 1948

PART – B (3x2=6Marks)
Answer All the Questions

21. What is Life insurance?
22. What is Fire insurance?
23. What is Motor insurance?

PART – C (3x8=24Marks)
Answer All the Questions

24. (a) Explain about the Settlement of Fire Insurance coverage in detail.
(Or)
(b) Point out the risks covered under Motor Insurance with examples.

25. (a) State the different types of life insurance policies.
(Or)
(b) "Crop Insurance in India is not very popular" – Discuss it.

26. (a) Define Fire Insurance contract and explain its essential elements.
(Or)
(b) Enumerate the term Engineering Insurance.