Semester III

16BPU303A	BUSINESS PROCESS SERVICES IN INSURANCE	L	T	P	C
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Program Outcome

Insurance principles and practice represents the concept of insurance, life insurance, general insurance and it is used to cover risk. This paper provides a basic understanding of the insurance mechanism in US.

Program Learning Outcome

- To impart theoretical base of US on fundamentals principles of insurance business
- To help the students to gain broader understanding of insurance business in US

Unit I

Concept of Risk: Risk Management - Basic concepts (Hazards, Perils, Assets, etc.) - Fundamentals of Insurance - Characteristics of a valid contract - Insurance contract - Principles & Practices of Insurance Contract - Important terminologies & parties in insurance contract - Types of Insurance (Personal, Commercial, Health, Life, etc. - History of Insurance - Types of Insurance companies - Business units in an Insurance company - Overview of Insurance Life Cycle (Underwriting, Policy Servicing, Claims, etc.) - Reinsurance concept.

Unit II

Life Insurance : Important terminologies in a Life Insurance policy - Parties in a Life Insurance policy - Individual Life Insurance plans - Supplementary Benefits - Policy Provisions - Ownership rights - Life Insurance policy life cycle (New business & Underwriting, Policy servicing, Claims, etc.) - Concept of Annuity - Types of Annuity - Annuity contract provisions - Annuity : USA – Fixed Annuity, Fixed Index Annuity, Variable Annuity - Qualified & Non-Qualified Annuity - Principles of Group Insurance - Group Life Insurance - Group Retirement Plans

Unit III

Non – Life Insurance: concepts : Hazards, Perils, Catastrophe, Property Damage & Business Interruption, Policy exclusions, Indemnity, Deductibles, Retention, Premiums, Limits, Salvage, Subrogation, etc. - Insurance Providers – Co-Insurance, Reinsurance, Captive Insurance - Underwriting process - Policy Servicing process - Claims process – Reinsurance.

Unit IV

Health Insurance: Concept of Healthcare Insurance - How Healthcare Insurance works - Key Challenges of Healthcare Industry - Healthcare Eco System - Healthcare regulations & Standards ; HIPAA – Medicare – Medicaid – Mediclaim - Individual Health Insurance policies - Group Health Insurance policies - Managed Care – Eye Care – Micro Insurance Schemes

Unit V
Retirement Plans: Concept of Retirement Services - Retirement Planning - Asset Allocation & Asset Classes - Life stages of an Investor - Defined Benefit & Defined Contribution - Individual Retirement Arrangement in USA - Third Party Administrator for Retirement Services in USA - Life cycle of Participants in a plan (enrollment, contribution,etc.) - Categories of Pension in UK - DWP & TPR - Annuity & Income Drawdown Plan.

Suggested Readings

Text Book

TCS BPS study material

UNIT 1

CONCEPT OF RISK

INTRODUCTION

Risk is a part and parcel of our daily lives. Risks are all around us whether we are aware of them or not. We may be familiar with some of the risks and then there are others, which may have escaped our attention. There are risks, which we have learned to live with such as "Will I live to see this year through and then there are risks, which do not cross the mind like "The possibility of house or property getting damaged by an earthquake or lightening". For example: Whenever you go out of your house the parents are worried that the possibility of accident on roads. Risk of Accident is involved. As & when you go to attend marriage of your relative out of town along with your family members and you lock your house and your parents always feel risk of theft.

RISK DEFINITION

Risk has been defined as the possibility of occurrence of an unfavorable deviation from the expected i.e. what you want to happen does not happen or vice versa what you do not want to happen, happens. When such unexpected events occur there is invariably a sense of loss, which may or may not be measurable in terms of money. When your vehicle gets unexpectedly stolen there is a monitory loss but if your Favorite pet dies unexpectedly you feel a great loss but this loss is not measurable. Since an unfavorable deviation from the expected always results in loss, we can also define risk as the possibility of occurrence of loss.

Our expectations are mostly positive. We expect our car to be exactly where it was parked in the same condition as when we left it and are unpleasantly surprised if we find it is not there or that it has been damaged when we return. Once we realize that our expectations are less than certain and that actual vents may differ from what we expected, uncertainty creeps into the mind and uncertainty is something, which most people are not comfortable with.

The knowledge of risk and its potential to cause loss creates uncertainty and gives rise to a feeling of insecurity which leads to worry amongst people and once they are worried enough they will give the problem some thought and try to find a solutions and this is where Insurance comes in.

A man is aware that he may die unexpectedly and is worried that in case such an event does happen his family will have to face a lot of hardship and so to mitigate his worry he goes in for life Insurance. Another person may be aware that there is a possibility of his vehicle meeting with an accident and is worried that he may not be in a position to afford its replacement or repair therefore he opts for Motor Insurance. Insurance provides a means for reducing the adverse impact of unexpected losses and lessen the worry factor letting a person breathe more easily. Worry, insecurity and uncertainty are all very negative factors, which adversely affect the output or performance of individuals or even business houses. A worker who is insecure in his job and is worried by this insecurity will be less productive than his counterpart who is secure. Worry not only leads to reduced production resulting in higher cost but it can also be the cause of accidents as worried workers are more likely to be careless than those who are concentrating on their duties. Even Business houses when they are uncertain about the future may not be willing to invest more.

Thus we see that Risk with its resultants uncertainty, insecurity and worry definitely have an economic and a psychological cost.

SOURCES OF RISK

Risk as we have seen is all about losses. In the absence of possibility of loss there would be no risk thus it is important to know about the factors, which cause or contribute towards the occurrence of loss or extent of loss. There are two such factors and these are "Perils" and "Hazards".

PERILS

Perils cause the deviation in events from those that we expect. They are the immediate cause of loss. Their very existence ensures that we are surrounded by risk for example flood, death, sickness, theft, terrorism etc. and these are discussed below.

1. Natural Perils:

Our very existence on the planet earth ensures that we live with risk as the almighty in all his wisdom has although gifted nature with many sources of energy unbalance or disturbances beyond limits take the form of risk called perils, which can lead to unexpected losses. There are unexpected natural phenomena, which year in and year out cause untold misery, loss of life and property. The most recent example in the Indian context being the Gujarat Earthquake on Jan 26th 2001, which caused widespread devastation. Nearly 20,000 lives were lost, numerous villages and localities were razed to the ground and lakh were rendered homeless. There is no stopping the fury of nature and the havoc that it plays with mankind. Volcanic eruptions, fire due to lightning, landslides, cyclones, hurricanes, storms, floods, the vagaries of weather, unseasonal rainfall and prolonged dry spells, hailstorms are some other examples of natural risks that can cause losses. These perils are also called Act of God perils, and there is little that mankind can do to stop them, he can only learn to live with them and devise means to lessen the negative impact.

A global survey of losses for the year 2006 conducted by Sigma estimated the insured losses due to natural calamities at 14.8 billion dollars and out of this 12.6 billion dollars was on account of floods alone while looking at these figures we have to bear in mind that these are only for insured losses, the actual figure may be actually much more. 40% of the lives lost during the year in catastrophes were on account of natural disasters with a major contribution being the lives lost due to floods in India & Bangladesh in and Southern Africa in February'2000 and Tsunami in 2005-06.

2. Man Made Perils:

Then there are the manmade perils, which cause loss, these are an outcome of our society and are the violent actions and unethical practices of people, which result in deviation from the expected. There are many of these but only a few are being discussed to illustrate their significance.

(a) Theft: Page – 3 of your daily newspaper provides a fair idea about this rampant malady in our society. The entire page is full of incidents of thefts of motorcycles, daylight robberies and burglaries loss to human life by accident, terrorism, enmity, adulteration murder etc. The figure for the exact extent of losses due to such incidents is not available for India but a study done by the FBI in USA way back in 1974 estimate that such losses in material terms alone exceeded $3 billion that year. Not only outsiders but insiders also steal. Employees steal tools, equipments and goods from their employers worth millions every year.

(b) Riots, Strikes and Malicious Damage: These are perils, which every property owner faces. During Riots miscreants' damage, Public and Private property, loot stores, inflict injury or death to innocent people and the police personnel and bring business to a standstill causing untold damage. Similarly strikes sometimes turn violent resulting in damage to life and property. Strikes also result in loss of production causing huge monetary losses, which may even result in bankruptcy. Vandals target unoccupied houses when the proprietors are on vacation and damage the property, in some cases setting it on fire. Cars parked in the street are also often vandalized.

(c) Accidents: Accidents are caused by people and they cause injury to themselves or to others and also damage to property. Automobile accidents alone contribute the maximum share of losses due to this peril. As per WHO study each year "Road Traffics" take the lives of 1.2 million men, women & children around the world and seriously injure millions more. In addition to automobile accidents, accidents due to carelessness of humans result in huge losses to property and life. A carelessly dropped cigarette can lead to fire resulting in heavy losses to property and even life. Thousands of workers lose their lives and limbs every year in industrial accidents caused by human error or carelessness. In one of the reports by Sigma for the year 2006 puts the global figure of manmade insured losses at 5 billion dollars with 50% being attributed to Industrial fires. 11700 people lost their lives and out of these 65% were killed in transport related disasters (which appreciating the extent of losses. We must remember that Sigma's report is only a study of major disasters and only 350 events during the year have been Evaluated / studied. The figures therefore just give an idea whereas the ground reality may be even more alarming).

3. Economic Perils:

The third category of Perils or cause of Risk is economic in nature and the examples of this type of Risk are Depression, Inflation, Local fluctuations and the instability of Industrial firms. Depression in the market leads to low production levels and an increase in unemployment. Low production results in reduced profits or losses for business houses whereas unemployment stops the income of individuals causing mental and physical suffering. When Inflation is there in the economy the buying power of money declines and the real value of savings and income is reduced. People whose livelihood is based on fixed income such as pensioners (Retired persons) during such periods are the hardest hit and may find it impossible to make both ends meet.

This fluctuation in the general economy can cause unfavorable deviation from the expectations and create risks for both Industries firms as well as individuals. Sometimes it so happens that even though the general economic condition in the country is stable there is some areas, which may experience recession. These are known as local fluctuations and can affect the Individuals or the business houses in the same manner as the general fluctuation in economy i.e. Depression & Inflation. When particular area is effected the value of investments made in the area declines and jobs are also lost. At time it is the individual firms which are to blame. The owners lose part or whole of their investment and workers lose their jobs. There are many towns and communities, which are dependent on one single Industry for their well being and when this Industry fails or decides to shift operation the entire town or community is exposed to risk.

Hazards

While perils are the direct cause of loss hazards are the underlying factors, which increase the probability of occurrence of loss. There are conditions, which are more hazardous than others e.g., working, as an electrician is a more hazardous occupation than that of a banker as it is more susceptible to accidents. Owning a property on the banks of Ganga is more hazardous than a property in Chandigarh as it is exposed to the risk of damage due to floods. Similarly dealing in textiles is more hazardous than dealing in hardware as the risk of loss due to fire is greater. There are three kinds of hazards:

(i) Physical
(ii) (ii) Moral
(iii) (iii) Morale

Physical Hazard: These are hazards, which are related to the physical aspects of the property, which may influence the chances that the property may be damaged or which may increase or decrease the losses incurred due to a particular risk. The location of a building affects its vulnerability to losses due to fire, floods, earthquakes etc. A residential building close to a unit manufacturing crackers will be more susceptible to losses than a building located in a purely residential area. Construction of a building also affects the extent of loss. A building or the use to which it is being put is another example of a physical hazard. The same building will be in greater danger of loss by fire if it was used for storing petroleum products than if it was being used as an office or a departmental store.

Moral Hazard: Moral hazard also affects the probability of loss occurring and the risk is increased. A dishonest person may set his own house or property on fire to avail the Insurance benefit. An unscrupulous trader may arrange for a robbery in his own store to get the benefits. Whenever persons of doubtful integrity buy an Insurance policy the risk increases because loss becomes a certainty.

Morale Hazard: This is not to be confused with moral hazard, which involves dishonesty but morale hazard is an attitude of lack of concern about the outcome of his actions. An example of this is a person who is careless about stubbing out cigarettes and just throws them around not in the least bothered that his action may cause fire. Bad housekeeping is another example of a morale hazard as this also increases the chances of loss occurring.

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TYPES OF RISKS

Risks can be classified into two categories Pure Risks and Speculative Risks.

To illustrate the difference between the two types of risk let us take the example of a property owner. When a person purchases a property, he is exposed to the risk of damage or loss to his property due to fire. In the event of a fire occurring he will suffer a loss and there is no possibility of him gaining anything if a fire occurs. Simultaneously the value of his property may increase or decrease due to various factors. The areas where the property is located may develop into a prime locality and the value of his property will increase or alternatively the area may not develop but instead becomes uninhabitable because of pollution and the value of his Property may decrease. Thus by purchasing the property he exposes himself to the risks of either gaining or losing. In the first case there was only the chance of a loss occurring this is known as pure risks whereas in the second there is a chance of either gain or loss this is known as speculative risk. Thus we see that in the same instance i.e. the purchasing of a property the owner exposes himself to both Pure and speculative risk.

Pure risks are those where in case of any unexpected happening the result is only loss whereas in speculative risks an unexpected occurrence can possibly result in gain or loss. When a person gambles or he buys shares there is a chance that he may lose or win or that the share prices may go up and he gains or the share market crashes and he loses. These are speculative risks. Risks as we have mentioned earlier is the possibility of loss but when there is also a chance of gain then these risks are called speculative risks. It is said that the profit that a businessman earns is his reward for bearing a speculative risk. No businessman willingly exposes himself to pure risk because in pure risk there is no gain. It is a universal fact that if one has to live in this risk prone world, one has to expose himself to the pure risks. Pure risks are a part of the environment and are all pervading. Pure risks which every individual families, firms and other organizations are exposed to can be broadly classified as follows:

(a) Personal Risk: Since all losses are ultimately borne by the people it can be said that all risks are personal but there are some losses such as loss of income, mental or physical suffering etc. which have a direct impact on people. Therefore the risk of premature death, sickness, disability, unemployment and even dependent old age are put in this category of Personal risk.

(b) Property Risk: The possibility of loss to an asset such as damage to a building due to fire or damage to a vehicle in an accident or theft of vehicle. These sort of risks fill in the category of Property Risk.

(c) Liability Risk: This is the risk of becoming legally bound to compensate or to pay for damage to the person or property of others.

WHO FACES RISK?

Risks as we have seen are inevitably a part of our lives and every individual or business Industrial house is exposed to the possibility of loss. The risks faced by the individual or family and the Industry are common but they differ in nature and the extent of loss. It will be simpler if we discuss the risks faced by the Individual or family separately from the risks faced by the Business houses/ Industries.

1. Family Risks

The term family for all practical purposes henceforth includes an individual who may be living with the family or separately.

(a) Personal Risks

Death: When a person dies the income that he earns with his efforts stops. When death will strike is uncertain and the risk is there at any age. In addition to the loss of income when the head of family dies the family is subjected to expenses on last illness, funeral expenses and settlement of estate not to mention the mental and social burden which cannot be measured in monetary terms but is without doubt very high.

Disability

This may not be as serious as death but it has definite impact on the income. Expenses will increase due to medical care for the disabled family member. Poor health as a result of an accident or illness is one of the most important risks which a family has to face.

Retirement

A person may survive pre-mature death or disability but he still faces loss of income to maintain a reasonable standard of living during retired lifetime.

Unemployment

This risk is also an important one for every family. The current industrial & economic scenario is not very conducive for employment and a lot of companies industrial houses are downsizing, cutting down on the labor force. Voluntary Retirement Scheme and Retrenchment are the order of the day.

(b) Property Risk

All families in addition to the risk of loss of income or increased expenses also face the risk of loss to property. Loss to property results not only in reduction of Assets but also in loss of income. Examples of property risk are innumerable but to illustrate the extent and nature some are being mentioned here. Homes may be destroyed by fire, floods and storms; cars may be damaged in an accident, burnt, be lost, stolen or destroyed; Savings may be lost in stock market crashes or failure of banks.

(c) Liability Risk

An individual because of his negligence may become responsible for injury to the person or damage to the property of others for which he has to pay compensation and expose the family to such a risk. With a greater awareness amongst the common man the liability risks is ever increasing and the courts in their judgements appreciating the value of human life and right are awarding huge amounts as compensation for which any individual or family can be beyond imagination and intolerable.

2. Business Risks

As we have already said, businesses also face the same risks as the family but in a different manner and the magnitude is bigger.

(a) Personal Risk: The death or disability of an employee who is instrumental in the successful running of the business enterprise can result in loss of business and profits. If a partner in a partnership concern dies, the partnership is dissolved and the surviving partners can suffer loss of Income. In the case of disability of a key employee or partner the firm may be burdened with his Medical expenses and may be obliged to continue paying his salary. Firms also to have faced the risk of the death or injury to their employees and the burden, which has been transferred to them by law or by contract. The workmen compensation Act 1923 is an example whereby the financial burden resulting from disablement or deaths of an employee is placed upon the employer.

(b) Property Risk: Business houses suffer direct and indirect losses due to property risk. Direct losses can be as a result of various perils much the same as for the family such as destruction of building, machinery and stocks in fire or due to other perils such as storms and flood. In addition dishonest employees may steal from the firm not only material goods but also ideas causing great loss. In this competitive era business houses spend a lot of money on research and development of new concepts but if these are stolen and handed over to other firms in the same field the returns expected from these investments are lost causing great loss. Equipment and property may be damaged or destroyed by rioters or employees on strike. Strikes also cause loss of production.

These direct losses may only be a part of the total loss because apart from direct losses due to property damage the business houses also have to bear the indirect loss incurred due to stoppage of operations, disruption in production (Loss of profits) that they may have to face.
(c) Liability Risk: As in the case of family business, firms also are liable to others for bodily injury or property damage but the exposure is greater than the family as the firm is responsible for the acts of a large number of employees as also the products or services that it deals in.

HANDLING OF RISKS

Now that we know that risks are a part of our daily lives we must know how to handle them. Risk management will be discussed in detail under "Practice of General Insurance" and here we shall only make a passing reference to this important aspect. Some of the methods used to handle risks are Risk Avoidance, Loss Prevention and Reduction, Risk Retention and Risk Transfer. For convenience sake these are briefly being dealt with separately but in practice two or more are used in combination.

1. Risk Avoidance:

The simplest way to deal with risk is to avoid it together. If a factory is to be located on the banks of a river, which is prone to floods every year then it may be decided to shift the site to a safer location. Some people avoid the risk of death or injury in an aero plane crash by traveling by surface transport only. Organization like the Armed forces and even some corporate houses restrict the number of their officers traveling in a single aircraft or vehicle together to avoid the risk of all of them dying in an accident. Though this is the simplest way it is not always practicable.

2. Loss Prevention and Reduction:

Possible loss due to risks may be eliminated or minimized by Loss Prevention and Reduction measures. Some measures such as strict enforcement of "No Smoking" regulations may eliminate fire losses whereas measures such as installation of sprinkler systems and other appliances may reduce the extent of loss due to fire. Good manufacturing units spend a lot on safety devices and measures and enforce strict rules of conduct within their premises to eliminate or reduce the occurrence of accidents thus minimize their losses & expense incurred on treatment and compensation to employees. Segregation of hazardous processes from others in a manufacturing unit and isolation of hazardous goods such as petroleum products from non-hazardous goods in a storage facility are some examples of the method of loss Prevention and Reduction.

3. Risk Retention:

It may be consciously decided to retain some risks. Small losses, which may occur frequently may be absorbed by the firm as normal operating expenses such as minor damage or loss of goods in transit. A financially sound firm may create an Insurance fund to which regular payments are credited and from which losses are paid as and when they occur. This method is used to take care of the domiciliary medical expenses of employees by some large companies having a big workforce. Some individuals retain the risk of contracting cancer due to smoking not knowing that smoking causes cancer and other even though knowing of it rationalize and pretend that the risk does not exist by saying. "It won't happen to me".

4. Transfer of Risk:

Risk transfer occurs when the activity that creates the risks is transferred to another. For example if a particular process of manufacture is hazardous the firm may decide to get it outsourced i.e.

get the job done from a specialized subcontractor outside so that the associated risks are transferred. Similarly when a person hires an equipment the owner may insert a condition in the contract that any damage to the equipment shall be the responsibility of the hirer. Lease and rental agreements are an example of this method of handling risk. A rental agreement carries the clause that the equipment shall be returned to the owner in good condition, ordinary wear & tear accepted. Guarantees are also a form of risks transfer where the buyer transfers the risk of purchasing a defective new item back to the manufacture. Most consumer goods coming in the market now are sold with the guarantee that in case of any manufacturing defect or non-performance the equipment will be replaced/ repaired by the manufacturer. Earlier it was not so and the buyer used to purchase the materials at his own risk and in case of defect had to bear the Loss. There are innumerable ways to transferring the risks and these are only a few illustrations but the most important method of Risk transfer is Insurance.

INSURANCE

History repeats itself, but while standing at the critical juncture of a historic event we hardly try to learn from our past experiences. What brought insurance into being was popular concern for future uncertainty? Man wanted to protect their hard earned property from uncertainty and this simple requirement was given a shape with the innovation and improvement of insurance policy. The only principle was to make good the loss. In our country, the insurance sector was nationalized with an objective – to reach the corners of this country with insurance network; mobilize a huge resource and lend our shoulders in the nation building. With this existing monopolistic structure, we have made remarkable towards our goal, but how far into the heart of the people as individual? This question has become very relevant as we are now standing at a critical juncture. At this age of consumerism, we must look at ourselves, we must evaluate our selves, we must compare ourselves vis-à-vis a consumer.

Insurance is an idea of the people, for the people and by the people. An insurer therefore can't be advertised to a popular sentiment. Still there is a popular saying "What insurance companies give you a big print, they take away in small print." This must be a pointer towards the policy contract which is crowded with exception, exclusions, limitations, conditions and warranties and all such "if" and "while" clause. There "if" and "while" clause and sub clause when overpower the so called "big print" as a policy. The objective of insurance is deserted. No one denies the necessity for limiting insurance within a known boundary, but the dominance of these limitations mustn't mar the very basic objective of insurance. In India, the insurance policies are dratted with all these consideration. But it we look at the organization set-up and the delegation of power, one would observe a great effort inherent in that structure itself to popularize insurance. The organizational set-up is so nicely built, that individual requirements can be meted out the grass-root level. The operating offices are empowered to issue policy, settel claims at their discretion up to limit which covers almost each and every individuals personal need.

At the grass-root level a claim say up-to Rs. 1,00,000/- can be settled, but if one look at the organisational structure at the level one would find no specialist posted at that office. Who then would settle the claim? Obviously some expertise is required to understand the essential points and take decision at that level. What we observe in most of the cases is that the executive officer manages the same with the help of surveyor. Doesn't it simply mean that these claims can be settled without much specialization? Doesn't this imply that at that level several ideas of insurance and common sense is sufficient. But in individual public, who has any experience of such a claim also knows the other side of this story very well. All the "ifs" and "Whiles" clauses are highlighted and the claimant is asked to prove that the ashes are from his own property. A number of times, at the operating level the formalities are so rigid and inflexible that often these are impractical and even ironic a petty betal leaf vendor is asked to submit past three years dudited balance sheet. History repeats, sticklers to formalities do no good to the theory which man formulated for his own benefits. The birth of Buddhism and Jainism is contributed mainly to the strict formalities and rituals of the "Sanatan Dharma". To quote from the oxford History of India by V. A. Smith "At that time the religion favoured by the "Brahmanas" as depicted in the treatises called "Brahmanas" was a mechanical, life less character, overlaid with cumbrous ceremonials. The formalities of the irksome ritual galled man persons, while the cruelty of the numerously bloody sacrifices was repugnant to other people sought eagerly for some better path to the goal of salvation desired by all. Look at the similarity." This is inevitable when the main theory – the guiding principles is ignored to accommodate formalities and rituals.

The insurance companies have failed to win the confidence of the general public for its procedural drawbacks. The nobility of the principle insurance has enough room to accommodate all, but the priests and "the Brahmanas" of insurance restrict access. It is high time that that these Brahmanas are identified and corrected because we can't afford to let these people imprison insurance. We must realize that bead necklaces, rosaries, triple paint on forehead or putting on ashes, pilgrimages bath in holy rivers, meditation or image worship do not purify a man as service of fellow creatures does. Crudraksam, tulaskastham, tripundram, bhasma-dharam, yatrah snamani homes ca japa va deva – darsonam, na etc. bhunanti mayam yatha bhuta hite ratih) quoted from Religion and Culture – Dr. S. Radhakrishnan. The good sense which brought us together and restored to insurance for our mutual well-being will surely prevail at this critical time. The air of liberalisation has already sent a signal to the corners of this industry and a new order of thinking is gradually taking shape. "The customer is the King" principal at all will definitely serve the basic purpose of insurance. What an individual person expect from the insurance company is not very complicated risk management but simple insurance coverage to his hard-earned property at an affordable price and timely indemnification, without much cumbersome formalities. At this age of simplification when the bankers are providing door-service, complicated cameras ask the user to click only and leave the rest to them, funds are transferred across the world in second, televisions are programmed to give the user most mother operations-what on earth do we working with when a small and petty claim by an insured is taking months for settlement? It is not that we are ill-equipped. Not even that we are badly staffed. It is the attitude that matters at some pockets which creates a bad impression in the market at large. Take for example, the concept of "On Account Payment". Often this is restored to create a marketing stunt. Why not a regular feature? The insurance companies can settle the claim on prima-facie evidence up to 75% of the estimated assessment through "On Account payment" It was a great idea keeping with the objective of insurance. But this noble idea was not implemented to boost the image of the insurance companies for long term marketing strategy. The doomsayers play their part and chocked the smooth flow of insurance benefits. This bottleneck is manifested at various points and is the mother of all the bad names-associated with the insurance companies. The insurance companies have all the ability to take the bull by its horn, but it never dare to do so. Are the insurer imprisoned by those few so called Brahmanas, the self proclaimed protector of the industry? The time has come for the insurance industry to come out of the clutch of this forces and manifest itself at its best picture, that of a social and humane organization striving it best to make the world a better place to live in. With reference to above reasons, the "Researcher" has decided to go through the study of the financial efficiency of GIPSC after the liberalization policy regime in insurance sector. Thus researcher section of problem is based on this issued i.e. financial efficiency of GIPSC. Many people surprised when they knew that the filmstar John Abraham wish to insure his body organs for Rs. 10 crore. But its not matter of surprise. Habituated by getting the cream of premium the insurance company gets business of various products of insurance. Life insurance company gets Rs. 20,000 crore in insurance business every year, besides the private and foreign insurance companies earn premium of Rs. 12,000 crore as income by launches the other various products. Since when India leds the liberalization and privatization, many foreign companies' eyes focused on Indian insurance sector. Insurance is the field in which the nationalized insurance companies used to get whole cream from the market till year of 2000. Most of Indian companies are undertaken by the government of India. But now many private companies have enter in this field. Foreign insurance companies are in hurry to eat the cake of insurance business in India. Today insurance business has been increased at every level of the society. What types of business or industry and what types of field or there are body organs of human being can be insured. The crucial match of cricket or football is to be insured also. The beautiful eyes or hair of famous actress is to be insured as well as the famous singers insure his/her throat. The companies of communication insured their space satellite. Before one and half decade the match was to be played India v/s Australia at the Firozshah Kotla stadium in Delhi, but it was heavy rain on the first day of the match. The next and the third day it was constant heavy rain. The manager of Oriental fire and general insurance company had feared, the match would not be started, the company have to pay Rs. 25 lacks to Delhi & District cricket association.

This association had made the condition to insure that if it might be rain and the match would not be played and the ground lashed without throwing any ball the insurance company have to pay Rs. 25 lacks to cricket association. The association had to pay Rs. 16,000/- per day as a premium to the insurance company for five days, had to pay the insure such amount. Meanwhile on the fourth day the match started and Rs. 25 lacks was saved by insurance company. But the people come to know by that news the cricket match can be insured. The one-day match and the match of Indian Premier League also all the matches are insured now. United India Insurance Co. Ltd. the nationalized company had started to insure the cricket match in India at first. For many years life insurance company is insured many people's life insurance, except this the people did not know about any insurance. Through against theft, accident, robbery and fire or any other event can be insured. The Life Insurance Corporation which have completed the five decades insured of Rs. 20,000 crore last years. Many insurance companies insured various insurances freely ago. But after 1973 when central government nationalized the insurance companies after that only the five insurance companies can insured officially, except Life Insurance Corporation.

The subsidiary companies of general insurance company like National Insurance Co. Ltd., United Indian Insurance Co. Ltd., New India Assurance Co. Ltd. and Oriental Insurance Co. Ltd. receive various policy in the whole country. Those insurance companies do business of Rs. 12,000/- crore per years. Not only India but the other countries of the world get various insurances for more business. Since many years American Insurance Company insuring the insurance which is known as contract frustration insurance. If the political relations dispute with America by any country, the American companies have to suffer the big loss. It might be possible that the products have been sealed by government of foe country. To get security against such situation the American companies are insuring of big amount to protect their interest. The Indian insurance companies insure various things and strange events. The product liabilities insurances have became very popular. When the new product launch in the market, the customer gets silent market guarantee from the manufacturer and it is for quality of product. If the product is defective and it makes loss to the consumer he/she can claims against the company. The companies get insurance to fight against such coming liabilities. The people of circus insure of artists group who show their risky arts. The system to insure is started in defense and police service profession.

ORIGIN AND DEVELOPMENT OF INSURANCE

THE HISTORY OF GENERAL INSURANCE IN WORLD

The growth of insurance industry is associated with the general growth of industry, trade and commerce. The origin of insurance services may be traced back to 14th Century in Italy when ships carrying goods were covered under different perils.

The systematic and orderly beginning of the insurance industry took place in UK at Lloyds coffee house in Tower Street in London. In developing countries, insurance sector has assumed special significance as it has the potential to speed up the rate of growth of the economy.

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

THE INDIAN HISTORY OF GENERAL INSURANCE

Regrettably, the Indian insurance industry has lagged behind even amongst the developing countries of the world. Although general insurance services started in India about 150 years ago, their growth has been dilatory, as reflected by low insurance penetration and density. Several factors are responsible for this state of affairs, the chief being the monopoly status of the industry till recently. The life insurance business was nationalized in 1956 and the general insurance industry in 1973. The lack of competition has impeded the development of insurance industry in India, resulting in low productivity and poor quality of customer services. The process of liberalization and globalization of the Indian economy started in right earnest in mid-1980s. The market mechanism was the motivating factor underlying the new economic policy. In consonance with the new economic policy, insurance sector was opened up for the private sector in 1999. The new competitive environment is expected to benefit the consumers, industry and the economy at large. The consumer will have a greater choice in terms of number and quality of products, low premium rates, efficient after sales services while the economy will benefit in terms of larger flow of savings, increased availability of investible funds for long term projects, enhanced productivity and growth of multiple debt instruments.

LIC

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

The first stock company to get into the business of insurance was chartered in England in 1720. In the year 1735 saw the birth of the first insurance company in American Colonies in Charleston. In 1759, the Presbyterian Synod of Philadelphia sponsored the first Life Insurance Corporation in America. However, it was after 1840 that Life Insurance really took off in a big way. The 19th century saw huge developments in the field of insurance with the newer products being devised to meet growing needs. The history of insurance in our country is somewhat darken. The earliest reference of life insurance was available in the days of East India Company, when the policies were taken only by the British officers. The policy was issued by British officers in sterling currency. Oriental was the first foreign insurance company established in India in 1818. Foreigners, orphans and widows were become subject matter for the oriental company. The company started accepting the Indians in 1934 due to the efforts of Babu Muttylai seal. ‘Bombay Life’, a company had issued short term policies for 2-3 years in 1823. Raja Ram Mohan Roy, the man who pleaded for protecting widows through government insurance 'Bombay Mutual Life Assurance Society was established by some prominent citizens of Bombay in 1871. European merchant also started 'Bombay Insurance Society' in 1893 by voluntary efforts. Mr. Curstjee Furdoonju was the first insured person of India. This policy was insured in 1848 by royal Insurance which started in 1845. It was the beginning of the Indian insurance venture.

BACKGROUND

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

National Insurance Company Ltd.
Head Office – Kolkota
The New India Insurance Company Ltd.
Head Office – Mumbai.
The Oriental Insurance Company Ltd.
Head Office – New Delhi.
The United India Insurance Company Ltd.
Head Office – Chennai.

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

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

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

The companies follow a four tier organizational structure as under

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

GENERAL INSURANCE

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

DEFINITION OF INSURANCE

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

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

A) GENERAL DEFINITION

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

1. In the words of John Magee, "Insurance is a plan by which large number of people associate themselves and transfer to the shoulders, of all risks that attach to individuals."
2. In words of Sir William Bevridges, "The collective bearing of risk is insurance".
3. In the words of Boone and Kurtz, "Insurance is a substitution for a small know loss (the insurance premium) for a large unknown loss which may or may no occur".
4. In the words of Thomas, "Insurance is a provision which a prudent man makes against for the loss or inevitable contingencies, loss or misfortune".
5. In the words of allen Z mayerson, "Insurance is a device for the transfer to an insurer of certain risks of economic loss that would otherwise come by the insured.
6. In the words of Ghosh and Agarwal, "Insurance is a co-operative form of distributing a certain risk over a group of persons who are exposed to it".

B) FUNCTIONAL DEFINITION

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

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

C) CONTRACTUAL DEFINITION

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

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

NATURE AND CHARACTRISTIC OF INSURANCE

Insurance follows important characteristics – These are follows

1) SHARING OF RISK

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

2) CO-OPERATIVE DEVICE

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

3) LARGE NUMBER OF INSURED PERSONS

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

4) EVALUATION OF RISK

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

5) AMOUNT OF PAYMENT

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

6) PAYMENT OF HAPPENING OF SPECIFIED EVENT

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

7) TRANSFER OF RISK

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

8) SPEADING OF RISK

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

9) PROTECTION AGAINST RISKS

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

10) INSURANCE IS NOT CHARITY

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

11) INSURANCE IS NOT A GAMBLING

Insurance is not a gambling. Gambling is illegal, which gives gain to one party and loss to other. Insurance is a valid contact to indemnity against losses. Moreover, insurable interest is present in insurance contracts it has the element of investment also.

12) A CONTRACT

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

13) SOCIAL DEVICE

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

14) BASED UPON CERTAIN PRINCIPLE

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

15) REGULATION UNDER THE LAW

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

16) WIDE SCOPE

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

17) INSTITUTIONAL SETUP

After nationalisation, the insurance business in the country is operation under statutory organization setup. In India, the General Insurance Companies and the Life Insurance

Corporation and subsidiary companies of General Insurance Corporation are operating the various fields of insurance.

18) INSURANCE FOR PURE RISK ONLY

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

19) BASED ON MUTUAL GOODWILL

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

IMPORTANCE OF INSURANCE

As the industrial revolution comes with cutthroat competition, the chances of uncertainty are also increasing day by day. Insurance plays significant role for not only an individual or for not only an individual or for a family but it has spread over the entire nervous system of the nation. According to the famous philosopher J. Royce, Insurance Principles comes to be more and more used and useful in modern affairs. Not only does is serve the ends of individuals, it tends more and more both to pervade and transform our modern social order. It brings into now sythesis, not merely pure and applied sciences, but private and public interests, individual prudence and a large regard for. the general welfare theft and charity. One famous author named “Dinsdale” also explains the importance of insurance as under. “No one in modern world can afford to be without insurance.” Insurance provides various advantages to various fields. One can classify the importance as under.

1.9 FUNCTION OF INSURANCE

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

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

1. PRIMARY FUNCTION

(A) TO PROVIDE PROTECTIONS

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

(B) TO PROVIDE CERTANITY

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

(C) DISTRIBUTION OF RISK

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

2. SECONDARY FUNCTION

(A) HELPS IN ECONOMIC PROGRESS -

Insurance plays an important role in economic progress. It gives fully certainty to the industrialists towards the risks. The entrepreneurs can more concentrate on innovative and profitable techniques of the production. They should not require thinking over the risks.
The industrialists can establish new industries in environment. Thus, industries
have got development in economic and commerce of the nation.

(B) IN PREVENTS LOSSES

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

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

3. INDIRECT FUNCTION

(A) A FORCED SAVINGS

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

(B) POMOTE FOREIGN TRADE

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

(C) OTHERS

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

1.10 ADVANTAGES OF INSURANCE

1. INVESTMENT OF FUNDS

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

2. REDUCTION OF COST INSURANCE

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

3. EFFECT ON PRICES

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

4. INVISIBLE EXPORT

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

5. REDUCING COST OF SOCIAL SERVICES

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

TERMINOLOGIES USED IN INSURANCE

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

1. INSURED

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

2. INSURER

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

3. BENEFICIARIES

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

4. CONCRACT

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

5. PREMIUM

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

6. INSURED SUM

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

7. EXCEPTION

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

8. PERIL

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

9. UNDERWRITER

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

10. HAZARD

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

11. EXPOSURE

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

12. CHANCE OF LOSS

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

13. ACCIDENT

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

14. CASE LAW

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

15. COMMON LAW

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

16. CONDITION

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

17. COVER NOTE

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

18. DAMAGES

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

19. INDEMNITY

Compensation for actual loss suffered is call indemnity.

20. REINSURANCE

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

21. NO CLAIM BONUS

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

BASIC PRINCIPLES OF INSURANCE

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

It is hence essentially an intangible product. The insurance customer cannot see or feel the product he or she is buying. And though the policy document does give the comfort that the coverage is on; generally no real service is delivered until a claim occurs. In normal commercial transactions, the legal maxim “Caveat Emptor” Latin for “Let the buyer Beware”/operates. This means that the buyer takes the risk regarding the quality or condition of the property purchased. This in turn, implies that the buyer has the opportunity to examine the product before purchase since, in view of what is stated in the preceding paragraph, the insurance customer has no such opportunity, insurance transactions need be governed by special principles in order to protect the interests of the contracting parties, particularly the customer. It is in view of this that the contracts are governed by certain special basic legal principles. These make insurance contracts very unique and different from other kinds of commercial contracts. As one shall see below, there are, however, differences between life and general insurance with regard the application, of the principles. One shall indicate these in the course of the discussions.

The basic principles are

Insurable Interest

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

The principle of indemnity

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

The principle of contribution

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

The principle of subrogation

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

The Principle of Utmost Good Faith

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

The Principle of Proximate Cause

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

NATURE OF INSURANCE CONTRACT

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

(i) Offer and acceptance

(ii) Consideration

(iii) Agreement between parties

(iv) Capacity of the parties

(v) Legality of the contract

OFFER & ACCEPTANCE

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

CONSIDERATION

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

AGREEMENT BETWEEN THE PARTIES

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

CAPACITIES OF THE PARTIES

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

LEGALITY OF CONTRACT

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

(a) It is forbidden by law.

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

(c) Involves or implies injury to the person and property of another or.

(d) The courts regard it as immoral or opposed to public policy.

GENERAL INSURANCE PUBLIC SECTOR ASSOCIATION OF INDIA (GIPSA).

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

a. New India Insurance Co. Ltd.

b. National Insurance Co. Ltd.

c. United Insurance Co. Ltd.

d. Oriental Insurance Co. Ltd.

e. Above four companies are followers of general insurance public sector association of India in terms of administration and the matter they are concerning to wages decided by GIPSA. Otherwise all four units have their own board of directors and also they are corporate units. All the above insurance companies have their individual corporate body.

FUNCTIONS OF GIPSA -

a. The carrying of any part of the general insurance business if it thinks it desirable to do so.

b. Aliding, assisting and advising the companies in the matter of setting up standards of conduct and sound practice in general insurance business and in rendering efficent service to policy holder.

c. Advising the companies in the matter of controlling their expences and investment of funds.

d. Issuing direction to companies in relation to the conduct general insurance business.

ORGANIZATIONAL SET UP AND MANAGEMENT OF GIC.

NEW INDIA INSURANCE CO. LTD.

The New India can claim to be the largest non life insurer not only in India but in the whole afro Asia region, excluding Japan. The New India was incorporated on 23rd July, 1919 and commenced transacting business on 14th October, 1919. There was hardly any Indian insurance company of significance till that time. The emergence of such a major national enterprise during this period British rule was not a coincidence. It was a product of historical forces. The birth of

New India was the result of emergence of the Indian National movement for independence of the country; Mahatma Gandhi had emphasized that Indian political liberation without economic infrastructure in the country. Thus sir Dorab Tata was inspired by this swadeshi movement to setup a large comosite company to provide sound and efficient insurance protection to the Indians.

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

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

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

ORIENTAL INSURANCE CO. LTD.

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

Corporation of India has been transferred to central government. The company is a pioneer in laying down systems for smooth and orderly conduct of business. The strength of the company lies in its highly trained and motivated work force that covers various disciplines and has vast expertise. Oriental specializes in devising special covers for large projects like power plants, petrochemicals, steel and chemicals plants. The company has developed various types of insurance covers to cater to the needs of both the urban and rural population of India. The company has a highly technically qualified and competent team of professionals to render the best customer service.

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

NATIONAL INSURANCE CO. LTD.

National Insurance Company Limited was incorporated in 1906 with its registered office in Kolkata consequent to passing of the general insurance business nationnalisation act 1972, 21 foreign and Indian Companies were amalgamated with it and national became a subsidiary of general insurance corporation of India, which is fully owned by Government Insurance Business (Nationalisation) Amendment Act, on 7th August 2002, National has been linked from its holding company GIC and presently operating as a Government of India undertaking. National Insurance Company Ltd. is one of the leading public sector insurance companies India, carrying out non life insurance business. Headquarter in Kolkata, NIC's network of above 1,000 offices, manned by more than 16,000 skilled personal, is spread over the length and breadth the country covering remote rural areas, town ships and metropolitan cities. NIC's foreign operation are carried out from its branch offices in Nepal and Hong Kong. Befittingly, the product ranges of more than 180 policies offered by NIC cater to the diver insurance requirements of its 10 million policyholders. Innovative and customized policies ensured that even specialized insurance requirements are fully taken care of. The company services the Indian sub continent with a network of 1000 offices comprising 24 Regional offices, 309 divisional offices, 561 branch offices and 71 DAB offices.(2007-08) At present, the company has operation in Nepal only.

UNITED INDIA INSURANCE COMPANY LTD.

United India Insurance Company Ltd. was incorporated as a Company on 18th February 1938. General Insurance Business in India was nationalized in 1972. 12 Indian Insurance Companies, 4 co-operative insurance societies and Indian operations of storegion of Life Insurance Corporation of India were merged with United India Company limited. After nationalization United India has grown by leaps and bounds and has 18300 work force spread across 1340 offices providing insurance cover to more than 1 crore policy holders. The company has variety of insurance cover to more than 1 crore policy holders. The company has variety of insurance products to provide insurance cover from bullock carts to satellites United India Co. Ltd. has 25 regional offices, 1 regiona cell, 3 large corporate brokers and units, 361 divisional offices, 677 branch offices, 271 micro offices. The head office of United India Co. Ltd. is as Chennai. The Company's employees strength of class I officers is 4135, class II 2129, class III 8444 and class IV 2573.(2007-08).

Types of Insurance

Insurance, which is based on a contract, may be broadly classified into the following types.

(i) Life Insurance
(ii) Fire Insurance
(iii)Marine Insurance, and
(iv) Other types such as burglary insurance, motor vehicle insurance, etc.

Until recently Life Insurance Corporation of India (LIC) and General Insurance Corporation with its subsidiaries happened to be the only organizations engaged in life and general insurance business in India. Now a number of other private companies have entered this service sector.

(i) Life Insurance

A contract of life insurance (also known as 'life assurance') is a contract whereby the insurer undertakes to pay a certain sum either on the death of the insured or on the expiry of a certain number of years. In return, the insured agrees to pay an amount as premium either in a lump sum or in periodical instalments, annually or half-yearly. The risk insured against in this case is certain to happen. Hence, life insurance is also referred to as life assurance. The written form of contract is known as life insurance policy. It provides for the payment of a fixed sum to the insured either on a fixed date or on the happening of an event, which is certain. Businessmen can provide for life insurance of all their employees by way of group insurance. It also develops loyalty among employees and can be used as a security for raising loans.

There are two basic types of life assurance policies (a) Whole-life policy, and (b) Endowment Policy. A whole life policy runs for the whole life of the insured and premium is payable all along. The sum assured becomes due for payment to the heirs of the insured only after his death. An endowment policy on the other hand, runs for a limited period or upto a certain age of the insured. The sum assured becomes due for payment at the end of the specified period or on the death of the insured, if it occurs earlier.

(ii) Fire Insurance

A contract of fire insurance is a contract whereby the insurer, on payment of premium by the insured, undertakes to compensate the insured for the loss or damage suffered by reason of certain defined subject matter being damaged or destroyed by fire. It is a contract of indemnity, that is, the insured cannot claim anything more than the value of property lost or damaged by fire or the amount of policy, whichever is lower. The claim for loss by fire is payable subject to two conditions, viz; (a) there must have been actual fire; and (b) fire must have been accidental, not intentional; the cause of fire being immaterial. The basic principle applied with regard to claim is the principle of indemnity. The insured is entitled to be compensated for the amount of actual loss suffered subject to a maximum amount for which he had taken the policy. He cannot make a profit through insurance. For example, if a person takes a fire insurance policy of Rs. 20,000/- on certain goods. Out of these, goods worth Rs. 15,000/- are destroyed by fire. The insured can only claim an amount to the extent of loss i.e., Rs. 15,000/- (and not Rs. 20, 000/-) for the damage from the insurance company.

(iii) Marine Insurance

Marine insurance is an agreement (contract) by which the insurance company (also known as underwriter) agrees to indemnify the owner of a ship or cargo against risks, which are incidental to marine adventures. It also includes insurance of the risk of loss of freight due on the cargo. Marine insurance that covers the risk of loss of cargo by storm known as cargo insurance. The owner of the ship may insure it against loss on account of perils of the sea. When the ship is the subject matter of insurance, it is known as hull insurance. Further, where freight is payable by the owner of cargo on safe delivery at the port of destination, the shipping company may insure the risk of loss of freight if the cargo is damaged or lost. Such a marine insurance is known as freight insurance.

The followings are the different types of marine insurance policies

(a) Time Policy – This policy insures the subject matter for specified period of time, usually for one year. It is generally used for hull insurance or for cargo when small quantities are insured.

(b) Voyage Policy - This is intended for a particular voyage, without any consideration for time. It is used mostly for cargo insurance.

(c) Mixed Policy – Under this policy the subject matter (hull, for example) is insured on a particular voyage for a specified period of time. Thus, a ship may be insured for a voyage - between Mumbai and Colombo for a period of 6 months under a mixed policy.

(d) Floating Policy - Under this policy, a cargo policy may be taken for a round sum and whenever some cargo is shipped the insurance company declares its value and the total value of the policy is reduced by that amount. Such shipments may continue until the total value of the policy is exhausted.

(iv)Other types of Insurance

Apart from life, fire and marine insurance, general insurance companies can insure a variety of other risks through different policies. Some of these risks and the different policies are outlined below.

(a) **Motor vehicles Insurance**: Insurance of all types of motor vehicles- passenger cars, vans, commercial vehicles, motor cycles, scooters, etc., covers the risks of damage of the vehicle by accident or loss by theft, as also risks of liability arising out of injury or death of third party involved in an accident. Third party risk insurance is compulsory under the Motor Vehicles Act.
(b) **Burglary Insurance**: Under this insurance the insurance company undertakes to indemnify the insured against losses from burglary i.e., loss of moveable goods by robbery and theft by breaking the house.
(c) **Fidelity Insurance**: As a protection against the risks of loss on account of embezzlement or defalcation of cash or misappropriation of goods by employees, businessmen may get policies issued covering the risks of loss on account of fraud and dishonesty on the part of employees handling cash or in charge of stores. This is called fidelity insurance policy. The employees may also be required to sign a fidelity guarantee Bond.

REINSURANCE:

Reinsurance is a financial transaction by which risk is transferred (ceded) from an insurance company (cedant) to a reinsurance company (reinsurer) in exchange of a payment (reinsurance premium). Providers of reinsurance are professional reinsurers which are entities exclusively dedicated to the activity of reinsurance. Also in most jurisdictions insurance companies are allowed to participate in reinsurance. The terms of a reinsurance transaction are defined in a reinsurance treaty.

Due to the complexity of reinsurance treaties it is not uncommon that the definitive treaties are only signed months after the risk transfer took place. To document the acceptance of the risk, a short version of a treaty call a slip containing the most important terms of the agreement is used instead. Slips are signed before the risk is transferred and accepted by the reinsurer. Some jurisdictions are requiring signed treaties before the risk is transferred.

Reinsurance is to be differentiated from coinsurance, where the risk is shared and not transferred among several insurance companies, each one of them having a direct contractual relationship with the insured for the portion of the risk accepted by that company. Thus, reinsurance always involves legal entities and not individuals. In reinsurance, the contractual relationship is between the cedant and the reinsurer. Only in special situations does the reinsurance treaty have a provision called the *cut through clause* that allows the insured to have a direct legal claim to the reinsurer; for example in case the insurer becomes insolvent.

LIFE INSURANCE

The whole idea of insurance has developed on the fact that human life is full of uncertainties and the life of a person itself is very uncertain. Eventualities do cast their shadows, and therefore one has to equip oneself with possible means so as to face the unforeseen. It is well said that "Life is full of risks. For property, there are fire risks, for shipment of goods, there are perils of sea, for human life, there is the risk of death or disability and so on and so forth".

Life insurance is a husband‟s privilege, a wife‟s right and a child‟s claim. The scheme of life insurance provides an assurance that if such an event happens, the person or his dependents would get financial assistance to bear the loss.

It has been aptly said that life insurance offers the safest and surest means of establishing a socialistic pattern, perhaps not without a lot of sweat but certainly without blood and tears. It stabilizes the economic security of the policy holder and at the same time contributes its might to promotion of industry by providing the necessary capital and supports various social security measures.

B. MEANING AND DEFINITION

To understand life insurance we have to first understand the scheme of insurance. Insurance is a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to insure themselves against the risk. Under the plan of insurance, a large number of people associate themselves to share different types of risks attached to human life and property. The aim of all types of insurance is to make provision against such risks. In other words, it is a provision which a prudent man makes against inevitable contingencies, loss or misfortune. In this way, life insurance is a social device to share the risk of loss of life.

In simple words, it means an agreement in which one party agrees to pay a given sum of money upon the happening of a particular event contingent upon duration of human life in exchange of the payment of a consideration. The person who guarantees the payment is called *Insurer*, the amount given is called *Policy Amount*, the person on whose life the payment is guaranteed is called *Insured* or *Assured*. The particular event on which the payment is guaranteed to be given may be *Death* or *Life*. The consideration is called the *Premium*. The document evidencing the contract is called *Policy*.

There is no statutory definition of life insurance, but it may be defined as a contract in which the insurer, in consideration of a certain premium, either in lump sum or in form of any other periodical payments, in return agrees to pay to the assured, or to the person for whose benefit the policy is taken, a stated sum of money on the happening of a particular event contingent on the duration of human life. Here are a few definitions of life insurance which need to be considered:-

1. "Life insurance contract is a contract whereby a person (insurer) agrees for a consideration (that is payment of a sum of money) or a periodical payment, called the premium to pay to another (insured or his estates) a stated sum of money on happening of an event dependent on human life."
2. "Life insurance is a contract to pay a certain sum of money on the death of a person in consideration of the due payment of a certain annuity for his life calculated according to the probable duration of life."

3. "Life insurance is a contract in which one party agrees to pay a given sum of money upon the happening of a particular event contingent upon the duration of human life in consideration of immediate payment of a smaller sum or other equivalent periodical payments by the other."
4. "A life insurance policy promises that the insurer will pay to the policy holder a certain sum of money if the person insured dies or any other specified contingency happens."

The best explanation of the definition and nature of life insurance contract undoubtedly occurs in the case titled *Dalby* v. *India and London Life Assurance Company*. The basic fact about life insurance recognized in this case is that a contract of life insurance is not a contact of indemnity. One of the effects of life insurance not being a contract of indemnity is that on happening of the event insured against the insurer should pay the agreed amount irrespective of whether the assured suffers any loss or not.

Life insurance is, therefore, in the nature of a contingency insurance. It does not provide an indemnity but only provides for a payment on a contingent event. Moreover, the sum is not measured in terms of a loss; the policy states the amount payable. And the sum undertaken to be paid becomes payable irrespective of the value of life or limb lost.

The Supreme Court explained this concept in a case in which the subject matter of the contract was insurance on the life of the assessee. The contract on behalf of the assessee was entered into between his father and LIC as the assessee was then a minor. The contract of insurance provided that the assessee was not entitled to the policy till he adopted the contract on the date of his attaining majority. The apex court held that "reading the contract as a whole it appears in substance to be a contract of life insurance with regards to the life of assessee. The important point to notice is that if the assessee adopts the policy upon attaining majority the corporation becomes liable to pay the sum assured to the assessee on the stipulated date of majority, if the assessee was alive. The LIC was also liable to pay the amount assured if the assessee was to die before the stipulated date of majority but on or after the deferred date.

The insurance on the life of the assessee was the main intention of the contract and the other clauses relied are merely ancillary to the main purpose. Life insurance in a broader sense comprises any contract in which one party agrees to pay a given sum upon happening of a particular event contingent upon the duration of human life, in consideration of the immediate payment of a smaller sum or certain equivalent periodical payments by another party."
In light of the above definitions the essential features of life insurance16 can be summed up as under:
(i) It is a contract relating to human life
(ii) There need not be an express provision that the payment is due on the death of the person.
(iii) The contract provides for payment of lump sum money.
(iv) The amount is paid at the expiration of certain period or on death of the person.

SCIENCE OF LIFE INSURANCE

Life insurance is a business proposition resting on the combined operation of law of mortality and interest. We all know that time of our death is uncertain and in case of untimely death of a person his family could be put into great financial hardship. The science of life insurance revolves around the principle of providing some financial relief to the loved ones of a person in case of his sudden death.

The first essential for working of life insurance is calculation of risk to fix the amount of contribution(premium) to be made by each policy-holder according to his age, medical history, habits, occupation etc. so that the fund should be adequate to meet the whole claims. The probability of death or the law of mortality is used for this purpose. Secondly, the funds acquired from each policy holder must be carefully invested to safeguard the interest of the policy-holders. The insurance company should take care that adequate funds are available at all times to meet the claims of the policy-holders. Thirdly, the policy-holders are required to pay not only the timely premium but also the costs for meeting the expenses of organization. The expenses of organization are also included in the regular premium fixed at the time of taking policy.

Thus, the mortality, the interest and the expenses are the three main factors which are taken into account for ascertaining the contribution of each policy-holder. It is note worthy that neither the British Life Assurance Act, 1774 nor the Indian Insurance Act, 1938 defines the term "Insurable Interest". The term insurable interest is not defined in any British or Indian Statute in context with the life insurance contract, however, Section 7 of Marine Insurance Act defines insurable interest as, "every person has an insurable interest who is interested in a marine adventure".

INSURABLE INTEREST AND LIFE INSURANCE

Insurable interest20 is the bedrock of all types of insurance contracts. As a general rule, all the insurance contracts are wagering contracts, as they deal with an uncertain event but the presence of insurable interest transforms these insurance contracts into valid subsisting enforceable and binding contracts. Thus insurable interest is a basic requirement of any contract of insurance unless it can be, and is lawfully waived.

It simply means that the party to the insurance contract who is the insured or policyholder must have a particular relationship with the subject-matter of insurance whether that is a life or property or a liability to which he might be exposed. The absence of the required relationship will render the contract illegal, void or simply unenforceable depending on the type of insurance. The difference between life and other insurances is very crucial as far as law regarding insurable interest is concerned. Every contract of insurance requires an insurable interest to support it; otherwise, it is invalid. In certain kinds of insurance e.g. liability insurance and fidelity or solvency insurance, the very nature of the insurance implies the existence of an insurable interest. Whilst other kinds e.g. personal accident insurance and burglary or livestock insurance are in practice effected by the assured for the most part in respect of one"s own person or property. But in case of fidelity insurance, where the same person is employed in two different capacities, a policy effected by one employer covering his acts in that employment does not entitle other employer to recover the amount of defalcations in other employment. This type of personal accident policy protects the insured from liability to pay for a loss to a third party caused due to his negligence.

Occasionally, however, the assured may, for his own benefit, effect an insurance upon the person or property of another, and then the question of insurable interest becomes important. For example, a personal accident policy may be affected by the assured against the loss which he may suffer by reason of an accident of a third person.

Without insurable interest, the 'life' of the insured itself would be in danger and if that aspect is not checked, the very purpose of life insurance business would be frustrated. The insurable interest alone gives rise to enforceable legal interest and at the same time, also offers a very fertile ground for insurers to refuse and dispute the claims so that they can retain their green pastures of resources intact.

Definition and Nature of Insurable Interest

Insurable interest in general sense means an interest in the safety and protection of subject matter of insurance. It exists when an insured person derives a financial or other benefit from the continuous existence of insured object.26 In legal sense, it means a legal right to insure, a subject matter, arising out of a financial relationship recognized under law, between the insured and the subject matter of insurance.

Insurable interest is an interest which can be or is protected by a contract of insurance. This interest is considered as a form of property in the contemplation of law. It is assimilated to an actionable claim transferable to the same extent and within the same limitations.

The classical definition of insurable interest was given by Lawrence, J., in *Lucena* v. *Craufurd*28 which is as under: "The having some relation to, or concern in, the subject of the insurance, which relation or concern, by the happening of the perils insured against may be so affected as to produce a damage, detriment or prejudice, to the person insuring and where a man is so circumstanced with respect to matters exposed to certain risks or dangers, he may be said to be interested in the safety of the thing with respect to it as to have benefits from its existence – prejudice from its destruction."

In *Lucena* v. *Craufurd* it has been pointed out that the interest must be enforceable at law. Mere hope however strong it may be is not sufficient. Lord Eldon observed that expectation though founded on highest probabilities is not interest and it is equally not interest whatever might have been the chances in favor of expectation.

A study of modern cases reveals that a vested or proprietary interest is not essential, but such interest may be merely possessory, inchoate, contingent, defensible, equitable or expectant.31 The following points must be kept in consideration in this respect:-

(a) The interest should not be a mere sentimental right or interest, for example love and affection.

(b) It should be a right in property or a right arising out of a contract in relation to the property.

(c) The interest must be pecuniary, that is, capable of estimation in terms of money.

(d) The interest must be lawful, that is, it should not be illegal, unlawful, and immoral or opposed to public policy.

To sum up, insurable interest is a financial or other interest in preservation of the thing insured and continuance of the life which has been insured.

2. Necessity of Insurable Interest

It is an undeniable truth that insurable interest is sine qua non of a contract of life insurance. In order to affect a life insurance contract, it is necessary that the person who is a party to the contract should have an insurable interest in the life of the person, for whom the policy is being bought. In *Warnock* v. *Davis* it was clearly laid down that in all life insurance there must be a reasonable ground, founded on the reasonable relations of the parties to each other, either pecuniary or of blood or affinity, to expect some benefit or advantage from the continuance of the life of the assured or otherwise the contract is a mere wager, by which the party taking the policy is directly interested in the early death of the assured. Thus, it is a tool to avoid moral hazards.

To put it more bluntly, if a person is allowed to insure the life of any other person there is a possibility that money in the form of life insurance policy may lead to inducement to commit murder. The tendency or temptation to kill the insured life will be removed if a person is not permitted to take insurance on any one's life, less relationship by blood or by financial relationship, because one stands to gain more by the continuance rather than by death of the life insured.

Moreover, if insurance is allowed without insurable interest, insurance could become insecurity. This aspect and significance of insurable interest was effectively demonstrated in the case of *Liberty National Life Insurance Company* v. *Weldon36,* wherein a nurse took three insurance policies on the life of her two year old niece without the knowledge of her parents before administering soft drink mixed with arsenic, killing the insured child within a few hours. The nurse was prosecuted for murder. In such cases a restriction in form of insurable interest will counter this murder inducement.37Therefore, it is a well settled principle of law that for the validity of an insurance contract the existence of an insurable interest is a mandatory precondition.

A contract of life insurance was simply enforceable at common law despite the absence of any relationship between the insured and the life insured. The reason for this was that wagers in general were legally enforceable and thus courts had no option but to enforce wagers in the form of life insurance contracts. An increase in these practices which could serve as an inducement to murder, led to growing concern and ultimately, legislative action in form of the Life Assurance Act 1774 was taken.39 The English Life Assurance Act 1774 laid down three rules:-

(a) In every contract of insurance, the insured or the person for whose benefit the insurance was affected must have an interest in the subject matter.

(b) The person for whose benefit the policy was affected shall not recover more than the value of such insurable interest.

(c) Every policy shall have inserted in the policy, the name of the person interested or for whose benefit the policy was taken.

This Act for the first time required the insured to have an insurable interest in the life insured.40 The other relevant provisions of the Act required the names of the persons interested to be inserted in the policy and declare that when the insured has an interest, he can recover no more than the amount of value of his interest..

3. Insurable Interest and Life policies

Insurable interest is the key element in the structure of a life insurance policy. It is fundamental to the policy"s very existence. If there is no insurable interest there is no life insurance policy.42 However, it is always difficult to define with precision what constitutes insurable interest in life policies; but one thing is settled, that for validity of a contract of life insurance, there must be an insurable interest. The basic principle of the insurable interest in life insurance is the understanding that the beneficiary of the policy value is interested in the continuance of the life insured far more than the money from the policy. In life policies, the following persons have been recognized as having insurable interest and they may conveniently be considered under two main headings, namely:

(a) Blood Relationships.

(b) Contractual Relationship.

(a) Blood Relationship:

This may be discussed under the following heads:-

(i) On one’s Own Life

Every person is presumed to have an unlimited insurable interest in his own life because the loss to the insured or his dependents cannot be measured in terms of money. Every person is entitled to recover the sum insured whether it is for full life or for any time short of it and if he dies his nominees or dependents are entitled to receive the amounts.

Moreover, there is nothing to prevent a person bonafide insuring his own life as many times as he likes for his own benefit

(ii) By Husband or Wife

Husband and wife are presumed to have an interest in each other‟s life. No formal proof is required to establish the existence of such interest. In *Reed* v. *Royal Exchange Assurance Company*,46 it has been established that no evidence is required in such cases because the husband is legally bound to support his wife and wife is dependent on her husband and hence has insurable interest in the life of her husband. Moreover, in this case extent of loss or gain cannot be measured and therefore, the insurable interest is unlimited. With due development of life insurance business, it is now well settled in England as well as India that a wife has an insurable interest in the life of the husband and vice-versa.

(iii) Parent and Child

Presumably, the parent child relationship arising from the ties of blood is the strongest one of all. No relationship is more sacred and binding than that of parent and child. These ties uniting the parent and child are so strong that this type of relationship is enough to presume insurable interest in the life of each other.47 But in England, it has been laid down that a parent has no insurable interest in the life of the child because mere love and affection is not sufficient to constitute an insurable interest. However if the person has any pecuniary interest in life of the child, he can take out an insurance policy on the life of such child. On the other hand, a child is presumed to have an insurable interest in the life of the parent because it depends on the life of the parent for support. In USA and India, mere sentimental interest is sufficient to raise presumption of existence of insurable interest.

(iv) Other Relations

The relationship by itself may not create an insurable interest. When one relation effects an insurance on the life of the other, there must be actual dependence on the person whose life is assured i.e. there must be reasonable expectation of benefit from the continued existence of such person and where he is so related to the other to have a claim for maintenance enforceable at law, in all such cases, there will be an insurable interest.

(b) Contractual Relationship A wide variety of relations may acquire insurable interest by reason of contractual relationship. Some of them are noted hereunder.

(i) Debtor and Creditor

A creditor has an insurable interest in the life of the debtor. The creditor‟s interest is limited to the extent of the values of the debt. It is immaterial whether the debt is secured or unsecured. The creditor has insurable interest in the life of the debtor because the chance of obtaining repayment materially depends upon the continuance of the life of the debtor.

(ii) Partner and Co-partner

One partner has no insurable interest in another save where the latter is indebted to him personally or to the partnership, and to the extent only of such indebtedness. A partner has insurable interest in the life of his co-partner to the extent of the amount of capital which the latter has contributed in the partnership. Similarly, the following are said to have insurable interest: (i) Principal and Agent (ii) Master and Servant (iii) Trustee and Co-trustee

CONTRACT OF LIFE INSURANCE

A contract of insurance is a contract either to indemnify a person against a loss which may arise on the happening of an event or to pay a sum of money on the happening of some or any event for an agreed consideration. Under such a contract one party agrees to take the risk of another person‟s life, property or liability in consideration of certain comparatively small periodic payments.

1. Nature of Life Insurance Contract

The nature of contract of life insurance may be summarized under the following heads:

(a) Unilateral Contract

It is that type of contract where only one party to the contract makes legally enforceable promise. Here it is the insurer who makes an enforceable promise. The insurer can repudiate the contract of payment of full policy, but he cannot compel the insured to pay the subsequent premiums. On the other hand, if the insured continues to pay the premium, the insurer has to accept them and continue the contract.

(b) Contract of Utmost Good Faith

An insurance contract is a contract of utmost good faith and therefore, the contracting parties are placed under a special duty towards each other, not merely to refrain from active misrepresentation but to make full disclosure of all material facts within their knowledge. It has been said that „there is no class of documents to which the strictest good faith is more rightly required in courts of law than policies of insurance‟.

(c) Conditional Contract

Life insurance is subject to the conditions and privilege provided on the back of the policy. The conditions put the obligation on a party to fulfill certain conditions before the proof of death or of disability are the parts of the contract. The conditions whether precedent or subsequent of the legal rights must be fulfilled in order to complete the contract.

(d) Aleatory Contract

In such a kind of contract, no mutual exchange of equal monetary value is done. It is the happening of the contingency on which the payment is made. If death occurs only after payment of a few premiums, full policy amount is paid.

(e) Contract of Adhesion

In such a contract, the terms of the contract are not arrived at by mutual negotiations. Similarly, in a life insurance contract, the contract is decided upon by the insurer only. The party on the other side has to choose between the two options, i.e. either to accept or reject the policy.

(f) Contract of Certain Amount

Life insurance contract does not provide an indemnity. It is in the nature of a contingency contract by providing for the payment of the agreed amount on the happening of the event.

(g) Standard Form of Contract

In the life insurance, all the essentials of a general contract as provided by the Indian Contract Act, 1872, for a valid contract are present.

2. Formation of Life Insurance Contract

Like any other contract, a contract of life insurance must satisfy the essentials of a valid contract. All the agreements are contracts if they are made by the free consent of the parties competent to contract, for a lawful consideration and with a lawful object, and are not hereby expressly declared to be void.

(a) Offer and Acceptance

The intimation of the proposer's intention to buy insurance is the 'offer', while the insurer's willingness to undertake the risk, is the acceptance. The insurer may also propose to make the contract. From whichever side the offer may be, the main fact is acceptance.

The offer in life insurance is usually made by the assured in the printed form of the proposal supplied by the insurer. In life insurance the proposal is contained in four parts, namely, (i) proposal form, (ii) medical report (iii) agent's report, and friend's report. Generally, the acceptance of proposal is to be made by the insurer. The insurer receiving the papers containing the proposal scrutinizes them and when they are found in order he signifies his assent thereto by a letter of acceptance. Until this is sent there is no acceptance, though a cheque for the premium is sent and the money is received and retained till after the death of the insured.

(b) Consideration

The law of life insurance also requires a lawful consideration for its validity as it is essential to a legal contract.58 Consideration is the price for which the promise of the insurer is purchased. The payment of first premium is the consideration for the insurer and the insurer‟s promise to indemnify the assured from the stipulated risk in the policy is the consideration to the assured.

In case of *Raj Narain Das Mahapatra*, it was settled that cashing of the cheque was an acceptance of the risk whether policy was issued or not.

(c) Competence of Parties

The parties must be competent to enter into a contract, the parties must be of the age of majority, of sound mind and not disqualified from contracting by any law to which any of them is subject.

Regarding the insurance contracts only those insurers can grant insurance policies who have been issued license under the Insurance Regulatory and Development Authority.

(d) Legality of Object

A contract will be invalid if the object is illegal or against public policy. The object of life insurance contract will be legal if it is made for one's own protection or for the protection of the family against financial losses. In brief, the person desiring policy must have insurable interest in the life proposed for insurance.

The object of an agreement is lawful unless:

(i) it is forbidden by law, or

(ii) it is of such a nature, that if permitted would defeat the provisions of any law, or

(iii) it is fraudulent

(iv) it involves injury to person or property of another

(v) the court regards it immoral or opposed to public policy.

In *Northern India Insurance Company* v. *Kanhaya lal*, the policy became void because the insured caused his own death before the policy has been in existence for one year.

(e) Free Consent of Parties

When parties to a contract agree on the terms and conditions of the contract in the same sense and spirit, they are said to have free consent. The consent is said to be free when it is not caused by coercion, or undue influence or fraud or misrepresentation or mistake.

In a contract of insurance the insurer and the insured must be in genuine agreement as to the subject matter of insurance, that is, life to be insured, sum assured and term of the insurance and every other particular relating to the contract. When a person signs a proposal for insurance, he gives his free consent to the contract. The proposer should understand the contents of proposal in the same sense and make a written declaration on the proposal. He is responsible for the proposal made by him. In *Bernarsi Das* v. *New India Assurance Co. Ltd,.*a principle of law has been laid down. It is well established rule of law that in case of a person who is illiterate or who is not in a position to understand the contents of a document, the contract cannot be imposed upon him simply because he had endorsed his signature thereon.

In *Kulta Ammal* v. *Oriental Government Security Life Assurance Co. Ltd,.*68 it was held that in case of an illiterate person it is necessary to prove the fact that he had knowledge of what was stated in the proposal.

3. Performance of Life Insurance Contract

The performance of insurance contract has been discussed under following headings:-

(a) Preparation of Policy

(b) Conditions of Policy

(a) Preparation of Policy

The policy is prepared after formation of the contract. Preparation of policy involves various stages which are of prospectus, filling up of proposal form, construction of policies and alteration in policies. These steps have been discussed as under:

(i) Prospectus

Prospectus is defined as “any notice, circular, advertisement or other invitation, offering to the public for subscription or purchase of any shares or debentures”. The prospectus of a company generally discloses the financial position of the company. The prospectus of a life insurance company is different from other companies.69 It explains about the different types of policies, privileges and conditions of the policies, procedures of insurance contract and settlement of claims and rules and regulations of insurance contract but the prospectus will be a binding document between the insurer and the insured only when it is referred in the policy.

(ii) Proposal Form

There are different types of proposal forms for each type of policy, with and without medical examination, children‟s policies, annuities etc. The proposal form includes information pertaining to the amount, kind and term of policy. The proposer has to disclose all the material facts truly and fully in good faith by way of written answers to questions in the proposal form. On the basis of this information the insurer assesses the insurability of the proposer and makes an offer if the proposal is acceptable. The proposer is free to accept or reject the offer and he can bring about a binding contract of insurance by accepting it according to its terms.

The proposal form is important because statements in it are the basis of the contract between the parties and their correctness will be declared to be a condition precedent to the validity of the contract.

(iii) Construction of Policies

Policy is the formal document which evidences the contract of insurance which has already been made between the insured and the insurer.73 The following points should be noted while constructing the policy:

(iv) Alteration in Policies

The terms and conditions of the policies can be altered during its currency by the mutual consent of the parties. Revival of a policy which has lapsed for non-payment of premium is also an instance of alteration by mutual agreement.

(b) Conditions of Policy

The conditions of life insurance contract are generally governed by the conditions and privileges mentioned on the back of the policies. Since, there are different kinds of policies, the conditions and privileges will vary. The conditions of standard policy are discussed here under:

(i) Proof of Age

The premium and sum assured are calculated on the age of the Life Assured as stated in the schedule. So in case the age is found to be higher than the said age the sum assured and the bonus addition will be altered to the amount as would have been secured for the correct age.

(ii)Forfeiture in Certain Events

In certain events the policy is determined and all the money paid in consequence is forfeited.

(iii) Days of Grace

Days of Grace are that period during which the policy does not lapse on the ground of non-payment of premium on the due date. The insurance cover continues uninterrupted during these days even without payment of premium for the current period. The days of grace in India is one calendar month but not less than 33 days of grace is allowed for payment of yearly, half yearly or quarterly premiums and 15 days in case of monthly premium. If death occurs within that period and before payment of premium, then the policy will still be valid. However, the grace period for payment of the premium does not provide free insurance or operate to continue the policy after it expires by agreement of the parties.

(iv)Premium Notice

Premium Notice means a notice from the insurer that the premium is or will soon become due.80 It mentions the amount of premium, the due date and days of grace. The insurer is not legally bound to send the premium notice, but as a matter of practice, the insurer sends a premium notice to every insured about a premium falling due on a particular date in the next few weeks.

(v) Payment of Premium

The first premium is the consideration for the insurer‟s promise; but the subsequent premiums are conditions to continue the contract. In case of non-payment of premium the policy is forfeited.

(vi) Return of Premium

"Equity implies a condition that the insurer shall not receive the price of running a risk if he runs none. Where the contract does not come into effect, the insurer is not liable for premium and he has to return the premium to the insured".81 Thus, the insured can claim the return of any premium paid on account of misrepresentation or breach of warranty.

(vii) Revival of Lapsed Policies

lapsed policy can be revived or reinstated at the request of the insured although the insurer will be within his right to decline the revival.82 When the premium is not paid within the days of grace, the policy lapses, but can be revived during the life time of the life assured, but within a period of five years from the due date of the first unpaid premium and before the date of maturity. Thus revival of lapsed policies is a valuable contractual right and the insurer has no arbitrary or discretionary right to refuse reinstatement if the conditions laid down have been compiled with.83

(viii) Non-forfeiture Regulations

The policy conditions provide various safeguards to policyholders, when there is a premium default. These safeguards are called non-forfeiture regulations.84 If after at least five full years premiums have been paid in respect of a policy, and any subsequent premium is not duly paid, then the policy shall not be wholly void. But the sum assured shall be reduced to such sum as shall bear the same ratio to the full sum assured as the number of premiums actually paid shall bear to the total number of premiums originally stipulated in the policy.

(ix) Guaranteed Surrender Value

Guaranteed Surrender Value is the cash received after surrender of policy after fulfilling above mentioned condition. The policy can be surrendered for cash after the premiums have been paid for at least five years or to the extent of 1/4th of the total number stipulated in the policy, provided such one-fourth exceeds three full years premium.

(x) Policy Loans

Policy loan is a loan issued by an insurance company that uses the cash value of a person‟s life insurance policy as calculated. The insured‟ rights to obtain a loan on the security of the policy within its surrender value is also one of the privileges mentioned by some insurers in the policy itself. The insurer has a lien on the proceeds of the policy to the extent of outstanding loans and interest thereon. And if the borrower fails to repay the loan, the money is withdrawn from the insurance death benefit.

4. Discharge of Life Insurance Contract

The insurance contract is made between the two parties–the insurer and the insured. The contract can be discharged in the following ways:

(a) By Agreement
(b) By Impossibility of Performance
(c) By Breach
(d) By Performance

(a) Agreement

The insurer and the insured may agree to perform the contract on mutual agreement. They may agree that on surrender of the policy for cash payment the policy will cease. Similarly, they may agree to vary the terms of a life policy.88 The policy may be converted into a paid up policy or in other form of policy such as from a whole life insurance to endowment insurance. The insurance contract may be discharged by agreement in two forms:- (i) Novation (ii) Waiver

(b) Impossibility of Performance

The contract is deemed to be performed when an act of impossibility occurred or where the promisor could not prevent, the act which made, the contract void. For example, when war occurs between the countries of insurer and insured and discharge of the contract becomes impossible, then in such a situation the contract is deemed to be discharged by impossibility of performance.

(c) Breach of Conditions

The breach of contract may take place when the promisor refuses to perform the contract or renders himself disabled to perform the contract or fails to perform it or by his action or conduct it becomes impossible of performance. The promisee may refuse to perform his part of the contract.91

(d) Performance

When both the parties perform their promises, the contract is discharged under normal course of business. When the life assured pays the premium the insurer will be bound to pay the sum assured by the policy at the time of death or at the maturity of the claim as the case may be. By making the payments to the person entitled, the life office is discharged or released from its obligations under the contract.

(i) Death of Insured Person

A life insurance contract is discharged at death of insured person and the premium become payable. In case of a death claim, proof of death, proof of title and proof of age are required. After completing the above formalities the insurance company issues a discharge form for completion which is to be signed by the person entitled to receive the policy money.

(ii) Maturity Claim

A notice is generally issued by the insurer shortly before the maturity date. It states the number of the policy and name of the life assured, the date of maturity, the amount of sum and bonus, if any and the net sum payable. If the policy does not stand assigned the amount is payable to the insured. However where the policy is assigned, the assignee will get the policy amount provided the assignment is absolute one.

KINDS OF LIFE INSURANCE

Life insurance products are usually referred to as „plans" of insurance. These plans have two basic elements, one is death cover and the other is survival benefit. If regular premiums are paid throughout the duration, one gets the sum assured in the policy at the end of the period. Or, if the holder dies while the policy is in force, his survivors will get the amount as compensation for the economic loss. Thus, if you live till the end of policy period, you get the sum assured or if you die before the end of policy period, your survivors will get the sum assured. Privatization has greatly revolutionized the product range of insurance companies. Now, there are different kinds of insurance plans, which are available to people in life insurance itself. People today have greater option in choosing a policy depending on their requirements. The major kinds of life insurance plans are:

1. Term Assurance

The plans of insurance that provides only death cover for a specific term are called term assurance.96 You can select the term for which you would like the coverage; up to 35 years. Payments are fixed and do not increase during your term period. In case of an untimely death, your dependants will receive the benefit amount specified in the policy. One can also customize term insurance with the additional riders, such as children benefit, waiver of premium or accidental death benefit. The whole life plan is a long term „Term Assurance".

2. Pure Endowment

The plans of insurance that provides only survival benefits are called pure endowment plan.99A term insurance plan is just the opposite of a term insurance plan. In this plan the life insurance company promises to pay the life insured a specific amount (sum insured) only if he survives the term of the plan. If the insured dies during the tenure of the plan then the family is not entitled to anything. It means there is no death cover. But in this plan, the premium is much higher compared to the term assurance. All the different insurance plans of any insurance company are a mixture of these two basic plans, though their proportions may vary. While doing it, customer needs are given preference, out of which are born different insurance plans.

3. Annuity (Pension) Plan

Annuities are practically the same as pensions.101 We all know that each and every person is going to retire at some time or the other and the greatest risk after retirement is the lack of income, or a reduced earning capacity. To take care of this, different insurance companies have devised different plans providing annuity. A contract providing for regular periodic payments during a specified period is an annuity contract. It is designed to generate regular income for senior citizens when they retire. Once the pension starts, insurance protection is removed. The pension can be had monthly, quarterly, half yearly or yearly.

4. Unit Linked Insurance Plan

ULIPs are market linked life insurance products that provide a combination of life cover and wealth creation options.104 This is a very attractive and equally useful scheme. Here, after paying the first 2-3 yearly premium amounts, even if one does not pay the rest of premiums, his insurance protection continues. The policy does not lapse. Most importantly, it provides flexibility of choosing from a variety of fund options depending upon the customers risk appetite. Under the ULIP, the holders can decide whether to invest in equity shares, or debt and company deposits, or only in government schemes, or in money market operations. This scheme will certainly be all pervasive in the insurance sector in future.

5. Whole Life Policy

A term insurance plan with an unspecified period is called a whole life policy. Under this plan premiums are paid throughout life, till his death, but the claim i.e. the sum assured becomes payable only after his death. The policy does not expire till the time any unfortunate event occurs with the individual. The advantage of this policy is that the validity of this policy is not defined and hence the individual enjoys the life cover throughout life. Moreover, this policy is the cheapest policy as the premium under this policy is lowest and exempted from tax.

6. Whole Life Policy- Limited Payment

Here, the holder can decide in advance the number of years he is going to pay the premiums. After the period of premium payment, the risk continues without payment of premiums, and if the policy is participatory, the amount of yearly declared bonus is added to the sum assured. A feature of this policy is that in the declining period of life, when premium payment becomes burdensome because of carrying out of other responsibilities, premiums need not be paid, because the premiums have already been paid during the prime life.

7. Convertible Term Insurance Policy

Convertible term insurance policy is for those people who may not be able to afford a large premium at present, but will be capable of paying large premiums in 4-5 years after their income has grown and stability has been attained in the occupation. Convertible term insurance policy allows the insured to convert a term policy to a permanent policy at a later date as the insurance needs and financial resources change.108 It is a term assurance policy with a period of 5-7 years. They have to decide whether to convert it into a whole life policy or endowment policy, at least two years before the end of the term of this policy. For this, there is no need for fresh medical examination. Only, premium has to be paid at the time of making the changes according to the changed age, and for the changed term accordingly.

8. Convertible Whole Life Assurance Policy

This is devised for those people who want a large insurance protection, but want a minimal premium at the beginning, which may be increased four to five times after five years and also want to convert it into a whole life policy of a proper duration. In the beginning, it is in the form of a whole life assurance policy where premiums have to be paid till the age of 70. Before the end of five years, the holder can convert it into a whole life policy of a proper duration. For this, there is no need for fresh medical examination. If no changes are made, the insurance continues in the form of a limited payment whole life plan, where premiums have to be paid till the age of 70.

9. Pure Insurance

This scheme is for young people with a limited income but who want a large insurance protection. If the holder dies while the policy is in force, the whole insurance amount together with loyalty addition amount is paid. If he lives till the end of the term, all premiums paid by him (less extra premiums paid), together with loyalty addition are paid to him. In addition, free insurance protection is provided for next 10 years, depending on the policy duration for 30 to 60 percent of the original sum assured.

10. Mortgage Redemption Policy

Mortgage redemption policy is designed to meet the requirements of the policy holding individual who seeks to ensure that all his outstanding loans and debts are automatically paid up in the event of his demise. This plan is suitable to a person who is refunding loan on EMI basis. If he dies before repaying the full loan amount, instead of the burden of his loan balance repayment falling upon his survivors, the loan is automatically repaid out of the insurance amount payable on his death. Premiums have to be paid for a period which is two years less than his loan duration. One time premium payment can also be made. The premiums are easily affordable. At any time, the policy face value is equal to the loan balance. In other words, policy face value goes on decreasing yearly in proportion to loan balance. The holder gets no benefits under the policy, once the loan is repaid fully. Medical examination is compulsory. Since the premium amount is fixed according to the loan interest, loan amount, age of the holder and loan duration, the premium amount is informed to him after he applies for the loan.

11. Endowment Assurance Policy

This is the most popular policy. There is a wonderful mixture of risk coverage and provision for old age in this policy scheme. If the holder dies while the policy is in force, his survivors get the compensation in the form of the sum assured. At the end of policy period, if he is alive, he gets the policy amount. These policies are both with and without bonus. This is considered to be a model insurance policy, and over 60 percent of all the policies are taken out under this scheme.113 It is suitable for middle aged to elderly professionals whose dependants might need assistance in clearing their debts in case of their unexpected demise. This policy bears no surrender value.

12. Money Back Policy

This scheme is devised for those who need a lump sum amount after a certain period, or those who want to invest this amount somewhere other than in insurance and earn more profits. While this policy is in force, if the holder is alive after certain period of time, he is paid 15-20 per cent of the sum assured as survival benefit. On the other hand, if he dies at any time during the policy period, the whole amount is paid to his survivors. If he is alive after the policy duration, the whole amount after deducting the survival benefits already paid is paid back to him.

DIFFERENCE BETWEEN LIFE INSURANCE AND OTHER INSURANCES

The primary point of distinction between life insurance and fire and marine insurances is that the subject matter of insurance in the former is human life, which is invaluable in terms of money and further the event insured against is death, which is a certain event; while in fire and marine insurance, the subject matter of insurance is property or a ship, which has economic value and the event insured against is fire or maritime peril which may or may not occur. The difference between life insurance and other forms of insurance flow from the following characteristics:

1. Life insurance is not a contract of indemnity but fire and marine insurances are contracts of indemnity and the assured cannot recover more than the actual loss suffered by him.
2. In life insurance, the event insured against is death which is a certain event.116 The uncertainty lies only in the time when it occurs. In fire and marine insurances, the event insured against may not happen at all.
3. In life insurance, the insurable interest need to exist only at the time of the contract but in fire and marine insurances, the assured must have an insurable interest at the time of loss.
4. In life insurance, the insurable interest is incapable of being valued in terms of money. In fire and marine insurances the insurable interest is capable of valuation in terms of money and so where there is gross over-valuation, the policy may become void as a wager.
5. In life insurance, the contract is for a longer duration or generally for whole life and is a continuous contract and cannot be cancelled by the insurance companies, however, if the premium is not paid annually or at stated intervals the contract may lapse. In fire and marine insurances, the contract is for short time, usually year to year only, and the insurance automatically comes to end after the expiry of the year.
6. The life insurance possess the elements of protection as well as investment but other forms of insurance only involves the element of protection.
7. The principle of subrogation is not applicable to life insurance whereas it applies to other forms of insurance, fire and marine.
8. Life insurance contract provides credit facility but against other forms of insurance policies credit cannot be obtained.

ADVANTAGES OF LIFE INSURANCE

1. Covers Risk of Death

Unlike any other ordinary saving plan, the insurance scheme covers the risk of death. In case of death, insurance company pays full sum assured, which would be several times larger than the total of the premium paid. Thus, it saves the family from the financial strain due to unforeseen and premature death.

2. Encouragement of Compulsory Savings

After taking an insurance policy, if the premium is not paid the policy lapses. So, it becomes compulsory for the insured to pay the premium. This builds the habit of longtime savings thereby developing the attitude of savings. Thus it possesses a tremendous psychological advantage as a method of saving because it is semi-compulsory in nature. Moreover, regular savings over a period of time ensures that a decent corpus is built to meet the financial needs at various stages.

3. Facilitation of Liquidity

Insurance facilitates and maintains liquidity. If the policyholder is not able to pay the premium, he can surrender the policy for a cash sum.

4. Provision of Profitability

Insurance is a source of investment. The money paid as premium is an investment with assured returns. The element of investment i.e. regular saving, capital formation, and return of the capital along with certain additional return are perfectly observed in life insurance.122 It provides economic security and better family life. The element of profitable investment has made insurance more attractive.

5. Assistance in Odd Situations

Life insurance is a necessity for a person having responsibilities of the family. Middle aged people with children have potential expenses of their children‟s education, settling them and their marriage.123 It assists the family in case of sudden illness, death or accident of the bread earning member of family and helps the dependents of insured by providing for education, housing, medical treatment and marriage of children.

6. Easy Settlement and Protection against Creditors

The procedure of settlement of claims is very simple and easy. After the making of nomination or assignment, a claim under the life insurance can be settled in a simple way. The policy money becomes a kind of security which cannot be taken away even by the creditors.

7. Facilitation of Loan

Policyholder has the option of taking loan against the policy. This helps you meet your unplanned life stages needs without adversely affecting the benefits of the policy they have bought. Insurance extends various kinds of short-term and long-term loans to insured for business purpose or for some important domestic purpose.

8. Tax Relief

Life insurance plans provide attractive tax benefits under most of the plans, both at the time of entry and exit. Tax benefits are also available on the premiums paid and also on the claim proceeds according to the tax laws in force. The money paid toward, insurance premium is deducted from the gross income and this is really an investment.

9. Mental Peace

Insecurity and uncertainty in life is the main cause of mental worries. Life insurance helps in reducing this uncertainty and security as it is known that insurance company will come to his rescue in case the risk feared occurs.126 A person insured against such risks can get rid of all his worries and lead a peaceful life.

10. Awareness Towards Good Health

Life insurance creates awareness towards maintenance of good health in the society. Insurance companies have started health improvement movement throughout the world, by distributing useful materials for health education.

THE CONCEPT OF RE-INSURANCE AND DOUBLE INSURANCE

1. Reinsurance

Reinsurance is a contract between two or more insurance companies by which a portion of risk of loss is transferred to another insurance company called the reinsurer. Usually, an insurance company insures a profitable venture that comes in its way, even if the risk involved is beyond the capacity. But if at a particular stage it feels that the risk undertaken by it is beyond its capacity, then it may retain the risk which it can bear and transfer the balance.128 By transferring the risk to any other insurance company, the insurer reduces his liability. In case of loss, the first company gets compensation from the second company. The insurer is concerned only with the first company from which it purchased the policy and is not a part of the reinsurance contract.

(a) Definition

Here are a few definitions of the term re-insurance:

(i) In the words of Reigel and Miller, "Reinsurance is the transfer by an insurance company a portion of its risk to another company."

(ii) According to the Federation of Insurance Institutes, Mumbai "Reinsurance is an arrangement whereby an insurer who has accepted an insurance, transfers a part of the risk to another insurer so that his liability on any one risk is limited to a figure proportionate to his financial capacity."

(iii) In the words of R. S. Sharma, "When an insurer transfer a part of his risk on a particular policy by insuring it with some other insurer, it is called re-insurance."

Reinsurance does not affect the contract between the original insurer and the assured. Reinsurance can be restored in all types of insurance contracts, which involves larger risks. As the contract of reinsurance is a contract of good faith, the re-insurer is not liable to the assured and the contract is co-extensive with the original policy.

Under the reinsurance method, if an insurance company receives an insurance proposal worth Rs. 10 crore, where its risk bearing capacity is of Rs. 5 crore only, it has two options either to reject the proposal or to accept it. After accepting the proposal, the insurer can limit his liability by getting re-insured for Rs. 5 crore with another insurer. In case of complete loss the original insurer makes the payment of claim to the insured for Rs. 10 crore and then claims Rs. 5 crore from the re-insurer(s).

(b) Features of Reinsurance

The main features of a reinsurance contract are as

(i) It is an insurance contract between two insurance companies.

(ii) In re-insurance, the insurer transfers the risk beyond the limit of his capacity to another insurance company.

(iii) The relationship of the assured remains with the original insurer only. The re-insurer is not liable directly towards the assured.

(iv) Reinsurance is a contract of indemnity.

(v) Re-insurance does not affect the right of insured.

(vi) The fundamental principles of insurance are applicable in re-insurance also.

(vii) The original insurer cannot do re-insurance more than the insured sum.

(viii) Re-insurer is bound only by those liabilities for which the original insurer is legally liable.

(ix) Re-insurance can be possible in all types of insurance.

(x) Re-insurance is beneficial to the insurer and the insured, both.

2. Double Insurance

Double insurance refers to the method of getting insurance of same subject matter with more than one insurer or with same insurer under different policies. This means that a person may get two or more policies on same subject matter and can claim the amount of all these policies.133 However, the insured cannot profit from this arrangement because the insurers are legally bound only to share the actual loss in the same proportion in which they share the total premium. It is also called dual insurance.

Double insurance is possible in all types of insurance contract. A person can insure his life in different policies for different sums. In life insurance the assured can claim the sum insured with different policies on maturity or to his nominee after his death. This becomes possible in life insurance because life insurance is not indemnity insurance.

In indemnity insurance such as fire and marine insurance, only the real loss can be indemnified. In fire and marine insurance, where the same subject matter is insured with more than one insurer, the insured is entitled to the real loss in proportion to the insured sum on different policies obtained from different insurance companies. In other words, the total claim cannot exceed the real loss, payable proportionately by each insurer. If any one of the insurer pays more than his shares, he is entitled to a contribution from other insurers for the amount he pays in excess of his shares. An insured is not entitled to be benefited from all the insurance policies.136 In case the total loss is less than the value of insurance policies issued by different insurance companies, the insured can claim in full against all the policies.

(a) Features of Double Insurance

From the above description, the features of double insurance may be stated as

(i) More than one policy can be obtained against the same subject matter/life.
(ii) All the policies relate to the same subject matter.
(iii) The risk covered in all the policies is the same.
(iv) The risk in all the policies is of the same period.
(v) The insured has equal insurable interest in the subject matter.
(vi) The policies can be obtained either from the same insurer or from different insurers.
(vii) Double insurance is beneficial in life insurance only.
(viii) In the case of life insurance, the money from all the policies can be claimed by the assured or his nominee.
(ix) One can get insurance policies issued on a subject matter more than its value.

REVIEW

Life insurance is a financial cover for a contingency linked with human life, like death, disability, accident, retirement etc. It provides a definite amount of money in case the life insured dies during the term of the policy or becomes disabled on account of an accident. When a human life is lost or a person is disabled permanently or temporarily there is loss of income to the household. So everyone who has a family to support and is an income earner needs life insurance. The idea underlying the concept of life insurance is that „when your family members or dependants depend on you financially: you need to secure their future‟. Having your life insured is akin to promising your family that they won‟t ever face a financial problem, whether you are there or not because your responsibilities do not end with you. It means buying life insurance is like buying peace of mind for lifetime

Thus, the significance of having a life insurance lies in the "peace of mind" that it brings along. Apart from this it promotes savings, assist the family in odd situations, gives tax benefits and facilitates easy loans thereby securing the future of insured. But in order to have a financially secured future, you have to pay the insurer a "life insurance premium", which is either a regular annual payment or onetime payment as the case may be. There are several types of insurance plans for specific needs. One of the categories is "traditional insurance plans" such as term insurance, endowment and many back up plans. Such plans offer multiple benefits in terms of life cover and returns, providing security and safety to insured. The other category is market – linked plans, also known as ULIPS. These plans provide both protection and savings combined with flexibility to the covered person. As these products are linked to capital markets, they may have the potential to deliver better returns than tradition plans. Life Insurance is the most popular form of Insurance as it transfers the financial risks associated with your death to an insurance company. General Insurance like fire, marine, property, vehicle etc. transfer the risk associated with your property to an insurance company so that you don‟t have to pay out of pocket for any property damage covered under the terms of the insurance policy. The central point of difference between the two is that life insurance is a non-indemnity policy and the event insured is certain. At present, life insurance enjoys maximum scope because the life is the most important property of the society or an individual. Each and every person requires the insurance. This insurance provides protection to the family at the premature death or gives adequate amount at the old age when earning capacities are reduced. The insurance is not only a protection but is a sort of investment as a certain sum is returnable to the insured at the death or at the expiry of a period.

Annuity

An annuity is a contract where an insurance company promises to make payments to an annuitant over a specified period of time or for life. One of the purposes for an annuity is to make sure a person does not outlive his income. An annuity is a type of insurance to protect against the risk of financial hardship during retirement.

There are three participants in an annuity contract: the owner, the annuitant and the beneficiary. Most of the time, the annuitant and the owner are the same person, but it is not required. The owner is the purchaser of the annuity, pays the premiums and has the right to surrender the annuity. The owner also is responsible for any taxes due upon surrender or payout and is usually the person who names the beneficiary of the contract. The annuitant is the person whose age and life expectancy is going to be used to calculate the benefits of the annuity and who will receive the annuity payments. The beneficiary receives the death benefit upon death of the annuitant or the owner.

Various Types of Annuities

Fixed annuity – This type of annuity accumulates interest on the funds deposited into the annuity on a fixed rate basis. Every fixed annuity has a current interest rate and a minimum guaranteed interest rate. The current interest rate will always be equal to or higher than the minimum guaranteed interest rate. Although this varies from company to company and contract to contract, the current interest rate is declared on an annual basis, usually after an initial guarantee period. With a fixed annuity, the insurance company assumes the risk of paying at least the minimum guaranteed interest rate.

Variable annuity – Different than a fixed annuity, a variable annuity pays varying rates of interest on the funds placed inside the annuity based upon the investment options chosen by the annuity owner. If the investment choices do well, the annuity will do well. If the investment choices do poorly, the annuity will not grow as well or even could lose value. Because the growth of a variable annuity is not guaranteed by the insurance company, the contract holder assumes the risk.

Immediate annuity – This type of annuity begins paying a benefit very soon, usually within 30 days to one year after it is purchased, and usually requires a lump sum payment.

Indexed annuity – This is a fairly new product in the annuity market. Indexed annuities pay an interest rate that is tied to the performance of a common or well-known index such as the S&P 500, the Russell 1000 or the S&P 100. The growth of an indexed annuity is based upon the participation rate of the index it is tied to. For example, if an indexed annuity has a defined participation rate of 70 percent and the index it follows goes up by 10 percent, the annuity's accumulation value will increase by 7 percent (10 percent increase times the 70 percent participation rate). On the downside, most indexed annuities specify a "floor" that the annuity growth rate cannot go below or offer a minimum interest rate. Typically this minimum rate is 1 percent to 3 percent.

Things Common to all Annuities

There are two distinct phases to an annuity - the accumulation phase and the payout phase. The accumulation phase is the first phase where all the premiums are paid into the annuity and the money grows tax-deferred. The second phase is the payout phase, which is when the annuity actually starts to pay the benefits to the annuitant. There are several payout options; a few of these options will be discussed in the following section. Make sure your agent goes over each option with you thoroughly so that you choose the one most appropriate for your needs. It is very important to understand that once a payout option is chosen and you start receiving payments, that option cannot be changed.

Examples of Payout Options (Settlement Options)

Life income (no refund) – Pays an income as long as the annuitant is alive. Paymentsstop when the annuitant dies.

Life income with period certain (10, 15 or 20 years) – Pays an income as long as theannuitant is alive. If the annuitant dies before the period certain has expired, paymentsare made to the beneficiary for the balance of the period.

Life income with installments (refund) – This option provides a monthly annuitypayment during the lifetime of the annuitant with a guarantee that payments will bemade for a certain number of months (not necessarily for the annuitant's full lifetime).The number of months is determined by dividing the accumulated amount of theannuity by the amount of the first monthly annuity payment. Only the number ofmonths is guaranteed so there is no guarantee of a full refund.

The following payout options assume there are two individuals that will be receiving benefits from the annuity.

Joint and full to survivor (no refund) – This option pays an income as long as one ormore annuitant is living. Payments stop when both annuitants are deceased.

Joint and 2/3 to survivor (no refund) – This option pays an income while both annuitantsare alive. When one dies, 2/3 income payments continue during the survivor's lifetime.Payments stop when the second annuitant dies.

Joint and full to survivor with period certain (10, 15 or 20 years) – Pays an income whileat least one annuitant is alive. If both annuitants die before the specified period expires,payments of the balance of the period certain continue to the beneficiary.

Joint and full to survivor with installments (refund) – This option pays a monthlypayment during the lifetime of the annuitant with a guarantee that payments will bemade for a certain number of months. The number of months is determined by dividingthe accumulated amount of the annuity by the amount of the first monthly annuitypayment. Only the number of months is guaranteed so there is no guarantee of a fullrefund.

Joint and 2/3 to survivor with period certain (10, 15 or 20 years) – Pays an income whileboth annuitants are living. When one dies, 2/3 of the income payment continues duringthe survivor's lifetime. If the second annuitant dies before the period certain expires,the 2/3 payment amount continues to the beneficiary for the balance of the period.

Guaranteed Living Benefits

Guaranteed living benefits may be found as a provision in an annuity contract or added by rider endorsement or amendment to an annuity contract. There are 3 different types and can be very complicated. One important thing to consider is whether or not the particular contract you are considering purchasing allows these benefits to be assignable or not. Be sure to read your contract carefully before purchasing. These different guarantees provide a downside protection to an annuity contract. They are tools to aid in the management of risk by transferring different risks from the buyer to the insurer. There are different types of guarantees defined as follows:

1.**Guaranteed Minimum Withdrawal Benefits (GMWB)** – guarantees the return of at leastthe owner's investment, or that investment plus an interest component (the benefit base)through periodic partial withdrawals of a certain percent or less of the benefit base, even ifthe annuity cash value falls to zero. There is usually no waiting period.

2.**Guaranteed Minimum Income Benefit (GMIB)** – guarantees that, regardless of actualpolicy performance, the buyer is assured a certain minimum future income, but only in theform of a regular annuity payout. It does not guarantee a lump sum.

3.**Guaranteed Minimum Accumulation Benefit (GMAB)** – unlike the other guarantees theGMAB guarantees a minimum lunp sum at the end.

Will You be Penalized if You Withdraw Money From Your Annuity?

In most cases "Yes." However, some annuities have a provision that permits you to withdraw a certain amount each year, usually 10 percent of the annuity value, without having to pay a surrender charge. Please remember, even though you may not have to pay a surrender charge, there may be taxes to be paid on some or all of the money you withdraw. It is recommended that you consult a tax advisor or your annuity insurance company regarding the tax consequences before you make the withdrawal.

Important Things to Consider

1. Review your own insurance needs and circumstances. Choose the kind of contract that hasbenefits that most closely fit your needs. Ask an agent or company to help you.
2. Be sure that you can handle the premium payments. Ask about any possible increases inpremium amounts and what may cause an increase.
3. Don't sign an application until you review it carefully to be sure all the answers are complete and accurate.
4. Don't drop one contract and buy another without a thorough study of the new contract andthe one you have now. Replacing your insurance may be costly.
5. Read your policy carefully. Ask your agent or company about anything that is not clear toyou.

6. Periodically review your insurance program with your agent or company to keep up withchanges in your income and your needs.
7. Do not buy a contract until you have a good understanding of how it works.

Are You Considering Dropping or Replacing an Existing Annuity Contract?

If you are thinking about dropping or replacing an annuity contract, here are some things you should consider: If you decide to replace your contract, do not cancel your old contract until you havereceived the new one. You usually will have a minimum of 30 days to review your newcontract to decide if it is what you want. It may be costly to replace a contract. There may be substantial surrender charges thatyou will incur. Remember that if you have held your existing contract long enough andno longer have to pay surrender charges, purchasing a new contract may start a newperiod of surrender charges. Consider consulting a tax advisor to see if dropping your contract could affect yourincome taxes. You may have valuable rights and benefits in your existing contract that are not in thenew contract. If the annuity contract you have now no longer meets your needs, you may not have toreplace it. You might be able to adjust your existing contract or purchase an additionalcontract to get the coverage or benefits you now need. In all cases, if you are thinking of buying a new contract to replace your existing one,check with the agent or company that issued your existing contract. Before replacing,ask your agent or company for an updated illustration (in-force illustration). Check tosee how the contract has performed and what you should expect in the future based onthe guarantees.

How Can You Find Missing Contracts?

If the deceased's estate went through probate, there is a chance that the contract might have been listed as an asset.

Begin by contacting insurance companies. Try to narrow your search as much as possible. For example, start with those companies most prominent where the deceased lived or worked. Contact the benefits coordinator at the deceased's place of employment. Remember, unless you are the beneficiary, the company is not required to offer any information. Try to provide as much information as possible, including the deceased's name and any aliases, Social Security number, date of birth, etc.

Ask the estate's executor to request copies of all bank statements and other records. If a check has been written or an automatic payment has been made to an insurance company, this might provide a lead.

Contact the deceased's insurance agent for homeowners, renters, or auto insurance. Although he may not have sold your friend or relative an annuity contract, many agents keep records of their client's insurance purchases.

Final Points to Consider

Remember to read your annuity contract carefully when you receive it. Ask your agent or insurance company to explain anything you don't understand. If you have a specific complaint or can't get the answers you need from the agent or company, contact your state insurance department.

Insurer Rating Organizations

Other sources of information related to the financial strengths of companies are insurance rating organizations. Some of these are A.M. Best, Fitch Ratings, Moody's Investors Service, Standard and Poor's, and Weiss Ratings Inc. You can use these sources to help you research and determine which companies you would like to contact about your insurance needs. The Kentucky

Department of Insurance can provide you with ratings from A.M. Best or you can contact the companies directly to get information about their ratings.
A.M. Best Standard and Poor's
www.ambest.com www.standardandpoors.com
Telephone: 908-439-2200 Telephone: 212-438-2000
Fitch Ratings Weiss Ratings LLC
www.fitchratings.com www.weissratings.com
Telephone: 800-893-4824 Telephone: 877-934-7778
Moody's Investors Service
www.moodys.com
Telephone: 212-553-0377

Other Important Terms

Amendment, Endorsement or Rider – forms that are used to effect contract changes requested by an owner to an individual annuity contract.

Annuitize - This is a term used when the owner elects to convert the lump sum of the accumulated value of the annuity contract to begin receiving a series of payments.

Assignment – transfer of rights under an annuity contract to another person or business in exchange for partial or total ownership rights to the contract.

Guaranteed Living Benefits - a contract provision or added to a contract by rider. These different guarantees provide a downside guarantee to an annuity contract. They are tools to aid in the management of risk by transferring risk from the owner to the insurer. There are different types of guarantees, as follows:

1.Guaranteed Minimum Withdrawal Benefit (GMWB) – the benefit guarantees the return of at least the owner's investment, or that investment plus aninterest component (the benefit base) through periodic partial withdrawals ofa certain percent or less of the benefit base, even if the annuity cash valuefalls to zero. There is usually no waiting period.

2.Guaranteed Minimum Income Benefit (GMIB) – the benefit guarantees that,regardless of actual contract performance, the owner is assured a certainminimum future income, but only in the form of a regular annuity payout. Itdoes not guarantee a lump sum.

3.Guaranteed Minimum Accumulation Benefit (GMAB) – unlike the otherguarantees the GMAB guarantees a minimum lump sum at the end.

Long-Term Care Riders - a provision which may or may not require an extra premium that allows for the reduction of the annuity value based upon long term care expenses without applying surrender charges. A benefit above the value of the annuity also may be purchased for an additional cost.

Market Value Adjustment – increase or decrease in the surrender charge of the annuity contract depending on the current financial markets. The cash value is adjusted upward if the policy interest rate is greater than the current interest rate on new money and thus, if interest rates decline after the date the annuity contract is purchased, the surrender charge decreases. However, if the cash value is adjusted downward if the policy interest rate is less than the current interest rate on new money and thus, if interest rates rise after the purchase date of the annuity contract, the surrender charge increases.

Tax-Free Exchange (1035 Exchange) – under Section 1035 of the Internal Revenue Code stipulations that the exchange of one life insurance policy for another life insurance policy generally will not result in a recognized gain for the purposes of federal income tax purposes to the policy owner. The insured must be the same on both policies. Life policies can be exchanged for life policies, life policies can be exchanged for annuities and annuities can be exchanged for annuities. Annuities cannot be exchanged for life policies. With annuities, the annuitant must be the same on both contracts.

Ten Day Free Look – a contract provision notifying purchasers of new insurance that they have ten days after delivery of the annuity contract to inspect it and if not satisfied, return it to the agent or company for a full refund of all premiums paid.

Group Insurance

Group insurance involves providing insurance to a group of individuals who share some common attribute, through a single policy contract. Group insurance policies offer life insurance protection to all types of groups such as:

a) Employer-employee groups
b) Professionals
c) Cooperatives
d) Weaker sections of society, etc

Insurance coverage is provided for people as long their occupations are approved and the rates of payable premium are fairly subsidised under social security group schemes. The main difference between group and individual/conventional insurance is that in group schemes the whole group of persons is considered as a single unit for insurance purposes like underwriting and the same .**master policy**. is applicable to all members of the group. The (premium payor) will receive the master policy and the members will receive a Certificate of Insurance, which summarizes the coverage terms and explains the members. rights under the contract.

Group insurance plans may be of two types: contributory or non-contributory. The employer either pays the premiums, if the plan is non-contributory, or collects the funds through payroll deductions and advances the funds to the insurance company if the plan is a contributory plan. Where the employer pays the premiums for all employees (the non-contributory plan) it is assumed all employees will participate. If the employee contributes to the premiums (the contributory plan), some employees may not wish to participate because they do not feel they can afford the smaller paycheck or because they have coverage elsewhere.

A few of the key features why group insurance schemes are more advantageous are:

1. Low rates of payable premium that are based upon the ages, combinations of members, occupations and working conditions.
2. Simple insurability conditions such as employees not being absent from duty owing to ill health at the commencement of the policy period.
3. Easy administration since a single master policy is issued to cover all the employee members.

The most important conditions for granting a group insurance policy that matter to the insurance corporation are a requisite minimum group size and a minimum participation number. As long as the "group" was not formed for the purpose of obtaining insurance, almost any kind of group qualifies for group coverage.

Features of Group Insurance

The following are the unique features of the Group Insurance compared to other channels of distribution:

1. There is a single policy contract that provides a cover to all members of the group who can change over a period of time. The coverage therefore is specific to the group and not the individual.
2. The groups of people generally share an employer . employee relationship.
3. The owner of the insurance is the employer in most of the cases. He is the person to whom the insurance policy is issued and he makes the premium payment for the same.
4. Individuals can move in or out of the cover of this policy depending on their relation vis-a- vis the group as a whole. Therefore, when an employee leaves the organization, he will no longer be covered under the policy. On the other hand, a fresh recruit will be extended the coverage after the policy owner to the insurance company communicates his particulars. The group insurance process allows non-restrictive movement of members.
5. Group business typically offers cheaper coverage to the insured compared to individual insurance. The insurance provider gains by reducing operating costs like:
! Cost of issuing new contracts to individuals covered by the company.
! Cost of underwriting in most of the cases as the products are usually structured in such a way that underwriting is not required as long as the individual sum assured is below a particular amount.
! Cost of policy servicing like separate renewal billings, reminders, etc.

How is Group Insurance beneficial to the Individual?

Group insurance plans have low premiums. Such plans are particularly beneficial to those for whom other regular policies are a costlier proposition. Group insurance plans extend cover to large segments of the population including those who cannot afford individual insurance. As such the premia you need to pay is comparatively lower and at the same time you can avail of insurance benefits.

Insurers are able to provide relatively low-cost group coverage because of the expense savings inherent in the operation of group insurance policies. These savings result from the fact that the expenses an insurer incurs in administering a group insurance policy are much lower than those incurred in administering individual polices. Of course, the cost of administering one group insurance policy is usually higher than the cost of administering one individual policy, but the cost of administering one group insurance policy covering 50 people is lower than the cost of administering 50 individual policies. For example, underwriting and policy issue costs are generally lower for group insurance because the insurer usually underwrites the group as a whole rather than each individual member, and it issues a master policy rather than many individual policies. In addition, sales costs are much lower for one group policy than for a number of individual policies. Expenses are also lower because the group policyholder often handles many of the clerical duties that the insurer must perform for each individual policy.

Business Principles of Group Insurance

Group Insurance Contracts

Although individual insurance and group insurance are similar in many ways, the most obvious difference is that there is a single insurance contract, called a ***master group insurance contract.***

The parties to a master group insurance contract are the insurance company and the group policyholder, which is the person or the organisation that decides what types of group insurance coverage to purchase for the group members, negotiates that terms of the group insurance contract with the insurer, and purchases the group insurance coverage. The term policyholder is used because the group policyholder does not have the same ownership rights in the group insurance policy that a policy owner has in an individual life insurance policy. Instead, some of these rights are granted to the insured group members. For example, each group member insured under a group life insurance policy has the right to name the beneficiary who will receive the benefit payable upon that group member.s death. By contrast, an individual life insurance policy grants that right to the policy owner, rather that to the insured. When an insurance company and a group policyholder enter into a master group insurance contract, the insurer issues a policy that contains the terms of the contractual agreement. An important part of every group insurance policy is a description of each individual who are covered by the policy.

The policyholder is usually responsible for handling some of the administrative aspects of the group insurance plan. For example, the policyholder typically is responsible for enrolling new group members in the plan. The group policyholder also is responsible for making all premium payments to the insurer, although the policy may require that the insured group members contribute some or that entire premium amount. If insured group members are not required to contribute any part of the premium for the coverage, then the group insurance plan is non-contributory plan. If the group members must contribute some or the entire premium in order to be covered under the group insurance policy, then the plan is a ontributory plan. A contributory group insurance policy issued to an employer to cover employees typically requires the covered employees to pay their portion f the premium through payroll deduction.

Certificate of Insurance

Insured group members are not parties to the master group insurance contract, do not participate in the formation of the contract, and do not receive individual copies of the contract. The insurer provides the group policyholder with written descriptions of the group insurance plan; the group policyholder then delivers a written description to each group insured. This document, known as the certificate of insurance, describes

a) The coverage the group insurance contract provides and

b) The group insured.s rights under the contract.

As a result, an insured group member is often referred to as a certificate holder. Many policyholders describe the group insurance coverage in a special benefit booklet. In such a situation, the benefit booklet contains the information that would be included in a certificate, and the benefit booklet serves as the group insurance certificate.

Free Cover Limit or No Evidence Limit

Group products are generally simplified and structured in such a way that no medical check up is needed for insurance until a specified amount. This amount is known as the Evidence Limit (NEL). or .Free Cover Limit (FCL). which varies from group to group based on contract terms. The limit is usually a per person figure that applies to all members in the group.

Group Insurance Policy Provisions

Certain provisions are included in every group insurance policy, whether it provides life or health insurance coverage. These standard policy provisions define which group members are eligible for group insurance coverage, identify the policy.s grace period, establish when the policy and a group member.s coverage become incontestable, and govern when the group insurance policy terminates and when a group insured.s coverage terminates.

Eligibility Requirements

Group insurance policies are permitted by law to define eligible employees as those employees in a specified class or those in specified classes. These classes must be defined by requirements that are related to conditions of employment, such as salary, occupation, or length of employment. Some group insurance policies provide coverage both for group members and for the dependents of covered group members. Group insureds who are covered a dependents typically do not have the same rights as do group insureds who are covered as employees. Provisions in many group insurance policies contain requirements that new group members must meet in order to be eligible for coverage. The most common of these eligibility provisions are the actively-at-work provision and the probationary period. An actively-at-work provision requires that in order to be eligible for coverage, an employee must be actively at work . rather than ill or on leave . on the day the insurance coverage is to take effect. If the employee is not actively at work on the day the coverage is to take effect then the employee is not covered by the group insurance policy until she returns to work.

A probationary period is the length of time . typically, from one to six months- that a new group member must wait before becoming eligible to enroll in the group insurance plan. A probationary period requirement can reduce a plans administrative cost when new employees work for only a short period before terminating their employment. Under a noncontributory group insurance plan, a new employee who has met all other eligibility requirements is automatically covered at the end of the probationary period. By contrast, if the plans is a contributory, then the probationary period is typically followed by an eligibility periods. The eligibility period, which is also called the enrolment period, usually extends for 31 days and is the time during which a new group member may first enrol for group insurance coverage. As part of the enrolment process, the employee must sign a written authorization allowing the employer t make payroll deductions from her salary to cover the amount of her premium contributions.

Grace Period Provisions

Group life and health insurance policies typically contain a 31-day grace period provision. As in the case of an individual insurance policy, the insurance coverage provided by a group insurance policy remains in force during the grace period. If the group policyholder does not pay the premium by the end of this period, the group policy will terminate. Unlike the grace period provision in an individual insurance policy, the grace period provision in a group insurance policy specifies that if the policy terminates for non-payment of premiums, then the group policyholder be legally obligated to pay the premium for the coverage provided during the grace period.

Incontestability Provisions

Some insurance laws require group insurance policies- like individual insurance policies- Provision that limits the period during which an insurance company may use statements I the group insurance application to contest the validity of the master group insurance contract. Generally, the incontestability provision in a group insurance policy limits the period during which the insurer may contest the contract to two years from the date of issue. The incontestability provision also allows an insurance company to contest individual group member.s coverage without contesting the validity of the master group contract itself. Individuals. insured under a group insurance policy usually are not required to provide evidence of insurability in order to be eligible for group coverage. Sometimes, however, group insureds are required to provide such evidence. If a group insured makes material misrepresentations about his insurability in a written application, then the incontestable clause allows the insurer to contest the group insured.s coverage on the ground of material misrepresentation in the application. The period during which the insurer has the right to contest the validity of a group insured.s coverage is usually one or two years after the date of that group insured.s application.

Termination Provisions

The coverage an individual insurance policy provides is effective as long as the individual insurance policy is in force; coverage terminates when the individual policy terminates. Similarly, under many types of group insurance contract, a group member.s coverage terminates when the master group policy terminates. However, a group insured.s coverage also may terminate even though the group insurance policy remains in effect. According to the terms of most group insurance policies, the group policyholder may terminate the policy at any time by notifying the insurer in writing that it has decided to terminate the policy. If certain condition are met, the insurance company also has the right to terminate the group insurance policy on any premium due date. The terms of the policy state the conditions that must be met in order for the insurer to terminate the policy.

Group insurance policies contain provisions that describe when a group insured.s coverage terminates. Most group insurance policies provide that a group insured.s coverage will terminate if the group insured (1) ceases to be a member of a class of persons eligible for coverage, (2) terminates her employment or group membership. Or (3) fails to make a required contribution to the premium.

Types of Coverage for Group Insurance

A number of group insurance schemes have been designed for various groups. These include employer-employee groups, associations of professionals (such as doctors, lawyers, chartered accountants etc.), and members of cooperative banks, welfare funds, credit societies and weaker sections of society.

There are four basic types of coverage provided for Group Business:

1. Life cover
2. Pension cover
3. Medical cover
4. Disability cover

Life Cover

Group life insurance covers the life of each individual within the insured group. A single policy is issued for the entire group and the premium collected is from the group owner. Therefore, though each individual is not serviced separately, relevant data has to be maintained in the system for each individual to regulate and service the group as a whole.

Accident Cover

The insurance cover may also cover for accidents, which is in the form of a rider that is attached to the base life plan at the policy contract level. This means that the riders are the same for everyone in the group as chosen initially in the contract.

There are four types of coverage possible in insurance against accidents:

a. Death by accident.
b. Permanent partial disability.
c. Permanent total disability
d. Dismemberment.

Temporary and permanent disabilities could be due to medical reasons. However such cases are not currently insured in India.

Pension Cover

An organization today, has not only to man the various positions with competent and trained personnel but also has to create an environment wherein they can give their best and derive a sense of well-being, a sense of fulfilment and security and take pride in their continued association with the organization. Provision of pension may be an attraction for such persons to continue in the organization and give their best to the organization, as with continuous improvement in longevity a regular income even after retirement has become a necessity.

In this segment, the products fall in the following categories:

a. Provident fund.

b. Gratuity.

c. Superannuation

Medical Cover

This segment has the following categories:

Critical Illness

This is a rider for critical illness that can be coupled along with the Life insurance cover for the group. This insurance provides cover for dreaded diseases listed by the company.

Hospital Cash & Mediclaim

Hospitalisation for illness, disease or accident, whether including surgery or not, imposes heavy financial burden on individuals, families, especially employers and welfare bodies.

The policy provides the following benefits:

a. Reimbursement of hospitalisation expenses, which are reasonably and necessarily incurred

b. Reimbursement of domiciliary hospitalisation, which would in the normal course require treatment at a hospital, but is actually taken at home because of the critical condition of the patient or non-availability of bed in a hospital. Certain named diseases are excluded under this head.

c. Premium paid for the policy are exempt from Income Tax

d. Cumulative Bonus - Benefits payable will be increased by 5%, each claim free year, up to a maximum of 50% for continuous policy periods only.

e. Cost of Health Check Up - Reimbursement of cost of medical check-up once at the end of a block of every four continuous policy years, which are, claim free.

The most important exclusion relates to pre-existing illness. If the insuring person had a health condition, existing prior to taking the policy, which required medical treatment, the same gets automatically excluded in the policy.

Group Insurance Products

This is a general description of the types of insurance schemes available in India and abroad. The key group insurance-related benefits of these schemes available to many employees today on either a contributory or non-contributory basis is:

• Group life insurance plans may be available with or without medical examinations for any standard form of life insurance. However, the most popular and prevalent plan i group term life insurance.

• Another group insurance benefit available to employees is accidental death insurance that in the event of accidental death provides an additional benefit in the same amount as the basic group life insurance. This coverage, known as a double accident feature, is also common in individual insurance.

• Group disability income protection provides for the partial replacement of earnings lost during disability caused by accident or sickness. Benefits are determined by the income earner's normal rate of pay. Monthly payments are provided and income benefits start after a fixed minimum period of absence from work and continue during disability up to a maximum time limit.
The standard group insurance products generally offered by Life insurance companies are:
• Group Term Life Insurance Schemes
• Group Savings Linked Insurance Schemes (GSLI)
• Group Credit Life Insurance and
• Group Health Insurance
• Group Dental Insurance
• Worldwide Travel Group Insurance
• Group Short Term Disability Insurance
• Group Long Term Disability Insurance

Group Term Life Insurance

Group (Term) Insurance Scheme provides life insurance protection to groups of people. Administration of the scheme is on group basis and cost is very low. Under Group (Term) Insurance Scheme, life insurance cover is allowed to all the members of a group subject to some simple insurability conditions without insisting upon any medical evidence. Employer employee groups are usually offered group insurance schemes that provide insurance cover at a fairly uniform yet graded level.
Group insurance schemes that provide uniform cover can also be granted to associations of professionals such as Doctors, Lawyers, and Chartered Accountants etc. Members of cooperative banks, welfare funds, credit societies and weaker sections of society are also eligible for group insurance schemes.

Group Saving Linked Insurance

The Group Savings Linked Insurance Scheme (GSLI) offers insurance cover along with an element of savings. The contributions under this scheme are deducted from the monthly salary of the members.
This scheme is allowed only to selected Employer-Employee groups such as
o Quasi-government bodies
o Public sector corporations
o Reputed public sector firms
o Reputed private sector companies which maintain accurate records and files of their employees
Under the Group Savings Linked Insurance Scheme, a portion of the insurance cover is utilised for the cover provided for insurance and the balance, based on the contribution of savings, is accumulated until the exit of the policy at an attractive rate of interest.
The amount allocated from the monthly contributions towards insurance premium is determined on these factors
o Nature of the group
o Occupation of the group
o Age
o Composition of members, etc
The savings contribution is reimbursed with interest at the time of retirement or exiting of the policy in any other mode.

In case of death during the service period of the employee, the amount for which the member was covered at the time of the unplanned contingency is paid along with the accumulated savings.

Group Credit Life Insurance

The Group Credit Life Insurance plan provides life cover for a group of employees who are borrowers from the same employer, (or some credit institution, bank, finance provider etc) by paying a lump sum towards repayment of loan amount on the death of employee.

The plan can be structured in a way that either the original loan amount or the outstanding value of the loan can be covered, as per data provided by the employer. The premiums can be adjusted every year according to the reducing principal amount.

Creditor and Debtor groups can also be the recipient of group credit life insurance schemes to cover their outstanding loans in event of death or permanently disabling contingencies. Groups of members of housing societies, borrowers granted loans by institutional agencies in Public / Joint sectors for housing purposes as well as borrowing members of cooperative societies and banks formed by employees of the same employer are the most appropriate contenders to avail of group insurance

Currently, Group Credit Life offers insurance against the following:

o Mortgage Loans
o Personal Loans
o Credit Cards

Group Health Insurance

All of the individual types of plans can be purchased on a group basis. Only full time employees may participate in these plans, as determined by the insurance company. (Usually 25 hours per week is considered full time.) It is generally required that the employers pay a percentage of at least the employee portion of the premium. This ensures adequate participation for the insurance companies so as to avoid adverse selection. (Meaning- they don’t want your sick employees only)

Group Dental Insurance

Coverage is generally provided for preventive services, (cleanings, x-rays, and exams), minor restorative services (fillings), and major restorative services (crowns, bridges, root canals). These may include annual recall exams; cement restorations; crowns and fixed bridges;
dentures; extraction of teeth and other surgical services; fillings; fluoride treatments; scaling and polishing; major repairs and restorations; root canal therapy and X-rays. Sometimes and optionally, orthodontia is covered.

Worldwide Travel Group Insurance

Worldwide Travel insurance include travel assistance for medical emergencies and coverage including: ambulance services; dental services; diagnostic services; hospital accommodation; meals and accommodation; medical appliances; physicians, surgeons and other practitioners; prescriptions; nursing; referrals outside of the country; return home as a result of illness; return of deceased; transportation to visit the covered person and vehicle return.

Group Term Disability Insurance

There are basically two types of Term disability Insurance: Short Term Disability Insurance and Long Term Disability Insurance.

Group Short Term Disability Insurance

For short term coverage is generally provided upon the first day of an accident, or upon the eighth day of an illness for a period of 13,26, or 52 weeks. Usually benefits are for 66 2/3% of salary, but different benefit percentages are available with different companies and in different situations. Definitions of disability vary with different insurance companies.

Group Long Term Disablity Insurance

For this insurance coverage is provided for longer periods of time than with Short Term Disability, typically two years, five years, to age 65 or for life. Elimination periods (also called waiting periods) are longer generally than with STD. This is the time one must wait once disabled before benefits begin. Disability definitions are critical in evaluating these plans.

NON LIFE INSURANCE

General insurance or non-life insurance policies, including automobile and homeowners policies, provide payments depending on the loss from a particular financial event. General insurance is typically defined as any insurance that is not determined to be life insurance.

Risk as we have seen is all about losses. In the absence of possibility of loss there would be no risk thus it is important to know about the factors, which cause or contribute towards the occurrence of loss or extent of loss. There are two such factors and these are “Perils” and “Hazards”.

PERILS

Perils cause the deviation in events from those that we expect. They are the immediate cause of loss. Their very existence ensures that we are surrounded by risk for example flood, death, sickness, theft, terrorism etc. and these are discussed below.

1. Natural Perils:

Our very existence on the planet earth ensures that we live with risk as the almighty in all his wisdom has although gifted nature with many sources of energy unbalance or disturbances beyond limits take the form of risk called perils, which can lead to unexpected losses. There are unexpected natural phenomena, which year in and year out cause untold misery, loss of life and property. The most recent example in the Indian context being the Gujarat Earthquake on Jan 26th 2001, which caused widespread devastation. Nearly 20,000 lives were lost, numerous villages and localities were razed to the ground and lakh were rendered homeless. There is no stopping the fury of nature and the havoc that it plays with mankind. Volcanic eruptions, fire due to lightning, landslides, cyclones, hurricanes, storms, floods, the vagaries of weather, unseasonal rainfall and prolonged dry spells, hailstorms are some other examples of natural risks that can cause losses. These perils are also called Act of God perils, and there is little that mankind can do to stop them, he can only learn to live with them and devise means to lessen the negative impact.

A global survey of losses for the year 2006 conducted by Sigma estimated the insured losses due to natural calamities at 14.8 billion dollars and out of this 12.6 billion dollars was on account of floods alone while looking at these figures we have to bear in mind that these are only for insured losses, the actual figure may be actually much more. 40% of the lives lost during the year in catastrophes were on account of natural disasters with a major contribution being the lives lost due to floods in India & Bangladesh in and Southern Africa in February’2000 and Tsunami in 2005-06.

2. Man Made Perils:

Then there are the manmade perils, which cause loss, these are an outcome of our society and are the violent actions and unethical practices of people, which result in deviation from the expected. There are many of these but only a few are being discussed to illustrate their significance.

(a) Theft: Page – 3 of your daily newspaper provides a fair idea about this rampant malady in our society. The entire page is full of incidents of thefts of motorcycles, daylight robberies and burglaries loss to human life by accident, terrorism, enmity, adulteration murder etc. The figure for the exact extent of losses due to such incidents is not available for India but a study done by the FBI in USA way back in 1974 estimate that such losses in material terms alone exceeded $3 billion that year. Not only outsiders but insiders also steal. Employees steal tools, equipments and goods from their employers worth millions every year.

(b) Riots, Strikes and Malicious Damage: These are perils, which every property owner faces. During Riots miscreants' damage, Public and Private property, loot stores, inflict injury or death to innocent people and the police personnel and bring business to a standstill causing untold damage. Similarly strikes sometimes turn violent resulting in damage to life and property. Strikes also result in loss of production causing huge monetary losses, which may even result in bankruptcy. Vandals target unoccupied houses when the proprietors are on vacation and damage the property, in some cases setting it on fire. Cars parked in the street are also often vandalized.

(c) Accidents: Accidents are caused by people and they cause injury to themselves or to others and also damage to property. Automobile accidents alone contribute the maximum share of losses due to this peril. As per WHO study each year "Road Traffics" take the lives of 1.2 million men, women & children around the world and seriously injure millions more. In addition to automobile accidents, accidents due to carelessness of humans result in huge losses to property and life. A carelessly dropped cigarette can lead to fire resulting in heavy losses to property and even life. Thousands of workers lose their lives and limbs every year in industrial accidents caused by human error or carelessness. In one of the reports by Sigma for the year 2006 puts the global figure of manmade insured losses at 5 billion dollars with 50% being attributed to Industrial fires. 11700 people lost their lives and out of these 65% were killed in transport related disasters (which appreciating the extent of losses. We must remember that Sigma's report is only a study of major disasters and only 350 events during the year have been Evaluated / studied. The figures therefore just give an idea whereas the ground reality may be even more alarming).

3. Economic Perils:

The third category of Perils or cause of Risk is economic in nature and the examples of this type of Risk are Depression, Inflation, Local fluctuations and the instability of Industrial firms. Depression in the market leads to low production levels and an increase in unemployment. Low production results in reduced profits or losses for business houses whereas unemployment stops the income of individuals causing mental and physical suffering. When Inflation is there in the economy the buying power of money declines and the real value of savings and income is reduced. People whose livelihood is based on fixed income such as pensioners (Retired persons) during such periods are the hardest hit and may find it impossible to make both ends meet.

This fluctuation in the general economy can cause unfavorable deviation from the expectations and create risks for both Industries firms as well as individuals. Sometimes it so happens that even though the general economic condition in the country is stable there is some areas, which may experience recession. These are known as local fluctuations and can affect the Individuals or the business houses in the same manner as the general fluctuation in economy i.e. Depression & Inflation. When particular area is effected the value of investments made in the area declines and jobs are also lost. At time it is the individual firms which are to blame. The owners lose part or whole of their investment and workers lose their jobs. There are many towns and communities, which are dependent on one single Industry for their well being and when this Industry fails or decides to shift operation the entire town or community is exposed to risk.

Hazards

While perils are the direct cause of loss hazards are the underlying factors, which increase the probability of occurrence of loss. There are conditions, which are more hazardous than others e.g., working, as an electrician is a more hazardous occupation than that of a banker as it is more susceptible to accidents. Owning a property on the banks of Ganga is more hazardous than a property in Chandigarh as it is exposed to the risk of damage due to floods. Similarly dealing in textiles is more hazardous than dealing in hardware as the risk of loss due to fire is greater. There are three kinds of hazards:

(i) Physical
(ii) (ii) Moral
(iii) (iii) Morale

Physical Hazard: These are hazards, which are related to the physical aspects of the property, which may influence the chances that the property may be damaged or which may increase or decrease the losses incurred due to a particular risk. The location of a building affects its vulnerability to losses due to fire, floods, earthquakes etc. A residential building close to a unit manufacturing crackers will be more susceptible to losses than a building located in a purely residential area. Construction of a building also affects the extent of loss. A building or the use to which it is being put is another example of a physical hazard. The same building will be in greater danger of loss by fire if it was used for storing petroleum products than if it was being used as an office or a departmental store.

Moral Hazard: Moral hazard also affects the probability of loss occurring and the risk is increased. A dishonest person may set his own house or property on fire to avail the Insurance benefit. An unscrupulous trader may arrange for a robbery in his own store to get the benefits. Whenever persons of doubtful integrity buy an Insurance policy the risk increases because loss becomes a certainty.

Morale Hazard: This is not to be confused with moral hazard, which involves dishonesty but morale hazard is an attitude of lack of concern about the outcome of his actions. An example of this is a person who is careless about stubbing out cigarettes and just throws them around not in the least bothered that his action may cause fire. Bad housekeeping is another example of a morale hazard as this also increases the chances of loss occurring.

Catastrophe Insurance:

Catastrophe insurance is Insurance to protect businesses and residences against natural disasters such as earthquakes, floods and hurricanes, and against man-made disasters such as terrorist attacks. These low-probability, high-cost events are generally excluded from standard hazard insurance policies, and so catastrophe insurance is required.

Catastrophe insurance is different from other types of insurance in that it is difficult to estimate the total potential cost of an insured loss and a catastrophic event results in an extremely large number of claims being filed at the same time. This makes it difficult for catastrophe insurance issuers to effectively manage risk. Reinsurance and retrocession are used along with catastrophe insurance to manage catastrophe risk.

Property Damaged and Business Interruption:

Business interruption insurance (also known as business income insurance) is a type of insurance that covers the loss of income that a business suffers after a disaster. The income loss covered may be due to disaster-related closing of the business facility or due to the rebuilding process after a disaster.

It differs from property insurance in that a property insurance policy only covers the physical damage to the business, while the additional coverage allotted by the business interruption policy covers the profits that would have been earned. This extra policy provision is applicable to all types of businesses, as it is designed to put a business in the same financial position it would have been in if no loss had occurred.

This type of coverage is not sold as a stand-alone policy, but can be added onto the business' property insurance policy or comprehensive package policy such as a business owner's policy (BOP). Since business interruption is included as part of the business' primary policy, it only pays out if the cause of the loss is covered by the overarching policy.

The following are typically covered under a business interruption insurance policy:

- Profits. Profits that would have been earned (based on prior months' financial statements).
- Fixed Costs. Operating expenses and other costs still being incurred by the property (based on historical costs).
- Temporary Location. Some policies cover the extra expenses for moving to, and operating from, a temporary location.
- Commission & Training Cost. Business Interruption (BI) policy essentially covers the cost of providing training to the operators of the machinery replaced by the insurer following the insured events.
- Extra Expenses. Reimbursement for reasonable expenses (beyond the fixed costs) that allow the business to continue operation while the property is being repaired.
- Civil Authority Ingress / Egress. Government-mandated closure of business premises that directly causes loss of revenue. Examples include forced business closures because of government-issued curfews or street closures related to a covered event.

This coverage extends until the end of the business interruption period determined by the insurance policy. Most insurance policies define this period as starting on the date of the covered peril and the damaged property is physically repaired and returned to operations under the same condition that existed prior to the disaster.

In addition, businesses can purchase contingent business interruption coverage, which pays out when a business is unable to operate because of an event (such as a natural disaster) that damages the business premises of one of its suppliers or customers, thus preventing it from engaging in normal trade.

Policy Exclusion:

An exclusion is a provision within a health insurance policy that eliminates coverage for certain acts, property, types of damage or locations. In the past, individual health insurance policies frequently contained exclusions for pre-existing medical conditions.

An explanation of benefits (EOB) is the insurance company's written explanation regarding a claim, showing what they paid and what the client must pay.

Indemnity:

Indemnity is compensation for damages or loss. Indemnity in the legal sense may also refer to an exemption from liability for damages.

The concept of indemnity is based on a contractual agreement made between two parties, in which one party agrees to pay for potential losses or damages caused by the other party. A typical example is an insurance contract, whereby one party (the insurer,or the indemnitor) agrees to compensate the other (the insured, or the indemnitee) for any damages or losses, in return for premiums paid by the insured to the insurer.

Indemnities form the basis of many insurance contracts; for example, a car owner may purchase different kinds of insurance as an indemnity for various kinds of loss arising from operation of the car, such as damage to the car itself, or medical expenses following an accident. In an agency context, a principal may be obligated to indemnify their agent for liabilities incurred while carrying out responsibilities under the relationship. While the events giving rise to an indemnity may be specified by contract, the actions that must be taken to compensate the injured party are largely unpredictable, and the maximum compensation is often expressly limited.

Deductibles:

In an insurance policy, the **deductible** is the amount that must be paid out of pocket by the policy holder before an insurance provider will pay any expenses. In general usage, the term *deductible* may be used to describe one of several types of clauses that are used by insurance companies as a threshold for policy payments.

Deductibles are typically used to deter the large number of claims that a consumer can be reasonably expected to bear the cost of. By restricting its coverage to events that are significant enough to incur large costs, the insurance firm expects to pay out slightly smaller amounts much less frequently, incurring much higher savings. As a result, insurance premiums are typically cheaper when they involve higher deductibles. For example, health insurance companies offer plans with high premiums and low deductibles, or plans with low premiums and high deductibles. One plan may have a premium of $1,087 a month with a $6,000 deductible, while a competitive plan may have a premium of $877 a month with a $12,700 deductible. The consumer with the $6,000 deductible will have to pay $6,000 in health care costs before the insurance plan pays anything. The consumer with the $12,700 deductible will have to pay $12,700.

Deductibles are normally provided as clauses in an insurance policy that dictate how much of an insurance-covered expense is borne by the policyholder. They are normally quoted as a fixed quantity and are a part of most policies covering losses to the policy holder. The insurer then becomes liable for claimable expenses that exceed this amount (subject to the maximum sum claimable indicated in the contract). Depending on the policy, the deductible may apply per covered incident, or per year. For policies where incidents are not easy to delimit (health insurance, for example), the deductible is typically applied per year.

Several deductibles can be set by the insurer based on the cause of the claim. For example, a single housing insurance policy may contain multiple deductible amounts for loss or damage arising from theft, fire, natural calamities, evacuation etc.

There are also deductible reimbursement programs that reimburse a deductible in the event of an automobile, home, boat/yacht or health insurance claim.

Retention:

Planned acceptance of losses by deductibles, deliberate noninsurance, and loss-sensitive plans where some, but not all, risk is consciously retained rather than transferred. See also Risk financing; Risk management techniques; Self-insurance.

Premiums Limits:

An insurance premium is the amount of money that an individual or business must pay for an insurance policy. The insurance premium is considered income by the insurance company once it is earned, and also represents a liability in that the insurer must provide coverage for claims being made against the policy.

An aggregate limit is the maximum dollar amount your insurer will pay to settle your claims. Often, the limit is referred to as an annual aggregate limit, which is the total amount your insurer will pay in a single year.

Salvage:

Damaged property an insurer takes over to reduce its loss after paying a claim. Insurers receive salvage rights over property on which they have paid claims, such as badly-damaged cars. Insurers that paid claims on cargoes lost at sea now have the right to recover sunken treasures.

Salvage value is the estimated resale value of an asset at the end of its useful life. Salvage value is subtracted from the cost of a fixed asset to determine the amount of the asset cost that will be depreciated. Thus, salvage value is used as a component of the depreciation calculation.

Subrogation:

Subrogation is the right for an insurer to legally pursue a third party that caused an insurance loss to the insured. This is done as a means of recovering the amount of the claim paid by the insurance carrier to the insured for the loss.

Subrogation occurs in property/casualty insurance when a company pays one of its insured's for damages, then makes its own claim against others who may have caused the loss, insured the loss, or contributed to it. For Example: Suppose another driver runs a red light and your car is totaled.

Insurance Providers:

Insurance providers come in two types depending on how an insurance policy is purchased. There are agents who sell insurance products and carriers who provide the products. Insurance providers can also consist of the employers as well as federal and state government who provide various health insurance plans to individuals and families. Insurance providers offer many types of insurance products that can be purchased by a consumer.

REINSURANCE:

Reinsurance is a financial transaction by which risk is transferred (ceded) from an insurance company (cedant) to a reinsurance company (reinsurer) in exchange of a payment (reinsurance premium). Providers of reinsurance are professional reinsurers which are entities exclusively dedicated to the activity of reinsurance. Also in most jurisdictions insurance companies are allowed to participate in reinsurance. The terms of a reinsurance transaction are defined in a reinsurance treaty.

Due to the complexity of reinsurance treaties it is not uncommon that the definitive treaties are only signed months after the risk transfer took place. To document the acceptance of the risk, a short version of a treaty call a slip containing the most important terms of the agreement is used instead. Slips are signed before the risk is transferred and accepted by the reinsurer. Some jurisdictions are requiring signed treaties before the risk is transferred.

Reinsurance is to be differentiated from coinsurance, where the risk is shared and not transferred among several insurance companies, each one of them having a direct contractual relationship with the insured for the portion of the risk accepted by that company. Thus, reinsurance always involves legal entities and not individuals. In reinsurance, the contractual relationship is between the cedant and the reinsurer. Only in special situations does the reinsurance treaty have a provision called the *cut through clause* that allows the insured to have a direct legal claim to the reinsurer; for example in case the insurer becomes insolvent.

Captive Insurance:

Captive insurance is an alternative to self-insurance in which a parent group or groups create a licensed insurance company to provide coverage for itself. The main purpose of doing so is to avoid using traditional commercial insurance companies, which have volatile pricing, and may not meet the specific needs of the company. By creating their own insurance company, the parent company can reduce their costs, insure difficult risks, have direct access to reinsurance markets, and increase cash flow. When a company creates a captive they are indirectly able to evaluate the risks of subsidiaries, write policies, set premiums and ultimately either return unused funds in the form of profits, or invest them for future claim payouts. Captive insurance companies sometimes insure the risks of the group's customers. This is an alternative form of risk management that is becoming a more practical and popular means through which companies can protect themselves financially while having more control over how they are insured.]

There are many variations of how captives can be set up, which can be broken into two categories. The first category is known as non-sponsored in which the company is the creator and beneficiary. Within that category the most common are single-parent or "pure", group and association. The second category is sponsored in which the captive is owned and controlled by another company that allows other companies to "rent" insurance. This category includes Protected Cell Captive Insurers and Rental Captives.

Underwriting Process:

Underwriting services are provided by some large specialist financial institutions, such as banks, insurance or investment houses, whereby they guarantee payment in case of damage or financial loss and accept the financial risk for liability arising from such guarantee. An underwriting arrangement may be created in a number of situations including insurance, issue of securities in primary markets, and in bank lending, among others.

The name derives from the Lloyd's of London insurance market. Financial bankers, who would accept some of the risk on a given venture (historically a sea voyage with associated risks of shipwreck) in exchange for a premium, would literally write their names under the risk information that was written on a Lloyd's slip created for this purpose.

Policy Servicing Process:

The person nominated by the policyholder to be the beneficiary and receive the proceeds of an insurance policy upon the death of the insured. A process of reactivating lapsed/ out-of-coverage policies by remitting full or partial repayment of outstanding premiums subject to the type of revivals.

Claims Process:

Claims process, or claims handler, investigates insurance claims by interviewing the claimant and witnesses, consulting police and hospital records, and inspecting property damage to determine the extent of the company's liability. In the United Kingdom, Ireland, Australia, South Africa, the Caribbean and New Zealand the term loss adjuster is used. Other claims adjusters who represent policyholders may aid in the preparation of an insurance claim.

In the United States, a claims adjuster's duties typically extend to include the following elements:

- Verify an insurance policy exists for the insured person and/or property. In general, these are written by the policy-holding insurance company.
- Risk(s) of loss, or damages to property, culminating in the loss of property and or bodily injury.
- After completing the above investigations, evaluate the covered injuries and/or damages that have been determined according to the coverage grants.
- Negotiate a settlement according to the applicable law(s), and identify coverages for which the insured is covered, following best insurance practices.

A Claims adjuster or Public Adjuster does not, and should not, engage in the practice of law. While adjusting the claim does mean applying the loss circumstances to the insured's policy, it does not account for if and when there becomes *an issue of coverage*, which is a matter and practice of Law, and should only be engaged by a properly licensed attorney.

In casualty insurance the main type of coverage's include but may not be limited to the followings:

- First party auto and other than auto coverage's (sometimes referred to collision and comprehensive coverage's) there are numerous types of first party insurance coverage's for any kind of risk of loss or damages.
- Third party liability for property damage of others property and bodily injury. (in law terms these are "tort" claims)

Health Insurance:

Health insurance is insurance that covers the whole or a part of the risk of a person incurring medical expenses, spreading the risk over a large number of persons. By estimating the overall risk of health care and health system expenses over the risk pool, an insurer can develop a routine finance structure, such as a monthly premium or payroll tax, to provide the money to pay for the health care benefits specified in the insurance agreement. The benefit is administered by a central organization such as a government agency, private business, or not-for-profit entity. According to the Health Insurance Association of America, health insurance is defined as "coverage that provides for the payments of benefits as a result of sickness or injury. It includes insurance for losses from accident, medical expense, disability, or accidental death and dismemberment"

Health Insurance has occupied the position of one of the fastest growing segments in the insurance industry for the last few years; the growth of Health Insurance is keeping pace with that of the health care industry and the increased customer awareness in the country. It is today of immense significance for insurance practitioners and mangers.

This is the differences between a consumer's purchase of health care and his or her purchase of other goods and services. For example, budgeting for health care expenses may be more difficult than budgeting for other services. The purchase of health insurance reduces the risks and unpredictability inherent in a consumer's health care expenses. The consumer pays for a health insurance policy and then is subsequently (partly) reimbursed for
his or her future expenditures on health care.

The Challenges of Purchasing Health Care

A consumer may find the purchase of health care different from some other purchases. For example, a consumer buying a gallon of milk each week often knows in advance what kind of milk he or she wants and the approximate price of each variety of milk. In addition, expenditures on milk are rarely an especially high proportion of the consumer's monthly spending.

The consumer's decision to purchase health care, however, is more complicated. Health care can be expensive, especially for major illnesses or injuries. In addition, the consumer may not know in advance when (if at all) over the course of a year he or she will purchase the health services, what services he or she will need, and how much the services will cost. Each of these characteristics of health care decreases the consumer's ability to plan financially and increases the exposure to financial risk.

Few other goods and services have these characteristics. When a consumer thinks about other large expenditures, four years of college might come to mind. However, the potential students and their parents know when college expenses will become due well in advance of the due date. It is much easier to predict that Junior will need $20,000 in August 2015 to pay freshman tuition than that Junior will need $5,000 to pay for health care after he breaks his leg skiing over winter break.

Health care also may differ from other types of unpredictable expenditures. If a consumer were unexpectedly invited to a black-tie event, she may decide to purchase a gown. Even though this purchase was unpredictable, the cost of the gown often is a much smaller percentage of her monthly income than the cost of most medical treatments. Finally, consumers are likely to know what types of gowns (and milk) they prefer. They may be less clear whether they need a cast or a splint to repair their injured ankle. Consumers therefore are more likely to rely on their doctors' opinions when using health care than on their grocery clerks' opinions when buying milk. All these features increase the financial riskiness and unpredictability associated with using health care.

How Can a Consumer Purchase Health Insurance?

A consumer may obtain health insurance from an employer (or other group) or individually from nother source.

From an Employer or Other Group

Some consumers obtain health insurance plans offered by employers to their employees and their employees' dependents as fringe benefits.9 When employees obtain health insurance through their employer, the cost of the health insurance plan often is shared between the employee and the employer. In addition, other groups whose members share a common bond, such as labor unions and some other associations, can offer members an opportunity to purchase health insurance through the group.

If an employee purchases insurance offered through his or her employer (employer-sponsored insurance, or ESI), the employee enrolls in a plan through the employer without interacting with salespeople and other representatives of health insurers. ESI is therefore relatively easy to obtain. If an employee does not want to accept an offer of group insurance, he or she is free to purchase health insurance from another source.

When a consumer with ESI leaves his or her place of employment for any reason, that consumer may lose health insurance. Those who retire any time after reaching the age of 65 usually will be eligible for Medicare, the federal health insurance entitlement program for those with disabilities and those aged 65 and older. Consumers terminated from employment without cause generally are eligible for COBRA, a federal program through which certain terminated consumers may continue to receive their ESI for a period of time as long as they pay the total cost of the insurance plan. Consumers also may be eligible for other federal and state health insurance programs or can choose to purchase private insurance that is not from a group.

Not from a Group

Consumers who are not offered or who do not purchase group insurance may use insurance brokers and agents, including web-based brokers, to learn about health insurance plans. Brokers and agents are licensed by the states and generally are paid on commission by insurers. Agents work with one insurer, whereas brokers can work with more than one insurer. Consumers may purchase health insurance policies either directly from insurers (perhaps represented by brokers and agents) or from exchanges, which sell the insurers' plans. Insurance exchanges serve as marketplaces for health insurance plans in that they facilitate transactions between the buyers of insurance (consumers) and sellers of insurance (insurers). In general, consumers must use exchanges in their states of residence.

How Do Health Insurance Plans Differ?

Health insurance plans can differ in terms of their coverage of consumers and services, their costs to the consumers (and consumers' dependents or employers, if relevant), special features, and generosity, among other properties.

By Coverage

Covered Individuals

The consumer may buy a health insurance plan covering one person, a family, or other groupings. Under self-only coverage, the consumer is the only person insured. Family coverage applies to the consumer and any spouse and/or dependents. Other possibilities include self plus one and self plus children.

If their parent's health insurance plan covers children, children can be added to their parent's plan until they turn 26 years of age. Those children under the age of 26 can join or remain on their parent's plan even if they are married, not living with a parent, attending school, not financially dependent on a parent, or eligible to enroll in their own employer's plan. Many consumers with ESI obtain and renew their employer's plan during open enrollment season. During *open season*, consumers can change health insurance policies. Outside of open season, consumers cannot change their health insurance plan unless they experience a qualifying life event. *Qualifying life events* include marriage, moving to a new state, divorce, and childbirth. Open season in the exchanges is similar to open season in ESI.

Covered Services

A consumer might use a variety of health care services over the course of the year. Office visits to a health care provider may include routine well-adult exams, nonroutine flu care, and urgent treatment for bone breaks. The consumer might require X-rays and laboratory tests at some visits. More serious matters may require treatment at a hospital. Some consumers may need medical equipment, others may need a recovery program for substance abuse, and still others may find a single prescription treatment sufficient.

Given the breadth of possible health care, a consumer probably will not find a health insurance plan that covers all possible care. For example, almost no policies cover health care that is not deemed medically necessary by the insurer. *Medically necessary care* is "needed to prevent, diagnose or treat an illness, injury, condition, disease or its symptoms and that meet accepted standards of medicine." For example, reconstructive breast surgery following a mastectomy performed as part of breast cancer treatment is medically necessary (as well as required by law). In addition, health insurance generally covers breast augmentation to correct a congenital defect in breast development. However, it generally does not cover breast augmentation for cosmetic purposes. Not all insurers consider the same medical goods and services to be medically necessary.

Even among services widely agreed to be medically necessary among insurers, consumers will find that not all health insurance plans cover the same health services. In addition, the specifics of the covered service may differ across plans. For example, plans may differ across coverage of the number of routine maternal visits and the conditions under which a caesarean section is a covered service. Similarly, the consumer may choose among plans that cover eating disorder treatments differently.

By Costs

Premiums

Consumers pay *premiums*, which are the prices of private health insurance plan coverage for a given period of time. Premiums are owed whether or not the consumer actually seeks health care during the time covered by the plan. Consumers who purchase insurance policies directly from insurers or through the exchanges (for individuals) almost always pay the entire amount of the premium themselves. Many consumers who purchase ESI share the premium cost with their employers. In other words, the consumer pays for part of the premium (generally through payroll deductions) and the employer pays for part of the premium (using funds that are not part of an individual's hourly wages or annual salary)

Certain consumers who purchase health insurance through the exchanges may be eligible for *premium tax credits.* These credits reduce the price of the premium by returning part of its dollar value as a portion of the consumer's income tax refund. Eligibility for the tax credits depends on whether the consumer is eligible for various types of health insurance plans and on family income.

Cost Sharing

Cost sharing refers to the part of the costs for health services covered by the insurance plan that is paid by the consumer (or the person responsible for the consumer's bills). Deductibles, coinsurance, and co-payments are examples of cost sharing.

A *deductible* is the amount of money an insured consumer may be required to pay the medical care providers OOP (over the term of the insurance policy) before receiving any benefits from the health insurance policy. In other words, the consumer must spend up to the deductible OOP on covered services before the health insurance plan will begin to pay its part of health costs for most covered health services. A consumer is therefore required to *meet the deductible* before the insurance plan contributes to the costs of his or her health care. *Preventive medical services* are certain covered services not subject to deductibles (or any other form of cost sharing) when received from in-network providers. In addition, not all health insurance plans have a deductible, and plans may have different deductibles for different types of services. The consumer may pay *coinsurance*, which is a percentage of the total amount billed to the consumer. For example, consider a consumer whose chest X-ray is billed at $150. A 20% coinsurance rate means that the consumer pays $30 and the insurer pays $120 (both to the provider) for the X-ray. These calculations assume that the consumer has met the deductible. If the deductible has not been met, the consumer must pay his or her bill in full until the deductible is met.

Alternatively, the consumer may pay a flat-rate *co-payment*. For example, a $20 co-payment for that chest X-ray would mean that the recipient must pay $20 to the provider OOP for the same Xray, assuming the consumer's deductible has been met. The insurer would then pay $130 to the provider. Once again, if the deductible has not been met, the recipient must pay the amount remaining until the deductible is met.

Key Challenges of Healthcare Industry:

Health and health care need to be distinguished from each other for no better reason than that the former is often incorrectly seen as a direct function of the latter. Heath is clearly not the mere absence of disease. Good Health confers on a person or groups freedom from illness - and the ability to realize one's potential. Health is therefore best understood as the indispensable basis for defining a person's sense of well being.

The health of populations is a distinct key issue in public policy discourse in every mature society often determining the deployment of huge society. They include its cultural understanding of ill health and well-being, extent of socio-economic disparities, reach of health services and quality and costs of care. and current bio-mcdical understanding about health and illness.

Health care covers not merely medical care but also all aspects pro preventive care too. Nor can it be limited to care rendered by or financed out of public expenditure within the government sector alone but must include incentives and disincentives for self care and care paid for by private citizens to get over ill health. Where, as in India, private out-of-pocket expenditure dominates the cost financing health care, the effects are bound be regressive. Heath care at its essential core is widely recognized to be a public good. Its demand and supply cannot therefore, be left to be regulated solely by the invisible had of the market. Nor can it be established on considerations of utility maximizing conduct alone. What makes for a just health care system even as an ideal? Four criteria could be suggested- First universal access, and access to an adequate level, and access without excessive burden. Second fair distribution of financial costs for access and fair distribution of burden in rationing care and capacity and a constant search for improvement to a more just system. Third training providers for competence empathy and accountability, pursuit of quality care ad cost effective use of the results of relevant research. Last special attention to vulnerable groups such as children, women, disabled and the aged. Forecasting in Health Sector In general predictions about future health - of individuals and populations - can be notoriously uncertain. However all projections of health care in India must in the end rest on the overall changes in its political economy - on progress made in poverty mitigation (health care to the poor) in reduction of inequalities (health inequalities affecting access/quality'), in generation of employment /income streams (to facilitate capacity to pay and to accept individual responsibility for one's health). in public information and development communication (to promote preventive self care and risk reduction by conducive life styles) and in personal life style changes (often directly resulting from social changes and global influences). Of course it will also depend on progress in reducing mortality and the likely disease load, efficient and fair delivery and financing systems in private and public sectors and attention to vulnerable sections- family planning and nutritional services and women's empowerment and the confirmed interest of me siat-e 10 ensure just health care to the Largest extent possible. To list them is to recall that Indian planning had at its best attempted to capture this synergistic approach within a democratic structure. It is another matter that it is now remembered only for its mixed success.

Available health forecasts

There is a forecast on the new health challenges likely to emerge in India over tne next few decades. Murry and Lopez <WorId Bank B 2000> have provided a possible scenario of the burden of disease (BOD) for India in the year 2020, based on a statistical model calculating the change in DALYS are applied to the population projections for 2020 and conversely. The key conclusions must be understood keeping in the mind the tact that the concept of DALYs incorporates not only mortality but disability viewed in terms of healthy years of life lost. In this forecast, DALYs are expected to dramatically decrease in respect of diarrhoeal diseases and respiratory infections and less dramatically for maternal conditions. TB is expected to plateau by

2000, and HIV infections are expected to rise significantly up to 2010. Injuries may increase less significantly, the proportion of people above 65 will increase and as a result the burden of no communicable disease will rise. Finally cardiovascular diseases resulting any from the risk associated with smoking urban stress and improper diet are expected to increase dramatically. Under the same BOD methodology another view is available from a four – state analysis done in 1996 <World Bank B 2000> these four states - AP, Kamataka, W. Bengal and Punjab - represent different stages in the Indian health transition. The analysis reveals that the poorer and more populated states. West Bengal, will still face a large incidence of communicable diseases. More prosperous states, such as Punjab further along the health transiting will witness sharply increasing incidence of no communicable diseases especially, in urban areas. The projections highlight that we still operating on unreliable or incomplete base data on mortality and causes of death in the absence of vital registration statistics and know as yet little about how they differ between social classes and regions or about the dynamic patterns of change at work. It also highlights the policy dilemma of how to balance between the articulate middle upper class demand for more access to technologically advanced and subsidized clinical services and the more pressing needs of the poor for coverage of basic disease control interventions. This conflict over deployment of public resources will only get exacerbated in future. What matters most in such estimates are not societal averages with respect to health but sound data illumining specifically the health conditions of the disadvantaged in local areas <Gwatkin A 2000> that long tradition of health sector analysis looking at unequal access, income poverty and unjustly distributed resources as the trigger to meet health needs of the poor. That tradition has been totally replaced by the currently dominant school of international thought about health which is concerned primarily with efficiency of systems measured by cost effectiveness criteria.

Future of State Provided Health Care Historically the Indian commitment to health development has been guided by two principles-with three consequences. The first principle was State responsibility for health care and the second (after independence) was free medical care for all (and not merely to those unable to pay),

The first set of consequences was inadequate priority to public health, poor investment in safe water and samtati on and to the neglect of the key role of personal hygiene in good health, culminating in the persistence of diseases like Cholera. The second set of consequences pertains to substantially unrealized goals of NHP 1983 due to funding difficulties from compression of public expenditures and from organizational inadequacies. The ambitious and far reaching NPP - 2000 goals and strategies have however been formulated on that edifice in the hope that the gaps and the inadequate would be removed by purposeful action. Without being too defensive or critical about its past failures, the rural health structure should be strengthened and funded and managed efficiently in all States by 2005. This can trigger many dramatically changes over the next twenty years in neglected aspects or rural health and of vulnerable segments.

The third set of consequences appears to be the inability to develop and integrate plural systems of medicine and the failure to assign practical roles to the private sector and to assign public duties for private professionals. To set right these gaps demanded patient redefinition of the state's role keeping the focus on equity. But during the last decade there has been an abrupt switch to market based governance styles and much influential advocacy to reduce the state role in health in order to enforce overall compression of public expenditure an reduce fiscal deficits. People have therefore been forced to switch between weak and efficient public services and expensive private provision or at the limit forego care entirely except in life threatening situations, in such cases sliding into indebtedness. Health status of any population is not only the record of mortality and its morbidity profile but also a record of its resilience based on mutual solidarity and indigenous traditions of self-care – assets normally invisible to he planner and the professional. Such resilience can be enriched with the State retaining a strategic directional role for the good health of all its citizens I accordance with the constitutional mandate. Within such a framework alone can the private sector be engaged as an additional instrument or a partner for achieving shared public health outcomes. Similarly, in indigenous health systems must be promoted to the extent possible to become another credible delivery mechanism in which people have faith and away fond for the vat number of less than folly qualified doctore in rural areas to get skills upgraded. Public programs in rural and poor urban areas engaging indigenous practitioners and community volunteers can prevent much seasonal and communicable disease using low cost traditional knowledge and based on the balance between food, exercise medicine and moderate living. Such an overall vision of the public role of the heterogenous private sector must inform the course of future of state led health care in the country.

Health Care Regulation and Standards:

To be identified as a profession, a discipline must meet criteria that include having established standards of practice and regulation of the practice. As in the larger health care industry, correctional health care systems are subject to regulation.

As in the larger health care industry, correctional health care systems are subject to regulation. Importantly, laws and rules that pertain to nursing in the community also apply in the correctional setting. However, issues related to regulations, standards and compliance with nurse practice acts and scope of practice are not always well understood by correctional nurses and sometimes do not gain the expected level of knowledge, compliance and value.

Because nursing practice has a significant impact on health care delivery, patient safety and patient outcomes, regulation of the profession and individual nursing practice is necessary. The practice of nursing is regulated at the state level through administrative rules (laws) and civil procedures. Licensure is one method of validating knowledge and competence. Individual states license and regulate the profession through their nursing boards, while the National Council of State Boards of Nursing works to create uniformity and consistency in nursing practice and standards.

Many other government agencies—federal, state and local—also issue regulations, standards and guidance to assure safe and appropriate nursing care. At the federal level, the U.S. Department of Health and Human Services is the principal agency for protecting the health of citizens. HHS regulates through 11 divisions, including the Centers for Disease Control and Prevention, the Food and Drug Administration and the Office of the Inspector General. At present the Centers for Medicare and Medicaid Services has little impact on correctional health care, except, for example, when a facility receives federal funding, such as reimbursement for dialysis. However, that may change as provisions of the health care reform law are implemented.

Correctional health systems and their employees are expected to comply with applicable laws and regulations. The monitoring and oversight of these systems may not be as visible as in health care settings in the community. Nevertheless, these functions are important. Correctional facilities have a federal mandate to provide appropriate health care for individuals detained and incarcerated. If a facility fails to ensure safety and fails to meet the serious medical needs of those incarcerated, this likely will lead to litigation and court monitoring.

HIPAA:

The *Standards for Privacy of Individually Identifiable Health Information* ("Privacy Rule") establishes, for the first time, a set of national standards for the protection of certain health information. The U.S. Department of Health and Human Services ("HHS") issued the Privacy Rule to implement the requirement of **the Health Insurance Portability and Accountability Act** of 1996 ("HIPAA").[1] The Privacy Rule standards address the use and disclosure of individuals' health information—called "protected health information" by organizations subject to the Privacy Rule — called "covered entities," as well as standards for individuals' privacy rights to understand and control how their health information is used. Within HHS, the Office for Civil Rights ("OCR") has responsibility for implementing and enforcing the Privacy Rule with respect to voluntary compliance activities and civil money penalties.

A major goal of the Privacy Rule is to assure that individuals' health information is properly protected while allowing the flow of health information needed to provide and promote high quality health care and to protect the public's health and well being. The Rule strikes a balance that permits important uses of information, while protecting the privacy of people who seek care and healing. Given that the health care marketplace is diverse, the Rule is designed to be flexible and comprehensive to cover the variety of uses and disclosures that need to be addressed.

This is a summary of key elements of the Privacy Rule and not a complete or comprehensive guide to compliance. Entities regulated by the Rule are obligated to comply with all of its applicable requirements and should not rely on this summary as a source of legal information or advice. To make it easier for entities to review the complete requirements of the Rule, provisions of the Rule referenced in this summary are cited in the end notes. Visit our Privacy Rule section to view the entire Rule, and for other additional helpful information about how the Rule applies. In the event of a conflict between this summary and the Rule, the Rule governs.

Medicare:

Medicare is the federal health insurance program for people who are 65 or older, certain younger people with disabilities, and people with End-Stage Renal Disease (permanent kidney failure requiring dialysis or a transplant, sometimes called ESRD).

The different parts of Medicare help cover specific services:

Medicare Part A (Hospital Insurance)

Part A covers inpatient hospital stays, care in a skilled nursing facility, hospice care, and some home health care.

Medicare Part B (Medical Insurance)

Part B covers certain doctors' services, outpatient care, medical supplies, and preventive services.

Medicare Part C (Medicare Advantage Plans)

A type of Medicare health plan offered by a private company that contracts with Medicare to provide you with all your Part A and Part B benefits. Medicare Advantage Plans include Health Maintenance Organizations, Preferred Provider Organizations, Private Fee-for-Service Plans, Special Needs Plans, and Medicare Medical Savings Account Plans. If you're enrolled in a Medicare Advantage Plan, most Medicare services are covered through the plan and aren't paid for under Original Medicare. Most Medicare Advantage Plans offer prescription drug coverage.

Medicare Part D (prescription drug coverage)

Part D adds prescription drug coverage to Original Medicare, some Medicare Cost Plans, some Medicare Private-Fee-for-Service Plans, and Medicare Medical Savings Account Plans. These plans are offered by insurance companies and other private companies approved by Medicare. Medicare Advantage Plans may also offer prescription drug coverage that follows the same rules as Medicare Prescription Drug Plans.

Medicaid:

Medicaid is a program created by the federal government, but administered by the state, to provide payment for medical services for low-income citizens. People qualify for Medicaid by meeting federal income and asset standards and by fitting into a specified eligibility. Under federal rules, DHSS has authority to limit services as long as the services provided are adequate in “amount, duration, and scope” to satisfy the person's medical needs.

Medicaid began as a program to pay for health care for people in need who were unable to work. It covered the aged, the blind, the disabled, and single-parent families. Over the years, Medicaid has expanded to cover more people. For instance, children and pregnant women may qualify under higher income limits and without asset limits. Families with unemployed parents may qualify, and families who lose regular Family Medicaid because a parent returns to work may continue to be covered for up to one year.

There have also been changes in the eligibility rules for people who need the level of care provided in an institution, such as a nursing home. Now, most Alaskans who need — but cannot afford — this expensive care may qualify for Medicaid. In addition, recent changes within the Alaska Medicaid program give some people who need an institutional level of care the opportunity to stay at home to receive that care.

Mediclaim:

Mediclaim Insurance is a hospitalization benefit policy offered by both Public & Private sector general insurance companies. The policy takes care of medical expenses following Hospitalization/Domiciliary Hospitalization of the insured in respect of the following situations:

- In case of sudden illness
- In case of an accident
- In case of any surgery which is required in respect of any disease which has arisen during the policy period.

Individual Health Insurance:

Individual health insurance is coverage that you purchase on your own, on an individual or family basis, as opposed to obtaining via an employer.

Individual health insurance can be purchased through the exchange, or off-exchange (directly from the health insurance carrier). Brokers and navigators are available in every state to help you enroll. There's an annual open enrollment window for individual coverage. For 2017 and 2018 coverage, it runs from November 1 to January 31. Outside of open enrollment, you need a qualifying event to trigger a special enrollment period.

Individual health insurance was historically less expensive than group coverage (although employers usually pay a significant portion of the premiums for group coverage). This was because individual plans were medically underwritten in nearly every state prior to 2014, making pre-existing conditions an obstacle to getting coverage. In addition, the level of coverage was traditionally less than what group plans offered (for example, most group plans covered maternity, while individual plans typically excluded this benefit before the ACA mandated it).

All of this changed in 2014 though, when the bulk of the ACA's reforms took effect. Individual plans became more benefit-rich with the introduction of the ACA's essential health benefits, and also became guaranteed issue (although enrollment is limited to open enrollment and special enrollment periods). Subsidies are available to help millions of people pay a portion of the premiums, as long as they purchase through the exchanges.

Group Health Insurance Policy:

A group health insurance plan is a type of group health plan that provides actual *health insurance coverage.*

A group health insurance policy is purchased by an employer (or employee organization) and is offered to eligible participants, and to eligible dependents of participants. With group health insurance, the risk is spread over the company -- the number of participants covered. There are several types of group health insurance plans including HMO, PPO, etc.

Group health insurance is also known as employer-sponsored health insurance or job-based health insurance. In other words, a group health insurance plan is a group health plan, but a group health plan is not always a group health insurance plan.

Managed Care:

Managed care plans are a type of health insurance. They have contracts with health care providers and medical facilities to provide care for members at reduced costs. These providers

make up the plan's network. How much of your care the plan will pay for depends on the network's rules.
Plans that restrict your choices usually cost you less. If you want a flexible plan, it will probably cost more. There are three types of managed care plans:

- Health Maintenance Organizations (HMO) usually only pay for care within the network. You choose a primary care doctor who coordinates most of your care.
- Preferred Provider Organizations (PPO) usually pay more if you get care within the network. They still pay part of the cost if you go outside the network.
- Point of Service (POS) plans let you choose between an HMO or a PPO each time you need care.

Micro Insurance:

Microinsurance is the protection of low-income people (those living on between approximately $1 and $4 per day (below $4) against specific perils in exchange for regular premium payment proportionate to the likelihood and cost of the risks involved. This definition is exactly the same as one might use for regular insurance except for the clearly prescribed target market: low-income people. The target population typically consists of persons ignored by mainstream commercial and social insurance schemes, as well as persons who have not previously had access to appropriate insurance products.

Insurance functions on the concept of risk pooling, and likewise, regardless of its small unit size and its activities at the level of single communities, so does microinsurance. Microinsurance links multiple small units into larger structures, creating networks that enhance both insurance functions (through broader risk pools) and support structures for improved governance (i.e. training, data banks, research facilities, access to reinsurance etc.). This mechanism is conceived as an autonomous enterprise, independent of permanent external financial lifelines, and its main objective is to pool both risks and resources of whole groups for the purpose of providing financial protection to all members against the financial consequences of mutually determined risks.

The last definition therefore, includes the critical features of the previous three:

1. Transactions are low-cost (and reflect members' willingness to pay);
2. Clients are essentially low-net-worth (but not necessarily uniformly poor);
3. The essential role of the network of microinsurance units is to enhance risk management of the members of the entire pool of microinsurance units over and above what each can do when operating as a stand-alone entity.

Retirement Plans

Concept of Retirement Services:

Retirement is the point where a person stops employment completely. A person may also semi-retire by reducing work hours.

An increasing number of individuals are choosing to put off this point of total retirement, by selecting to exist in the emerging state of Pre-tirement.

Many people choose to retire when they are eligible for private or public pension benefits, although some are forced to retire when physical conditions no longer allow the person to work any longer (by illness or accident) or as a result of legislation concerning their position. In most countries, the idea of retirement is of recent origin, being introduced during the late 19th and early 20th centuries. Previously, low life expectancy and the absence of pension arrangements meant that most workers continued to work until death. Germany was the first country to introduce retirement, in 1889.

Nowadays, most developed countries have systems to provide pensions on retirement in old age, which may be sponsored by employers or the state. In many poorer countries, support for the old is still mainly provided through the family. Today, retirement with a pension is considered a right of the worker in many societies, and hard ideological, social, cultural and political battles have been fought over whether this is a right. In many western countries this right is mentioned in national constitutions.

Retirement Planning:

Retirement planning is the process of determining retirement income goals and the actions and decisions necessary to achieve those goals. Retirement planning includes identifying sources of income, estimating expenses, implementing a savings program and managing assets. Future cash flows are estimated to determine if the retirement income goal will be achieved.

In the simplest sense, retirement planning is the planning one does to be prepared for life after paid work ends, not just financially but in all aspects of life. The non-financial aspects include lifestyle choices such as how to spend time in retirement, where to live, when to completely quit working, etc. A holistic approach to retirement planning considers all these areas.

The emphasis one puts on retirement planning changes throughout different life stages. Early in a person's working life, retirement planning is about setting aside enough money for retirement. During the middle of your career, it might also include setting specific income or asset targets and taking the steps to achieve them. Once you reach retirement age, you go from accumulating assets to what planners call the distribution phase. You’re no longer paying in; instead your decades of saving are paying out.

Retirement Planning Goals

Remember that retirement planning starts long before you retire -- the sooner, the better. Your “magic number,” the amount you need to retire comfortably, is highly personalized, but there are numerous rules of thumb that can give you an idea of how much to save.

Some people say that you need around $1 million to retire comfortably. Other professionals use the 80% rule, i.e., you need enough to live on 80% of your income at retirement. If you made $100,000 per year, you would need savings that could produce $80,000 per year for roughly 20 years, or $1.6 million. Others say most retirees aren't anywhere near saving enough to meet those benchmarks and should adjust their lifestyle to live on what they have.

Whatever method you, and possibly a financial planner, use to calculate your retirement savings needs, start as early as you can.

Stages of Retirement Planning

Below are some guidelines for successful retirement planning at different stages of your life.

Young Adulthood (Ages 21-35)

Those embarking on adult life may not have a lot of money free to invest, but they do have time to let investments mature, which is a critical and valuable piece of retirement saving. This is because of the principle of compound interest. Compound interest allows interest to earn interest, and the more time you have, the more interest you will earn. Even if you can only put aside $50 a month, it will be worth three times more if you invest it at age 25 than if you wait to start investing at age 45, thanks to the joys of compounding. You might be able to invest more money in the future, but you’ll never be able to make up for lost time.

Young adults should take advantage of employer-sponsored 401(k) or 403(b) plans. An upfront benefit of these qualified retirement plans is that your employer has the option to match what you invest, up to a certain amount. For example, if you contribute 3% of your annual income to your plan account, your employer may match that, investing the equivalent sum into your retirement account, essentially giving you a 3% bonus. (See What is a Good 401(k) Match?) However, you can and should contribute more than the amount that will earn the employer match if you are able to. For the 2017 tax year, participants under 50 can contribute up to $18,000 of their earnings to a 401(k).

Additional advantages of 401(k) plans include earning a higher rate of return than a savings account (although the investments are not risk-free). The funds within the account are also not subject to income tax until you withdraw them. Since your contributions are taken off your gross income, this will give you an immediate income-tax break. Those who are on the cusp of a higher tax bracket might consider contributing enough to lower their tax liability.

DEFINITION of 'Retirement Planning'

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BREAKING DOWN 'Retirement Planning'

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Other tax-advantaged retirement savings accounts include the IRA and Roth IRA. A Roth IRA can be an excellent tool for young adults, as it is funded with post-tax dollars. This eliminates the immediate tax deduction, but it avoids a bigger income-tax bite when the money is withdrawn at retirement. Starting a Roth IRA early can pay off big time in the long run, even if you don't have a lot of money to invest at first. Remember, the longer money sits in a retirement account, the more tax-free interest is earned.

Roth IRAs have some limitations. You can only contribute fully (up to $5,500 a year) to a Roth IRA if you make $118,000 or less annually, as of the 2017 tax year. After that, you can invest to a lesser degree, up to an annual income of $133,000 (the income limits are higher for married couples filing jointly).

Like a 401(k), a Roth IRA has some penalties associated with taking money out before you hit retirement age. But there are a few notable exceptions that may be very useful for younger people or in case of emergency. First, you can always withdraw the initial capital you invested without paying a penalty. Second, you can withdraw funds for certain educational expenses, a first-time home purchase, healthcare expenses and disability costs.

Once you set up a retirement account, the question becomes how to direct the funds. For those intimidated by the stock market, consider investing in an index fund that requires little maintenance, as it simply mirrors a stock market index like the Standard & Poor's 500. There are also target-date funds designed to automatically alter and diversify assets over time based on your goal retirement age. (For more, see An Introduction to Target-Date Funds.)

Early Midlife (36-50)

Early midlife tends to bring a number of financial strains, including mortgages, student loans, insurance premiums and credit card debt. However, it’s critical to continue saving at this stage of retirement planning. The combination of earning more money and the time you still have to invest and earn interest makes these years some of the best for aggressive savings.

People at this stage of retirement planning should continue to take advantage of any 401(k) matching programs their employers offer. They should also try to max out contributions to a 401(k) and/or Roth IRA (you can have both at the same time). For those ineligible for a Roth IRA, consider a traditional IRA. As with your 401(k), this is funded with pre-tax dollars, and the assets within it grow tax-deferred.

Finally, don't neglect life insurance and disability insurance. You want to ensure your family could survive financially without pulling from retirement savings should something happen to you.

Later Midlife (50-65)

As you age, your investment accounts should become more conservative. While time is running out to save for people at this stage of retirement planning, there are a few advantages. Higher wages and potentially having some of the aforementioned expenses (mortgages, student loans, credit card debt, etc.) paid off by this time can leave you with more disposable income to invest.

And it's never too late to set up and contribute to a 401(k) or an IRA. One benefit of this retirement planning stage is catch-up contributions. From age 50 on, you can contribute an additional $1,000 a year to your traditional or Roth IRA, and an additional $6,000 a year to your 401(k).

For those who have maxed out tax-incentivized retirement-savings options, consider other forms of investment to supplement your retirement savings. CDs, blue-chip stocks or certain real estate investments (like a vacation home you rent out) may be reasonably safe ways to add to your nest egg.

You can also begin to get a sense of what your Social Security benefits will be, and at what age it makes sense to start taking them. Eligibility for early benefits begins at age 62, but the retirement age for full benefits is 67. The Social Security Administration offers a calculator here.

This is also the time to look into long-term care insurance, which will help cover the costs of a nursing home or home care should you need it in your advanced years. Such health-related expenses can decimate your savings if not properly planned for.

Asset Allocation and Asset Classes:

Asset allocation is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance and investment horizon. The three main asset classes - equities, fixed-income, and cash and equivalents - have different levels of risk and return, so each will behave differently over time.

There is no simple formula that can find the right asset allocation for every individual. However, the consensus among most financial professionals is that asset allocation is one of the most important decisions that investors make. In other words, the selection of individual securities is secondary to the way that assets are allocated in stocks, bonds, and cash and equivalents, which will be the principal determinants of your investment results.

Investors may use different asset allocations for different objectives. Someone who is saving for a new car in the next year, for example, might invest her car savings fund in a very conservative mix of cash, certificates of deposit (CDs) and short-term bonds. Another individual saving for retirement that may be decades away typically invests the majority of his individual retirement account (IRA) in stocks, since he has a lot of time to ride out the market's short-term fluctuations. Risk tolerance plays a key factor as well. Someone not comfortable investing in stocks may put their money in a more conservative allocation despite a long time horizon.

Age-based Asset Allocation

In general, stocks are recommended for holding periods of five years or longer. Cash and money market accounts are appropriate for objectives less than a year away. Bonds fall somewhere in between. In the past, financial advisors have recommended subtracting an investor's age from 100 to determine how much should be invested in stocks. For example, a 40-year old would be 60% invested in stocks. Variations of the rule recommend subtracting age from 110 or 120 given that the average life expectancy continues to grow. As individuals approach retirement age, portfolios should generally move to a more conservative asset allocation so as to help protect assets that have already been accumulated.

Achieving Asset Allocation Through Life-cycle Funds

Asset-allocation mutual funds, also known as life-cycle, or target-date, funds, are an attempt to provide investors with portfolio structures that address an investor's age, risk appetite and investment objectives with an appropriate apportionment of asset classes. However, critics of this approach point out that arriving at a standardized solution for allocating portfolio assets is problematic because individual investors require individual solutions.

The Vanguard Target Retirement 2030 Fund would be an example of a target-date fund. As of 2016, the fund has a 14-year time horizon until the shareholder expects to reach retirement. As of June 30, 2016, the fund has an allocation of 74% stocks and 26% bonds. Up until 2030, the fund will gradually shift to a more conservative 50/50 mix, reflecting the individual's need for more capital preservation and less risk. In following years, the fund moves to 67% bonds and 33% stocks.

An asset allocation fund is a mutual fund that provides investors with a portfolio of a fixed or variable mix of the three main asset classes - stocks, bonds and cash equivalents - in a variety of securities. Some asset allocation funds maintain a specific proportion of asset classes over time, while others vary the proportional composition in response to changes in the economy and investment markets.

Asset Classes:

An asset class is a group of securities that exhibits similar characteristics, behaves similarly in the marketplace and is subject to the same laws and regulations. The three main asset classes are equities, or stocks; fixed income, or bonds; and cash equivalents, or money market instruments. Some investment professionals add real estate and commodities, and possibly other types of investments, to the asset class mix.

Asset classes and asset class categories are often mixed together. Financial advisors view investment vehicles as asset class categories that are used for diversification purposes. Each asset class is expected to reflect different risk and return investment characteristics, and performs differently in any given market environment. Investors interested in maximizing return often do so by reducing portfolio risk through asset class diversification.

Financial advisors focus on asset class as a way to help investors diversify their portfolio. Different asset classes have different cash flows streams and varying degrees of risk. Investing in several different asset classes ensures a certain amount of diversity in investment selections. Diversification reduces risk and increases your probability of making a return.

Asset Class and Investing Strategy

Investors looking for alpha employ investment strategies focused on achieving alpha returns. Investment strategies can be tied to growth, value, income or a variety of other factors that help to identify and categorize investment options according to a specific set of criteria. Some analysts link criteria to performance and/or valuation metrics such as earnings-per-share growth (EPS) or the price-to-earnings (P/E) ratio. Other analysts are less concerned with performance and more concerned with the asset type or class. An investment in a particular asset class is an investment in an asset that exhibits a certain set of characteristics. As a result, investments in the same asset class tend to have similar cash flows.

Asset Class Types

Equities, or stocks; bonds, or fixed-income securities; cash, or marketable securities; and commodities are the most liquid asset classes and therefore the most quoted asset classes. There are also alternative asset classes such as real estate, artwork, stamps and other tradable collectibles. Some analysts also refer to an investment in hedge funds, venture capital, crowdsourcing or even bitcoin as examples of alternative investments. The more alternative the investment, in general, the less liquid. That said, an asset's illiquidity does not speak to its return potential; It only means it may take more time to find a buyer to convert the asset to cash.

Life Stages of an Investor:

The phases of investment ownership from acquisition, management for income or profit, diminishing returns to its sale. All phases are considered for demanding the actual rate of return including acquisition costs, management fees, cash inflows, appreciation, depreciation and selling expenses.

Defined Benefit & Defined Contribution:

A defined benefit plan, most often known as a pension, is a retirement account for which your employer ponies up all the money and promises you a set payout when you retire. A defined contribution plan, requires you to put in your own money.

Because defined benefit plans are more costly for employers than defined contribution plans, most of them have – you guessed it – scaled back dramatically or eliminated these plans altogether in recent years. If you still have a defined benefit plan at your company, consider yourself lucky.

In general, defined benefit plans come in two varieties: traditional pensions and cash-balance plans. In both cases, you just show up for work and, assuming you meet basic eligibility rules, you’re automatically enrolled in the plan. (In some instances, however, you aren’t enrolled until you’ve completed your first year on the job.) You also need to stick around on the job for several years – typically five – to be fully “vested” in the plan. The difference is in how the benefits are calculated; in a pension, it’s based on a formula that takes into account how long you were on the job and your average salary during your last few years of employment. The cash-balance plan credits your account with a set percentage of your salary each year.

Another key difference: If you leave the company before retirement age, you may take the contents of your cash-balance plan as a lump sum and roll it into an IRA. A traditional pension isn't portable.

Some employers offer both defined benefit plans and defined contribution plans. If yours does, you should definitely participate in the defined contribution plan as well. That's because more often than not, the amount of your defined benefit plan won't be enough to allow you to live comfortably in retirement.

Individual Retirement Arrangement in USA:

An individual retirement account or IRA is a form of "individual retirement lan", provided by many financial institutions, that provides tax advantages for retirement savings in the United States. An individual retirement account is a type of "individual retirement arrangement" as described in IRS Publication 590, individual retirement arrangements (IRAs). The term *IRA*, used to describe both individual retirement accounts and the broader category of individual retirement arrangements, encompasses an individual retirement account; a trust or custodial account set up for the exclusive benefit of taxpayers or their beneficiaries; and an individual retirement annuity, by which the taxpayers purchase an annuity contract or an endowment contract from a life insurance company.

There are several types of IRAs:

- Traditional IRA – contributions are often tax-deductible (often simplified as "money is deposited before tax" or "contributions are made with pre-tax assets"), all transactions and earnings within the IRA have no tax impact, and withdrawals at retirement are taxed as income (except for those portions of the withdrawal corresponding to contributions that were not deducted). Depending upon the nature of the contribution, a traditional IRA may be referred to as a "deductible IRA" or a "non-deductible IRA." It was introduced with the Employee Retirement Income Security Act of 1974 (ERISA) and made popular with the Economic Recovery Tax Act of 1981.
- Roth IRA – contributions are made with after-tax assets, all transactions within the IRA have no tax impact, and withdrawals are usually tax-free. Named for Senator William V. Roth, Jr., the Roth IRA was introduced as part of the Taxpayer Relief Act of 1997.
    - myRA - a 2014 Obama administration initiative based on the Roth IRA
- SEP IRA – a provision that allows an employer (typically a small business or self-employed individual) to make retirement plan contributions into a Traditional IRA established in the employee's name, instead of to a pension fund in the company's name.
- SIMPLE IRA – a Savings Incentive Match Plan for Employees that requires employer matching contributions to the plan whenever an employee makes a contribution. The plan is similar to a 401(k) plan, but with lower contribution limits and simpler (and thus less costly) administration. Although it is termed an IRA, it is treated separately.

Funding:

Individual retirement arrangements were introduced in 1974 with the enactment of the Employee Retirement Income Security Act (ERISA).[8] Taxpayers could contribute up to fifteen percent of their annual income or $1,500, whichever is less, each year and reduce their taxable income by the amount of their contributions.[8] The contributions could be invested in a special United States bond paying six percent interest, annuities that begin paying upon reaching age 59½, or a trust maintained by a bank or an insurance company.[8]

Initially, ERISA restricted IRAs to workers who were not covered by a qualified employment-based retirement plan.[8] In 1981, the Economic Recovery Tax Act (ERTA) allowed all working taxpayers under the age of 70½ to contribute to an IRA, regardless of their coverage under a qualified plan.[9] It also raised the maximum annual contribution to $2,000 and allowed participants to contribute $250 on behalf of a nonworking spouse.[9]

The Tax Reform Act of 1986 phased out the deduction for IRA contributions among workers covered by an employment-based retirement plan who earned more than $35,000 if single or over $50,000 if married filing jointly.[10] Other taxpayers could still make nondeductible contributions to an IRA.[10]

The maximum amount allowed as an IRA contribution was $1,500 from 1975 to 1981, $2,000 from 1982 to 2001, $3,000 from 2002 to 2004, $4,000 from 2005 to 2007, and $5,000 from 2008 to 2010. Beginning in 2002, those over 50 years old could make an additional contribution called a "catch-up contribution."[11]

Current limitations:

- An IRA can only be funded with cash or cash equivalents. Attempting to transfer any other type of asset into the IRA is a prohibited transaction and disqualifies the fund from its beneficial tax treatment.
- Additionally, an IRA (or any other tax-advantaged retirement plan) can only be funded with what the IRS calls "taxable compensation". This in turn means that certain types of income cannot be used to contribute to an IRA; these include but are not limited to:

    a. Any unearned taxable income.
    b. Any tax-exempt income, apart from military combat pay.
        i. Social Security payments, whether retirement pensions or disability payments, may or may not be taxable, but in either case are not eligible.
    c. Child support payments received. (On the other hand, alimony and separate maintenance payments, if taxable, are eligible.)
    d. Graduate school stipends, unless they are reported on a W-2 (indicating that they were compensation for services rendered, usually teaching).

- Rollovers, transfers, and conversions between IRAs and other retirement arrangements can include any asset.
- 2014 and 2015: the total contributions a person can make to all of their traditional and Roth IRAs cannot be more than the lesser amount of either: $5,500 ($6,500 if you’re age 50 or older), or your earned income for the year.
- This limit applies to the total annual contributions to both Roth IRAs and traditional IRAs. For example, a person aged 45, who put $3,500 into a traditional IRA this year so

far, can either put $2,000 more into this traditional IRA, or $2,000 in a Roth IRA, or some combination of those.

- The amount of the traditional IRA contributions that can be deducted is partially reduced for levels of income beyond a threshold, and eliminated entirely beyond another threshold, if the contributor or the contributor's spouse is covered by an employer-based retirement plan. The dollar amounts of the thresholds vary depending on tax filing status (single, married, etc.) and on which spouse is covered at work (see IRS Publication 590-A, "Contributions to Individual Retirement Arrangements (IRAs)").

Distribution of Funds:

Although funds can be distributed from an IRA at any time, there are limited circumstances when money can be distributed or withdrawn from the account without penalties. Unless an exception applies, money can typically be withdrawn penalty free as taxable income from an IRA once the owner reaches age 59 1/2. Also, non-Roth owners must begin taking distributions of at least the calculated minimum amounts by April 1 of the year after reaching age 70 1/2. If the required minimum distribution is not taken the penalty is 50% of the amount that should have been taken. The amount that must be taken is calculated based on a factor taken from the appropriate IRS table and is based on the life expectancy of the owner and possibly his or her spouse as beneficiary if applicable. At the death of the owner, distributions must continue and if there is a designated beneficiary, distributions can be based on the life expectancy of the beneficiary.[13]

There are several exceptions to the rule that penalties apply to distributions before age 59½. Each exception has detailed rules that must be followed to be exempt from penalties. This group of penalty exemptions is popularly known as hardship withdrawals. The exceptions include:[14]

- The portion of unreimbursed medical expenses that are more than 7.5% of adjusted gross income
- Distributions that are not more than the cost of medical insurance while unemployed
- Disability (defined as not being able to engage in any substantial gainful activity)
- Amounts distributed to beneficiaries of a deceased IRA owner
- Distributions in the form of an annuity (see substantially equal periodic payments)
- Distributions that are not more than the qualified higher education expenses of the owner or their children or grandchildren
- Distributions to buy, build, or rebuild a first home ($10,000 lifetime maximum)
- Distribution due to an IRS levy of the plan

There are a number of other important details that govern different situations. For Roth IRAs with only contributed funds the basis can be withdrawn before age 59½ without penalty (or tax) on a first in first out basis, and a penalty would apply only on any growth (the taxable amount) that was taken out before 59½ where an exception didn't apply. Amounts converted from a traditional to a Roth IRA must stay in the account for a minimum of 5 years to avoid having a penalty on withdrawal of basis unless one of the above exceptions applies.

If the contribution to the IRA was nondeductible or the IRA owner chose not to claim a deduction for the contribution, distributions of those nondeductible amounts are tax and penalty free.

Retirement Savings:

While the average (mean) and median IRA individual balance in 2008 were approximately $70,000 and $20,000 respectively, higher balances are not rare. 6.3% of individuals had total balances of $250,000 or more (about 12.5 times the median) and in rare cases, individuals own IRAs with very substantial balances, in some cases $100 million or above (about 5,000 times the median individual balance). This can occur when IRA owners invest in shares of private companies, and the share value subsequently rises substantially.

In November 2014, the Government Accountability Office (GAO) released a report that stated there were an estimated of 314 taxpayers with IRA account balances of greater than $25,000,000. Also that there are an estimate of 791 taxpayers with IRA account balances between $10,000,000 and $25,000,000. The purpose of this report was to study individual retirement accounts (IRAs) and the account valuations. There were concerns raised about whether the tax incentives encourage new or additional saving. Congress is reexamining retirement tax incentives as part of tax reform. GAO was asked to measure IRA balances and assess IRS enforcement of IRA laws.

According to a study done by the National Institute on Retirement Security, titled "The Continuing Retirement Savings Crisis," 45% of working Americans do not own any retirement account assets, whether in an employer-based 401(k) type plan or an IRA. Furthermore, the typical working household has virtually no retirement savings - the median retirement account balance is $2,500 for all working-age households and $14,500 for near-retirement households.[32]

While inflation-adjusted stock market values generally rose from 1978 to 1997, in March 2013 they were lower than during the period 1998 through 2007.[33] This has caused IRAs to perform substantially more poorly than expected when current retirees were investing the bulk of their savings in them. In 2010, Duncan Black wrote in an opinion column in USA Today that the median household retirement account balance for workers aged 55 to 64 was $120,000, which "will provide only a trivial supplement to Social Security", but a third of households had no retirement savings at all.

Third Party Administrator for Retirement Services in USA:

As one of America's leading providers of retirement plan services, Empower recognizes that local expertise is critical to developing and maintaining a successful retirement plan. That's why third-party administrators (TPAs) like you are such valuable partners to us.

Our TPA Partnership Program is designed to work with you to deliver a high level of streamlined, integrated services to plan sponsors. It's a way to combine our complementary strengths to deliver an effective retirement plan program by giving you access to tools and resources that make you more effective — along with the marketing impact of partnering with an industry leader in retirement services.

When partnering with Third Party Administrators, (TPAs) Empower has one goal in mind to ensure that you have access to essential tools and resources to help make your business more successful. We believe that the best way to accomplish this is by leveraging our leading technology as a foundation to build lasting relationships.

In an effort to help you help your clients, Empower offers the following to enhance the value you already provide:

- Flexible compensation
- Local support – Direct access to a national network of TPA Directors
- Comprehensive product suite – Access to an array of 401(k), 403(b), 457 and nonqualified products—each offering features that can accommodate your clients' unique plan needs
- Accelerated online disbursements – Quick, web-based access to participant distributions via Empower's website
- Enhanced payroll integration – Transmission of contribution information with Empower's simple and automated processing system
- Partner*Link*® – Online access to plan and participant information
- Preferred recordkeeping services – Superior recordkeeping technology to keep you in sync with your workflow and responsibilities
- Streamlined vesting assistance – Choose between managing participants' vesting or handing it over to Empower.

Categories of Pensions in UK:

A pension is a form of investment or savings plan designed to provide you with an income to live on when you retire. There are many different types of pension arrangements available, from state pension schemes offering limited financial support in old age to private pension plans giving you the freedom to build a larger fund for your retirement. Even if your initial contribution is small, whatever you can put aside in the early years will be vitally important for getting your pension growing to avoid a poor income in retirement.

Read on to learn more about the different terms associated with pensions and the main types of pension available:

- Additional Voluntary Contributions (AVC)
- Personal Pensions / Private Pensions
- Company Pension / Workplace Pension Scheme
- Final Salary Pension Scheme

- Money Purchase Pension Plan
- Pension Release
- Pensions Tax
- Self Invested Personal Pension (SIPP)
- Small Self-Administered Scheme (SSAS)
- Stakeholder Pensions
- State Pensions

Additional Voluntary Contributions (AVC)

As a member of an Occupational Pensions Scheme, payments in the form of Additional Voluntary Contributions can be made above the normal level of contribution to gain additional pension benefits.

Personal Pensions / Private Pensions

A personal pension is usually arranged by yourself, not your employer, and is a type of money purchase plan.

A personal or private pension is a tax-efficient savings plan that enables you to save for retirement. Your pension contributions attract tax relief (up to annual limits) and can be made in various ways - regularly, by lump sum, or a combination of both.

On retirement, up to 25% of your pension fund value can be taken as a tax-free cash lump sum. The remainder of the funds left in your pension pot can then be used to buy an annuity (a guaranteed income for life in return for a lump sum investment) or left invested to produce an income directly from the fund. Alternatively, you could withdraw the whole fund as a taxable lump sum.

Company Pension / Workplace Pension Scheme

A Company Pension Scheme (otherwise known as a Workplace or Occupational Pension) is a pension that is set up by your employer to provide retirement benefits to you while you are employed by them. It allows you to accumulate a pension fund during your working life. You will usually be required to make regular pension contributions based on a percentage of your salary into the workplace pension scheme. It is customary for your company or employer to match the level of contribution you make. Over the next few years, most employees will be auto-enrolled into a pension scheme.

Final Salary Pension Scheme

A Final Salary (or Defined Benefit) scheme is a type of occupational pension where the amount of retirement income is based on your final salary. These are becoming less common.

Money Purchase Pension Plan

A Money Purchase Pension Plan or Defined Contribution Plan is a pension scheme where the final benefits are not linked directly to your salary. You (and maybe your employer) pay regular contributions into your pension pot. Upon retirement, the total pool of capital in your pot can be used to take an income in retirement. The amount in each money purchase plan member's account will differ from one member to the next, depending on the level of contributions and investment return earned on such contributions.

Self Invested Personal Pension (SIPP)

A Self Invested Personal Pension (SIPP) is a type of personal pension. A SIPP is a pension plan that gives you the freedom and control to totally manage your own investment decisions by buying stocks and shares and a range of other types of assets. Any contributions that you make to a SIPP will receive tax relief, up to certain limits.

Small Self-Administered Scheme (SSAS)

Small Self-Administered Schemes (SSASs) are generally very bespoke pension schemes designed for the directors of a business. They are generally not available to other employees as they are more complex and limited to no more than 11 members.

Stakeholder Pensions

A stakeholder pension works in a similar way to other personal pensions, in that you pay money into your pension to build your pension fund. However, they have to adhere to Government rules and minimum standards on annual management charges, access and terms to ensure they offer value for money, flexibility and security.

Flexibility:

- You can switch to a different pension provider without the provider you leave charging you.
- You can start contributions from as little as £20, and pay weekly, monthly or at less regular intervals.
- You can stop, re-start or change your contributions whenever you want – there are no penalty fees.

Security:

The scheme must be run by trustees or by an authorised stakeholder manager, whose responsibility will be to make sure that the scheme meets the various legal requirements.

State Pensions

A State Pension is also know as a Government Pension or Old Age Pension. Your entitlement to the pension accumulates during your lifetime and is paid by the Government when you reach state pension age, which depends on your date of birth.

A state pension value is based on the number of years of National Insurance (NI) contributions made throughout the person's working life. You have to have at least 35 qualifying years' worth of NI contributions to qualify for a full State Pension.

A pension is a type of investment and investments are risk-based products. This means that the value of your initial investment and any income generated can fall as well as rise. If you are in any doubt we highly recommended that you seek independent financial advice when deciding which retirement options are the best for you.

DWR:

Total premiums received before taking into account reinsurance ceded. Direct written premiums represent the growth of a company’s insurance business during a given period. It can include both policies written by the company and policies written by its affiliated companies.

While insurance companies can increase revenue by increasing premiums on policies up for renewals, the main driver for growth is new policies. Direct written premiums show how many new premiums were written over the course of the year, even if those premiums are ultimately not collected.

A new insurance policy written by an insurance company is included in the direct written premiums figure, since the risk presented by the policy has not yet been passed on to any reinsurance company in exchange for a portion of the policy’s premium. Premiums obtained through reinsurance services are not included in this figure because they do not represent premiums written by the company. Instead, those are premiums ceded by other companies in exchange for taking on risk.

Direct written premiums differ from direct premiums earned. The latter depends on how the company intends on earning the premium over the life of the policy. When direct written premiums exceed direct premiums earned a company is said to see increased underwriting volume. The sum of an insurance company’s direct written premiums and its assumed premiums is referred to as gross premiums written. It does not take into account the company’s risk management efforts using ceded reinsurance.

State taxes that insurance companies owe can depend on how many states the insurer operates in. Insurance companies that operate in different states may owe a proportional amount of their direct written premiums, with the proportion equal to the amount of direct written premiums from the state levying taxes divided by the total amount of direct written premiums the company has for all states that it operates in.

Annuity & Income Drawdown Plan:

Annuity – regular income payments from an insurance company in return for a single up front payment.

An Income Drawdown plan – provides flexibility as regards income, date of retirement and asset selection but (in its basic form) with no guarantees.

It defines income drawdown, compares it with annuities and examines in some detail the risks associated with this type of plan. Comments on tax and legislative restrictions are current at the Review Date.

Introduction

Many people save into a personal pension or company-sponsored money purchase plan throughout their working lives to provide, in addition to any cash lump sum, an income when they retire. The money they receive in retirement is paid to them from these savings either by use of an annuity[1] or an income drawdown plan.

An annuity provides regular income payments from an insurance company in return for a single up front payment. This allows the pensioner to continue to enjoy a guaranteed income from their accumulated pension savings without the risk of running out of capital in old age.

An income drawdown plan comprises an investment fund from which pension payments are drawn. This provides greater flexibility as regards income; date of retirement and asset selection but with no guarantees in respect of pensions benefits. This note focuses on the basic form of income drawdown[2]

How an income drawdown plan works

At retirement, as an alternative to purchasing a conventional annuity, the accumulated pension plan's assets are invested in an income drawdown fund which is set up under trust or deed poll insurance policy. The pensioner then may draw an income from the fund. If the pensioner can demonstrate that he or she has "secure" earnings of at least £20,000 per annum from other sources, then there are no restrictions on the income which may be taken from the fund. Secure earnings include lifetime annuities paid by an insurance company, state pensions and pensions paid by company pension schemes which pay pensions to at least twenty members, but do not include income drawdown arrangements or limited term annuities. Such an arrangement is known as flexible drawdown. A pensioner in receipt of flexible drawdown is unable to pay further contributions to a pension scheme or have such contributions paid on his or

.

her behalf or to continue to accrue benefits under a defined benefits occupational pension scheme.

If the pensioner is unable to meet the above requirements for flexible drawdown then the maximum income (there is no minimum) which may be taken is capped at 100% of the amount derived from standard tables prepared by the Government Actuary's Department. These tables are linked to current interest rates. The income limit is reviewed every three years prior to attainment of age 75 and annually thereafter, based on the fund value at the review date and the relevant rate derived from the then standard table and the age attained.

The pensioner is liable to income tax on each payment of income. This reflects the fact that the pension fund was originally built up with contributions that received full relief from income tax. The insurance company administering the drawdown will usually deduct tax at source, in the same way as an employer deducts tax from income under the PAYE scheme.

On death the fund can be used to provide an income to a dependant either by purchase of an annuity or a continuation of an income drawdown plan to the dependant. If income is not taken in this way, there is a 55% tax charge on the pension fund with the balance then available being outside of the deceased's estate.

Factors to be considered with an income drawdown plan

Before deciding on taking an income drawdown plan people should consider whether their pension plan is likely to be the primary source of income and the overall level of resources that they will have in retirement.

People with substantial resources, or whose pension plan is less material to their overall level of income in retirement, are more likely to be attracted by the additional investment freedom available under income drawdown as they will be in a better position to bear any associated risks.

Before deciding whether to opt for an income drawdown plan or an alternative (e.g. annuity), the pensioner will need to judge the rate at which income is taken from the fund having regard to how long they might live, the likely investment performance of the fund and the ongoing charges levied by the product provider. The product provider will make a charge for the investment of the funds and for the administration of the fund in accordance with the terms and conditions. The pensioner may also need to pay separately for advice in relation to how much income should be taken from the fund and the appropriate investment mix.

If, prior to the purchase of any annuity, assets remain on the pensioner's death, these would be for the benefit of their dependants. It is possible that the fund may be exhausted before the pensioner dies.

Therefore the key risks inherent in an income drawdown plan are:-

1. Investment

While one objective of an income drawdown plan is the investment freedom and opportunities afforded, there is the risk that investments in stocks and shares may not perform as well as expected and that the fund will be eroded with the consequent reduction in future income. Under conventional annuities, investment risk is taken by the insurance company; liabilities are supported by their assets. This may result, on average, in lower investment returns than from a basket of shares but the individual is protected from falls in the stock market. Where the intention is to purchase an annuity at some future date, the income drawdown plan is also exposed to the risk of bond yields falling at the time of the desired annuity purchase. Such a fall would affect the annuity rate available at the relevant time.

2. Longevity

The lifespan of an individual is not predictable. If he/she dies early, the fund's assets will be available to provide dependant's benefits. If, conversely he or she lives to an old age, then income may need to be reduced to avoid the risk that the fund could be exhausted. Added to this individual–specific risk is the increasing longevity of the population which could mean an increased risk of annuity rates falling by the time an annuity is eventually purchased. Where an annuity is purchased at outset, the insurance company/annuity provider takes on this risk.

3. Annuity purchase

There is no legal requirement to purchase an annuity at any time. However, many pensioners who are outside the flexible drawdown regime may wish eventually to stabilise their income by the purchase of an annuity. The terms available for the purchase of an annuity at some future date are unpredictable and therefore the amount that could be purchased may be higher or lower than the pension that could have been purchased at retirement. Those who eventually purchase an annuity will also have lost the cross-subsidy benefit available under an annuity from those dying before that age and will need to have achieved a higher investment return to compensate for this. This phenomenon is commonly referred to as "mortality drag"; its impact increases gradually for each year that the purchase of an annuity is postponed.

The requirement (not relevant to flexible drawdown) to re-calculate the maximum income periodically is intended to reduce the risk of the fund running out due to either poor investment performance or greater than expected longevity.

An income drawdown plan enables pensioners to avoid locking their pension fund into annuity rates when investment conditions may appear unfavourable. However, they are exposed to the risks of both longevity of life and unfavourable financial conditions. For those not in flexible drawdown these risks are partially controlled through certain restrictions on the maximum amount of income that may be withdrawn from the fund each year.

Comparison of relative value for money between income drawdown plans and conventional annuities is difficult and requires expert advice. Income drawdown plans may be particularly suitable where an individual need only take a restricted income for a period following retirement, perhaps because of the receipt of income from other sources. New rules on prohibiting gender as a rating factor for annuities from December 2012 will tend to improve annuity rates for females whilst making rates for males slightly less attractive. Females reaching retirement before December 2012 may find income drawdown attractive whilst they await the impact of the new rules on the annuity rates available to them.

POSSIBLE QUESTIONS

Unit - I

PART B(2 marks)

1. Define Risk
2. What is meant by risk management?
3. State the fundamental s of insurance.
4. Write down the characteristics of valid contract.
5. What are the types of insurance companies
6. Write the concept of reinsurance.
7. Give Expansion: PPO, HMO.
8. What is Assignment? List out its kind?
9. What is speculative risk?
10. What do you mean by Insurance?

PART- C (6 marks)

1. What are the types of Risk? How do you manage risk?
2. Explain Business units in an Insurance company and overview of Insurance life cycle
3. Write note on i) Premium ii) Sum Assured iii) Laspe iv) Policy term and Claims
4. Explain Business units in an Insurance company and overview of Insurance life cycle
5. Enumerate the types of Risk? How do you manage risk?
6. Explain Business units in an Insurance company and Insurance life cycle
7. Explain the types of insurance
8. Discuss the features of contract.

Possible questions

Unit –II

PART –B(2 marks)

1. What is deferred annuity?
2. Who are the parties in Life insurance policy
3. What are supplementary benefits to policy holders?
4. Write down the concept of annuity.
5. What are the types of annuity.
6. What you mean by qualified annuities?
7. Who is proposer?
8. What is group insurance ?
9. What are group retirement plans?
10. What do you understand by blended rating in a group insurance policy?

PART –C(6 marks)

1. What are the types of Insurance Plans? Explain in detail.

2. What are the types of annuities ?

3. What are the types of Insurance Plans? Explain in detail.

4. Write any 8 important terminologies in Life insurance Policy

5. What are the types of Insurance Plans? Explain in detail.

6. What are the types of underwriting and risk classes

7.Explain the parties involved in group insurance plans

8. Explain about the principles of group insurance.

Possible questions

Unit –III

PART –B (2 marks)

1. What is captive insurance?
2. What is Co-Insurance
3. Give the meaning of deductibles.
4. What do you mean by proximate clause?
5. What are the types of casualty insurance?
6. Write down the concepts of non-life insurance.
7. What are the perils of non – life insurance?
8. Who is an insurance provider?
9. What is meant by co-insurance and re-insurance?
10. What is meant by underwriting?

PART –C (6 marks)

1. Write a note on Non-Life Insurance i) Underwriting ii) Policy servicing iii) Claims
2. Write any 8 important terminologies in Non- Life insurance Policy
3. Explain the process of Non-Life Insurance
4. Explain the concept and important terminologies in Non- Life insurance Policy
5. What are the types of casualty Insurance?
6. What are the types of casualty Insurance
7. Explain the process of Non-Life Insurance
8. Explain any 8 important terminologies in Health insurance Policy.
9. What is Medicare? Explain sub-parts in Medicare.
10. Explain the process and parts of medicare.

Possible questions

Unit –IV

PART –B (2 marks)

1. What is HIPPA?
2. What is medicare?
3. Give Expansion: PPO, HMO
4. List out benefits of Health Insurance.
5. List out 6 distinct life stages of individual.
6. How does healthcare insurance work?
7. What are micro-insurance schemes?
8. What are group health care policies?
9. What is meant by Medicaid?
10. Give two Healthcare insurance policies.

PART –C(6 marks)

1. Write any 8 important terminologies in Health insurance Policy
2. What is medicare?
3. Explain sub-parts in Medicare.
4. What are the managed care Plans?
5. Write any 8 important terminologies in Health insurance Policy
6. What is medicare? Explain sub-parts in Medicare.
7. Write any 8 important terminologies in Health insurance Policy
8. What are the managed care plans?
9. Enumerate the managed care Plans?
10. Explain Life cycle of Participants of in a plan.

Possible questions

Unit –V

PART –B (2 marks)

1. List out 6 distinct life stages of individual.
2. What is asset allocation?
3. What do you mean by pension?
4. What is superannuation?
5. What are retirement plans?
6. Define gratuity.
7. What are the categories of pension in U.K?
8. What is TPA?
9. Give the life stages of an investor.
10. How are assets classified under retirement plans?

PART – C (6 marks)

1. Explain the Life stages of an Investor.
2. What do you meant by Superannuation? What is the coverage option in
3. Explain Life cycle of Participants of in a plan.
4. What do you meant by Superannuation? What is the coverage option in Superannuation?
5. Explain the Life stages of an Investor.
6. What do you meant by Superannuation? What is the coverage option in superannuation?
7. Explain the Life stages of an Investor.
8. What is Individual Retirement Arrangement? Explain its types of Participants of in a plan.
9. Explain the Life stages of an Investor.
10. What do you meant by Superannuation? What are the coverage options in Superannuation?

Reg No …………………………

[16BPU303A]

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Established Under Section 3 of UGC Act 1956)

COIMBATORE- 641 021

THIRD INTERNAL EXAMINATION, SEPTEMBER -2017

(For the candidates admitted 2016 onwards)

II B.COM (BPS) -THIRD SEMESTER

BUSINESS PROCESS SERVICES IN INSURANCE

Time: 2 Hours **Maximum: 50 Marks**

Date:

PART - A (20X 1 = 20 Marks)

CHOOSE THE CORRECT ANSWER

1. Specifies how much the insurance company will pay.

   a) Policy b) Agreement c)Premium d) Plans

2. ______is a payment made by the insured person and must be paid before any policy benefit is payable.

   a) Co-payment b) Co-insurance c) Coverage limits d) Out-of-pocket maxima

3. ____is the portion of the expenses paid by the insured before an insurer pays any expenses.

   a) Coverage limit b) Medical expense c) Deductible d) Co-payment

4. Type of managed care plan in which health care service provider fulfills services at competitive rates to group of employers is classified as

   a) Preferred provider organizations b) defined maintenance organization

   c) health maintenance organizations d) non preferred provider organization

5. For Government or community based organizations, an ______is an institution which manages the policy.

   a) Organizer b) Insurer c) Community d) Providers

6. A common premium is applicable to the entire group reflecting the average risk of illness is called

   a) Risk-rated premium b) Community-rated premium

   c) Agreement-rated premium d) Policy-rated premium

7. Insurance schemes are mandatory.

   a) Health insurance b) Medical insurance c) Social health insurance d)Pet insurance

8. Complex concerns in health insurance market are

   a) Health care b) Moral hazard c) Private coverage d) Public coverage

9. Patient protection and affordable care act,

   a) 2012 b) 2010 c) 2005 d) 2002

10. HITECH enacted as part of the American recovery and reinvestment act,

    a) 1995 b) 1999 c) 2000 d) 2009

11. Part A provides coverage like

    a) Skilled nursing facilities b) Long-term c) Custodial care d) Medicare

12. Medicare part B covers some of the services like

    a) Nursing home b) Home health service c) Blood transfusion d) Blood test

13. For Government or community based organizations, an ________is an institution which manages the policy.

    a) Organizer b) Insurer c) Community d) Providers

14. A common premium is applicable to the entire group reflecting the average risk of illness is called

    a) Risk-rated premium b) Community-rated premium

    c) Agreement-rated premium d) Policy-rated premium

15. Most people have to pay a premium for

    a) Part A medicare b) Part B medicare c) Dental care d) Dentures

16. In respect of Medi Claim Policy, TPA denote

    a) Third Party Availability for claims b) Third Party Administrator

    c) To Pay Afterwards d) None of the above

17. Medical Benefit under UHIS is restricted to

    a) Rs. 30,000/- per family b) Rs. 30,000/- per member

    c) Rs.50,000/- per family d) Rs.12,500/- per member

18. Which of the following is covered under Medi–claim Insurance Policy?

    a) Dental treatment b) Cost of Spectacles c) Cost of Pacemaker d) Cosmetic Surgery

19. Real-time health plan transaction through automation is the object of_____

    a) ARRA b)ACA c) AMA d) HIPAA

20. Which of the following is excluded in the Standard Medi–Claim Policy

    a) Simple Tooth Extraction b) Cataract Operations c) Hysterectomy d. All the above

Part-B (3*2=6 Marks)

Answer all the Questions

21. Give Expansion: PPO, HMO.
22. What are the types of casualty insurance?
23. List out 6 distinct life stages of individual.

Part-C (3*8=24 Marks)

Answer all the Questions

24. a) Explain any 8 important terminologies in Health insurance Policy.

(Or)

b) What is Medicare? Explain sub-parts in Medicare.

25. a) Enumerate the managed care Plans ?

(Or)

b) Explain Life cycle of Participants of in a plan.

26. a) Explain the Life stages of an Investor.

(Or)

b) What do you meant by Superannuation? What are the coverage options in Superannuation?

BUSINESS PROCESS SERVICE IN INSURANCE

CIA–I ANSWER KEY

PART- A

1. A
2. B
3. B
4. C
5. A
6. D
7. C
8. D
9. A
10. B
11. A
12. C
13. D
14. A
15. C
16. B
17. B
18. C
19. A
20. D

PART-B

21. Insurance is a means of protection from financial loss. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. An entity which provides insurance is known as an insurer, insurance company, or insurance carrier.

22. **Assignment** the allocation of someone or something as belonging to a particular group or category.

23. **Proposer** definition, to offer or suggest (a matter, subject, case, etc.) for consideration, acceptance, or action: to propose a new method.

PART-C

24. a)**Types of Risks**

- Credit risk.
- Market risk.
- Operational risk.
- Liquidity risk.
- Business risk.
- Reputational risk.
- Systemic risk.
- Moral hazard.

b) i)**Premium**

Premium is an amount paid periodically to the insurer by the insured for covering his risk. Description: In an insurance contract, the risk is transferred from the insured to the insurer. For taking this risk, the insurer charges an amount called the **premium**.

ii) **Sum assured**

The **sum assured** is the amount of money an insurance policy guarantees to pay up before any bonuses are added. In other words, **sum assured** is the guaranteed amount the policyholder will receive. This is also known as the cover or the coverage amount and is the total amount for which an individual is insured.

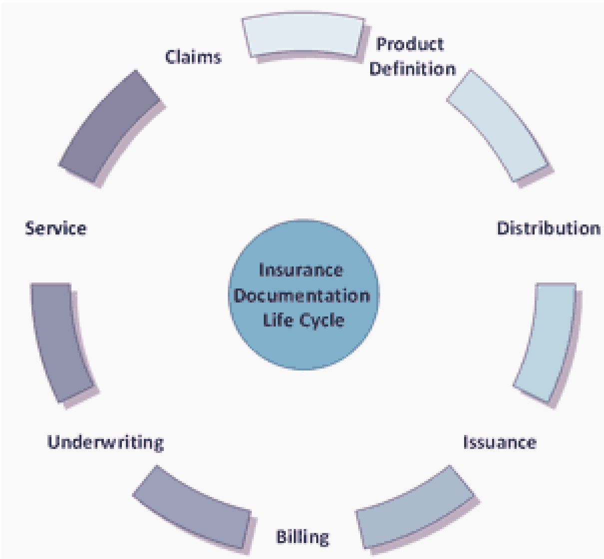
iii)**Lapse**

An accidental or temporary decline or deviation from an expected or accepted condition or state; a temporary falling or slipping from a previous standard

iv)**Policy terms and Claims**

A claims-made policy is most likely to be purchased when there is a delay between when claims are filed and when they occur. Business insurance policies are often offered as either a claims-made policy or an occurrence policy. While the claims-made policy provides coverage for claims when the event is reported, the occurrence policy provides coverage when the event occurs.

25 a)**Insurance Life cycle**



b) **Important Terminologies in Insurance**

Agent - An insurance company representative licensed by the state who solicits and negotiates contracts of insurance, and provides service to the policyholder for the insurer. An agent can be independent agent who represents at least two insurance companies or a direct writer who represents and sells policies for one company only.

Annuity - A contract that provides a periodic income at regular intervals, usually for life.

Annuity Certain - A contract that provides an income for a specified number of years, regardless of life or death.

Application - A statement of information made by a person applying for life insurance. It helps the life insurance company assess the acceptability of risk. Statement made in the application are used to decide on an applicant's underwriting classification and premium rates.

Beneficiary - The person named in the policy to receive the insurance proceeds at the death of the insured. Anyone can be named as a beneficiary.

Bonus Rate Annuity - An extra percent of interest credited to an annuity during the first year that it is in force. The extra amount is above the interest rate to be credited beginning the second year and the remaining years that the annuity is in force. The extra rate is paid in the first year in an effort to attract new policyholders.

Cash Surrender Value - The amount available in cash upon voluntary termination of a policy by its owner before it becomes payable by death or maturity. The amount is the cash value stated in the policy minus a surrender charge and any outstanding loans and any interest thereon.

26 a)Types of Life Insurance Policies in India

The life insurance sector is one of the fastest growing finance related segments in India. There are many different products, each with a variety of offerings. Right from fueling investment needs to meeting different financial goals, they come with many objectives for the investor. Here are a few common types of covers, including whole life and term insurance policy.

EndowmentPolicy
There is a savings quotient linked to such policies. They come with a specified maturity period, as decided by the insurer. On the occurrence of any unforeseen event of the death or permanent disability, during the tenure of the policy; the sum assured will be received by the said beneficiaries.

TermInsurance
Term insurance policy offers coverage only for a set period of time. On the occurrence of death or permanent disability during the tenure of the plan, the beneficiaries will be paid benefits to cover income loss or unpaid debt. Disability can be both partial and total, depending on the type of plan. However, if the insured survives the term of the plan, no such benefits are paid.

Money/CashPlans
In these types of plans, a portion of the agreed and payable sum assured is returned to the insured person by the insurance company. This payment is made on a periodical basis, in the form of a survival benefit. When the term expires, the outstanding sum assured is paid as a maturity benefit. However, life risk is covered for the entire amount of the agreed sum assured, even if a portion of the benefits has already been paid.

WholeLifeInsurance
Unlike a term insurance policy, whole life plans strive to give you lifelong protection. Such cover comes with death benefits, meaning your family can continue to be financially stable after your death. It also comes with maturity benefits, after the expiry of the term. Most people use this type of policy to create an inheritance or estate for their children.

Children'sPolicies
These plans can be taken in the name of the child or the parent. However, it is only for the benefit of the child. This helps parents mobilize finances when the child reaches a particular age or stage of life.

AnnuityPlans
Just like a term insurance policy, this type of insurance aims at covering income loss. After retirement, an individual is cut-off from a regular source of income, and any benefits, like gratuity or provident funds, run the risk of getting exhausted quickly. Pension is a model provision for safe-guarding retirement, as the benefit is like a regular income. So, it is best to get pension plans in order to ensure financial independence after retirement.

b) **Types of underwriting**

Complete underwriting. If the whole issue of shares or debentures of a company is underwritten, it is called complete underwriting. In such a case the whole issue is underwritten either by an individual/institution agreeing to take the entire risk or by a number of firms or institutions each agreeing to take the risk to a limited extent.

Partial underwriting. If part of the issue of shares or debentures of a company is underwritten, it is said to be partial underwriting. In such a case the part of the issue is underwritten either by an individual/institution or by a number of firms or institutions each agreeing to take the risk to a limited extent.

Firm underwriting. Firm underwriting means when an underwriter agrees to buy a definite number of shares or debentures in addition to the shares or debentures he has to take under the underwriting agreement. In case of firm underwriting the underwriters get issue is over subscribed, the underwriters are liable to take up the agreed number of shares or debentures.

S.NO		OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
	UNIT-1					
1	Risk is possibility………………………….	outcome of situation	consider	damage or a loss	potential hazard	damage or a loss
2	………………………………… describes the possibility of an unfavourable event occuring.	risk	loss	uncertainity	consideration	risk
3	Claims arising out of risks other than …………………….. types will not be covered by insurance companies.	covered	specified type	certain type	provide	specified type
4	What are the basic concepts of risk?.........	three	five	two	one	three
5	Peril refers to a ………………….. or reason which might cause a loss.	particular or event	certain event	outcomer of event	specific event	specific event
6	Insurance is a …………………….. Technique.	insurable risk	economic risk	uninsurable risk	risk transfer	risk transfer
7	Hazards are of …………………… and ………………………	physical and moral	physical and peril	moral entity	physical and entity	physical and moral
8	Peril refers to a specific reason of event which might cause a…………………	insurance	liability	income	loss	loss
9	Hazards is the underlying factor which enhance of the effect of …………………	insurance	peril	premium	loss	peril
10	Risk are classified into ………………………	five	three	six	seven	six
11	Risk that can be measured in monetary terms are known as ……………..	fundamental risk	financial risk	speculative risk	particular risk	financial risk
12	The risks which has the satastrophic nature is called ………………………. risk.	particular risk	financial risk	fundamental risk	speculative risk	fundamental risk
13	Speculative risk are one of the …………… risk.	insurable risk	economic risk	uninsurable risk	none	uninsurable risk
14	………………………… is the consideration paid by the policy holder to the insurance compny inorder to get coverage.	amount	premium	sum assured	income	premium
15	……………… is something of value which is exchange.	amount	premium	sum assured	consideration	consideration
16	A husband has insurable interest in the life of his wife and …………………..	assets	amount	premium	viceversa	viceversa
17	……………………. is the contract between the insurer or policy holder and the insurance company.	banking	commerce	insurance	insurer	insurance
18	In a husband has insurable interest in the life of wife and ……………………..	amount	viceversa	premium	asset	viceversa
19	A person has unlimited insurable interest in his ………………..	insurable interest	insurer	own life	other life	own life

20	It is the chance of dying at a specified age within a …………………..	limited population	age	occupation	sample population	sample population
21	……………………. is used to determine the cost of total annual terms.	law of large number	particular risk	probability	speculative risk	law of large number
22	Partners in a business have ………………… in the interest in the lifes each other.	insurable	money	uninsurable risk	creditor	insurable
23	The objective of both the parties to the contract should be create a …………….. Relationship.	agreement	legal	assure	contract	legal
24	The contract must be capable of being performed by…………….	partners	both the parties	insurer	parties	both the parties
25	Life insurance contracts are known as ……………. and the principle of indeminity does not apply to them.	agreement	contract of indeminty	contract of value		contract of value
26	Premium is the ……………….. paid by the policy holder.	maximum amount	consideration	premium	lapsed	consideration
27	The defined period for which the …………………. Is valid.	insurace	agreement	insurer	insured	insurance
28	Claims is the ……………… for ……………… of the promise made then issuer at time of entering into the contract with insurer.	fulfillment,demand	demand,fulfillment	promise fulfillment	Agreement,fulfillment	demand, fulfillment
29	………………. First insurance company	Bombay mutual assurance society ltd	The Indian life assurance companies	The corporation of India	The oriental life insurance company	The oriental life insurance company
30	the oriented life insurance company which year was set up……………	1818	1899	1890	1912	1818
31	in 1870 first Indian life insurance company was formed called …………………..	The life assurance companies	Bombay mutual assurance society ltd	General insurance council	The corporation of india	Bombay mutual assurance society ltd.
32	in 1912 the first statutory measure was introduced through ………………………	The Indian life assurance companies act 1912	General insurance council was formed	The assurer life insurance company		The Indian life assurance companies act 1912
33	the life insurance corporatio act was passed & life insurance corporatio of India was created by taking over a nationalizing ………… insurer	215	273	211	245	245
34	at the time 1957 …. Was formed	Life insurance compny	General insurance council was formed	The indian life assurance company	New Assurance	General insurance council was formed
35	the general insurance business(nationalized) act 1927………….. Was passed	General insurance council	Insurance regulatory & development authorities(IRDA)	GIBNA-General insurance corporation of india	New Assurance	GIBNA-General insurance corporation of india
36	…………………… was set upto study and recommended reformations for the insurance industry	RN Madreas committee	RN Malhotra committee	life insurance	R N Rajan Committee	RN Malhotra committee
37	the RN Malhotra committee recommended ……………………. And foreign investment in the insurance industry	public	private	India	Pakistan	India

38	IRDA insurance regulatory & development authority was set up ………………………. Body	control to F value	insured post	statutory body	Corporate body	statutory body
39	business units are classified ………………………. Insurance company	11	12	3	20	11
40	the party that accept the risk in exchange for a share of the insurance premium as the ……………………	insurance	non-life insurance	life insurance	reinsurance	reinsurance
41	The General Insurance Business act was passed in	1972	1987	1935	1936	1972
42	Insurance regulatory and development Authority was set up as a	Insurance body	Stautory body	Corporate Sector	Financial body	Stautory body
43	life insurance companies covers risks related to	Property	business	casualty insurance	human lives	travel insurance
44	under life insurance plan insurance companies provide	monthly premium	death cover	premium	sum assured	death cover
45	Insurance companies offer periodic monthly payments called	superannuation	insured post	Health insurance	annuity	annuity
46	_______either provide monetary benefit or provide convenience	Profit	Assets	Liabilities	Loss	Assets
47	The company which accept risk from insurance companies is called	Reassurance company	Insurance company	Liability insurance	Reinsurance company	Reinsurance company
48	_____develops plans with new features and advantages	Product team	Actuary	Sales team	Purchase team	Product team
49	______reaches out to the customes with right kind of plan	Sales team	Actuary	Product team	Marketing team	Sales team
50	__________mathematically evaluates likelihood of events and risks	Actuary	product team	Marketing team	Sales team	Actuary
51	________collects new proposal forms along with other supporting documents	new business team	sales team	Marketing team	product team	new business team
52	______invests the excess of premiums to facilitates profit booking	Sales team	marketing team	actuary team	investment team	investment team
53	_______provides inputs in product development and handles litigations	Sales team	legal team	actuary team	investment team	legal team
54	The application forms along with other documents are submitted to	Sales team	marketing team	new business team	investment team	new business team
55	The _____team handles claims procedures and rules	Policy servicing	Claims	new business	investment	Claims
56	______ is the renewal of insurance contract upon payment of due premium	Policy re-issue	Policy renewal	Policy reinstatement	Policy lapse	Policy renewal
57	Reinsurance is the concept of _____________	reinsurer	coinsurance	Insurance for Insurers	Liability insurance	Insurance for Insurers
58	The insurance company that diverfisifies its risk is the_______	ceding company	ceded company	Insurance company	coinsurance	ceding company

59	the party that accept the risk in exchange for a share of the insurance premium as the ……………………	insurer	reinsurer	coinsurance	Insurance for Insurers	reinsurer
60	There is no direct contract between the policy holder and	Insured	coinsurer	insurer	insurance company	reinsurer

S.NO		OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
	UNIT-11					
1	………………………….. Is the consideration paid by the policyholder to the insurance company	shares	premium	payment	receipts	premium
2	……………………………… represents the number of deaths in a given population unit of time	morbidity	expense	mortality	policy term	mortality
3	………………………………… represents the incidence of sickness & accidents by age, among a given group	morbidity	expense	mortality	policy term	morbidity
4	the minimum guarantee death benefit ina life insurance policy is ……………………..	grace period	sum assured	policy term	premium payment term	sum assured
5	the period for which the insurance coverage is valid ……………………	grace period	sum assured	policy term	premium payment term	policy term
6	……………………………... Is the period for which the policy holder needs to pay the premium	sum assured	premium payment term	grace period	policy term	premium payment term
7	……………………………….. Is the period given to the policy holder for the final acceptance of the policy	grace period	policy term	free-look-in period	sum assured	free-look-in period

8	………………………………….. Is the period given to the policy holder in excess of the premium due date to clear off their outstanding premium	mortality	grace period	policy term	sum assured	grace period
9	…………………. Is the option for the policy holder to enjoy the policy benefits even if there is a default in premium payment	surrender value	policy term	non forfeiture	assignment	non forfeiture
10	the discontinue of a policy along with all its benefit due to non payment of all premiums.	surrender value	policy lapse	assignment	assigner	policy lapse
11	……………………….. Is the transfer of title , rights and interest in a insurance policy to another	assignee	assignment	assigner	assured sum	assignment
12	………………………. Becomes of the owner of the policy totally	assignee	assignment	life assured	assignor	assignee
13	the person or institution to which the policy is transferred is known as ………………..	assignee	assignment	life assured	assignor	assignee
14	the person who transfer his title in the insurance policy is known as…………………….	assignee	assignment	life assured	assignor	assignor
15	………………….. Is the individual risk on whose life is being covered by the policy	assignee	life assured	assignment	assignor	life assured

16	proposer is the person applying for and paying for a ………………………	proposer	nominee	insurance policy	assignment	insurance policy
17	……………………………… is the person applying for and paying for an insurance policy	beneficiary	proposer	nominee	assignment	proposer
18	…………………………….. Is the person who receives benefit from	beneficiary	proposer	nominee	assignment	beneficiary
19	…………………….. Is the simplest form of insurance offered by the life insurance policy	proposer	ROP plan	term insurance plan	endownment insurance plan	term insurance plan
20	……………………. Pays the sum assured to the nominee/ beneficiary	insurance company	nominee	beneficiary	assignee	insurance company
21	insurance company pays the sum assured to the ………………………………	assignment	assignee	nominee/ beneficiary	life assured	nominee/ beneficiary
22	if the life assured survives the entire policy term then ensures return part / whole of the premium to the ………………….	sum assured	sum ensured	insurer	insured	sum assured
23	some company even pay …………………… along with the premium, if the insured surveys till the maturioty	premium	bonus	interest	shares	interest

24	there is only maturity benefit in a ……………………………….. Plan	endownment insurance plan	pure endownment	ULIPs	money bank policy	pure endownment
25	in the …………………… plan , if the life assured dies during the policy term death claim is paid to the nominee	endownment insurance plan	pure endownment	ULIPs	money bank policy	endownment insurance plan
26	a plans where profit are not shared with policy holder is ………………………………	endownment	without profit	with profit	pure term plan	without profit
27	a plan where profit are shared with policy holder is …………………..	endownment	without profit	with profit	pure term plan	with profit
28	the survival benefits may either be paid as fixed percentage or …………………. Of the sum assured in money bank policy	maturity benefit	premium	shares	variable percentage	variable percentage
29	……………………………….. Help to enhance the quality and scope of cover	insurer	insuree	insured	rider	rider
30	for additional death coverage at normal cost one can purchase a …………………………………… rider	weaver of premium rider	term rider	accidental death benefit rider(ADBR)	critical illness rider	term rider
31	Premium is the paid by the policyholder to the insurance company order to get coverage from an insurance policy.	Convience	Consideration	punishment	Re-Insurance	consideration

32	In fit insurance company the oriented life insurance company in set up in kalkata.	1870	1919	1920	1818	1818
33	A default payment in premium will read to of policy.	Re instatement	Re-Insurance	Lapse	Continuation	lapse
34	There are types of insurance companies	9	5	3	4	3
35	The person who receives annuity is called	Insured	Insurer	Third party	Annuitant	annuitant
36	is the person or legal entity entired to receive death benefit if annuitant dies.	Annuitant	Insurer	Insured	Beneficiary	Beneficiary
37	is the period when annuity a benefit payment are given out.	Maturity	Lapse	Payout period	post period	Payout period
38	There are types of annuity.	5	4	3	6	5
39	Higher risk generate high return lower risk generate low return, this is known as	Return off	Return trade-off	Trade on	Return trade on	Return trade-off
40	The process of investing money bond and stock in defined proportion is known as	Asset determination	Asset allocation	Asset revaluation	Asset deduction	Asset allocation
41	is the process of investing in different categories of financial instrument	investment	diversification	insurance	re imbursment	diversification
42	sub account consists short term instrument or cash equipment	stock	money market	bond	asset	money market

43	stock sub accounts consists of stocks	foregin	domestic	internation	foregin and domestic	foregin and domestic
44	annuity provides payments based upon the lives of two or more annuitant and payment continuous till the last	life and non life	joint and serviver	life only annuity	life income with refund annuity	joint and serviver
45	In payouts the insurer make a series of payment to the annuitant that throughout the payout	Fixed	Variable	Both a and b	Irregular	Variable
46	Expand IRA	Industrial revolution act	Individual Retirement Arrangement	International Retirement Account		Individual Retirement Arrangement
47	A group insurance man insurer a group of people under a single insurance contract called	Single group insurance	Master group insurance	Individual group	life insurance	Master group insurance
48	Group insurance where group members how to pay the premium fully or party is called	Non-contributory	Contributory	fixed	variable	Contributory
49	Group insurance premium are calculated using types of rating	5	4	3	2	3
50	rating is used to set premium rates for group that have not been previously insured	experience	blended	manual	variable	manual
51	grace period provision typically has days of periods	50 - 51	90 - 91	30 - 31	100 - 101	30 - 31

52	which of the following is not a comonent of retirement plan	The plan	plan administration	funding vechiles	re insurance	re insurance
53	How many types of retirement plans are there	3	2	4	5	3
54	A retirement plan structured as per the defined contribution formula is	defined contribution plan	saving plan	funding vechiles	stock bonus plan	defined contribution plan
55	In plan all eligible group members are automatically enrolled as plan participants	automatic plan	voluntary	stock bonus	saving plan	automatic plan
56	Thus type of rating uses both manual and experience rating is	combo	blended	joint	variable	blended
57	what are the two types of IRA	Traditional and roth	international and domestic	traditional and blended	roth and domestic	Traditional and roth
58	An is a retirement plan where plan people can deposit a part of their taxable compensation in tax deffered saving plan	Individual Retirement Arrangment	Industrial revolutionary act	All the above	International retirement arrangement	individual retirement arraggement
59	Traditional IRA band annuities have certain	Advantages	Disadvantages	Drawback	None of the above	drawback..
60	On retirement an individual can use the fund	Accurate	Equity	Accumulated	Debt	accumulated

S.NO		OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
	UNIT III					
1	………………….insurance everything other than human life	life insurance or general insurance	non-life insurance or general insurance	non-life insurance or insurance	life insurance or insurance	non-life insurance or general insurance
2	anything that either causes a loss or increase the likelyhood of a loss or make the impact of the loss worse is………………	hazard	perils	effects	policy	hazard
3	anything that leads to a loss is called………………….	effect	hazard	perils	pdicis	perils
4	unless particularly excluded, all causes of loss are covered by such policies is called ………………………	named peril policy	open peril policy	insurance policy	open policy	open peril policy
5	only those cause of loss which are listed in the policy document are covered by such policies is called …………………………	open peril policy	named peril policy	open policy	insurance policy	named peril policy
6	……………………...iscompensation and not a means of ganing from a loss	under insurance	insurance	indeminty	inventory	indeminty
7	………………… means purchasing insurance of value less than required	limit	indeminty	inventory	under insurance	underinsurance
8	if the property is not insured to its full replacement cost the compensation paid will be calculated as per the lower relacement coat and the claim paid will be proportionate is called ………………………….	principle of agent	principle of average	principle of authority	commencement	principle of average
9	in the event of a claim the insurers will ascertain if the cause of the loss was an insured risk is known as …………………………..	proximate cost	salvage	subrogation	deductable	proximate cost
10	…………………….. Is the amount of expense that must be borne by the insured before the insurer pays any claim	subrogation	salvage	deductuble	multiple	deductable

11	a single policy can have …………………… based on the cause of the claim	single deductable	multiple deductable	inventory	salvage	multiple deductables
12	after paying a claim on a damage property like a damaged car, the insurer can take over the damage property to reduce its extend of loss is called…………..	salvage	subrogation	claim	annuity	salvage
13	in the event of the claim where the insurer has full intedemnified the insured, the insured's original interest can be taken over by the insurer is called…………….	deductable	hazard	subrogation	insurance	subrogation
14	maximum amount of insurance that can be paid for an covered loss is called……………………… ……..	unlimit	limit	hazard	perils	limit
15	insurance market cycle has ……………………….	one phase	two phases	three phases	four phase	two phase
16	insurance market cycle has two phases …………………….	hard and soft market	hazard and perils	deductable and salvage	insurance and non insurance	hard and soft market
17	insurance become more selective in offering insurance coverage in ………………………….	soft market	hard market	market	time	hard market
18	…………………………… will increase premium and take back some of the coverage and enhancement , making it more difficult to get insurance,even at higher prices	hard market	beneficial time	soft market	market	hard market
19	insurance are eager to get new business as well as retain exsiting business in ………………………………	limit	salvage	soft market	hard market	soft market
20	………………………. Reduce insurance premium and event relax underwritting criteria	soft market	premium	hard market	time	soft market
21	The soft insurance market is a for consumers.	Soft time	Hard time	Beneficial time	Difficult time	Beneficial time

22	Property like house and possessions against fire and theft ,flood,storm,earthquake etc, are included in	Life insurance	Non-life insurance	Insurance	Benefits	Non-life insurance
23	______ refers to insurance protection to homes, cars and business	Property/casualty insurance	Insurance	Property	Casualty	Property/Casualty Insurance
24	______ offeres protection against loss arising from a person or business interest in physical property.	Insurance	Property Insurance	casualty insurance	Claim	Property insurance
25	______ mainly safeguards the insured against legal liability for losses caused by injury to other people or damege to the property of others.	Casualty Insurance	Property Insurance	Insurance	Loan	Casualty insurance
26	Casualty insurance is similar to	Property insurance	Claim	Loan	Insurance	Insurance
27	There are ______ major types of casualty insurance.	Two	Three	Four	Five	Three
28	Vehicle insurance is also called	Auto insurance	Claim	Semi insurance	Loan	Auto insurance
29	______ insurance covers medical cost in an accident if the policy holders is involved and the other driver is injured	Personal injury	Bodily injury liability	Property Damage	Collision	Bodily injury liability
30	______ insurance covers medical costs in an accident for policy holders and passengers in the car.	Property damage	Collision	Personal injury	Comprehensive	Personal injury
31	______ insurance cover plays for damage caused by an accident to someones property.	Comprehensive	Property damage	Collision	Bodily injury liability	Property damage
32	______ insurance covers damage to policy holders vehicle if there is collision with another vehicle, flipping over or even hitting apothhole.	Collision	Property damage	Comprehensive	Injury	Collision
33	______ coverage is an extremely important type of coverage.	Coverage	Comprehensive	Collision	Property damage	Comprehensive

34	_______ coverage protects the policy holder, his family or someone driving the car without the permission of the policy holder	Insured motorist coverage	Uninsured motorist coverage	Coverage	Motorist coveraged	Uninsured motorist coverge
35	Personal property generally means like furniture,clothes,art,writing,household goods, boats,vehicles etc.	Important	Unimportant item	Movable item	Immovable item	Movable itams
36	Majority of home insurance policies exclude natural disaster or	Acts of god	Acts of child	Acts of insurance	Acts of parliament	Acts of god
37	Actual cash value is the replacement cost less	Appreciation	Duable entry	Depreciation	Fixed amount	Depreciation
38	Personal property like carpet, furniture, etc is always valued at	Replacement cost	Cash value	Value	Actual cash value	Actual cash value
39	_______ protects the insured against various risks.	Insurance	Property	Assets insurance	Liability insurance	Liability insurance
40	Non-life insurance in USA has two major categories	Lines & bars	Commercial & personal lines	Commercial & economic lines	Actual & specific	Commercial lines & personal lines
41	_______ include Auto and Homeowners insurance for individuals.	Personal lines	commercial lines	lines	Artificial lines	Personal lines
42	include insurance product designed for business.	Lines	Artificial	Commercial lines	Personal lines	Commercial lines
43	means splitting of risk among multiple parties	Re-insurance	Co-insurance	Captive insurance	Non- captive insurance	Co-insurance
44	is a wholly owned subsidiary of an non-insurance company or group of non-insurance companies.	Captive insurance	Quote	Re-insurance	Co-insurance	Captive insurance
45	is basically insurance for the insurance providers.	Re-insurance	Co-insurance	Captive	Non- captive	Re-insurance
46	The terms and conditions of the reinsurance is captured in the	Equity contract	Debt contract	Insurance contact	Re-insurance contract	Re-insurance contract
47	is tnot an agreement between the insurer and the prospective policy holder.	Assignment	Quote	Notes	Application	Quote
48	Additional validations are required for	Policy issuance	Premium	Insurance	Assurance	Policy issuance
49	refers to the process of selecting, classifying and pricing the various risks on behalf of the insurer.	Policy holder	Insurance	Under writing	Adjustment	Under writing

50	refers to any change in the policy features during policy term	Actuary	Adjustment	Application	Assignement	Adjustment
51	of the policy, the premium for the nxt term is calculated.	Renewal	Non- renewal	Policy re-issue	Re-issue	Renewal
52	is the termination of the policy by either the insured or insurer at the end of the policy period.	Policy re-issue	Renewal	Non-renewal	Issue	Non-renewal
53	refers to the termination of the policy either the insurer or the insured during the policy period.	Reinstatement	Cancellation	Policy re-issue	Re-issue	Cancellation
54	is a transaction that voids the cancellation and brings back the coverage to effect.	Claim	Renewal	Non-renewal	Reinstatement	Reinstatement
55	generally occurs when an insurance policy is cancelled by the insurer for an invlid reason.	Policy re-issue	Claim	Re-insurance	cancellation	Policy re-issue
56	A is a demand for performance of the promise made by the insurer as per the insurance contract for compensation of estimated or actual amount of loss.	Policy term	Claim	Actuary	Hazard	Claim
57	Forms of Re-insurance is classified into & .	Facultative and treaty re-insurance	Insurance and non-isurance	Natural and artificial re-insurance	Re-insurance	Facultative and treaty re-insurance
58	Re-insurance done on an individual risk basis is based on .	Treaty re-insurance	Facultative re-insurance	Insurance	Re-insurance	Facultative re-insurance
59	Re-insurance encompassing a block of the ceding company's book of business is based on .	Re-insurance	Insurance	Facultative re-insurance	Treaty re-insurance	Treaty re-insurance
60	Re-insurance of a reinsurer's business is called .	Retrocession	Re-instatement	Re-insurance	Re-concellation	Retrocession

S.NO		OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
	UNIT IV					
181	compensate the member for the medical expenses as defined in the agreement, against a consideration called………………………………	policy	premium	agreement	health insurance	premium
182	specifies how much the insurance company wil pay……………………………..	policy	agreement	premium	plans	policy
183	……………………………….. Is a payment made by the insured person and must be paid berfore any policy benefit is payable	co payment	co insurance	coverage limits	out of pocket maximum	co payment
184	…………………….. Is the portion of the expenses paid by the insured before an insurer pays any expenses	coverage limit	medical expense	deductable	copayment	deductable
185	how many types of stakeholders in the whole framework?	two	five	four	one	four
186	…………………………. Are the once who provided the coverage	community	providers	organisers	insurer	providers
187	for government or community based organisations, and …………………………… is an institution which manages the policy	organiser	insurer	community	providers	organiser
188	a common premium is applicable to the entire group reflecting the average risk of illness is called……………………..	risk rated premium	community rated premium	agreement rated premium	policy rated premium	commmunity rated premium
189	………………………….. Insurance schemes are mandatory	health insurance	medical insurance	social health insurance	pet insurance	social health insurance
190	complex concerns in health insurance market are …………………………..	health care	moral hazard	private coverage	public coverage	moral hazard
191	…………………………….. Is the premium is an accordance to the income levels	risk rated premium	community rated premium	income rated premium	policy rated premium	income rated premium
192	private health care coverage covers………………………………	employer sponser	health insurance program	medical coverage	medicare	employer sponser
193	patient protection and affordable care act, ……………….	2012	2010	2005	2002	2010
194	HITECH is enacted as part of the American recovery and reinvestment act, ………………………	1995	1999	2000	2009	2009
195	HIPIA security rule ensures ………………………..	confidentiality	claims	plans	costs	confidentiality
196	real time health plan transaction through automation is the object of,…………………………….	ARRA	ACA	AMA	HIPAA	AMA
197	………………………. Federal health program that covers most people aged 65 and above	medicare	social health	private health	public health	medicare
198	part A proides coverage like ………………………..	skilled nursing facilities	long term	custodial care	medicare	skilled nursing facilities
199	medicare part B covers some of the services like ……………………………..	nursing home	home health service	blood transfusion	blood test	blood test
200	most people have to pay a premium for……………………………	part A medicare	part B medicare	dental care	dentures	part B medicare
201	is a lower-cost alternative to the original medicare plan	Part A medicare	Part B medicare	Part C medicare	Part D medicare	Part C medicare
202	There are ways to join the medicare prescription drug coverage plan	1	2	5	10	2
203	How many plans are there for medicare part C	5	10	15	20	5
204	In USA, is the largest source of fund for medical and health care services.	Medicare	Medicaid	Health insurance	Medical insurance	Medicaid
205	Individual health insurance is a health insurance coverage purchased directly on	individual	Group	Insurance company	Savings a/c	individual
206	of U.S population has employer group health insurance plan.	60%	70%	50%	None	60%
207	Medicare part C combines & option.	Part A	Part B	Part A & B	All of these	Part A & B

208	The group insurance, premium contribution is shared between the employer and	Manager	Director	Employee	Insurer	Employee
209	Medicare part D the insured pay a monthly premium that will according to the plan choosen.	Fixed	Fluctuating	Both A & B	Vary	Vary
210	Real time health plan transaction through	Manual	Automation	Reduction	Trancparency	Automation
211	Concept of health insurance healtg care payer were promises to compensate the for medical expenses	member	insurare	policy holder	insurer	member
212	coverage is the benefit offer to the member which various policy to	member	policy	contract	nominate	policy
213	is a portion of the expenses payed by the insured before and insurare pays	co payment	co insurare	deductible	coverage limits	deductible
214	must be paid before any policy benefit is payable by an insyrance company	co payment	co insurare	premium	none	co payment
215	co payment is often a portion of actual cost	fully	partly	small	medium	small
216	co sharing argement will covers a defined percentage of the covered cost	insurare	insured	member	policy holder	insured
217	The coverage limits any coverage beyond the limits is bond by the policy holder	minimum	limits	maximum	high	maximum
218	out of pocket maxima is similar to the	coverage limit	co insurare	co payment	payment	coverage limit
219	Benefits of health insuarnce	coverage expenses of hospitalization	lump sum amount	treatment	none	coverage expenses of hospitalization
220	covered hospitilization expenses incured by the donor I a major organtransplan cause	every	certain	condition	none	certain
221	cashless hospilization treatment offered by most insuraser throuh	3rd party administrators	2nd party	none	insurance company	3rd party administrators
222	Health insurance frame work ttypes of stake holders	2	3	4	7	4
223	A person with a chornic illness will have a premim compared to a healthy adult	less	equal	higher	medium	higher
224	Inherent problems health insurance market are and advance selection	hazard	moral hazard	paid	illeness	moral hazard
225	public health care coverage	SCHIP	HIPE	SCHP	CSIP	SCHIP
226	more is spent per person on health care in the nation than in any other nation in the world	India	Australia	India	US	US
227	pervent inappropriate use and disclosure of indivudals health information	HIPAO	HIPAA	SCHIP	SCHP	HIPAA
228	Americian recovery and reivesment act came in year	2012	2003	2009	2004	2009
229	patient production and affordable care act of years	2003	2010	2001	2002	2010
230	are the one in health care insurance who provide the coverage	service	insurance	provider	policy company	provider
231	In community related premium a premium is applicable to the entire group	equal	beneficail	common	unequal	common
232	They are basically ways of settling insurance claims	2	3	4	7	2
233	medicare is the health insurance program that cover agerd 65 and disbilities peoplea	federal	spouse pay	insured	claims	federal
234	medicare part D covers prescription provided by private companies	treatment	medicaine	drugs	none	drugs
235	medicaid is the US health program eligible individual anf families having and	dress cloth	low incomes & insurance	income	expenses	low incomes & insurance
236	In individual insurance must show of insurability	evidence	claims	document	member	evidence
237	POS is a product	hybrid	primary	secondary	none	hybrid
238	medicare part A abd part B do not cover	dentl care and dentures	medicine	illeness	none	dentl care and dentures
239	comprehensive health services are provided to the members by the	HMO	MOH	Managed care plans	managed care	Managed care plans
240	co sharing argement will covers a defined percentage of the covered cost	insurare	insured	member	policy holder	insured

S.NO		OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
	UNIT V					
1	……………………………………. Is one of the important life events	planning	working	retirement	investment	retirement
2	one continues to earn ……………………… income to enjoy a comfortable life style	less	sufficient	more	standard	sufficient
3	one may enjoy ………………………………. Benefits	tax	financial	future	retirement	tax
4	individual retirement planning is ………………………….	comfortable	important	critical	burden	comfortable
5	……………………………… is used to provide for once retired years	fund	retirement	pension	retired	pension
6	………………………… is the process of investing	planning	finance	investment	allocation	allocation
7	higher the risk, higher the ………………….. Return	potential	income	events	plans	potential
8	…………provide maximum returns	debts	equities	pension	money	equities
9	risk means less …………………, hence low potential returns	allocation	uncertainity	certainity	power	uncertainity
10	bonds provide average returns within ………...time	flexiable	fixed	specified	perfect	specified
11	………………allocation helps in striking that balance between risk and return	liabilities	operating	asset	future	asset
12	pension is a……………………financial arrangement	short-term	long term	short period	long period	long term
13	the life ……………..is determind by a formula	investment	annuity	debits	profit	annuity
14	……………………….is the personal tool for the reteirement savings	IRA	DB	TAX	SAP	IRA
15	IRA is a trust which is mend for the ……………………	tax payers	tax receivers	tax income	tax added	tax payers
16	……………………….pensions are paid by the UK government	government	state	district	taluka	state
17	……………………….can borrow funds from ones own retirement account and repay the funds back with interst	employers	workers	nominer	participants	participants
18	voluntary and mandatory after tax contributions are always ……………vested	60%	100%	70%	98%	100%
19	……………………. Contribution is the most popular type of plan	undefined	pecular	defined	period	defind
20	retirement benefit does not depend on the …………… on investement	payment	money	return	pay	return
21	IRA is commonly known as ____	Investment retirement account	Individual return account	Investment return account	Individual retirement account	Individual retirement account
22	These are ____ kinds of asset classes are popular.	5	6	7	3	3
23	Each asset classes reflects different . and return trade offs.	Risk	Date	Retirement	Power	Risk
24	These are various types of investment and	.Rules and powers	Services and rules	Tools and services	Orders and rules	Tools and services
25	Pension is a long term ____ assignment.	Politics	Urban	Rural	Financial	Financial
26	____ provide average return within specified time.	Equity	Bond	Asset	Cash	Bond
27	____ is one most popular plan in private seeton.	Annuity	Defined benefit	Defined contribution	Assets	Defined contribution
28	____ pension is even indexed to account for inflation	Annuity	Defined benefit	Defined contribution	Assets	Defined benefit
29	In ____ work based pension scheme are controlled by one pension regulation.	US	UK	Canada	Japan	UK
30	To get full basic state pension one needs to contribute for qualifying years.	45	40	35	30	30
31	______is one of the most important life event personally as well as financially	Life time	Retirement	Job	technical	retirement
32	To lead a comfortable_______life one must do sensible planning during working hours	Retirement	Life time	Job	technical	Retirement
33	_______for the future leaves limited income at ones disposal for present consumption	Saving money	Retirement	Life time	Job	Saving money
34	Saving money for the leaves limited income at ones disposal for __________consumption	Past	present	future	present and past	present
35	Government sponsored retirement plans mostly provide enough to just maintain a basic________	standard of living	present	future	present and past	standard of living

36	In a husband has insurable interest in the life of wife and ……………………..	amount	viceversa	premium	asset	viceversa
37	A person has unlimited insurable interest in his ………………..	insurable interest	insurer	own life	other life	own life
38	It is the chance of dying at a specified age within a …………………..	limited population	age	occupation	sample population	sample population
39	……………………. is used to determine the cost of total annual terms.	law of large number	particular risk	probability	speculative risk	law of large number
40	a common premium is applicable to the entire group reflecting the average risk of illness is called……………………..	risk rated premium	community rated premium	agreement rated premium	policy rated premium	commmunity rated premium
41	………………………….. Insurance schemes are mandatory	health insurance	medical insurance	social health insurance	pet insurance	social health insurance
42	complex concerns in health insurance market are …………………………..	health care	moral hazard	private coverage	public coverage	moral hazard
43	…………………………….. Is the premium is an accordance to the income levels	risk rated premium	community rated premium	income rated premium	policy rated premium	income rated premium
44	private health care coverage covers……………………………..	employer sponser	health insurance program	medical coverage	medicare	employer sponser
45	patient protection and affordable care act, ……………….	2012	2010	2005	2002	2010
46	A group insurance man insurer a group of people under a single insurance contract called	Single group insurance	Master group insurance	Individual group	life insurance	Master group insurance
47	Group insurance where group members how to pay the premium fully or party is called	Non-contributory	Contributory	fixed	variable	Contributory
48	Group insurance premium are calculated using types of rating	5	4	3	2	3
49	rating is used to set premium rates for group that have not been previously insured	experience	blended	manual	variable	manual
50	grace period provision typically has days of periods	50 - 51	90 - 91	30 - 31	100 - 101	30 - 31
51	which of the following is not a comonent of retirement plan	The plan	plan administration	funding vechiles	re insurance	re insurance
52	the period for which the insurance coverage is valid ……………………	grace period	sum assured	policy term	premium payment term	policy term
53	…………………………. Is the period for which the policy holder needs to pay the premium	sum assured	premium payment term	grace period	policy term	premium payment term
54	……………………………….. Is the period given to the policy holder for the final acceptance of the policy	grace period	policy term	free-look-in period	sum assured	free-look-in period
55	Life insurance contracts are known as ……………. and the principle of indeminity does not apply to them.	agreement	contract of indeminty	contract of value		contract of value
56	Premium is the ……………….. paid by the policy holder.	maximum amount	consideration	premium	lapsed	consideration
57	The defined period for which the ………………… Is valid.	insurace	agreement	insurer	insured	insurance
58	Claims is the ……………… for ……………… of the promise made then issuer at time of entering into the contract with insurer.	fulfillment,demand	demand,fulfillment	promise fulfillment	Agreement,fulfillment	demand, fulfillment
59	………………. First insurance company	Bombay mutual assurance society ltd	The Indian life assurance companies	The corporation of India	The oriental life insurance company	The oriental life insurance company
60	Group insurance where group members how to pay the premium fully or party is called	Non-contributory	Contributory	fixed	variable	Contributory