KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University)
(Established under section 3 of UGC Act 1956)
Coimbatore-641021
Department of Management

Semester IV

		L	T	P	C
16BAU403A	**SEC -2 INSURANCE PRINCIPLES AND PRACTICE**	**5**	**1**	**-**	**4**

SCOPE

Insurance principles and practice represents the concept of general insurance, life insurance, and marine insurance. This paper represents the importance of deposits and credit insurance mechanism.

OBJECTIVES

- To enhance the students knowledge in insurance mechanism
- To enlighten the students knowledge towards the principles and practice of insurance

UNIT I

Risk and Uncertainty - Definition - Classification of risk - Sources of Risk - External and Internal Insurance - Meaning - Nature - Significance - Essential Requirements and Principles of Risk Insurance - Reinsurance - Privatization of Insurance Business in India - Insurance Regulatory Development Authority - Recent Developments in the Insurance Sector.

UNIT II

Life Insurance - Law Relating to Life Insurance - General Principles of Life Insurance Contract - Proposal and Policy - Assignment and Nomination - Title and claims - Concept of trust in life policy - LIC - Role and Functions.

UNIT III

General Insurance - Law relating to general insurance - Different types of general insurance - General Insurance Vs Life Insurance - Nature of Fire Insurance - various types of Fire Policy subrogation - Double Insurance - Contribution - Proximate cause - Claims of Recovery - Accident and Motor Insurance - Nature, Disclosure, Terms and Conditions Claims And Recovery - Third Party Insurance - Compulsory Motor Vehicle Insurance - Accident Insurance.

UNIT IV

Deposit and Credit Insurance - Nature - Terms and Conditions - claim - Recovery etc., Public Liability Insurance - Emergency Risk Insurance Structure and Power, function of General Insurance Corporation of India - Deposit Insurance and Credit Guarantee Corporation.

UNIT V
Marine Insurance - Law relating to Marine Insurance - Scope and Nature - Types of Policy - Insurable Interest - Disclosure and Representation - Insured Perils - Proximity Cause - Voyage - Warranties - Measurement - Subrogation - Contribution - Under Insurance.

SUGGESTED READINGS:

TEXT BOOKS

1. Mishra, M.N. (2012). *Insurance Principles and Practices.* New Delhi: S.Chand and Co.

REFERENCES

1. Kapoor , N.D. (2010). *Elements of Business Law*. New Delhi: Sulthan Chand & Sons.

1. Murthy. (2012). *Principles and Practices of Insurance*. Mumbai: Margham Publications.

2. Senthi Jyotsna, & Bhatia Nishwa. (2008). *Elements of Banking and Insurance*. New Delhi: PHI India Pvt., Ltd.

3. Periyasamy , P. (2010). *Principles and Practices of Insurance.* New Delhi: Himalaya Publishing house.

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University Established under section 3 of UGC Act 1956)
Coimbatore-641021
Department of Management

Name: **Dr. M. Usha (Assistant Professor)**
Department: **Management**
Subject Code: **16BAU403A** Semester: **IV** Year: **2016-19 Batch**
Subject: **Insurance Principles and Practice - Lesson Plan**

Unit - I			
Sl.No	**Lecture Duration (Hr)**	**Topic to be Covered**	**Support Materials**
1.	1	Risk and Uncertainty : Meaning and Definition of Risk	R1: Pg.No.: 1- 7
2.	1	Classification of Risk : Financial and Non-financial Risk, Static and Dynamic Risk	R1: Pg.No.: 89-90
3.	1	Fundamental and Particular Risk, Pure and Speculative Risk	R1: Pg.No.: 91-92
4.	1	Sources of Risk, Methods of Handling Risk	R2: Pg.No.:83-86
5.	1	Management of Risk: Risk Management Objectives	R2: Pg.No.:86-90
6.	1	Insurance : Meaning and Definition, Nature of Insurance	T: Pg.No.: 3-7
7.	1	Functions of Insurance and Importance of Insurance	T: Pg.No.: 8-14
8.	1	Essential Requirements and Principles of Risk Insurance	T: Pg.No.: 15 -20
9.	1	External and Internal Insurance	T: Pg.No.: 20-29
10.	1	Reinsurance: Meaning and Definition	R2: Pg.No.: 59-60
11.	1	Importanct concept of Reinsurance, Characteristics of Reinsurance	R2: Pg.No.:60-62
12.	1	Types of Reinsurance,Privatization of Insurance Business in India	R2: Pg.No.:62-65
13.	1	Insurance Regulatory and Development Authority (IRDA)	R1: Pg.No.:44-50
14.	1	Constitution of the Insurance Regulatory and Development Authority	R1: Pg.No.:50-54
15.	1	Objectives , Duties and Power of Insurance	R1: Pg.No.:54-70
16.	1	Regulatory and Development Authority	R1: Pg.No.: 71-76
17.	1	Recent development in the Insurance Sector	W1
18.	1	Recapitulation and Discussion of Important Questions	
Total No. of Hours Planned for Unit - I			**18**

Unit – II			
Sl.No	**Lecture Duration (Hr)**	**Topic to be Covered**	**Support Materials**
1.	1	Life Insurance: Meaning and Definition of Life Insurance	R1: Pg.No.: 119-123
2.	1	Essential Features of Life Assurance Difference between Insurance and Assurance	R1: Pg.No.:123-225
3.	1	Classification of Life Insurance Policies Policies According to Duration Policies According to Premium Payment	T: Pg.No.:64-72
4.	1	Policies According to Participation in Profit	T: Pg.No.:73-81
5.	1	Policies According to Number of Persons Assured, Policies According to Method of Payment of Policy Amount	T: Pg.No.: 81-85
6.	1	Law relating to Life Insurance General Principles of Life Insurance Contract	T: Pg.No.: 49- 50 W2
7.	1	Nature of General Contract, Insurable Interest	T: Pg.No.:50-52
8.	1	Utmost Good Faith, Warranties, Proximate Cause	T: Pg.No.: 52-57
9.	1	Assignment and Nomination, Meaning and Procedure	R1: Pg.No.: 152-155
10.	1	Nomination of Life Policy	R1: Pg.No.: 155-158
11.	1	Difference Between Assignment and Nomination	R1: Pg.No.:158-159
12.	1	Life Insurance Policies: Conditions and Privileges	R2: Pg.No.: 122-127
13.	1	Risk, Premium, Continuance of policy,	R2: Pg.No.:127-130
14	1	Lapsed Policies, Renewal and Payment	R2: Pg.No.:130-131
15.	1	Titles and claims Concept and Trust in Life Policy	R2: Pg.No.:131-133
16.	1	Role and Functions of LIC in National Economy	R1: Pg.No.:164-167
17.	1	Progress of Life Business of LIC	R1: Pg.No.: 167-168
18.	1	Recapitulation and Discussion of Important Questions	
Total No. of Hours Planned for Unit - II			**18**

Unit - III			
Sl.No	**Lecture Duration (Hr)**	**Topic to be Covered**	**Support Materials**
1.	1	General Insurance: Objectives of General Insurance	R2: Pg.No.: 311-313
2.	1	Functions of General Insurance, Statutory Function	R2: Pg.No.: 313-315
3.	1	Establishment of General Insurance Corporation of India	R1: Pg.No.: 108-110
4.	1	Sources of Funds, General Insurance with its Subsidiaries	R1: Pg.No.:110-112
5.	1	Organization Structure, Progress of General Insurance Business	R1: Pg.No.: 112-115
6.	1	Law relating to general Insurance Different types of General Insurance	R1: Pg.No.: 115-117 W3
7.	1	Difference between General Insurance and Life Insurance	R1: Pg.No.: 117-118
8.	1	Fire Insurance, Nature and Functions of Fire Insurance	T: Pg.No.: 389-391
9.	1	Causes of Fire and Prevention of Loss Public Fire Prevention Activities, General Devices	T: Pg.No.: 392-394
10.	1	Various Types of Fire Policy Subrogation, Double Insurance	T: Pg.No.:395-401
11.	1	Contribution and Average	T: Pg.No.:401-403
12.	1	Proximate Cause, Claims of Recovery	R3:Pg.No.: 235-238
13.	1	Accidents and Motor Insurance :Nature	R3:Pg.No.:238-240
14.	1	Disclosure of Accidents and Motor Insurance	T: Pg.No.:458-461
15.	1	Terms and Conditions Claims and Recovery	R3:Pg.No.:240-241
16.	1	Third Party Insurance	R3:Pg.No.:241-242
17.	1	Compulsory Motor Vehicle and Accident Insurance	T: Pg.No.:462-467
18.	1	Recapitulation and Discussion of Important Questions	
Total No. of Hours Planned for Unit - III			**18**

Unit - IV			
Sl.No	**Lecture Duration (Hr)**	**Topic to be Covered**	**Support Materials**
1.	1	Deposit and Credit Insurance : Meaning	R3: Pg.No.: 68-70
2.	1	Nature of Deposit and Credit Insurance Importance of Deposit and Credit Insurance	R3: Pg.No.:70-72
3.	1	Terms and Conditions	R3: Pg.No.:73-75
4.	1	Claims, Recovery	T: Pg.No.: 201-209
5.	1	Asset and Liability Insurance	T: Pg.No.: 210-215
6.	1	Public Liability Insurance	R3: Pg.No.: 75-77
7.	1	General Operations of Deposit and Credit Insurance	R3: Pg.No.:77-78
8.	1	Emergency Risk Insurance Structure and Power	R3: Pg.No.:78-79
9.	1	General Insurance Corporation of India	R2: Pg.No.: 288-290
10.	1	Functions of General Insurance Corporation of India	R2: Pg.No.: 291-293
11.	1	Role of General Insurance Corporation of India	R2: Pg.No.: 293-298
12.	1	Deposit Insurance and Credit Guarantee Corporation	T: Pg.No.:225-227 W4
13.	1	Types of Banks covered under Deposit Insurance and Credit Guarantee Corporation	T: Pg.No.:227-229
14.	1	Types of Deposits Covered	T: Pg.No.:230-235
15.	1	Deposits of foreign Government	R3: Pg.No.:79-80
16.	1	Deposits of Central/State Government Inter-bank Deposits	R3: Pg.No.: 80-81
17.	1	Features of Deposit Insurance and Credit Guarantee Corporation	R3: Pg.No.: 81-82
18.	1	Recapitulation and Discussion of Important Questions	
Total No. of Hours Planned for Unit - IV			**18**

UNIT – V			
Sl.No	**Lecture Duration (Hr)**	**Topic to be Covered**	**Support Materials**
1.	1	Marine Insurance: Meaning and Definition	T: Pg.No.: 319-322
2.	1	Scope and Nature of Marine Insurance Procedure to Effect Marine Insurance	T: Pg.No.: 322-325
3.	1	Elements of Marine Insurance Contract Features of General Contract	T: Pg.No.:325-330
4.	1	Marine Insurance Policies, Classes of Policies	T: Pg.No.:331-336 W5
5.	1	Types of Policy, Classification of Marine Policies	R1: Pg.No.:274-280
6.	1	Payment of Claims, Documents Required for Claim	T: Pg.No.:367-369
7.	1	Difference between Marine Insurance and Life Insurance Contracts	R1: Pg.No.:280-281
8.	1	Procedure of effecting Marine Insurance	R4: Pg.No.: 4.1-4.11
9.	1	Selection of Insurance Company Completion of Proposal form, Insurable Interest	R1: Pg.No.:281-283
10.	1	Disclosure and Representation	R1: Pg.No.:284-285
11.	1	Insured Perils	R4: Pg.No.: 4.12-4.15
12.	1	Proximity Cause, Voyage, Warranties, Measurement	R4: Pg.No.:4.15-4.20
13.	1	Subrogation, Contribution, Under Insurance	R4: Pg.No.:4.20-4.21
14.	1	Progress of Marine Insurance Business in India	T: Pg.No.:373-378
15.	1	Recapitulation and Discussion of Important Questions	
Total No. of Hours Planned for Unit – V			**15**
16.	1	Discussion of previous ESE Question papers	
17.	1	Discussion of previous ESE Question papers	
18.	1	Discussion of previous ESE Question papers	**3**
Total No. of Hours Planned for Unit – V & Previous ESE Question Papers Discussion			**18**

Suggested Readings:

Text books:

1. Mishra, M.N. (2016), *Insurance Principles and Practices*, S.Chand and Co., New Delhi, 6th Edition

References:

1. Periyasamy. P, (2015), *Principles and Practices of Insurance*, Himalaya Publishing House, Mumbai, 3rd Edition
2. Mathew, M.J, (2014), *Insurance*, RBSA Publishers, Jaipur.
3. Senthi Jyotsna & Bhatia Nishwa, (2016), *Elements of Banking and Insurance*, PHI India Pvt., Ltd., New Delhi.
4. Muthy.A, (2015), *Principles and Practices of Insurance*, Margham Publications, Mumbai

Website:

W_1: https:// www.chasecambria.com
W_2: https:/ www.licindia.in
W_3: https:// www.mbaknol.com
W_4: https:// www.dicgc.org.in
W_5: http:// www.marineinsight.com

UNIT-I

SYLLABUS

Risk and Uncertainty - Definition - Classification of risk - Sources of Risk - External and Internal Insurance - Meaning - Nature - Significance - Essential Requirements and Principles of Risk Insurance - Reinsurance - Privatization of Insurance Business in India – Insurance Regulatory Development Authority - Recent Developments in the Insurance Sector

RISK

Definition: Risk implies future uncertainty about deviation from expected earnings or expected outcome. Risk measures the uncertainty that an investor is willing to take to realize a gain from an investment.

WHAT ARE THE RISKS:

Injuries. Drinking too much increases your chances of being injured or even killed. Alcohol is a factor, for example, in about 60% of fatal burn injuries, drownings, and homicides; 50% of severe trauma injuries and sexual assaults; and 40% of fatal motor vehicle crashes, suicides, and fatal falls.

Health problems. People who drink heavily have a greater risk of liver disease, heart disease, sleep disorders, depression, stroke, bleeding from the stomach, sexually transmitted infections from unsafe sex, and several types of cancer. They may have problems managing diabetes, high blood pressure, and other conditions. For more information, see Beyond Hangovers.

Birth defects. Drinking during pregnancy can cause brain damage and other serious problems in the baby. Because it is not yet known whether any amount of alcohol is safe for a developing baby, women who are pregnant or may become pregnant should not drink.

Alcohol use disorders. An alcohol use disorder is a medical condition that doctors can diagnose when a patient's drinking causes distress or harm. In the United States, about 17 million people have an alcohol use disorder.

HAZARDS AND PERILS IN INSURANCE

First, a hazard describes anything that increases the potential for a loss. (An unintended, unforeseen event that causes injury to an insured or damage to property. For insurance purposes, hazards are classified as one of four types:

- Physical hazards
- Legal hazards
- Moral hazards
- Morale hazards

Physical Hazards :

A physical hazard increases the likelihood of a loss occurring due to inadequacies in the condition, structure or operation of an insured or insured property. For example, a roof covered with heavy snow might be considered a physical hazard when it comes to homeowner's insurance. At the same time, a health insurance policy might consider an insured's heart condition to be a physical hazard.

Legal Hazards :

A legal hazard meanwhile, increases the likelihood and severity of a loss due to a condition imposed by the legal process that forces an insurer to cover a risk that it would otherwise deem uninsurable. For example, the American legal system motivates many people to bring litigation suits in order to realize the potential lucrative profits in doing so. Anything that might prompt a lawsuit involving an insurer can be considered a legal hazard.

Moral Hazards: A moral hazard, as the name might suggest, results from fraudulent acts committed by an insured. Examples of moral hazards include filing false insurance claims or misrepresenting oneself on a life insurance application in order to obtain coverage or more favorable coverage terms.

Morale Hazards

Not to be confused with moral hazards, a morale hazard results from a lack of reasonable care put forth by an insured. For example, consider an insured whose wallet is stolen from his car because the doors were left unlocked. This would be a morale hazard, as the insured did not take the necessary care to prevent his valuables from being stolen.

Moral Hazards versus Morale Hazards

The difference between a moral hazard and a morale hazard is intent. A moral hazard arises out an individual's deliberate intent to deceive. A morale hazard, on the other hand, results from unintentional carelessness or laziness

Perils in Insurance

When used in the insurance industry, the term peril applies only to property insurance. While perils and hazards sound similar, a peril actually results from a hazard. A hazard merely increases the likelihood of a loss. And a peril is the specific event that causes a loss.

CLASSIFICATION OF RISK

1. **Strategic** – One may consider the opening of a competitor in your niche a typical risk. Like the example above you can reduce it's impact, as you would deal with any other competitor, by offering better service, product and experience. I had a client, unlike the previous example, that was negotiating a lease for a great space on a busy Vancouver street for his coffee shop. All the equipment was purchased, interior designer and staff in place but the leasing agent kept raising the asking price per foot. I took over the negotiations and realized there was an ominous problem – there had to be another bidder for the space. There was competition and it was none other than Starbucks. Needless to say they won over the spot. My client settled for the first space he could find that turned out to be inferior to the detriment of his start-up. He opened and closed within a year.

2. Compliance – You may not see this coming. This is often new regulations or legislation that will change the way you must do business. Vancouver cab owners are bracing for legislation that will allow Uber to move to Vancouver this fall. It could be a game-changer for the industry. Cab owners responded by automating their antiquated call systems.

3. Financial – There's nothing worse than having completed that huge order and hoping that the client will pay you before the 30 day payment option you gave them. A start-up is not often funded properly to handle multiple accounts that take their time paying or not paying at all. A contingency fund will come in handy.

4. Operational – It sounds silly but my landscaper called the other day to tell me his mower broke down and could he use a weed eater to do my lawn – what? I'm not particularly loyal to this guy so found a company on Google that took care of me within an hour.

5. Using broken equipment like this will take a business down without some backup plan. Imagine what could happen if your partner or key employee dies suddenly, an operational calamity.

6. Environmental – Besides the disaster scenario, there are many environmental issues that could put a hole in your wallet. In a climate change minded world people will shop around for environmentally friendly business owners. It must adapt or go broke.

7. Employee – A former car repair business I once used went out of business after the owner's accountant absconded to Brazil with most of the money in his business. Ludicrous? Well it's a true story and one that happens more than you think. A more typical scenario is a critical employee being injured at work without a backup to run his specialty program or machinery.

8. Political – This is a bit different than the compliance issue. Imagine your business is in a border state and NAFTA is being renegotiated. The fate of your entire operation could be tied to whether the agreement is ratified or not. I know many business owners in Canada who are biting fingernails hoping to keep the status quo.

9. Society – The societal landscape is constantly changing and one must adapt and have a plan in place when change knocks at your door. My wife only buys free-range eggs from our grocer. The thought of cramped chickens bred in boxes even has me cringing. Gluten free, organic and non-GMO are buzzwords that are changing the way we do business and shop.

SOURCES OF RISK

Sources of risk can be organized into categories such as customer risk, technical (product) risk, and delivery risk. Within each category, specific sources of risk can be identified and risk reduction techniques applied.

1. Interest Rate Risk:

The variability in a security's return resulting from changes in the level of interest rates is referred to as interest rate risk. Such changes generally affect securities inversely; that is, other things being equal, security prices move inversely to interest rates. Interest rate risk affects bonds more directly than common stocks, but it affects both and is a very important consideration for most investors.

2. Market Risk:

The variability in returns resulting from fluctuations in the overall market that is, the aggregate stock market is referred to as market risk. All securities are exposed to market risk, although it affects primarily common stocks. Market risk includes a wide range of factors exogenous to securities themselves, including recessions, wars, structural changes in the economy, and changes in consumer preferences.

3. Inflation Risk: A factor affecting all securities is purchasing power risk, or the chance that the purchasing power of invested dollars will decline/With uncertain inflation, the real (inflation-adjusted) return involves risk even if the nominal return is safe (e.g., a Treasury bond). This risk is related to interest rate risk, since interest rates generally rise as inflation increases, because lenders demand additional inflation premiums to compensate for the loss of purchasing power.

4. Business Risk:

The risk of doing business in a particular industry or environment is called business risk. For example, AT&T, the traditional telephone powerhouse, faces major changes today in the rapidly changing telecommunications industry.

5. Financial Risk:

Financial risk is associated with the use of debt financing by companies. The larger the proportion of assets financed by debt (as opposed to equity), the larger the variability in the returns, other things being equal. Financial risk involves the concept of financial leverage, which is explained in managerial finance courses.

6. Liquidity Risk: Liquidity risk is the risk associated with the particular secondary market in which a security trades. An investment that can be bought or sold quickly and without significant price concession is considered to be liquid. The more uncertainty about the time element arid the price concession, the greater the liquidity risk. A Treasury bill has little or no liquidity risk, whereas a small over-the-counter (OTC) stock may have substantial liquidity risk.

7. Exchange Rate Risk:

All investors who invest internationally in today's increasingly global investment arena face the prospect of uncertainty in the returns after they-convert the foreign gains back to their own currency Unlike the past when most U.S. investors ignored international investing alternatives, investors today must recognize and understand exchange rate risk, which can be defined as the variability in returns on securities caused by currency fluctuations. Exchange rate risk is sometimes called currency risk.

8. Country Risk:

Country risk, also referred to as political risk, is an important risk for investors today probably more important now than in the past. With mote investors investing internationally, both directly and indirectly, the political, and therefore economic, stability and viability of a country's economy need to be considered.

9. Customer Risk

Customer risk is related to the customer's key success factors for the project. A project is not successful if the customer is not successful with the system. The key success factors are found in both the customer's requirements and the context or environment within which the system and its users will function. These will vary from customer to customer, even for similar systems.

10. Technical Risk

Technical risk arises from the capability of the technical solution to support the requirements of the customer. Until the system is actually constructed and tested every component of the architecture is a potential source of risk.

11. Delivery Risk

Delivery risk is related to the ability of the complete team (including vendors and subcontractors) to deliver against the plan at the cost and schedules estimated.

Risk Handling Techniques

FIGURE 4-1 Methods of Handling Risk

IMPORTANT METHODS IN HANDLING RISK

1. **Avoidance**

   Avoidance is the best means of loss control. This is because, as the name implies, you're avoiding the risk completely. If your efforts at avoiding the loss have been successful, then there is a 0% probability that you'll suffer a loss (from that particular risk factor, anyway). This is why avoidance is generally the first of the risk control techniques that's considered. It's a means of completely eliminating a threat.

2. **Loss Prevention**

   Loss prevention is a technique that limits, rather than eliminates, loss. Instead of avoiding a risk completely, this technique accepts a risk but attempts to minimize the loss as a result of it. For example, storing inventory in a warehouse means that it is susceptible to theft. However, since there really is no way to avoid it, a loss prevention program is put in place to minimize the loss. This program can include patrolling security guards, video cameras, and secured storage facilities.

3. **Loss Reduction**

Loss reduction is a technique that not only accepts risk, but accepts the fact that loss might occur as a result of the risk. This technique will seek to minimize the loss in the event of some type of threat. For example, a company might need to store flammable material in a warehouse. Company management realizes that this is a necessary risk and decides to install state-of-the-art water sprinklers in the warehouse. If a fire occurs, the amount of loss will be minimized.

4. **Separation**

Separation is a risk control technique that involves dispersing key assets. This ensures that if something catastrophic occurs at one location, the impact to the business is limited to the assets only at that location. On the other hand, if all assets were at that location, then the business would face a much more serious challenge. An example of this is when a company utilizes a geographically diversified workforce.

5. **Duplication**

Duplication is a risk control technique that essentially involves the creation of a backup plan. This is often necessary with technology. A failure with an information systems server shouldn't bring the whole business to a halt. Instead, a backup or fail-over server should be readily available for access in the event that the primary server fails. Another example of duplication as a risk control technique is when a company makes use of a disaster recovery service.

RISK MANAGEMENT

Risk management is the process of identifying possible risks, problems or disasters before they happen. This allows business owners to set up procedures to avoid the risk, minimize its impact, or at the very least help cope with its impact. A business or organization should make a realistic evaluation of the true level of risk and plan accordingly.

Risk management is the process of identifying possible risks, problems or disasters before they happen. This allows business owners to set up procedures to avoid the risk, minimize its impact, or at the very least help cope with its impact. A business or organization should make a realistic evaluation of the true level of risk and plan accordingly.

RISK MANAGEMENT STRATEGIES AND PROCESSES

All risk management plans follow the same steps that combine to make up the overall risk management process:

- **Risk identification.** The company identifies and defines potential risks that may negatively influence a specific company process or project.
- **Risk analysis.** Once specific types of risk are identified, the company then determines the odds of it occurring, as well as its consequences. The goal of the analysis is to further understand each specific instance of risk, and how it could influence the company's projects and objectives.
- **Risk assessment and evaluation.** The risk is then further evaluated after determining the risk's overall likelihood of occurrence combined with its overall consequence. The company can then make decisions on whether the risk is acceptable and whether the company is willing to take it on based on its risk appetite.

- **Risk mitigation**. During this step, companies assess their highest-ranked risks and develop a plan to alleviate them using specific risk controls. These plans include risk mitigation processes, risk prevention tactics and contingency plans in the event the risk comes to fruition.
- **Risk monitoring**. Part of the mitigation plan includes following up on both the risks and the overall plan to continuously monitor and track new and existing risks. The overall risk management process should also be reviewed and updated accordingly.

RISK MANAGEMENT APPROACHES

After the company's specific risks are identified and the risk management process has been implemented, there are several different strategies companies can take in regard to different types of risk:

- **Risk avoidance**. While the complete elimination of all risk is rarely possible, a risk avoidance strategy is designed to deflect as many threats as possible in order to avoid the costly and disruptive consequences of a damaging event.
- **Risk reduction**. Companies are sometimes able to reduce the amount of effect certain risks can have on company processes. This is achieved by adjusting certain aspects of an overall project plan or company process, or by reducing its scope.
- **Risk sharing.** Sometimes, the consequences of a risk is shared, or distributed among several of the project's participants or business departments. The risk could also be shared with a third party, such as a vendor or business partner.
- **Risk retaining.** Sometimes, companies decide a risk is worth it from a business standpoint, and decide to retain the risk and deal with any potential fallout. Companies will often retain a certain level of risk a project's anticipated profit is greater than the costs of its potential risk

ADVANTAGES OR BENEFITS OF RISK MANAGEMENT PROCESS

Risk management process is considered as an important discipline that the business has in its recent times. Many organizations tend to realize the advantages of enterprise risk management. Following are few benefits of risk management in projects:

a. Benefits of risk identification:

Risk identification helps in fostering the vigilance in times of discipline and calm at the times of crisis. It implies all the risks in prior that are most likely to happen and are planned to execute without any assumptions that run. These positive risks are often held upon most of the occurrences. It helps in opportunity risks so as to be aware of the forthcoming issues.

b. Benefits of risk assessment:

It focuses on the identified tasks on assisting the impact of business or projects. This phase focuses on the ideas that are discussed among the stakeholders. It has greatest advantage of dealing with the points that are finalized with more possible solutions. It has sense of all views that turns into accountability of each and every social life. Participation in these kinds of assessments will help one to tackle his/her risks. It promotes organizational culture.

c. Treatment of risks:

It helps in treating one’s own risks that are the subsets of implementing a plan. It has internal compliance that are brought and mitigated towards the forsaken actions. Its opportunity falls in the lack of preparation and even more realized upon the profitable data that relieves through internal controls.

d. Minimization of risks:

The risks that are handled within the given assessments plans are foreseen within the business functions. It enables one to speed up the data to change policies and contingencies that are made successful within the mapped business functions. Here the cost beneficial analysis is to be revised within the ownership of risks. It focuses on change of policies within the detailed structural behavior.

e. Awareness about the risks:

Here the terms that are noticed will create awareness among the scheduled terms of risks that are a successful analysis and evaluation of exercising the modules of risks. It enables one to concentrate on the risk treatments within the lessons learnt and are scheduled into lack of preparation. It has subsequent phases regarding each module within the identified data.

f. Successful business strategies:

Risk management strategy is not one-time activity and the grade points are finalized within the recent status. It has different stages that modulate to lack of preparation, planning and successful implementations of all the plans. It has operational efficiency that is realized upon the mitigation of negative risks. It has contingent policies over the preparation of business in the measures of treatment.

g. Saving cost and time:

It threats to the task that is completed over the projects and the other business strategies. It always results in saving the costs that are consolidated within the items that are practiced. It prevents wastage and make up the time for firefighting.

h. New opportunities: The opportunities that are emerging are held within the new ways of communicating on the unravel issues. It has collective and least significant part that matches with most of the scenarios. It prepares for the future endeavors and the related exhaustive efforts as inputs.

i. Harvesting knowledge:

Here one must try to spend the knowledge about the stakeholder's experience of the preemptive approach that are made applicable for the unprepared threats towards the knowledge gained and this provides a template to face the readymade risks. It has successive plans that are indulged from the start till the collective knowledge.

j. Protecting resources:

The risk management plans and policies under help in protecting the resources of the organization. This helps in promoting the resources instead of using them illegally. It also equips safety among the adaptive changes to the staff alternatives and is bundled together with the other resources. It builds production plans and the alternative plans or the process of re-routing.

k. Improvement in credit ratings:

The improvement in credit ratings evolves numerous agencies that support the accomplished tasks resulting in lower budget investments. It has capital volatility that translates the greater confidence issues particularly with the stakeholders. It aims at building multiple business aspects that have tangible benefits.

l. Regulatory compliances:

This framework helps in meeting regulatory needs. It performs and measures the risk managements. This improvement helps in attaining the higher credit aspects. It also derives higher efficiency towards the capital volatility and even the rating metrics that are assigned to the compensated business plans. It translates into greater confidence of improved stakeholders that are made applicable within the insured business.

m. Reduces impact and loss:

Risk management has more defined proceedings when there is pre-planned schedule or loss of the object. It contributes a part to stress and worry. The complexity matters when they are gathered. Here it ensures the organization with all possible outcomes of the independent and objective assessments that are analyzed on taking challenges.

n.Stability of earnings:

The business operations that are held within the next operation level will concentrate more on the scheduled amount of data. It reduces the impact of business activities. Employees will be retrenched so as to keep in the comfort zone.

o.Managing the strategic plans:

Managing risks has the strategic plans that are related to the plans that are most used in various strategic plans. This manages the data that depends on the most of the resources that are linked to the migration defined data. It reflects on the generated data that manages most of the generated cash flows that are in adverse situations.

DISADVANTAGES OF RISK MANAGEMENT PROCESS:

Managing the risks provides the waste of time to compensate the projects. It persuades the projects that reciprocate to improve the funds in the company. It is spent on the research and development of the allocated issues that hold to ensure project management.

a. Complex calculations:

Risk management involves complex calculations in terms of managing risks. Without the automatic tool, each and every calculation regarding risks becomes difficult. It involves the ideal data that contributes to the employee’s standards. This process is really difficult to predict.

b. Unmanaged losses: If the organization meddles with a loss, then that pay will be delivered to the pay loss of the firm. Here, the organization is responsible for the loss that happened due to improper schedule about the risk management.

c. Ambiguity: Even if the ambiguity is out of loss then people have to cover it within the planned scale of losses of the discounts and even the consideration into unnecessary insurance discounts.

d. Depends on external entities: Managing risks depends on the external entities that are modulated within the organization, usually depends on the external data. It includes all the dependent information about the risks regarding other valid resources. The transferable resources depend on the external entities that tend to have data.

e. Mitigation:

Usually, mitigation guarantees losses of the concealed impairment of money which may cause improper management of risks. This leads to unsafe acceptance of data within rare company losses.

f. Difficulty in implementing:

Risk management takes a long time to gather the information regarding the strategic plans. It has universal standards that are mitigated and accepted according to the monetary values. It matches with the hard understanding without recent experience without compensation of the required quantity of data.

g. Performance:

Since the risk management can be processed only with subjectivity, it holds on the control of prospects within each issue. It can be identified with the difficult implementation of controls. It manages the cost benefits analysis that is not implemented. This process concentrates more on the implementation of controls.

h. Potential threats:

These potential threats are to be maintained carefully so as to organize and disappear from the market. This implementation reduces the level of risk and proportionally increases the control over it. Any kind of process will have its own limitations and benefits of project risk management. Thus to build an effective risk management one has to focus on the mitigated strategic plans of risks that are effective on the risk takers. It is to identify the maximum of the entire management to overcome forthcoming dangers. Risk management becomes the major case when the organization has targeted results apart from the potential threats, damages and vulnerabilities.

INTRODUCTION OF INSURANCE

Meaning

An act of insuring, or assuring, against potential future losses in exchange for a periodic payment called premium. In other words, one of the parties undertakes to indemnify or guarantee another party against loss by certain specified risks.

Insurance works on the basic principle of risk-sharing. A great advantage of insurance is that it spreads the risk of a few people over a large group of people exposed to risks of similar types.

Definition

Insurance is a contract between two parties whereby the insurer agrees to indemnify the insured upon the happening of a stipulated contingency, in consideration of the payment of an agreed sum, whether periodical or fixed (the premium). Insurance falls into the main groups of life, property, marine, aviation, health, transport, motor vehicle – third party liability, and personal accident and sickness.

NATURE OF INSURANCE

1. By nature insurance is a devise of sharing risk by large number of people among the few who are exposed to risk by one or the other reason.

2. If a large number of subscribers to insurance serve the purpose of compensation to few among them exposed to uncertain risks appears as a co-operative look.

3. Valuation of risk is determined as per predefined terms and conditions of the insurance policies.

4. Insurance provides facility of financial help in case of contingency.

5. However it depends on the value of insurance for which payment is made in case of contingency. This provides basis of the amount to be paid.

6. Insurance is a policy regulated under laws and therefore the amount of insurance can neither be paid as gambling nor as charity.

HISTORICAL PERSPECTIVE

The history of life insurance in India dates back to 1818 when it was conceived as a means to provide for English Widows. Interestingly, in those days a higher premium was charged for Indian lives than the non-Indian lives as Indian lives were considered more risky for coverage.

The Bombay Mutual Life Insurance Society started its business in 1870. It was the first company to charge the same premium for both Indian and non-Indian lives. The Oriental Assurance Company was established in 1880. The General insurance business in India, on the other hand, can trace its roots to the Triton (Tital) Insurance Company Limited. The first general insurance company was established in the year 1850 in Calcutta by the British. Till the end of nineteenth century insurance business was almost entirely in the hands of overseas companies.

Insurance regulation formally began in India with the passing of the Life Insurance Companies Act of 1912 and the provident fund Act of 1912. Several frauds during 20's and 30's sullied insurance business in India. By 1938 there were 176 insurance companies. The first comprehensive legislation was introduced with the Insurance Act of 1938 that provided strict State Control over insurance business. The insurance business grew at a faster pace after independence. Indian companies strengthened their hold on this business but despite the growth that was witnessed, insurance remained an urban phenomenon.

SIGNIFICANCE OF INSURANCE

The risk only means that there is a possibility of loss or damage. The damage may or may not happen. Insurance is done against the possibility that the damage may happen. There has to be an uncertainty about the risk. The earthquake may occur, but the building may not have been affected at all. The word ‘possibility’ implies uncertainty. Insurance is relevant only if there are uncertainties.

In case of a human being, death is certain, but it’s time is uncertain. The person is insured, because of the uncertainty about the time of his death. In the case of a person who is ill,the time of death is not uncertain, though not exactly known. It would be ‘soon’. He can’t be insured.

HOW INSURANCE WORKS

The mechanism of insurance is very simple. People who are exposed to the same risks come together and agree that, if any one of them suffers a loss, the others will share the loss and make good to the person who lost. The manner in which the loss is to be shared can be determined beforehand. It can be equal among all. It can also be proportional to the risk that each person is exposed to.

CHARACTERISTICS OF INSURANCE

1. Any Insurance is a contract between insurer and insured for compensating the losses. 2. For any insurances contract not only premium is charged but it also obligatory to pay the premium in time. 3. Payment to insured in the event of loss as per the agreement and terms of policy purchased by the insured. 4. Insurance is a simple contract based on good faith.

5. Insurance contract is one that provides benefits to both the insurer as well as insured. In other words it is a contract for mutual benefits. 6. All other contracts are based on present day situation whereas an insurance contract is one for compensating future losses. 7. The insurance concept being based on pooling funds by many and distributing among few for their losses is a social security also.

CLASSIFICATION OF VARIOUS TYPES OF INSURANCE:

1. Credit Insurance:

Credit insurance means of insuring the payment of commercial debts against the risk of non-payment by the borrower because of his insolvency or for some other reason.

2. Group Insurance:

Group Insurance is insurance or life insurance obtained by a person as a member of a group, such as a professional organization, rather than as an individual, because in this way better terms can often be obtained. This is because there is an administrative saving for the company, and sometimes also because a particular group has a better life expectancy than people in general.

3. Life Insurance:

Life Insurance/Assurance is a contract by which the insurer/assuror undertakes to pay the person for whose benefit the cover is effected, or to his personal representative, a certain sum of money on the happening of a given event, or on the death of the person whose life is assured.

4. Marine Insurance:

It is contract by which underwriters engage to indemnify the owner of a ship, cargo or fright against losses from certain perils or sea risks to which their ship or cargo may be exposed. In case of marine insurance another type of insurance is prevalent known as Mutual Insurance.

This type of insurance is provided by ship-owners throughout the world who have clubbed together in various mutual protection and indemnity associations to cover hazards which are not covered by marine policies, which have standard clauses leaving a number of contingencies un-provided for, or only partially provided for. The liabilities of mutual insurance company are periodically divided amongst the subscribers in proportion to the tonnage they have entered with the company.

5. Fire Insurance:

Is a contract of indemnity by which an insurance company undertakes to make good any damage or loss by fire to buildings or property during a specific time.

FUNCTIONS OF INSURANCE:

There are certain functions which apply to every kind of insurance including life insurance as well as general insurance that includes every type of insurance such as home, automobile, jewellery, property and other valuable assets.

1) PRIMARY FUNCTIONS:

(i) Protection:

The Primary function of Insurance is as we think about any insurance. One feels insured and contended about future risks only because one is sure to be compensated for any loss of future. It is therefore Primary function of Insurance to provide protection against future risks, accidents and uncertainty.

No insurance can arrest the risk from taking place, no insurance can prevent future miss happenings, but can certainly provide some cover for the losses of risk. In real terms Insurance is a protective cover against economic loss by sharing the risk with others, (the pooling members).

(ii) Collective Risk:

The Insurance policies whether life insurance or general insurance are purchased by lacs of people. But all of them are not subjected to losses every year. It is only a few or negligible who become victim of some miss happenings. In other word lacs of people contribute towards insurance and only a few people need its cover.

It is therefore clear that insurance is a method by means of which a few losses are shared by a large number of people. All the people insured contribute by paying annual premium towards a fund out of which the persons exposed to risks are paid as per the terms and conditions of the insurance policy purchased by them.

(iii) Assessment of Risk:

What is volume of risk is determined by the Insurance companies by assessing diverse factors that give rise to risk. The rate of premium is also decided on the basis of risk involved.

(iv) Certainty:

Unless we are insured we remain uncertain about our capability to meet the future risks. But once we are insured it converts our uncertainty into certainty of bearing future risks.

2) SECONDARY FUNCTIONS:

(i) Prevention of losses: In simple words we can say precautions are better than the treatment. It is better instead of seeking the help of insurance if one adopts such measure which prevent the losses. Every Insurance prescribes to take preventive measures against losses. Such as installation of safety devices like automatic sparkler or alarm system, CCTV system etc.

If such type of preventive measure exists there shall be lower rate of premium for getting insurance cover against risks. Prevention of losses is to adopt preventive measures against unexpected losses. For example while driving a two wheeler we use helmets only because we take preventive measures to avoid any accidental loss. It is not certain that an accident is going to happen even than a preventive measure is adopted. If an insured take such steps he saves a lot in form of the amount of premium required to be paid. If prevention techniques have been adopted and applied the Insurance company may rate the risk at lower level and shall prescribe a lower rate of premium otherwise a higher rate of premium shall be charged.

(ii) Covering Larger Risks with small capital:

Every businessman is always worried about the security of his business. After making large investments in the business it is natural to take care of the business investments. There are two alternatives first one is that the concerned businessman should invest out of his own pocket to create a proper security. The second method is to get his business activities insured. In such a case the insurance relives a businessman from security investments by paying small amount in the shape of premium against larger risks and uncertainties. This assuages the businessman from security investments for a small amount of premium against larger losses.

(iii) Helps in development of larger Industries:

Larger Industries are prone to more risks in their setting up. The large industries have diversified fields of functioning where one field sometimes has no relation with the other field of the same industry. The activities of large industries are diversified that it goes above any planning to cover every type of risk. It is only insurance that comes not only to help these large industries against possible risk but also help them to grow. It becomes possible only because insurance provides an opportunity to develop to those larger industries which have more risks in their setting ups.

3) OTHER FUNCTIONS:

(i) Insurance is a tool used for saving and investments: By purchasing any Insurance Policy it becomes completion by the purchaser to make payment of the insurance policy. This completion is blessing in disguise. Most of the policy buyers particularly individuals do not know the purpose of payment of premium. They know only one thing that paying premium is compulsory for them. The fact is otherwise true.

Once an insurance policy is purchased it assume the compulsory way of savings. Not only savings but such funds collected by insurance companies are further invested to the benefit of insured. Because it is compulsory it restricts the unnecessary expenses by the insured's on one hand and on the other hand insurance provides them the opportunity to avail Income tax exemption for the amount paid as insurance premium. Some prudent people take up insurance as good investment option also. Such savings help growth in national economy.

(ii) It is one of sources to earn Foreign Exchange: The business of insurance has crossed the national borders of any country. While traveling by Air one needs aviation insurance. While on board at sea whether humans or cargo it needs marine insurance which is also spread over across the boarders of any country.

BENEFITS OF INSURANCE

- Financial Security of Life and Assets in case of an unfortunate event
- Tax Relief by way of deductions from Income, which lowers tax burden
- Encourages saving and helps in Financial Planning for the Future
- Life Insurance Policies can be used as a security to obtain a Loan

ESSENTIAL REQUIREMENTS AND PRINCIPLES OF RISK INSURANCE

Insurance means protection against loss. It is the process of safeguarding the interest of people from loss and uncertainty. It is based on contract. It is a valid agreement that incorporates certain terms and conditions. It may be described as a social device to reduce or eliminate a risk of loss to life and property. The essential elements of insurance are listed below:

1. Agreement

The agreement means communication by the parties to one another regarding their intentions to create a legal relationship. For a valid contract of insurance, there must be an agreement between the parties. That is one making offer or proposal and another accepting the proposal or signifying his acceptance of the proposal.

2. Free consent

There must be free consent between the two parties in the contract. Parties entering into the contract should enter it by their free will and consent. The contract entered via undue force, influence, fraud, misrepresentation, hiding the facts is not the valid contract. Consent received forcefully can't be a free consent.

3. Components of contract

An agreement must be legally competent between the parties to enter into the contract. It means both parties in the insurance contract must be at the age of majority. He/she must have a sound mind and not disqualified by law of the country. It states that a person who is minor, lunatics, idiot and alike cannot enter into an insurance contract. The contract entered into by these will be declared as void.

4. Increase self-respect

There is the direct connection between self-respect and independence of a person in the society. Insurance supports to the person to be independent. It provides economic support to an individual, businessman which helps to increase the self-respect of the person in the society.

5. Legal consideration

There must be valid considerations in a valid insurance contract. Consideration is the value that each party gives to the other party. For the establishment of the legal relationship, creation of an obligation between them and to make it enforceable by law there must be a lawful consideration.

6. Compliance with legal formalities

In the contract of insurance, the agreement between parties must be in written form and signed by both the parties. It must be properly tested by the witness and registered otherwise, it may not be enforced by the court.

7. Competent of contract:

The parties to the contract should satisfy certain qualifications to enter into contracts. A person who is at the age of majority according to the law, who is of sound mind and who is not disqualified by law can enter into the contract. So, the person of unsound mind disqualified and minors cannot enter into insurance contracts. A contract made by incompetent parties will be invalid.

8. Certainty: The terms and conditions of a contract should be clear and certain. They should be clearly understood by both the parties. Hence, to make it clear and certain, the insurance company provides a printed policy document.It contains all the terms and conditions of the policy.

9. Insurable interest

Insurable interest refers that the insured must suffer if the loss takes place in the property. In case of the property interest, ownership of property can support to insurable interest but in the case of life insurance, close family ties or marriage will satisfy the requirement of insurable interest.

10. Encourage saving

The insurance should pay the amount of premium regularly and compulsorily. It develops the habit of saving. The deposited insurance premium cannot be withdrawn like a bank deposit. Life insurance is the best method of saving an investment. It is a good means to make provision for retirement age.

11. Writing and registration

The insurance contract must be in writing , duly signed, stamped and registered.

12. Warranties

Certain conditions and promises imposed in the contract are called warranties. A warranty is that by which the insured undertakes that some particular thing shall or shall not be done. Warranty is a very important condition in an insurance contract which is to be fulfilled by the insurance company.

REINSURANCE

Reinsurance occurs when multiple insurance companies share risk by purchasing insurance policies from other insurers to limit the total loss the original insurer would experience in case of disaster. By spreading risk, an individual insurance company can take on clients whose coverage would be too great of a burden for the single insurance company to handle alone. When reinsurance occurs, the premium paid by the insured typically shared by all of the insurance companies involved.

Reinsurance can help a company by providing:

1. Risk Transfer - Companies can share or transfer of specific risks with other companies
2. Arbitrage - Additional profits can be garnered by purchasing insurance elsewhere for less than the premium the company collects from policyholders.
3. Capital Management - Companies can avoid having to absorb large losses by passing risk; this frees up additional capital.
4. Solvency Margins - The purchase of surplus relief insurance allows companies to accept new clients and avoid the need to raise additional capital.
5. Expertise - The expertise of another insurer can help a company obtain a proper rating and premium.

PRIVATIZATION OF INSURANCE INDUSTRY

Insurance has always been a politically sensitive subject in India. Within less than 10 years of independence, the Indian government nationalized private insurance companies in 1956 to bring this vital sector under government control to raise much needed development funds. Since then, state-owned insurance companies have grown into monoliths, lumbering and often inefficient but the only alternative. They have been criticized for their huge bureaucracies, but still have millions of policy holders as there is no alternative. Any attempt to even suggest letting private players into this vital sector has met with resistance and agitation from the powerful insurance employees unions. The Narasimha Rao government (1991-96) which unleashed liberal changes in India's rigid economic structure could not handle this political hot potato. Ironically, it is the coalition government in power today which has declared its intention of opening up insurance to the private sector. Ironical because this government is at the mercy of support from the left groups which have been the most vociferous opponents of any such move.

No policy initiatives have yet been announced, but the government has already clarified it will not privatize the existing insurance companies. But while the decision has been welcomed by the big companies who were planning to make a foray into this lucrative business, the move has been criticized by trade unions and even some left supporters of the government.
In some ways it was inevitable-all segments of the financial sector had been opened to private players and it was only a matter of time before insurance followed. The bigger private players claim that opening up insurance will give policy holders better products and service; the opponents of privatization argue that in a poor country like India insurance needs to have social objectives and newcomers will not have that commitment.

Many international players are eyeing the vast potential of the Indian market and are already making plans to come in. But it will take some time before the intent translates into policy-the unions are not going to give up without a fight and in that they will get the support of some elements of the coalition government.

INSURANCE REGULATORY DEVELOPMENT AUTHORITY ACT (IRDA) 1999

This Act was passed by Parliament in Dec.1999 & it received presidential assent in Jan.2000. The aim of the Authority is "to protect the interest of holders of Insurance policies to regulate, promote and ensure orderly growth of Insurance industry & for matters connected therewith or incidental thereto."

Under this Act, an authority called IRDA is established which replaces Controller of Insurance under Insurance Act 1938.

DEFINITIONS

Various terms have been defined as follows under section 2: -

a) "Appointed Day" means the date on which the Authority is established.

b) "Authority" means the Insurance Regulatory and Development Authority.

c) "Chairperson" means the chairperson of the Authority.

d) "Fund" means the Insurance Regulatory and Development Authority Fund.

e) "Interim Insurance Regulatory Authority" means the Insurance Regulatory Authority set up by the Central Government.

f) "Intermediary or Insurance intermediary" includes Insurance brokers, reinsurance brokers, insurance consultants, surveyors and loss assessors.

g) "Member" means a whole time or a part time member of the Authority and includes the Chairperson.

h) "Notification" means a notification published in the Official Gazette.

i) "Prescribed" means prescribed by rules made under this Act.

j) "Regulations" means the regulations made by the Authority.

FEATURES OF AUTHORITY

- Corporate body by the aforesaid name which means it will act as group of persons, called members, who will work jointly not as an individual person like Controller of Insurance.
- Having perpetual succession which means any member may resign or die but the Authority will work.
- A common seal with power to enter into a contract by affixing a stamp on the documents.

  opponents of any such move.

COMPOSITION OF AUTHORITY

The Authority shall consist of nine persons as per details given below:.

- Chairperson.
- Not more than 5 whole time members.
- Not more than 4 part time members.

These persons shall be appointed by the Central Govt. from amongst persons of ability, integrity & standing who have knowledge or experience in life Insurance, general Insurance, actuarial science, finance, economics, law accountancy, administration or other discipline which would in the opinion of the Central Govt. be useful to the Authority. (Section 4)

TENURE (Section 5)

- The Chairman tenure will be for 5 years and eligible for reappointment till he attains the age of 65 years.
- The appointment of members will be for 5 years and eligible for reappointment but not exceeding the age 62 years.

REMOVAL OF MEMBERS (Section 6)

The Central Government can remove any member of the Authority if he :-

a) Is declared bankrupt
b) Has become physically or mentally incapable of acting as a member
c) Has been awarded punishment by any Court.
d) Has acquired such financial or other interest which affect his function as a member.
e) Has so abused his position as to render his continuation in office detrimental to the public interest.

But no member can be removed form the office unless & until the reasonable opportunity of being heard is given to such member in the matter.

SALARY & ALLOWANCES (Section 7)

The Chairperson and full time members' shall receive the salary & allowance as prescribed by the Government.

BAR ON FUTURE EMPLOYMENT (Section 8)

The Chairperson and the whole time members cannot accept any appointment without Govt. approval within 2 years from the date on which he ceases or retires from the office.

SUPERINTENDENCE & DIRECTION (Section 9)

The Chairperson shall have overall control & provide direction in respect of all administrative matters of the Authority. He will chair the meeting as and when he is present in the meeting.

Meeting of Authority (Section 10)

The meeting of the Authority will be held at the time and place as decided by the Chairperson as per regulation made under this act. If the Chairperson is unable to attend the meeting then the members will choose the Chairperson from amongst the present members. All the issues to be discussed in the meeting shall be decided by a majority of votes by the present and voting. In case of equal voting the decision of Chairperson of that meeting will be final.

Invalidation of proceedings of Authority (Section 11)

The proceedings of Authority will not become invalidate (not valid in the eyes of law) due to following reasons:-

- Defects in the formation of the Authority.
- Defect in appointment of any Member.

Officers & Employees of Authority (Section 12) The Authority may appoint officers and employees as it considers necessary for the efficient discharge of its functions. The terms & conditions of such officers shall be governed as per the regulations made under this Act.

Transfer of Assets, Liabilities etc (Section 13)

As stated above that initially the Authority was formed under the name "Insurance Regulatory Authority (IRA)" and later on the name was changed to "Insurance Regulatory & Development Authority."(IRDA) Therefore the assets and liabilities of IRA will be transferred to IRDA on the date of establishment of the Authority.

Duties, Powers & Functions of Authority (Section 14)

Duties: The Authority shall have the duty to regulate, promote and ensure orderly growth of the Insurance business and re- insurance business subject to the provisions of any other provisions of the act.

Powers & Functions to:-

(a) Issue to the applicant (Insurance company or Insurance Agent or Surveyors or Insurance Brokers or Third Party Administrators) a certificate of registration, renew, modify, withdraw, suspend or cancel such registration;

(b) Protection of the interests of the policyholders in matters concerning assigning of policy, nomination by policyholders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;

(c) Specifying requisite qualifications, code of conduct and practical training for insurance brokers , agents, surveyors, Third Party Administrator ;

(d) Specifying the code of conduct for surveyors and loss assessors (Who assess the loss of policyholder in case of General Insurance);

(e) Promoting efficiency in the conduct of insurance business;

(f) Promoting and regulating professional organizations connected with the insurance and re-insurance business;

(g) Levying fees and other charges on insurance companies, Agents, Insurance Brokers, Surveyors and Third party Administrator;

(h) Calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organisations connected with the Insurance business;

(i) Control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (w.e.f., 1/1/2007 TAC has ceased to function).

(j) Specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;

(k) Regulating investment of funds by insurance companies;

(l) Regulating maintenance of margin of solvency i.e., having sufficient funds to pay insurance claim amount;

(m) To settle the disputes between insurers and intermediaries or insurance intermediaries;

(n) Supervising the functioning of the Tariff Advisory Committee;

(o) Specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organisations referred to in clause(f);

(p) Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and

(q) Exercising such other powers as may be prescribed.

Grants from the Central Government (Section 15) The Government after approval from the Parliament may grant funds to discharge their duties as per this Act.

Constitution of Funds (Section 16)

(1) There shall be a fund to be called "The Insurance Regulatory and Development Authority Fund" and there shall be credited there to:—

a. all Government grants, fees and charges received by the Authority;

b. all sums received by the Authority from such other source as may be decided upon by the Central Government;

c. the percentage of prescribed premium income received from the insurer/insurance intermediaries.

(2) The Fund shall be applied for meeting:—

a. the salaries, allowances and other remuneration of the members, officers and other employees of the Authority:

b. the other expenses of the Authority in connection with the discharge of its functions and for the purposes of this Act.

Accounts and Audit (Section 17)

(1) The Authority shall maintain proper accounts and other relevant records and prepare an annual statement of accounts in such form as may be prescribed by the Central Government in consultation with the Comptroller and Auditor-General of India.

(2) The accounts of the Authority shall be audited by the Comptroller and Auditor-General of India at such intervals as may be specified by him and any expenditure incurred in connection with such audit shall be payable by the Authority to the Comptroller and Auditor-General.

(3) The Comptroller and Auditor-General of India and any other person appointed by him in connection with the audit of the of the accounts of the Authority shall have the same rights, privileges and authority in connection with such audit as the Comptroller and Auditor-General generally has in connection with the audit of the Government accounts and, in the particular shall have the right to

demand the production of books of account, connected vouchers and other documents and papers and to inspect any of the offices of the Authority.

(4) The accounts of the Authority as certified by the Comptroller and Auditor General of India or any other person appointed by him in this behalf together with the audit-report thereon shall be forwarded annually to the Central Government and that Government shall cause the same to be laid before each House of Parliament.

ESTABLISHMENT OF INSURANCE ADVISORY COMMITTEE (Section 25)

(1) The Authority may, by notification, establish with effect from such date as it may specify in such notification, a Committee to be known as the Insurance Advisory Committee.

(2) The Insurance Advisory Committee shall consist of not more than twenty-five members excluding ex-officio members to represent the interests of commerce, industry, transport, agriculture, consumer for a surveyors, agents, intermediaries, organisations engaged in safety and loss prevention, research bodies and employees' association in the insurance sector.

(3) The Chairperson and the members of the Authority shall be the ex-officio Chairperson and ex officio members of the Insurance Advisory Committee.

(4) The objects of the Insurance Advisory Committee shall be to advise the Authority on matters related to insurance.

(5) The Insurance Advisory Committee may advise the Authority on such other matters as may be prescribed.

Miscellaneous Provisions

- The Central Government can issue the direction to the Authority on policy matters not on administrative and technical matters and the Authority is bound to follow such direction.
- The Central Government can supersede any act of the Authority.

- The Chairperson, Members and employees of Authority shall be deemed to be public servant while performing the duties as per the provision of this Act.
- The Authority can delegate its powers to Chairperson or members or officers and employees of the Authority as per regulation made under this act.
- The Authority has the power to make rules related to salary & allowances and other terms & conditions to be applicable to its Chairperson, members, employees or officers.

RECENT DEVELOPMENTS IN THE INSURANCE SECTOR

A well developed and evolved insurance sector is a boon for economic development of a country. It provides long-term funds for infrastructure development and concurrently strengthens the risk-taking ability of the country. India's rapid rate of economic growth over the past decade has been one of the most significant developments in the global economy.

The Indian insurance industry: At the crossroads of development

The industry is on its way to development and a number of factors govern that growth. Some of them are:

- **Significantly untapped latent potential:** India's insurance industry has witnessed rapid growth during the last decade. Consequently, may foreign companies have expressed their interest in investing in domestic insurance companies, despite the Government of India's regulation, which mandates that the foreign shareholding limit is fixed at 26% for the life as well as non-life insurance sectors. How can this potential be tapped efficiently? This report analyzes the issues of the industry and suggests methods to overcome them.
- **Recent regulatory developments that govern the current market state:** The development of the insurance industry in India is likely to be critically dependent on the nature and quality of regulation. Overall, the regulatory environment is favorable and takes care that players

maintain prudent underwriting standards, and reserve valuation and investment practices. The primary objective for the current regulations is to promote stability and fair play in the market place. Our report details some major regulations by the IRDA as well as those concerning ULIPS, IPOs, among others.

MARKET DEVELOPMENT DRIVEN IN THE INDIAN INSURANCE INDUSTRY

There are certain factors that need to be considered by the Indian insurance industry to ensure a seamless growth in business. Our report analyzes these factors in detail. Some of these include:

- **Distribution channels:** The effectiveness and cost of diverse distribution strategies of different players is crucial in ensuring the success of players in the insurance business, particularly in the retail lines of business.
- **Focus on financial inclusion:** The approach to insurance must be in sync with the evolving times. The mission of the insurance sector in India should be to extend the insurance coverage over a larger section of the population and a wider segment of activities.
- **Consumer needs and preferences:** The growth in insurance industry has been spurred by product innovation, vibrant distribution channels, coupled with targeted publicity and promotional campaigns by the insurers. Innovation has come not only in the form of benefits attached to the products, but also in the delivery mechanism through various marketing tie-ups. All these efforts have brought insurance closer to the customer as well as made it more relevant.

PART – B

1. What is meant by risk?

2. Define risk

3. List out the classification of risk?

4. Write a short note on financial risk?

5. Write a short note on non-financial risk?

6. Define Insurance

7. Mention the functions of insurance?

8. List out the benefits of Insurance?

9. Write a short note on reinsurance?

10. List out the types of reinsurance?

PART - C

1. Explain the recent development in Insurance Sector?

2. Explain the different types of Reinsurance?

3. Explain the various functions of Insurance?

4. Enumerate the privatization of Insurance business in India?

5. What are the important principles of Risk Insurance Management?

6. Elucidate the Functions of Insurance Regulatory and Development Authority?

7. Describe in detail the importance of insurance. What are its uses to the individual and society as a whole?

8. Elucidate on risk insurance management process?

9. What is meant by Risk and Explain the classification of Risk?

10. Enumerate the important duties and powers of Insurance Regulatory and Development Authority?

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE

DEPARTMENT OF MANAGMENET

Unit I - Risk Insurance - Multiple Choice Questions- Each Question carries ONE Mark

S. No.	Questions	Option 1	Option 2	Opt 3	Opt 4	Answers
1	A -----------------is an uncertainity of a financial loss.	Risk	Insurance	Damage	Perils	Risk
2	Peril is the ------------	Loss	Create the chance of loss	Cause of loss	Risk	Cause of loss
3	The condition that may increase the chance of loss ----------	Peril	risk	uncertainity	hazard	hazard
4	Physical condition that increase the chance of loss from any peril is called as………………	hazard	physical hazard	peril	Risk	physical hazard
5	Moral hazard refers to ----------	dishonesty	careless attitude	mental condition	behaviour of a person	dishonesty
6	Morale hazard refers to----------	behaviour of a person	attitude of a person/group	dishonesty	physical damage	attitude of a person/group
7	In a business world,risks are ------------------	predictable	inevitable	dynamic	static	dynamic
8	Financial risk is concerned with ---------------------	static risk	dynamic risk	non financial risk	financial loss	financial loss
9	The -------------- risk is avoidable risk to the extend by management	pure	static	financial	non-financial	financial
10	Loss of asset is also called as -------------	financial risk	static risk	dynamic risk	risk	static risk
11	In business - static risk occurs ------------	carelessness	honesty	loss of money	competence	carelessness
12	Changes in the price level,consumers wants and needs are the example of ------	fundamental risk	dynamic risk	static risk	particular risk	dynamic risk
13	The ----------- benefit the society	risk	personal risk	static risk	risk	dynamic risk
14	Example of quality problem can be easily predicted ---------	non financial risk	personal risk	static risk	dynamic risk	static risk
15	Risks are not suited to treatment by insurance refers to----------	static risk	property risk	dynamic risk	liability risk	dynamic risk

16	The ---------------- involves those losses that occur even if there were no changes in the economic environment	dynamic risk	static risk	fundamental risk	particular risk	dynamic risk
17	Fundamental risk is also called as ---------------	basic risk	group risk	static risk	risk	group risk
18	The consequences of the fundamental risk affects -------------	personal	company	government	population	population
19	Examples of fundamental risk are ------------------	inflation	loss of physical asset	financial loss	dishonesty	inflation
20	Burning of a house or robbery of a bank are the examples of ------------------	pure risk	speculative risk	financial risk	particular risk	particular risk
21	Pure risk refers to those situation -------------------------	no gain	possibility of gain	no loss	error	no loss
22	Possibility gain -----------	pure risk	particular risk	non financial risk	speculative risk	speculative risk
23	Some uncertainities arises out of human element is known as -------------------	pure risk	personal risk	non financial risk	speculative risk	personal risk
24	Loss of the property is also known as -----------------	pure risk	personal risk	property risk	speculative risk	property risk
25	Liability risk is concerned with those losses which results from ----------------	unemployment	dishonesty	unintentional injury to other person/property	financial loss	unintentional injury to other person/property
26	Insurer geeting the information through investigation is known as------------	Friend Report	Agent's Report	Inspection Report	Personal statement	Inspection Report
27	Getting the information from the Physician ---------------	Physician Report	Medical Information Bureau	Agent Report	Medical Examiner's Report	Physician Report
28	The information from private friends………………	Friend Report	Agent's Report	Inspection Report	Personal statement	Private Friend Report
29	It is ………….an effective bureau for furnishing confidential medical reports	Physician Report	Medical Information Bureau	Agent Report	Medical Examiner's Report	Medical Information Bureau

30	The bureau assembles financial and social information of businessmen is known as………	Private Friend Report	Agent's Report	Proposal form	Commercial Credit Investigation Bureau	Commercial Credit Investigation Bureau
31	The major purpose of risk assessment is…………	Increase the cost of risk	to know the severity of risk	reduce the cost of risk	Assessing the risk	reduce the cost of risk
32	Insurance contract is between…………	Customer to Customer	Business to Customer	Insurer and Customer	Insurer and Insured	Insurer and Insured
33	The party is bearing the risk known as………………..	Supplier	Insurance Company	Risk taker	Insurer	Insurer
34	The person whose risk is insured is called……………….	Insured	Supplier	risk taker	underwriter	Insured
35	………… paid in advance by insured to insurer.	Premium	Compensation	Risk	Indemnity	Premium
36	……………..paid when a loss has been incured	Premium	Compensation	Risk	Indemnity	Indemnity
37	Risk insured against death is a contract of……………….	Premium	Indemnity	Assurance	Policy	Assurance
38	The instrument containing the contact of insurance is called……….	Assurance	Policy	Indemnity	Premium	Policy
39	Insurance of insurance is known as……..	Assurance	Insurancer	Reinsurance	insurer	Reinsurance
40	The company who request for the cover is called the……….	Ceded	Cedant	Insurer	Customer	Cedant
41	The Reinsurer is called the………	Cedant	Ceded	Insurer	Customer	Ceded
42	Facultative Reinsurance is applied to…….	Risk	group risk	Business Risk	Insurer Risk	Individual Risk
43	Insurer and Reinsurer share premium and losses according to fixed percentage is known as………	Surpuls share	facultative Reinsurance	Propotional Reinsurance	Quato Share	Quato Share
44	Ceding insurer retains the fixed amount of policy liability and reinsurer takes responsibility for what remains…..	Surpuls Insurance	facultative Reinsurance	Propotional Reinsurance	Quato Share	Surpuls Insurance
45	Insurance company's losses exceed a specified amount ……………	Propotional Reinsurance	Propotional Reinsurance	Surpuls Insurance	Excess of Loss method	Non Propotional Reinsurance
46	Loss and Profits shall be distributed to member companies is known as………………..	Propotional Reinsurance	Propotional Reinsurance	Pools method of Reinsurance	Excess of Loss method	Pools method of Reinsurance

47	A Re-insurance of reinsurance refers to…………..	Line	Retention	Retrocession	Cession	Retrocession
48	IRDA refers to……………	Insurance Regulatory Development Authority.	Indian Regulatory Development Authority	Institute of Regulatory Development Authority	Regulatory Developmen t Association	Insurance Regulatory Development Authority.
49	Broker's Association of India was granted recognition by IRDA on………	12/11/2001	12/11/2002	12/11/1999	12/11/2003	12/11/2001
50	Insurance is best suited to risk with-------------	frequency and low loss severity	low frequency and high loss severity	minimum frequency and no loss severity	frequency and high loss severity	low frequency and high loss severity
51	Tie up with Whom? "Allianz"……….	Birla	HDFC	Bajaj	TATA	Bajaj
52	Tie up with Whom? "Birla"……….	TATA	ICICI	Sunlife	AIG life	Sunlife
53	Tie up with Whom? "TATA"……….	AIG Life	ICICI	Sunlife	MAX	AIG Life
54	IRDA Amended year……………………	2000	2001	2005	2002	2002
55	Insurance is based on the principle of	Co-operation	Democracy	Equality	Welfare	Co-operation
56	The type of reinsurance that forms individual large losses of risk is called as…………	Proportional quota share	Excess of loss per event basis	Stop loss	Facultative	Proportional quota share
57	The risk management which refers to the identification of pure risk faced by an individual or family is……….	Corporate	Individual	Joint Stock Companies	Partnership Firm	Individual
58	Having money available when it is needed is defined as the art of------------------.	Financial management	Risk management	Contingency fund	Surplus	Financial management
59	Sell the insurance products rural area with the help of	Agent	Development officer	Self Help Group, NGO	marketer	Self Help Group, NGO
60	The Person whose risk is insured is called …………………..	Insured	merchandiser	marketer	Agents	Insured

UNIT-II

SYLLABUS

Life Insurance - Law Relating to Life Insurance - General Principles of Life Insurance Contract - Proposal and Policy - Assignment and Nomination - Title and claims - Concept of trust in life policy - LIC - Role and Functions.

LIFE INSURANCE

Life Insurance can be defined as a contract between an insurance policy holder and an insurance company, where the insurer promises to pay a sum of money in exchange for a premium, upon the death of an insured person or after a set period.

There are two basic types of Life Insurance plans :

1. Pure Protection
2. Protection and Savings

TYPES OF LIFE INSURANCE PLAN

There are two basic types of life insurance policies viz. Traditional Whole Life and Term Life Insurance. A whole life is a policy you pay till death of the policy holder and term life is a policy for a fixed amount of time.

The basic types of life insurance policies are:

Term insurance: Term plans are the most basic form of life insurance. They provide life cover with no savings / profits component. They are the most affordable form of life insurance as premiums are cheaper compared to other life insurance plans.

Online term insurance plans provide pure risk cover, which explains the lower premiums. A fixed sum of money - the sum assured – is paid to the beneficiaries if the policyholder expires over the policy term. If the policyholder survives, there is no pay out.

Endowment plans: Endowment plans differ from term plans in one critical aspect i.e. maturity benefit. Unlike term plans which pay out the sum assured, along with profits, only in case of an eventuality over the policy term, endowment planspay out the sum assured under both scenarios – death and survival. However, endowment plans charge higher fees / expenses – reflected in premiums – for paying out sum assured, along with profits, in either scenario – death or maturity. The profits are an outcome of premiums being invested in asset markets – equities and debt.

Unit linked insurance plans (ULIP):ULIPs are a variant of the traditional endowment plan.They pay out the sum assured (or the investment portfolio if its higher) on death/maturity.

ULIPs differ from traditional endowment plans in certain areas. As the name suggests, performance of ULIP is linked to markets. Individuals can choose the allocation for investments in stock/debt markets.

Whole life policy: A whole life insurance policy covers a policyholder over his life. The main feature of a whole life policy is that the validity of the policy is not defined so the individual enjoys the life cover throughout his life. The policyholder pays regular premiums until his death, upon which the corpus is paid out to the family. The policy expiresonly in case of an eventuality as there is no pre-defined policy tenure.

Money back policy: A money back policy is a variant of the endowment plan. It gives periodic payments over the policy term. To that end, a portion of the sum assured is paid out at regular intervals. If the policy holder survives the term, he gets the balance sum assured. In case of death over the policy term, the beneficiary gets the full sum assured.

LAW RELATING TO LIFE INSURANCE

▪ **Indian Arbitration Act, 1940 :** Disputes regarding insurance claims relating to the amounts payable under the policy are settled through the process of arbitration provided in this Arbitration Act.

▪ **Indian Boiler Act, 1923:** The manufacturing, supply, operation, registration of Boilers in India are governed by this Act.

▪ **Indian Contract Act, 1872:** To codify laws of contract.

▪ **Indian Factories Act, 1948:** This Act defines Factory and provides for regulations for governing factories. This Act also provides for various provisions of safety for various types of machinery, plant etc. in factories.

▪ **Indian Mines Act, 1952 :** Similar to Factories Act, defines mines and provides for regulations to ensure safety and security in mines.

▪ **Indian Ports (Major Ports) Act, 1963 :** This Act defines the liability of Port Trust authorities for loss of or damage to goods whilst in their custody and prescribes time limits for filing monetary claim on, or suit against the Port Trust auÂthorities.

▪ **Indian Post Office Act, 1898 :** This Act defines the liability of the Government for loss, misdelivery, delay of or damageÂ Â Â Â Â Â Â to any postal article in course of transit by post.

▪ **Indian Railways Act, 1890 :** The Act deals with various aspects of Railways administration also relevant to Marine Insurance practice as it deals with the responsibility of RailÂways administration as carriers.

▪ **Indian Stamp Act, 1899 :** The Act provides that a policy of Insurance be stamped in accordance with the schedule of rates prescribed.

- **Inland Steam-Vessels Act, 1917 :** The Inland Steam-Vessels Act, 1917 as amended in 1977, provides for the application of the provisions of Chapter VIII of the Motor Vehicles Act, 1939 in relation to insurance of mechanically propelled vessels against third party risks. The Act makes it compulsory for owners or operators of inland vessels to insure against legal liability for death or bodily injury of third parties or of passengers carried for hire or reward and for damage to property of third parties. The limits of liability are also prescribed.
- **Insurance Act, 1938:** The Act applies to the General InÂsurance Corporation of India and the four Subsidiary companies subject to exceptions, restrictions and limitations as specified by the Central Government under powers conferred by Section 35 of the General Insurance Business (Nationalization) Act. The important provisions of the Act relate, among other things, to registrations, accounts and returns, investments, limitations in expenses of Management, prohibition of rebates, powers of invesÂtigation, licensing of agents, licensing of surveyors, advance payment of premium and Tariff Advisory Committee etc.
- **Marine Insurance Act, 1963:** This Act codifies the law relating to Marine Insurance. With a few exceptions this Act closely follows the UK Marine Insurance Act, 1906.
- **Motor Vehicles Act, 1939:** Chapter VIII provides for compulsory insurance of motor vehicles. According to this Act, no motor vehicle can be used in public places unless there is, in force, in relation to that vehicle, a policy of insurance issued by an authorized insurer.
- **Motor Vehicles Act, 1988:** The Motor Vehicles (Amendment) Act, 1988 has introduced changes which have far-reaching conseÂquences.
- **Workmenâ€™s Compensation Act, 1923:** The Act provides for the payment of compensation by employers to their workmen for injury by accident arising out of and in the course of employment.

GENERAL PRINCIPLES OF LIFE INSURANCE CONTRACT

Understanding Principles of Insurance

The main objective of every insurance contract is to give financial security and protection to the insured from any future uncertainties. Insured must never ever try to misuse this safe financial cover. Seeking profit opportunities by reporting false occurrences violates the terms and conditions of an insurance contract. This breaks trust, results in breaching of a contract and invites legal penalties.

The seven principles of insurance are :-

Principle of Uberrimae fidei (Utmost Good Faith),

Principle of Insurable Interest,

Principle of Indemnity,

Principle of Contribution,

Principle of Subrogation,

Principle of Loss Minimization, and

Principle of Causa Proxima (Nearest Cause).

1. Principle of Uberrimae fidei (Utmost Good Faith)

Principle of Uberrimae fidei (a Latin phrase), or in simple english words, the Principle of Utmost Good Faith, is a very basic and first primary principle of insurance. According to this principle, the insurance contract must be signed by both parties (i.e insurer and insured) in an absolute good faith or belief or trust. The person getting insured must willingly disclose and surrender to the insurer his complete true information regarding the subject matter of insurance. The insurer's liability gets void (i.e legally revoked or cancelled) if any facts, about the subject matter of insurance are either omitted, hidden, falsified or presented in a wrong manner by the insured.

The principle of Uberrimae fidei applies to all types of insurance contracts.

2. Principle of Insurable Interest

The principle of insurable interest states that the person getting insured must have insurable interest in the object of insurance. A person has an insurable interest when the physical existence of the insured object gives him some gain but its non-existence will give him a loss. In simple words, the insured person must suffer some financial loss by the damage of the insured object.

For example :- The owner of a taxicab has insurable interest in the taxicab because he is getting income from it. But, if he sells it, he will not have an insurable interest left in that taxicab.

From above example, we can conclude that, ownership plays a very crucial role in evaluating insurable interest. Every person has an insurable interest in his own life. A merchant has insurable interest in his business of trading. Similarly, a creditor has insurable interest in his debtor.

3. Principle of Indemnity

Indemnity means security, protection and compensation given against damage, loss or injury.

According to the principle of indemnity, an insurance contract is signed only for getting protection against unpredicted financial losses arising due to future uncertainties. Insurance contract is not made for making profit else its sole purpose is to give compensation in case of any damage or loss.

In an insurance contract, the amount of compensations paid is in proportion to the incurred losses. The amount of compensations is limited to the amount assured or the actual losses, whichever is less. The compensation must not be less or more than the actual damage. Compensation is not paid if the specified loss does not happen due to a particular reason during a specific time period. Thus, insurance is only for giving protection against losses and not for making profit.

However, in case of life insurance, the principle of indemnity does not apply because the value of human life cannot be measured in terms of money.

4. Principle of Contribution

Principle of Contribution is a corollary of the principle of indemnity. It applies to all contracts of indemnity, if the insured has taken out more than one policy on the same subject matter. According to this principle, the insured can claim the compensation only to the extent of actual loss either from all insurers or from any one insurer. If one insurer pays full compensation then that insurer can claim proportionate claim from the other insurers.

For example :- Mr. John insures his property worth $ 100,000 with two insurers "AIG Ltd." for $ 90,000 and "MetLife Ltd." for $ 60,000. John's actual property destroyed is worth $ 60,000, then Mr. John can claim the full loss of $ 60,000 either from AIG Ltd. or MetLife Ltd., or he can claim $ 36,000 from AIG Ltd. and $ 24,000 from Metlife Ltd.

So, if the insured claims full amount of compensation from one insurer then he cannot claim the same compensation from other insurer and make a profit. Secondly, if one insurance company pays the full compensation then it can recover the proportionate contribution from the other insurance company.

5. Principle of Subrogation: Subrogation means substituting one creditor for another. Principle of Subrogation is an extension and another corollary of the principle of indemnity. It also applies to all contracts of indemnity.

According to the principle of subrogation, when the insured is compensated for the losses due to damage to his insured property, then the ownership right of such property shifts to the insurer.

This principle is applicable only when the damaged property has any value after the event causing the damage. The insurer can benefit out of subrogation rights only to the extent of the amount he has paid to the insured as compensation. For example :- Mr. John insures his house for $ 1 million. The house is totally destroyed by the negligence of his neighbour Mr.Tom. The insurance company shall settle the claim of Mr. John for $ 1 million. At the same time, it can file a law suit against Mr.Tom for $ 1.2 million, the market value of the house. If insurance company wins the case and collects $ 1.2 million from Mr. Tom, then the insurance company will retain $ 1 million (which it has already paid to Mr. John) plus other expenses such as court fees. The balance amount, if any will be given to Mr. John, the insured.

6. Principle of Loss Minimization

According to the Principle of Loss Minimization, insured must always try his level best to minimize the loss of his insured property, in case of uncertain events like a fire outbreak or blast, etc. The insured must take all possible measures and necessary steps to control and reduce the losses in such a scenario. The insured must not neglect and behave irresponsibly during such events just because the property is insured. Hence it is a responsibility of the insured to protect his insured property and avoid further losses.

For example :- Assume, Mr. John's house is set on fire due to an electric short-circuit. In this tragic scenario, Mr. John must try his level best to stop fire by all possible means, like first calling nearest fire department office, asking neighbours for emergency fire extinguishers, etc. He must not remain inactive and watch his house burning hoping, "Why should I worry? I've insured my house."

7. Principle of Causa Proxima (Nearest Cause)

Principle of Causa Proxima (a Latin phrase), or in simple english words, the Principle of Proximate (i.e Nearest) Cause, means when a loss is caused by more than one causes, the proximate or the nearest or the closest cause should be taken into consideration to decide the liability of the insurer.

The principle states that to find out whether the insurer is liable for the loss or not, the proximate (closest) and not the remote (farest) must be looked into.

For example :- A cargo ship's base was punctured due to rats and so sea water entered and cargo was damaged. Here there are two causes for the damage of the cargo ship - (i) The cargo ship getting punctured beacuse of rats, and (ii) The sea water entering ship through puncture. The risk of sea water is insured but the first cause is not. The nearest cause of damage is sea water which is insured and therefore the insurer must pay the compensation.

However, in case of life insurance, the principle of Causa Proxima does not apply. Whatever may be the reason of death (whether a natural death or an unnatural death) the insurer is liable to pay the amount of insurance.

PROPOSAL FORM FOR LIFE INSURANCE: THE MOST IMPORTANT INSURANCE DOCUMENT

Insurance is a contract between insurance company and the person want to cover future risk on his life, where the insurer is bound to pay a fixed amount on death of the Life Assured to his nominee in return of premium (one time or regular). This contract starts when insurer accepts the proposal from the proposer on the basis of the details furnished by the proposer in the proposal form (A prescribed format for proposing a life insurance contract).

And since the insurance is based on the principle of Utmost good faith, it means that the customer seeking the insurance must disclose all the personal details (health as well as financial or which ever asked in proposal form). Therefore filling the proposal form correctly is very important, otherwise, can lead to the repudiation of your claim.

IMPORTANT INFORMATION TO BE FURNISHED IN PROPOSAL FORM

There are some fixed points which are included in the proposal form of all the insurance companies which has to be filled very carefully and which are as follows:

- **Name:** It's obvious, isn't it? Always right your name by yourself (Agent can misspell your name) and keep it in BLOCK letter so that it can be read easily. Though proposal form will also ask your father's name in a separate column but write it with your name. Be sure that you give the exact name as it is in your bank account. Avoid any over writing at any place, especially in your name and if it happens any how just change the proposal form and use fresh one (Don't hesitate to ask for new proposal form from you agent) to avoid any future problems.
- **Address:** Normally you will have to give both current and permanent address, but people give their current residential address and write "same as current address" in permanent address column even if it is not. Make sure to provide both addresses if different. Provide full address with pin code so that all the correspondence from your insurer reaches you in time.
- **Contact No. and Email ID:** These are the fastest way of communication these days, so if you are in a transferable job then provide one permanent contact number which you will use always even if transferred, but also provide your email id because they will not change even if your shift abroad (May be I am wrong, reader's discretion needed).
- **Date of birth (DOB):** Your insurance premium will be based on your age, so write your DOB correctly with supporting documents. Always try to give your School certificate or passport or birth certificate (if life assured is child) as your supporting document as these are considered standard age proof, other documents can also be use as your age proof but with restrictions in Sum assured and term like driving license, PAN card, some age proof like voter card, Adhar card, and self-declaration will attract extra premium.

- **Nationality:** Its very important because many insurers don't provide life cover to NRI's (in Indian perspective) living in specific countries, so be sure to provide correct information, and don't hide that you are an NRI just to take insurance because it can lead to repudiation of your claim to your nominee if any thing happens to you outside India, But don't panic if you are a resident, then you can roam anywhere without hesitation.
- **Plan and term:** Its the scheme you wanted to take, write plan name and term carefully, without over writing, and thoroughly go through the condition of the plan you want to take before proposing the same.
- **Nominee**: Nominee is the person or persons who will receive the claim amount after you. Choose the right nominee in your insurance contract. Write correct and full name of your nominee as in his/her bank account. Write the name in BLOCK letter to avoid any misreading. Give correct age and relation. If in any case your nominee is minor then your have to provide the name of an **appointee** who is a major person who will take the claim amount of behalf of nominee until he/she is minor, else nominee will receive the claim if he/she became major. Though you are free to make anyone your nominee but making the nominee other than your legal heirs and blood relative could be seen as a Moral Hazard by your insurer and can deny you the insurance(Depend on upon the underwriting principles and guidelines of insurance company). It must be kept in mind that making anyone nominee doesn't mean that money is for him/her, at any point of time legal heir of the Life assured can claim their right over that money.
- **Occupation, Income, and Education:** The maximum life cover you can have to depend on upon your Income, so give right income. You have to give supporting of your income(ITR or CA certificate) with your PAN card no. if your annual premium is higher than 50K (Again in

Indian perspective). Insurance cover also depends upon the nature of your occupation, if its too hazardous like aviation, army, police or other force jobs, mining (Under ground work) etc. then they will attract some extra loading on your premium (Purely depend on the underwriting criteria decided by the insurer). Always give the correct name of your employer if employed/salaried, because insurance companies give quite high risk cover to persons employed in Govt/PSU or reputed firms (where leave details are maintained by employer) without any medical examination. Provide correct details of education level, its very important in the case of female proposer because in India for females, different education level means different risk criteria.

- **Heath details:** Now these are the details which should be written carefully without any overwriting and only after reading the question asked, I have seen agents filling the form by themselves without asking anything from customer, so if it happens to you, just read the questions and their answers before signing the proposal form (But take a little headache and fill the form by yourself).
- Companies provide the insurance even if you are suffering some specific diseases/health problems, but only after medical examination and with some extra premium. So don't hide anything related to your health or details related to any admission in the hospital for treatment, because you won't suffer, it will be your spouse and children after your demise if your insurer rejects the claim based on your past health history. If the proposer is a female then provide correct details of your last menstrual date and last delivery date if asked in the proposal form.
- **Family History:** Details about the age and health status of your parents, siblings, spouse and children. Give correct age and their health status and if anyone had already died then give the

exact reason of death, because many diseases are hereditary. Two or more early deaths(especially by disease or suicide) in your family can be seen as a higher risk on your life

- **Other policy details:** Provide all your other policy details with the same or other insurer, policy details from same insurer will help the insurer to estimate their own risk on your life since policy taken within two-year are added with your proposed risk and medical examination and any special reports and underwriting decision will depend upon the cumulative risk in all the policies taken from same insurer within two year. Policies from other insurer are required for financial underwriting, means are you capable of depositing the cumulative premium in all policies from your given income? If the proposer is a female and if married then provide policy details of your husband too. If life assured is a child then provide all policy details of parents in the proposal form.
- **Signature and date:** Sign the proposal form at the appropriate place after carefully filling the proposal form and if filled by other person or agent then read all the details carefully before signing it. Give place of signing and date on which you are signing the proposal form. Since insurance, a long-term contract so use the sign which you use always in future.

POLICY

The two main types of life insurance policies are term life vs permanent life insurance.

Term Life Definition: Term life provides pure death benefit protection for a specific period of time (typically 10, 15, 20 or 30 years). The specific period of time is the “term” of the policy. Once the term ends the life insurance policy will renew on an annual basis. Most term life insurance policies will allow the owner of the policy to renew until age 95. But beware, most life insurance policies renew at an increased premium. Many increase as much as 300%, but there are some life insurance companies whose term product only increases a small amount, while some companies keep the premium the same but decrease the face amount.

There are two types of term policies: level term vs decreasing term life insurance.With a **decreasing term insurance** the death benefit goes down over time, even though your policy premiums stay the same. Alternatively, **level term life insurance** offers fixed premiums and a fixed death benefit for the term of the coverage (the term refers to how long the coverage lasts).

Finally, there is also level term life that offers a fixed death benefit, but the **premium goes up** every five years. The main takeaway here is read your policy.

Ideally, you want to lock into the maximum years you need instead of relying on the renewal option. For those term policy holders that decide down the road they want to keep their life insurance, it is best to exercise the polcy's conversion option. Most term life insurance policies include a conversion option rider allowing the owner to convert to a permanent policy with no proof of insurability, i.e. no health screening. The conversion option will change a term policy into a whole life or universal life policy. The premium will increase but the rate class is based on the rate class you **originally qualified for** the term policy at and not based on your current health status.

This is a huge benefit for someone who has a term policy that comes down with an illness and cannot get a new policy or additional life insurance. Simply convert the term policy to a universal life or whole life policy and keep the insurance for the remainder of your life. **Typical term lengths available**: 10, 15 20 and 30 year. However, some companies offer annual renewable term (ART), i.e. 1 year. There is also the option for 5 year and 25 year terms, but fewer companies provide those option. There is also a company that offers years 16, 17, 18, etc…all the way to 30, so you can tailor the policy down to the specific year.

Many term policies include a terminal illness rider or accelerated death benefit which allows a portion of the coverage to be taken out early for the insured's use due to a diagnosis of being terminally ill. Return of Premium Term Life Insurance is also available with up term lengths of 20, 30 and even 35 year terms. Once the policy ends, and assuming you don't die, the premiums are returned to you. Return of Premium (ROP) life insurance is a rider added to term life insurance. It works by returning all premiums paid by the policy owner over the life of the term.

For **example**, a 30 year term life insurance policy with a return of premium rider for a healthy 40 year old male would run around $135 a month. After 30 years, the total premiums paid would amount to $48,600. Upon the end of the term, the insurer would pay out the full amount of premiums paid. This is a great option for those who desire to make their life insurance a forced savings account, with the payout upon the end of the policy or when the insured dies.

Term life insurance is the most well known type of life insurance policy and the most affordable. Most financial planners, such as Dave Ramsey and Suze Orman, will recommend you buy term life insurance instead of whole life insurance and invest the difference. However, this is general and not specific advice as each client has his or her own needs and circumstances.

PERMANENT TYPES OF LIFE INSURANCE

There are four main permanent life insurance types: Whole Life, Universal Life, Indexed Universal Life and Variable Universal Life.

Whole life insurance

- Whole life insurance works by providing permanent coverage that last your whole life
- Cash value accumulation, Provides funds that can be borrowed against for various pursuits

Whole Life insurance Definition: A permanent life insurance policy that provides death benefit protection for your entire life. Generally, whole life insurance offers guaranteed fixed premiums, guaranteed cash value accumulation and guaranteed protection until the day you die. Since whole life insurance will be with you until that inevitable day it will cost you more than other common types of life insurance.Whole life allows the owner to borrow against the cash in the policy.

However, borrowing from your cash reserves may not be a good financial decision. Not only will it diminish your cash value in the policy but the life insurance company charges you interest on the money you are borrowing.

Whole life insurance is great for retirement planning, such as using the funds in your cash value policy as collateral for life insurance loans to invest in various assets, a la infinite banking**.**

UNIVERSAL LIFE INSURANCE

Part of the permanent life insurance family is Universal Life. Universal life insurance comes in three flavors: Guaranteed UL, Indexed UL, and Variable UL.

GUARANTEED UNIVERSAL LIFE INSURANCE

- GUL policies come in several options: to age 90, 95, 100, 110, 120 or 121 (depending on company).
- Only the GUL to 120 or 121 is guaranteed to last the rest of your life, although most will not outlive a GUL to age 90.
- Unlike Whole Life or other types of UL products, GUL has minimal cash value accumulation
- Typically the lowest cost permanent life insurance.
- Many riders available, included accelerated death benefit, critical illness and chronic illness, long term care rider and disability riders.

VARIABLE UNIVERSAL LIFE INSURANCE

Variable Universal Life (VUL) is a life insurance policy type in which the face value fluctuates depending upon the value of the dollar, securities, or other equity products supporting the policy at the time payment is due. Warning: VUL is not for the faint of heart. Depending on the **investment vehicle** the product is tied to this insurance type financial product can make or break a portfolio.

Variable Life Insurance is great when the market is heading up as this protection can provide a huge boon. However, when the market is trending lower an investor might not be able to keep up with the increased premium payments due. VUL is a great addition to a diversified portfolio but should not be your first type of life insurance choice.

EQUITY INDEXED UNIVERSAL LIFE INSURANCE

Although not right for everyone, we do believe IULs are a good option for some. We created the following articles for those interested in investigating if IUL is right for you.

- Five Incredible Elements of Indexed Universal Life insurance
- Indexed Universal Life Insurance Pros and Cons
- Debunking the Myths of Indexed Universal Life

IULs provide cash value accumulation, guranteed minimum returns, and protection from market downturns.

NOMINATION AND ASSIGNMENT OF POLICY

Nomination and assignment are the two such terms which a policyholder must be aware of to effectively manage the benefits accruing under a life insurance policy.

Life insurance contracts are full of jargon which most of us don’t understand. Since the prime objective of buying a life insurance policy is to provide ‘financial protection to your dependents’, it is essential for us to understand some obvious terms used in a life insurance policy.

Nomination and assignment are the two such terms which a policyholder must be aware of to effectively manage the benefits accruing under a life insurance policy. Nomination is an act by which the policyholders authorises another person to receive the policy money. The person so authorised is called a 'nominee'. Nomination is a right given to the life insurance policyholder to appoint a person or persons to receive the benefit under the policy in case it becomes a death claim. Assume if a person who is insured dies, the nominee is entitled to receive the policy proceeds subject to certain conditions.

While applying for life insurance, the individual should mention the nominee details in the proposal form. The details of the nominee will basically include full name, age, address of the nominee and nominee's relationship with the life assured. According to Section 39 of Insurance Act, 1938, one can have multiple persons as nominees and can also specify their shares of the policy proceeds in percentage terms.

Do ensure that in all your policy contracts you have appointed the nominee. The policyholder should also review nomination whenever required. He should change the nomination after marriage/divorce and also if nominee has died before the policyholder. Policy proceeds under a death claim usually comprise the sum assured and the bonuses accrued (if any). In case of ULIPs (unit-linked insurance plans), the nominee would receive market value of units and the sum assured.

Assignment of a life insurance policy means transfer of rights from one person to another. The policyholder can transfer the rights of his insurance policy to another for various reasons and this process is called assignment.

The original policyholder who assigns the policy, i.e. transfers the rights, is called the "assignor" and the one to whom the policy has been assigned—the person to whom the policy rights have been transferred—is called the “assignee”. Once the rights have been transferred to the assignee, the assignor has no right on the policy, and the assignee becomes the owner of the policy.

One can usually come across an assignment where the policyholder is trying to use the life insurance policy as collateral against a loan he intends to raise. Assignment must be in writing and a notice to that effect must be given to the insurer.

Assume, Mr X buys a house for which he needs a home loan of Rs. 25 lakh from a bank. Mr X takes a home loan against his policy of sum assured Rs. 25 lakh. To take a loan from the bank, he assigns the policy to that bank, and then the bank would be able to pay out the loan money to him. If Mr X failed to repay the loan, then the bank would surrender the policy and get their money back. The original policyholder will pay the premium before or on the payment due date and not the bank.

In the event of the death of the assignor, the assignee is paid first and the balance (if any) is paid to the policy’s beneficiary. Types of insurance policies used for this purpose usually include an endowment plan, money back policy or a ULIP. Term plans cannot be used in case of assigning a policy.

NOMINATION VS ASSIGNMENT

While the nomination is an authorisation to receive the policy money in the event of the death of the life assured, it does not give the nominee an absolute right over the money received to the exclusion of other legal heirs. Further, the nomination can be changed any time during the lifetime of the policyholder. On the other hand, assignment of an insurance policy is a transfer or assignment of all rights and liabilities to the insurance policy in favour of the assignee.

ASSIGNMENT OF A LIFE INSURANCE POLICY

As mentioned earlier, transfer or assignment is a method of transferring ones transferable interest in a life insurance policy to another person or institution including as security for repayment of loans. Assignment of a life insurance policy may be made by making an endorsement to that effect in the policy document. Another way of transferring or assigning the life insurance policy is by getting a separate assignment deed executed. The former case is a preferred mode of assignment as it is exempt from further stamp duty. An assignment should be signed by the 'assignor' or his duly authorised agent specifically stating the fact of transfer or assignment and attested by at least one witness.The assignee acquires the complete title of the policy and can sue under the policy. He can further assign the policy and can surrender the policy if he so desires. The assignment once effected cannot be cancelled. In case of death of the absolute assignee the rights under the policy delve on the legal heirs of the assignee. It can only be reassigned.

DIFFERENCES BETWEEN NOMINATION AND ASSIGNMENT IN INSURANCE

The following are the major differences between nomination and assignment:

1. **How made**:

Nomination can be made either by mentioning the name of the nominees in the policy or by an endorsement thereon. Separate instrument is not required. On the contrary, assignment may be made either by an endorsement on the policy itself or by the execution of separate instrument in writing.

2. **Purpose**:

A nomination is made to provide facility to the beneficiary so that he can recover the money when the policy matures for payment after the death of the assured but the assignment is meant for transferring all the rights and interests under the policy in favour of the assignee.

3. **Effect**:

In nomination, the property in the policy remains at the disposal of the assured during his life time. A nominee only has a beneficial interest in the policy, whereas in the case of assignment, the property in the policy passes to the assignee, who gets the rights of the owner of the policy.

4. **Right of disposal**:

In nomination, the nominee gets the right of disposal only on the death of the assured, whereas in assignment, the assignee can dispose of the policy in any way he likes.

5. **Revocability**:

Nomination can be revoked anytime before the maturity of the policy but assignment is irrevocable and shall amount to the cancellation of nomination except when it is made in respect of a loan granted on the security of the policy by the insurer. However, there can be re-assignment in favour of the policyholder.

6. **Consideration**: Nomination need not be supported by a consideration but assignment must be supported by a consideration.

7. **Witness**: Witness is not required for nomination but assignment must be witnessed otherwise it will be invalidated.

8. **Right to sue**: Nominee has no right to sue under the policy, but the assignee has right to sue under the policy.

9. **Minor**: In nomination, where nominee is a minor, appointment of an appointee by the life assured only is required, whereas in assignment, where assignee is a minor, guardian is to be appointed by the father of the assignee.

10. **Creditors**: In nomination, creditors of the life assured can attach the policy moneys, whereas in assignment, creditors cannot attach the property unless the assignment was made to defraud the creditors.

11. **Execution**: Nomination is effected where Insurance Act 1938 applies i.e., India or similar enactment apply viz in Pakistan and Ceylon but assignment can be executed anywhere in the world according to the law of the country.

12. **Vested interest**: No vested interest in favour of nominee is created but vested interest is created in favour of assignee.

13. **Policy amount**: In case of nomination, money is to be paid to the nominee only when he survives the assured, whereas in case of assignment, the policy money is to be paid to the assignee.

14. **Death**: Nomination becomes ineffective at the death of the nominee. If a conditional assignee dies, the right under the policy reverts to the life assured depending upon the terms of assignment. If an absolute assignee dies, the right devolves upon his / her heirs.

TITLE AND CLAIMS IN INSURANCE - MEANING

A title insurance claim is an insurance claim that asks the title insurance company to compensate you for the losses resulting from a defect in the title of your property and from invalid or unenforceable mortgage liens against it. Titles are documents that signify that you have a right to own your property.

TITLE AND CLAIMS IN INSURANCE - IMPORTANCE

A title insurance claim arises when someone asserts an interest or a lien on your property, and that interest or lien is not listed as an exception in your title policy. For example, when you bought your property, you purchased a title insurance policy which listed any exceptions that affect the title such as easements and restrictions, as well as the mortgage you executed to purchase the property. But what if there was a prior mortgage on your property which the title search missed, so it was not released when you purchased your property, and it was not shown as an exception to your title? And now that lender is contacting you to pay the mortgage or suffer foreclosure – what do you do?

The first thing you do is to pull out your title policy and read it. First, check the Schedule B exceptions to make sure that the prior mortgage is NOT listed as an exception to title. If there is no mention of it, then you need to look at the Conditions of the policy, specifically Paragraph 3, which requires an Insured to promptly notify the title insurance company which issued your title policy. This needs to be done in writing, and you should also copy your local title agent if one was involved and the attorney who represented you at the closing if that is the local practice. Paragraph 3 of the Conditions requires the Insured to give notice not only of litigation, but of any matter which the Insured becomes aware of that is adverse to the title as insured, and that might cause a loss under the policy.

It is very important to contact the title company as soon as you become aware of a title issue, because if you ignore the issue, hoping it will go away, it generally will just get worse. It is always more expensive once a lawsuit has been filed. And Paragraph 3 makes it clear that if the title company is prejudiced by the failure of the Insured Claimant to provide prompt notice of any adverse title issue, the title company's liability under the policy will be reduced by the extent of that prejudice.

So, let's take the example in the first paragraph. You have purchased your dream home, and have moved in and are making your mortgage payments under your purchase money mortgage. One day, you get a notice from a strange mortgage company saying that they have a lien on your house which is in default and they demand that you pay it. Even if the mortgage is from someone you have never heard of, if it was a valid lien, it remains on the property until the loan is paid off and the lien of the mortgage released of record. So you can take one of two actions: you can ignore the notice, saying that it wasn't your mortgage, and hope that they will go away; or you can contact the title company.

If you ignore the notice, you will probably get more notices, even notice of a possible foreclosure of the property, and you might lose your home. But if you notify the title company immediately upon receiving that first notice, the title company will investigate the matter, and if, in fact, that prior mortgage is a valid lien against your home, they title company will negotiate with that lender and obtain a release. By notifying the title company immediately, you get the title company to defend your title as insured under your policy, and the title company will assume your defense costs and attorneys' fees. As the Insured Claimant, you have the obligation to cooperate with the title company's defense, and to provide proof of your loss if required.

The situation where there is a missed mortgage is a simple one. There are other cases where a title claim can arise, such as where there may be a missed easement which affects your use of your property, or there could be a lack of access to your property, or someone in your title forged a signature, and the deed was void. Any of these situations require immediate notice to the title company, and may involve litigation to render your title as it was insured. The title company has the right to cure the title defect, to litigate the claim, to settle it at any time, or to even pay you the Amount of Insurance of your title policy and terminate any further responsibility under the policy. In many cases, if you have a potential claim, it will be in your best interests to retain your own counsel. There may be situations where the interests of the title company may not be the same as yours, and you need to be aware of your rights.

The last paragraph of the Conditions in every title policy has the address where notices of claim must be sent, and you should send your notice by certified mail, return receipt requested, in order to document the fact that you provided prompt notice. Your local title agent can also help walk you through the process and may even assist you in notifying the title insurance company.

CONCEPT OF TRUST IN LIFE POLICY

A life insurance trust is a trust that is set up for the purpose of owning a life insurance policy. If the insured is the owner of the policy, the proceeds of the policy will be subject to estate tax when he dies. But if he transfers ownership to a life insurance trust, the proceeds will be completely free of estate tax. (The proceeds will be exempt from income tax either way.) .

Given the current estate tax rate of 35%, a life insurance trust can save hundreds of thousands of dollars in estate taxes. However, there are several drawbacks to such an arrangement:

1. Can't change the beneficiary of the policy. The insured must give up the right to change the beneficiary of the policy (the trust itself will be the beneficiary). The trustee alone has that right, and the insured cannot serve as trustee of his own life insurance trust. Of course, the insured will designate the beneficiaries of the trust (for example, his children). But because this designation cannot be changed after the life insurance trust has been set up, the insured will lack the flexibility to deal with changed family circumstances with this particular policy.

2. Can't borrow from the policy. The insured can no longer borrow against the policy. If the trust allows him to borrow against the policy, he will be deemed to be an owner of the policy for estate tax purposes.

3. Can't transfer an existing policy to the trust -- unless you live for at least 3 more years.

If the insured transfers an existing policy to a life insurance trust and dies within the next three years, he will be treated as the owner of the policy and it will be taxed in his estate. Even if he survives another three years, he will have made a taxable gift in the amount of the cash value of the policy (of course, this is usually preferable to having the entire face value subjected to estate taxes). If the life insurance trust takes out a new policy on the insured's life, however, the insured will never be deemed to own the policy. Furthermore, no cash value will have built up yet, so no taxable gift will be made.

4. The life insurance trust must be irrevocable. Once you set up and fund the trust, you cannot get the policy back. If you become uninsurable, you will be committed to this trust as your only life insurance.

5. Premium payments may use up your estate tax exemption. If the policy has not yet endowed, you must find a way to pay the premiums without using up your estate and gift tax exemption. If you transfer securities to the trust so that the trustee will have income with which to pay the premiums, the full value of the securities will be a taxable gift.

If you transfer cash to the trust each year to pay the premiums, each transfer will be a taxable gift. However, you may be able to exempt these premium payments from gift or estate taxes by setting the life insurance trust up as a Crummey Trust (see the FAQ on Crummey Trusts). Then each premium payment can be sheltered by your annual gift tax exclusion, which is $13,000 (indexed for inflation) per trust beneficiary.

6. Must find or hire a trustee. The insured cannot serve as trustee of the life insurance trust. That means that he will have to find or hire a third party trustee. However, many banks and trust companies offer reduced fees for life insurance trusts because they involve essentially no investing decisions.Despite these drawbacks, many people find that the tax saving potential of a life insurance trust is worth the cost and hassle. It allows you to remove from your estate a significant asset that you are unlikely to want access to during your life. And it ensures that the life insurance proceeds go 100% to the beneficiaries, not the federal government.

BENEFITS OF A LIFE INSURANCE TRUST

- Provides immediate cash to pay estate taxes and other expenses after death.
- Reduces estate taxes by removing insurance from your estate.
- Inexpensive way to pay estate taxes.

- Proceeds avoid probate and are free from income and estate taxes.
- Gives you maximum control over insurance policy and how proceeds are used.
- Can provide income to spouse without insurance proceeds being included in spouse's estate.
- Prevents court from controlling insurance proceeds if beneficiary is incapacitated.

FUNCTIONS OF LIFE INSURANCCE CORPORATION OF INDIA

The functions of the Life Insurance Corporation of India shall be to carry on and develop life insurance business to the best advantage of the community.

The life insurance business was nationalised on 19th January, 1956 and the Life Insurance Corporation of India came into being on 1st September, 1956 to carry on life business in India with capital of Rs.5 crorescontributed by the Central Government. The Corporation is a body corporate having perpetual successionwith a common seal with powers to acquire, hold and dispose of property and may by its name sue and besued.

The Corporation shall have power;

1. To carry on capital redemption business, annuity certain business or reinsurance business in so far as such reinsurance business relating to life insurance business;
2. To invest the funds of the Corporation in such manner as the Corporation may think fit and to take all such steps as may be necessary or expedient for the protection or realization of any investment; including the taking over of and administering any property offered as security for the investment until a suitable opportunity arises for its disposal;
3. To acquire, hold and dispose of any property for the purpose of its business;
4. To transfer the whole or any part of the life insurance business carried on outside India to any other person or persons, if in the interest of the Corporation it is expedient so to do;

5. To advance or lend money upon the security of any movable or immovable property or otherwise;
6. To borrow or raise any money in such manner and upon such security as the Corporation may think fit;
7. To carry on either by itself or through any subsidiary any other business in any case where such other business was being carried on by a subsidiary of an insurer whose controlled business has been transferred to and vested in the Corporation by this act;
8. To carry on any other business which may seem to the Corporation to be capable of being conveniently carried on in connection with its business and calculated directly or indirectly to render profitable the business of the Corporation; and
9. To do all such things as may be incidental or conducive to the proper exercise of any of the powers of the Corporation.

In the discharge of any of its functions the Corporation shall act so far as may be on business principles.

THE MAIN FEATURES OF LIC:

1. Saving Institution:

Life insurance both promotes and mobilises saving in the country. The income tax concession provides further incentive to higher income persons to save through LIC policies. The total volume of insurance business has also been growing with the spread of insurance-consciousness in the country. The total new business of LIC during 1995-96 was Rs. 51815 crore sum assured under 10.20 lakh policies. The LIC business can grow at still faster speed if the following improvements are made:

The organisational and operational efficiency of the LIC should be increased.

(i) New types of insurance covers should be introduced.

(ii) The services of LIC should be extended to smaller places.

(iii) The message of life insurance should be made more popular.

(iv) The general price level should be kept stable so that the insuring public does not get cheated of a large amount of the real value of its long-term saving through inflation.

2. Term Financing Institution:

LIC also functions as a large term financing institution (or a capital market) in the country. The annual net accrual of investible funds from life insurance business (after making all kinds of payments liabilities to the policy holders) and net income from its vast investment are quite large. During 1994-95, LIC's total income was Rs. 18,102.92crore, consisting of premium income of Rs. 1152,80crore investment income of Rs. 6336.19crore, and miscellaneous income of Rs. 238.33crore.

3. Investment Institutions:

LIC is a big investor of funds in government securities. Under the law, LIC is required to invest at least 50% of its accruals in the form of premium income in government and other approved securities. LIC funds are also made available directly to the private sector through investment in shares, debentures, and loans. LIC also plays a significant role in developing the business of underwriting of new issues.

4. Stabiliser in Share Market:

LIC acts as a downward stabiliser in the share market. The continuous inflow of new funds enables LIC to buy shares when the market is weak. However, the LIC does not usually sell shares when the market is overshot. This is partly due to the continuous pressure for investing new funds and partly due to the disincentive of the capital gains tax.

Defects

The development banks in India suffers from a number of defects as discussed below:

1. Dependence on Institutional Sources of Finance: The capital resources of development banks mainly come from institutional sources. They have not been able to raise funds directly from public as is done by the banks, insurance companies, etc. Dependence on the institutional sources has enabled the development banks to get funds at low yield rates. But, the low yield structure has come in the way of the popularly of development banks.

2. Defects of Loan Finance: The development banks mostly provide assistance in the form of debt capital, particularly in term loans. No doubt, loan financing assures a stable return on funds and do not involve such managerial problems as are faced during equity participation. But the loan financing has its own drawbacks:

(a) Loan financing has distorted the capital structure of the borrowing industrial concerns in favour of loan capital. The burden of fixed interest payments is too*heavy and is one of the reasons for the industrial sickness in the country, (b) The government loses potential corporation tax because for the tax purposes, interest is considered as a cost item while estimating corporate profits, (c) The industrial concerns also prefer loans to debentures because default on loans are not made public and can be negotiable with the lending agency, (d) Loan financing has limited the development of the corporate bond market.

3. Small Industries Ignored: An important objective of the development banks in India is to provide financial assistance to new enterprises, small arid medium industrial units on priority basis. But in reality, the major part of the assistance has been granted to the large and established industrial concerns. New and small entrepreneurs are generally ignored by these banks.

4. Cheap Finance to Big Industries: The big industrial houses not only receive large and growing, but also organised, assured and cheap amounts of finance from development banks. In fact, the big industry sector has become over-dependent on the development banks for meeting their financial needs. Organised nature of financial resources of the development banks enable them to grant cheap credit.

5. More Loans to Developed Areas:

The development banks are expected to reduce regional disparities by extending greater financial assistance to the backward areas. But, experience has shown that these banks have contributed more to the industrial concerns in the developed regions. About half of the total assistance has been sanctioned for the four industrially advanced states of Maharashtra, Gujarat, Tamil Nadu and West Bengal.

6. Problem of Overdoes:

The development banks, particularly, the State Finance Corporations are facing serious problem of over dues. The over dues restrict the recycling of funds of the financial institutions and limit their capacity to lend. The development banks also suffer from the defect of procedural delays in sanctioning and disbursing loans.

PART – B

1. State the meaning of Life Insurance?

2. Define Life Insurance

3. Distinguish between Insurance and Assurance?

4. Listout the features of Life Assurance?

5. Mention the classification of Life Insurance Policies?

6. Write a short note on general principles of Life Insurance Police?

7. Write a short note on nomination of Life Policy?

8. List out the aim of Life Insurance Corporation?

9. Mention the advantages of Life Insurance?

10. List out the important functions of Life Insurance Corporation?

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PART -C

1. Explain the general principal of Life Insurance Contract.

2. 'Life insurance is insurance against dying too soon and endowment insurance is insurance against lives too long'-Explain.

3. Multipurpose policy is fulfilling almost all types of human needs'. Comment

4. Discuss the functions of Life Insurance Corporation?

5. Explain the concept of Trust in Life policy?

6. What do you understand by assignment of an insurance policy? How does an assignment differ from nomination?

7. What are the different types of endowment policies?

8. Explain the laws relating to the Life Insurance.

9. Explain the various kinds of Life Insurance Policies?

10. Explain the role of Life Insurance Corporation in national economy?

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE

DEPARTMENT OF MANAGMENET

Unit II - Life Insurance - Multiple Choice Questions- Each Question carries ONE Mark

S. No.	Questions	Opt 1	Opt 2	Opt 3	Opt 4	Answers
1	Insurance is based on the principle	co-operation	democracy	equality	welfare	co-operation
2	Motor insurance has its beginning in	USA	India	UK	UAE	UK
3	A certain percentage of the sum assured is paid periodically according to the terms of policy is known as……….	Term policy	Endowment policy	Money-Back Policy	Group insurance policy	Money-Back Policy
4	When was Life Insurance sector nationalised……………..	1986	1956	1996	1938	1956
5	The principle of indemnity is applicable to………..only	life insurance	personal accident	proximate cause	property insurance	property insurance
6	An…………. policy matures on the assured death or on his attainment of a particular age whichever occurs	Endowment	Money Back	Joint life	Single Premium	Endowment
7	Insurance is a………………….	life Insurance	Assurance	Policy	non Life Insurance	non Life Insurance
8	Assurance means------------	life Insurance	Gurantee	Policy	non Life Insurance	life Insurance
9	Loss due to risk nor certain to happen	Insuarnce	Assurance	Risk failure	property insurance	Insuarnce
10	Human life is a subject matter of Insurance is known as……………	life Insurance	Assurance	Policy	non Life Insurance	Assurance
11	Assurance is a……………… contract	1 year	more than 2	Mid term	Long term	Long term
12	A…………...is the extra payment done for administrative and capital cost.	Premium	Premium loading	Interest	Contingency	Premium loading
13	The head office of New India Assurance & Co Ltd., is…………	NewDelhi	Kolkata	Mumbai	Chennai	Mumbai
14	Life insurance in its present form came to India from………………	UK	USA	Canada	Germany	UK
15	Life Insurance Corporation was formed with a capital contribution	10 Cr	5 Cr	15 Cr	20 Cr	5 Cr
16	When the same risk and subject matter is insured with more than one insurer is	Double insurance	Over insurance	Reinsurance	External insurance	Double insurance

17	Good Faith between…………………	Insurer and Insured	Customer to Customer	Business to Customer	Family & Friends	Insurer and Insured
18	Insurance provides security	Risk & Losses	danger	Causes	Perils	Risk & Losses
19	The organisation structure of LIC refers to………………	Two tier structure	Three tier structure	Four tier structure	Five tier structure	Four tier structure
20	Nomination can be done at the inception of the policy by providing details of	white paper	proposal form	premium receipt	promissory note	proposal form
21	Whole Life Policy the permium is payable for…………..years	3	10	20	35 and more	35 and more
22	Limited payment Whole Life Policy the permium is payable is……………	Unlimited period	limited period	any period	infrequent period	limited period
23	Convert a Term Assurance policy into Whole Life or Endowment Policy is	Convertiable Whole life policy	Limited Payment	Whole Life policy	Assurance policy	Convertiable Whole life policy
24	Temporary Assurace Policy is designed to cover the risk against life assured for a	more than 2 years	unlimited period	less than 2 years	5 years- fixed period	less than 2 years
25	Joint Endowment Policy to cover the risk on the ………….	1 life	2 or more lives	Property	failure	2 or more lives
26	Fixed term Endowment Policy is suitable	Children	Family	Marriage Event	Life cover	Marriage Event
27	A/An ……...policy matures on the assured death or on his attainment of a particular age whichever occurs earlier.	Endowment	Money Back	Joint life	Single Premium	Endowment
28	Which of the following is a children	Jeevan Sneha	Jeevan	Jeevan Dhara.	Jeevan Sukanya	Jeevan Sukanya
29	A……………...is the appointing of a nominee under the policy.	Nomination	Election	Justification	Assignment	Nomination
30	A/An…………………is a means whereby the beneficial interest, right and title under a policy gets transferred from the assignor to the assignee.	Nomination	Assignment	Selection	Election	Assignment
31	A/An……………………..is the policyholder who transfers the title of the	Assignee	Nominee	Assignor	Consignee	Assignor

32	A/An……………………is the person who derives the title from the assignor	Assignee	Nominee	Assignor	Consignee	Assignee
33	A/An……………….can be done by mere endorsement on the policy or by a separate duly stamped deed.	Nomination	Election	Justification	Assignment	Assignment
34	A life insurance policy from LIC may be assigned only after a period	10	5	3	1	5
35	How many zonal offices are functioning	5	8	10	15	8
36	Meet the expenses relating to Children education and marriage………………	Multi Purpose policy	Triple Benefit Policy	Children's Deferred	Anticipated Endowment Policy	Children's Deferred
37	Single Premium Policy, the premium is payable in …………………	one installment	Two Installment	regular Installment	Ten Installment	one installment
38	Premium Pays regular	Level Premium	Single	Triple Benefit	Multi Purpose	Level Premium
39	With Profit Policy is known as…………..	Single Premium Policy	Single Premium	Non partcipating	Participating Policy	Participating Policy
40	Without profit policy is known as………………..	Single Premium Policy	Single Premium	Non partcipating	Participating Policy	Non partcipating Policy
41	The cash value of the policy, paid by the company upon the surrender of a policy before it becomes payable by maturity is	Premium.	Consideration	Cash surrender value	Commission	Cash surrender value
42	Group insurance policy is also termed	Master policy	Cover policy	Burglary policy	Fidelity policy	Master policy
43	The date at which a policy becomes payable is called…………………	Maturity date	Last date of premium	Payment date	Policy date	Maturity date
44	Loan granted by the insurer on the basis of insurance policy is known	Loan on mortgage	Policy loan	Jewel loan	Property loan	Policy loan
45	The period of time for which the policy will normally remain in existence is	Policy term	Policy note	Proposed time	Grace time	Policy term
46	Jeevan Shree Policy is only	Children	Business	Exclusive	Government	Exclusive People
47	Jeevan Aadhar is only for…………….	Children	Business	Exclusive	Handicapped	Handicapped
48	Children's Money back policy…………..	BIMA Nivesh	Komal Jeevan	Jeevan	Jeevan Sukanya	Komal Jeevan

49	Assignment of life policy means…………………	Transferring rights to the assignee	Policy holder is entitled to the paid up	Paid up value is always higher than surrender	Value payable on assured death or maturity	Transferring rights to the assignee
50	Investment in Tax Benefits…………….	BIMA plus	BIMA Nivesh	Komal Jeevan	Jeevan Suraksha	BIMA plus
51	A……………….means a willful and intentional act on part of the self-	Death	Suicide	Murder	Accident	Suicide
52	A person employed to do any act for another or to represent another in dealing with a third person refers to………..	Principal	Employee	Agent	Development Officer	Agent
53	The claim amount received from insurer are treated as……………….	Nontaxable Income	Taxable Gain	Gains	Reserve	Taxable Gain
54	Which of the statement is correct? (A) Cover note gives complete terms and conditions of the contract.(B) Certificate	A is true	B is True	Both are True	Neither is true	B is True
55	The person to whom the policy proceeds will be paid in the event of the death of the insured is known as………..	Assignee	Nominee	Consignee	Beneficiary	Beneficiary
56	A ……….. is the person who sends the proposal form for taking an insurance	proposer	nominee	legal advisor	employer	proposer
57	Where a Policy has a surrender Value, it also has a…………..	Loan Value	Paid up Value	Money back Value	Interest Value	Loan Value
58	Paid up value is calculated on the basis of………	No.of.Years Premium paid	Market value	Indeminity	Paid up Value	No.of.Years Premium paid
59	Paid up value is always…………than the surrender value.	Lower	Equal	higher	more or less	higher
60	Insurance company allows certain days after the stiuplated period of insurance, insured can pay the perimum / renew the	Revival	Discontinued	Days of Grace	Lapsed polices	Days of Grace

UNIT-III

SYLLABUS

General Insurance - Law relating to general insurance - Different types of general insurance - General Insurance Vs Life Insurance - Nature of Fire Insurance - Various types of Fire Policy Subrogation - Double Insurance - Contribution - Proximate cause - Claims of Recovery - Accident and Motor Insurance - Nature, Disclosure, Terms and Conditions Claims And Recovery - Third Party Insurance - Compulsory Motor Vehicle Insurance - Accident Insurance.

GENERAL INSURANCE

'DEFINITION OF 'GENERAL INSURANCE'

Definition: Insurance contracts that do not come under the ambit of life insurance are called general insurance. The different forms of general insurance are fire, marine, motor, accident and other miscellaneous non-life insurance.

MEANING AND IMPORTANCE OF GENERAL INSURANCE

Insurance other than Life Insurance falls under the category of General Insurance. General Insurance comprises of insurance of property against fire, burglary etc., personal insurance such as Accident and Health Insurance, and liability insurance which covers legal liabilities. There are also other covers such as Errors and Omissions insurance for professionals, credit insurance etc. Non-life insurance companies have products that cover property against Fire and allied perils, flood storm and inundation, earthquake and so on.

There are products that cover property against burglary, theft etc. The non-life companies also offer policies covering machinery against breakdown, there are policies that cover the hull of ships and so on.

A Marine Cargo policy covers goods in transit including by sea, air and road. Further, insurance of motor vehicles against damages and theft forms a major chunk of non-life insurance business. A non-life insurance contract is different from a life insurance contract. A life insurance contract is a long term contract, while general insurance contract is a one-year renewable contract. The risk namely 'death' is certain in life insurance. The only uncertainty is as to when it will take place, whereas in general insurance, the insured event may or may not take place. It is difficult to determine the economic value of life, whereas the financial value of any asset to be insured under a general insurance policy can be determined. Because of these peculiar features, a non life insurance contract is different from a life insurance contract. In this lesson we will learn in detail the treatment of each type of non-life insurance.

Section 2(6B) of the Insurance Act 1938, defines general insurance business. According to this general insurance business means fire, marine, or miscellaneous insurance whether carried separately or in combination. General Insurance Corporation of India (GIC) was set up with exclusive privilege for transacting General Insurance business. After the passage of IRDA Act 1999, GIC has been delinked from its subsidiaries and has been assigned the role of Indian reinsurer.

General Insurance covers are necessary for every family. It is important to protect one's property, which one might have acquired from one's hard earned income. A Health Insurance policy can provide financial relief to a person undergoing medical treatment whether due to a disease or an injury. Industries also need to protect themselves by obtaining insurance covers to protect their building, machinery, stocks etc. Insuring adequately are questions that need to be given some thought. Also organizations or industries that are self-financed should ensure that they are protected by insurance.

LAW RELATING TO GENERAL INSURANCE

The General Insurance Business Nationalization Act was passed in 1972 to set up the general insurance business. It was the nationalization of 107 insurance companies into one main company called General Insurance Corporation of India and its four subsidiary companies with exclusive privilege for transacting general insurance business. This act has been amended and the exclusive privilege ceased on and from the commencement of the insurance regulatory and development authority act 1999. General Insurance Corporation has been working as a reinsurer in India. Their subsidiaries are working as a separate entity and plays significant role in the public sector of general insurance.

Role and Functions of GIC

- Carrying on of any part of the general insurance, if it thinks it is desirable to do so.
- Aiding, assisting and advising the acquiring companies in the matter of setting up of standards of conduct and sound practice in general insurance business.
- Rendering efficient services to policy holders of general insurance.
- Advising the acquiring companies in the matter of controlling their expenses including the payment of commission and other expenses.
- Advising the acquiring companies in the matter of investing their fund.
- Issuing directives to the acquiring companies in relation to the conduct of general insurance business.
- Issuing directions and encouraging competition among the acquiring companies in order to render their services more efficiently.

GENERAL INSURANCE TYPES AND FEATURES

Motor Insurance: Motor insurance, that includes car insurance and two wheeler insurance, covers all damages and liability to the vehicle. Moreover, according to the Motor Vehicles Act, 1988, driving a motor vehicle without insurance in a public place is a punishable offense.

A motor vehicle can be covered either by a Liability Only policy which is a statutory requirement and covers the legal liability for injury, death, and/or property damage caused to a third party in the event of an accident caused by or arising out of the use of the vehicle, or a package policy which includes the Liability Only policy and also covers the damage to owner's vehicle, usually called O.D. Cover.

THE COMMON MOTOR INSURANCE PLANS INCLUDE:

Car insurance: A comprehensive coverage against physical damage and bodily injury to the car, and also covers against third-party liability.

Two wheeler insurance: A comprehensive two-wheeler insurance policy provides hassle-free protection to your bike or scooter against physical damage, theft and third party liability. **Commercial vehicle insurance:** Commercial vehicle insurance is a Liability Only policy for commercial vehicles across the various classes of vehicles like goods carrying vehicles – private and public carrier, passenger carrying vehicles, miscellaneous and special types of vehicles.

HEALTH INSURANCE: Ill health can result in a major halt in your life and work. Moreover, the escalating price of health care costs means that you would be shelling out a massive amount of money to bear the brunt of these costs. This is the reason why you would need health insurance to cover your medical expenses following hospitalization from sudden illnesses or expenses caused by accidents.

Individual –A health insurance policy, such as Bajaj Allianz Health Guard Individual policy, provides cover for an individual with cashless hospitalization and other features. In case you feel that the sum insured of your existing health insurance plan does not suffice for expenses due to illness or accidents then opt for a cover such as the Extra Care health insurance policy to extend your health insurance.

Family Floater Policy – A policy such as the Health Guard Family Floater Option covers family members under a single plan. The fixed sum insured can be availed by individual member or as a sum total for treatment of one person.

Surgery Cover – A Surgical Protection Plan provides a fixed benefit amount for specified surgeries and helps you to take care of the expensive medical treatment in a hospital. This benefit plan that is used for the surgical treatment of serious illnesses such as cancer, kidney failure, and heart attack can be availed as a standalone plan or a rider.

Comprehensive Health Insurance – A high value comprehensive health insurance policy, such as Health Care Supreme with a wide range of sum insured, add-on covers, special benefit covers such as maternity benefits and dental treatments, fulfills all the healthcare needs and ensures complete peace of mind, regardless of the situation of life you are in.

TRAVEL INSURANCE

Despite all your planning, a trip abroad can go wrong due to medical eventualities, and non-medical contingencies such as loss of baggage, trip delay and other incidental expenses. Travel insurance covers the insured against these misfortunes while traveling. Catering to people from all walks of life, Bajaj Allianz offers three different plans – Travel Companion, Travel Elite and Student Travel. Choose a basic plan or go for extended covers as per your requirements.

The different travel insurance policies include:

- Individual travel policy
- Family travel policy

- Senior citizens travel policy
- Student travel insurance

In addition, there are insurance companies that offer special plans such as a corporate travel policy or a comprehensive policy for travel to a special place such as Asia.

HOME INSURANCE

Your home is a priceless possession and possibly one of the largest financial investments that you have made. It needs to be safeguarded from unforeseen events. Along with your home, property insurance also protects the valuables and other assets that are the interest of the insured. A comprehensive cover, such as My Home, for your house as well as the contents ensures that your home is well protected.

COMMERCIAL INSURANCE

Commercial insurance offers solutions for all sectors of the industry ranging from automotive, aviation, construction, chemicals, foods and beverages, manufacturing, oil and gas, pharmaceuticals, power, technology, telecom, textiles, transport and logistics.

Some common types of commercial insurance include:

- Property insurance
- Marine insurance
- Liability insurance
- Financial lines insurance
- Engineering insurance
- Energy insurance
- Employee benefits insurance
- International insurance solutions

PRINCIPLES OF INSURANCE - 7 BASIC, GENERAL INSURANCE PRINCIPLES

An insurer must always investigate any doubtable insurance claims. It is also a duty of the insurer to accept and approve all genuine insurance claims made, as early as possible without any further delays and annoying hindrances.

Seven principles of insurance with examples

1. Principle of Uberrimae fidei (Utmost Good Faith),
2. Principle of Insurable Interest,
3. Principle of Indemnity,
4. Principle of Contribution,
5. Principle of Subrogation,
6. Principle of Loss Minimization, and
7. Principle of Causa Proxima (Nearest Cause).
8. Principle of Uberrimae fidei (Utmost Good Faith)

Principle of Uberrimae fidei (a Latin phrase), or in simple english words, the Principle of Utmost Good Faith, is a very basic and first primary principle of insurance. According to this principle, the insurance contract must be signed by both parties (i.e insurer and insured) in an absolute good faith or belief or trust. The person getting insured must willingly disclose and surrender to the insurer his complete true information regarding the subject matter of insurance. The insurer's liability gets void (i.e legally revoked or cancelled) if any facts, about the subject matter of insurance are either omitted, hidden, falsified or presented in a wrong manner by the insured. The principle of Uberrimae fidei applies to all types of insurance contracts.

Principle of Insurable Interest: The principle of insurable interest states that the person getting insured must have insurable interest in the object of insurance. A person has an insurable interest when the physical existence of the insured object gives him some gain but its non-existence will give him a loss. In simple words, the insured person must suffer some financial loss by the damage of the insured object.

For example :- The owner of a taxicab has insurable interest in the taxicab because he is getting income from it. But, if he sells it, he will not have an insurable interest left in that taxicab.

From above example, we can conclude that, ownership plays a very crucial role in evaluating insurable interest. Every person has an insurable interest in his own life. A merchant has insurable interest in his business of trading. Similarly, a creditor has insurable interest in his debtor.

Principle of Indemnity: Indemnity means security, protection and compensation given against damage, loss or injury. According to the principle of indemnity, an insurance contract is signed only for getting protection against unpredicted financial losses arising due to future uncertainties. Insurance contract is not made for making profit else its sole purpose is to give compensation in case of any damage or loss.

In an insurance contract, the amount of compensations paid is in proportion to the incurred losses. The amount of compensations is limited to the amount assured or the actual losses, whichever is less. The compensation must not be less or more than the actual damage. Compensation is not paid if the specified loss does not happen due to a particular reason during a specific time period. Thus, insurance is only for giving protection against losses and not for making profit.

Principle of Contribution: Principle of Contribution is a corollary of the principle of indemnity. It applies to all contracts of indemnity, if the insured has taken out more than one policy on the same subject matter. According to this principle, the insured can claim the compensation only to the extent of actual loss either from all insurers or from any one insurer.

If one insurer pays full compensation then that insurer can claim proportionate claim from the other insurers.

For example :- Mr. John insures his property worth $ 100,000 with two insurers "AIG Ltd." for $ 90,000 and "MetLife Ltd." for $ 60,000. John's actual property destroyed is worth $ 60,000, then Mr. John can claim the full loss of $ 60,000 either from AIG Ltd. or MetLife Ltd., or he can claim $ 36,000 from AIG Ltd. and $ 24,000 from Metlife Ltd.

So, if the insured claims full amount of compensation from one insurer then he cannot claim the same compensation from other insurer and make a profit. Secondly, if one insurance company pays the full compensation then it can recover the proportionate contribution from the other insurance company.

Principle of Subrogation: Subrogation means substituting one creditor for another. Principle of Subrogation is an extension and another corollary of the principle of indemnity. It also applies to all contracts of indemnity. According to the principle of subrogation, when the insured is compensated for the losses due to damage to his insured property, then the ownership right of such property shifts to the insurer. This principle is applicable only when the damaged property has any value after the event causing the damage. The insurer can benefit out of subrogation rights only to the extent of the amount he has paid to the insured as compensation.

For example :- Mr. John insures his house for $ 1 million. The house is totally destroyed by the negligence of his neighbour Mr.Tom. The insurance company shall settle the claim of Mr. John for $ 1 million. At the same time, it can file a law suit against Mr.Tom for $ 1.2 million, the market value of the house.

Principle of Loss Minimization: According to the Principle of Loss Minimization, insured must always try his level best to minimize the loss of his insured property, in case of uncertain events like a fire outbreak or blast, etc. The insured must take all possible measures and necessary steps to control and reduce the losses in such a scenario. The insured must not neglect and behave irresponsibly during such events just because the property is insured. Hence it is a responsibility of the insured to protect his insured property and avoid further losses.

For example :- Assume, Mr. John's house is set on fire due to an electric short-circuit. In this tragic scenario, Mr. John must try his level best to stop fire by all possible means, like first calling nearest fire department office, asking neighbours for emergency fire extinguishers, etc. He must not remain inactive and watch his house burning hoping, "Why should I worry? I've insured my house."

Principle of Causa Proxima (Nearest Cause): Principle of Causa Proxima (a Latin phrase), or in simple english words, the Principle of Proximate (i.e Nearest) Cause, means when a loss is caused by more than one causes, the proximate or the nearest or the closest cause should be taken into consideration to decide the liability of the insurer. The principle states that to find out whether the insurer is liable for the loss or not, the proximate (closest) and not the remote (farest) must be looked into.

For example :- A cargo ship's base was punctured due to rats and so sea water entered and cargo was damaged. Here there are two causes for the damage of the cargo ship - (i) The cargo ship getting punctured beacuse of rats, and (ii) The sea water entering the ship through the puncture. The risk of sea water is insured, but the first cause is not. The nearest cause of damage is sea water which is insured and therefore the insurer must pay the compensation.

LIFE INSURANCE

Life insurance policies pay a lump sum amount to the beneficiaries of the policyholder upon his death. This payout is the death benefit. Often, the policyholder survives the policy period. The policyholder then receives a maturity benefit. The insurer agrees to this in exchange for the premium that the policyholder pays.

GENERAL INSURANCE

All other forms of insurance belong to general insurance. Health and property insurance come under general insurance. This type of insurance typically covers losses caused by theft or damage. In the case of health insurance, the cover is for medical expenses. Rahul visited the Bajaj Finserv website as part of his preliminary research on insurance plans. He found various sub-categories of general insurance. On speaking with a Bajaj Finserv representative, he realised that each functions in its own way.

KEY DIFFERENCES BETWEEN LIFE INSURANCE AND GENERAL INSURANCE

The difference between life insurance and general insurance can be drawn clearly on the following grounds:

1. The insurance contract, in which the life risk of an individual is covered, is known as life insurance. As opposed, the insurance, which is not covered under life insurance and includes various types of insurance, i.e. fire, marine, motor, etc. is general insurance.
2. Life insurance is nothing but an investment avenue. On the contrary, general insurance is a contract of indemnity.
3. Life insurance is a long-term contract, which runs over a number of years. Conversely, general insurance is a short term contract, which needs to be renewed every year.
4. In life insurance, the sum assured is paid, either on the happening of the event or the on the maturity of the term. As against this, in general insurance, the amount of actual loss is reimbursed, or liability incurred will be repaid on the happening of an uncertain event.
5. In life insurance, the premium is paid throughout the life of the term. In contrast, in general insurance, one shot payment of premium is made.

6. In life insurance, the insurable interest must be present only at the time of the contract, but in general insurance, the insurable interest must be present, both at the time of contract and at the time of loss.
7. Life insurance can be done for any value based on the premium the policyholder willing to pay. Unlike, general insurance the sum payable is confined to the amount of loss suffered, regardless of the policy amount.
8. The component of saving is normally present in life insurance, but not in general insurance.

COMPARISON BETWEEN LIFE INSURANCE AND GENERAL INSURANCE:

	Life Insurance	**General Insurance**
Type of	Insurance	Insurance
Description (Wikipedia)	Life insurance is a contract between an insurance policy holder and an insurer or assurer, where the insurer promises to pay a designated beneficiary a sum of money (the benefit) in exchange for a premium, upon the death of an insured person (often the policy holder).	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.
Protects	Life	Everything else, such as property, health, etc.
Types	Term Insurance ULIP Whole Life Insurance	Motor Insurance Health Insurance Travel Insurance

	Assurance	Home Insurance Marine Insurance Commercial Insurance
Purpose	Often used a form on investment	Usually serves it purpose
Duration	Usually long-term, i.e. the life of the insurance or over 25 years	Usually short term, such as a year, 5 years or 10 years.
Claims	The amount is paid either at death or on maturity of the insurance	The amount is paid when loss is incurred.
Premium	Usually paid annually	Can be paid annually or lumpsum at one time

FIRE INSURANCE

Meaning:
Fire insurance was started after marine insurance. Marine insurance was useful only to persons engaged in some kind of trade. The fire havoc can be experienced by persons of all walks of life. The Great Fire of London in 1956 destroyed 13,000 houses in four days. This 'Great Fire' gave birth to Fire Insurance. Fire insurance is a contract to indemnify the loss suffered by the insured. This contract does not help in controlling or preventing fire but it is a promise to compensate the loss.

A fire insurance is an agreement between two parties, i.e., insurer and insured, whereby insurer undertakes to indemnify the loss suffered by the insured in consideration for his (insured) paying of certain sum called 'Premium'.

A fire insurance contact may be defined as 'an agreement' whereby one party in return for a consideration undertakes to indemnify the other party against financial loss which the latter may sustain by reason of certain subject-matter being damaged or destroyed by fire or other defined perils up to an agreed amount.

The term 'fire' must satisfy two conditions:

(a) There must be actual fire or ignition;

(b) The fire should be accidental.

The property must be damaged or burnt by fire. If the property is damaged by heat or smoke without ignition it will not be covered under the word 'fire'.

Procedure for Fire Insurance:

Whenever a person or a business house wants to get its property insured, a proposal form is duly filled. The form has columns for information about the property to be insured. The details of the property, its location and contents are given in the proposal. The insured should give correct answers to all the questions in the form.

Fire insurance contract is based on mutual faith. On receipt of the proposal the underwriter assesses the possible loss involved in the proposal. The proposal may be accepted on its receipt or a surveyor may be sent to assess the proposal. When the underwriter accepts the proposal, the contract comes into existence. Sometimes a cover note is issued immediately and the policy is sent later on. A cover note binds the insurer to indemnify the risk. The risk coverage starts on the payment of premium.

Generally, a fire insurance policy is issued for one year but it may be periodically reviewed. The insurance company informs the insured two weeks before the expiry of the policy so that it may be renewed. However, two weeks are given as grace period after the expiry of the policy. The insured can get it renewed within the grace period and insurance coverage continues in the mean time.

The insured must have insurable, interest in the property to be insured both at the time of taking up of the policy and at the time of occurrence of the loss. If the insurable interest passes on to another person, the insurance coverage ends unless otherwise the underwriter (insurance company) agrees to continue it.

GENERAL PRINCIPLES OF FIRE INSURANCE:

Fire insurance has three important principles:

1. Utmost Good Faith.
2. Insurable interest in property.
3. Principle of indemnity.

CHARACTERISTICS OF FIRE INSURANCE

1. Fire insurance is a contract of indemnity. The insurer is liable only to the extent of the actual loss suffered. If there is no loss there is no liability even if there is a fire.
2. Fire insurance is a contract of good faith. The policy-holder and the insurer must disclose all the material facts known to them.
3. Fire insurance policy is usually made for one year only. The policy can be renewed according to the terms of the policy.
4. The contract of insurance is embodied in a policy called the fire policy. Such policies usually cover specific properties for a specified period.

5. Insurable Interest: A fire policy is valid only if the policy-holder has an insurable interest in the property covered. Such interest must exist at the time when the loss occurs. In English cases it has been held that the following persons have insurable interest for the purposes of fire insurance-owner; tenants, bailees, including carriers; mortgages and charge-holders.
6. In case of several policies for the same property, each insurer is entitled to contribution from the others. After a loss occurs and payment is made, the insurer is subrogated to the rights and interests of the policy-holder. An insurer can reinsure a part of the risk.
7. Fire policies cover losses caused proximately by fire. The term loss by fire is interpreted liberally. Example: A women hid her jewellery under the coal in her fireplace. Later on she forgot about the jewellery and lit the fire. The jewellery was damaged. Held, she could recover under the fire policy.
8. Nothing can be recovered under a fire policy if the fire is caused by a deliberate act of policy-holder. In such cases the policy-holder is liable to criminal prosecution.
9. Fire policies generally contain a condition that the insurer will not be liable if the fire is caused by riot, civil disturbances, war and explosions. In the absence of any specific expectation the insurer is liable for all losses caused by fire, whatever may be the causes of the fire.
10. Assignment: According to English law a policy of fire insurance can be assigned only with the consent of the insurer. In India such consent is not necessary and the policy can be assigned as a chose-in-action under the Transfer of Property Act. The insurer is bound when notice is given to him. But the assignee cannot be recovering damages unless he has an insurable interest in the property at the time when the loss occurs. A stranger cannot sue on a fire policy.

TYPES OF FIRE POLICIES

There may be various types of fire policies. The principal types are described below:

Specific Policy

A specific policy is one under which the liability of the insurer is limited to a specified sum which is less than the value of property.

Valued Policy

A valued policy is one under which the insurer agrees to pay a specific sum irrespective of the actual loss suffered. A valued policy is not a contract of indemnity.

Average Policy

Where a property is insured for a sum which is less than its value, the policy may contain a clause that the insurer shall not be liable to pay the full loss but only that proportion of the loss which the amount insured for, bears to the full value of the property. Such a clause is called the average clause and policies containing an average clause are called average policies. The phrase “subject to average” is equivalent to the insertion of an average clause. “Lloyd’s Fire Policies are usually expressed to be “subject to average”.

Reinstatement or replacement Policy

In such policies the insurer undertakes to pay no the value of the property lost, but the cost of replacement of the property destroyed or damaged. The insurer may retain an option to replace the property instead of paying cash.

Floating Policy

When one policy covers property situated in different places it is called a floating policy. Floating policies are always subject to an average clause.

Combined Policies

A single policy may cover losses due to a variety of cases, e.g. fire together with burglary, third party losses, etc. A fire policy may include loss of profits, i.e. the insurer may undertake to indemnify the policy holder not only for the loss caused by fire but also for the loss of profits for the period during which the establishment concerned is kept closed owing to the fire.

SUBROGATION

Subrogation is a term denoting a legal right reserved by most insurance carriers. 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 is defined as a legal right that allows one party (e.g., your insurance company) to make a payment that is actually owed by another party (e.g., the other driver's insurance company) and then collect the money from the party that owes the debt after the fact.

Subrogation is one of the ways that car insurance companies recover money that was paid out in claims to drivers insured by them.

SUBROGATION WORKS

Subrogation is generally the last part of the insurance claims process. In most cases, the insured person hears little about it. It's something that happens between insurance companies.

If an insurance company does decide to pursue subrogation, however, the law requires that they inform you that they are doing it. This is important to you, the customer and injured party, for two main reasons:

- If the insurance company decides to pursue subrogation to recover costs, they must try to recover the cost of your deductible as part of the process, and refund it to you if they do recover it.
- Generally, your insurance policy will require you to cooperate with any attempts by the insurer to pursue subrogation.

Among other things, this means you may not be allowed to sign any waivers or agreements that release the other driver from responsibility if he is judged to be at fault in the accident.

Insurance company does not pursue subrogation, you can still attempt to recover your deductible from the other driver or his insurer, but it's far easier to let the insurance company recover it for you.

When you file a claim with the insurance company and another driver or party is at fault, the insurance company will generally:

1. Pay the claim in order to indemnify you (cover your damages and injuries).
2. Seek to recover the money they paid **-** or at least a part of it - from the parties that are at fault in the accident.

Essentially, because fault typically is not determined immediately (but rather through an investigation process), the final decision on who pays usually has to wait until the investigation is complete. However, a driver who files his claim may not be able to wait for the payout, so the insurance company pays while determining fault and then seeks to recover those costs later.

PARTIAL FAULT AND SUBROGATION

If the insurance company's investigation finds that you're partially at fault in the accident, the amount of the deductible you can recover will be prorated to the percentage of your fault. **Example**: Judgment is that were **40% at fault**, for example, and your insurer chooses to subrogate your claim, you'll be entitled to **60% refund** of your deductible.

DOUBLE INSURANCE

Double insurance is a type of insurance where the same subject matter is insured more than once. In such cases the same subject is insured, but with different insurers. The method of double insurance is considered a legal act. In case of loss the insured can claim from both the insurers and the insurers are liable to pay under their respective policies.

The features of double insurance are:

1. subject matter is insured with two or more insurance companies;
2. the insured can claim the amount from the policies; and
3. the insurer cannot claim more than the actual loss.

Double insurance also follows the basic principles of insurance. Thus a double insurance does not allow for unjust enrichment of the insured.

HOW DUAL COVERAGE INSURANCE WORKS

In a family work for companies that offer employer-sponsored health benefits, you can elect for coverage under both plans. Your employer's insurance company will be your primary provider, and your spouse's insurer will be your secondary provider. When you obtain medical treatment, you can file a claim with both providers.

Reduced Out-of-Pocket Costs

Having dual-coverage insurance can reduce or eliminate your out-of-pocket expenses for medical procedures, called co-pays. In most cases, an insurance company pays a portion of your medical expenses, and you're responsible for paying the rest. If you have dual-coverage insurance, your primary insurer will pay a portion of your expenses, but your secondary insurer will likely step in to pay what remains.

Fewer Gaps in Insurance Coverage

If you ever become unemployed or switch jobs, you'll likely lose your health insurance almost immediately. Gaps in health insurance coverage can be dangerous because you're responsible for the entire cost of any medical procedures you have while uninsured. Having gaps in insurance coverage can also make it harder for you to qualify for insurance when you're employed again or wish to purchase private insurance. If you have dual-coverage insurance, you'll still be covered by your spouse's plan, so you won't need to worry about gaps in insurance coverage unless you're both unemployed or switch jobs at the same time.

More Coverage

Health insurance plans and what they cover vary widely. For this reason, two insurance companies may offer completely different benefits for the same procedure. For example, one insurance company may cover 80 percent of a procedure, while another won't cover the procedure at all. When you have dual-coverage insurance, you have more coverage, so it's more likely that at least one of your insurance companies will cover the procedures you need.

CONTRIBUTION PRINCIPLE RULES

Before the contribution principle kicks in for insurance companies, a double insurance situation has to meet certain requirements. The policies must all cover the same property and the same event, and all the policies must be in effect and enforceable. If all of these conditions have been met and a covered event occurs, damaging the covered property, the contribution principle will go into effect for the involved companies.

Filing the Claim

The insured party files a claim with only one company in the case of a covered damaging event. That insurance company pays out the money to the insured person. Afterward, under the contribution principle, the company is entitled to collect money from the other involved insurance companies according to how much coverage the policyholder has bought from each one. The contribution principle only affects the relationship between insurance companies, and does not concern the policyholder.

PRINCIPLE OF CONTRIBUTION IN INSURANCE LAW AND CONTRACT

It should be clearly borne in mind that even though there is no contribution condition in the policy, that is to say, that, even if it is not mentioned in the policy that contribution would apply, nevertheless, it is the legal right of the insurers to get the benefit of contribution.

The right is implied at law. However, the position as to when and how the right can be exercised differs at common law and under policy condition.

Under common law, the position is this that the insured can claim the full amount of loss from any of the insurers of his choice when that insurer will have the trouble of asking contribution from the other interested insurers.

But under a policy condition the insurers may require the insured to claim proportionately from all the insurers right at the inception rather than claiming full from the policy subject to this condition: in practice, non-marine policies do usually contain a condition as such and it is most unusual to find such a condition in marine policies.

Proximate cause

(1) The cause having the most significant impact in bringing about the loss under a first-party property insurance policy, when two or more independent perils operate at the same time (i.e., concurrently) to produce a loss. Courts employ a set of proximate cause rules to resolve causation disputes when a property policy states that it covers or excludes losses "caused by" a peril and there is more than one peril at work in a fact pattern. Under common law, whether the policy provides coverage depends on which peril is chosen as the proximate cause. If the peril selected as the proximate cause is covered, courts consider the loss to have been caused by the covered peril and will hold that the loss is covered. If the peril selected as the proximate cause is uncovered or excluded, courts consider the loss to have been caused by the uncovered or excluded peril and will hold that the loss is not covered. (2) As a principle of tort law, proximate cause refers to a doctrine by which a plaintiff must prove that the defendant's actions set in motion a relatively short chain of events that could have reasonably been anticipated to lead to the plaintiff's damages. If the defendant's actions were "proximate" or close enough in the chain of causation to have foreseeably led to the plaintiff's damages, courts will impose liability. Otherwise, if the defendant's actions set in motion a long, bizarre chain of events that could not have reasonably been foreseen to lead to the plaintiff's damages, courts will not impose liability. In tort law, multiple actions by one or more defendants that are a substantial factor in producing the loss can qualify as proximate causes.

CLAIMS OF RECOVERY

Claim recovery is called "subrogation", which is a legal term meaning that the insurance company assumes the right of its insured to pursue a claim against a wrongdoer.

If your insurance company pays for damage to your car under the collision coverage, it will pursue its payment (and your deductible amount) from the party who was at fault for the accident. It will make a subrogation claim against that person's insurance company. If it recovers all or part of the loss, you will get a pro rata share of your deductible back again.

Claim recovery also includes "salvage". If your wrecked car was deemed to be a total loss (which means merely that it is financially impractical to repair it—not that it cannot be repaired), the wreck has value. It will be sold at an auto salvage auction to a salvage buyer. The money recovered goes to the insurance company that paid the claim. The salvage buyer will in turn sell undamagedparts to shops that are repairing other vehicles.

CLAIMS RECOVERY PROCESS

The claims recovery process is typically time-consuming and labor-intensive, involving multiple systems, and often outdated technology. The pressure to settle claims faster with greater transparency means that many insurers don't have time to make a decision on the claims with the highest potential for recovery. With all these challenges, insurance companies are turning to analytics to improve their loss ratio by optimizing the claims recovery process.

By using data and text mining techniques, property and casualty insurers have:

- **Minimized the number of missed recovery cases** by recognizing known and unknown subrogation indicators in the claims information;
- **Increased the chances of recovery** by detecting all case to be recovered earlier in the process and generating automatic alerts;
- **Reduced investigation time and costs** by prioritizing and triage potential recovery opportunities; and
- **Analyzed both structured and unstructured claims data** to gain a better understanding of the loss.

One leading European insurer was able to improve its recovery rate by over 4 percent, representing millions of dollars per year to its bottom line.

As insurance becomes a commodity, insurance carriers need to consider how they can differentiate themselves from their competitors. Adding analytics to the claims recovery process can deliver a measurable ROI with "new revenue", cost savings and ultimately increased profits. Claims recovery analytics will also deliver intangible benefits, such as improved customer satisfaction, resulting in a win-win arrangement for both the customer and the insurance carrier.

MOTOR INSURANCE

Motor insurance (also known as vehicle / car / auto insurance) is insurance purchased for cars, trucks, and other road vehicles. Its primary objective is to provide protection against physical damage resulting from traffic collisions and against liability that could also arise there-from.

Motor insurance in India covers for the loss or damage caused to the automobile or its parts due to natural and man-made calamities. It provides accident cover for individual owners of the vehicle while driving and also for passengers and third party legal liability.

NATURE AND NEED OF MOTOR INSURANCE

- Motor Insurance(Third Party) is compulsory on purchase of new vehicles whether acquired for commercial or private usage as per Motor Vehicle Act in India. One can be penalised for driving without a valid cover.
- An accident can happen to anyone even if the driver of the car is not at fault. This may result into a lot of damages caused in person as well as to the car. Motor Insurance turns to be very beneficial under such circumstances.

- If the driver is liable for an accident which results in bodily injuries to a third party, then the expenses have to be borne by the owner of the car. In such a case third party motor insurance saves from a devastating financial blow.
- Cars are an expensive investment for an individual. An accident can turn this investment into a huge loss as well. Hence it is important to have motor insurance.
- It also helps to cover for damages caused other than an accident like fire, theft,etc.

TERMS AND CONDITIONS CLAIMS AND RECOVER

COVERED IN MOTOR INSURANCE

Motor Insurance covers :

- Accident caused by external means.
- Man made calamities, such as Explosion, Burglary, Theft, Riots & Strikes,Malicious Acts, Terrorism, etc
- Natural calamities like Earthquakes, Fire, Floods, Typhoons, Hurricanes, Storms, Cyclones, Lightning,etc.
- While in Transit by rail/road, air or waterway.
- Third party legal liability
- Cover for an owner driver in case of death

NOT COVERED IN MOTOR INSURANCE

- Normal wear and tear of the vehicle due to usage
- Loss or damage due to depreciation of vehicle
- Electrical / Mechanical breakdown
- Wear and tear of consumables like tires and tubes
- Loss or damage incurred outside the geographical area

- Loss or damage caused as result of driving under intoxication (DUI) (alcohol/drugs)
- Loss or damage caused to the vehicle by a unauthorized person without valid driving license
- Loss or damage due to nuclear risks
- Vehicle being used otherwise than in accordance with restrictions as to use.
- Loss/Damage attributable to War/Mutiny/Nuclear risks
- Damages caused due to speed testing/ racing
- Known or deliberate accidental damage

These may vary from insurer to insurer.

TYPES OF MOTOR INSURANCE AVAILABLE IN THE MARKET:

Car Insurance policy can be broadly classified as follows:

- **Private Car Insurance** : It is compulsory for all the new cars to have a motor-car insurance. It is insurance for vehicles not used for commercial purposes. The amount of premium depends on the make and value of the car, state where the car is registered and the year of manufacture.
- **Two Wheeler Insurance** : It covers accidental insurance for the drivers of the Two wheeler vehicle.
- **Commercial Vehicle Insurance** : It provides cover for all the vehicles which are not used for personal purposes, goods carrying vehicles like the Trucks, Tempos and HMVs.
- **Third Party Insurance Policy:** This type of policy only covers the third person who has been damaged or injured in an accident where the owner is accountable. It covers the insured person's liability to third parties' loss caused by an accident involving the auto vehicle of the insured. This refers to the minimum risks that are to be covered under the Auto Vehicles Act

1938 (Act Liability). It doesn't cover the expenses, damage, theft or injuries of the owner. This type of plan is made compulsory by the law of India.

- **Comprehensive Insurance Policy:** This type of plan has a wider scope and covers all the above mentioned liability along with the insured person's damage, theft, expenses and injuries in result of an accident of the auto vehicle. This type of policy can be extended to increase benefits as an additional feature.
- **Liability only policy:** It covers third party liability for bodily injuries and/or death and property damage. Personal accident cover for owner driver is also included.

ACCIDENT INSURANCE

Accident insurance helps you pay for the medical and out-of-pocket costs that you may incur after an accidental injury. This includes emergency treatment, hospital stays, and medical exams, and other expenses you may face, such as transportation and lodging needs.

IMPORTANCE OF HAVING A PERSONAL ACCIDENT COVER

Life is uncertain, accidents can happen any time. During such times, it is always better to be finally prepared to handle them. Just like you should have a life insurance and a medical insurance with you, it is equally important to have a personal accident cover. Personal accident schemes cover the policyholder against death or disability due to an accident. If you check, all general insurance companies will offer these policies, but very unlikely that an agent tries to sell this product. Insurance agents get very low commissions on a personal accident insurance policy so they always try to sell it with some other insurance product like a life insurance product. You could always enhance the cover if you are willing to pay an extra premium. It is very important to have an accidental policy as part of your insurance portfolio. It will always provide financial support to the policyholder if he is disabled after an accident. At the same time, even minor accidents like fracturing an arm, a leg while playing a game or falling off a bicycle are covered in the policy. But it is wise to check all the details carefully.

Most insurance companies offer coverage against accidental death or permanent disability due to an accident with different sums insured like Rs 3 lakh, 5 lakh, 10 lakh, 15 lakh, 20 lakh and so on.

Company policies cover different types of accidents like road, rail accidents, accidents due to natural calamities and arising out of terrorism or terrorist acts.

Most companies also offer accident insurance to their employees thorough a group cover. However, this is a very basic cover and may not offer the benefits as what a standalone policy would do. Experts suggest that one should look at buying an accident cover with a rider along with a life insurance policy, if the company's cover is insufficient. When it comes to the premium charged, private insurance players offer a higher cover and a wider range of benefits, so charge a higher premium. Ideally, a policyholder can get a cover of up to eight times of his annual salary. Apart from the death and permanent disability cover, you could also get an additional benefit against partial and temporary disability. It is always better to ask your insurance company about other benefits and understand the terms and conditions of the same. For instance, check if the hospitalization benefit can be availed after 24 hours of the patient getting admitted or if there is a specific duration. Also check if there is a waiting period attached to the policy. Keep all the documents handy while making a claim. If you do not have a personal accident policy, get one today…it will give financial support to your family, in case there's an emergency.

THIRD PARTY INSURANCE

There are two quite different kinds of insurance involved in the damages system. One is Third Party liability insurance, which is just called liability insurance by insurance companies and the other one is first party insurance.

A third party insurance policy is a policy under which the insurance company agrees to indemnify the insured person, if he is sued or held legally liable for injuries or damage done to a third party. The insured is one party, the insurance company is the second party, and the person you (the insured) injure who claims damages against you is the third party.

Section 145(g) "third party" includes the Government. National Insurance Co. Ltd. v. Fakir Chand[1], "third party" should include everyone (other than the contracting parties to the insurance policy), be it a person traveling in another vehicle, one walking on the road or a passenger in the vehicle itself which is the subject matter of insurance policy.

SALIENT FEATURES OF THIRD PARTY INSURANCE

Ø Third party insurance is compulsory for all motor vehicles. In G. Govindan v. New India Assurance Co. Ltd.[2],Third party risks insurance is mandatory under the statute .This provision cannot be overridden by any clause in the insurance policy.

Ø Third party insurance does not cover injuries to the insured himself but to the rest of the world who is injured by the insured.

Ø Beneficiary of third party insurance is the injured third party, the insured or the policy holder is only nominally the beneficiary of the policy. In practice the money is always paid direct by the insurance company to the third party (or his solicitor) and does not even pass through the hands of the insured person.

Ø In third party policies the premiums do not vary with the value of what is being insured because what is insured is the 'legal liability' and it is not possible to know in advance what that liability will be.

Ø Third party insurance is almost entirely fault-based.(means you have to prove the fault of the insured first and also that injury occurred from the fault of the insured to claim damages from him)

Ø Third party insurance involves lawyers aid

Ø The third party insurance is unpopular with insurance companies as compared to first party insurance, because they never know the maximum amounts they will have to pay under third party policies.

COMPULSORY MOTOR VEHICLE AND ACCIDENT INSURANCE

The Motor Vehicle Act states that each car running on road must be insured by the concerned department and must carry a third party liability at least. This means that all the vehicles in India must carry a third party insurance plan so as to cover the damages provided to the third party in case of any severe incident. The vehicle owner might or might not be included in this type of insurance plan depending upon the type of scheme he/she has opted for. Auto insurance has been made mandatory not only because it is illegal for a car to be driven without one but not every individual is able to afford the expenses caused by damages. Car insurance in India is generally of two types and is categorised as – Comprehensive plan and Third Party Liability scheme.

The latter scheme only covers the damages occurring to the other party, which is involved in an accident and does not include the damage cover for the owner's vehicle. However, one can add certain clauses to this plan in order to ensure that legal liability for paying the compensation is at least covered. These additional clauses in vehicle insurance also benefit the users in case their new models or used cars are being stolen or damaged under fire.

The former scheme or the Comprehensive policy is dedicated to catering the expenses of the vehicle owner as well as the third party. The premium for this type of car insurance in India is generally hefty but is duly compensated over a longer period of time. The comprehensive policy covers the damages and injuries occurring to the third party and will also benefit the vehicle owner in case of his/her own injuries. The scheme also covers the expenses if the vehicle is damaged in case of a natural calamity, such as fire and earthquake, and if it has been stolen.

Auto experts believe that making car insurance mandatory helps the people in need to pay their expenses. Not every car owner might be able to pay for the damages caused to his own vehicle or others in case of an adversity. The car insurance ensures that the damages are being paid and a minimal amount is being shed from the pockets of the owner. Also, a person might be careful while driving but he/she cannot assure the same about the other person on road.

PART – B

1. State the meaning of General Insurance?

2. Write a short note on Law relation to General Insurance?

3. List out the objectives of General Insurance Business?

4. Mention the functions of General Insurance Corporation?

5. State the importance of General Insurance?

6. Mention the progress of Motor Insurance?

7. State the meaning of Fire Insurance Claims?

8. Define Personal Accident Insurance?

9. Mention the procedure for calculation for loss of stock?

10. Write a short note on Accident coverage and compensation?

PART -C

1.Enumerate the concept of Accident Insurance Policies in detail?

2. Explain the different types of General Insurance?

3. Explain the special features of Personal Accident Insurance?

4. Discuss the right of the insurer under a fire policy.?

5. 'Fire insurance is a contract of indemnity'-Explain

6. Explain the different kinds of Motor Vehicle Insurance policies?

7. Describe the procedure of settlement of fire insurance claims.

8. Explain the Third Party Insurance in detail?

9. Explain the types of fire insurance policies?

10. Discuss the essential elements of a contract of fire insurance?

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE

DEPARTMENT OF MANAGMENET

Unit III - General Insurance - Multiple Choice Questions- Each Question carries ONE Mark

S. No.	Question	Opt 1	Opt 2	Opt 3	Opt 4	Answers
1	General Insurance is having……………….type of contract	Guarantee	Indemnity	Long term	Short term	Indemnity
2	General Insurance is a/an…………………	Contract of Insurance	Contract of Assurance	non Life Insurance	Life Insurance	Contract of Insurance
3	Period of General Insurance coverage is…………..	Long period	5 years	3 years	Short period (upto 1 year)	Short period (upto 1 year)
4	General Insurance Corporation was established during the	1972	1951	1956	1965	1956
5	Extent of coverage in General Insuranceos……………………	Full	Parital loss	Partial loss and Total loss	Total loss	Partial loss and Total loss
6	The subscribed capital of GIC contributed by the Central Government is……………	10 Cr	15 Cr	20 Cr	5 Cr	5 Cr
7	The authorized capital of GIC is……………………….	75 Cr	35 Cr	50 Cr	60 Cr	75 Cr
8	In pursuance of which one of the following was the General Insurance Corporation of India was formed?	General Insurance Business (Nationalisation) Act, 1972	Insurance Act, 1938	Insurance Amendment Act, 2002	IRDA Act 1999	Insurance Business (Nationalisation) Act, 1972
9	GIC became the sole Re-Insurer in India, is called as……………	Gic Re	Gic- Double	Gic- Insurance	Gic- Assurance	Gic Re
10	GIC was re-organized with ……….. fully owned subsidiary companies	2	3	4	5	4
11	**Head Office of New India Assurance Co.Ltd……………**	Mumbai	Chennai	New Delhi	Kolkata	Mumbai
12	Head Office of United India Insurance Co. Ltd…………………	Mumbai	Chennai	New Delhi	Kolkata	Chennai
13	Head Office of Oriental Insurance Co.Ltd………………….	Mumbai	Chennai	New Delhi	Kolkata	New Delhi

14	Head Office of National Insurance Co.Ltd ……………………	Mumbai	Chennai	New Delhi	Kolkata	Kolkata
15	As of 2012 GIC Re ranked ……….. largest Reinsurer	10th	12th	18th	14th	14th
16	5th largest ………….. Reinsurer in the	Medical	Aviation	Health	Fire	Aviation
17	In fire insurance insurable interest is enough at the time of………………..	effecting the policy & Loss	Gain	Policy	maturity	effecting the policy & Loss
18	Cargo ship caught by fire is an example of…………………..	particular average loss.	general average loss	constructive total loss	actual total loss	general average loss
19	A……………………..policy is granted only in respect of stock of inventories of the insured under fire insurance business.	Floating	Declarations	Replacement	Valued	Declarations
20	Under Fire insurance, loss of profit policy is also called as……………	Average policy	Specific policy	Consequential loss policy	Adjustable policy	Consequential loss policy
21	Doctrine of subrogation is used in………………………	fire insurance	life insurance	marine insurance	joint life insurance	fire insurance
22	Average clause in a fire policy is interest in order to check mainly…………………	over insurance	insurance company	other insurance	under insurance	under insurance
23	Fire Insurance policy contract period	2 years	5 years	3 years	1 year	1 year
24	Fire insurance can be taken in respect of……………………`	movable properties only	immovable properties	movable and immovable	persons only	movable and immovable
25	The installation of heat or smoke activated sprinkler systems that are designed to minimize fire damage in the outbreak of a fire is an example of……………………	Loss reduction	Loss prevention	Hedging	Insurance	Loss reduction
26	The same subject matter is insured more than one insurer, it is known as………	Double Insurance	Single Insurance	Re insurance	Multiple Insurance	Double Insurance
27	A………..means insuring a risk with two or more insurers and the total sum insured also exceeds	Reinsurance	General Insurance	Single insurance	Double Insurance	Double Insurance

28	A ……………..provides evidence of insurance to the policies and Registration Authorities under Motor	Cover note	Endorsements	Certificate of insurance	Policy form	Certificate of insurance
29	Motor insurance has its beginning in the……………………	USA	UK	RSA	India	UK
30	Motor Vehicle Insurance is compulsory under the Motor Vehicles Act, which was enacted in……………	1939	1949	1959	1969	1939
31	Which one of the following comes under miscellaneous insurance?	Marine insurance	Fire insurance	Motor insurance	Group insurance	Motor insurance
32	The principles of indemnity does not apply to…………………	Burglary insurance	Fire insurance	Marine insurance	Accident insurance	Personal Accident
33	Motor Vechile Act amended ----------------	1978	1998	1988	1968	1988
34	The rate of premium under the Motor Vehicle Insurance is…………………..	Low	high	moderate	standardized	standardized
35	Compulsory Insurance in regard to liabilities arising out of the use of motor vehicles in pulblic place the policy is	Form A Policy	form B Policy	Form C Policy	Form D policy	Form A Policy
36	Which of the following is not covered under General Insurance?	Theft insurance	Marine insurance	Life insurance	Fire insurance	Life insurance
37	A comprehensive coverage against physical damage and bodily injury to the car is known as……………insurance	fire	Theft	Car	Bike	Car
38	Commercial vehicle insurance is a Liability Only policy for commercial vehicles across the various classes of	Goods Carrying Vehicle	Car	Bike	Marine	Goods Carrying Vehicle
39	A comprehensive two-wheeler insurance policy provides hassle-free protection to	Car	property	Bike	goods	Bike
40	Motor insurance cover	1 party	2nd Party	3rd Party	4th party	3rd Party
41	A person or body other than the parties to an agreement, relationship or dispute is known as……………	Concerned party	Third party	Owner	Payer	Third party

42	A………..is required for new cars/auto those under financing.	half coverage	quarter coverage	full coverage	no coverage	full coverage
43	A………..is designed to help to pay for repairs/replacement in the event of	Health insurance	Marine insurance	Fire Insurance	Auto Insurance	Auto Insurance
44	Auto Insurance it also covers………..for drivers/passengers.	Medical cost	Travel cost	Insurance cost	indemnity	Medical cost
45	Under fire insurance, the insurance rates are influenced by…………..	Quality of fire protection	quality of goods	value of money	location basis	Quality of fire protection
46	Certain kinds of property excludes from Fire insurance such as……………………	human being	Jewellery	records, currency, deeds	furnitures	records, currency,
47	A…………is mandatory for all vehicles plying on Public roads in India.	Lincense	liability insurance	quality of driving skills	First aid box	liability insurance
48	Fire Inssurance is also called as………………………	damage insurance	Subject matter insurance	Annual Insurance	Loss Insuarnce	Annual Insurance
49	Liability insurance purchased by an insured is known as ……………...	1 party	2nd Party	3rd Party	4th party	1 party
50	Second party is known	Insurer	Insured	Agent	Property	Insurer
51	A…………. Party responsible for its own damages or losses	1 party	2nd Party	3rd Party	4th party	1 party
52	Under the Accident insurance……………..liability of the	Minimum	Maximum	Low	fixed	Maximum
53	Under the Accident insurance Maximum liability of the insurer is the	Capital	total	actual	fixed	Capital
54	Under Accident insurance the age limits between………………	10 and 18 years	20 and 45 years	16 and 25 years	30 and 40 years	16 and 25 years
55	Accident insurance is a ………………..	money making business	traiff business	non traiff business	damged assest	non traiff business
56	Classification of occupation under Class IV………………	Accountants, Bankers	Architects, Engineers	Engineers	Any Occupation	Any Occupation
57	Architects, Engineers comes under…………………	Class I	Class II	Class III	Class IV	Class II

58	Accountants, Bankers, Members of Legal and medical profession,	Class I	Class II	Class III	Class IV	Class I
59	Surrender value is always………….than the Paid up Value	Lower	Equal	higher	more or less	Lower
60	Avaition is the ……………. Largest Reinsurer in the world	First	Second	fifth	fourth	fifth

UNIT-IV

SYLLABUS

Deposit and Credit Insurance - Nature - Terms and Conditions - claim - Recovery etc., Public Liability Insurance - Emergency Risk Insurance Structure and Power, function of General Insurance Corporation of India - Deposit Insurance and Credit Guarantee Corporation

DEPOSIT AND CREDIT INSURANCE

Protecting the deposits made by people in banks is very important to ensure confidence in the banking system. In Most countries, there are arrangements to protect the money deposited by the depositors. The common form of providing safety to depositors is deposit insurance. Deposit insurance is providing insurance protection to the depositor's money by receiving a premium.

Here, when the bank fails, the depositors will get back their money. Insurance to deposits will be provided up to a limit. For getting the deposit insurance protection, the depositors should pay an insurance premium.

The first deposit insurance scheme was the Federal Deposit Insurance Corporation (FDIC), launched in the US during the Great Depression period when many banks failed and depositors lost their money. The FDIC was established in 1933 to restore public confidence in the US financial system and to protect small depositors.

In the later period, many central banks have set up deposit insurance institutions especially after 1960s. According to the International Association of Deposit Insurance (IADI) as of January 1, 2015, 113 countries have deposit insurance schemes.

DEPOSIT INSURANCE IN INDIA

In India, the deposit insurance was started with the launch of the Deposit Insurance Corporation and Credit Guarantee Corporation (DICGC) of India in 1961.

DICGC is fully owned by the RBI. Deposit insurance is mandatory for all banks. The premium charged is on a flat rate basis which is 10 paise per Rs 100. The amount of coverage is presently limited to Rs one lakh.

A Deposit Insurance Fund (DIF) is built up from the premium received from insured banks and the coupon received from investment in central government securities.

Deposit insurance extended by DICGC covers all commercial banks, including Local Area Banks (LABs) and Regional Rural Banks (RRBs) in all the States and Union Territories (UTs). All Co-operative Banks across the country except three UTs of Lakshadweep, Chandigarh, and Dadra and Nagar Haveli are also covered by deposit insurance.

In the event of a bank failure, DICGC protects bank deposits that are payable in India. The DICGC insures all deposits such as savings, fixed, current, recurring, etc.

Institutions covered under deposit insurance

All commercial banks including branches of foreign banks functioning in India, local area banks and regional rural banks.

All Co-operative Banks across the country - State, Central and Primary cooperative banks, and urban cooperative banks.

But those in three UTs of Lakshadweep, Chandigarh, and Dadra and Nagar Haveli are not covered by deposit insurance. Primary cooperative societies are not insured by the DICGC.

WHAT TYPES OF DEPOSITS ARE NOT INSURED BY THE DICGC?

The following types of deposits are not covered under deposit insurance by DICGC

(i) Deposits of foreign Governments;
(ii) Deposits of Central/State Governments
(iii) Inter-bank deposits;
(iv) Deposits of the State Land Development Banks with the State co-operative bank;
(v) Any amount due on account of any deposit received outside India
(vi) Any amount, which has been specifically exempted by the corporation with the previous approval of Reserve Bank of India.

CREDIT INSURANCE

Our Credit Insurance (Globalliance) Policy is designed for companies that are selling their goods and/or services on credit to overseas buyers. This policy provides coverage to companies for outstanding receivables that are within approved credit terms, thereby protecting the Insured against non-payment risk by its buyers.

CREDIT INSURANCE WORKS

Credit insurance protects your company against the failure of your customers to pay trade credit debts owed to you. These debts can arise following a customer becoming insolvent or failing to pay within the agreed terms and conditions (protracted default).

How it works is simple: Euler Hermes' network of risk offices monitors the financial performance and well-being of your customers. We allocate each of those customers a grade that reflects the health of their activity and the way they conduct business.

From this risk assessment, each of your buyers is then granted a specific credit limit up to which you can trade and claim should something go wrong. This limit may be revised upwards or downwards as new information becomes available.

NATURE OF DEPOSIT AND CREDIT INSURANCE

- The DICGC insures all deposits such as savings, fixed, current, recurring, etc. deposits accept the following types of deposits
- Deposits of foreign Governments;
- Deposits of Central/State Governments;
- Inter-bank deposits;
- Deposits of the State Land Development Banks with the State co-operative bank;
- Any amount due on account of and deposit received outside India
- Any amount, which has been specifically exempted by the corporation with the previous approval of Reserve Bank of India

TEAMS AND CONDITIONS OF DEPOSIT AND CREDIT INSURANCE

The creation of an explicit deposit insurance system is an expression of government support for a nation's banking system that in large part reflects a concern about the potential for costly bank runs. In the absence of deposit insurance, bank runs are an everpresent threat owing to the fact that banks typically fund illiquid assets with more liquid liabilities. Bank runs are costly because they interfere with the financial intermediation performed by banks. Credit availability and economic activity can be adversely affected if loans are liquidated prematurely in order to meet depositors' claims. Even if bank runs are not widespread, they can disrupt the communities in which they occur. Borrowers who may otherwise receive loans in a more favourable environment may not be funded as banks are forced to maintain high levels of liquid assets. It must also be stressed that it is the financial capacity of the insuring entity that lends credibility to a deposit insurance guarantee, and thereby removes much of the incentive for bank runs. In many larger economies, the taxing and borrowing authority of the national government provides the maximum financial capacity and government-provided deposit insurance.

DEPOSIT INSURANCE COVERAGE, CLAIM AND RECOVERY

Deposit insurance coverage Striking the right balance is also critical in establishing the coverage limit for insured instruments. Coverage must be sufficient to prevent destabilising bank runs, but not so extensive as to eliminate all effective market discipline on the bank's risk-taking. Deposit insurance schemes around the world vary widely in the amounts and types of coverage provided. Some systems protect deposits of all types, several exclude interbank deposits, and some protect only household accounts, reflecting the different emphasis on stability versus protection for small, presumably less sophisticated, savers. Coverage is limited to less than $10,000 per account in some countries and is unlimited in others, with most systems falling between these extremes.

Several countries provide only coinsurance, such as protection for 800/0 of the deposit account balance. Coinsurance provides an incentive for all depositors to monitor bank risk-taking by exposing them to small losses, but it thereby also provides an incentive for the depositors to run on banks. Institutional and cultural factors doubtless influence the tolerance for risk exposure among depositors, as well as depositor reactions to adverse financial news and economic shocks. Different schemes likely will be optimal for different countries, depending upon these factors.

The IMF uses one or two-times per capita GDP as the general rule in advising countries on appropriate limits for deposit insurance coverage. It is intuitive that deposit insurance coverage limits should bear some relationship to measures of income or wealth, so as to provide a relatively constant amount of protection to savers.

ORGANISATIONAL STRUCTURE OFVDEPOSIT AND CREDIT INSURANCE POLICY

Another area that challenges policy-makers to maintain a proper balance involves the organisational structure of a deposit insurance system. To the extent that the structure facilitates the organisational and political separation of the deposit insurance system from other government operations, there may be less potential for incentive conflicts that compromise the effectiveness of the deposit insurance programme. For example, some argue that combining the insurance function with the chartering function in the United States thrift industry created incentive conflicts that proved to be a factor in the demise of the Federal Savings and Loan Insurance Corporation which was established to maintain the strongest possible protection against banking instability.

In general, experience suggests that times of crisis produce political pressures for decisions that may not be in the long-run interest of a sound and efficient banking system. An independent authority is in the best position to resist such pressures. However, it must be recognised that establishing a separate authority for deposit insurance requires careful attention to the balance of power among the various banking authorities, given the incentives towards conservatism on the part of the insurer. Different structures will be appropriate for different institutional settings but, in general, the United States experience suggests caution in creating structures with a high potential for incentive conflicts.

A related issue involving the appropriate responsibilities among bank regulators is whether the deposit insurer should also have direct supervisory authority. In cases where the insurer is not also a bank supervisor, the arrangement must provide the insurer with the necessary information on the current condition and practices of all insured institutions. When the deposit insurer also has supervisory responsibilities, the internal structure must provide for appropriate balance between these functions.

SCOPE OF DEPOSIT INSURANCE

A related issue involves the scope of activities to be brought under an insurance protection scheme. It is important to avoid including activities unnecessarily, given the potential for government involvement to create distortions that may skew the decisions of market participants away from the most productive choices. Once the scope of the insurance system is determined, moreover, it is important to identify measures that can most effectively strike a balance among the considerations mentioned above. For example, basing deposit insurance pricing on market indicators or other timely triggers may restore some of the discipline that is forgone by placing bank activities under the government safety net.

The attempt to minimise unwarranted expansion of the deposit insurance safety net raises questions about where banking organisations should conduct non-banking activities, as well as what should constitute a banking activity for deposit insurance purposes. An important, related concern with government involvement in deposit insurance is the potential for market distortions that diminish productive capacity. When an activity is brought under the government safety net, the production process for that activity and the resulting set of choices available to consumers and businesses may be altered significantly. For example, certain investment and lending decisions of insured institutions may be based more upon regulatory considerations than market incentives, and such distortions may diminish social welfare or productive capacity, or both.

In some countries, these concerns have been addressed primarily by limiting the activities of insured institutions to traditional bank intermediation and closely related functions. In other words, banking and non-banking activities have been required to be carried out in separate organisations. A commonly cited reason for requiring such a separation is the fear that a non-banking operation could expose a bank to greater risk of failure.

ADVANTAGES AND DISADVANTAGES OF A DEPOSIT INSURANCE SYSTEM

By providing a guarantee that depositors are not subject to loss, deposit insurance has two somewhat contradictory effects. On the positive side it removes the incentive to participate in a bank run, while on the negative side it eliminates the need for depositors to police bank risk-taking.

Deposit insurance systems are designed to minimise or eliminate the risk that depositors placing funds with a bank will suffer a loss. Deposit insurance thus offers protection to the deposits of households and small business enterprises, which may represent life savings or vital transactions balances. With a deposit insurance system in place, these households and businesses can “go about their business” with some assurance that their funds are secure. This in turn supports the stability and smooth operations of the economy.

This sense of public assurance is important. Public concern about the safety of deposits – whether based on fact or only on rumour – can lead, and has led, to the aforementioned damaging bank runs that can cause banks that are otherwise sound to fail. Similarly, concerns about one bank have at times led to concerns about others, resulting in so-called “contagion runs”. Public confidence in the safety of bank deposits, in contrast, promotes the stability of individual banking institutions. Public confidence reduces the likelihood that depositors at an individual bank will panic and withdraw funds suddenly if concerns arise about the condition of that institution. Thus, deposit insurance can enhance stability by preventing bank runs. No amount of prudential supervision can provide protection against runs that is equivalent to deposit insurance. In addition, as opposed to blanket guarantees provided in times of stress, the explicit coverage rules of a deposit insurance system provide clear incentives for risk-monitoring by certain creditors ex ante and, ex post, provide a basis for distinctions in the treatment of bank creditors. A related effect of deposit insurance that may be important in some financial systems is that it levels the playing field to a degree for large and small institutions. Under a formalised deposit insurance program, all institutions have access to depositor protection in the amounts specified by the coverage rules. Finally, the explicit rules of the deposit insurance program provide added certainty regarding the resolution process for failed banks. This can be extremely important for maintaining stability when a banking crisis threatens. Deposit insurance thus works together with the other elements of the safety net to contain potential threats to individual institutions or groups of institutions. In this way, deposit insurance supports economic stability by helping to avert interruptions in bank liquidity and credit availability that could otherwise result from disruptive bank runs or bank failures.

While deposit insurance systems, as well as the other elements of a financial safety net arrangement, contribute to stability and thereby promote economic growth, they can also generate perverse effects. By providing protection to market participants, costs of pursuing riskier strategies are reduced and excessive risk-taking might be incentivised – the moral hazard problem. With their deposits protected against loss, insured depositors have little incentive to monitor bank risk-taking, and may simply seek the highest return possible on their deposits. Thus, deposits may tend to flow away from conservatively managed institutions towards those willing to pay higher returns by assuming more risk. Deposit insurance can thus exacerbate moral hazard by altering the normal risk-return trade-off for banks, reducing the costs associated with riskier investment strategies. These incentives are inherent to some degree in the nature of all insurance, and even the best structural designs for deposit insurance systems cannot be expected to eliminate moral hazard. As will be discussed later in this paper, supervision and regulation of insured institutions, as well as some degree of market oversight, are essential for controlling moral hazard in order to maintain safety and soundness.

PUBLIC LIABILITY INSURANCE

Public liability insurance is designed for professionals who interact with customers or members of the public. It protects against claims of personal injury or property damage that a third party suffers (or claims to have suffered) as a result of your business activities.

In real terms, this means that if someone is injured or their property is damaged while you're providing a service, they may take legal action against you to recover their losses. Public liability insurance is designed to help protect your business by ensuring that if this happens, you don't have to pay any legal or court costs. It covers incidents that occur in your workplace, as well as incidents at other locations.

Public liability insurance only covers claims made by external parties, not those made by your own employees.

NEED OF PUBLIC LIABILITY INSURANCE

Public liability insurance is recommended for any business that interacts in public places. In every line of work, there's always the potential for something to go wrong – and accidents do happen. Claims of personal injury or property damage can be incredibly expensive. Even if you're not at fault, you may still incur considerable legal costs while defending yourself.

Public liability insurance safeguards your business by providing cover against such claims, including legal defence costs. So you can confidently go about your work, knowing you're protected if something goes wrong.

COVER ALL THE ESSENTIALS

It's important to choose a public liability insurance policy that covers your business and your staff (including directors, partners and employees) while they are acting within the scope of their duties. With a public liability insurance policy, you can confidently protect your business against a wide range of circumstances, including injuries caused by slips or falls on your premises.

PUBLIC LIABILITY INSURANCE COVER, EXACTLY

Insurance policy covers a vast range of situations, but generally speaking, a public liability insurance policy covers business if someone is injured in some way by your business, or if damage third party property when carrying out work. Bear in mind that even a minor scratch to personal property could lead to hefty fines, especially as could be required to pay legal fees if the case goes to court, and these too will be covered by policy.

When taking out public liability insurance, need to tell your insurer what type of business that operate. This is not just for the sake of records, but will help come to an agreement over the type of policy best suited to you - whether the insurer judges cover up to £1 million to be sufficient for the needs or if a larger policy of around £5 million would be more appropriate in the circumstances. If work in the public sector, for example, you will often be required to take out a minimum of £5 million.

Don't assume you will be safe without public liability insurance just because to run a small business, or because don't make deliveries. Something as simple as a coffee spill over a client's computer, or a loose nail causing a customer to trip while visiting office, could cost you thousands if uninsured.

EMERGENCY RISK INSURANCE

Sudden, unexpected, or impending situation that may cause injury, loss of life, damage to the property, and/or interference with the normal activities of a person or firm and which, therefore, requires immediate attention and remedial action.

MEANING AND NATURE

"emergency risks " means such risks arising from, ------

(i) action taken by an enemy or action taken in combating an enemy or in repelling an imagined attack by an enemy;

(ii) any explosion or fire which involves explosives or munitions or other dangerous things required for the purposes of defence against any action of an enemy and which happens or is caused by, through, or in connection with, the manufacture, storage or transportation of any such explosives, munitions or other dangerous things;

(iii) measures taken under proper authority to avoid the spreading of or otherwise to mitigate, the consequences of damage occurring (whether accidentally or not) as a direct result of any such action as is described in sub-clause (i) or of any such explosion or fire as is described in sub-clause (ii);

(iv) precautionary or preparatory measures taken under proper authority with a view to preventing or hindering the carrying out of any attack by an enemy, being measures involvinga substantial degree of risk to property;

(v) precautionary or preparatory measures involving the doing of work on land and taken under proper authority in any way in anticipation of enemy action, being measures involving a substantial degree of risk to property; (vi) precautionary or preparatory measures taken under proper authority with a view to denying facilities to an enemy, being measures involving a substantial degree of damage to or diminution of value of property;

EMERGENCY RISKS (UNDERTAKINGS) INSURANCE SCHEME.—STRUCTURE AND POWER

(1) The Central Government may, by notification in the Official Gazette, put into operation a scheme to be called the Emergency Risks (Undertakings) Insurance Scheme, whereby the Central Government undertakes the liability of insuring property insurable under this Act against emergency risks, to the extent provided by or under this Act. (2) The Scheme may extend to the undertaking by the Central Government in relation to any person in India of the liability of insuring such person against emergency risks in respect of any property insurable under this Act which is not owned by him but in which he has an interest, up to the extent of such interest. 4 (3) The Scheme shall be such as to secure— (a) that the liability of the Central Government insurer shall not extend to more than eighty per cent. of the insurable value of the property insurable; (b) that any liability of the Central Government as insurer under the Scheme is determined by a policy of insurance issued, in the form and in respect of a period not exceeding the period specified in the Scheme, by a person acting on behalf of the Central Government: Provided that the form of policy may be such as to limit the extent and nature of the indemnity provided by the Central Government and to impose conditions subject to which the indemnity is provided: Provided further that the form of policy shall be such as to provide that no liability shall arise thereunder unless the premium in relation to the period in which any loss or damage occurs has been paid before the occurrence of such loss or damage; (c) that any premium under a policy so issued is payable at a rate not exceeding three per cent. per annum of the sum insured as may be specified in the Scheme: Provided that nothing in this clause shall prevent the securing by the Scheme of different rates of premium in relation to properties of different descriptions insurable under this Act owned by any undertaking to which this Act applies; (d) that the amount of any one premium payable under a policy so issued is not less than such sum as may be specified in

the Scheme. (4) The Scheme may provide— (a) for undertaking in relation to works in course of construction which, when completed, will become properties insurable under the Act and such plant and machinery appertaining to such works as may be specified in the Scheme, the same liabilities as are undertaken by the Scheme in relation to the undertakings; (b) that the payments due under a policy of insurance issued under the Scheme, may at the option of the Central Government take either of the following forms, namely:— (i) payment, within the limits of the liability assumed by the Central Government and in such manner and by such instalments as the Central Government may think fit, of the cost necessary to restore the property as far as practicable to the condition in which it existed before the occurrence of the damage, or (ii) compensation, within the aforesaid limits, for the loss in value, ascertained on the basis of values and prices ruling at the time at which the policy of insurance was taken out, or at which the loss occurred, whichever is less, suffered by the property as a result of the damage, after due allowance has been made for depreciation during the period of insurance cover; (c) that payments due under a policy of insurance under the Scheme may be postponed to any time before the expiry of one year from the date on which this Act ceases to be in force, or, subject to payment of interest at the rate of two per cent. per annum from the expiry of the said year, to any later date; (d) for making it an express or implied condition of any policy of insurance issued under the Scheme— (i) that the owner or occupier of a factory or owner of other undertakings mentioned in sub-section (1), as the case may be, shall comply with all regulations or instructions made or issued under the authority of Government for safeguarding the property against damage from emergency risks, or (ii) that, where the Central Government exercises its option to pay the cost necessary to restore the property to its original condition the owner of the undertaking shall if so required by 5 the Central Government, reconstruct the property or remove the property to and reconstruct it in another locality. (5) Different forms of policies may be specified in the Scheme under sub-section (3) in relation to different classes of undertakings. (6) The Central Government may, by notification in the Official Gazette, add to, amend or vary any Scheme made under this Act. (7) Every Scheme shall be laid, as soon as may be after it is made, before each House of Parliament while it is in session for a total period of thirty days which may be comprised in one session or in two successive sessions, and if before the expiry of the session in which it is so laid or the session immediately following, both Houses agree in making any modification in the Scheme or both Houses agree that the Scheme should not be made.

IDENTIFY, ASSESS, AND PRIORITIZE RISKS

Identifying, assessing, and prioritizing potential risks enables rational planning for achieving an optimal outcome when risks are realized.

- What are the natural disaster hazards of your location? (e.g., floods; severe storms; tornados; etc.)
- What are your building's hazards? (e.g., water leaks; fire; blackout; etc.)
- What are the hazards within the collection space? (e.g., water pipes; sprinklers; fire; ingress routes for pests; mold; etc.)
- How vulnerable is the collection to each of the above identified hazards? Would the potential damage be catastrophic or manageable?
- What risks have been realized in the past? How frequently? Was the damage minor, moderate, or severe? What has been done since to manage those risks?
- Which risks are most likely to be realized and, when realized, will have the most significant impact?

REDUCE, SPREAD, AND TRANSFER RISKS

Minimize the realization of risks:

- Keep the building in good repair
- Invest in good building or space design (e.g., compartmentalize storage areas; avoid storage directly under water pipes; etc.)
- Invest in sound building systems (e.g., HVAC; fire detection and suppression; etc.)
- Maintain building systems and test regularly
- Take extra precautions in advance of foul weather and be extra vigilant during foul weather

Spread risks:

- Avoid keeping all of the highest value/most important collection items together in one place
- Make copies of important documents (e.g., birth certificates; insurance policies; passports; property titles; etc.) and store copies in a separate location

Transfer some of the costs of realized risks:

- Have insurance and understand terms of coverage (e.g., types of materials insurance will replace, salvage expenses insurance will reimburse, necessary documentation for submitting claims)
- Form mutual assistance networks

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 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 999. 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 longterm rojects, enhanced productivity and growth of multiple debt instruments.

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.

GENERAL INSURANCE CORPORATION OF INDIA

The General Insurance Corporation (GIC) was formed by Central Government in 1972. With effect from January 1, 1973 the erstwhile 107 Indian and foreign insurance companies who were operating in the country prior to nationalisation, were grouped into four operating companies, namely,

(a) National Insurance Company Limited.

(b) New India Assurance Company Limited.

(c) Oriental Insurance Company Limited. (d) United Insurance Company Limited.

With head offices at Kolkata, Mumbai, New Delhi and Chennai, respectively GIC which was the holding company of the four public sector general insurance companies has since been delinked from the later and has been approved as the 'Indian Reinsurer' since 3 November 2000. All the four entities are Government companies registered under Companies Act. The General Insurance business has grown in spread and volume after nationalisation. The tour companies have 2, 699 branch offices, 1,360 divisional offices and 92 regional offices spread all-over the country.

FUNCTIONS OF GENERAL INSURANCE CORPORATION

Some of the schemes in operation of the benefit of poor are the personal account insurance, social security scheme, hut insurance scheme for poor families in rural areas and crop insurance scheme. Besides the domestic market, the GIC is presently operating in 16 countries directly through branches or agencies and in 14 countries through subsidiary and associate companies. The wholly owned subsidiary of GIC known as Indian International Insurance Private Limited, set up in 1988 in Singapore, has grown into a leading company in the Singapore market.

PERFORMANCE OF GIC:

- The gross premium income of the nationalised general insurance industry in India during 1999- 2000 was Rs. 9,523 crore as against Rs. 8,759 crore during 1998-99, representing a growth of 8,72 percent over the premium income of 1998-99.
- The net premium income of the nationalised general insurance industry in India during the year 1999-2000 was Rs. 8,649 crore as against Rs. 7,732 crore in 1998-99, representing a growth of 11.86 percent over the net premium income of 1998-99.
- The gross profit of the industry during 1999-2000 was Rs. 1,152 crore as against Rs. 1,467 crore in 1998-99. Similarly, the net profit of the industry during the year 1999-2000 was Rs. 1,077 crore as against Rs. 874 crore in 1998-99.
- According to the latest report the net profit of the Industry during 2001-02 amounted to Rs. 12,229 crore, as against Rs. 10,772 crore during 2000-01 representing a growth of 13.52 percent over the premium income of last year.

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 STRUCTURE AND MANAGEMENT OF GIC.

. The New India can claim to be the largest non life insurer not only in India but in the whole Afro Asia region, excluding Japan. The New India was incorporated on 23rd July, 1919 and commenced transacting business on 14th October, 1919. There was hardly any Indian insurance company of significance till that time.8 The emergence of such a major national enterprise during this period British rule was not a coincidence. It was a product of historical forces. The birth of New India was the result of emergence of the Indian National movement for independence of the country, Mahatma Gandhi had emphasized that Indian political liberation without economic infrastructure in the country. Thus sir Dorab Tata was inspired by this swadeshi movement to setup a large comosite company to provide sound and efficient insurance protection to the Indians. New India is a leading global insurance group, with offices and branches throught India and various countries abroad. The company services he Indian subcontinent with a network of 1068 offices, comprising 26 regional offices, 393 Divisional Offices and 648 Branches. With approximately 21,000 employees, New India has a largest number of specialist and technically qualified personnal at all levels of management, who are empowered to underwrite and settle claims of high magnitude.(2007-08) The Gross Premium was Rs. 1143.63 Crores in 2007-08. Company's foreign operations were affected by major claims in miscat (Gonu Cyclone), Dubai (Major fire claims) and curacao (Freezone Fire). The foreign exchange ezrning during the year 2007-08 amounted to Rs. 6.87 Crores towards dividend and repatriation of management fees companies Associate and subsidiary companies.

FUNCTIONS OF GENERAL INSURANCE COMPANIES

Section 19 of the Act lays down the functions of the acquiring companies to be (1) To carry on general insurance business and to develop it to the best advantage of the community, subject to the rules it any made in this behalf by the Central Government under s 89 of the act and subject to its memorandum and articles of association and (2) To act so far as may be on business principles and in conformity with any directions that may have been issued to it by the GIC s19(4) clarifies that the GIC and the acquiring companies may enter into reinsurance contracts or 55 treaties for the protection of their interests for the protection of their interests, subject to rules if any made by the Central Government in this behalf.8 (3) Each acquiring company shall so function under this Act as to secure that general insurance business is developed to the best advantage of the community. (4) In the discharge of any of its functions, each acquiring company shall act so far as may be on business principles and were any directions have been issued by the Corporation, shall be guided by such directions.

CAPITAL OF GENERAL INSURANCE PUBLIC SECTOR COMPANIES

Iinsurer carrying on the business of general insurance in India or after the commencement of the IRDA Act 1999 shall be registered unless he has (1) A paid up equity capital of rupees one hundred crore, in case of person carrying on the business of age. (2) Paid up equity capital of rupees two hundred crore in case of a person carrying on exclusively the business of re-ins provided that in determining the paid up equity capital specified under the deposit to be made under section 7 and any.

GENERAL INSURANCE BUSINESS IN ABROAD

Insurance plays an important role not only in national economy but also in international economy. Marine cargo insurance, for example provides risk coverage for shippers and importers and the banks which finance international trade. This role becames all the more important in the context of an active government policy to encourage exports. 78 When we go through these propositions in relation to a single business house, we observe that in the end there is an economic effect for the consumption of society. A mere extension of these to the entire business world.18 This environment, in the present day is tending to be more and more complex. In its macro level, it has to take, into account the government style, the capital market, domestic sector and foreign sector. These things put together influence the structure and tend of the national economy. Competition in the market has led to exploration of new innovative and diversified channels of distribution for capturing wider market which will provide cost-effective services to policy holders. These alternatives channels will also build strong and effective customer relationship. Entry to privet players in the market has explored new channels on the lines of developed economics. Besides, tradition intermediaries as corporate agent, broker and new methods like bancaassurance, direct marketing, telemarketing, independent financial advisors and sale of policy through internet would play a crucial role in penetrating the insurance market in India cooperative societies, village panchayats and post offices have been identified to tap the rural market segment. The basic principles of insurance operations is "spread of risk" which is achieve not only by accepting large number of risks in as many classes of insurance as possible but also by a geographical spread internationally. This is possible through an active inward and outward reinsurance exchange programme with as many countries as possible.

GENERAL INSURANCE POLICY AND TAXES

Some important benefits available under various plans are highlights below 1. DEDUCTION FROM INCOME FOR PAYMENT OF MEDICLAIM INSURANCE PREMIUM Under the provisions of section 80-D of Income-Tax, sum of health insurance in case of senior citizen Rs. 15,000/- for individual or his/her spouse or child or parents get tax rebate from Income-Tax.19 An individual income from business of profession, he/she can bet tax rebate from Income-Tax for the own or fired vehicle's expense (it should be revenue expense) by debited accounting entry in profit & loss account.

THE DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION ACT, 1961

An Act to provide for the establishment of a corporation for the purpose of insurance of deposits 2 [and guaranteeing of credit facilities] and for other matters connected therewith or incidental thereto. BE it enacted by Parliament in the Twelfth Year of the Republic of India.

Definitions.—In this Act, unless the context otherwise requires,— (a) "banking" means the accepting for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise; (b) "banking company" means any company which transacts the business of banking in India and includes the State Bank 5 [and a subsidiary bank], but does not include the 6 [Tamil Nadu Industrial Investment Corporation Limited].

Any company which is engaged in the manufacture of goods or carries on any trade and which accepts deposits of money from the public merely for the purpose of financing its business as such manufacturer or trader shall not be deemed to transact the business of banking within the meaning of this clause ; (c) “Board” means the Board of directors constituted under section 6; (d) “company” means any company as defined in section 3 of the companies Act, 1956, and includes a foreign company within the meaning of section 591 of that Act; “Corporation” means the Deposit Insurance and Credit Guarantee Corporation established under Section 3; (ee) “corresponding new bank” means a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 or as the case may be, under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980; (eea) “credit institution” means all or any of the following, namely : (i) a banking company; (ii) a corresponding new bank; (iii) a Regional Rural Bank; (iv) a co-operative bank; (v) a financial institution; (f) “defunct banking company” means a banking company - (i) which has been prohibited from receiving fresh deposits; or (ii) which has been ordered to be wound up; or (iii) which has transferred all its deposit liabilities in India to any other institution; or (iv) which has ceased to be a banking company within the meaning of sub-section (2) of section 36A of the Banking Regulation Act, 1949, or has converted itself into a non-banking company; or (v) in respect of which a liquidator has been appointed in pursuance of a resolution for the voluntary winding up of its affairs; or (vi) in respect of which any scheme of compromise or arrangement or of reconstruction has been sanctioned by any competent authority and the said scheme does not permit the acceptance of fresh deposits; or (vii) which has been granted a moratorium which is in operation; or (viii) in respect of which an application for the winding up of its affairs is pending in a competent court; (ff) “defunct co-operative bank” means a co-operative bank – (i) which has been prohibited from receiving fresh deposits; or 5 of 1970 40 of 1980 10 of 1949 The

Deposit Insurance and Credit Guarantee Corporation Act, 1961 (ii) which has been ordered or directed to be wound up; or (iii) which has transferred all its deposit liabilities in India to any other institution; or (iv) which has ceased to be a co-operative bank within the meaning of sub-section (2) of section 36A of the Banking Regulation Act, 1949; or (v) which has converted itself into a non-banking cooperative society; or (vi) in respect of which any scheme of compromise or arrangement or of reconstruction has been sanctioned under any law for the time being in force and such scheme does not permit the acceptance of fresh deposits; or (vii) which has been granted a moratorium which is in operation

ESTABLISHMENT AND MANAGEMENT OF THE DEPOSIT INSURANCE CORPORATION

(1) The Central Government shall, by notification in the Official Gazette, establish a Corporation by the name of the Deposit Insurance Corporation which shall be a body corporate having perpetual succession and a common seal with power, subject to the provisions of this Act, to acquire, hold or dispose of property and to contract, and may, by the said name, sue or be sued. (lA) Any reference in this act to the Deposit Insurance Corporation shall, on and from the date on which Chapter II of the Deposit Insurance Corporation (Amendment and Miscellaneous Provisions) Act, 1978, comes into force, be construed as a reference to the Deposit Insurance and Credit Guarantee Corporation. (2) The head office of the Corporation shall be at Mumbai, but it may, with the previous sanction of the Reserve Bank, establish branches or agencies in any other place in India.

4. (1) The authorised capital of the Corporation shall be one crore of rupees but the Central Government may, in consultation with the Reserve Bank, increase such capital from time to time, so however, that the total authorised capital shall not exceed fifty crores of rupees. (2) The issued capital

for the time being of the Corporation shall be fully paid-up and shall stand allotted to the Reserve Bank. 21 of 1976 23 of 1955 38 of 1959 24 of 2004 24 of 2004 2 of 1934 Establishment and incorporation of Deposit Insurance Corporation. Capital of Corporation The Deposit Insurance and Credit Guarantee Corporation Act, 1961.

5. The general superintendence, direction and the management of the affairs and business of the Corporation shall vest in a Board of directors which may exercise all powers and do all acts and things which may be exercised or done by the Corporation. 6. (1) The Board of directors of the Corporation shall consist of the following, namely :- (a) the Governor, for the time being, of the Reserve Bank or, if the Reserve Bank, in pursuance of the decision of the committee of the Central Board of Directors of that Bank, nominates any Deputy Governor for the purpose, the Deputy Governor so nominated, who shall be the Chairman of the Board;

(b) a Deputy Governor or any other officer of the Reserve Bank nominated by that bank;

(c) an officer of the Central Government nominated by that Government;

(d) five directors nominated by the Central Government in consultation with the Reserve Bank, three of whom shall be persons having special knowledge of commercial banking, insurance, commerce, industry or finance and two of whom shall be persons having special knowledge of, or experience in, cooperative banking or co-operative movement, and none of directors shall be an officer of Government or of the Reserve Bank or an officer or other employee of the Corporation or a director, an officer or other employee of a banking company or a co-operative bank or otherwise actively connected with a banking company or a co-operative bank.

(e) four directors, nominated by the Central Government in consultation with the Reserve Bank, having special knowledge or practical experience in respect of accountancy, agriculture and rural economy, banking, co-operation, economics, finance, law or small scale industry or any other matter, the special knowledge of, and practical experience in which, is likely in the opinion of the Central Government, to be useful to the Corporation.

(2) (i) A director nominated under clause (b) or clause (c) or clause (d) or clause (e) of sub-section (1) shall hold office during the pleasure of the authority nominating him; and (ii) subject to the provisions contained in clause (i), a director nominated under clause (d) or clause (e) of sub-section (1), shall hold office for such period, not exceeding three years, as may Board of Directors 66 of 1988 Management of the Corporation 45 of 2006.

The Deposit Insurance and Credit Guarantee Corporation Act, 1961 be specified by the Central Government in this behalf and shall be eligible for renomination;1 Provided that no such director shall hold office continuously for a period exceeding six years.

(3) A person shall not be capable of being nominated as a director under clause (d) or clause (e) of sub-section (1) if - (a) he has been removed or dismissed from the service of Government or of a local authority or of a corporation or company in which not less than fifty-one per cent of the paid-up share capital is held by Government; or (b) he is or at any time has been adjudicated as insolvent or has suspended payment of his debts or has compounded with his creditors; or . (c) he is of unsound mind and stands so declared by a competent court; or (d) he has been convicted of any offence which, in the opinion of the Central Government, involves moral turpitude.

(4) if a director nominated under clause (d) of sub-section (1) - (a) becomes subject to any of the disqualifications mentioned in clauses (a) to (d) of sub-section (3); or (b) is absent without leave of the Board for more than three consecutive meetings thereof; or (c) becomes a director or an officer or an employee of an insured bank or is, in the opinion of the Central Government, otherwise actively connected with such bank; or (d) becomes an officer or other employee of Government or of the Reserve Bank or of the Corporation; his seat shall thereupon become vacant.

(5) If a director nominated under clause (e) of sub-section (1) - (a) becomes subject to any of the disqualifications mentioned in clauses (a) to (d) of sub-section (3); or (b) is absent without leave of the Board for more than three consecutive meetings thereof; his seat shall thereupon become vacant.

7. (1) The Board shall meet at such times and places and shall observe such rules of procedure in regard to the transaction of business at its meetings as may be prescribed. Meetings of Board

8 1. Words "and thereafter until his successor assumes office" deleted by the Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Act, 2006. (45 of 2006).

The Deposit Insurance and Credit Guarantee Corporation Act, 1961 (2) The Chairman or, if for any reason he is unable to attend, the director nominated under clause (b) of sub-section (1) of section 6 shall preside at meetings of the Board and, in the event of equality of votes, shall have a second or casting vote.

8. (1) The Board may constitute an Executive Committee consisting of such number of directors as may be prescribed.

(2) The Executive Committee shall discharge such functions as may be prescribed or may be delegated to it by the Board.

(3) The Board may constitute such other committees, whether consisting wholly of directors or wholly of other persons or partly of directors and partly of other persons as it thinks fit for the purpose of discharging such of its functions as may be prescribed or may be delegated to them by the Board.

(4) A committee constituted under this section shall meet at such times and places and shall observe such rules of procedure in regard to the transaction of business at its meetings as may be prescribed.

(5) The members of a committee (other than directors of the Board) shall be paid by the Corporation such fees and allowances for attending its meetings and for attending to any other work of the Corporation as may be prescribed. 9.

The directors of the Board shall be paid by the Corporation such fees and allowances for attending the meetings of the Board or of any of its committees and for attending to any other work of the Corporation as may be prescribed. Provided that no fees shall be payable to the Chairman or to the director nominated under clause (b) or clause (c) of sub-section (1) of section 6.

PART – B

1. State the meaning of Public Liability Insurance?

2. Write a short note on Deposit and Credit Insurance?

3. Mention the nature of Deposit and Credit Insurance?

4. List out the types of Public Liability Risk Insurance?

5. List out the functions of General Insurance Corporation of India?

6. Write a short not on Emergency Risk Insurance?

7. State the features of Deposit Insurance and Credit Guarantee Corporation?

8. What is meant by Deposit Insurance?

9. State the meaning of Credit Insurance?

10. Write a short note on terms and conditions of Deposit and Credit Insurance?

PART -C

1. Elucidate the Role of Deposit Insurance of Guarantee Deposit and Credit Insurance?

2. Explain the functions of Public liability insurance?

3. Define Deposit Insurance. Explain the nature of Deposit and Credit Insurance?

4. Enumerate the Structure and power of Emergency Risk Insurance?

5. Enumerate the various function of General Insurance Corporation of India?

6. Explain the function of Deposit Insurance and credit Guarantee Corporation?

7. Explain the role of General Insurance Corporation in the economic development of the Country?

8. Explain the functions of Emergency Risk (Goods) Insurance Act, 1971?

9. Elucidate the importance of Deposit Insurance and credit Guarantee Corporation?

10. Explain the nature and characteristics of Public liability insurance?

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE

DEPARTMENT OF MANAGMENET

Unit IV - Deposit and Credit Insurance - Multiple Choice Questions- Each Question carries ONE Mark

S. No.	Questions	Opt 1	Opt 2	Opt 3	Opt 4	Answers
1	…………………….. is a risk management tool that compensates policy holder when their clients fails to pay for goods or service	credit insurance	deposit insurance	fire insurance	medical insurance	credit insurance
2	Credit insurance enables …………………to extend credit more liberally	buyers	sellers	agents	brokers	sellers
3	…………………enables to extend credit more liberally	credit insurance	deposit insurance	fire insurance	medical insurance	credit insurance
4	Credit insurance enables sellers to extend ……….. more liberally	debit	risk	credit	grace	credit
5	Credit insurance enables sellers to extend credit more …………………..	liberally	tight	fixed	credit	liberally
6	The need for credit insurance is observed because of rising of ………………..	domestic trade	trade	credit	international trade	international trade
7	The need for credit insurance is observed because of rising of international trade is ………………………..than GDP	slower	moderate	double	faster	faster
8	A/An …………….&…………….emerging markets of credit insurance	imports	domestic trade	export	export and domestic trade	export and domestic trade
9	Credit insurance depends upon financial markets particularly …………………..	banking products	consumer products	industry products	software products	banking products
10	Credit insurance companies control their exposure through limit management as they provide cover for ……………………..	50 to 100 days	60 to 120 days	40 to 80 days	20 to 40 days	60 to 120 days
11	Credit insurance companies ………………their exposure through limit management	plan	monitor	control	emphasis	control
12	Re insurance companies cover …………….. of the credit insurance	50%	70%	80%	100%	50%

13	…………………….companies cover 50% of the credit insurance	inurance	double insurance	sbi-life	re-insurance	re-insurance
14	Credit insurance assures ………………………..	performance	income	interest	payment	payment
15	Credit insurance policies have covered ……………..with the experience of the last years	commercial risks	commercial	risks	payment	commercial risks
16	A ………………..credit covered provide for consumer goods,spare parts and raw	long term	medium term	short term	annual	short term
17	Medium term credit covers ……………..	consumer	capital goods	goods/services	service only	capital goods
18	……………………….. Credit covers capital goods	long term	medium term	short term	annual	medium term
19	Short term credit covered provide for	consumer	capital goods	goods/services	service only	consumer goods
20	Credit insurance protects a ………………….from the risk of non payment	property	customer	buyer	insurer	buyer
21	Political risks involves non payment on a/an ………………..	export	import	contract	export contract	export contract
22	……………………… Involves non payment on an export contract	risk	property risk	political risk	insurance	political risk
23	The credit insurance gets the right of collection directly from …………………	buyer	seller	consumer	insurance companies	buyer
24	Under the credit insurance , buyer who failed to pay to ……………………	buyer	seller	consumer	insurance companies	seller
25	A …………… pays the amount of trade credit to sellers	debtor	buyer	credit insurer	consumers	credit insurer
26	Credit insurer pays the amount of ………………. Credit to seller	total sum	money	volume of goods	trade	trade
27	Credit insurance covers all the…………………	commercial trade	goods	service	goods and services	commercial trade
28	Credit insurance covers all the commercial trade under ………………..	policy	comperhensive policy	risk insurance	re insurance	comperhensive policy

29	Period of credit insurance…………………..	3 months	4 months	6 months	12 months	12 months
30	Credit insurance are ………………. renewable	quartely	monthly	half yearly	annually	annually
31	Credit insurance are annually ………………….	renewable	not renewable	fixed term	short term	renewable
32	Under credit insurance, …………………. rate, set at the inception of the policy	indeminity	premium	interest	policy	premium
33	Renewable policy is issued at a discount of ……………….. percent, in non - claim	10 to 20	20 to 30	30 to 40	50 to 60	10 to 20
34	…………………………. Policy is issued at a discount rate of non - claim	non-renewable	insurance	reinsurance	renewable	renewable
35	An ………………..manages its trade credit relationship efficiently	insurer	customer	agents	creditors	insurer
36	Single account policies cover a …………………. named account	double	three	single	multiple	single
37	……………………..credit policies insurer from catastrophic trade credit default	insurance	business	single	catastrophe	catastrophe
38	Catastrophe credit policies …………….. risk from catastrophic trade default	customer	debtor	insurer	creditors	insurer
39	Catastrophe credit policies insurer risk from ……………….. trade credit default	metatrophic	catastrophic	business	domestic	catastrophic
40	Catastrophe credit policies carried large ………………	premium	indeminity	interest rate	risk	premium
41	Catastrophe credit policies carried ………………premium	low	medium	large	no	large
42	Capital refers to the ………………… strength	product	financial	consumer	infrastructure	financial
43	…………………..noted the financial	money	customer	goodwill	capital	capital
44	Financial strength is evaluated on the basis of ……………………years financial	1 year	10 year	3 to 5 years	6 years	3 to 5 years
45	A………….. Records are used for contractor's jobs.	CCTV	Cost	Inventory	money	Cost

46	Cost records are used for ………..jobs.	Insuarnce	financial	warehouse	contractor	contractor
47	………… refers to reputation for fair and business.	behaviour	model	character	capacity	character
48	Character refers to ……………..for fair and business.	goodwill	reputation	behaviour	model	reputation
49	…………..refers to the ability to perform which is assessed by the buyer's capacityof operation and marketability.	Character	behaviour	capacity	model	capacity
50	Capacity refers to the ability to perform which is assessed by the buyer's capacity of…………………… .	Operation	Marketability	financial	operation and marketability	operation and marketability
51	………………is an essential of credit insurance management.	Policy	Insurance	Creditor	Debitor	Policy
52	General Insurance Corporation was established during the	1972	1951	1956	1965	1956
53	Extent of coverage in General Insurance of……………………	no loss	Parital loss	Partial loss and Total loss	Total loss	Partial loss and Total loss
54	The subscribed capital of GIC contributed by the Central Government is…………….	10 Cr	15 Cr	20 Cr	5 Cr	5 Cr
55	The authorized capital of GIC is……………………….	75 Cr	35 Cr	50 Cr	60 Cr	75 Cr
56	In pursuance of which one of the following was the General Insurance Corporation of India was formed?	General Insurance Business (Nationalisati	Insurance Act, 1938	Insurance Amendment Act, 2002	IRDA Act 1999	General Insurance Business (Nationalisation) Act, 1972
57	GIC became the sole Re-Insurer in India, is called as……………	Gic Re	Gic- Double	Gic- Insurance	Gic- Assurance	Gic Re
58	GIC was re-organized with ……….. fully owned subsidiary companies	2	3	4	5	4

59	…………….. is a measure implemented in many countries to protect bank depositors, in full or in part, from losses caused by a bank's inability to pay its debts when due.	Deposit Insurance	Credit Insurance	Reinsurance	Double Insurance	Deposit Insurance
60	Deposit Insurance promotes the ………………. Stability	Market	Finacial	Commodity	Product	Finacial

UNIT-V

SYLLABUS

Marine Insurance - Law relating to Marine Insurance - Scope and Nature - Types of Policy - Insurable Interest - Disclosure and Representation - Insured Perils - Proximity Cause - Voyage - Warranties - Measurement - Subrogation - Contribution - Under Insurance.

MARINE INSURANCE

INTRODUCTION

This is the oldest branch of Insurance and is closely linked to the practice of Bottomry which has been referred to in the ancient records of Babylonians and the code of Hammurabi way back in B.C.2250. Manufacturers of goods advanced their material to traders who gave them receipts for the materialsand a rate of interest was agreed upon. If the trader was robbed during the journey, he would be freed from the debt but if he came back, he would pay both the value of the materials and the interest.

The first known Marine Insurance agreement was executed in Genoa on 13/10/1347 and marine Insurance was legally egulated in 1369 there.

OBJECTIVES

- Know the meaning of Marine insurance
- Buy the Marine insurance
- Settle the claim under Marine Insurance
- Know the inland transit/overseas transit.
- Know what is not covered under Marine insurance

MEANING OF MARINE INSURANCE

A contract of marine insurance is an agreement whereby the insurer undertakes to indemnify the insured, in the manner and to the extent thereby agreed, against transit losses, that is to say losses incidental to transit.

A contract of marine insurance may by its express terms or by usage of trade be extended so as to protect the insured against losses on inland waters or any land risk which may be incidental to any sea voyage.

In simple words the marine insurance includes

A. Cargo insurance which provides insurance cover in respect of loss of or damage to goods during transit by rail, road, sea or air.

Thus cargo insurance concerns the following :

(i) export and import shipments by ocean-going vessels of all types,

(ii) coastal shipments by steamers, sailing vessels,mechanized boats, etc.,

(iii) shipments by inland vessels or country craft, and

(iv) Consignments by rail, road, or air and articles sent by post.

B. Hull insurance which is concerned with the insurance of ships (hull, machinery, etc.). This is a highly technical subject and is not dealt in this module.

NATURE OF MARINE INSURANCE

1) Offer & Acceptance: It is a prerequisite to any contract. Similarly the goods under marine (transit) insurance will be insured after the offer is accepted by the insurance company. Example: A proposal submitted to the insurance company along with premium on 1/4/2011 but the insurance ompany accepted the proposal on 15/4/2011. The risk is covered from 15/4/2011 and any loss prior tothis date will not be covered under marine insurance.

2) Payment of premium: An owner must ensure that the premium is paid well in advance so that the risk can be covered. If the payment is made through cheque and it is dishonored then the coverage of risk will not exist. It is as per section 64VB of Insurance Act 1938- Payment of premium in advance.(Details under insurance legislation Module).

3) Contract of Indemnity: Marine insurance is contract of indemnity and the insurance company is liable only to the extent of actual loss suffered. If there is no loss there is no liability even if there is operation of insured peril. Example: If the property under marine (transit) insurance is insured for Rs 20 lakhs and during transit it is damaged to the extent of Rs 10 lakhs then the insurance company will not pay more than Rs 10 lakhs.

4) Utmost good faith: The owner of goods to be transported must disclose all the relevant information to the insurance company while insuring their goods. The marine policy shall be voidable at the option of the insurer in the event of misrepresentation, mis-description or non-disclosure of any material information. Example: The nature of goods must be disclosed i.e whether the goods are hazardous in nature or not, as premium rate will be higher for hazardous goods.

5) Insurable Interest: The marine insurance will be valid if the person is having insurable interest at the time of loss. The insurable interest will depend upon the nature of sales contract. Example: Mr A sends the goods to Mr B on FOB(Free on Board) basis which means the insurance is to be arranged by Mr B. And if any loss arises during transit then Mr B is entitled to get the compensationfrom the insurance company. **Example:** Mr A sends the goods to Mr B on CIF (Cost, Insurance and Freight) basis which means the insurance is to be arranged by Mr A. And if any loss arises during transit then Mr A is entitled to get the compensation from the insurance company.

6) Contribution: If a person insures his goods with two insurance companies, then in case of marine loss both the insurance companies will pay the loss to the owner proportionately. Example; Goods worth Rs. 50 lakhs were insured for marine insurance with Insurance company A and B. In case of loss, both the insurance companies will contribute equally.

7) Period of marine Insurance: The period of insurance in the policy is for the normal time taken for a particular ransit. Generally the period of open marine insurance will not exceed one year. It can also be issued for the single transit and for specific period but not for more than a year.

8) Deliberate Act: If goods are damaged or loss occurs during transit because of deliberate act of an owner then that damage or loss will not be covered under the policy.

9) Claims: To get the compensation under marine insurance the owner must inform the insurance company immediately so that the insurance company can take necessary steps to determine the loss.

SCOPE OF MARINE INSURANCE

Marine insurance plays an important role in domestic trade as well as in international trade. Most contracts of sale require that the goods must be covered, either by the seller or the buyer, against loss or damage.

Who is responsible for affecting insurance on the goods, which are the subject of sale? It depends on the terms of the sale contract. A contract of sale involves mainly a seller and a buyer,
apart from other associated parties like carriers, banks, clearing agents, etc.

- Sales Contract , Banks, Clearing Agents, Carriers etc., Buyer Seller

The principal types of sale contracts, so far as Marine insurance is directly concerned,.

TYPE OF CONTRACT RESPONSIBILITY FOR INSURANCE

Free on Board The seller is responsible till the goods **(F.O.B. Contract)** are placed on board the steamer.

The buyer is responsible thereafter. He can get the insurance done wherever he likes.

Free on Rail The provisions are the same as in **(F.O.R. Contract)** above. This is mainly relevant to internal transactions.

Cost and Freight Here also, the buyer's responsibility **(C&F Contract)** normally attaches once the goods are placed on board. He has to take care of the insurance from that point onwards.

Cost, Insurance & In this case, the seller is responsible **reight** for arranging the insurance upto **(C.I.F. Contract)** destination.

He includes the premium charge as part of the cost of goods in the sale invoice.

Practice in International trade

The normal practice in export /import trade is for the exporter to ask the importer to open a letter of credit with a bank in favour of the exporter. As and when the goods are ready for shipment by the exporter, he hands over the documents of title to the bank and gets the bill of exchange drawn by him on the importer, discounted with the bank. In this process, the goods which are the subject of the sale are considered by the bank as physical security against the monies advanced by it to the exporter. A further security by way of an insurance policy is also required by the bank to protect its interests in the event of the goods suffering loss or damage in transit, in which case the importer may not make the payment. The terms and conditions of insurance are specified in the letter of credit. For export/import policies, the-Institute Cargo Clauses (I.C.C.) are used. These clauses are drafted by the Institute of London. Underwriters (ILU) and are used by insurance companies in a majority of countries including India.

PROCEDURE TO INSURE UNDER MARINE INSURANCE

A) Submission of form

B) Quotation from the Insurance Company

C) Payment of Premium

D) Issue of cover note/Policy

A) Submission of form

a) The form will have the following information:

a) Name of the shipper or consignor (the insured).

b) **Full description of goods to be insured:** The nature of the commodity to be insured is important for rating and underwriting. Different types of commodities are susceptible for different types of damage during transit- sugar, cement, etc are easily damaged by sea water; cotton is liable to catch fire; liquid cargoes are susceptible to the risk of leakage and crockery, glassware to breakage; electronic items are exposed to the risk of theft, and so on.

c) **Method and type of packing**: The possibility of loss or damage depends on this factor. Generally, goods are packed in bales or bags, cases or bundles, crates, drums or barrels, loose packing, paper or cardboard cartons, or in bulk etc.

d) **Voyage and Mode of Transit**: Information will be required on the following points :

i. the name of the place from where transit will ommence and the name of the place where it is to terminate.

ii. mode of conveyance to be used in transporting goods,

(i.e.) whether by rail, lorry, air, etc., or a combination of two or more of these. The name of the vessel is to be given when an overseas voyage is involved. In land transit by rail, lorry or air, the number of the consignment note and the date thereof should be urnished. The postal receipt number and date thereof is required in case of goods sent by registered post.

iii. If a voyage is likely to involve a trans-shipment it enhances the risk. This fact should be informed while seeking insurance. Trans-shipment means the change of carrier during the voyage.

e) **Risk Cover required**: The risks against which insurance cover is required should be stated. The details of risks are discussed subsequently in this chapter.

B) Quotation by insurance company

Based on the information provided as above the insurance company will quote the premium rate. In nutshell, the rates of premium depends upon :

(a) Nature of commodity.

(b) Method of packing.

(c) The Vessel.

(d) Type of insurance policy.

C) Payment of premium:

On accepting the premium rates, the concerned person will make the payment to the insurance company. The payment can be made on the consignment basis.

D) Issue of cover note /Policy document:

i) Cover Note

A cover note is a document granting cover provisionally pending the issue of a regular policy. It happens frequently that all the details required for the purpose of issuing a policy are not available. For instance, the name of the steamer, the number and date of the railway receipt, the number of packages involved in transit, etc., may not be known.

ii) Marine Policy

This is a document which is an evidence of the contract of marine insurance. It contains the individual details such as name of the insured, details of goods etc. These have been identified earlier. The policy makes specific reference to the risks covered. A policy covering a single shipment or consignment is known as specific policy.

iii) Open Policy

An open policy is also known as 'floating policy'. It is worded in general terms and is issued to take care of all "shipments" coming within its scope. It is issued for a substantial amount to cover shipments or sending during a particular period of time. Declarations are made under the open policy and these go to reduce the sum insured.

Open policies are normally issued for a year. If they are fully declared before that time, a fresh policy may be issued, or an endorsement placed on the original policy for the additional amount. On the other hand, if the policy has run its normal period and is cancelled, a proportionate premium on the unutilised balance is refunded to the insured if full premium had been earlier collected. On receipt of each declaration, a separate certificate of insurance is issued. An open policy is a stamped document, and, therefore, certificates of insurance issued thereunder need not be stamped.

Open policies are generally issued to cover inland consignments.

There are certain advantages of an open policy compared to specific policies. These are:

(a) Automatic and continuous insurance protection.

(b) Clerical labour is considerably reduced.

(c) Some saving in stamp duty. This may be substantial, particularly in the case of inland sendings.

iv) Open Cover

An open cover is particularly useful for large export and import firms-making numerous regular shipments who would otherwise find it very inconvenient to obtain insurance cover separately for each and every shipment.

It is also possible that through an oversight on the part of the insured a particular shipment may remain uncovered and should a loss arises in respect of such shipment, it would fall on the insured themselves to be borne by them. In order to overcome such a disadvantage, a permanent form of insurance protection by means of an open cover is taken by big firms having regular shipments.

An open cover describes the cargo, voyage and cover in general terms and takes care automatically of all shipments which fall within its scope. It is usually issued for a period of 12 months

and is renewable annually. It is subject to cancellation on either side, i.e., the insurer or the insured, by giving due notice. Since no stamps are affixed to the open cover, specific policies or certificates of insurance are issued against declaration and they are required to be stamped according to the Stamp Act. There is no limit to the total number or value of shipments that can be declared under the open cover.

The following are the important features of an open policy/ open cover.

(a) Limit per bottom or per conveyance: The limit per bottom means that the value o f a single shipment declared under the open cover should not exceed the stipulated amount.

(b) Basis of Valuation: The 'Basis' normally adopted is the prime cost of the goods, freight and other charges incidental to shipment, cost of insurance, plus 10% to cover profits, (the percentage to cover profits may be sometimes higher by prior agreement with the clients).

(c) Location Clause

While the limit per bottom mentioned under (a) above is helpful in restricting the commitment of insurers on any one vessel, it may happen in actual practice that a number of different shipments falling under the scope of the open cover may accumulate at the port of shipment. The

location clause limits the liability of the insurers at any one time or place before shipment.

Generally, this is the same limit as the limit per bottom or conveyance specified in the cover, but sometimes it may be agreed at an amount, say, upto 200% thereof.

(d) Rate

A schedule of agreed rates is attached to each open cover.

(e) Terms

There may be different terms applying to different commodities covered under the open cover, and they are clearly stipulated.

(f) Declaration Clause

The insured is made responsible to declare each and every shipment coming within the scope of the open cover. An unscrupulous insured may omit a few declarations to save premium, specially when he knows that shipment has arrived safely. Hence the clause.

(g) Cancellation Clause

This clause provides for cancellation of the contract with a certain period of notice, e.g., a month's notice on either side. In case of War & S.R.C.C. risks, the period of notice is much shorter.

DISTINCTION BETWEEN "OPEN POLICY" AND "OPEN COVER"

The open policy differs from an open cover in certain important respects. They are :

(a) The open policy is a stamped document and is, therefore, legally enforceable in itself, whereas an open cover is unstamped and has no legal validity unless backed by a stamped policy/certificate of insurance.

(b) An open policy is issued for a fixed sum insured, whereas there is no such limit of amount under any open cover. As and when shipments are made under the open policy, they have to be declared to the insurers and the sum insured under the open policy reduces by the amount of such declarations. When the total of the declarations amounts to the sum insured under the open policy, the open policy stands exhausted and has to be replaced by a fresh one.

h) Certificate of Insurance

A certificate of insurance is issued to satisfy the requirements of the insured or the banks in respect of each declaration made under an open cover and / or open policy. The certificate, which is substituted for specific policy, is a simple document containing particulars of the shipment or sending. The number of open contract under which it is issued is mentioned, and occasionally, terms and conditions of the original cover are also mentioned.

Certificates need not be stamped when the original policy has been duly stamped.

TYPES OF MARINE INSURANCE POLICY

a) Special Declaration Policy

This is a form of floating policy issued to clients whose annual estimated dispatches (i.e. turnover) by rail / road / inland waterways exceed Rs 2 crores.

Declaration of dispatches shall be made at periodical intervals and premium is adjusted on expiry of the policy based on the total declared amount.

When the policy is issued sum insured should be based on previous year's turnover or in case of fresh proposals, on a fair estimate of annual dispatches.A discount in the rates of premium based on turnover amount (e.g. exceeding Rs.5 crores etc.) on a slab basis and loss ratio is applicable.

b) Special Storage Risks Insurance

This insurance is granted in conjunction with an open policy or a special declaration policy. The purpose of this policy is to cover goods lying at the Railway premises or carrier's godowns after termination of transit cover under open or special declaration policies but pending clearance by the consignees. The cover terminates when delivery is taken by the consignee or payment is received by the consignor, whichever is earlier.

c) Annual Policy

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

d) "Duty" Insurance

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

e) "Increased Value" Insurance

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

PROCEDURE OF CLAIM SETTLEMENT:

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

For Import/Export consignments

Claims Documents

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

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

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

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

d) Invoice: An invoice evidences the terms of sale. It also contains complete description of the goods, prices, etc.

The invoice enables the insurers to see that the insured value of the cargo is not unreasonably in excess of its cost, and that there is no gross overvaluation. The original invoice (or a copy thereof) is required in support of claim.

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

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

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

h) Letter of Subrogation : This is a legal document (supplied by insurers) which transfers the rights of the claimant against a third party to the insurers.

On payment of claim, the insurers may wish to pursue recovery from a carrier or other third party who, in their opinion, is responsible for the loss. The authority to do so is derived from this document. It is required to be duly stamped.

Some of the other documents required in support of particular average claims are Ship survey report lost overboard certificate if cargo is lost during loading and unloading operation, short landing certificate etc.

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

Inland Transit Claims (Rail / Road)

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

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

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

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

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

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

(f) Letter of Subrogation, duly stamped.

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

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

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

(j) Letter of Undertaking from the claimant in case of nondelivery of consignment.

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

RISK COVERAGE

For export/import policies, the-Institute Cargo Clauses (I.C.C.) are used. These clauses are drafted by the Institute of London Underwriters (ILU) and are used by insurance companies in a majority of countries including India.

EXCLUSIONS

All three sets of clauses contain general exclusions. The important exclusions are:

i. Loss caused by willful misconduct of the insured.

ii. Ordinary leakage, ordinary loss in weight or volume or ordinary wear and tear. These are normal 'trade' losses which are inevitable and not accidental in nature.

iii. Loss caused by 'inherent vice' or nature of the subject matter. For example, perishable commodities like fruits, vegetables, etc. may deteriorate without any ' accidental cause'. This is known as 'inherent vice'.

iv. Loss caused by delay, even though the delay be caused by an insured risk.

v. Deliberate damage by the wrongful act of any person.

This is called 'malicious damage' and can be covered at extra premium, under (B) and (C) clauses. Under 'A' clause, the risk is automatically covered.

vi. Loss arising from insolvency or financial default of owners, operators, etc. of the vessel. Many ship owners, especially tramp vessel owners, fail to perform the voyage due to financial troubles with consequent loss or damage to cargo.

This is not an accidental loss. The insured has to be cautious in selecting the vessel for shipment.

vii. Loss or damage due to inadequate packing.

viii. War and kindred perils. These can be covered on payment of extra premium.

ix. Strikes, riots, lock-out, civil commotions and terrorism (SRCC) can be covered on payment of extra premium.

B) Inland Consignments.

Exclusions

All three sets of clauses have the same exclusions as are found in ICC Clauses.

MISCELLANEOUS

a) Duration of Cover-Import/export: Cargo policies are issued for specified voyage or transit whatever the time taken. It is necessary to be clear as to when exactly risk commences and terminates under a voyage policy. The duration of cover is defined in the Transit Clause (popularly known as Warehouse to Warehouse Clause or WW clause) of the 1CC.

The cover commences from the time the goods leave the warehouse at the place named in the policy, continues during the ordinary course of transit and terminates either a) On delivery to the consignees' or other final warehouse at the destination named.

b) On delivery to any intermediate warehouse used by the insured for purposes of storage or distribution or

c) On the expiry of 60 days after discharge from the vessel at the final port of discharge whichever shall first occur.

(**Note** : The time limit of 60 days is prescribed to ensure early clearance of goods by the consignee. Insurers extend the time limit, at extra premium, in genuine circumstances causing delay in clearance.)

b) Duration of Cover-Inland consignments : Insurance attaches with the loading of each bale/ package into the wagon/truck for commencement of transit and continues during ordinary course of transit, including customary trans shipments and ceases immediately on unloading of each bale/package –

(a) at destination railway station for rail transits

(b) at destination named in the policy in respect of road transits. **Note:** Under both clauses the risk attaches from the time the goods leave the warehouse and / or the store at the place named in the policy for the commencement of transit and continues, during the ordinary course of transit, including customary transshipment, if any,

(i) until delivery to the final warehouse at the destination named in the policy, or in respect of transits by Rail only or Rail and Road, until expiry of 7 days after arrival of the railway wagon at the final destination railway station, or (ii) in respect of transits by Road only, until expiry of 7 days after arrival of the vehicle at the destination town named in the policy, whichever first occur.

c) Total Loss : Goods may be totally lost by the operation of the marine peril. The measure of indemnity in the event of total loss of the goods is the full insured value. The insurers are entitled to take over the salvage, if any. An actual total loss takes place where the subject matter is entirely destroyed or damaged to such an extent that it is no longer a thing of the kind insured.

As against actual total loss, a constructive total loss, which is a commercial total loss, takes place where the subject matter insured is abandoned on account of the actual total loss being inevitable, or where the expenditure to be incurred for repairs or recovery would exceed the value of the subject-matter after the repairs or recovery.

d) Particular Average : These are partial losses caused by marine perils. The particular average losses occur when there is a total loss of part of the goods covered, e.g., a consignment may consist of 100 packages of which 5 packages may be lost completely. Another way in which particular average loss occurs is when there is damage to the goods. Where whole or any part of the goods insured is delivered damaged at destination, the percentage of depreciation is ascertained by a surveyor appointed for the purpose, by comparing on the one hand the gross sound market value and, on the other, the gross damaged market value on arrival of the goods at destination.

e) General Average

General Average is a loss caused by a general average act. An act is referred to as general average act when an extraordinary sacrifice or expenditure is made to save the entire ship. Such an act should be voluntary, and the expenditure reasonable. It should be undertaken with the sole idea of preserving the property imperiled in an adventure. Whenever there is a general average, the party on whom it falls, gets a rateable contribution known as general average contribution from the other parties, who are interested in the adventure and who have benefited by the voluntary sacrifice or expenditure.

The following are the examples of a general average loss:

(a) Cargo jettisoned in an effort to refloat the vessel

(b) Tugs employed to tow the vessel to safety

As mentioned earlier, general average is shared proportionately by all the interests at risk at the time of the general average act, i.e. ship, cargo and freight.

In the event of a general average act, the ship owner declares “general average”. He has a lien on the goods for the general average contribution. Therefore, before the goods are released at destination, the ship owner insists on the consignees to execute a bond. In addition to the general average bond, the consignees may have to pay a general average deposit in cash, or present a guarantee given by a bank or an insurance company.

Thus, there are two types of losses resulting from a general average act : sacrifice and expenditure. These losses are payable under the marine policy provided an insured peril was the cause of the general average act. Cargo which is sacrificed is a loss payable under the cargo policy.

Similarly, contributions to be made by owners of 'cargo' saved are also paid as a loss under their cargo policies.

The adjustment of general average is done by specialists known as G.A. adjusters.

f) Salvage Loss : When the goods insured are damaged during transit, and the nature of the goods is such that they would deteriorate further and would be worthless by the time the vessel arrives at destination, it would be a prudent and sensible way of dealing with the situation by disposing off the same at an intermediate port for the best price obtained. The term 'salvage loss' refers to the amount payable which is the difference between the insured value and the net proceeds of the sale. This is a practical method of settlement.

g) Sue and Labour Charges: Insurers expect that the insured should at all times act as if he was uninsured and take such steps as a prudent person would normally take. In view of this, if there be any expenses incurred by the insured or his agents to minimize the loss or damage payable under the policy, the same are reimbursed by insurers.

Examples of such charges known as Sue and Labour charges are landing, warehousing, reconditioning, reforwarding and similar charges.

h) Extra Charges: Under this expression come survey fees, settling agents fees, etc. They are payable if the claim is admitted. Whenever a marine survey is arranged, the fees are paid by the claimant initially and are reimbursed when the claim is paid.

i) Recovery from Carriers

As stated earlier, in many marine claims, there are possibilities of recovery from the carriers, i.e., road carriers, railways, steamer companies, etc. After payment of claim, the insurers are subrogated the rights and remedies available to the insured against the carriers or third parties responsible for the loss.

PRINCIPLES OF MARINE INSURANCE

1. Principle Of Utmost Good Faith

A contract of marine insurance is a contract uberrimea fidei i.e. a contract of utmost good faith(ibid., Section 19). This is a fundamental principle of insurance law. There is no difference between a contract of insurance and any other contract, except that in a contract of insurance, there is a requirement of utmost good faith (See, General Assurance Society Ltd. v. Chandumull Jain, AIR 1966 SC 1644). According to section 19, a contract of marine insurance is a contract based upon utmost good faith and if the utmost good faith be not observed by either party, the contract may be avoided by the other party. Under section 20, the assured must disclose to the insurer, before the contract is concluded, every material circumstance which, is known to the assured, and the assured is deemed to know every circumstance(ibid., Section 20). Under Section 21, the agent must disclose to the insurer every material circumstance which is known to him, and an agent to insure is deemed to know every circumstance where insurance is effected for the assured by an agent(ibid., Section 21). Very importantly, the duty of disclosure continues to apply even after the conclusion of the contract.

2. Principle Of Insurable Interest

The principle of insurable interest states that the insured must be in a position to lose financially if a loss occurs. In a contract of marine insurance, the assured must be interested in the subject-matter insured at the time of the loss, though he need not be interested when the insurance is effected(ibid., Section 8[1]). A contract of marine insurance is deemed to be a wagering contract, where the assured has not an insurable interest, and the contract is entered into with no expectation of acquiring such an interest(ibid., Section 6[2]{a}).

According to the Marine Insurance Act, every person has an insurable interest who is interested in a marine adventure(ibid., Section 7[1]). In particular, a person is interested in a marine adventure where he stands in any legal or equitable relation to the adventure or to any insurable property at risk therein, in consequence of which he may benefit by the safety or due arrival of insurable property, or may be prejudiced by its loss, or by damage thereto, or by the detention thereof, or may incur liability in respect thereof(ibid., Section 7[2]). The following persons are deemed to have insurable interest:

The owner of the ship has an insurable interest in the ship.

The owner of the cargo has insurable interest in the cargo.

A creditor who has advanced money on the security of the ship or cargo has insurable interest to the extent of his loan. The master and crew of the ship have insurable interest in respect of their wages.

If the subject matter of insurance is mortgaged, the mortgagor has insurable interest in the full value thereof, and the mortgagee has insurable interest in respect of any sum due to him. A trustee holding any property in trust has insurable interest in such property. In case of advance freight the person advancing the freight has an insurable interest in so far as such freight is repayable in case of loss.

The insured has an insurable interest in the charges of any insurance policy which he may take.

3. Principle Of Indemnity

Most kinds of insurance policies other than life and personal accident insurance are contracts of indemnity whereby the insurer undertakes to indemnify the insured for the actual loss suffered by him as a result of the occurring of the event insured against. A contract of marine

insurance is an agreement whereby the insurer undertakes to indemnify the insured to the extent agreed upon(ibid., Section 75). Although the insured is to be placed in the same position as if the loss has not occurred, the amount of indemnity may be limited by certain conditions as follows:

Injury or loss sustained by the insured has to be proved.

The indemnity is limited to the amount specified in the policy. The insured is indemnified only for the proximate causes. The market value of the property determines the amount of indemnity.

4. Principle Of Subrogation

The principle of subrogation is a corollary of the principle of indemnity. Subrogation means substitution of the insurer in place of the insured for the purpose of claiming indemnity from a third person for loss covered by insurance. The insurer is therefore entitled to recover from a negligent third party any loss payments made to the insured(ibid., Section 79[1]).

In the marine policy, the insurer must have paid the claim before they are entitled to rights of subrogation (ibid. Section 79[2]). Whether the loss paid is total or partial insurers subrogated to all the rights and remedies of the insured. However, the insurer can retain only up to the amount they have indemnified the insured under subrogation.

Such rights and remedies include right of recovery from third parties. In the event of loss of goods at the destination, the sum insured which is the agreed value will be paid. In case the goods are damaged during transit, the amount payable is arrived as a proportion of the sum insured according to the percentage of depreciation, suffered by the goods as certified by surveyors.

INSURABLE INTEREST

DEFINITION OF 'INSURABLE INTEREST'

Definition: Insurable interest is defined as the reasonable concern of a person to obtain insurance for any individual or property against unforeseen events such as death, losses, etc.

It is also defined as:

When the assured is so situated that the happening of the event on which the insurance money is to be payable. Â would as an approximate result involve in the loss or diminution of any right recognized by law or in any liability there is an insurable interest to the extent of the possible loss or liability.

The existence of insurable interest is an essential ingredient of any insurance contract; it is an important and fundamental principle of insurance. It can be defined as "the legal right to insure arising out of a financial relationship recognized under law", between the insured and the subject matter of insurance.

DISCLOSURE AND REPRESENTATION OF INSURABLE INTEREST

The meaning of the term insurable interest is liberally interpreted. It is not always the legal interest or a full interest that's required by the courts but it should be such that it would be sufficient if it is recognized by court of law or equity as such interest. The following points may be gathered from this case .

- The interest should not be a mere sentimental right or interest, for example love and affection alone cannot constitute insurable interest.
- It should be a right in property or a right arising out of a contract in relation to the property.
- The interest must be pecuniary that is, capable of estimation in terms of money. In other words, the peril must be such that its happening may bring upon the insured an actual or

deemed pecuniary loss. Mere disadvantage or inconvenience or mental distress cannot be regarded as an insurable interest but this rule not strictly followed in life insurance cases.

- The interest must be lawful, that is, it should not be illegal, unlawful, and immoral or opposed to public policy and does not harm any others legal justified claim.
- Insurable interest means an interest which can be or is protected by a contract of insurance.

TYPES OF INSURABLE INTEREST

There are basically two types of insurable interest (1) Contractual (2) Statutory

PROXIMATE CAUSE: Meaning and Importance of the Principle : The proximate cause of a loss is its effective or dominant cause. Why is it important to find out which of the causes involved in an accident is the proximate cause? A loss might be the combined effect of a number of causes. For the purposes of insurance claim, one dominant cause must be singled out in each case, because not every cause of loss will be covered.

INSURED PERIL

In search of the proximate cause of a loss, we often have to analyse how the causes involved have interacted with one another throughout the whole process leading to the loss. The conclusion of such an analysis depends very much on the identification of the perils (i.e. the causes of the loss) and of their nature. All perils are classified into the following three kinds for the purposes of such an analysis: Insured peril: It is not common that a policy will cover all possible perils. Those which are covered are known as the 'insured perils' of that policy, e.g. 'fire' under a fire policy, and 'stranding' under a marine policy.

VOYAGE

A voyage policy (also known as marine cargo insurance) refers to a marine policy that covers the goods transported by a sea vessel. It does not cover the vessel itself, although the insurer evaluates the vessel and the crew for safety and competence, respectively, before issuing such a policy.

WARRANTY-INSURANCE

A warranty in an insurance policy is a promise by the insured party that statements affecting the validity of the contract are true. Most insurance contracts require the insured to make certain warranties. For example, to obtain a HEALTH INSURANCE policy, an insured party may have to warrant that he does not suffer from a terminal disease. If a warranty made by an insured party turns out to be untrue, the insurer may cancel the policy and refuse to cover claims.

Not all misstatements made by an insured party give the insurer the right to cancel a policy or refuse a claim. Only misrepresentations on conditions and warranties in the contract give an insurer such rights. To qualify as a condition or warranty, the statement must be expressly included in the contract, and the provision must clearly show that the parties intended that the rights of the insured and insurer would depend on the truth of the statement.

Warranties in insurance contracts can be divided into two types:

AFFIRMATIVE OR PROMISSORY.

An affirmative warranty is a statement regarding a fact at the time the contract was made. A promissory warranty is a statement about future facts or about facts that will continue to be true throughout the term of the policy. An untruthful affirmative warranty makes an insurance contract void at its inception. If a promissory warranty becomes true, the insurer may cancel coverage at such time as the warranty becomes untrue.

For example, if an insured party warrants that property to be covered by a fire insurance policy will never be used for the mixing of explosives, the insurer may cancel the policy if the insured party decides to start mixing explosives on the property. Warranty provisions should contain language indicating whether they are affirmative or promissory.

Many states have created laws that protect insureds from cancellations due to misrepresented warranties. Courts tend to favor insureds by classifying indefinite warranties as affirmative. Many state legislatures have created laws providing that no misrepresented warranty should cancel an insurance contract if the misrepresentation was not fraudulent and did not increase the risks covered by the policy.

MEASUREMENT

Values made meaningful by quantifying into specific units. Measurements act as labels which make those values more useful in terms of details. For example, instead of saying that someone is tall, we can specify a measurement and specify that the individual is 6 feet tall.

SUBROGATION

Subrogation is the act of one party claiming the legal rights of another that it has reimbursed for losses. 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. You have insurance on your car, so you call your insurance carrier and they pay you for all of your expenses related to the accident. Insurance company, realizing that the other driver had an insurance policy, then seeks reimbursement from the at-fault party's insurance carrier.

CONTRIBUTION PRINCIPLE RULES

Before the contribution principle kicks in for insurance companies, a double insurance situation has to meet certain requirements. The policies must all cover the same property and the same event, and all the policies must be in effect and enforceable. If all of these conditions have been met and a covered event occurs, damaging the covered property, the contribution principle will go into effect for the involved companies.

UNDERINSURANCE

DEFINITION of 'Underinsurance'

Inadequate insurance coverage by the holder of a policy. In the event of a claim, underinsurance may result in economic losses to the policy holder, since the claim would exceed the maximum amount that can be paid out by the insurance policy.

While underinsurance may result in lower premiums paid by the policy holder, the loss arising from a claim may far exceed any marginal savings in insurance premiums.

REASONS TO UNDER INSURED

The reasons for being found under insured can be found both in negligent failure as well as deliberate choice! Both might also be closely related to rising inflation and the cost of insurance.

The rising inflation rate means there's an increasing gap between the (market) value for which you insured your goods and its real replacement value. Your policy may take a 10% inflation increase into account; what happens when this figure rises to 20%? It means that your claim will pay out half of what you expected to get.

- Negligent failure

Many people don't realise that they have insured an item (or items) for its market value, not its full replacement value.

In this scenario the insurance policy will pay out whatever the market value of the item was set at.

Due to inflation this amount will not be enough to replace the item at the current new price (the replacement value), and the policy holder will thus be left in a situation where the insurance payout is not high enough to allow for the replacement of the item.

Many clients are just not prudent when it comes to updating their policies and inventory lists. This is probably the most common sort of under insurance encountered.

- Deliberate choice
- Prohibit
- Assurance
- Prozimate
- Measure

Sometimes it is just too expensive to insure the items to their full replacement value, and some reason that, while they won't be able to replace the exact item, some sort of financial compensation for their loss is better than none at all.

These insured clients under insure their goods in order to save a bit of money on their monthly insurance premiums.

PART – B

1. Define Marine Insurance

2. Write a short note on nature of Marine Insurance Contract?

3. Mention the essential elements of Marine Insurance?

4. List out the Marine Adventure?

5. What is mean by Insurable Interest?

6. State th meaning of Marine Policy?

7. Mention the kinds of Marine Policy?

8. Write a short note voyage policy?

9. Mention the features of valued policy?

10. Write a short note on Subrogation?

PART -C

1. Define the term 'Warranty' as used in Marine Insurance. What are the different types of Warranties? Explain.
2. Discuss in detail the various kinds of marine losses?
3. Elucidate the various kinds of Marine Insurance Policies?
4. Define a contract of Marine Insurance and explain how it differs from other forms of Insurance?
5. Explain the various elements of Marine Insurance Contract?
6. Discuss the implied warranties in a contract of Marine Insurance?
7. Enumerate the scope and nature of Marine Insurance?
8. Elucidate the disclosure and representation of Marine Insurance?
9. Explain the different clauses involved in Marine Insurance Policy?
10. Discuss in detail the terms and conditions of claims in Marine Insurance?

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE

DEPARTMENT OF MANAGMENET

Unit V - Marine Insurance - Multiple Choice Questions- Each Question carries ONE Mark

S. No.	Questions	Opt 1	Opt 2	Opt 3	Opt 4	Answers
1	…………………...is an agreement where by the insurer agrees to indemnity the	Life insurance	Fire insurance	Marine Insurance	Public Liability Insurance	Marine Insurance
2	………………….is those terms, which are implied in every contract of marine	Guarantee	Express Warranties	Waiver Clause	Implied Warranties	Implied Warranties
3	Marine perils is also called as………………………..	Perils of the Sea	Moral Hazards	MarineClause	Marinelaws	Perils of the Sea
4	All of the following can be classified as casualty insurance Except………………	marine insurance	workers compensation	general liability insurance	burglary and theft insurance	marine insurance
5	In marine insurance insurable interest is enough at the time of…………………..	claim	loss	Maturity	insurance	loss
6	An international code of York Antwerp Rules applied to……………	losses of fire	losses of crop	losses of human life	marine loss	marine loss
7	Cargo ship caught by fire is an example of………………	particular average loss	general average loss	constructive total loss	actual total loss	general average loss
8	Can a marine policy be assigned?	Can be assigned before	Can be assigned after the loss	Cannot be assigned	Can be assigned	Can be assigned after
9	In Marine Insurance, loss due to a rats and vermins is……………………	a covered loss	a general exclusion	a statutory exclusion	unexpected loss	a statutory exclusion
10	Claim forms are not compulsorily used in…………………….	fidelity guarantees	marine cargo	machinery breakdown	others	marine cargo
11	…………….insurance insurable interest is enough at the time of loss	fire	accident	health	marine	marine
12	This policy covers all risks to the ship and its cargo while the ship is at a particular	Voyage policy	Floating policy	Time policy	Portrisk Policy	Portrisk Policy
13	Time policy is taken in the case of …………….. Insurance.	Hull	cargo	Marine	fire	Hull
14	The person who agrees to insure cargo, hull or freight are called…………………	Undertakers	Caretakers	Underwriters	Book keepers	Undertakers

15	Marine Insurance Act…………………	1953	1973	1963	1983	1963
16	……………….is any form of words from which the intention to warrant is to be	Guarantee	Express Warranties	Waiver Clause	Implied Warranties	Express Warranties
17	The ship concerned is in every respect of fit for the voyage on which it is	Warrenty of sea wothiness	Guarantee	Express Warranties	Waiver Clause	Warrenty of sea wothiness
18	A voyage is contemplated between any two given ports there is an implied……….on	Guarantee	Express Warranties	Warrenty of non-deviation	Waiver Clause	Warrenty of non- deviation
19	…………………means change of usual or customary route.	Deviation	Vessel	Voyage	Clause	Deviation
20	…………………is a policy in which the limits of the risks are determined by place.	Voyage	Insurance	Marine	Fire	Voyage
21	Mixed policy is also known as…………………	Health and fire	Accident and fire	Voyage and time	Marine and fire	Voyage and time
22	Under Marine insurance policies, Agreed value is referred to as…………	Total value	Cost Value	Goods Value	Insured Value	Insured Value
23	The value of the subject matter insured is not specified at the time of effecting	Unvalued policy	valued policy	Marine policy	insured policy	Unvalued policy
24	Unvalued policy is also known as…………………..	closed policy	Open Policy	insured policy	marine policy	Open Policy
25	Obtaining a long term contract for goods insurance……………..	floating policy	voyage policy	valued policy	wagering policy	floating policy
26	……….. designating the general nature of insured material but leaving the exact	voyage policy	floating policy	valued policy	wagering policy	floating policy
27	………………...policy is which covers the risk during all situations.	Floating	Wagering	Valued	Mixed	Mixed
28	…………….policy is taken up to cover the risk of goods lying at different places.	comprehensive	consequential	replacement	floating	floating
29	…………...policy in which the limits of the risks are determined by place of	Valued	Time	Unvalued	Voyage	Voyage
30	……………policy is issued without there being any insurable interest.	Valued	Unvalued	Floating	Wagering	Wagering

31	PPI means………………	Policy Proof of Interest	Proof of Policy Interest	Interest on Policy Proof	Perils Proof on Insurance	Policy Proof of Interest
32	Wagering policy contain ………..words.	Policy Proof of Interest	Proof of Policy Interest	Interest on Policy Proof	Perils Proof on Insurance	Policy Proof of Interest
33	Interest or no interst will be on………………..	Wagering policy	Floating policy	valued policy	unvalued policy	Wagering policy
34	Wagering policy also known as……………	Insured policy	floating policy	Honour policy	Marine policy	Honour policy
35	Under Section……. Of the Marine insurance Act, Wagering policies are	1	2	3	4	4
36	Honour policy is called as…………	Insured policy	floating policy	Wagering policy	Marine policy	Wagering policy
37	Under Section 4 of the ……….. Act, Wagering policies are Void in law but such	Marine insurance	Fire insurance	Hull Insurance	Accident Insurance	Marine insurance
38	Floating policy is taken up to cover the risk of ………….. lying at different places.	Hull	machinery	Goods	life	Goods
39	Mixed policy is which covers the risk during ……………...	Sailing	Theft period	Fire accident period	all situation	all situation
40	Voyage policy in which the limits of the risks are determined by ……………...	Ship Name	types of goods	Asset value of insurer	Place of travel	Place of travel
41	Cover the risk of building of vessel…………….	Builder's risk policy	Floating policy	Wagering policy	Valued policy	Builder's risk policy
42	Builder's risk policy is also known as………………	Hull Policy	Vessel policy	Construction Risk policy	Floating policy	Construction Risk policy
43	Open Cover is an Agreement Between…………… and ………………..	Assured, underwrites	Insurer, insured	Customer, Goods	Insured, Assured	Assured, underwrites
44	Open Cover policy is also known as………………..	Unvalued policy	Insured Policy	Blanket Insurance	Marine Insurance	Blanket Insurance
45	Arrange Maring insure in advance and to be assured to cover at all	Unvalued policy	Insured Policy	Wagering policy	Open cover policy	Open cover policy
46	Open Cover Policy time period………………..	Short term	Long term	Stipulated time	during sailing time	Stipulated time

47	Which of the following contract is not legally enforceable?	Contract of insurance	Wagering contract	Contract of sale of goods	Contract of business	Wagering contract
48	When the subject matter is insured……………the loss has occurred	Lost or Not lost clause	Assignment Clause	At and From Clause	Transit clause	Lost or Not lost clause
49	Warehouse to Warehouse Clause is known as……………..	Lost or Not lost clause	Assignment Clause	Transist Clause	At and From Clause	Transist Clause
50	………..does not give authorise the ship to depart from the course of her voyage from	Assignment Clause	Transist Clause	Touch and Safetu Clause	Inchmaree Clause	Touch and Safetu Clause
51	………provides for the insurance to cover lossor damage to hull or machinary .	Assignment Clause	Transist Clause	Touch and Safetu Clause	Inchmaree Clause	Inchmaree Clause
52	Inchmaree Clause is also known as……………..	Negligence Clause	Touch and Safetu Clause	Transist Clause	Assignment Clause	Negligence Clause
53	Transist Clause with respect to………………	Human	Goods	Money	Insurance	Goods
54	Wavier Clause is supplementary to………………	Sue and Labour Clause	Assignment Clause	Transist Clause	Inchmaree Clause	Sue and Labour Clause
55	Perils of the sea refers to………………	casualities of the seas	Winds	Waves	Winds and waves	casualities of the seas
56	Perils of the sea Clause does not include………………	casualities of the seas	Fortuitous accidents	Accidents	Ordinary action of Winds and Waves	Ordinary action of
57	F.G.A means………………	Foreign General	Foreign Guarantee	Foreign Guarantee	Freight General Average	Foreign General
58	F.C.S means…………………………..	Foreign Custom	Freight Custom Service	Free of Custom services	Free of Capture and Seizure	Free of Capture and
59	F.P.A means……………………..	Free of Policy on Average	Free of Policy Awareness	Free of Particular Average Clause	Foreign Principles and Amendment	Free of Particular
60	…………representing monetary loan raised by the master of the ship.	Bottomary Bond	Respondentia Bond	Share Bond	Customary Bond	Bottomary Bond

KARPAGAM ACADEMY OF HIGHER EDUCATION
COIMBATORE
DEPARTMENT OF MANAGEMENT
II BBA - INSURANCE PRINCIPLES AND PRACTICE (16BAU403A)
ASSIGNMENT TOPIC

S.No.	Register No.	Name of the Student	Assignment Topic
1	16BAU001	AJITH ABRAHAM. A	Classification of Risk
2	16BAU002	ARUN KUMAR.S	Privatization of Insurance Business in India
3	16BAU003	ASHIK.B	Insurance Regulatory Development Authority
4	16BAU004	ASUTHULLAH.A	Importance of Reinsurance
5	16BAU005	CHIDHAMBARAM.K	Essentials of Risk Insurance
6	16BAU006	DINESH KUMAR.P	Sources of Risk
7	16BAU007	HARITHA.A	Recent Development in Insurance Sector
8	16BAU008	INDHIRANI.S	Law Relating to Life Insurance Sector
9	16BAU009	INDUJA.S	General Principles of Life Insurance Contract
10	16BAU010	JAVIDULLA.S	Role of Life Insurance Corporation
11	16BAU011	KABILAN.N	Functions of Life Insurance Corporation
12	16BAU012	KALPANA.A	Policies of Life Insurance Corporation
13	16BAU014	KARTHICK.R	Trust in Life Insurance
14	16BAU016	KARUPPUSAMY.P	Importance of General Insurance
15	16BAU017	KIRTHI.S	Types of General Insurance
16	16BAU018	MANOJ KUMAR.E	Laws relating to General Insurance
17	16BAU019	MARAPPAN.E	Nature of Fire Insurance
18	16BAU020	NAMITHA KRISHNA.R	Types of Fire Insurance Policy
19	16BAU021	RAGUL.V	Third Party Insurance
20	16BAU022	RAJESH KUMAR.R	Motor Vehicle Insurance
21	16BAU023	SABARIGIRINATHAN.R	Accident Insurance
22	16BAU024	SAKTHI.P	Claims of Recovery
23	16BAU025	SANTHIYA PRIYA.M	Nature of Credit Insurance
24	16BAU026	SATHISH.S	Terms and Conditions of Credit Insurance
25	16BAU027	SELVAKUMAR.K	Public Liability Insurance
26	16BAU028	SHAHID SALEEM.B	Emergency Risk Insurance
27	16BAU029	SHEIK FAYAZ.H	Functions of General Insurance Corporation

28	16BAU030	SHESHADRI SAIPRASAD RAMMOHAN	Importance of Marine Insurance
29	16BAU031	SIVAPRAKASH.A	Law Relating to Marine Insurance
30	16BAU032	SUSMITHA.R	Proximity Cause
31	16BAU033	SYED ABUTHAHIR.K.S	Insurable Interest
32	16BAU034	TAMILSELVAN.K	Types of Marine Insurance
33	16BAU035	THAMARAI SELVAN. S	Scope of Marine Insurance
34	16BAU036	THOUFEEK.M.A	Assignment and Nomination in Life Insurance
35	16BAU037	VIGNESH.S	Benefits in Risk Insurance
36	16BAU038	VIJAY.K	Risk Management
37	16BAU039	VIJAY.S	Role of Agent in LIC
38	16BAU040	VINITHKUMAR.S	Structure of Indian Financial System
39	16BAU041	VINOTH.S	Role of Financial Institution
40	16BAU042	VINOTHINI.V	Role and Functions of Banking Insurance
41	16BAU043	VISHAL SAMIAIAH	Structure of Risk Insurance
42	16BAU044	VISHNU. S	Insurance Perils
43	16BAU045	YUVARAJ.V	Claims and Recovery in Fire Insurance
44	16BAU046	NAJMAL.S	Credit Guarantee Corporation

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II BBA - INSURANCE PRINCIPLES AND PRACTICE (16BAU403A)
SEMINAR TOPIC

S.No.	Register No.	Name of the Student	Seminar Topic
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7	16BAU007	HARITHA.A	Recent Development in Insurance Sector
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[16BAU403A]

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed to be University)
(Established Under section 3 of UGC Act 1956)
(For the candidates admitted from 2016 onwards)
FIRST INTERNAL EXAMINATION – January 2018
II BBA – IV SEMESTER
INSURANCE PRINCIPLES AND PRACTICE

Date : 20.01.18 **Time : 2 Hours**
Session : AN **Maximum : 50 Marks**

PART –A (20 x 1=20 Marks)
ANSWER ALL THE QUESTIONS

1. A _______________is an uncertainty of a financial loss.

a. Risk b. Insurance c. Damage d. Perils

2. Physical condition that increase the chance of loss from any peril is called as_____________

a. hazard b. physical hazard c. peril d. Risk

3. Financial risk is concerned with ______________

a. static risk b. dynamic risk c. non financial risk d. financial loss

4. IRDA refers to________________

a. Insurance Regulatory Development Authority b. Indian Regulatory Development Authority c. Institute of Regulatory Development Authority d. Insurance Regulatory Development Association

5. Peril is the ___________

a. loss b. create the chance of loss c. cause of loss d. risk

6. Moral hazard refers to ______________

a. dishonesty b. careless attitude c. mental condition d. behaviour of a person

7. In business - static risk occurs ________________

a. carelessness b. honesty c. loss of money d. competence

8. Getting the information from the Physician ______________

a. Physician Report b. Medical Information Bureau c. Agent Report d. Medical Examiner's Report

9. Fundamental risk is also called as _________________

a. basic risk b. group risk c. static risk d. personal risk

10. Risks are not suited to treatment by insurance refers to_______________

a. static risk b. property risk c. dynamic risk d. liability risk

11. The risk management which refers to the identification of pure risk faced by an individual or family is_________________

a. Corporate b. Individual c. Joint Stock Companies d. Partnership Firm

12. Morale hazard refers to_________________

a. behaviour of a person b. attitude of a person/group c. dishonesty

d. physical damage

13. Possibility gain _______________

a. pure risk b. particular risk c. non financial risk d. speculative risk

14. The major purpose of risk assessment is________________

a. Increase the cost of risk b. to know the severity of risk

c. reduce the cost of risk d. assessing the risk

15. Insurer and Reinsurer share premium and losses according to fixed percentage is known as___________

a. Surplus share b. facultative Reinsurance c. Proportional Reinsurance

d. Quato Share

16. The Person whose risk is insured is called ________________

a. Insured b. merchandiser c. marketer d. Agents

17. IRDA Amended year__________________

a. 2000 b. 2001 c. 2005 d. 2002

18. An_____________policy matures on the assured death or on his attainment of a particular age whichever occurs earlier."

a. Endowment b. Money Back c. Joint life d. Single Premium

19. When was Life Insurance sector nationalized______________

a. 1986 b. 1956 c. 1996 d. 1938

20. The principle of indemnity is applicable to_____________only

a. life insurance b. personal accident insurance c. proximate cause

d. property insurance

PART – B (3 x 2= 6 Marks)
ANSWER ALL THE QUESTIONS

21. Define risk

22. Write a short note on financial risk.

23. State the meaning of Life Insurance.

PART – C (3 x 8= 24 Marks)
ANSWER ALL THE QUESTIONS

24. a. Explain the classification of Risk with suitable examples?

(or)

b. Elaborate the various functions of Insurance?

25. a. Elucidate on risk insurance management process?

(or)

b. Elucidate the Functions of Insurance Regulatory and Development Authority?

26. a. Explain the various kinds of Life Insurance Policies?

(or)

b. Explain the role of Life Insurance Corporation in national economy?

No. of Copies	: 55
Class	: II BBA
Subject	: Insurance Principles and Practice
Subject Code	: 16BAU403A
Name of the Staff	: M. Usha

Register No.: ……….
[16BAU403A]

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INSURANCE PRINCIPLES AND PRACTICE
ANSWER KEY

Date : 20.01.18 **Time : 2 Hours**
Session : AN **Maximum : 50 Marks**

PART –A (20 x 1=20 Marks)
ANSWER ALL THE QUESTIONS

1. Risk
2. Physical hazard
3. Financial loss
4. Insurance Regulatory Development Authority
5. Cause of loss
6. Dishonesty
7. Carelessness
8. Physician Report
9. Group risk
10. Dynamic risk
11. Individual
12. Attitude of a person/group
13. Speculative risk
14. Reduce the cost of risk
15. Quato Share
16. Insured
17. 2002
18. Endowment
19. 1956
20. Property insurance

PART – B (3 x 2= 6 Marks)

ANSWER ALL THE QUESTIONS

21. Define risk

Definition: Risk implies future uncertainty about deviation from expected earnings or expected outcome. Risk measures the uncertainty that an investor is willing to take to realize a gain from an investment.

22. Write a short note on financial risk?

Financial risk is the possibility that shareholders will lose money when they invest in a company that has debt, if the company's cash flow proves inadequate to meet its financial obligations. When a company uses debt financing, its creditors are repaid before its shareholders if the company becomes insolvent. Financial risk also refers to the possibility of a corporation or government defaulting on its bonds, which would cause those bondholders to lose money.

23. State the meaning of Life Insurance?

Life Insurance can be defined as a contract between an insurance policy holder and an insurance company, where the insurer promises to pay a sum of money in exchange for a premium, upon the death of an insured person or after a set period.

There are two basic types of Life Insurance plans :

1. Pure Protection

2. Protection and Savings

PART – C (3 x 8= 24 Marks)
ANSWER ALL THE QUESTIONS

24. a. Explain the classification of Risk with suitable examples?

CLASSIFICATION OF RISK

1. Strategic – One may consider the opening of a competitor in your niche a typical risk. Like the example above you can reduce it's impact, as you would deal with any other competitor, by offering better service, product and experience. I had a client, unlike the previous example, that was negotiating a lease for a great space on a busy Vancouver street for his coffee shop. All the equipment was purchased, interior designer and staff in place but the leasing agent kept raising the asking price per foot. I took over the negotiations and realized there was an ominous problem – there had to be another bidder for the space. There was competition and it was none other than Starbucks. Needless to say they won over the spot. My client settled for the first space he could find that turned out to be inferior to the detriment of his start-up. He opened and closed within a year.

2. Compliance – You may not see this coming. This is often new regulations or legislation that will change the way you must do business. Vancouver cab owners are bracing for legislation that will allow Uber to move to Vancouver this fall. It could be a game-changer for the industry. Cab owners responded by automating their antiquated call systems.

3. Financial – There's nothing worse than having completed that huge order and hoping that the client will pay you before the 30 day payment option you gave them. A start-up is not often funded properly to handle multiple accounts that take their time paying or not paying at all. A contingency fund will come in handy.

4. Operational – It sounds silly but my landscaper called the other day to tell me his mower broke down and could he use a weed eater to do my lawn – what? I'm not particularly loyal to this guy so found a company on Google that took care of me within an hour.

5. Using broken equipment like this will take a business down without some backup plan. Imagine what could happen if your partner or key employee dies suddenly, an operational calamity.

6. Environmental – Besides the disaster scenario, there are many environmental issues that could put a hole in your wallet. In a climate change minded world people will shop around for environmentally friendly business owners. It must adapt or go broke.

7. Employee – A former car repair business I once used went out of business after the owner's accountant absconded to Brazil with most of the money in his business. Ludicrous? Well it's a true story and one that happens more than you think. A more typical scenario is a critical employee being injured at work without a backup to run his specialty program or machinery.

8. Political – This is a bit different than the compliance issue. Imagine your business is in a border state and NAFTA is being renegotiated. The fate of your entire operation could be tied to whether the agreement is ratified or not. I know many business owners in Canada who are biting fingernails hoping to keep the status quo.

9. Society – The societal landscape is constantly changing and one must adapt and have a plan in place when change knocks at your door. My wife only buys free-range eggs from our grocer. The thought of cramped chickens bred in boxes even has me cringing. Gluten free, organic and non-GMO are buzzwords that are changing the way we do business and shop.

24. b. Elaborate the various functions of Insurance?

FUNCTIONS OF INSURANCE:

There are certain functions which apply to every kind of insurance including life insurance as well as general insurance that includes every type of insurance such as home, automobile, jewellery, property and other valuable assets.

1) PRIMARY FUNCTIONS:

(i) Protection:

The Primary function of Insurance is as we think about any insurance. One feels insured and contended about future risks only because one is sure to be compensated for any loss of future. It is therefore Primary function of Insurance to provide protection against future risks, accidents and uncertainty.

No insurance can arrest the risk from taking place, no insurance can prevent future miss happenings, but can certainly provide some cover for the losses of risk. In real terms Insurance is a protective cover against economic loss by sharing the risk with others, (the pooling members).

(ii) Collective Risk:

The Insurance policies whether life insurance or general insurance are purchased by lacs of people. But all of them are not subjected to losses every year. It is only a few or negligible who become victim of some miss happenings. In other word lacs of people contribute towards insurance and only a few people need its cover.

It is therefore clear that insurance is a method by means of which a few losses are shared by a large number of people. All the people insured contribute by paying annual premium towards a fund out of which the persons exposed to risks are paid as per the terms and conditions of the insurance policy purchased by them.

(iii) Assessment of Risk: What is volume of risk is determined by the Insurance companies by assessing diverse factors that give rise to risk. The rate of premium is also decided on the basis of risk involved.

(iv) Certainty: Unless we are insured we remain uncertain about our capability to meet the future risks. But once we are insured it converts our uncertainty into certainty of bearing future risks.

2) SECONDARY FUNCTIONS:

(i) Prevention of losses: In simple words we can say precautions are better than the treatment. It is better instead of seeking the help of insurance if one adopts such measure which prevent the losses. Every Insurance prescribes to take preventive measures against losses. Such as installation of safety devices like automatic sparkler or alarm system, CCTV system etc.

If such type of preventive measure exists there shall be lower rate of premium for getting insurance cover against risks. Prevention of losses is to adopt preventive measures against unexpected losses. For example while driving a two wheeler we use helmets only because we take preventive measures to avoid any accidental loss. It is not certain that an accident is going to happen even than a preventive measure is adopted. If an insured take such steps he saves a lot in form of the amount of premium required to be paid. If prevention techniques have been adopted and applied the Insurance company may rate the risk at lower level and shall prescribe a lower rate of premium otherwise a higher rate of premium shall be charged.

(ii) Covering Larger Risks with small capital: Every businessman is always worried about the security of his business. After making large investments in the business it is natural to take care of the business investments. There are two alternatives first one is that the concerned businessman should invest out of his own pocket to create a proper security. The second method is to get his business activities insured. In such a case the insurance relives a businessman from security investments by paying small amount in the shape of premium against larger risks and uncertainties. This assuages the businessman from security investments for a small amount of premium against larger losses.

(iii) Helps in development of larger Industries:

Larger Industries are prone to more risks in their setting up. The large industries have diversified fields of functioning where one field sometimes has no relation with the other field of the same industry. The activities of large industries are diversified that it goes above any planning to cover every type of risk. It is only insurance that comes not only to help these large industries against possible risk but also help them to grow. It becomes possible only because insurance provides an opportunity to develop to those larger industries which have more risks in their setting ups.

25. a. Elucidate on risk insurance management process?

RISK MANAGEMENT

Risk management is the process of identifying possible risks, problems or disasters before they happen. This allows business owners to set up procedures to avoid the risk, minimize its impact, or at the very least help cope with its impact. A business or organization should make a realistic evaluation of the true level of risk and plan accordingly.

Risk management is the process of identifying possible risks, problems or disasters before they happen. This allows business owners to set up procedures to avoid the risk, minimize its impact, or at the very least help cope with its impact. A business or organization should make a realistic evaluation of the true level of risk and plan accordingly.

RISK MANAGEMENT STRATEGIES AND PROCESSES

All risk management plans follow the same steps that combine to make up the overall risk management process:

- **Risk identification.** The company identifies and defines potential risks that may negatively influence a specific company process or project.
- **Risk analysis.** Once specific types of risk are identified, the company then determines the odds of it occurring, as well as its consequences. The goal of the analysis is to further understand each specific instance of risk, and how it could influence the company's projects and objectives.
- **Risk assessment and evaluation.** The risk is then further evaluated after determining the risk's overall likelihood of occurrence combined with its overall consequence. The company can then make decisions on whether the risk is acceptable and whether the company is willing to take it on based on its risk appetite.
- **Risk mitigation**. During this step, companies assess their highest-ranked risks and develop a plan to alleviate them using specific risk controls. These plans include risk mitigation processes, risk prevention tactics and contingency plans in the event the risk comes to fruition.
- **Risk monitoring**. Part of the mitigation plan includes following up on both the risks and the overall plan to continuously monitor and track new and existing risks. The overall risk management process should also be reviewed and updated accordingly.

25. b. Elucidate the Functions of Insurance Regulatory and Development Authority?

Insurance Regulatory Development Authority Act (IRDA) 1999

This Act was passed by Parliament in Dec.1999 & it received presidential assent in Jan.2000. The aim of the Authority is “to protect the interest of holders of Insurance policies to regulate, promote and ensure orderly growth of Insurance industry & for matters connected therewith or incidental thereto."

Under this Act, an authority called IRDA is established which replaces Controller of Insurance under Insurance Act 1938.

Functions of Insurance Regulatory Development Authority

(a) Issue to the applicant (Insurance company or Insurance Agent or Surveyors or Insurance Brokers or Third Party Administrators) a certificate of registration, renew, modify, withdraw, suspend or cancel such registration;

(b) Protection of the interests of the policyholders in matters concerning assigning of policy, nomination by policyholders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;

(c) Specifying requisite qualifications, code of conduct and practical training for insurance brokers , agents, surveyors, Third Party Administrator ;

(d) Specifying the code of conduct for surveyors and loss assessors (Who assess the loss of policyholder in case of General Insurance);

(e) Promoting efficiency in the conduct of insurance business;

(f) Promoting and regulating professional organizations connected with the insurance and re-insurance business;

(g) Levying fees and other charges on insurance companies, Agents, Insurance Brokers, Surveyors and Third party Administrator;

(h) Calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organisations connected with the Insurance business;

(i) Control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (w.e.f., 1/1/2007 TAC has ceased to function).

(j) Specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;

26. a. Explain the various kinds of Life Insurance Policies?

TYPES OF LIFE INSURANCE PLAN

There are two basic types of life insurance policies viz. Traditional Whole Life and Term Life Insurance. A whole life is a policy you pay till death of the policy holder and term life is a policy for a fixed amount of time. The basic types of life insurance policies are:

Term insurance: Term plans are the most basic form of life insurance. They provide life cover with no savings / profits component. They are the most affordable form of life insurance as premiums are cheaper compared to other life insurance plans.

Online term insurance plans provide pure risk cover, which explains the lower premiums. A fixed sum of money - the sum assured – is paid to the beneficiaries if the policyholder expires over the policy term. If the policyholder survives, there is no pay out.

Endowment plans: Endowment plans differ from term plans in one critical aspect i.e. maturity benefit. Unlike term plans which pay out the sum assured, along with profits, only in case of an eventuality over the policy term, endowment planspay out the sum assured under both scenarios – death and survival. However, endowment plans charge higher fees / expenses – reflected in premiums – for paying out sum assured, along with profits, in either scenario – death or maturity. The profits are an outcome of premiums being invested in asset markets – equities and debt.

Unit linked insurance plans (ULIP):ULIPs are a variant of the traditional endowment plan. They pay out the sum assured (or the investment portfolio if its higher) on death/maturity.

ULIPs differ from traditional endowment plans in certain areas. As the name suggests, performance of ULIP is linked to markets. Individuals can choose the allocation for investments in stock/debt markets.

Whole life policy: A whole life insurance policy covers a policyholder over his life. The main feature of a whole life policy is that the validity of the policy is not defined so the individual enjoys the life cover throughout his life. The policyholder pays regular premiums until his death, upon which the corpus is paid out to the family. The policy expires only in case of an eventuality as there is no pre-defined policy tenure.

Money back policy: A money back policy is a variant of the endowment plan. It gives periodic payments over the policy term. To that end, a portion of the sum assured is paid out at regular intervals. If the policy holder survives the term, he gets the balance sum assured. In case of death over the policy term, the beneficiary gets the full sum assured.

26. b. Explain the role of Life Insurance Corporation in national economy?

Indian life insurance companies play following roles in Economic development of our country.

1. Saving and Insurance

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

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

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

2. Capital Formation and Insurance

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

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

b. The act of investment: The contribution of insurance companies in the process of capital formation appears at all these stages. Insurance services act as a tool to mobilize saving, function as financial intermediary and at times also indulge in direct investment. Also govt. has made regulations under which every insurer carrying on business of life insurance shall invest 25% of funds in Govt. securities and not less than 15% in infrastructure and social sector.

The importance of Indian insurance industry is gauged by the fact that annual amount of investible funds of LIC and GIC and its subsidiaries amounted to over Rs. 20,000 crore and Rs. 10,000 crore are invested in nation building activities, housing and other infrastructural areas.

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

3. Obligation to Rural and Social Sector

In India, the insurance companies are required to fulfill their obligation towards rural and social sector. For this, Life insurers are required to have 5%, 7%, 10%, 12%, 15% of total policies in first five years respectively in rural sector. Like wise General Insurers are required to have 2% 3% and 5% thereafter of total gross premium income written in first five financial years respectively in rural sector.

4. Insurance as financial intermediary

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

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

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

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

5. Promotes Trade and Commerce:

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

6. Facilitates efficient capital allocation:

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

7. Reducing Burden on Govt. Exchequer:

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

Register No.: ....

[16BAU403A]

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed to be University)
(Established Under section 3 of UGC Act, 1956)
(For the candidates admitted from 2016 onwards)
SECOND INTERNAL EXAMINATION – February 2018
II BBA – IV SEMESTER
INSURANCE PRINCIPLES AND PRACTICE

Date : 29.02.18
Session : AN

Time : 2 Hours
Maximum : 50 Marks

PART –A (20 x 1=20 Marks)
ANSWER ALL THE QUESTIONS

1. Life insurance in its present form came to India from__________
   a. UK b. USA c. Canada d. Germany
2. An____________is the policyholder who transfers the title of the policy.
   a. Assignee b. Nominee c. Assignor d. Consignee
3. How many zonal offices are functioning under LIC?
   a. 5 b. 8 c.10 d. 15
4. Good Faith between____________
   a. Insurer and Insured b. Customer to Customer c. Business to Customer
   d. Family & Friends
5. Which of the following is a children policy of LIC?
   a. JeevanSneha b. JeevanVishwas c. Jeevan Dhara d. JeevanSukanya
6. Without profit policy is known as______________
   a. Single Premium Policy b. Single Premium Policy
   c. Non participating policy d. Participating Policy
7. Investment in Tax Benefits______________
   a. BIMA plus b. BIMA Nivesh c. KomalJeevan d. JeevanSuraksha
8. Insurance provides security against____________
   a. Risk and Losses b. danger c. Causes d. Perils
9. Premium Pays regular basis___________
   a. Level Premium Policy b. Single Premium Policy c. Triple Benefit Policy
   d. Multi Purpose policy
10. General Insurance is having__________type of contract
    a. Guarantee b. Indemnity c. Long term d. Short term
11. GIC became the sole Re-Insurer in India, is called as_________
    a. GIC Re b. GIC- Double c. GIC- Insurance d. GIC- Assurance
12. The same subject matter is insured more than one insurer, it is known as________
    a. Double Insurance b. Single Insurance c. Reinsurance d. Multiple Insurance
13. Accident insurance is a ___________
    a. money making business b. traiff business c. non traiff business d. damaged assets
14. Period of General Insurance coverage is_____________
    a. Long period b. 5 years c. 3 years d. Short period (upto 1 year)
15. Motor Vehicle Act amended ___________year
    a. 1978 b. 1998 c. 1988 d. 1968
16. Aviation is the ____________ Largest Reinsurer in the world
    a. First b. Second c. fifth d. fourth
17. The authorized capital of GIC is______________
    a. 75 Cr b. 35 Cr c. 50 Cr d. 60 Cr
18. Head Office of National Insurance Co.Ltd ________________
    a. Mumbai b. Chennai c. New Delhi d. Kolkata
19. An___________can be done by mere endorsement on the policy or by a separate duly stamped deed.
    a. Nomination b. Election c. Justification d. Assignment
20. Doctrine of subrogation is used in_______________
    a. Fire insurance b. Life insurance c. Marine insurance d. Joint life insurance

PART – B (3 x 2= 6 Marks)
ANSWER ALL THE QUESTIONS

21. Distinguish between Insurance and Assurance?
22. List out the objectives of General Insurance Business?
23. State the meaning of Fire Insurance Claim?

PART – C (3 x 8= 24 Marks)
ANSWER ALL THE QUESTIONS

24. a. Discuss the role and functions of Life Insurance Corporation?

(or)

b. What do you understand by assignment of an insurance policy? How does an assignment differ from nomination?

25. a. Describe the different types of General Insurance?

(or)

b. 'Fire insurance is a contract of indemnity'. Explain?

26. a. Elaborate the principles of General Insurance?

(or)

b. 'Multipurpose policy is fulfilling almost all types of human needs'. Comment

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II BBA – IV SEMESTER
INSURANCE PRINCIPLES AND PRACTICE - [16BAU403A]

PART –A (20 x 1=20 Marks)
ANSWER ALL THE QUESTIONS

1. UK
2. Assignor
3. 8
4. Insurer and Insured
5. JeevanSukanya
6. Non participating policy
7. BIMA plus
8. Risk and Losses
9. Level Premium Policy
10. Indemnity
11. GIC Re
12. Double Insurance
13. non traiff business
14. Short period (upto 1 year)
15. 1988
16. fifth
17. 75 Cr
18. Kolkata
19. Assignment
20. Fire insurance

PART – B (3 x 2= 6 Marks)
ANSWER ALL THE QUESTIONS

21. Distinguish between Insurance and Assurance?

The terms 'insurance' and 'assurance' used to mean different things, with insurance being for a limited time being and assurance being for longer periods of time or until death. However, these days the words are quite exchangeable in the insurance world. Today, many companies sell insurance policies, assurance policies as well as a mix of both policies. This has resulted in the lines between these two words becoming very blurred.

- A positive declaration intended to give confidence.
- Promise or pledge; guaranty; surety.
- Full confidence; freedom from doubt; certainty.
- Freedom from timidity; self-confidence; belief in one's abilities.

22. List out the objectives of General Insurance Business?

Objectives of General Insurance Business

- To carry out nation-wide, Danish non-life and life insurance and pension fund business.
- To be attractive to customers by being a competitive independent and pre-eminent insurance group.
- To ensure that our shareholders achieve a long-term, competitive, stable return.

23. State the meaning of Fire Insurance Claims?

The claim procedure is explained in the terms and conditions as one of the conditions of the policy but no insured is reading the policy as and when he receives the copy of the policy, at the time of claim the insured is more worried about the loss and do not intend to read the same. Moreover at that time, but the insurer expects that the insured should follow the steps to get the insurance claim whether it is payable or not.

PART – C (3 x 8= 24 Marks)
ANSWER ALL THE QUESTIONS

24. a. Discuss the role and functions of Life Insurance Corporation?

FUNCTIONS OF LIFE INSURANCCE CORPORATION OF INDIA

The functions of the Life Insurance Corporation of India shall be to carry on and develop life insurance business to the best advantage of the community.

The life insurance business was nationalized on 19th January, 1956 and the Life Insurance Corporation of India came into being on 1st September, 1956 to carry on life business in India with capital of Rs.5 crores contributed by the Central Government. The Corporation is a body corporate having perpetual succession with a common seal with powers to acquire, hold and dispose of property and may by its name sue and besued.

The Corporation shall have power;

1. to carry on capital redemption business, annuity certain business or reinsurance business in so far as such reinsurance business relating to life insurance business;
2. to invest the funds of the Corporation in such manner as the Corporation may think fit and to take all such steps as may be necessary or expedient for the protection or realization of any investment; including the taking over of and administering any property offered as security for the investment until a suitable opportunity arises for its disposal;
3. to acquire, hold and dispose of any property for the purpose of its business;
4. to transfer the whole or any part of the life insurance business carried on outside India to any other person or persons, if in the interest of the Corporation it is expedient so to do;
5. to advance or lend money upon the security of any movable or immovable property or otherwise;
6. to borrow or raise any money in such manner and upon such security as the Corporation may think fit;

7. to carry on either by itself or through any subsidiary any other business in any case where such other business was being carried on by a subsidiary of an insurer whose controlled business has been transferred to and vested in the Corporation by this act;

8. to carry on any other business which may seem to the Corporation to be capable of being conveniently carried on in connection with its business and calculated directly or indirectly to render profitable the business of the Corporation; and

9. to do all such things as may be incidental or conducive to the proper exercise of any of the powers of the Corporation.

In the discharge of any of its functions the Corporation shall act so far as may be on business principles.

24. b. What do you understand by assignment of an insurance policy? How does an assignment differ from nomination?

ASSIGNMENT OF A LIFE INSURANCE POLICY

As mentioned earlier, transfer or assignment is a method of transferring ones transferable interest in a life insurance policy to another person or institution including as security for repayment of loans.

Assignment of a life insurance policy may be made by making an endorsement to that effect in the policy document. Another way of transferring or assigning the life insurance policy is by getting a separate assignment deed executed. The former case is a preferred mode of assignment as it is exempt from further stamp duty. An assignment should be signed by the 'assignor' or his duly authorized agent specifically stating the fact of transfer or assignment and attested by at least one witness. The assignee acquires the complete title of the policy and can sue under the policy. He can further assign the policy and can surrender the policy if he so desires. The assignment once effected cannot be cancelled. In case of death of the absolute assignee the rights under the policy delve on the legal heirs of the assignee. It can only be reassigned.

DIFFERENCES BETWEEN NOMINATION AND ASSIGNMENT IN INSURANCE

The following are the major differences between nomination and assignment:

1. How made**:**

Nomination can be made either by mentioning the name of the nominees in the policy or by an endorsement thereon. Separate instrument is not required. On the contrary, assignment may be made either by an endorsement on the policy itself or by the execution of separate instrument in writing.

2. Purpose**:**

A nomination is made to provide facility to the beneficiary so that he can recover the money when the policy matures for payment after the death of the assured but the assignment is meant for transferring all the rights and interests under the policy in favour of the assignee.

3**.** Effect**:**

In nomination, the property in the policy remains at the disposal of the assured during his life time. A nominee only has a beneficial interest in the policy, whereas in the case of assignment, the property in the policy passes to the assignee, who gets the rights of the owner of the policy.

4. Right of disposal**:**

In nomination, the nominee gets the right of disposal only on the death of the assured, whereas in assignment, the assignee can dispose of the policy in any way he likes.

5. Revocability**:**

Nomination can be revoked anytime before the maturity of the policy but assignment is irrevocable and shall amount to the cancellation of nomination except when it is made in respect of a loan granted on the security of the policy by the insurer. However, there can be re-assignment in favour of the policyholder.

6. Consideration**:** Nomination need not be supported by a consideration but assignment must be supported by a consideration.

7. Witness**:** Witness is not required for nomination but assignment must be witnessed otherwise it will be invalidated.

8. Right to sue**:** Nominee has no right to sue under the policy, but the assignee has right to sue under the policy.

9. Minor**:** In nomination, where nominee is a minor, appointment of an appointee by the life assured only is required, whereas in assignment, where assignee is a minor, guardian is to be appointed by the father of the assignee.

10. Creditors**:** In nomination, creditors of the life assured can attach the policy moneys, whereas in assignment, creditors cannot attach the property unless the assignment was made to defraud the creditors.

11. Execution**:** Nomination is effected where Insurance Act 1938 applies i.e., India or similar enactment apply viz in Pakistan and Ceylon but assignment can be executed anywhere in the world according to the law of the country.

12. Vested interest**:** No vested interest in favour of nominee is created but vested interest is created in favour of assignee.

13. Policy amount**:** In case of nomination, money is to be paid to the nominee only when he survives the assured, whereas in case of assignment, the policy money is to be paid to the assignee.

14. Death**:** Nomination becomes ineffective at the death of the nominee. If a conditional assignee dies, the right under the policy reverts to the life assured depending upon the terms of assignment. If an absolute assignee dies, the right devolves upon his / her heirs.

25. a. Describe the different types of General Insurance?

TYPES OF GENERAL INSURANCE

Motor Insurance: Motor insurance, that includes car insurance and two wheeler insurance, covers all damages and liability to the vehicle. Moreover, according to the Motor Vehicles Act, 1988, driving a motor vehicle without insurance in a public place is a punishable offense.

A motor vehicle can be covered either by a Liability Only policy which is a statutory requirement and covers the legal liability for injury, death, and/or property damage caused to a third party in the event of an accident caused by or arising out of the use of the vehicle, or a package policy which includes the Liability Only policy and also covers the damage to owner's vehicle, usually called O.D. Cover.

THE COMMON MOTOR INSURANCE PLANS INCLUDE:

Car insurance: A comprehensive coverage against physical damage and bodily injury to the car, and also covers against third-party liability.

Two wheeler insurance: A comprehensive two-wheeler insurance policy provides hassle-free protection to your bike or scooter against physical damage, theft and third party liability.

Commercial vehicle insurance: Commercial vehicle insurance is a Liability Only policy for commercial vehicles across the various classes of vehicles like goods carrying vehicles – private and public carrier, passenger carrying vehicles, miscellaneous and special types of vehicles.

TRAVEL INSURANCE

Despite all your planning, a trip abroad can go wrong due to medical eventualities, and non-medical contingencies such as loss of baggage, trip delay and other incidental expenses. Travel insurance covers the insured against these misfortunes while traveling. Catering to people from all walks of life, Bajaj Allianz offers three different plans – Travel Companion, Travel Elite and Student Travel. Choose a basic plan or go for extended covers as per your requirements.

The different travel insurance policies include:

- Individual travel policy

- Family travel policy
- Senior citizens travel policy
- Student travel insurance

In addition, there are insurance companies that offer special plans such as a corporate travel policy or a comprehensive policy for travel to a special place such as Asia.

HOME INSURANCE

Your home is a priceless possession and possibly one of the largest financial investments that you have made. It needs to be safeguarded from unforeseen events. Along with your home, property insurance also protects the valuables and other assets that are the interest of the insured. A comprehensive cover, such as My Home, for your house as well as the contents ensures that your home is well protected.

COMMERCIAL INSURANCE

Commercial insurance offers solutions for all sectors of the industry ranging from automotive, aviation, construction, chemicals, foods and beverages, manufacturing, oil and gas, pharmaceuticals, power, technology, telecom, textiles, transport and logistics.

Some common types of commercial insurance include:

- Property insurance
- Marine insurance
- Liability insurance
- Financial lines insurance
- Engineering insurance
- Energy insurance
- Employee benefits insurance
- International insurance solutions

25. b. 'Fire insurance is a contract of indemnity'-Explain?

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.

The principle of indemnity ensures that there is no profit to the insured after the claim, and he/she only retains his/her financial position as it was before the loss. Estimation of indemnity will consider all the ways and methods to ensure this application in every insurance contract including fire Insurance.

Indemnity is estimated in Fire Policy based on the following factors:

- Ownership of the asset at the time of accident
- Legal liability of the insured
- Market value of the asset
- Depreciation in the asset value
- Agreed upon value at the time of insurance
- Cost of purchase of the material for insured

26. a. Elaborate the principles of General Insurance?

PRINCIPLES OF INSURANCE - 7 BASIC, GENERAL INSURANCE PRINCIPLES

An insurer must always investigate any doubtable insurance claims. It is also a duty of the insurer to accept and approve all genuine insurance claims made, as early as possible without any further delays and annoying hindrances.

Seven principles of insurance with examples

1. Principle of Uberrimae fidei (Utmost Good Faith),
2. Principle of Insurable Interest,
3. Principle of Indemnity,
4. Principle of Contribution,
5. Principle of Subrogation,

6. Principle of Loss Minimization, and
7. Principle of Causa Proxima (Nearest Cause).
8. Principle of Uberrimae fidei (Utmost Good Faith)

Principle of Uberrimae fidei (a Latin phrase), or in simple english words, the Principle of Utmost Good Faith, is a very basic and first primary principle of insurance. According to this principle, the insurance contract must be signed by both parties (i.e insurer and insured) in an absolute good faith or belief or trust. The person getting insured must willingly disclose and surrender to the insurer his complete true information regarding the subject matter of insurance. The insurer's liability gets void (i.e legally revoked or cancelled) if any facts, about the subject matter of insurance are either omitted, hidden, falsified or presented in a wrong manner by the insured. The principle of Uberrimae fidei applies to all types of insurance contracts.

Principle of Insurable Interest: The principle of insurable interest states that the person getting insured must have insurable interest in the object of insurance. A person has an insurable interest when the physical existence of the insured object gives him some gain but its non-existence will give him a loss. In simple words, the insured person must suffer some financial loss by the damage of the insured object.

For example :- The owner of a taxicab has insurable interest in the taxicab because he is getting income from it. But, if he sells it, he will not have an insurable interest left in that taxicab.

From above example, we can conclude that, ownership plays a very crucial role in evaluating insurable interest. Every person has an insurable interest in his own life. A merchant has insurable interest in his business of trading. Similarly, a creditor has insurable interest in his debtor.

Principle of Indemnity: Indemnity means security, protection and compensation given against damage, loss or injury. According to the principle of indemnity, an insurance contract is signed only for getting protection against unpredicted financial losses arising due to future uncertainties. Insurance contract is not made for making profit else its sole purpose is to give compensation in case of any damage or loss.

In an insurance contract, the amount of compensations paid is in proportion to the incurred losses. The amount of compensations is limited to the amount assured or the actual losses, whichever is less. The compensation must not be less or more than the actual damage. Compensation is not paid if the specified loss does not happen due to a particular reason during a specific time period. Thus, insurance is only for giving protection against losses and not for making profit.

Principle of Contribution: Principle of Contribution is a corollary of the principle of indemnity. It applies to all contracts of indemnity, if the insured has taken out more than one policy on the same subject matter. According to this principle, the insured can claim the compensation only to the extent of actual loss either from all insurers or from any one insurer.

If one insurer pays full compensation then that insurer can claim proportionate claim from the other insurers.

For example :- Mr. John insures his property worth $ 100,000 with two insurers "AIG Ltd." for $ 90,000 and "MetLife Ltd." for $ 60,000. John's actual property destroyed is worth $ 60,000, then Mr. John can claim the full loss of $ 60,000 either from AIG Ltd. or MetLife Ltd., or he can claim $ 36,000 from AIG Ltd. and $ 24,000 from Metlife Ltd.

So, if the insured claims full amount of compensation from one insurer then he cannot claim the same compensation from other insurer and make a profit. Secondly, if one insurance company pays the full compensation then it can recover the proportionate contribution from the other insurance company.

Principle of Subrogation: Subrogation means substituting one creditor for another. Principle of Subrogation is an extension and another corollary of the principle of indemnity. It also applies to all contracts of indemnity. According to the principle of subrogation, when the insured is compensated for the losses due to damage to his insured property, then the ownership right of such property shifts to the insurer. This principle is applicable only when the damaged property has any value after the event causing the damage. The insurer can benefit out of subrogation rights only to the extent of the amount he has paid to the insured as compensation.

For example :- Mr. John insures his house for $ 1 million. The house is totally destroyed by the negligence of his neighbour Mr.Tom. The insurance company shall settle the claim of Mr. John for $ 1 million. At the same time, it can file a law suit against Mr.Tom for $ 1.2 million, the market value of the house.

Principle of Loss Minimization: According to the Principle of Loss Minimization, insured must always try his level best to minimize the loss of his insured property, in case of uncertain events like a fire outbreak or blast, etc. The insured must take all possible measures and necessary steps to control and reduce the losses in such a scenario. The insured must not neglect and behave irresponsibly during such events just because the property is insured. Hence it is a responsibility of the insured to protect his insured property and avoid further losses.

For example :- Assume, Mr. John's house is set on fire due to an electric short-circuit. In this tragic scenario, Mr. John must try his level best to stop fire by all possible means, like first calling nearest fire department office, asking neighbours for emergency fire extinguishers, etc. He must not remain inactive and watch his house burning hoping, "Why should I worry? I've insured my house."

Principle of Causa Proxima (Nearest Cause): Principle of Causa Proxima (a Latin phrase), or in simple english words, the Principle of Proximate (i.e Nearest) Cause, means when a loss is caused by more than one causes, the proximate or the nearest or the closest cause should be taken into consideration to decide the liability of the insurer. The principle states that to find out whether the insurer is liable for the loss or not, the proximate (closest) and not the remote (farest) must be looked into.

For example :- A cargo ship's base was punctured due to rats and so sea water entered and cargo was damaged. Here there are two causes for the damage of the cargo ship - (i) The cargo ship getting punctured beacuse of rats, and (ii) The sea water entering the ship through the puncture.

26. b. 'Multipurpose policy is fulfilling almost all types of human needs'. Comment

S. No.	Type of Insurance Policy	Features
1	Term Life Insurance	Term insurance is a life insurance product offered by an insurance company which offers financial coverage to the policy holder for a specific time period.
2	Whole Life Policy	The policyholder pays regular premiums until his death, upon which the corpus is paid out to the family.
3	Endowment Plans	Endowment plans pay out the sum assured under both scenarios - death and survival
4	Unit Linked Insurance Plans	ULIP is a life insurance product, which provides risk cover for the policy holder along with investment options to invest in any number of qualified investments.
5	Money Back Policy	Money back plan is a life insurance product as well as an investment plan which provides life insurance cover against death of the policy holder along with periodic returns as a percentage of sum assured.

There are two basic types of life insurance policies viz. Traditional Whole Life and Term Life Insurance. A whole life is a policy you pay till death of the policy holder and term life is a policy for a fixed amount of time.

The basic types of life insurance policies are:

TERM INSURANCE

Term plans are the most basic form of life insurance. They provide life cover with no savings / profits component. They are the most affordable form of life insurance as premiums are cheaper compared to other life insurance plans.

Online term insurance plans provide pure risk cover, which explains the lower premiums. A fixed sum of money - the sum assured – is paid to the beneficiaries if the policyholder expires over the policy term. If the policyholder survives, there is no pay out.

Endowment plans

Endowment plans differ from term plans in one critical aspect i.e. maturity benefit. Unlike term plans which pay out the sum assured, along with profits, only in case of an eventuality over the policy term, endowment planspay out the sum assured under both scenarios – death and survival. However, endowment plans charge higher fees / expenses – reflected in premiums – for paying out sum assured, along with profits, in either scenario – death or maturity. The profits are an outcome of premiums being invested in asset markets – equities and debt.

Unit linked insurance plans (ULIP)

ULIPs are a variant of the traditional endowment plan.They pay out the sum assured (or the investment portfolio if its higher) on death/maturity.

ULIPs differ from traditional endowment plans in certain areas. As the name suggests, performance of ULIP is linked to markets. Individuals can choose the allocation for investments in stock/debt markets. The value of the investment portfolio is captured by the NAV (net asset value). To that end, there are many similarities between ULIPs and mutual funds. ULIPs differ in one area, they are a combination of investment and insurance, while mutual funds are a pure investment avenue

Whole life policy

A whole life insurance policy covers a policyholder over his life. The main feature of a whole life policy is that the validity of the policy is not defined so the individual enjoys the life cover throughout his life. The policyholder pays regular premiums until his death, upon which the corpus is paid out to the family. The policy expiresonly in case of an eventuality as there is no pre-defined policy tenure.

Money back policy

A money back policy is a variant of the endowment plan. It gives periodic payments over the policy term. To that end, a portion of the sum assured is paid out at regular intervals. If the policy holder survives the term, he gets the balance sum assured. In case of death over the policy term, the beneficiary gets the full sum assured.

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[16BAU403A]

KARPAGAM ACADEMY OF HIGHER EDUCATION
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Established Under section 3 of UGC Act, 1956
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THIRD INTERNAL EXAMINATION – March 2018
II BBA – IV SEMESTER
INSURANCE PRINCIPLES AND PRACTICE

Date : 22.03.18 Time : 2 Hours
Session : AN Maximum : 50 Marks

PART – A (20 x 1=20 Marks)
ANSWER ALL THE QUESTIONS

1. Marine perils is also called as_____________
a. Perils of the Sea b. Moral Hazards c. Marine Clause d. Marine laws

2. ___________is an agreement whereby the insurer agrees to indemnity the insured against marine losses.
a. Life insurance b. Fire insurance c. Marine Insurance d. Public Liability Insurance

3. Unvalued policy is also known as__________
a. closed policy b. Open Policyc. insured policy d. marine policy

4. F.G.A means____________
a. Foreign General Average b. Foreign Guarantee Average
c. Foreign Guarantee Awareness d. Freight General Average

5. In Marine Insurance, loss due to a rats and vermins is____________
a. a covered loss b. a general exclusion c. a statutory exclusion d. unexpected loss

6. A voyage is contemplated between any two given ports there is an implied___________on the part of the insured.
a. Express Warranties b. Warranty of non- deviation c. Waiver Clause d. Guarantee

7. ______________ means change of usual or customary route.
a. Deviation b. Vessel c. Voyage d. Clause

8. ______________is a policy in which the limits of the risks are determined by place.
a. Voyage b. Insurance c. Marine d. Fire

9. Credit insurance companies__________their exposure through limit management
a. plan b. monitor c. control d. emphasis

10. In marine insurance insurable interest is enough at the time of___________
a. claim b. loss c. Maturity d. insurance

11. An international code of York Antwerp Rules applied to____________
a. losses of fire b. losses of crop c. losses of human life d. marine loss

12. Cargo ship caught by fire is an example of___________
a. particular average loss b. general average loss c. constructive total loss
d. actual total loss

13. Medium term credit covers ____________
a. Consumer goods b. capital goods c. goods/services d. service only

14. Inchmaree Clause is also known as______________
a. Negligence Clause b. Touch and Safety Clause c. Transits Clause
d. Assignment Clause

15. Transits Clause with respect to______________
a. Human b. Goods c. Money (d) Insurance

16. Wavier Clause is supplementary to______________
a. Sue and Labour Clause b. Assignment Clause c. Transits Clause
d. Inchmaree Clause

17. Credit insurance are ___________ renewable
a. Quarterly b. monthly c. half yearly d. annually

18. F.C.S means__________________
a. Foreign Custom Security b. Freight Custom Service
c. Free of Custom services d. Free of Capture and Seizure

19. _____________representing monetary loan raised by the master of the ship.
a. Bottomary Bond b. Respondentia Bondc. Share Bond
d. Customary Bond

20. Cover the risk of building of vessel__________________
a. Builder's risk policy b. Floating policy c. Wagering policy d. Valued policy

PART – B (3 x 2= 6 Marks)
ANSWER ALL THE QUESTIONS

21. Mention the nature of Deposit and Credit Insurance?
22. Define Marine Insurance
23. What is mean by Insurable Interest?

PART – C (3 x 8 = 24 Marks)
ANSWER ALL THE QUESTIONS

24. a. Elucidate the Role of Deposit Insurance of Guarantee Deposit and Credit Insurance?

(or)

b. Enumerate the Structure and power of Emergency Risk Insurance?

25. a. Elucidate the various kinds of Marine Insurance Policies?

(or)

b. Explain the role of General Insurance Corporation in the economic development of the country?

26. a. Elaborate in detail the terms and conditions of claims in Marine Insurance?

(or)

b. Discuss the implied warranties in a contract of Marine Insurance?

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II BBA – IV SEMESTER
INSURANCE PRINCIPLES AND PRACTICE
Answer Key

Date : 22.03.18 **Time : 2 Hours**
Session : AN **Maximum : 50 Marks**

PART –A (20 x 1=20 Marks)
ANSWER ALL THE QUESTIONS

1. Perils of the Sea
2. Marine Insurance
3. Open Policy
4. Foreign General Average
5. a statutory exclusion
6. Warranty of non- deviation
7. Deviation
8. Voyage
9. Control
10. Loss
11. Marine loss
12. General average
13. Capital goods
14. Negligence Clause
15. Goods
16.Sue and Labour Clause
17. Annually
18. Free of Capture and Seizure
19. Bottomary Bond
20. Builder's risk policy

PART – B (3 x 2= 6 Marks)
ANSWER ALL THE QUESTIONS

21. Mention the nature of Deposit and Credit Insurance?

- The DICGC insures all deposits such as savings, fixed, current, recurring, etc. deposits except the following types of deposits
- Deposits of foreign Governments;
- Deposits of Central/State Governments;
- Inter-bank deposits;
- Deposits of the State Land Development Banks with the State co-operative bank;
- Any amount due on account of and deposit received outside India
- Any amount, which has been specifically exempted by the corporation with the previous approval of Reserve Bank of India

22. Define Marine Insurance

Legal Definition of MARINE INSURANCE: insurance against loss by damage to or destruction of cargo or the means or instruments of its transportation whether on land, sea, or air

23. What is mean by Insurable Interest?

Insurable interest exists when an insured person derives a financial or other kind of benefit from the continuous existence, without impairment or damage, of the insured object (or in the case of a person, their continued survival).

PART – C (3 x 8= 24 Marks)
ANSWER ALL THE QUESTIONS

24. a. Elucidate the Role of Deposit Insurance of Guarantee Deposit and Credit Insurance?

Commercial Banks : All commercial banks including branches of foreign banks functioning in India, local area banks and regional rural banks are insured by the DICGC.

Cooperative Banks : All State, Central and Primary cooperative banks, also called urban cooperative banks, functioning in States / Union Territories which have amended the local Cooperative Societies Act empowering the Reserve Bank of India (RBI) to order the Registrar of Cooperative Societies of the State / Union Territory to wind up a cooperative bank or to supersede its committee of management and requiring the Registrar not to take any action regarding winding up, amalgamation or reconstruction of a co-operative bank without prior sanction in writing from the RBI are covered under the Deposit Insurance Scheme. At present all co-operative banks are covered by the DICGC.

Primary cooperative societies are not insured by the DICGC.

- The DICGC insures all deposits such as savings, fixed, current, recurring, etc. deposits except the fullowing types of deposits
- Deposits of foreign Governments;
- Deposits of Central/State Governments;
- Inter-bank deposits;
- Deposits of the State Land Development Banks with the State co-operative bank;
- Any amount due on account of and deposit received outside India
- Any amount, which has been specifically exempted by the corporation with the previous approval of Reserve Bank of India

Each depositor in a bank is insured upto a maximum of 1,00,000 (Rupees One Lakh) for both principal and interest amount held by him in the same right and same capacity as on the date of liquidation/cancellation of bank's licence or the date on which the scheme of amalgamation/merger/reconstruction comes into force.

24. b. Enumerate the Structure and power of Emergency Risk Insurance?

Management of financial risk is very important for the treasury operations of any ministry of finance. Ministry of finance bears responsibility for the management of very substantial government assets and liabilities, and for the management of many large value transactions, probably much more than any other government ministry or agency. The large sums involved mean that any risk exposure can have damaging financial consequences on the budget outturn and the overall government balance sheet. But there is potentially also severe reputational and political damage associated with operational errors or failures, reflecting on the competence of the ministry of finance covering treasury operations.

Business risks: such as new legislation, change of government, macro-economic performance and any other factors affecting the ministry of finance’s environment—these are often managed as part of the budget planning process

Operational risks: a range of threats from loss of key personnel, settlement failure, and compliance failure, to theft, systems failure and building damage—operational risk management aims to ensure the integrity and quality of the operations of ministry of finance and treasury using a variety of tools including audit, recruitment policies, system controls, and business continuity planning.

Awareness of operational risk is low in many countries, and very few ministries of finance have a business continuity and disaster recovery plan (BCP/DRP). Often it is perceived as something applicable only to the private sector and attracts little attention by senior management. This is because it is not seen as important or a priority, there are inadequate resources allocated to establish and maintain an operational risk management (ORM) framework including BCP/DRP, responsibility is delegated to information technology, and it becomes a one-off project rather than an integral part of the day-to-day treasury operations.

25. a. Elucidate the various kinds of Marine Insurance Policies?

The different types of marine insurance can be elaborated as follows:

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

Machinery Insurance: All the essential machinery are covered under this insurance and in case of any operational damages, claims can be compensated (post survey and approval by the surveyor).

The above two insurances also come as one under Hull & Machinery (H&M) Insurance. The H&M insurance can also be extended to cover war risk covers and strike cover (strike in port may lead to delay and increase in costs)

Protection & Indemnity (P&I) Insurance: This insurance is provided by the P&I club, which is ship owners mutual insurance covering the liabilities to the third party and risks which are not covered elsewhere in standard H & M and other policies.

Protection: Risks which are connected with ownership of the vessel. E.g. Crew related claims.

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

Freight, Demurrage and Defense (FD&D) Insurance: Often referred to as “FD&D” or simply “Defense,” this insurance provides claims for handling assistance and legal costs for a wide range of disputes which are not covered under H&M or P&I insurance.

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

Indemnity: Risks which are related to the hiring of the ship. E.g. Cargo-related claims.

25. b. Explain the role of General Insurance Corporation in the economic development of the country?

1. Saving and Insurance

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

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

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

2. Capital Formation and Insurance

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

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

b. **The act of investment**: The contribution of insurance companies in the process of capital formation appears at all these stages. Insurance services act as a tool to mobilize saving, function as financial intermediary and at times also indulge in direct investment. Also govt. has made regulations under which every insurer carrying on business of life insurance shall invest 25% of funds in Govt. securities and not less than 15% in infrastructure and social sector.

The importance of Indian insurance industry is gauged by the fact that annual amount of investible funds of LIC and GIC and its subsidiaries amounted to over Rs. 20,000 crore and Rs. 10,000 crore are invested in nation building activities, housing and other infrastructural areas.

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

3. Obligation to Rural and Social Sector

In India, the insurance companies are required to fulfill their obligation towards rural and social sector. For this, Life insurers are required to have 5%, 7%, 10%, 12%, 15% of total policies in first five years respectively in rural sector. Like wise General Insurers are required to have 2% 3% and 5% thereafter of total gross premium income written in first five financial years respectively in rural sector.

4. Insurance as financial intermediary

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

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

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

26. a. Discuss in detail the terms and conditions of claims in Marine Insurance?

Conditions which you MUST do:

1. Inform your insurance company as soon as you come to know about any potential claim covered under this policy
2. Complete fully the marine insurance claim form as directed by your insurance company
3. Allow the insurance company to come for inspection of the loss/damage
4. Provide the insurance company any other information they may need or simply assist them.
5. Allow the insurance company to have access to your personal information relating to claim held by other party.
6. File a complaint to the police if there has been suspicion of crime
7. Take appropriate steps to obtain details of witnesses or list of vehicles/property involved in the incident.

Conditions which you must NOT do:

1. Take actions for the disposal of the property falling under the claim.
2. Attempt to do repairs to the property under claim unless otherwise advised by the insurance company to prevent the escalation of the claim.
3. Behave or say things which may cause prejudice to the insurance company's ability to recover the claim from other parties responsible for it.

If the insurance company finds your claim to be fraudulent or dishonest in any way, they have the right not to take your claim into consideration and can further ceased to apply this policy as from the date the fraudulent claim is proven.

26. b. Discuss the implied warranties in a contract of Marine Insurance?

A warranty is something by which the policyholder undertakes that some things shall or shall not be done during the tenure of the policy. It means, he affirms or negates the existence of particular facts.

Warranties are like statements according to which an insured promises to do or not to do some particular things. Remember, it is a statement of fact and not merely a condition. Moreover, warranties strongly insist upon and, therefore, the contract becomes null and void in case warranties are broken, irrespective of the fact that the warranty was important or not.

In marine insurance, warranties can be divided into two parts=

- Express Warranties= These are expressly included in the policy document.

- Implied Warranties= Though, these are not stated in the policy document, they are fully understood by the insurance parties and therefore, they are as binding as express warranties.

In case of marine insurance, implied warranties are more crucial and it includes=

1. **Seaworthiness of ship**– It says, that ships which will be used for transportation should be suitably constructed and equipped and capable of withstanding ordinary stress at the voyage. It can be further understood with the help of the following points=

- To decide whether the ship is seaworthy or not is subjective and may vary with any particular vessel at different periods of time and destination, like, a ship may be seaworthy for summer but may not be apt for winter.
- Apart from the physical condition of the ship, seaworthiness also includes adequacy of equipments, expertise of crew members and the condition of the consignment
- It says that the ship must be cargo-worthiness i.e., must be reasonably fit to carry the insured cargo. Note, warranty of seaworthiness doesn't apply to cargo. It means, there is no warranty that the cargo should be seaworthy and we can't expect from the cargo owner to be well acquainted with the shipping business.
- A ship should be seaworthy at the port of commencement of the voyage and different stages if the voyage is to be completed in different stages

2. **No change in the destination of the voyage**– If the destination of the voyage is changed intentionally after the inception of the risk, it is known as the change in the voyage. If this happens, the marine insurance company is no more responsible for covering the new voyage.
3. **No delay in the voyage**– It says that there should be no delay in starting the voyage without a valid reason. It is necessary that the insured venture must be dispatched within the reasonable time duration. In case there is a delay, the insurer has all rights to refuse to give the coverage in the absence of any legal reason.
4. **No deviation**-The liability of the marine insurer ends if there is a deviation in the journey i.e., deviation from the common route. In case a ship deviates from its fixed passage, the insurer's liability ends. This will be immaterial if the ship returns to its original path before the loss However, the insurer can quit responsibility only if there is an actual deviation and not mere the intention to the deviation.

Reg. No……………………………

[14BAU404]

KARPAGAM UNIVERSITY

Karpagam Academy of Higher Education
(Established Under Section 3 of UGC Act 1956)
COIMBATORE – 641 021
(For the candidates admitted from 2014onwards)

BBA DEGREE EXAMINATION, APRIL 2016

Fourth Semester

BUSINESS ADMINISTRATION

INSURANCE PRINCIPLES AND PRACTICES

Time: 3 hours | Maximum : 60 marks

PART – A (20 x 1 = 20 Marks) (30 Minutes)
(Question Nos. 1 to 20 Online Examinations)

PART B (5 x 8 = 40 Marks) (2 ½ Hours)
Answer ALL the Questions

21. a. What are the important principles of Risk Insurance Management?

Or

b. Elucidate the Functions of Insurance Regulatory and Development Authority.

22. a. Explain the concept of Trust in Life policy.

Or

b. What do you understand by assignment of an insurance policy? How does an assignment differ from nomination?

23. a. 'Fire insurance is a contract of indemnity'-Explain

Or

b. Explain the different kinds of Motor Vehicle Insurance policies.

24. a. Enumerate the various function of General Insurance Corporation of India.

Or

b. Explain the function of Deposit Insurance and credit Guarantee Corporation.

25. a. Explain the various elements of Marine Insurance Contract.

Or

b. Discuss the implied warranties in a contract of Marine Insurance.