Principles and Practices of Life and General Insurance

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Abbreviations

AY	-	Actual Yields
CV	-	Coefficient of Variation
CCE	-	Crop Cutting Experiments
ECGC	-	Export Credit and Guarantee Corporation
ERISA	-	Employee Retirement Income Security Act
ESIC	-	Employee State Insurance Corporation
FDI	-	Foreign Direct Investment
FII	-	Foreign Institutional Investor
GIC	-	Guaranteed Investment Contract
IRDA	-	Insurance Regulatory Development Authority
MVRs	-	Motor Vehicle Reports
NAIS	-	National Agricultural Insurance Scheme
NBFC's	-	Non Banking Finance Corporations
NIC	-	National Insurance Company
NRI	-	Non-Resident Indian
OIC	-	Oriental Insurance Company
RPAD	-	Roller Platform Air Deployment
RTO	-	Registered Training Organisation
SI	-	Sum Insured
TPA	-	Trade Promotion Authority
TY	-	Threshold Yield
UIIC	-	United India Insurance Company
VIN	-	Vehicle Identification Number

Chapter I

Overview of General Insurance

Aim

The aim of this chapter is to:

- introduce the concept of general insurance
- narrate the scope of general insurance
- explain the history of general insurance

Objectives

The objectives of this chapter are to:

- define general insurance
- describe different types of general insurance
- elucidate the purpose of general insurance

Learning outcome

At the end of this chapter, you will be able to:

- understand non-life insurance
- get an overview of general insurance
- differenciate between various types of general insurance

1.1 Introduction

All insurance other than 'Life Insurance' fall 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.

- Non-life insurance companies have products that cover property against burglary, theft etc also against fire and allied perils, flood storm and inundation, earthquake and so on. The non-life companies also offer policies covering machinery against breakdown, there are policies that cover the hull of ships and so on.
- In insurance of property, it is important that the cover is taken for the actual cost value of the property to avoid being imposed a penalty if a claim comes up. A property is undervalued for the purposes of insurance; the insured will have to bear a rateable proportion of the loss. For instance if the value of a property is Rs.100 and it is insured for Rs.50/-, in the event of a loss to the extent of say Rs.50/-, the maximum claim amount payable would be Rs.25/- (50% of the loss being borne by the insured for underinsuring the property by 50%). This concept is quite often not understood by most insured's.
- Personal insurance covers include policies for accident, health etc. Benefit policies are covered in Personal Accidents. Health insurance covers offered by non-life insurers are mainly hospitalisation covers either on reimbursement or cashless basis. The cashless service is offered through Third Party Administrators who have arrangements with various service providers, i.e., hospitals. The Third Party Administrators also provide service for reimbursement claims. Sometimes the insurers themselves process reimbursement claims.
- Liability insurance covers such as Motor Third Party Liability Insurance, Workmen's Compensation Policy etc offer cover against legal liabilities that may arise under the respective statutes— Motor Vehicles Act, The Workmen's Compensation Act etc. Some of the covers such as the foregoing (Motor Third Party and Workmen's Compensation policy) are compulsory by statute. Liability Insurance not compulsory by statute is also gaining popularity these days.
- There are general insurance products that are in the nature of package policies offering a combination of the covers mentioned above. For instance, there are package policies available for householders, shop keepers and also for professionals such as doctors, chartered accountants etc. Apart from offering standard covers, insurers also offer customised or tailor-made ones.
- Suitable 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 loss or damage to one's property can leave one shattered. Losses created by catastrophes such as the tsunami, earthquakes, cyclones etc have left many homeless and penniless. Such losses can be devastating but insurance could help mitigate them. Property can be covered, so also the people against Personal Accident. 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. They need to cover their liabilities as well. Financiers insist on insurance. So, most industries or businesses that are financed by banks and other institutions do obtain covers. But are they obtaining the right covers? And are they insuring adequately are questions that need to be given some thought. Also organisations or industries that are self-financed should ensure that they are protected by insurance.

We will be studying in detail various insurance that fall under General Insurance, in further chapters.

1.2 History

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

The insurance sector in India has completed all the facets of competition –from being an open competitive market to being nationalised and then getting back to the form of a liberalised market once again. The history of the insurance sector in India reveals that it has witnessed complete dynamism for the past two centuries approximately.

With the establishment of the Oriental Life Insurance Company in Kolkata, the business of Indian life insurance started in the year 1818.

The most important milestones in the Indian life insurance business:

- 1912: The Indian Life Assurance Companies Act came into force for regulating the life insurance business.
- 1928: The Indian Insurance Companies Act was enacted for enabling the government to collect statistical information on both life and non-life insurance businesses.
- 1938: The earlier legislation consolidated the Insurance Act with the aim of safeguarding the interests of the insuring public.
- 1956: About 245 Indian and foreign insurers and provident societies were taken over by the central government and they got nationalised. LIC was formed by an Act of Parliament, viz. LIC Act, 1956. It started off with a capital of 5 crore and that too from the Government of India.

The history of general insurance business in India is traced back to Triton Insurance Company Ltd. (the first general insurance company) which was formed in the year 1850 in Kolkata by the British.

Some other important milestones in the Indian general insurance business:

- 1907: The Indian Mercantile Insurance Ltd. was set up which was the first company of its type to transact all general insurance business.
- 1957: General Insurance Council, an arm of the Insurance Association of India, framed a code of conduct for guaranteeing fair conduct and sound business patterns.
- 1968: The Insurance Act improved for regulating investments and set minimal solvency levels and the Tariff Advisory Committee was set up.
- 1972: The General Insurance Business (Nationalisation) Act, 1972 nationalised the general insurance business in India. It came into effect from 1st January 1973.

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

IRDA has till now provided registration to 12 private life insurance companies and nine general insurance companies. If the existing public sector insurance companies are considered then there are presently 13 insurance companies in the life side and 13 companies functioning in general insurance business. General Insurance Corporation has been sanctioned as the “Indian reinsurer” for underwriting only reinsurance business.

1.3 Meaning of General Insurance

The meaning of general insurance is explained below:

- Insurance is a policy from a large financial institution that offers a person, company, or other entity reimbursement or financial protection against possible future losses or damages. The meaning of insurance is important to understand for anybody who is considering buying an insurance policy or simply understanding the basics of finance. Insurance is a hedging instrument used as a precautionary measure against future contingent losses. This instrument is used for managing the possible risks of the future.
- Insurance is bought in order to hedge the possible risks of the future which may or may not take place. This is a mode of financially insuring that if such a incident happens then the loss does not affect the present well-being of the person or the property insured. Thus, through insurance, a person buys security and protection.

- A simple example will make the meaning of insurance easy to understand. A biker is always subjected to the risk of head injury. But it is not certain that the accident causing him the head injury would definitely occur. Still, people riding bikes cover their heads with helmets. This helmet in such cases acts as insurance by protecting him/her from any possible danger. The price paid was the possible inconvenience or act of wearing the helmet; this is equivalent to the insurance premiums paid.
- Though, loss of life or injuries incurred cannot be measured in financial terms, insurance attempts to quantify such losses financially. Insurance can be defined as the process of reimbursing or protecting a person from contingent risk of losses through financial means, in return for relatively small, regular payments to the insuring body or insurance company. Insurance can range from life to medical to general (residential, commercial property, natural incidents, burglary, etc).

1.4 Scope of General Insurance

The financial sector in India has become stronger in terms of capital and the number of customers. It has become globally competitive and diverse aiming at higher productivity and efficiency.

- Exposure to worldwide competition and deregulation in Indian financial sector has led to the emergence of better quality products and services. Reforms have changed the face of Indian banking and finance. The banking sector has improved manifolds in terms of capital adequacy, asset classification, profitability, income recognition, provisioning, exposure limits, investment fluctuation reserve, risk management, etc.
- Diversifying into investment banking, insurance, credit cards, depository services, mortgage financing, securitisation has increased revenues. As large numbers of players in various fields enter the market, competition would be intensified by mutual funds, Non Banking Finance Corporations (NBFCs), post offices, etc. from both domestic and foreign players. All this would lead to increased sophistication and technology in the sector. Corporate governance would come into the picture and other financial institutions would have to reach global standards. Also the limit for FDI in private banks is increased to 74% and the limit for FII is 49%.
- There are many challenges ahead for the banking sector such as technology, consumer satisfaction, corporate governance, risk management, etc. and they are redefining their priorities, which are now focused on cost reduction, product differentiation and customer centric services. Some of the major players in this sector are HDFC, ICICI, HSBC, State Bank of India, Punjab National Bank, Ing Vysya, ABN Amro Bank, Centurion Bank, City Bank, etc.
- The insurance sector has opened up for private insurance companies with the enactment of IRDA Act, 1999. A large number of companies are competing under both life and general Insurance. The FDI cap/equity in this sector is 26% and the proposals have to be cleared by Insurance Regulatory and Development Authority (IRDA) established to protect the interest of holder of Insurance policy and act as a regulator and facilitator in the industry. Some of the major players in this sector are LIC, Max New York Life Insurance, Bajaj Allianz, ICICI Prudential, HDFC Standard Life, Metlife Insurance, Birla Sun Life Insurance, etc.
- Various types of policies and instruments are coming up in the market to attract more customers. As most of the population of India is not insured there is a huge scope in this sector and a number of companies are planning to enter the sector. Every futuristic individual would want himself to get insured.
- Capital markets have a long history of over 100 years in India. Bombay Stock Exchange came into existence more than a hundred years ago to remove direct government control. Indian companies are now allowed to raise capital from abroad and foreign institutional investors are allowed to enter the market due to an important policy initiative in 1993.
- The depository and share dematerialisation has enhanced the performance of the capital market reducing processing time and increasing returns. The major players are India Bulls Securities, Kotak, and many more. Many new instruments have been introduced in the market such as index futures, index options, derivatives, including futures and options. Also commodities market is gaining pace.
- There is a huge potential available in the market and to realise it venture capitalists are coming up with lots of finance. To make use of the human capital, technical skills, cost competitive workforce, research and entrepreneurship VCFs and VCCs are ready to invest in potential projects.

For a stronger and resilient financial system, India needs to move beyond peripheral issues and act maturely by increasing profitability and efficiency providing better solutions to the customers.

1.5 Purpose of General Insurance

In this modern era, risk of life has increased considerably. For controlling the risk for safe life, a policy has been introduced which is called insurance. As the word insurance itself describes its meaning to make sure of something or someone.

- Insurance is a guarantee of compensation in the case of loss; compensated to people or companies so frightened about danger that they have made prepayments to an insurance company. Insurance is a course of action planned to make sure that you are no worse off after an accident or calamity than you were previously.
- Insured is an individual whose interests are confined by an insurance policy. He is a person who contracts for an insurance policy that secures him in opposition to loss of property or life or health etc.
- Whenever you acquire an insurance policy, you reimburse a premium to the insurance company. If you never make a claim, you never get a hold any of the money back. Insurance is collected with the premiums of others who have taken out insurance with a meticulous compact.
- The idea in the wake of insurance is that everyone pays into a vessel of money knowing that only some of them will ever need to make a claim, however, that may not sound like a good transaction. If you have to make a claim, the money comes from the puddle of your and other policy holders' premiums.
- The amount you pay for the insurance can be changed every year and if you've claimed last year or your circumstances have distorted, your premiums can be affected by it; this type of insurance is annual policy insurance.

Types of insurance

Generally, there are two types of insurance.

- Life Insurance
- General Insurance

It is an insurance which is bought for the purpose to secure your general things like cars, animals, properties etc. In general insurance, you can claim for the stolen car, burned house and the death of your pet. In short, insurance saves you and your expenses and gives guarantee for your future.

1.6 General Insurance Products

Non- life insurance can be broadly classified into:

- Plans for corporate / business
- Plans for individuals

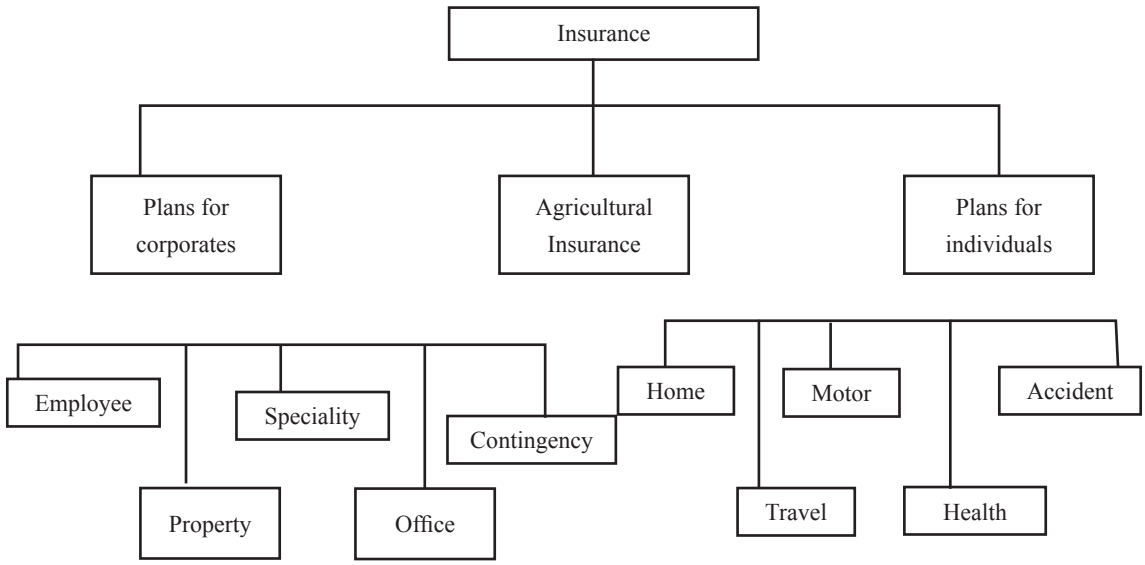

Fig. 1.1 Classification of general insurance

Corporate policies

- Speciality
- Office
- Employee
- Property
- Contingency

Speciality

These are the policies catered to meet special needs or needs of specific industries. Some of them are

- Aviation Insurance
- Marine Hull Insurance
- Freight Forwarders Insurance
- Port Liabilities
- Film Insurance
- Credit Insurance
- Event Insurance
- Jewellers Block Policy
- Bankers Indemnity Policy
- Shopkeepers Policy
- Marine Cargo Policy
- Multi Peril Policy for L.P.G. Dealers

Employee policies

There are various policies available for employer to take care of employees or to meet legal obligations.

- Group Personal Accident
- Group critical illness
- Group Travel
- Workmen's Compensation

- Keyman Insurance
- Overseas Travel insurance

Policies for office /manufacturing units
For protection of business and industrial units from contingencies

- Fidelity Guarantee Insurance Policy
- Special Contingency Policy
- Plate Glass Insurance
- Neon Sign Insurance
- Fire Policy
- Burglary Policy
- Machinery Breakdown Policy
- Electronics Equipment Policy
- Consequential Loss Policy
- Contractors All Risk Policy
- Advanced Loss of Profit / Delay in Startup Policy
- Contractor Plant and Machinery Policy
- Mega Package Policies
- Marine cum Erection / Storage cum Erection Policy

Health insurance

- Group Personal Accident Policy
- Mediclaim Policy
- Overseas Mediclaim Insurance- Business &Holiday
- Overseas Mediclaim Insurance- Frequent Corporate travelers
- Overseas Mediclaim Insurance- Employment & Studies
- Personal Accident Policy

Policies for individuals

- Home
- Travel
- Motor
- Accident
- Health

Home insurance
There are wide range of policies and packages available. They cover more than your home and its contents. Some of the perils covered are:

- Fire
- Explosion / Implosion
- Burglary
- Riot, Strike, Malicious Damage cover
- Damages due to Impact by rail / road vehicle or animal
- Bursting and / or overflowing of water tanks, apparatus and pipes

- Missile Testing operations
- Leakage from Automatic Sprinkler Installations
- Lightning
- Loss caused by Storm, Cyclone, Hurricane, Tornado, Flood and Inundation
- Destruction by subsidence of part of the site on which the property stands or landslide
- Bush Fire

Earthquakes and terrorism are usually provided as add-ons due to the increase in frequency.

- The other perils included in some feature rich policies are:
- Rent for alternative accommodation
- Loan repayment for home/car
- Public liability
- Baggage Insurance
- Home Appliances cover
- Personal Accident
- Loss of cash in transit
- Tata AIG's policy Home Secure 'Supreme' is a comprehensive policy for home insurers.

Travel insurance

There are various policies which cover international travel, domestic train travel, student's overseas travel, and travel to specific countries. Bajaj Allianz has a unique plan 'Shubh Yatra' which insures the home against burglary during travel.

Auto insurance policies

They cover:

- Repair / replacement of the parts of the vehicle.
- Payment for the market value of the vehicle in case of a total loss, provided that the loss occurs due to an accident, theft, earthquake, flood, riot, strike and malicious acts.
- It covers the legal liability of insured towards third party personal injury and property damage arising out of an accident involving the insured vehicle.

Health insurance policies

Health Insurance Policies may provide cover for:

- Expensive medical care including pre & post hospitalisation expenses.
- Provide a daily allowance for each day of hospitalisation.
- Protection against the major life threatening illness like cancer, heart attack, paralysis, kidney failure, stroke, etc
- Accidental death
- Permanent disability
- Hospital confinement allowance
- Bajaj Allianz has a health insurance plan called Personal Guard which provides children's education bonus.

Other insurance policies

- Baggage Insurance
- Mobile Phone Insurance
- Executive Travel Insurance

- Directors' and officers' Liability insurance
- Professional Indemnity Insurance
- Portable Equipment Insurance

1.7 Principles of General Insurance

The business of insurance aims to protect the economic value of assets or life of a person. Through a contract of insurance the insurer agrees to make good if any loss on the insured property or loss of life (as the case may be) that may occur in course of time in consideration for a small premium to be paid by the insured.

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.

Points to be noted under principle of good faith:

- Both the parties i.e., the insured and the insurer should have good faith towards each other
- The insurer must provide the insured complete, correct and clear information of subject matter.
- The insurer must provide the insured complete, correct and clear information regarding terms and conditions of the contract.
- This principle is applicable to all contracts of insurance i.e., life, fire and marine insurance.

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.

Points to be noted under principle of insurable interest:

- The insured must have insurable interest in the subject matter of insurance.
- In life insurance it refers to the life insured.
- In marine insurance it is enough if the insurable interest exists only at the time of occurrence of the loss.
- In fire and general insurance it must be present at the time of taking policy and also at the time of the occurrence of loss.
- The owner of the party is said to have insurable interest as long as he is the owner of it.
- It is applicable to all the contracts of insurance.

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.

Points to be noted under principle of indemnity

- Indemnity means a guranteee or assurance to put the insured in the same position in which he was immediately prior to the happening of the uncertain event. The insurer undertakes to make good the loss.
- It is applicable to fire, marine and other general insurance.
- Under this the insurer agrees to compensate the insured for the actual loss suffered.

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.

Points to be noted in principle of contribution:

- The principle is a corollary of the principle of indemnity.
- It is applicable to all contracts of indemnity.
- Under this principle the insured can claim the compensation only to the extent of actual loss either from any one insurer or all the insurers.

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.

Points to be noted in principle of subrogation:

- As per this principle after the insured is compensated for the loss due to damages to property insured, then the right of the ownership of such property passes on to the insurer.
- This principle is corollary of the principle of indemnity and is applicable to all contract of indemnity.

Principle of loss minimisation

According to the Principle of Loss Minimisation, insured must always try his level best to minimise 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 cause proxima

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 of Cause Proxima states that to find out whether the insurer is liable for the loss or not, the proximate (closest) and not the remote (farthest) 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 because 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 Cause 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.

Points to be noted in principle of cause proxima:

- The loss of insured property can be caused by more than one cause in succession to another.
- The property may be insured against some causes and not against all causes.
- In such an instance, the proximate cause or nearest cause of loss is to be found out. If the proximate cause is the one which is insured against, the insurance company is bound to pay the compensation and vice versa.

Summary

- 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
- Personal insurance covers include policies for accident, health etc. Benefit policies are covered in personal accidents. Health insurance covers offered by non-life insurers are mainly hospitalisation covers either on reimbursement or cashless basis
- The insurance sector in India has completed all the facets of competition –from being an open competitive market to being nationalised and then getting back to the form of a liberalised market once again.
- IRDA has till now provided registration to 12 private life insurance companies and 9 general insurance companies.
- Insurance is a policy from a large financial institution that offers a person, company, or other entity reimbursement or financial protection against possible future losses or damages

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Self Assessment

1. All insurance other than _____ fall under the category of general insurance.
   a. liability insurance
   b. life insurance
   c. motor insurance
   d. wedding insurance

2. In insurance of _____, it is important that the cover is taken for the actual cost value of the property to avoid being imposed a penalty if a claim comes up.
   a. textile
   b. agro
   c. property
   d. construction

3. There are _____ products that are in the nature of package policies offering a combination of the covers.
   a. general insurance
   b. life insurance
   c. miscellaneous insurance
   d. motor insurance

4. Capital markets have a long history of over _____ years in India. Bombay Stock Exchange came into existence more than a hundred years ago to remove direct government control.
   a. 200
   b. 300
   c. 100
   d. 50

5. The _____ must not neglect and behave irresponsibly during such events just because the property is insured.
   a. policyholder
   b. insurer
   c. insured
   d. insurance companies

6. State which of the following statement is false?
   a. Liability insurance covers such as Motor Third Party Liability Insurance, Workmen's Compensation Policy.
   b. There are general insurance products that are in the nature of package policies offering a combination of the covers.
   c. Suitable general Insurance covers are not very necessary for every family. It is important to protect one's property, which one might have acquired from one's hard earned income.
   d. Industries also need to protect themselves by obtaining insurance covers to protect their building, machinery, stocks.

7. State which of the following statement is true?
   a. In India insurance finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra).
   b. The insurance sector in India has not completed all the facets of competition –from being an open competitive market to being nationalised and then getting back to the form of a liberalised market once again.
   c. The history of the insurance sector in India reveals that it has not witnessed complete dynamism for the past two centuries approximately
   d. With the establishment of the Oriental Life Insurance Company in Kolkata, the business of Indian life insurance started in the year 1819

8. State which of the following is false?
   a. Insurance is a guarantee of compensation in the case of loss; compensated to people or companies so frightened about danger that they have made prepayments to an insurance company.
   b. IRDA has till now not provided registration to 12 private life insurance companies and 9 general insurance companies.
   c. In 1907 the Indian Mercantile Insurance Ltd. was set up which was the first company of its type to transact all general insurance business
   d. The history of general insurance business in India is traced back to Triton Insurance Company Ltd.

9. State which of the following is false?
   a. Insurance is bought in order to hedge the possible risks of the future which may or may not take place
   b. A simple example will make the meaning of insurance easy to understand. A biker is always subjected to the risk of head injury
   c. The history of the insurance sector in India reveals that it has witnessed complete dynamism for the past two centuries approximately
   d. Insurance is not a policy from a large financial institution that offers a person, company, or other entity reimbursement or financial protection against possible future losses or damages.

10. State which of the following is false?
    a. Diversifying into investment banking, insurance, credit cards, depository services, mortgage financing, securitisation has increased revenues
    b. The insurance sector in India has completed all the facets of competition –from being an open competitive market to being nationalised and then getting back to the form of a liberalised market once again.
    c. If the existing public sector insurance companies are considered then there are presently 13 insurance companies in the life side and 13 companies functioning in general insurance business.
    d. Insurance is not bought in order to hedge the possible risks of the future which may or may not take place.

Chapter II

Insurance Forms for General Insurance

Aim

The aim of this chapter is to:

- narrate methods by which co-insurance agreements are transacted
- explain the importance of insurance forms
- inform different types of insurance forms for general insurance

Objectives

The objectives of this chapter are to:

- describe proposal for insurance
- brief on insurance forms
- give an overview proposal for non-marine insurance

Learning outcome

At the end of this chapter, you will be able to:

- understand cover notes
- know certificate of insurance
- tell material facts disclosed in a proposal form

2.1 Insurance Forms

Insurance is a legally enforceable contract to indemnify the insured for the covered losses as given in the policy. The insurance policy document is the evidence of the contract of insurance. However, before an insurance company issues a policy document, the insurers require compliance of formal procedures to be followed by applicants who need insurance for their property and liability loss exposures.

Proposal forms

One of the prerequisites of an insurance contract is the mutual agreement between the insurer and the insured. There must be a valid offer and an unqualified acceptance between the two parties. The proposal for insurance is also called as application for insurance. An offer or a proposal for insurance is a request for cover, and may be made either verbally or in written. IRDA (Protection of Policyholders' Interests) Regulations, 2002.

Proposal for insurance

Except in cases of a marine insurance cover, where current market practices do not insist on a written proposal form, in all cases, a proposal for cover, either for life business or for general business, must be evidenced by a written document. It is the duties of an insurer to furnish to the insured free of charge, within 30 days of the acceptance of a proposal, a copy of the proposal form.

Where a proposal form is not used, the insurer shall record the information obtained orally or in writing, and confirm it within a period of 15 days thereof with the proposer and incorporate the information in its cover note or policy. The onus of proof shall rest with the insurer in respect of any information not so recorded, where the insurer claims that the proposer suppressed any material information or provided misleading or false information on any matter material to the grant of a cover in writing or by the completion of a printed proposal form supplied by the insurer.

So proposal has to be in writing or confirmed in writing and can not be oral alone. These proposals are called as applications for insurance in USA, and the British call it Proposal Forms. One who seeks cover is the proposer. The proposer must have a property, which may be at risk or he or she may have dependents who will suffer financial loss at his or her death. General Insurance deals with property and liability risks (also humans – Personal Accident & Health Insurance).

From some event the organiser of the event or the owner of a property or a contractor at a situation may incur a legal liability to others from injury to them. These others are called third parties because the two parties to the contract of insurance are the insured and insurer. The seeker of cover or protection must furnish accurate and truthful answers to the many questions contained in the Proposal Form. The proposal form will be similar for most property risks, but may differ depending on certain special adverse features of the risk. Material facts disclosed in a proposal form are as follows:

Some common questions that occur in all proposal forms and particular questions that relate to specific risks. A typical property insurance proposal form will, inter alia, include the following common information, which is sought:

- Name, address, telephone number, and other personal identification details
- The situation of the property
- Proposer's profession
- Previous and present insurance
- Loss experience
- Sum insured
- The contents on the premises at the location.
- The type of property labelled in terms whether hazardous, non-hazardous and extra hazardous.
- The type of fire protection available.
- The proportion of ownership of others in the property at risk, in other words, specifying the interest of mortgagee like banks or lessees.

- The nature of adjoining risks, say, what are the people who are the applicant's immediate neighbours, doing.
- The value at risk or the sum proposed for insurance or as is generally known as sum insured.

The proposal form generally ends with a declaration to be signed by the proposer. In this form the proposer must declare that whatever information he has provided is true to the best of his/her knowledge. Such a declaration becomes the basis of the insurance contract. Every proposal form must also be dated.

Proposal for non-marine insurance

Generally in non-marine insurance, the applicant is required to fill a proposal form containing important questions for the purpose of risk assessment. The applicant declares at the end of the form and warrants that all information stated in the proposal form are true to the best of his knowledge. The proposer agrees that the answers to the questions in the form would be the basis of the insurance contract. The material facts disclosed in the form are assumed to remain constant, till the day the contract comes into existence. Any change before this date must be brought to the notice of the insurer to get the offer re-approved. When the insurance contract comes into being on the basis of the statements recorded in the proposal form, the insurer can avoid liability, if any of the above statements are found untrue. (underwriter should ensure that none of the questions are left blank or just put '---'. Otherwise, in case of dispute, the disputed claim would be construed in favour of the insured).

Proposal for marine insurance

There is no requirement for proposal form in case of marine insurance. In UK, the broker, under the instruction of the proposer, fills up a slip mentioning all the bare essentials needed for assessing the risk proposed. The clauses identifying the liabilities of the underwriter are also included in the slip. In India the proposer himself has to approach the insurers. The General Insurance industry is capable of underwriting the entire risk, however big it may be, and reinsure any part of it. It had to be approached through agents licensed by the Controller of Insurance, the Govt. of India. Now of course the authority to issue licence lies with the IRDA. The IRDA also allowed private insurers to obtain licences for their agents. Brokers are introduced in Indian market.

2.2 Cover Notes

A cover note is an evidence of insurance. It is as good as an insurance policy. A cover note is a temporary and limited agreement, sent prior to the completion of the proposal (preparation of the final policy document, pending some information to be filled in), or when the proposal is under consideration or the policy is being prepared for delivery. It usually serves as an interim cover, with the same terms and conditions that are generally issued for such proposals. It automatically expires at the end of the declared period. It also expires if the regular policy is issued or declined by the insurer.

- Any claim arising during the period for which the cover note remains valid will be determined by the terms of the note and not by the terms of the policy subsequent to it. Where the insurer sends a temporary cover, inviting the renewal of the insurance on its expiry, it becomes enforceable if accepted by the insurer. Or else it remains as an offer waiting for an acceptance. Some insurers charge a nominal fee for the issue of cover notes. In fact there will be a statement in the cover note that this is issued subject to the terms and conditions of insurance policy to be issued. This cover rate is different from the premium, which is the consideration for the Contract of Insurance.
- Some of the circumstances when cover notes are issued are when negotiations for insurance are in progress and it is necessary to provide cover on a provisional basis or when the premises are being inspected for determining the actual rate applicable. The cover note is not stamped but represents the same insurance as that provided by the policy. The cover note is subject to the usual terms and conditions of the insurers' policy for the class of insurance insured. It is also subject to any special clauses if applicable, e.g. Agreed Bank Clause, Declaration Clause etc.

2.3 The Slip

The "Slip" is a document mentioning all the essential information needed for assessing the risk proposed. The clauses identifying the liabilities of the underwriter are also included in the slip. The insurance broker acting as the agent of the insured prepares the slip. The broker takes it to a leading underwriter and tries to get the best deal for his/her client.

- The underwriter agrees to the amount he is willing to cover and signifies his ascent on the slip by initialling it. Unlike the cover note the slip serves as the acceptance to the proposal by the underwriter, and is binding on the underwriter for the issuance of a policy according to its terms. The slip should be correctly stamped under the Stamp Act. Under Sec. 23 of the Marine Insurance Act, 1963, the 'slip', 'covering note' or any other 'customary memorandum of the contract' can only be used for the purpose of reference, and showing when the offer was accepted.
- However, no action can be brought about on the basis of these documents. 'The policy may be executed and issued either at the time when the contract is concluded or afterwards', (Section 24). Section 88 of The Marine Insurance Act 1963 states that, 'where there is a duly stamped policy, reference may be made, as heretofore to the slip or covering note, in any legal proceeding'. The corresponding British Act was passed in 1906. This practice is not followed in India. This is a British market practice.

2.4 Certificate of Insurance

Many statutory authorities need to verify the existence of an insurance policy in order to fulfil their duties such as issue of motor driving license, issuing a letter of credit to an international trader, or sanctioning a loan on hypothecation of goods. It is understood that there may be some delay in the issue of insurance policies. This it is hoped may not be the case in future with the advent of information technology and increasing computerisation in trading and manufacturing enterprises.

- The certificate of insurance will generally be printed and will both be dated and numbered. A certificate will not be valid unless it is signed by an authorised signatory of the insurance company. The certificate of insurance will mention brief details of the insured, the location and situation of property, the sum insured and the period of insurance. Some certificates do mention the premium even though in the majority of cases it is not mentioned.
- Common examples are Certificates of Insurance in Automobile Insurance, Marine Cargo Insurance and Fire Insurance. In Group Personal Accident Insurance, which covers a large number of employees of a company, insurers have the practice not to issue policies to all the employees but to issue only individual certificates of insurance. Usually, the single policy that is issued is kept with the employer.

2.5 Policy Forms

This is the pucca legal document, which is an evidence of the contract of insurance between the insured and the insurer. In many countries the policy is not valid unless stamped. The policy contains some basic clauses, which are essential to every policy. The format of the policy (may) remain the same for all classes of insurance, but the terms and conditions of insurance will be different for different risks. Where the insurance is governed by tariff, the policy wording is prescribed by the tariff. This document has to be stamped in accordance with the provisions of the Indian Stamp Act, 1989.

Following are the common features in all policies of general insurance:

- **The Heading**: Giving the insurers' name and address to the registered office.
- **Preamble and recital clause**: This mentions the names of parties to the contract of insurance namely the insured and the insurer. There is then a mention of the contingency on the occurrence of which the insurer will indemnify the insured as agreed between them.
- **Operative or insuring clause:** This is the essence of the contract. It specifies the perils insured under the policy, perils specifically excluded, terms and conditions, endorsements, and limits of liability.
- **The schedule**: Wherein are mentioned the description of the property insured and its location and situation.

- **The value at risk/the sum insured**: If there are some warranties attached to the property, these would be mentioned on the face of the policy.
- **Attestations and signature clause**: It provides for the signatures of the authorised official of the insurer.
- **Conditions**: Any express conditions, which regulate the contract.
- **The period of insurance**: Normally, every General Insurance contract is issued for one full year.

In India, the Fire Insurance policy is written to commence from the midnight of a certain date till 4.00 p.m. on the date following the completion of one year. e.g. A fire policy will be issued to commence from the midnight of 1st January, 1999 to 4.00 p.m. on 1st January, 2000. When a policy is issued to commence from 1st January, 1998 to 31st December, 1998 it means the cover is from midnight to midnight. Most marine and motor policies are issued in this way from midnight to midnight. Every policy contains terms and conditions which must be fulfilled.

The most important conditions are those relating to the prompt and immediate notice of loss to the insurer, those making it obligatory on the part of the insured to take adequate steps to minimise the losses, those in respect of cancellation of the policy from either the insurer or the insured and the extent of the premium refundable for the unexpired portion of the risk and other contingencies like reference to arbitrators in the event of a dispute on the amount of settlement and finally on the period of limitation in making a claim. The schedule of the policy, which contains important features of risks is sometimes separately attached to the policy but nevertheless forms part of the policy.

2.6 Endorsements

Subsequent to the issue of an insurance policy, if there is a need to modify the terms and conditions of the policy, it is done by setting out the alteration in a memorandum. This memorandum is called as endorsement. An endorsement is issued subsequent to the issue of policy, whenever there is a need for it. When an endorsement is issued the policy must be read together with the endorsement since many endorsements may give effect to an alteration of the important features of the risk, warranting in many cases, charging of a different premium. (Basically 3 types of endorsements – Extra, Nil & Refund are there. Extra endorsement – Involves additional premium, Nil endorsement – Involves change in some data such as address, corrections etc. Refund endorsement – It means cancellation of policy or refund of a part of/full premium)

Generally endorsements are issued for such alterations as:

- change in insurable interest
- cancellation of insurance
- change in the value at risk
- change in the location or situation of risk
- reduction or addition to the risk
- change of the insured as when a transfer of interest or assignment of interest is made
- sometimes an endorsement is also issued to correct a typographical error in the policy already issued

2.7 Interpretation of Policies

In the past, most insurance policies had complicated wording and, thus, were variously interpreted. Hence, whenever a dispute arose between the insured and the insurer on the interpretation of the policy, the courts laid down some specific norms for interpretation of policies. For example: A vague term in the policy must be interpreted against the insurer who drafted the policy, that is to say, for the benefit of the insured whose rights may have been prejudiced by an unfavorable interpretation of the policy.

In the policy itself the typed word has precedence over the printed word and the written word has precedence over the typed word. Since the policy is based on the proposal form, when the proposal form contains a misrepresentation which is material to the risk, the policy may be held to be null and void and no claim is payable. However, if the suppression of the material fact is innocent, the contract is voidable at the option of the insurer who is the aggrieved party. Some of the rules to be followed are:

- Printed and written portion of the policy is to be construed together as far as possible.
- In case of contradiction, the written portion over-rides the printed portion.
- The policy is to be interpreted as a whole.
- The words in the policy are to be given their plain, ordinary and popular meaning.
- Technical words are to be given their strict technical meaning.
- The ordinary rules of grammar shall apply

2.8 Co-insurance

Where the amount of insurance on large industrial complexes is substantial, it is possible for the insured to interest different insurers in the risk for varying proportions of acceptance, so that the total is covered. The practice is for each insurer to issue a policy with a specification or schedule giving a description of the property insured, with the "co-insurance clause" included therein. Survey of the risk, rating, collection of premium and preparation of the specification is carried out by the "leading office", that is the office carrying the largest share in the business.

- Co-insurance in British circles means insuring part of the value at risks as agreed with the original insurer. All co-insurances are agreed upon prior to the issue of the original policy. The co-insurances in practice are dictated by business connections or for reducing the insurers' commitments. Where different insurers have a history of association with subsidiaries, co-insurance is generally made between them.
- The co-insurers will be given a percentage of the original premium depending on their share of the sum insured and also bear a ratable share of loss where there is co-insurance. The names of co-insurers with the share of the sum insured will be mentioned in the original policy. This is called a collective co-insurance policy. Sometimes, co-insurers for their relative share of sum insured issue individual coinsurance policies.

Methods by which co-insurance agreements are transacted can be summarised as follows:
Method I: Each insurer issues a separate policy for the proportion of interest insured. In the event of loss, each company's liability is limited to such proportion of loss.

Method II: The specification of the property is attached to the policy issued by the leading office. The policy is signed by the leading office for its proportion of insurance and then signed by the other insurers for their respective shares of interest. This is known as collective policy.

Method III: The leading office issues the policy and signs on behalf of the participating insurers. A clause called "collective clause" is incorporated in the policy.

A letter of authority is issued by the "participating insurers" to the "leading office" for the following:

- Signing the policies, endorsements, and renewal receipts
- Collection and adjustment of premium
- Inspection of risk
- Settlement of standard claims

After receipt of the premium or the payment of a claim is made, the leading office makes arrangements for payment to or recovery from the co-insurers of their proportion of the premiums and the claims as the case may be.

2.9 Renewal Notice

This is the notice sent by the insurer to the insured calling for renewal of the policy. This is a traditional formality. Although it is not obligatory on the part of insurers to intimate to the insured regarding the policy renewal date, yet as a matter of courtesy and healthy business practice, insurers generally send renewal notices. This is normally sent at least a month before the expiry of the policy. It is not necessary but useful especially in a competitive market. Many times the insureds do not renew the policy merely because they did not receive the renewal notice; then it becomes a matter of prestige. Sometimes the insurers do not seek renewal where the loss experience is adverse. For renewal notices to be sent there must be proper registration of all the risks.

A renewal register is maintained based on copies of policies issued in an office, that is why, whenever a policy is cancelled a copy of the cancellation notice must be sent to the person or the section maintaining the renewal register. The renewal notice mentions the premium payable for renewal along with the breakup indicating loading and discounts as permissible.

The renewal notice incorporates all the relevant particulars of the policy. The insured is also advised in the note that he should intimate any material alteration in the risk, if any. In a motor renewal notice; for example, the insured's attention is the sum insured, the annual premium, etc. The insured is also advised in the note that he should intimate any material alteration in the risk, if any. Considering the above example for motor renewal notice, the insured's attention is drawn to revise the sum insured (i.e. the insured declared value) in the light of current market values. Lastly, the insured's attention is also drawn to the statutory provision that no risk can be assumed unless the premium is paid in advance.

2.10 General Insurance Policy Provisions and Conditions

Exclusions Provision

Perils excluded

In general all insurance policies exclude some perils, which can cause higher losses. Exclusions are the insurer's way of drafting and limiting the agreement to make it unambiguous and definite. In general, exclusions are made for three different reasons:

- To exclude perils that are uninsurable;
- To see that these perils are covered separately in another policy;
- To cover these perils through separate endorsements on payment of additional premium

Uninsurable peril

Losses arising out of war or a warlike action or rebellion and nuclear risks are generally excluded by all insurance because these losses are unpredictable and are often catastrophic in nature. Similarly insurance companies also exclude normal wear and tear, gradual deterioration, and damages due to insects etc, because these are non accidental and are normal losses.

Perils to be covered through separate policies

Some of the policies are specially designed for the perils, which are to be excluded from coverage under normal insurance policies. This system helps to separate insurance for personal risk and business risk. For example, perils arising out of use of personal vehicles for business purposes are excluded from personal automobile coverage. Separate policies have to be obtained for the two different risks.

Coverage through endorsement at extra premium

Certain perils, which are normally excluded from the policies, can be added to the normal policy through endorsements, at the request of the insured. These endorsements are normally undertaken at a higher premium than the normal policy premium. Like, for example, damages due to earthquake are excluded from the normal property insurance policies that are offered. And the insured can obtain coverage as an endorsement on payment of an additional premium.

Excluded losses

Most insurance policies differentiate between direct losses and indirect loses; they do not cover indirect losses arising out of the peril, even though the peril itself is covered under the policy. Commercial property insurance generally covers only direct losses arising due to proximate causes. If the loss arises due to an unbroken chain of events caused by the peril, which is insured, it qualifies under "direct loss". Like, in case of loss due to fire, losses arising as a result of fire fighting, viz. breaking windows, making holes on the roof, are also considered as direct loss. But loss of income due to interruption in business as a result of the fire is considered as indirect loss. If the assured wants to be covered against the indirect losses, he must obtain separate policy for the same.

Property exclusions

Property insurance is taken to cover the loss arising out of property damages. Property insurance policies commonly exclude loss of money, bills, manuscripts, deeds, bullions etc. Unless provided for, property insurance only covers the integral parts of the property and excludes all its contents. For example, automobile policies cover any damage to the vehicle but exclude damage of any property (goods, etc.) transported in the vehicle.

Exclusion of location

The property insurance policy agreements, in general, specify that the coverage is available only if the property is within the limits of the location specified in the declaration. Only a few insurers provide worldwide protection for the policy. Some insurers provide partial coverage for some specific properties if it is outside the boundaries of the specified location. The exception to the limitation of location is when the property is moved to a safe place for the sake of safeguarding it from destruction. The removal is generally allowed for a limited time and the coverage for the removal is generally broad with very few limitations. Accidental damage during transit is also covered. Courts also allow coverage for thefts during the removal process even though theft may be excluded from the insurance policy.

Warranties

Warranty is a statement by which the assured undertakes that some particular thing shall not be done or that some condition shall be fulfilled, or whereby he affirms or negates the existence of a particular state of facts. Warranties can either relate to facts existing at the time of the contract or relate to the future. It is an undertaking given by the insured either voluntarily or at the instance of the insurer about something that will determine the insurability of the risk. For example, in a Marine Cargo policy, a warranty may read "Warranted that the condiments transported are packed in airtight containers".

Common policy conditions

Conditions are stipulations in the policy, which help in regulating the contract. These may be implied or express conditions.

Implied conditions

In the absence of express conditions, the insurance contract is subject to implied conditions, which relate to

- good faith
- insurable interest
- subject matter of insurance
- identification of the subject matter

Implied conditions can be expressed in a policy explicitly. Further, it can either be modified or excluded by the express conditions.

Express conditions

These are clearly stated on the policy. There are two types of express conditions namely

- **General conditions**, which are applicable to all policies of that class. Therefore, it is printed on the policy document.
- **Special conditions,** which are applicable only to the specific policy. Thus, the special conditions are handwritten or typed and rubber-stamped on the policy. (e.g., type of packing, compulsory excess, unloading survey, etc.)

All conditions whether expressed or implied are the operative clauses of a policy. They are recited as conditions to be fulfilled by the insured for assuming the right to recover under the policy.

The conditions are further classified into the following types:

- **Conditions precedent:** It precedes the formation of the insurance contract. The statements made in the proposal must be true and complete. The contracts also pre-require that the subject matter must be adequate in all respects, and should exist when the contract comes into force. The fulfilment of the conditions is essential for the validity of the contract.
- **Conditions subsequent to validity of the policy: These** are the matters that are considered by the parties as required for the continued validity of the policy. One of these is that the insured would not transfer his interest in the property or the subject matter without the consent of the insurer. The risk of the contract should remain constant and should not be altered.
- **Conditions precedent to liability**: The assured in the event of occurrence of a loss must fulfil conditions, which are precedent to the liability of the insurer. Otherwise the insurer is freed from honouring the claim even if the loss is covered by the policy. These types of conditions include:
  - Sending the notice of the loss to the insurer immediately after its occurrence
  - Every claim, notice, and write received by the insured on the subject matter should be forwarded to the insurer.
  - The assured must cooperate fully in the investigation of the cause of loss by the insurer.
  - The assured must not assume any liability or promise or offer to make any payment to the third party.
  - Loss minimisation efforts – as if uninsured.
  - For life insurance, proof of age and death certificate is some such conditions precedent to the liability of the insurer.
  - The insurer cannot be held liable for non-payment if these conditions are not fulfilled.

Breach of conditions

The policy ceases to be operative from the date of the breach. However, if the insured complies with the requisite conditions, he can hold the insurer liable for indemnification of the loss. Most of the conditions are framed to deal with the claims' settlements, action required at the time of the loss, etc.

Provisions relating to fraud

Generally insurance contracts mention that misrepresentation and concealment of any material fact or fraud will render the contract void. This condition can be included as a warning or as a condition enforceable by the court of law.

Notice of loss

Most of the contracts of insurance require the assured to give an immediate notice of any type of damage or loss, if possible. However, if it is not feasible then the insured should report the loss within a reasonable time frame. The purpose of this clause is to enable the insurer to inspect the loss and collect the evidences needed to support the claim. Again it also ensures that the insured gets the benefit of the policy quickly.

Proof of loss

After property loss has occurred the insured has to submit a formal proof of loss and its amount within the stipulated time. Generally the insurance agent or an adjuster helps the insured in doing so but the onus is primarily on the insured to notify the insurer and substantiate the amount of loss. However the insurer can take adequate time to investigate further if he wishes to. Lastly, any legal suit must commence within 12 months of the occurrence of the loss. The insurer has to settle the claim expeditiously after receiving all relevant documents.

Appraisal

Most property insurance contracts provide that if the parties to the contract cannot agree on the amount of loss, an independent arbitrator can be selected by both of them. This arbitrator can act as an impartial umpire and can value the loss. Although the parties to the contract do not resort to this process generally, it is mandatory in nature since it is a policy condition.

Protection of property

Most insurance contracts contain provisions that require the insured to take up reasonable steps for protecting the property from damage. The failure of the insured to carry out the requirements of such provisions relieves the insurer from any liability.

Cancellation

All insurance contracts mention the conditions under which the policy might be terminated and cancelled. In case of general insurance contracts, either of the parties can cancel the policy. The notice for the same is given for 7, 10 or 30 days. This gives the insured time to obtain coverage elsewhere. Any advance premium paid has to be returned to the insured. Where the insured opts for cancelling the policy he receives for a lesser amount than what is otherwise available that is calculated on the basis of short-period rates.

Time limitations

As has been mentioned earlier the insured has to notify the insurer on the loss suffered within the specified limits of time set forth. The event of loss has to be notified, the proof of loss has to be submitted, and the claim amount is to be paid. Certain other types of time limits are also found in the insurance contracts. In case of business interruption insurance, the payment is made on account of net profit lost and necessary continuing expenses. The payment primarily depends on the length of time for which the business was shut down.

Waiver of breach

Where the insurer waives the breach of any of the conditions by the insured and where the effect is same as the condition being fulfilled by the insured. In Barrett Bros. Ltd. Vs. Lickiss, the assured was involved in a motor accident. He had received a notice, which was an intended prosecution for the above accident. The insured had neither informed the insurer about the accident nor had he forwarded the notice to them. The insurer on coming to know about the prosecution from the police, instead of asking for the notices, merely asked for the reason why he had not complied with the requisite condition. The letter of the insurer was considered as a waiver of the breach by the insured. The fulfillment of the conditions mostly depends on the conduct of the insurer, and sometimes is made redundant by his conduct.

Assignment

The policy of insurance is a personal contract, and thus if the insured wants to transfer the rights of the policy, he can only do so with the consent of the insurer. The transfer of rights can be made through assignment of the policy. Assignment means transfer of the rights to another person usually made through a written document. When the property on which insurance has been obtained is sold the existing policy might be transferred to the buyer of the policy, with the permission of the insurer.

2.11 Assignment of Proceeds of the Policy

Mere transfer of the rights of receiving the benefits of the policy, which the insured is entitled to, does not require the approval of the insurer. This is because it does not amount to the assignment of the policy or its subject matter. The assignee thus only stands in the place of the insured for receiving the benefits of the policy. Where due to a breach of a condition the insurer declines to pay, the assignee cannot recover anything from the insurer.

Premium

The consideration for assuming the risk by the insurer is the insurance premium. The payment can be in the form of a lump sum or in the form of a series of periodical installments (in certain portfolios such as marine cum erection, marine hull, etc.). The form of payment would be determined by the terms of the contract. Under section 64VB of the Insurance Act 1938, the insurer is prohibited from assuming any risk in India without receiving the premium in advance.

Where the payment is made in the form of a cheque against the cover note, the risk on the part of the insurer only arises on receipt of the premium. In case the cheque bounces the insurer is not liable to pay anything (but the procedures to be followed by the insurer such as intimation of cancellation by RPAD, passing cancellation end, intimate RTO in case of motor insurance, etc).The insurer should actually receive the premium before he can assume the risk. The insurer can assume risk if the amount is paid to the agent or a money order is booked or is posted.

It must also be noted that acceptance of the premium by the insurer does not amount to conclusion of the contract (acceptance of the money as 'advance deposit' only saves the insurer. Otherwise, insurer is most likely to be held liable in a legal proceeding).

Return of premium

The right to make a claim for the refund of premium arises:

- For failures in consideration
- By agreement

The insured can claim for a refund of the premium if the insurer doesn't run any risk,

- Where the parties were never ad idem, i.e. were of one mind. This is applicable for all branches;
- Where the contract is ultra vires;
- Where the contract is void ab initio due to fraud or misrepresentation by the insured;
- Where the risk was never attached, as for example insurance for property, which was destroyed before the contract was made;
- Where the policy is illegal.

In case the insurer has assumed risk and the contract becomes void thereafter, the insurer cannot claim refund of the premium or any part thereof.

Where the insured commits a breach of warranty, owing to fraud or misrepresentation, the insurer avoids the contract and has to return the premium received; he can of course forfeit the premiums if the contract provides so. Premium amount can be refunded partially when the insurance contract is terminated before the normal expiry date, either through mutual agreement or by virtue of the right to terminate the contract (as may be contractual) at any time.

Deductibles Provisions

A deductible is that portion of the amount of an insured loss, which the insured agrees to pay. It is common in almost all types of insurance policies to stipulate a definite amount of money, which is to be borne by the insured. The insurer becomes liable for any amount beyond the deductible amount stated in the contract.

Deductibles

A deductible is a provision by which a specific amount is subtracted from the total loss payment that otherwise would be payable. Deductibles are usually found in auto, property and health insurance. Deductibles are not used in life insurance because the death of an insured is always a total loss. It is also not used in personal liability insurance because even for a small claim, the insurer must provide a legal defence. Deductibles may be either compulsory or voluntary. Voluntary deductibles will fetch a discount in the premium. (also known as 'excess').

The most common forms of deductibles are as under:

- **Straight deductibles:** These are the simplest yet most effective type. It applies to all types of policies and involves subtracting the deductible amount from the aggregate loss to determine the loss payment.
- **Aggregate and calendar year deductibles:** It applies for an entire year, where the insured absorbs all the losses occurring during the year, till the deductible limit. The insurer pays for all the losses beyond that level.
- **Franchisee deductible:** It is expressed as a percentage of the total value of the property. The liability of the insurer arises if the loss amount exceeds this amount.

Coinsurance Provisions

Coinsurance has different meanings for different types of insurance policies. For property related policies the insured bears a portion of the risk only when it is underinsured. The main reason behind this is to ensure that the insured willingly protects the property insured. The different meanings of coinsurance are as follows:

- **Coinsurance** is a method by which more than one insurer share a risk in agreed proportion.

  Example: An industry that is insured for Rs. 1000 crores with a premium of Rs. 50 crores is shared by three insurers.

Insurer	share	sum insured	Premium
A	40%	400 crore	20 crore
B	30%	300 crore	15 crore
C	30%	300 crore	15 crore

If and when a claim arises it is paid in the same proportion. Insurer A who is having a larger share is the leader and he will issue policy and services the account.

- Coinsurance also means sharing the loss by the insured. When a claim arises under the policy the insured bears an agreed portion of loss. This may be expressed as a percent or certain specified amount.

Example: Under a Mediclaim policy it may be agreed that in every claim the insured bears 10% and the balance is paid by the insurer. This is also known as deductible or excess. In some policies there will be compulsory deductibles. Along with compulsory deductible there can be provision for voluntary deductible, which will result in reduction in premium depending upon the size of deductible. Higher the deductible more the discount in the premium.

Operational aspects

The losses are calculated and divided between the insurer and the insured on a prorata basis. This depends on the ratio between the actual insurance carried and the amount of insurance required. The amount to be collected from the insurer is thus calculated using the following formula: -

$$\text{Recovery} = \frac{\text{insurance carried}}{\text{insurance required}} * \text{loss}$$

Summary

- Insurance is a legally enforceable contract to indemnify the insured for the covered losses as given in the policy. The insurance policy document is the evidence of the contract of insurance.
- Some common questions, which occur in all proposal forms, and also particular questions, which relate to specific risks.
- Generally in non-marine insurance, the applicant is required to fill a proposal form containing important questions for the purpose of risk assessment.
- Where a proposal form is not used, the insurer shall record the information obtained orally or in writing, and confirm it within a period of 15 days thereof with the proposer and incorporate the information in its cover note or policy.
- A cover note is an evidence of insurance. It is as good as an insurance policy. A cover note is a temporary and limited agreement, sent prior to the completion of the proposal (preparation of the final policy document, pending some information to be filled in), or when the proposal is under consideration or the policy is being prepared for delivery.
- The "Slip" is a document mentioning all the essential information needed for assessing the risk proposed. The clauses identifying the liabilities of the underwriter are also included in the slip.

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Recommended Reading

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- Michelle A. 2007. *Understanding Health Insurance*, 9th ed., Delmar Cengage Learning.

Self Assessment

1. It is one of the duties of an insurer to furnish to the insured free of charge, within ____ days of the acceptance of a proposal, a copy of the proposal form.
   a. 40
   b. 30
   c. 50
   d. 60

2. One of the prerequisites of an insurance contract is the mutual agreement between the _____ and the insured.
   a. insurer
   b. company
   c. policyholder
   d. cashier

3. One who seeks cover is the _____.
   a. insurer
   b. company
   c. proposer
   d. policyholder

4. The seeker of cover or protection must furnish accurate and truthful answers to the many questions contained in the _____.
   a. insurance form
   b. proposal form
   c. cover letter
   d. slips

5. The _____ generally ends with a declaration to be signed by the proposer.
   a. Insurance form
   b. Proposal form
   c. Cover letter
   d. Slips

6. State which of the following statement is false?
   a. One of the prerequisites of an insurance contract is the mutual agreement between the insurer and the insured.
   b. Where a proposal form is not used, the insurer shall record the information obtained orally or in writing, and confirm it within a period of 15 days thereof with the proposer and incorporate the information in its cover note or policy.
   c. The proposer must have a property, which may be at risk or he or she may have dependents who will suffer financial loss at his or her death.
   d. Generally in non-life insurance, the applicant is required to fill a proposal form containing important questions for the purpose of risk assessment.

7. State which of the following statement is true?
   a. The seeker of cover or protection must furnish accurate and truthful answers to the many questions contained in the Slip.
   b. There is a requirement for proposal form in case of marine insurance.
   c. The proposal for insurance is also called as application for insurance.
   d. A cover note is not an evidence of insurance. It is as good as an insurance policy.

8. State which of the following is false?
   a. The "Proposal Form" is a document mentioning all the essential information needed for assessing the risk proposed.
   b. The broker takes it to a leading underwriter and tries to get the best deal for this client.
   c. The slip should be correctly stamped under the Stamp Act.
   d. In India, the Fire Insurance policy is written to commence from the midnight of a certain date till 4.00 p.m. on the date following the completion of one year.

9. State which of the following statement is false?
   a. An endorsement is not issued subsequent to the issue of policy but whenever there is a need for it.
   b. Where the amount of insurance on large industrial complexes is substantial, it is possible for the insured to interest different insurers in the risk for varying proportions of acceptance, so that the total is covered.
   c. In the past, most insurance policies had complicated wording and thus were variously interpreted and whenever a dispute arose between the insured and the insurer on the interpretation of the policy, the courts laid down some specific norms for interpretation of policies.
   d. The co-insurers will be given a percentage of the original premium depending on their share of the sum insured and also bear a rateable share of loss where there is co-insurance

10. Which of the following is true?
   a. Profit arising out of war or a warlike action or rebellion and nuclear risks are generally excluded by all insurance because these losses are unpredictable.
   b. Insurance is a statement by which the assured undertakes that some particular thing shall not be done or that some condition shall be fulfilled, or whereby he affirms or negates the existence of a particular state of facts.
   c. The assured in the event of occurrence of a profit must fulfil conditions, which are precedent to the liability of the insurer.
   d. Co-insurance has different meanings for different types of insurance policies.

Chapter III

Types of General Insurance and Procedure Affecting General Insurance

Aim

The aim of this chapter is to

- explain general insurance
- highlight importance of general insurance
- narrate fire insurance

Objectives

The objectives of this chapter are to:

- elaborate on various terms in general insurance
- examine various schemes for crop insurance
- describe various types of insurance which come under general insurance

Learning outcome

At the end of this chapter, you will be able to:

- understand fire insurance
- interpret various features of crop insurance in India
- get an overview of the requirements for an insurance contract

3.1 Types 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. Most general insurance covers are annual contracts. However, there are few products that are long-term. In this chapter, we will discuss the most popular general insurance plans:

- Fire Insurance
- Marine Insurance
- Accident Insurance
- Auto Insurance
- Liability Insurance
- Crop Insurance
- Crime Insurance

3.1.1 Fire Insurance

Throughout history, protecting commercial structures from fire has been crucial. Fire poses risk in terms of safety to occupants, building integrity, business interruption and the economic health of a society. Consequently, reduction in the risk of fire for commercial buildings has been a significant goal for society which has been achieved through a better understanding of all the factors that contribute to fire risk. Designing and building structures in compliance with building and fire code requirements, and insurance industry guidelines contributes to the reduction of fire losses. Wood has had a long history of use in commercial construction. Some of the reasons for this are:

- high strength-to-weight ratio
- ease of use and constructability
- known performance characteristics
- resource abundance and renewability
- economy in construction
- architectural aesthetics

Wood construction that makes use of good design and appropriate fire protection measures provides a level of fire safety that is comparable to other types of construction.

- Fire insurance is a form of property insurance which protects people from the costs incurred by fires. When a structure is covered by fire insurance, the insurance policy will pay out in the event that the structure is damaged or destroyed by fire. Some standard property insurance policies include fire insurance in their coverage, while in other cases; fire insurance may need to be purchased separately. Property owners should check with their insurance companies if they are not sure whether or not fire insurance is part of their policies, and if fire insurance is not included, it should be purchased.
- Depending on the terms of the policy, fire insurance may pay out the actual value of the property after the fire, or it may pay out the replacement value. In a replacement value policy, the structure will be replaced in the event of a fire, whether it has depreciated or appreciated: in other words, if homeowners purchase a home and the value increases, as long as it is covered by a replacement value policy, the insurance company will replace it. An actual cash value policy covers the structure, less depreciation. Most accounts come with coverage limits which may need to be adjusted as property values rise and fall.
- Depending on the terms of the policy, the contents of the home as well as the structure may be covered in the event of a fire. Some policies also provide a living allowance which allows the victims of a fire to rent temporary housing while their homes are repaired. These clauses in an insurance policy typically cause the policy to become more expensive, since they will represent additional costs to the insurance company in the event of a fire. However, they can be extremely useful if a fire occurs.

- The cost of fire insurance varies widely. The use of fire alarms, sprinkler systems, and other safety measures can decrease the cost of the policy, and may even be required for some policies. Living in a region prone to wildfires will increase the cost of the insurance, as the risk of a payout is greatly increased. Because many people purchase fire insurance for their homes and businesses, insurance companies have a large risk pool, making fire insurance less expensive than specialised insurance like earthquake or flood insurance.
- When purchasing fire insurance, people should be aware that some types of fires may not be covered. For example, a fire caused by an earthquake might be excluded from a fire insurance policy, as might a fire caused by an act of God. It is important to read the terms of the policy carefully, and to ask for clarification from the insurance representative if the terms are not clear. If a policy does not appear to meet the need, it should be renegotiated until it is satisfactory

3.1.2 Marine Insurance

Marine insurance is the oldest form of insurance. It is also called Transportation Insurance. Generally all trades depend heavily upon the availability of insurance for successful and expeditious handling. Marine insurance has been originated from England in the 16th century. At that time goods were transported by sea route. Marine insurance came into existence in order to protect, if the ship or cargo were lost at the ocean. Due to engine failure ship gets driven by storm and breaks up by the pressure of waves grinding it against rocks and sand. Fires are very frequent and low visibility cause collision. Goods are sometime lost due to negligence, dishonesty or incompetence of the crew handling them or fault in vessel management.

- Marine Insurance is the contract between insurer and insured. Marine insurance gives protection against fortuitous losses that occur during marine adventure. Marine insurance business means the business of effecting contracts of insurance upon vessels of any description including cargoes, freight and other interest which may be legally insured in or in relation to such vessels, cargoes and freights, goods, merchandise and property of whatever description insured for any transit by land or water or both and whether or not including warehouse risks or similar risks in addition to or as incidental to such transit and includes any other risks customarily included among the risk insured against, marine policy.
- Marine insurance covers maritime perils i.e., perils consequent on or incidental to navigation like fire, collision, standing, sinking, storm, tempest, gale, typhoon, hurricane, etc. War perils and certain other additional perils may be covered by payment of suitable additional premium.

3.1.3 Accident Insurance

Accident insurance is a form of insurance policy which offers a payout when people experience injury or death due to an accident. This type of insurance does not usually cover negligence, acts of God, or natural disasters, and the policy may include restrictions such as caps on total payouts or restrictions on payouts for activities deemed risky. Many insurance companies sell accident insurance, which can be purchased as an impartial policy or bundled in to an existing insurance policy.

- Like other forms of insurance, buying accident insurance is, in a sense, a bet. The consumer pays the insurance company a premium hoping that an accident will not occur, and the insurance company writes a policy hoping that it will not have to pay out. Accident insurance can be a good idea for people who lack health care coverage, ensuring that they will be able to access medical treatment after an accident, or for people with families who suspect that their family members could suffer financially if they died. By purchasing accident insurance, people can provide themselves with more financial security.
- Accident insurance policies have payouts which vary, depending on the severity of the injuries. Some include very specific language about amounts which will be paid out in the event of losing particular extremities. For example: the payout is designed to cover medical care along with pain and suffering and if an accident causes permanent disability, the payment may be structured to provide funds for the accident victim to live on. In the event of a death, the benefits are paid out to the listed beneficiary on the policy.
- When shopping for accident insurance, people should ask about premiums and what types of accidents and events are covered. Some insurance companies cover more than others, and some are notorious for viewing all claims with deep suspicion, delaying payments until they are satisfied that a customer really does meet the terms for a payout. For people who need money to deal with immediate expenses, this can be a problem.

- One of the most common types of accident insurance is car accident insurance which is purchased by most drivers to protect themselves and others in the event of an accident. Other examples include travel accident insurance policies which people can purchase before travelling, and insurance which is customised for people who work in particular industries. Such insurance can be costly, reflecting the increased risks to the insurance company; a telephone lineman, for example, will be more expensive to insure than a desk worker.
- Accident insurance provides a cash cover to a policyholder when s/he suffers injuries as a result of an accident. While insurance helps a policyholder pay off hospital and medical bills in case of accident injuries, it provides cash benefits to family members if the policyholder dies in the accident. This insurance, applicable 24 hours a day, 365 days a year, is also commonly referred to as personal accident insurance

3.1.4 Auto Insurance

Any vehicle on road, no matter how safe its driver is, is bound to meet with an accident or two, which may leave it with just a few scratches, or crash it up totally. Most countries today require you to have an auto insurance while on road in your vehicles.

If you have an accidental car crash, a total repair could cost you a fortune. On the other hand, a little scratch on your Land Cruiser might also soar up your bills to a high. Whether or not you need an auto insurance mostly depends on the type of car you own.

If you have an expensive car and a little repair could wipe you out financially, you should very well go in for a buying an all-inclusive and crash insurance which could protect you against any and every harm done to your vehicle.

3.1.5 Liability Insurance

Liability insurance is very important for those who may be held legally liable for the injuries of others, especially medical practitioners and business owners. A product manufacturer may purchase product liability insurance to cover them if a product is faulty and causes damage to the purchasers or any other third party. Business owners may purchase liability insurance that covers them if an employee is injured during business operations.

Any type of insurance policy that protects an individual or business from the risk that they may be sued and held legally liable for something such as malpractice, injury or negligence. Liability insurance policies cover both legal costs and any legal payouts for which the insured would be responsible if found legally liable. Intentional damage and contractual liabilities are typically not covered in these types of policies.

3.1.6 Crop Insurance

In India crop insurance cover is not very widespread. We will look into the reasons for such a condition but before that it is necessary to have an idea of the crop insurance policy.

Crop Insurance Schemes in India

In order to boost the agriculture sector in India, a number of experimental crop insurance schemes have been introduced in the country. The first ones of the experimental crop insurance schemes has been a Pilot Crop Insurance scheme. This was introduced by GIC from the year1979. Some important features of the scheme were that the scheme was based on "Area Approach". This scheme covered crops such as Cereals, Millets, Oilseeds, Cotton, Potato and Gram. The scheme was confined to loan farmers only and on voluntary basis. The risk was shared between General Insurance Corporation of India and State Governments in the ratio of 2:1. The maximum sum that could be insured under the scheme was 100% of the crop loan, which was later increased to 150%.

- Under this scheme, 50% of the subsidy was provided for insurance charges, which was payable to the small/ marginal farmers by the State Government & the Government of India on 50:50 basis.
- Among the earlier crop insurance schemes that were introduced was a comprehensive Crop Insurance Scheme. The Government of India introduced the Comprehensive Crop Insurance Scheme with effect from 1st April 1985. This scheme was introduced with the active participation of State Governments. The scheme was optional for the State Governments.

Objectives

The objectives of the scheme are as follows:

- To provide insurance coverage and financial support to farmers in the event of natural calamities, pests and diseases.
- To encourage the farmers to adopt progressive farming practices, high value inputs and higher technology in agriculture.
- To help stabilise farm incomes, particularly during disaster years.

Salient features of the scheme

Crops covered:

The crops in the following broad groups in respect of which (i) the past yield data based on Crop Cutting Experiments (CCEs) is available for adequate number of years, and (ii) requisite number of CCEs are conducted for estimating the yield during the proposed season:

- Food crops (Cereals, millets and pulses)
- Oilseeds
- Sugarcane, cotton and potato (annual commercial/annual horticultural crops)

Other annual commercial/horticultural crops subject to availability of past yield data will be covered in a period of three years. However, the crops, which are covered next year, will have to be specified before the close of preceding year.

Farmers to be covered:

All farmers including sharecroppers, tenant farmers growing notified crops in notified areas are eligible for coverage. The scheme covers the following groups of farmers:

- **On a compulsory basis**: All farmers growing notified crops and availing Seasonal Agricultural Operations (SAO) loans from financial institutions i.e.
- loanee farmers.
- **On a voluntary basis**: All non-loanee farmers growing notified crops, who opt for the scheme.

Risks covered and exclusions:

Comprehensive risk insurance will be provided to cover yield losses due to non-preventable risks (natural perils) like, fire and lightning, storms, hailstorm, cyclones, typhoon, hurricanes, tornados, as also floods, landslides, droughts, pests/diseases etc. Losses arising out of war and nuclear risks, malicious damage and other preventable risks shall be excluded.

Sum insured /limit of coverage:

The Sum Insured (SI) may extend to the value of the threshold yield of the insured crop at the option of the insured farmers. However, a farmer may also insure his crop beyond the value of threshold yield level up to 150% of average yield of notified area on payment of premium at commercial rates.

In case of loanee farmers the sum insured would be at least equal to the amount of crop loan advanced. Further, the insurance charges shall be additional to the Scale of Finance for the purpose of obtaining loan.

In matters of crop loan disbursement procedures, the guidelines of RBI/NABARD shall be binding. Premium rates go to the maximum 3.5% for bajra and oilseeds.

Premium subsidy
A 50% subsidy in premium is allowed in respect of small farmers (a cultivator with a land holding of 2 hectares [5 acres] or less) and marginal farmers (a cultivator with a land holding of 1 hectare or less [2.5 acres]) to be shared equally by the Govt. of India and State Government/Union Territory. The premium subsidy will be phased out on sunset basis within a period of three to five years subject to review of financial results and the response of farmers at the end of the first year of the implementation of the scheme. Risk will be shared by the implementing agency and the Government. The quantum of risk to be assumed by each is listed down in the policy.

Area approach and unit of insurance:
The scheme would operate on the basis of 'area approach' i.e., defined areas for each notified crop for widespread calamities and on an individual basis for localised calamities such as hailstorm, landslide, cyclone or flood.

Estimation of crop yield:
The State Govt/UT will plan and conduct the requisite number of Crop Cutting Experiments (CCEs) for all notified crops in the notified insurance units in order to assess the crop yield. It maintains single series of Crop Cutting Experiments (CCEs) and resultant yield estimates, both for crop production estimates and crop insurance.

Levels of indemnity and threshold yield:
Three levels of indemnity, viz. 90%, 80% and 60%, corresponding to low risk, medium risk and high risk areas shall be available for all crops (cereals, millets, pulses and oilseeds and annual commercial/ annual horticultural crops) based on Coefficient of Variation (C.V.) in the yield of past 10 years' data. However, the insured farmers of unit area may opt for higher level of indemnity on payment of additional premium based on actuarial rates.

The threshold yield (TY) or guaranteed yield for a crop in an insurance unit shall be the moving average based on past three years' average yield in case of rice and wheat and five years average yield in the case of other crops, multiplied by the level of indemnity.

Nature of coverage and indemnity:
If the 'actual yield' (AY) per hectare of the insured crop for the defined area [on the basis of requisite number of Crop Cutting Experiments (CCEs)] in the insured season, falls short of the specified threshold yield, all the insured farmers growing that crop in the defined area are deemed to have suffered shortfall in their yield. The scheme seeks to provide coverage against such contingency.

Indemnity' shall be calculated as per the following formula:
(Shortfall in yield / threshold yield) X Sum insured for the farmer
{Shortfall = "Threshold yield – Actual yield' for the defined area}

3.1.7 Crime Insurance

Crime is one thing that all the countries in the world want to eliminate but are unsuccessful. Crime has also become one of the most serious problems of the recent times. Unfortunately, crime is also the field that has received less than the required attention from the insurance companies. A study reveals that in US less than 10% of loss from the ordinary crime is insured. Imagine then, the scenario in a new market like India.

- Addressing the necessity of crime insurance, U.S. federal government itself started extending burglary and robbery insurance. There are two types of financial protection that are available against the losses caused by crime. They are fidelity and surety bonds and burglary, robbery and theft insurance.
- Bonds and insurance are very much alike. A bond is a legal instrument in which a third person (surety) ensures the performance of a contract properly by the principal or the obligator. He does this by promising reimbursement of damages in case of default in the performance of the contract by the principal. For example, if a contractor is asked to deposit a bond by the owner of any building, it means the surety will pay the damages in case the contractor is not able to complete the project. Hence to a great extent bonds sound just like insurance. Yet it is not insurance. We will see the difference between insurance and bonds after going through them.

Fidelity bonds

Fidelity bonds deal with assurance of bonafide behaviour by an employee during the course of his employment. In fidelity bond, as the word itself suggests the surety assures the employer of trustworthiness and honesty of the employee and agrees to pay the damages that arise due to the dishonest acts of that employee.

If the fidelity bond is meant for a single individual, his name is mentioned in the bond and it is called individual bond. Whereas, if the bond mentions a class and indemnifies the acts of every employee in that class; it is called the schedule bond.

Surety bonds

Surety bonds, also called the financial guarantee bonds, are the bonds in which the surety promises to make good any loss arising from the default of the principal in fulfilling his liabilities towards the obligee. The example of the contractor we cited in the beginning of the topic falls under this category. To be more specific, it is an example of the construction bond and the bid bond. In contract construction bond the contractor guarantees that the bidder will sign the contract if it is awarded to him at his bid.

Insurance cover against crimes

Now let us go through the insurance covers available against crime. While reading them, think of the basic difference between the type of perils covered by them and those covered by the bonds.

Insurance cover is available basically for burglary, robbery and theft. It is necessary to see the meaning of each to differentiate them from one another.

When somebody forcefully enters the business premises and unlawfully takes any property, the act is called burglary. The 'forceful entry' is a prerequisite to burglary. Hence if a customer hides in the business premise until it closes, steals something and leaves without forcing the door or the windows to open, the act would not be considered a burglary.

Personal contact is a prerequisite for robbery. It covers the acts of unlawful taking of any property from any person by force, threat of force or violence. Therefore pick pocketing or the theft of luggage of a person while he was sleeping, would not be classified as robbery. Here the personal contact is there but the force, threat of force or violence is missing. Theft is a wider term that includes all the crimes of stealing, whether or not covered by burglary or robbery. Acts like passing false cheques come under forgery.

Now that we have gone through the various crime bonds and the crime insurance covers, did you notice any difference between the perils covered by the bonds and the insurance? The bonds cover the losses that arise due to the dishonesty or incapacity of the person entrusted with some work, money or property, whereas, insurance covers the losses due to stealing or theft by strangers, the people who are not trusted by the work, money or property. The crimes committed by the insured, officers, employees or the directors of the insured do not come under the purview of burglary, robbery or theft i.e., they are not covered by crime insurance but by fidelity bonds. This is the specific difference between fidelity bond and crime insurance. The general differences between a bond and insurance are as follows:

- In bonding, the surety does not expect the loss to actually happen and if the loss happens and he is required to pay for it, he reserves the right to recover it from the defaulting principal. Whereas the insurer is prepared to pay for the loss and works on the principal of spreading this loss over the group of insured people.
- The nature of risk is different, as we have seen in case of fidelity bonds and insurance. Usually, the matter covered by bonds is under the control of the insured and the losses covered by insurance are matters outside the control of the individual.
- The insurance contract is cancellable, usually, by either of the parties. The bonds cannot be cancellable until all the obligations of the principal are fulfilled.
- Insurance contract involves two parties, whereas bonds involve three

3.2 Requirements of an Insurance Contract

Insurance contracts are also governed by the provisions of the Indian Contract Act, 1872. In general, there are four requirements that are common to all valid contracts. To be legally enforceable, an insurance contract must meet these four requirements:

- Offer and acceptance
- Consideration
- Capacity
- Legal purpose

There must be valid offer and acceptance: The first requirement of a binding insurance contract is that there must be an offer and an acceptance of its terms. In most cases, the applicant for insurance makes this offer, and the company accepts or rejects the offer. An agent merely solicits or invites the prospective insured to make an offer. A legal offer by an applicant for insurance must be supported by a tender of the premium and it should always be prior to commencement of the 'coverage'. The agent usually gives the insured a conditional receipt that provides that acceptance takes place when the insurability of the applicant has been determined by the Insurer. In property and liability insurance, the offer and acceptance can be oral or written.

Promises must be supported by the exchange of consideration: A consideration is the value given to each contracting party. The insured's consideration is made up of the monetary amount paid in premiums, plus an agreement to abide by the conditions of the insurance contract. The insurer's consideration is its promise to indemnify upon the occurrence of loss due to certain perils, to defend the insured in legal actions, or to perform other activities such as inspection or collection services, or loss prevention and safety services or as the contract may specify.

Parties must have legal capacity to contract: This requirement of a valid insurance contract is that each party to a contract must be legally competent. This means the parties must have legal capacity to enter into binding contract.

Parties who have no legal capacity to contract include:

- Insane persons who cannot understand the nature (obligations and liabilities)
- of the agreement
- Intoxicated persons
- Corporations acting outside the scope of their charters, bylaws, or articles of
- incorporation, or authority
- Minors

Agreement must be for legal purpose: For insurance policies, this requirement means that the contract must neither violate the requirements of insurable interest nor protect or encourage illegal ventures. In other words, an insurance policy that encourages or promotes something illegal and immoral is contrary to public interest and cannot be enforced.

Summary

- 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.
- Suitable 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 loss or damage to one's property can leave one shattered. Losses created by catastrophes such as the tsunami, earthquakes, cyclones etc have left many homeless and penniless.
- Marine insurance is the oldest form of insurance. It is also called Transpsortation Insurance. Generally all trades depend heavily upon the availability of insurance for successful and expeditious handling
- Throughout history, protecting commercial structures from fire has been crucial.Fire poses risk in terms of safety to occupants, building integrity, business interruption and the economic health of a society.
- Any vehicle on road, no matter how safe its driver is, is bound to meet with an accident or two, which may leave it with just a few scratches, or crash it up totally. Most countries today require you to have an auto insurance while on road in your vehicles.
- In order to provide a boost to the agriculture in India, a number of experimental crop insurance schemes have been introduced in the Country. The first ones of the experimental crop insurance schemes has been a Pilot Crop Insurance scheme. This was introduced by GIC from the year1979.

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Self Assessment

1. Insurance other than '_____' falls under the category of general insurance.
   a. Motor insurance
   b. Crop insurance
   c. Life insurance
   d. Liability insurance

2. _____ is a form of property insurance which protects people from the costs incurred by fires.
   a. Fire insurance
   b. Crop insurance
   c. Liability insurance
   d. Wedding insurance

3. _____ need to cover their liabilities as well.
   a. Travelling
   b. Industries
   c. Wedding
   d. Crop

4. Most countries today require you to have an _____ while on road in your vehicles.
   a. liability insurance
   b. crop insurance
   c. fire insurance
   d. auto insurance

5. _____ is one thing that all the countries in the world want to eliminate but are unsuccessful.
   a. Crime
   b. Fire
   c. Liability
   d. Accident

6. State which of the following statement is false?
   a. In respect of insurance of property, it is important that the cover is taken for the actual value of the property to avoid being imposed a penalty should there be a claim.
   b. Throughout history, protecting commercial structures from fire has been crucial.
   c. Industries also need to protect themselves by obtaining insurance covers to protect their building, machinery, stocks etc.
   d. Also organisations or industries that are self-financed should ensure that they are unprotected by insurance.

7. Which of the following is false?
   a. Marine insurance is the oldest form of insurance.
   b. Fire insurance has been originated from England in the 16th century.
   c. Due to engine failure ship gets driven by storm and breaks up by the pressure of waves grinding it against rocks and sand.
   d. It is important to protect one's property, which one might have acquired from one's hard earned income.

8. Which of the following is true?
   a. Fire insurance is a form of insurance policy which offers a payout when people experience injury or death due to an accident.
   b. Specific vehicle on road, no matter how safe its driver is, is bound to meet with an accident or two, which may leave it with just a few scratches, or crash it up totally. Most countries today require you to have an auto insurance while on road in your vehicles.
   c. If you have an accident car crash, a total repair could cost you a fortune. On the other hand, a little scratch on your Land Cruiser might also soar up your bills to a high.
   d. Whether or not you do not need an auto insurance mostly depends on the type of car you own.

9. Which of the following statement is false?
   a. Suitable general Insurance cover is not necessary for every family.
   b. It is important to protect one's property, which one might have acquired from one's hard earned income.
   c. A loss or damage to one's property can leave one shattered. Losses created by catastrophes such as the tsunami, earthquakes, cyclones etc have left many homeless and penniless. Such losses can be devastating but insurance could help mitigate them. Property can be covered, so also the people against Personal Accident.
   d. A Health Insurance policy can provide financial relief to a person undergoing medical treatment whether due to a disease or an injury

10. Which of the following statement is false?
   a. Life insurance companies have products that cover property against.
   b. Fire and allied perils, flood storm and inundation, earthquake and so on. There are products that cover property against burglary, theft etc.
   c. The non-life companies also offer policies covering machinery against break down,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.
   d. Further, insurance of motor vehicles against damages and theft forms a major chunk of non-life insurance business.

Chapter IV

Insurance Legislation in India

Aim

The aim of this chapter is to:

- explain insurance legislation in India
- introduce the importance of insurance legislation
- narrate the nationalisation of insurance business in India

Objectives

The objectives of this chapter are to:

- describe the general insurance business nationalization act, 1972
- elaborate the objectives of the general insurance business nationalisation act, 1972
- examine general registration requirement

Learning outcome

At the end of this chapter, you will be able to:

- understand the tariff advisory committee
- interpret the concept of ombudsmen
- get an overview of the authorities in general insurance

4.1 Introduction

The concept of insurance has been prevalent in India since ancient times amongst Hindus. Overseas traders practised a system of marine insurance. The joint family system, peculiar t o India, was a method of social insurance of every member of the family on his life. The law r elating to insurance has gradually developed, undergoing several phases from nationalisation of the insurance industry to the recent reforms permitting entry of private players and foreign investment in the insurance industry.

The Constitution of India is federal in nature as there is division of powers between the Centre and the States. Insurance is included in the Union List, wherein the subjects included in this list are of the exclusive legislative competence of the Centre. The Central Legislature is empowered to regulate the insurance industry in India and hence the law in this regard is uniform throughout the territories of India.

4.2 Nationalisation of the Insurance Business in India

On January 19, 1956, the management of life insurance business of two hundred and forty five Indian and foreign insurers and provident societies then operating in India was taken over by the Central Government. The Life Insurance Corporation ("LIC") was formed in September 1956 by the Life Insurance Corporation Act, 1956 ("LIC Act") which granted LIC the exclusive privilege to conduct life insurance business in India. However, an exception was made in case of any company, firm or persons intending to carry on life insurance business in India in respect of the lives of "persons ordinarily resident outside India" provided the approval of the Central Government was obtained.

The exception was however not absolute and a curious prohibition existed. Such company, firm or person would not be permitted to insure the life of any "person ordinarily resident outside India", during any period of their temporary residence in India. However, the LIC Act, 1956 left outside its purview the Post Office Life Insurance Fund, any Family Pension Scheme framed under the Coal Mines Provident Fund, Family Pension and Bonus Schemes Act, 1948 or the Employees' Provident Funds and the Family Pension Fund Act, 1952.

The general insurance business was also nationalised with effect from January 1, 1973, through the introduction of the General Insurance Business (Nationalisation) Act, 1972 ("GIC Act"). Under the provisions of the GIC Act, the shares of the existing Indian general insurance companies and undertakings of other existing insurers were transferred to the General Insurance Corporation ("GIC") to secure the development of the general insurance business in India and for the regulation and control of such business. The GIC was established by the Central Government in accordance with the provisions of the Companies Act, 1956 ("Companies Act") in November 1972 and it commenced business on January 1, 1973. Prior to 1973, there were a hundred and seven companies, including foreign companies, offering general insurance in India. These companies were amalgamated and grouped into four subsidiary companies of GIC viz. the National Insurance Company Ltd. ("National Co."), the New India Assurance Company Ltd. ("New India Co."), the Oriental Insurance Company Ltd. ("Oriental Co."), and the United India Assurance Company Ltd. ("United Co."). GIC undertakes mainly re-insurance business apart from aviation insurance. The bulk of the general insurance business of fire, marine, motor and miscellaneous insurance business is under taken by the four subsidiaries.

4.3 General Insurance Business Nationalisation Act, 1972

This Act came into force on 1st January, 1973. This Act gave effect to clause (c) of Article 39 of the constitution of India. Article 39 (c) read as follows:

- "The State shall direct its policy towards securing that the operation of the economic system does not result in concentration of wealth and means of production so as to prove harmful to the common interest of the community".
- Under this Act, there were no longer private insurers in the country. As a result general insurance business became the domain of the State. The General Insurance Corporation of India (GIC) became the holding company with four subsidiaries, namely United India Insurance Company with Head Office in Madras, Oriental Insurance Company with Head Office in New Delhi, National Insurance Company with Head Office in Calcutta and New India Assurance Company with Head Office in Bombay.

- The ownership of all shares of both the Indian insurance companies and the foreign insurers from then on vested in the Central Government with effect from 1.1.1973. The services of all the personnel in the private sector were also transferred to the holding company and subsidiaries based on factors such as qualification, seniority, position and location.

4.3.1 Objectives of the Act

The objective of the Act was primarily to:

- provide for the acquisition of the shares of the existing general insurance companies
- serve the needs of the economy by development of general insurance business
- establish the GIC by the central government under the provisions of the Companies Act of 1956, with an initial authorised share capital of seventy-five crores
- aid, assist, and advise the companies in the matter of setting up of standards in the conduct of general insurance business
- encourage healthy competition amongst the companies as far as possible
- ensure that the operation of the economic system does not result in the concentration of wealth to the common detriment
- ensure that no person shall take insurance in respect of any property in India with an insurer whose principal registered office is outside India
- carry on of any part of the general insurance business if it thinks it desirable to do so
- advice the companies in the matter of controlling their experience and investment of funds

4.3.2 Mission of GIC

The Mission of GIC was to:

- provide need-based and low cost general insurance covers to rural population
- administer a crop insurance scheme for the benefit of the farmers
- develop and introduce covers with social security benefits
- develop a marketing network throughout the country including areas with low premium potential
- promote balanced regional development irrespective of cost considerations
- make benefits of insurance available to the masses.

4.4 Regulatory Authorities

Various aspects related to regulatory authorities are discussed below:

4.4.1 Insurance Regulatory and Development Authority

The IRD Act has established the Insurance Regulatory and Development Authority ("IRDA" or "Authority") as a statutory regulator to regulate and promote the insurance industry in India and to protect the interests of holders of insurance policies. The IRD Act also carried out a series of amendments to the Act of 1938 and conferred the powers of the Controller of Insurance on the IRDA.

The members of the IRDA are appointed by the Central Government from amongst persons of ability, integrity and standing who have knowledge or experience in life insurance, general insurance, actuarial science, finance, economics, law, accountancy, administration etc. The authority consists of a chairperson, not more than five whole-time members and not more than four part-time members.

4.4.2 Tariff Advisory Committee

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

4.4.3 Insurance Association of India, Councils and Committee

All insurers and provident societies incorporated or domiciled in India are members of the Insurance Association of India ("Insurance Association") and all insurers and provident societies incorporated or domiciled elsewhere than in India are associate members of the Insurance Association. There are two councils of the Insurance Association, namely the Life Insurance Council and the General Insurance Council. The Life Insurance Council, through its Executive Committee, conducts examinations for individuals wising to qualify themselves as insurance agents. It also fixes the limits for actual expenses by which the insurer carrying on life insurance business or any group of insurers can exceed from the prescribed limits under the Insurance Act. Likewise, the General Insurance Council, through its Executive Committee, may fix the limits by which the actual expenses of management incurred by an insurer carrying on general insurance business may exceed the limits as prescribed in the Insurance Act.

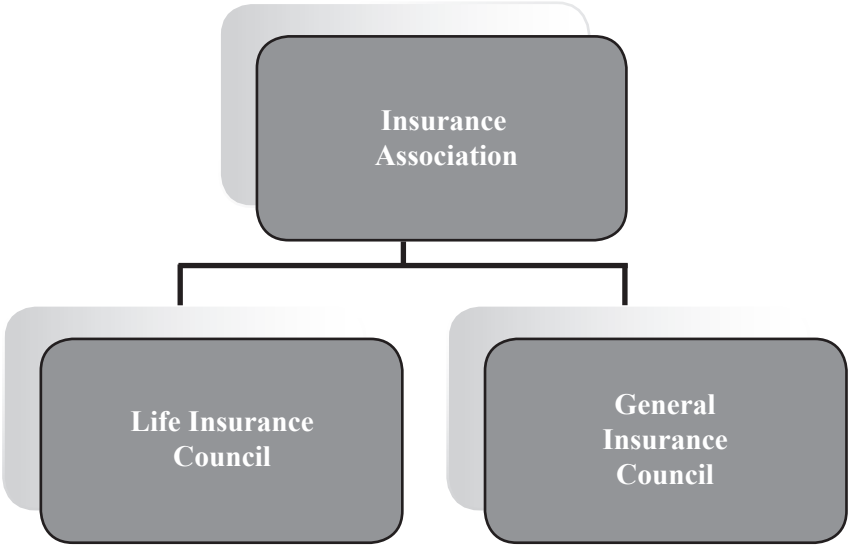

Fig. 4.1 councils of insurance association

4.4.4 Ombudsman

The Ombudsman are appointed in accordance with the Redressal of Public Grievances Rules, 1998, to resolve all complaints relating t o settlement of claims on the part of insurance companies in a cost-effective, efficient and effective manner. Any person who has a grievance against an insurer may make a complaint to an Ombudsman within his jurisdiction, in the manner specified. However, prior to making a complaint, such person should have made a representation to the insurer and either the insurer has rejected the complaint or has not replied to it. Further, the complaint should be made within a year from the date of rejection of the complaint by the insurer and should not have any other proceedings pending in any other court, Consumer Forum or arbitrator pending on the same subject matter. The Ombudsman are also empowered to receive and consider any partial or total repudiation of claims by an insurer, any dispute in regard to the premium paid in terms of the policy, any dispute on the legal construction of the policies is a dispute which relates to claims, delay in settlement of claims and the non-issue of any insurance document to customers after receipt of premium.

The Ombudsman acts as a counsellor and mediator and makes recommendations to both parties, in the event that the complaint is settled by agreement between both the parties. However, if the complaint is not settled by agreement, the Ombudsman may pass an award of compensation within three months of the complaint, which shall not be in excess of which is necessary to cover the loss suffered by the complainant as a direct consequence of the insured peril, or for an amount not exceeding rupees two million (including ex gratia and other expenses), whichever is lower. However, if every insurer seeking to carry out the business of insurance in India is required to obtain a certificate of registration from the IRDA prior to commencement of business, then the pre-conditions for applying for such registration have been set out under the Act of 1938, the IRD Act and the various regulations prescribed by the Authority.

4.5 General Registration Requirement

Following are some of the important general registration requirements that an applicant would need to fulfil:

- The applicant would need to be a company registered under the provisions of the Indian Companies Act, 1956. Consequently, any person intending to carry on insurance business in India would need to set up a separate entity in India.
- The aggregate equity participation of a foreign company (either by itself or through its subsidiary companies or its nominees) in the applicant company cannot exceed twenty six percent of the paid up capital of the insurance company. However, the Insurance Act and the regulations there under provide for the manner of computation of such twenty-six per cent.
- The applicant can carry on any one of life insurance business, general insurance business or reinsurance business. Separate companies would be needed if the intent were to conduct more than one business.
- The name of the applicant needs to contain the words “insurance company” or “assurance company”.

4.5.1 Procedure for Obtaining a Certification of Registration

An applicant desiring to carry on insurance business in India is required to make a requisition for a registration application to the IRDA in a prescribed format along with all the relevant documents. The applicant is required to make a separate requisition for registration for each class of business 56 i.e., life insurance business consisting of linked business, non-linked business or both, or general insurance business including health insurance business.

The IRDA may accept the requisition on being satisfied of the bonafides of the applicant, the completeness of the application and that the applicant will carry on all the functions in respect of the insurance business including management of investments etc. In the event that the aforesaid requirements are not met with, the Authority may after giving the applicant a reasonable opportunity of being heard, reject the requisition. Thereafter, the applicant may apply to the authority within thirty days of such rejection for re-consideration of its decision. Additionally, an applicant whose requisition for registration has been rejected, may approach the authority with a fresh request for registration application after a period of two years from the date of rejection, with a new set of promoters and for a class of insurance business different than the one originally applied for.

In the event that the authority accepts the requisition for registration application, it shall directly supply the application for registration to the applicant. An applicant, whose requisition has been accepted, may make an application along with the relevant documents evidencing deposit, capital and other requirements in the prescribed form for grant of a certificate of registration. If, when considering an application, it appears to the authority that the assured rates, advantages, terms and conditions offered or to be offered in connection with life insurance business are in any respect not workable or sound, he may require that a statement thereof to be submitted to an actuary appointed by the insurer and the authority shall order the insurer to make such modifications as reported by the actuary.

After consideration of the matters inter alia capital structure, record of performance of each promoters and directors and planned infrastructure of the company, the authority may grant the certificate of registration. The authority would, however, give preference in grant of certificate of registration to those applicants who propose to carry on the business of providing health covers to individuals or groups of individuals. An applicant granted a certificate of registration may commence the insurance business within twelve months from the date of registration.

In the event that the authority rejects the application for registration, the applicant aggrieved by the decision of the authority may within a period of thirty days from the date of communication of such rejection, appeal to the Central Government f or reconsideration of the decision and the decision of the Central Government in this regard would be final.

4.5.2 Renewal Registration

An insurer who has been granted a certificate of registration should renew the registration before the 31 day of December each year, and such application should be accompanied by evidence of fees that should be the higher of

- fifty thousand rupees for each class of insurance business
- one fifth of one per cent of total gross premium written direct by an insurer in India during the financial year preceding the year in which the application for renewal of certificate is required to be made, or rupees fifty million whichever is less; (and in case of an insurer carrying on solely re-insurance business, instead of the total gross premium written direct in India, the total premium in respect of facultative re-insurance accepted by him in India shall be taken into account).

This fee may vary according to the total gross premium written direct in India, during the year preceding the year in which the application is required to be made by the insurer in the class of insurance business to which the registration relates but shall not exceed one-fourth of one percent of such premium income or rupees fifty million, whichever is less, or be less, in any case than fifty thousand rupees for each class of insurance business. However, in the case of an insurer carrying on solely re-insurance business, the total premiums with respect to facultative re-insurance accepted by him in India shall be taken into account.

4.5.3 Suspension of Registration

The registration of an Indian insurance company or insurer may be suspended for a class or classes of insurance business, in addition to any penalty that may be imposed or any action that may be taken, for such period as may be specified by the authority, in the following cases:

- conducts its business in a manner prejudicial to the interests of the policy-holders
- fails to furnish any information as required by the authority relating to its insurance business
- does not submit periodical returns as required under the Act or by the authority
- does not co-operate in any inquiry conducted by the authority
- indulges in manipulating the insurance business
- fails to make investment in the infrastructure or social sector as specified under the Insurance Act

4.5.4 Cancellation of Certificate of Registration

The Authority, in case of repeated defaults of the grounds for suspension of a certificate of registration, may impose a penalty in the form of cancellation of the certificate. The Authority is compulsorily required to cancel the registration of an insurer either wholly or as far as it relates to a particular class of insurance business, as the case may be:

- if the insurer fails to comply with the provisions relating t o deposits
- if the insurer fails, at any time, to comply wit h the provisions relating t o the excess of the value of his assets over the amount of his liabilities
- if the insurer is in liquidation or is adjudged an insolvent
- if the business or a class of the business of the insurer has been transferred to any person or has been transferred to or amalgamated with the business of any other insurer
- if the whole of the deposit made in respect of the insurance business has been returned to the insurer
- if, in the case of an insurer, the standing contract is cancelled or is suspended and continues to be suspended for a period of six months

- if the Central Government of India so directs . In addition to the above, the Authority has the discretion to cancel the registration of an insurer
- if the insurer makes default in complying with, or acts in contravention of , any requirement of the Insurance Act or of any rule or any regulation or order made or, any direction issued there under
- if the Authority has reason to believe that any claim upon the insurer arising in India under any policy of insurance remains unpaid for three months after final judgment in regular course of law
- if the insurer carries on any business other than insurance business or any prescribed business
- if the insurer makes a default in complying with any direct ion issued or order made, as the case may be, by the Authority under the IRDA Act, 1999
- If the insurer makes a default in complying with, or acts in contravention of, any requirement of the Companies Act, or the LIC Act, or the GIC Act or the Foreign Exchange Management Act, 2000.

The order of cancellation shall take effect on the date on which notice of the order of cancellation is served on the insurer. Thereafter, the insurer would be prohibited from entering into any new contracts of insurance, but all rights and liabilities in respect of contracts of insurance entered into by him before the cancellation takes effect shall continue as if the cancellation had not taken place. The Authority may, after the expiry of six months from the date on which the cancellation order takes effect, apply to the Court for an order to wind up the insurance company, or to wind up the affairs of the company in respect of a class of insurance business, unless the registration of the insurance company has been revived or an application for winding up has already been presented to the Court.

4.5.5 Revival of Registration

The Authority has discretion, where the registration of an insurer has been cancelled, to revive the registration, if the insurer within six months from the date on which the cancellation took effect:

- makes the deposits
- complies with the provisions as to the excess of the value of his assets over the amount of his liabilities
- has his standing contract restored
- has the application accepted
- satisfies the Authority that no claim upon him remains unpaid, or
- has complied with any requirements of the Insurance Act or the IRDA Act, or any rule or regulation, or any order made there under or any direct ion issued under these Acts
- that he has ceased to carry on any business other than insurance business or any prescribed business

The main regulations that regulate the insurance business are the Insurance Act, 1938, the Life Insurance Corporation Act, 1956, the General Insurance Business (Nationalisation) Act, 1982, the Marine Insurance Act, 1963 and the Motor Vehicles Act, 1988. The Indian Contract Act, 1872, governs most of the aspects of the insurance contract. Additionally, the Foreign Exchange Management Act, 2000, Income Tax Act, 1961, Indian Stamp Act and the Hindu and Indian Succession Act govern some aspects involved in insurance.

4.6 Capital Structure Requirement

The applicant would need to meet with the following requirements:

- A minimum paid up equity capital of rupees one billion in case of an applicant which seeks to carry on the business of life insurance or general insurance.
- A minimum paid-up equity capital of rupees two billion, in case of a person carrying on exclusively the business of reinsurance. In determining the aforesaid capital requirement, the deposits to be made and any preliminary expenses incurred in the formation and registration of the company would be included. A “promoter” of the company is not permitted to hold, at any time, more than twenty-six per cent of the paid-up capital in any Indian insurance company. However, an interim measure has been permitted percentages higher than twenty six percent are permitted if the promoters divest, in a phased manner, over a period of ten years from the date of commencement of business, the share capital held by them in excess of twenty six percent.

Summary

- The Constitution of India is federal in nature as there is division of powers between the Centre and the States. Insurance is included in the Union List, wherein the subjects included in this list are of the exclusive legislative competence of the Centre
- The general insurance business was also nationalised with effect from January 1, 1973, through the introduction of the General Insurance Business (Nationalisation) Act, 1972 ("GIC Act").
- Under the provisions of the GIC Act, the shares of the existing Indian general insurance companies and undertakings of other existing insurers were transferred to the General Insurance Corporation ("GIC") to secure the development of the general insurance business in India and for t he regulation and control of such business
- The IRD Act has established the Insurance Regulatory and Development Authority ("IRDA" or "Authority") as a statutory regulator to regulate and promote the insurance industry in India and t o protect the interests of holders of insurance policies
- The Ombudsman are appointed in accordance with the Redressal of Public Grievances Rules, 1998, to resolve all complaints relating to settlement of claims on the part of insurance companies in a cost-effective, efficient and effective manner.
- The order of cancellation shall take effect on the date on which notice of the order of cancellation is served on the insurer. Thereafter, the insurer would be prohibited from entering into any new contracts of insurance, but all rights and liabilities in respect of contracts of insurance entered into by him before the cancellation takes effect shall continue as if the cancellation had not taken place.

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Self Assessment

1. The concept of insurance has been prevalent in India since ancient times amongst whom?
   a. Hindus
   b. Christians
   c. Muslims
   d. Jews

2. The Constitution of India is federal in nature as there is division of powers between the _____ and the States.
   a. constitution
   b. centre
   c. states
   d. parliament

3. The members of what are appointed by the Central Government from amongst persons of ability, integrity and standing who have knowledge or experience in life insurance, general insurance, actuarial science, finance, economics?
   a. Parliament
   b. Constitution
   c. IRDA
   d. State Government

4. The general insurance business was also nationalised with effect from January 1, _____.
   a. 1974
   b. 1975
   c. 1973
   d. 1972

5. What is required to make an annual payment of fees to the Advisory Committee of an amount not exceeding in case of reinsurance business in India?
   a. Insurer
   b. Insurance
   c. Authority
   d. Insured

6. Which of the following statement is false?
   a. The IRD Act has established the Insurance Regulatory and Development Authority ("IRDA" or "Authority") as a statutory regulator to regulate and promote the insurance industry in India and to protect the interests of holders of insurance policies.
   b. The IRD Act also carried out a series of amendments to the Act of 1938 and conferred the powers of the Controller of Insurance on the IRDA.
   c. The members of the IRDA are appointed by the Central Government from amongst persons of ability, integrity and standing who have knowledge or experience in life insurance, general insurance, actuarial science, finance, economics, law, accountancy, administration etc.
   d. The ownership of all shares of both the Indian insurance companies and the foreign insurers from then on vested in the Central Government with effect from 1.1.1974.

7. Which of the following statement is false?
   a. An applicant desiring to carry on insurance business in India is required to make a requisition for a registration application to the IRDA in a prescribed format along with all the relevant documents.
   b. The applicant is required to make a separate requisition for registration for each class of business 56 i.e., life insurance business consisting of linked business, non-linked business or both, or general insurance business including health insurance business.
   c. The IRDA may accept the requisition on being satisfied of the bonafides of the applicant, the completeness of the application and that the applicant will carry on all the functions in respect of the insurance business including management of investments etc
   d. The order of cancellation shall take effect on the date on which notice of the order of cancellation is served on the insured

8. Which of the following statement is true?
   a. The Authority would, however, give preference in grant of certificate of registration to those applicants w ho propose to carry on the business of providing health covers to individuals or groups of individuals.
   b. An applicant granted a certificate of registration may commence the insurance business within fifteen months from the date of registration.
   c. The Authority, in case of repeated defaults of the grounds for suspension of a certificate of registration, does not impose a penalty in the form of cancellation of the certificate.
   d. After consideration of the matters inter alia capital structure, record of performance of each officer and directors and planned infrastructure of the company, the Authority may grant the certificate of registration.

9. Which of the following statement is false?
   a. The IRDA may accept the requisition on being satisfied of the bonafides of the applicant, the completeness of the application and that the applicant will carry on all the functions in respect of the insurance business including management of investments etc.
   b. In the event that the aforesaid requirements are not met with, the Authority may after giving the applicant a reasonable opportunity of being heard, reject the requisition. Thereafter, the applicant may not apply to the Authority within thirty days of such rejection for re-consideration of its decision.
   c. Additionally, an applicant whose requisition for registration has been rejected, may approach the Authority with a fresh request for registration application after a period of two years from the date of reject ion, with a new set of promoters and for a class of insurance business different than the one originally applied for.
   d. In the event that the Authority accepts the requisition for registration application, it shall direct supply of the application for registration to the applicant.

10. Which of the following statement is true?
    a. Under the provisions of the GIC Act, the shares of the existing Indian general insurance companies and undertakings of other existing insurers were transferred to the General Insurance Corporation ("GIC") to secure the development of the general insurance business in India and for t he regulation and control of such business.
    b. The GIC was established by the State Government in accordance with the provisions of the Companies Act, 1956 ("Companies Act") in November 1972 and it commenced business on January 1, 1973.
    c. The general insurance business was also nationalised with effect from January 1, 1973, through the introduction of the General Insurance Business (Nationalisation) Act, 1975 ("GIC Act").

Chapter V

Health and Accident Insurance

Aim

The aim of this chapter is to:

- introduce health and accident insurance
- highlight the importance of health and accident insurance
- narrate health insurance policies

Objectives

The objectives of this chapter are to:

- explain future of health insurance in India
- define health and accident insurance
- describe NRI insurance

Learning outcome

At the end of this chapter, you will be able to:

- understand personal accident insurance
- interpret calculation of NRI accident insurance amount/premium
- list various types of health insurance

5.1 Introduction

An organised plan for financing medical expenses is an important and fundamental part of a risk management planning. With an increasing health care costs, it is no longer possible for an individual to meet the expensive treatment of hospitalisation.

The reasons for rise in health care costs are:

- Increase in medical treatment costs
- Technological advancements in medical equipment
- High labour costs

Health Insurance

It is an insurance against loss by illness or bodily injury Health insurance provides coverage for medicine, visits to the doctor or emergency room, hospital stays and other medical expenses. Policies differ in what they cover, the size of the deductible and/or co-payment, limits of coverage and the options for treatment available to the policyholder. Health insurance can be directly purchased by an individual, or it may be provided through an employer. Medicare and Medicaid are programs which provide health insurance to elderly, disabled, or un-insured individuals. There are a number of companies which provide private health insurance, including Blue Cross, United Healthcare, or Aetna.

Definition

"Health insurance is an insurance, which covers the financial loss arising out of poor health condition or due to permanent disability, which results in loss of income." A health insurance policy is a contract between an insurer and an individual or group, in which the insurer agrees to provide specified health insurance at an agreed upon price (premium). It usually provides either direct payment or reimbursement for expenses associated with illness and injuries. The cost and range of protection provided by health insurance depends on the insurance provider and the policy purchased.

5.2 Health Insurance Policies

Following are the health insurance policies available in India:

- Mediclaim policy (individuals and groups)
- Overseas mediclaim policy
- Raj Rajeshwari Mahila Kalyan Yojna
- Bhagyashree Child Welfare Policy
- Cancer Insurance Policy
- Jan Arogya Bima Policy

Mediclaim policy (individual and group)

Mediclaim policy (individuals and groups) Mediclaim policy is offered to individuals and groups exceeding 50 members. It covers the hospitalisation for diseases or sickness and for injuries. Under group mediclaim policy, group discount is allowed to groups exceeding 101 people. The medical expenses will be reimbursed only if the insured is admitted in the hospital for a minimum duration of 24 hours. Cost of treatment includes consultation fee of doctors, cost of medicines and hospitalisation charges. Health insurance in India is available at very economical rates. It is very popular among professionals like Chartered accountants, Advocates, Engineers etc. It is very suitable for self-employed persons because it covers risks against several general and serious diseases.

Overseas mediclaim policy

In 1984, the Overseas Mediclaim Policy was developed. This policy will reimburse the medical expenses incurred by Indians up to 70 years of age while travelling abroad. The premium will be charged based on their age, purpose of travel, duration and plan selected by the insured under the policy. This policy is provided to businessmen , people going on holiday tour, traveling for educational professional and official purposes.

Raj Rajeshwari Mahila Kalyan Yojna
It is a personal accident policy offered by an insurance company for the welfare of women. It is offered to women residing in rural and urban areas. Women between 10-75 years of age are eligible for this policy irrespective of their occupation and income level.

Bhagyashree Child Welfare policy
It is offered to girls between 0-18 years. The age of the parents of the girls shouldn't be more than 60 years. It provides coverage to one girl child in a family who loses her father or mother in an accident.

Cancer insurance policy
It is designed for cancer patients' aid association members. The persons insured under this policy will pay premium to their association along with the membership fee. This policy will offer coverage to the insured in case he develops cancer. All the expenses incurred for treatment of cancer not exceeding the sum insured will be paid directly to the insured person.

Jan Arogya Bima policy
This policy provides medical insurance to poorer section of the people. This policy covers illness like heart attack, jaundice, food poisoning, and accidents etc. that requires immediate hospitalisation.

5.3 Future of Health Insurance

With the kind of stressful life we lead now-a-days, we are very susceptible to various diseases and health mishaps. In such conditions, applying for a health insurance becomes a necessity.

The insurance market in India is advancing rapidly and the awareness about the need for insurance is also gradually increasing in the country. However, this growth is mainly in the life insurance sphere. Health insurance in India is mainly taken as a bonus received in the salary or through some allied insurance scheme. Very few volunteer for a health insurance policy.

- However, this is gradually changing as the new crops of Indians believe in insurance to be a risk cover rather than an investment. This increases the scope for health insurance in India. While choosing for your health insurance policy, not only should you check the premium you are paying, you should also check for the claim process. Generally, hospitals maintain a network of TPAs for the claim process but claims get delayed due to various reasons like lack of documentation, lack of funds etc. Always choose a plan that has the insurer's own in-house cell that manages the claim process so avoid delay in payment.
- Research has shown that Indians across all segments and age groups are presently more prone to lifestyle-related ailments and diseases than previous generations. This fact, undoubtedly negative, stands out as the root cause for the potential growth of the health insurance sector.
- During the last 50 years, India has made considerable progress in improving its health status. Still it is in a developing stage. The increasing health care costs in the country are likely to contribute to the development of more health insurance products. Health insurance is not at the present recognised as a separate segment in Indian insurance industry. Privatisation of insurance industry is likely to encourage the development of this segment. Health insurance in India has indeed a long way to go.
- The growing percentage of middle class citizens in the country and the increasing healthcare cost is also adding to the growth of the health insurance segment. Changing demographics, affluence and work-life balance has brought about a paradigm shift in the attitude of people, who demand for a better quality of healthcare. Health insurance as a mechanism to finance this need is, therefore, finding greater acceptability. Thus, the market has great prospects but the need of the hour is to identify products that will suit customers' insurance needs and win their confidence.

5.4 Accident Insurance

Accidental Insurance is gaining importance with the swell in the number of accident injuries and deaths. Insurance companies' accidental policy benefits individuals and families at the same time. This implies you can cover your spouse and children in the similar policy but by paying a higher premium. The plan can be tailored to suit the needs of diverse clients. Not only is that, with the increase in the automobile sale there is a growth in the auto accidental insurance. Even the two- wheeler companies are proffering bike accidental insurance to their customers as an added service.

5.5 Personal Accident Insurance

Everyone in the society is exposed to the risk of accident, which is a threat to our financial security, and therefore it is prudent to have adequate personal accident cover to manage this contingency. For handling accident risks, personal accident policy, Janata personal accident policy and Gramin personal accident policies are available in India.

Reach of cover

Personal accident policy pays damages to the insured in the event of occurrence of one or more of the following list that may be selected by insured at the time of taking policy:

- On death
- On permanent total and partial disability and
- On temporary total disability
- In case of accident death during the policy period, the policy in addition covers funeral expenses of the insured person. Permanent total disablement occurs when an individual is unable to perform his regular duties for the remaining part of his life.
- Permanent partial disablement may result when a person loses any part of his body due to accident. When an individual is injured in an accident and as a result he is unable to perform his normal duties for a certain period we can describe it as temporary total disablement. This policy can also be extended to reimburse the medical expenses due to accidents up to 10% of the insured amount or 25% of the claim amount or expenses incurred for treatment of the insured person whichever is less.
- Personal accident policy does not cover the injuries resulting out of war, self-inflicted injury, diseases or insanity, death due to war operations, attempted suicides, accident in armed forces, aircraft accidents, accidents due to nuclear weapons etc.
- Janata personal accident policy is meant for weaker section of the society. Thus, premium charged under this policy is comparatively less. Gramin personal accident policy is designed for the rural people in the country.
- It is a contract of Insurance under which the insurer agrees to pay a specific sum of money to the insured in case of bodily injury by accident and to the heirs of the insured in case of death by accident. A contract of personal accident insurance is not a contract of indemnity and the insurer has to pay a fixed sum of money on the death or total disablement of the insured or provide medical benefits for recovery from the injury.

5.6 NRI Insurance

The insurance covers Non-Resident Indians (NRI) from 3 months of age till 70 years. It is a comprehensive insurance covering accidental loss, permanent disablement due to accident, medical expenses incurred due to illness in a foreign country, education fund of dependent children etc.

Calculation of NRI Accident Insurance Amount/Premium:

The amount of premium depends on a number of factors. Premium is paid on a monthly/quarterly/half-yearly/ yearly basis.

NRI Accident Insurance Claim Procedure:
In the event of claim, written intimation must be given by the insured/assignee to the insurance company. The claim can also be reported on company's toll free number. Upon receipt of the intimation of claim the company deputes its surveyor or claim representative and process the claim. The copy of the claim format is annexed. The claim process can take anywhere between 7-15 days.

Documents required for NRI accident insurance claim:

- Claim form
- FIR Form
- Prescriptions given by the treating doctor
- Hospital Discharge Card
- Diagnosis reports like X-Ray report, etc.
- Disability Certificate

List of some of insurance companies offering NRI accident insurance:
National Insurance Company Ltd. - Policy for Non-Resident Indians

Calculation of accident insurance amount/premium:
The quantity of premium paid depends on a number of issues. Discount on premium of accidental insurance is provided by some companies on family health insurance. Premium can be compensated on a monthly/quarterly/half-yearly/ yearly basis. Insurance companies now offer online immediate quotes to recognise the amount of insurance cover an individual will need. In the insurance sector there is a boom in flight accident insurance, accidental life insurance.

5.7 Accident Insurance Claim System

Clients can report a claim either on toll free numbers provided by insurance companies or in a straight line to get in touch with the claim representatives. Filling a claim form is the primary step for lodging a claim. A company inspector will analyse the bills of hospitals/nursing home homes and then makes a report. Claim procedure can take anywhere between 7-21 days.

Documents necessary for accident insurance claim:

- Hospital's bill
- Disability documentation from doctor (If any) Laboratory Report
  Police report
  List of Some of Insurance Companies Offering Accident Insurance:
  Bajaj Allianz - Accident & Injuries Cover
  The New India Assurance - Accident Coverage Policy
  Tata AIG General Insurance - Accidental protection
  United India Insurance- Accident & Hospitalisation Policies
  HSBC - MahaRaksha Personal Injury Policy

Especially the workers working in different factories involving life risk must refurbish accidental death life insurance.

5.8 Current Status of Private Health Insurance in India

India has a dual system of care—a private fee-for-service based sector where the money is paid out-of-pocket by individual households and a tax-based public sector where the providers are salaried. Utilisation of insurance under both these systems is partly restricted and rationed by the affordability of the individual household and availability of the budget. On the other hand, insurance as a means of financing is a far more sophisticated mechanism, requiring a comprehensive understanding of the failures that characterise health insurance markets.

- For example, a problem such as asymmetry in information puts the patient and the insurer at a disadvantage due to their inability to resist or challenge medical opinion regarding an existing condition or future treatment. Besides, in the absence of knowledge of prices, the provider can short change the two by overcharging. Secondly, cashless insurance creates disincentives to control costs as it appears to be a 'free' good for the patient and the provider, often resulting in excessive treatment by the provider (induced demand) and frivolous use by the patient taking treatment even for a condition which he would normally have ignored or cured with a home remedy (moral hazard).
- Further, it is only the patients who know their health status. Since it is normally those in need of health care who tend to subscribe to health insurance, this puts the risk on insurance agencies to resort to extensive processes of risk selection, such as medical examination, before being given admittance as an enrolee and focusing on low risk groups, such as the young or healthy. Risk selection in individual-based policies, however, results in increasing the loading fee and consequently the cost of premium. This is one reason for the attractive group discounts being as high as 67%. For these reasons, private commercial health insurance is known to select its customers—the young, healthy, rich, males—leaving the bad risks to the government—old, poor, young women in the reproductive age group, and the ill.
- Health insurance in India is usually associated with the 'Mediclaim' policy of the GIC, which was introduced in 1986 as a voluntary health insurance scheme offered by the public sector. The premium based on the age, risk and the benefit package opted for, ranged from a minimum premium of Rs 201 for those below 25 years of age, to a maximum benefit of Rs 15,000 with discounts for group memberships. In 2001, there were 78 lakh persons covered under Mediclaim (Gupta 2003). The subscribers are usually from the middle and upper class, especially since there is a tax benefit in subscribing to Mediclaim.
- The standard Mediclaim policy covers only hospital care and domiciliary hospitalisation benefits. Most medical conditions are reimbursed though there are important exclusions, such as pre-existing diseases, pregnancy and child birth, HIV/AIDS, etc. Hospitals with more than 15 beds and registered with a local authority can be identified as providers. The insurance company (or the TPA, where applicable) administers the scheme. Being an indemnity scheme, the patient pays the hospital bills and submits the necessary documents to the company. The company in turn reimburses the patient.
- A study of 621 GIC claims for the year 1998–99 by Bhat and Reuben (2001) showed that the average time between submission of documents and reimbursement is 121 days. This study also showed that one-third of the claims were due to adverse selection; 38% pertained to doctor's fees and 25% charges or diagnostic services. The provider-induced claims thus accounted for 63%. Yet another interesting insight was that 22% of the total claims were for the treatment of communicable diseases, while 64% were for non-communicable diseases. There is also uncertainty about the amount reimbursed; there are times when the patient is reimbursed only partially, the usual reason being the insufficiency of documentation. The policy is not renewed automatically and is dependent on the timely payment of premium.
- Ellis et al. observed that the GIC was more interested in whether the claim pertained to an existing disease or whether the facility was qualified or not but spent little time on detecting fraud. With claims exceeding 30% a year, more than the household spending, it reflects the problem of moral hazard which requires close monitoring. Second, it was also observed that the GIC sets premium on the filing of claims and not actual amounts settled, giving it a cushion year on year as settled claims amounts are always lower than those filed, an amount that remains unadjusted.
- During 1994, 4.4% of the insured persons made a claim, of which only 75% of claims were settled. The claims ratio was 45%. However, of late, the claims ratio is growing at a fast rate, allegedly because of collusion between the patients, insurance agents and hospitals. From the above discussion, five features that characterise the health insurance system in India emerges as:
    - By and large, the system offers traditional indemnity under which the insured first pay the amount and then seek reimbursement. Under indemnity, all known diseases or health conditions are excluded and therefore such policies typically have a large number of exclusions. This also means that those most in need of insurance, i.e. the sick, get excluded for any financial risk protection against the diseases they are suffering from.

- It is a fee-for-service-based payment system. Such a system of payment is advantageous for the provider since he bears no risk for the prices he can charge for services rendered by him. Combined with the asymmetry in information, such a system usually entails increased costs.
- Policies provide a ceiling of the assured sum. Such a system, and that too within a fee-for-service payment system, results in short changing the insured as he gets less value for money, as the provider and the insurer have no obligations to provide quality care and/or over provide/over charge services so long as the amounts are within the assured amount of the insurance policy.
- The system is based on risk-rated premiums. This again puts the risk on the insured as the premium is fixed in accordance with the health status and age. Under such a system, women in the reproductive age group, the old, the poor and the ill get to pay higher amounts and are discriminated against.
- The system is voluntary, making it difficult to form viable risk pools for keeping premiums low.

5.9 Reasons for Poor Penetration of Health Insurance

Despite the 'huge market' estimated to range between Rs7.5–20 crores, penetration of health insurance has been slow and halting in India. . Some reasons that explain for the slow expansion of health insurance in the country are as follows:

- **Lack of regulations and control on provider's behaviour** : The unregulated environment and a near total absence of any form of control over providers regarding quality, cost or data-sharing makes it difficult for proper underwriting and actuarial premium setting. This puts the entire risk on the insurer as there could be the problems of moral hazard and induced demand. Most insurance companies are therefore wary about selling health insurance as they do not have the data, the expertise and the power to regulate the providers. Weak monitoring systems for checking fraud or manipulation by clients and providers, add to the problem.
- **Unaffordable premiums and high claim ratios:** Increased use of services and high claim ratios only result in higher premiums. The insurance agencies in the face of poor information also tend to overestimate the risk and fix high premiums. Besides, the administrative costs are also high— over 30%, i.e. 15% commission to agent; 5.5% administrative fee to TPA; own administrative cost 20%, etc. Patients also experience problems in getting their reimbursements including long delays to partial reimbursements.
- **Reluctance of the health insurance companies to promote their products and lack of innovation:** Apart from high claim ratios, the non-exclusivity of health insurance as a product is another reason. In India, an insurance company cannot sell non-life as well as life insurance products. Since insurance against fire or natural disaster or theft is far more profitable, insurance companies tend to compete by adding low incentive such as premium health insurance products to important clients, cross-subsidizing the resultant losses. With a view to get the non-life accounts, insurance companies tend to provide health insurance cover at unviable premiums. Thus, there is total lack of any effort to promote health insurance through campaigns regarding the benefits of health insurance and lack of innovation to make the policies suitable to the needs of the people.
- **Too many exclusions and administrative procedures:** Apart from delays in settlement of claims, non-transparent procedures make it difficult for the insured to know about their entitlements because of which the insurer is able to, on one stratagem or the other; reduce the claim amount. Thus, de-motivating the insured and deepening mistrust. The benefit package also needs to be modified to suit the needs of the insured. Exclusions go against the logic of covering health risks. Though, there can be a system where the existing conditions can be excluded for a time period—one or two years but not forever. Besides, the system entails equity implications.
- **Inadequate supply of services:** There is an acute shortage of supply of services in rural areas. Not only is there non-availability of hospitals for simple surgeries, but several parts of the country have barely one or two hospitals with specialist services. Many centres have no cardiologists or orthopaedicians for several non-communicable diseases that are expensive to treat and can be catastrophic. If we take the number of beds as a proxy for availability of institutional care the variance is high with Kerala having 26 beds per 1000 population compared with 2.5 in Madhya Pradesh.

5.10 Do's and Don'ts in the Event of Claim

It is often seen that non-compliance of the basic requirements under the policy results in unnecessary delays in settlement of the claims. These guidelines would definitely help an individual in completing the formalities and thereby ensuring that the insuring company has the minimum of queries. This would expedite the processing of the claim and the realisation of the claim within a reasonable period of time.

- Occurrence of an accident (towards a claim) should be intimated immediately to the office of the Insurance Company from where the policy has been taken.
- In case of claims under the weekly benefit scheme for temporary disablement, certain precautions must be taken for a speedier disposal of the claims.
- Medical report which forms a part of the claim form has to be filled up by the doctor who had first attended the patient.
- In case the patient had undergone treatment from more than one doctor then separate medical reports are required to be filled by each attending doctor.
- Medical certificate is required to be given by the every doctor for the respective period of treatment only while the certificate of fitness should be given by the last attending doctor.
- In case the individual is employed, a proper leave certificate clearly stating the sanction for the period of absence from duties on account of the subject accident should be submitted to the office of the insurance company.
- Claims under permanent disablement are admissible only if there is a physical separation of a particular part of the skeletal system.
- None of the columns of the claim form and the medical report should be left blank.
- In the case of death claims, a clear legible copy of the post-mortem report and death certificate both duly attested by a gazetted officer must be submitted along with the Claim form.
- An individual holding more than one Personal Accident Policy can lodge claims under all the policies irrespective of whether they are with the same insurance company or not.

Personal insurance policies like Mediclaim, Householder's Insurance policy and Personal Accident policy have not been very popular with the masses and there is almost 80 percent untapped potential in the market. Among many of the factors discouraging the individuals from buying such insurance policies is the lurking fear of not getting of a genuine claim.

It is important for all the insured persons as well as the prospective buyers of these policies to understand that it is always the endeavour of the insurance companies to help the clients at the hour of distress. But at the same time proper completion of the documentation and the usual formalities pertaining to following a claim is a must for an expeditious disposal of the claims.

It is often seen that non-compliance of the basic requirements under the policy results in unnecessary delays in settlement of the claims. These guidelines would definitely help an individual in completing the formalities and thereby ensuring that the insuring company has the minimum of queries. This would expedite the processing of the claim and the realisation of the claim within a reasonable period of time.

Summary

- Insurance against loss by illness or bodily injury. Health insurance provides coverage for medicine, visits to the doctor or emergency room, hospital stays and other medical expenses. Policies differ in what they cover, the size of the deductible and/or co-payment, limits of coverage and the options for treatment available to the policyholder
- A health insurance policy is a contract between an insurer and an individual or group, in which the insurer agrees to provide specified health insurance at an agreed upon price (premium).
- While choosing for your health insurance policy, not only should you check the premium you are paying, you should also check for the claim process.
- In case of accident death during the policy period, the policy in addition covers funeral expenses of the insured person.
- It is often seen that non-compliance of the basic requirements under the policy results in unnecessary delays in settlement of the claims. These guidelines would definitely help an individual in completing the formalities and thereby ensuring that the insuring company has the minimum of queries.
- Personal insurance policies like Mediclaim, Householder's Insurance policy and Personal Accident policy have not been very popular with the masses and there is almost 80 percent untapped potential in the market.

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Self Assessment

1. _____ is an insurance, which covers the financial loss arising out of poor health condition or due to permanent disability that results in loss of income.
   a. Fire insurance
   b. Health insurance
   c. Crop insurance
   d. Personal accident insurance

2. _____ provides coverage for medicine, doctor visits or emergency room, hospital stays and other medical expenses.
   a. Health insurance
   b. Fire insurance
   c. Liability insurance
   d. Motor insurance

3. In _____, the Overseas Mediclaim Policy was developed.
   a. 1987
   b. 1985
   c. 1984
   d. 1986

4. Mediclaim policy is offered to individuals and groups exceeding ___ members.
   a. 60
   b. 70
   c. 80
   d. 50

5. In case the patient had undergone treatment from more than _____ doctor then separate medical reports are required to be filled by each attending doctor
   a. one
   b. two
   c. three
   d. four

6. Which of the following statement is false?
   a. Health Insurance is an insurance against loss by illness or bodily injury.
   b. Health insurance does not provide coverage for medicine, visits to the doctor or emergency room, hospital stays and other medical expenses.
   c. Policies differ in what they cover, the size of the deductible and/or co-payment, limits of coverage and the options for treatment available to the policyholder. Health insurance can be directly purchased by an individual or it may be provided through an employer.
   d. Medicare and Medicaid are programs which provide health insurance to elderly, disabled, or un-insured individuals.

7. Which of the following statement is true?
   a. Personal insurance policies like Mediclaim, Householder's Insurance policy and Personal Accident policy have been very popular with the masses and there is almost 80 percent untapped potential in the market.
   b. Among many of the factors discouraging the individuals from buying insurance policies like Mediclaim is the lurking fear of getting of a genuine claim.
   c. Mediclaim policy (individuals and groups) is offered to individuals and groups exceeding 50 members.
   d. The Overseas Mediclaim Policy reimburses the medical expenses incurred by Indians up to 70 years of age while travelling abroad.

8. Which of the following statement is false?
   a. Occurrence of an accident (towards a claim) should be intimated immediately by the office of the Insurance Company from which the policy has been taken.
   b. In case of claims under the weekly benefit scheme for temporary disablement, certain precautions must be taken for a speedier disposal of the claims.
   c. Medical report which forms a part of the claim form has to be filled up by the doctor who had first attended the patient.
   d. In case the patient had undergone treatment from more than two doctors then separate medical reports are required to be filled by each attending doctor.

9. Which of the following statement is false?
   a. Claims under permanent disablement are admissible only if there is no physical separation of a particular part of the skeletal system.
   b. None of the columns of the claim form and the medical report should be left blank.
   c. In the case of death claims, a clear legible copy of the post-mortem report and death certificate both duly attested by a gazetted officer must be submitted along with the Claim form.
   d. An individual holding more than one Personal Accident Policy can lodge claims under all the policies irrespective of whether they are with the same insurance company or not

10. Which of the following statement is false?
   a. In 1984, the Overseas Mediclaim Policy was developed. This policy will reimburse the medical expenses incurred by Indians upto 70 years of age while travelling abroad
   b. It is a personal accident policy offered by an insurance company for the welfare of women. It is offered to women residing in rural and urban areas. Women between 10-55 years of age are eligible for this policy irrespective of their occupation and income level.
   c. It is offered to girls between 0-18 years. The age of the parents of the girls shouldn't be more than 60 years. It provides coverage to one girl child in a family who loses her father or mother in an accident
   d. This policy provides medical insurance to poorer section of the people. This policy covers illness like heart attack, jaundice, food poisoning, and accidents etc. that requires immediate hospitalisation.

Chapter VI

Miscellaneous Insurance

Aim

The aim of this chapter is to:

- introduce types of insurance
- narrate miscellaneous insurance
- highlight the importance of each of these insurance

Objectives

The objectives of this chapter are to:

- explain wedding insurance
- describe fidelity coverage's highlights
- elaborate reasons for the need of fidelity insurance

Learning outcome

At the end of this chapter, you will be able to:

- understand burglary insurance
- interpret the things that are not covered under burglary insurance
- know additional benefits provided in burglary insurance

6.1 Introduction

In addition to life, fire and marine insurance, several other general types of insurances are available today. The nationalised general insurance companies have also been offering special schemes meant for rural areas such as crop insurance, cattle insurance, insurance for huts, poultry etc. There is also a social security group accident scheme covering weaker sections of the society.

6.2 Fidelity Insurance

Under this type of insurance contract the insurer undertakes to compensate the insured against the loss caused by misappropriation of funds or goods or damage to the property caused by his employees. Such a policy is useful to the employers who fear embezzlement, forgery, fraud and dishonesty on the part of their employees. Under this, the insured is required to furnish all material facts about the employees and also to notify any change in the condition of their service. The policy can be taken for specific positions rather than names, e.g., accountant, cashier etc. Blanket cover is also available for entire staff or group of employees.

Typical fidelity coverage highlights include comprehensive coverage for**:**

- Employee theft
- Money and securities while on premises or in transit
- Forgery
- Funds transfer fraud
- Computer fraud
- Money order and counterfeit currency fraud
- Credit card fraud
- Optional client coverage
- Coverage for investigative costs for covered losses
- Responds to Employee Retirement Income Security Act of 1974 (ERISA) plan bonding requirement.
- Broad definition of employee, including directors and officers; employees, including part-time, leased, temporary, and seasonal employees; and volunteers.
- Worldwide coverage

Reasons for the need of fidelity insurance

Fraud and embezzlement in the workplace is on the rise, occurring in even the best work environments. According to a leading international accounting firm:

- 80% of workplace crime is carried out by employees
- One in four employees has either committed or witnessed workplace fraud and abuse
- One in four employees committing fraud against their employer has been with the company for more than 10 years
- Only one in three of those who have witnessed a workplace crime bother to report it

The Association of Certified Fraud Examiners has found that:

- Fraud and abuse costs US businesses more than $400 billion annually
- Fraud and abuse costs employers an average of $9 a day per employee
- The average organisation loses 6% of its total annual revenue to fraud and abuse committed by its own employees

These frauds can go on for years, and when discovered the ultimate impact can be enormous. Smaller companies are especially vulnerable to fidelity crimes. Most business insurance policies either exclude or provide only nominal amounts of coverage for loss of money and securities as well as employee dishonesty exposures.

The American Management Association has estimated that employee dishonesty causes as much as 20% of the nation's business failures. White collar crimes can have serious financial consequences, even threatening a private company's survival. InsureHedge offers a solution to handling crime losses committed by employees, through ForeFront Crime Liability Insurance Policy.

6.3 Burglary Insurance

Such a policy provides protection against loss or damage caused by housebreaking, robbery or theft. It is also known as 'robbery, theft or larceny insurance'. For this purpose a comprehensive policy may be taken or each risk may be separately insured. Full details of the article insured are given in the policy. Insured items include gold and gold ornaments and other assets including household items such as TV, fridge, air conditioner etc. A burglary policy for business premises would provide cover against loss to damage by house breaking and burglary of stock-in -trade, goods-in- transit, cash-in-safe, fixture and fittings etc.

The things that are not covered under burglary insurance

- War and warlike operation, Riot & strike, Civil commotion, Terrorist activities, Conclusion of nature and / or consequential loss by use of the keys to the safe unless obtained by force or threat
- Any inmate or member of the Insured's household or his business staff or any other person lawfully in the premises
- Ionizing radiation or contamination by radioactivity
- Nuclear weapons and material

Burglary Insurance policy covers property contained in business premises, stocks owned, or for which insured is responsible or held in trust and/or commission. It also covers cash, valuables, securities kept in a locked safe or cash box in locked steel cupboard on specific request.

Burglary Insurance covers loss or damage caused by

- Burglary and theft (i.e., theft following upon an actual forcible and violent entry of and / or exit from the premises)
- Robbery
- In respect of contents of offices, warehouses, shops, etc. and cash in safe or strong room and also damage caused to the premises.

Extensions

It is possible to extend the policy to include loss of the insured property to cover burglary as a result of riot & strike risks.

It is possible to extend the cover to include theft and larceny not accompanied by violent ingress or exit. The extension does not cover losses detected during routine stock taking/ checking.

Additional benefits provided in burglary insurance is as follows:

- Costs for changing locks and cost for repair of damages caused to the insured premises after an insured event up to 10 % of the total sum insured. This extension is available regardless of whether the insured is a tenant responsible for such repairs or owner of the premises.
- Loss minimisation expenses up to 10 % of the total sum insured.
- Expenses towards restoring paper files, plans, records and drawings, data and installation costs for computer programs up to Rs 10,000.
- Expenses towards clearance of debris and movement and protection up to 10 % of the loss subject to a maximum of Rs 10,000.
- Loss or damage to the properties of the employees of the insured up to Rs 5,000.

6.4 Credit Insurance

Credit insurance policy is taken to cover the loss which may arise due to bad debts or non-payment of dues by the debtors. This insurance is very useful to businessmen who sell goods on credit. It protects them from loss arising out of insolvency of their debtors. In India, Export Credit and Guarantee Corporation (ECGC) provide credit insurance to exporters.

6.5 Workmen's Compensation Insurance

In India, Workmen's Compensation Act was passed in 1934 and 1946. According to this act, an employer is required to pay compensation to his workers who receive injuries or contract occupational diseases during the course of their work. An employer may obtain an insurance policy to cover such liability. The premiums are payable usually on the basis of wages. It is also known as 'Employers Liability Insurance'. This policy is essential to every employer who employs 'workmen' as defined under the Workmen's Compensation Act in order to protect himself against the legal liabilities arising out of death or bodily injury to any workman. It also extends coverage through reimbursement of medical, surgical and hospitalisation expense including transportation costs on the payment of additional premium. The National Insurance Company Ltd, United India Insurance Company Ltd, Oriental Insurance Company Ltd, and the New India Assurance Company Ltd offer workmen's compensation policies.

6.6 Travel Insurance

Travel insurance covers travel related accidents also. While travelling outside India, individuals face risks such as loss of baggage, accidents involving injuries, illnesses and medical emergencies requiring hospitalisation treatment. All this can pose serious consequences to the overseas travellers. A rational person should therefore secure the required coverage before leaving his home country. In India travel insurance has become popular among international travellers.

6.7 Wedding Insurance

These days, weddings have become quite an expensive and elaborate affair. People do take care to make this once-in-a-lifetime event a memorable one. In case of any postponement or cancellation, there is a certain risk of monetary loss. The wedding insurance package can compensate for the monetary loss. This unique product covers the specific risks related to weddings. This policy can protect you against certain types of financial losses you may incur in the event of unpredictable situations during the period leading up to and including your wedding day.

The period of insurance will be 24 hours prior to the start of the customary functions or rituals or programmes of events mentioned in the printed invitations till the end of the function or five days from the beginning whichever occurs earlier.

This policy provides cover for expenses actually and already incurred or advances paid in connection with marriage hall, catering, pandit, guests, music parties, photos and videographer, loss on cancellation of travel tickets etc. Liability is restricted only when such cancellation arises out of cancellation or postponement of marriage. The policy does not cover any loss arising out of the following circumstances

- when marriage is cancelled or postponed because of dispute between marriage parties
- wilful negligence and criminal misconduct of the bride, bridegroom or their parents

6.8 Employee State Insurance Scheme

The Employee State Insurance Scheme (ESIS) is an insurance system which provides both the cash and medical benefits. It is managed by the Employee State Insurance Corporation (ESIC), a wholly government-owned enterprise. It was conceived as a compulsory social security benefit for workers in the formal sector. The original legislation creating the scheme allowed it to cover only factories which has been using power and employing 10 or more workers. However, since 1989 the scheme has been expanded, and it now includes all such factories which are not using power and employing 20 or more persons. Mines and plantations are explicitly excluded from coverage under the ESIS Act.

6.9 Unemployment Insurance

Unemployment insurance is designed to provide short term protection for regularly employed persons who lose their jobs and who are willing and able to work. Unemployment insurance has several basic objectives:

- Provides cash income during involuntary unemployment
- Helps unemployed workers find jobs
- Encourages employees to stabilise employment
- Helps stabilise economy

Unemployment insurance is a popular concept in developed countries like US where they have well defined laws and regulations. However in India, it will take a long time to come.

6.10 Personal Liability

Personal liability insurance provides protection against the legal liability, which arises due to insured's personal acts. The insurance company will pay for legal defence to third party damages or injuries up to policy limit. Except legal liability, which arises due to automobile accidents and professional liability, most other personal acts are covered under personal liability insurance. The personal liability insurance covers damages caused to properties and injuries to other people due to the negligence of the insured.

Under this policy, the insurance company is bound to defend the insured, should the matter go to court of law. It can also settle the matter out of court by negotiating with parties for a settlement within the policy limit. Personal liability policy offers very wide coverage.

The following instances of loss, damages or injuries caused by an insured individual come under the purview of personal liability insurance in which coverage will be available up to the policy limit.

- Accidental fire to neighbours house as a result of insured's negligence
- Accidental injury to a third party while playing
- Damaging costly antique accidentally belonging to neighbour
- Injuring another person while riding a bicycle

6.11 Types of Home Insurance

Insurance is a thing that everybody needs to have. You need insurance for yourself, your family members and for your property. You need to have a life insurance policy so that if you die suddenly your family members can claim for compensation to insurance company. It is very essential for you to have a mediclaim or health insurance policy so that if you or any one from you family need to get admitted in hospital you may get the money needed for treatment from the insurance company. Similarly you need to keep your home or residential property under insurance coverage so that if any damage occurs to it you get compensated for it. Home insurance is one of the most important parts of general insurance and there are thousands of insurance companies across the world that guarantee to pay compensation for any kind of damage to the residential property of people. Home insurance has proved to be one of the most essential thing for people and that is why the companies offering home insurance are now earning huge revenue by serving their clients throughout the year.

Insurance companies offer various types of home insurance across the world that does not only cover damage on residential properties but also of household properties in a residential property.

- Building insurance and content insurance are the two most important types of home insurance that covers damages to both your house and the equipments that you possess inside your house. The only thing that is not covered under contents insurance is the fabric of your home. Damages that are covered by both types of home insurance are given below:
- Damage due to fire
  - Damage occurring to house as an effect of riot ,strike
  - Damage due to any kind of explosion or implosion

- Effect of earthquake
- Damage to house or electrical, equipments due to lightning
- Damage occurring due to storm, cyclone, tempest, tornado, hurricane, flood and inundation
- Damage due to impact by vehicles
- Damage due to missile testing operation
- Damage occurring due to subsidence, landslides and rockslides
- Leakage from automatic Sprinkler installations
- Damage due to air crash
- Damage caused by bursting or overflowing of water tanks, apparatus and pipes

6.12 Building Insurance

Building insurance is an insurance coverage that protects a property owner should events take place that lead to damage to the insured structure. Individuals and businesses that own office buildings, plant facilities, or rental properties where the building is leased out to others often find that buildings insurance is a very wise investment. The coverage remains in effect until the property owner chooses to sell the property. At that point, the new owner is responsible for purchasing and maintaining building insurance.

- With both the insurance either home or commercial building insurance, the owner of the structure is protected from a wide range of potential threats. The terms and conditions of the home building insurance policy usually cover natural disasters such as floods, hurricanes, tornadoes, or landslides. Landlords of rental properties also enjoy these same types of coverage as well as protection from damage to property that renders the some area of the building unfit for leasing or renting.
- The exact scope of protection provided by the building insurance coverage will depend on a number of factors. The physical location of the property will be a major factor in what types of protection are included in the policy For example: it may be difficult to obtain coverage for flooding when the building is located in a known flood plain. If the coverage is available, it is often at a higher premium, since the location would classify the property as a higher risk. Current market value of the building will also play a role in determining the required amount for building insurance coverage. The idea is to make sure that the coverage is adequate to allow the owner to restore the property to a condition where it can be used for its intended purpose. That means the coverage should be sufficient to allow the owner of rental property to repair or rebuild the damaged structure in order to make it possible to lease space in the building once more.
- When attempting to obtain a business insurance quote, it is a good idea to speak with several different providers. This allows the property owner to compare rates as well as coverage amounts. At the same time, the owner may be advised of improvements or safeguards that would make it possible to obtain more coverage for a smaller premium. Buildings equipped with up to date security systems are much more likely to qualify for coverage than buildings with no type of security in place. When the owner becomes aware of these types of improvements, it is often cost-effective to implement the enhancements then reapply for the coverage at a lower premium.

6.13 National Agricultural Insurance Scheme (NAIS)

The National Agricultural Insurance Scheme, which is being implemented by the company, on behalf of the Union/ State/UT Governments, is the main business of the company. The company's emphasis is towards educating the farmers and creating Crop Insurance awareness. During the year 2005 -06, the number of farmers insured under NAIS grew by 3.08% to 167.18 lakhs farmers, with corresponding increase in premium booked by 3.72%.

New products launched

Some of the new products introduced by the company with the sustained R&D efforts include the following:

- Sookha Suraksha Kavach
- Coffee Insurance
- Mango Weather Insurance

Sookha Suraksha Kavach

The company had launched another rainfall index based insurance product, specially designed for the state of Rajasthan. It was implemented in a few districts for the benefit of farmers in drought-prone areas. The product has been designed to cover popular and widely grown crops like Guar, Bajra, Maize, Jowar, Soyabean and Groundnut which are grown in the semi-arid climate of Rajasthan.

Coffee rainfall index & area yield insurance

Coffee Rainfall Index & Area Yield Insurance has been introduced on a pilot basis in the state of Karnataka, to indemnify the coffee growers against the likelihood of diminished coffee yield resulting from either shortfall in actual rainfall index within a specified geographical location and a specified time period, and/or yield losses due to other non-preventable natural factors. In all 58 coffee planters, an area of 514.21 hectares was insured for Rs. 169.43 lakhs against a Premium of Rs. 3.66 lakhs. No claims have so far been reported.

Mango weather insurance

The Company has come out with a product to insure the Mango crop under weather insurance. The Mango crop is extremely vulnerable to weather factors like excess rainfall, frost, temperature-fluctuations, and wind-speed. The company has designed Mango Insurance for a few districts of Andhra Pradesh, Maharashtra and Uttar Pradesh on a pilot basis. The product is unique in the sense that, as many as four weather parameters are used as triggers for indemnity. The product has been designed after an extensive field study and discussions with the scientists working on mango cultivation.

6.14 Aviation Insurance

Aviation industry is vulnerable to risks of devastating losses. If a single aeroplane crashes, lives of hundreds of people are lost along with the aircraft besides the damage caused to the place where the accident occurs. Insurance is, hence, of paramount importance for this industry. The most common coverages of aviation insurance are:

- Aircraft liability insurance
- Hull coverage
- Personal accident

The premium rate for each aircraft is driven by international reinsurance markets, mainly @ UK, based on the world trend in claims experience during the preceding years.

Aircraft liability insurance

- The liability in case of aviation insurance is divided into two categories:
- Passenger Liability
- Death and injuries to third parties
- There are some policies that cover both these categories as well as property damage with a single l imit to cover all three of them (like floating policies in fidelity guarantee).

Admitted liability

Here, specific amounts are allocated beforehand to the various kinds of injuries like the loss of a limb, eye or life. The policy is written on ‘per seat’ basis. In case of an accident the insurer offers the payment along with the release of liability against the insured. The injured party is required to sign the release against the insured if he wants payment from insurer. Otherwise he will have to obtain compensation on his own. As the insurer voluntarily offers compensation on the occurrence of accident, this policy is also called “voluntary settlement charge”.

Medical payments

The aircraft liability insurance also provides coverage of medical payments for injuries sustained while travelling in or entering or alighting from the aircraft. This policy coverage is available only if the policy includes passenger bodily injury liability.

6.15 Hull Coverage

Hull refers to the body and machinery of the aircraft. Some policies provide open perils coverage both on ground and in flight whereas others restrict the open perils coverage to ground only. In flight policies do not cover crash or collision. They cover perils of fire, lightning or explosion in air. In India the following are the important policies available in aviation insurance.

Aircraft hull and spares all risks aviation liability insurance (Airlines)
This policy is best suited for scheduled airlines.

Covered risks: Accidental physical loss or damage to the aircraft/aircraft spares; legal liability to third parties towards bodily injury/death and property damage; passenger(s) bodily injury/death baggage, cargo and mail. Premises, hanger keepers, catering and vehicle liability on airports also can be covered.

Aircraft hull/liability insurance policy
This policy is meant for the owners/operators of smaller aircrafts used for private pleasure, training, industrial aid, business, commercial, offshore operations etc.

Covered risks: Accidental physical loss or damage to the aircraft; bodily injury/death of the passenger(s), loss of passenger's baggage and bodily injury/death and property damage to the third parties.

Aviation fuelling/refuelling liability insurance policy
This policy is meant for the suppliers of ATF (Aviation Turbine Fuel).

Covered risks: Legal liability to third parties arising out of injury/death and property damage.

Aviation personnel accident (Crew members)
This policy is meant for pilots and other crew members.

Covered risks: Accidental bodily injury, disablement (temporary / permanent) and death. Policy operates worldwide.

Loss of license insurance
This policy is meant for operating crew, pilots, co-pilots and flight engineers.

Covered risks: Suspension or termination of license due to disease, sickness or accident. Policy operates worldwide

6.16 Golfer's Indemnity Insurance

While playing a sport like golf, if a person accidentally injures other persons, then he is responsible for the other person's injuries. Golf indemnity insurance provides protection against losses or damages to the golf players and their golf equipments. It also provides protection against public liability resulting is death or disability. All golf players or sports persons can insure themselves under golfer insurance policy in order to protect their rights and interests as sports persons.

Coverages:
The following risks are covered under golfer insurance:

- Any material damages to golf equipment while transporting the equipment, which includes breakage of golf clubs.
- Injury to third party who is not a family member or employee of insured person.
- If the insured is injured during the golf course in India, he is entitled to receive personal accident benefit up to Rs.25,000.

Exclusions:
The golf indemnity insurance does not cover the following losses:

- Losses due to war or invasion, nuclear perils, riots
- Damages due to earthquakes, floods etc
- Loss or damage brought about by the insured either directly or indirectly
- Any consequential losses, losses due to depreciation and wear and tear

In India, National Insurance Company (NIC), Oriental Insurance Company (OIC), United India Insurance Company (UIIC) and New India Assurance Company (NIAC) and other private insurance companies offer Golf insurance.

6.17 Baggage Insurance

This policy covers the baggages carried during a journey and temporary stay in any hotel or rest house during the course of the journey. The cover includes apparels, wrist watches, fountain pens and other items but excludes articles like jewellery and valuables, cameras, opera glasses etc. the maximum sum that can be insured depends upon the insurance company's underwriting policy. Pilferage is not covered under this policy.

Claims
A separate department deals with the claims of the burglary insurance policy. As soon as the insured intimates information of burglary to the insurer, a bank claim form is sent to him along with the suggestion to file a police complaint, if not filed yet. The claim form is required to be filled and returned to the insurer within a week with the copy of FIR attached. The claim form contains the details of the burglary. Examples: the description and value of property stolen, the details of the burglary and premises, the ownership of the property, other insurance policies covering the lost or damaged property, previous losses if any and the details of the notice to the police (if notice has not been given, the reasons for it).

After the claim form has been submitted a thorough investigation of the case is carried out by a professional claim investigator. They work in cooperation with the police and check various details like:

- The authenticity of the claim
- Whether the event that has caused the loss was an insured peril
- If the loss was excluded in the policy
- Whether the property was insured under the policy
- Whether the insured followed the conditions and warranties stated in the policy, etc.

6.18 Bankers' Indemnity Insurance

This is also referred to as bankers' blanket cover and accordingly it provides insurance against fire perils, burglary, cash in transit, fidelity guarantee and marine insurance. This policy provides comprehensive insurance cover to the banking sector.

Coverage:
This policy covers the direct losses of money and/or securities discovered during the period specified in the policy. More specifically, it covers the following losses:

- Premises: By fire, riot and strike, burglary or house breaking or hold up resulting in loss to money/securities at the premises.
- Transit: Lost, stolen, mislaid, misappropriated or made away either due to negligence or fraud of employees of the insured whilst in transit.
- Forgery: Loss by bogus, fictitious or forged or raised cheque/drafts/FDRs or forged endorsements.
- Dishonesty: Loss of money and/or operations due to dishonesty.
- Hypothecated goods: By fraud and/or dishonesty or criminal act of the insured employees.

- Registered postal sending: Loss of parcels by robbery, theft or by other causes to the parcels insured with the post office.
- Appraisers: Infidelity or criminal acts by appraisers on the approved list.
- Janata agents:Infidelity or criminal acts by Janata agents/Chhoti Bachat Yojana Agents/Pygmy collectors.

Meaning of the terms used: "Money" includes bank notes (signed and unsigned), bullion, coins, currency, jewellery, ornaments, postage & revenue stamps (uncancelled) and stamp papers.

Summary

- The nationalised general insurance companies have also been offering special schemes meant for rural areas such as crop insurance, cattle insurance, insurance for huts, poultry etc. There is also a social security group accident scheme covering weaker sections of the society.
- Burglary Insurance covers loss or damage caused by burgulary and robbery.
- Burglary Insurance policy covers property contained in business premises, stocks owned, or for which insured is responsible or held in trust and/or commission
- Credit insurance policy is taken to cover the loss which may arise due to bad debts or non-payment of dues by the debtors.
- Personal liability insurance provides protection against the legal liability, which arises due to insured's personal acts.
- Types of Home insurance include the following: Building insurance and content insurance.

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Self Assessment

1. _____ policy is useful to the employers who fear embezzlement, forgery, fraud and dishonesty on the part of their employees.
   a. Fidelity
   b. Health
   c. Fire
   d. Accident

2. Fraud and embezzlement in the workplace is on the rise, occurring in even the best _____ environments.
   a. casual
   b. formal
   c. work
   d. tensed

3. The American Management Association has estimated that employee dishonesty causes as much as _____ of the nation's business failures.
   a. 25%
   b. 30%
   c. 60%
   d. 20%

4. Any material damages to golf equipment while transporting the equipment, which includes breakage of _____ clubs.
   a. football
   b. tennis
   c. basketball
   d. golf

5. _____ Insurance policy covers property contained in business premises, stocks owned, or for which insured is responsible or held in trust and/or commission.
   a. Wedding
   b. Burglary
   c. Accident
   d. Health

6. Which of the following statement is false?
   a. Fraud and embezzlement in the workplace is on the rise, occurring in even the best work environments.
   b. White collar crime cannot have serious financial consequences even threatening a private company's survival.
   c. InsureHedge offers a solution to handling crime losses committed by employees, through ForeFront Crime Liability Insurance Policy.
   d. Burglary Insurance policy covers property contained in business premises, stocks owned, or for which insured is responsible or held in trust and/or commission.

7. Which of the following statement is false?
   a. One in four employees committing fraud against their employer has been with the company for more than 10 years.
   b. One in four employees has either committed or witnessed workplace fraud and abuse.
   c. Only one in three of those who have witnessed a workplace crime bother to report it
   d. Larger companies are especially vulnerable to Fidelity crimes.

8. State which of the following statement is true?
   a. It is not possible to extend the policy to include loss of the insured property to cover burglary as a result of riot & strike risks.
   b. bIt is possible to extend the cover to include theft and larceny not accompanied by violent ingress or exit. cWar and warlike operation, Riot & strike, civil commotion, Terrorist activities conclusion of nature and / or Consequential loss by use of the keys to the safe unless obtained by force or threat.
   c. Burglary Insurance policy covers property contained in business premises, stocks owned, or for which insured is responsible or held in trust and/or commission.

9. State which of the following statement is false?
   a. Fraud and abuse costs U.S. businesses more than $400 billion annually.
   b. Fraud and abuse costs employers an average of $9 a day per employee.
   c. The average organisation loses 10% of its total annual revenue to fraud and abuse committed by its own employees.
   d. Frauds can go on for years and when discovered the ultimate impact can be enormous.

10. State which of the following statement is false?
    a. It is possible to extend the policy to include loss of the insured property to cover burglary as a result of riot & strike risks.
    b. It is possible to extend the cover to include theft and larceny not accompanied by violent ingress or exit. The extension does not cover losses detected during routine stock taking/ checking.
    c. Credit insurance policy is not taken to cover the loss which may arise due to bad debts or non-payment of dues by the debtors. This insurance is very useful to businessmen who sell goods on credit. It protects them from loss arising out of insolvency of their debtors.
    d. In India, Export Credit and Guarantee Corporation (ECGC) provides credit insurance to exporters.

Chapter VII

Underwriting

Aim

The aim of this chapter is to:

- highlight the importance of underwriting
- narrate the objectives of underwriting
- define the meaning of underwriting

Objectives

The objectives of this chapter are to:

- explain underwriting of non life insurance
- describe the process of underwriting
- elaborate the meaning of underwriting

Learning outcome

At the end of this chapter, you will be able to

- understand the concept of rate making
- interpret different ways of underwriting
- know underwriting authority

7.1 Introduction

Underwriting as an art began in the United Kingdom since Victorian times. Where upon a trader began the practice to insure against the perils involved in a sea voyage. It included the goods in transit against known perils such as piracy, weather perils and goods destroyed in the voyage against the payment of a pre-agreed sum by the trader(s). In the early days of marine insurance tails of a ship or cargo to be insured were described on a slip. This slip was taken to Lloyde, the person who was to carry the risk read the details, then signed the slip under the details of this way, the person carrying the risk was known as the underwriter. The genesis insurance business also evolved from the United Kingdom and the first insurers was the industries insurance. Underwriting is primarily based on the analysis of claim experience by different portfolio sectors that relate to premiums and exposures. Underwriting of personal lines and small-medium business insurance involves analysis at the product and risk level, while large commercial insurance underwriting requires individual client claims analysis.

7.2 Objectives and Principles of Underwriting

Insurance underwriting is the process of choosing who and what the insurance company decides to insure. This is based on a risk assessment. It is pretty much "behind the scenes" work in an insurance company where they determine who is insured and how much insurance premiums they will charge to the insured person. Insurance underwriting also involves choosing who the insurance company will not insure.

The primary objective of underwriting is to see that the applicant accepted will not have an experience that is very different from that assumed when the rates were formulated. The standards of selection relating to physical and moral hazards are set up when rate were calculated, and the underwriter must see that these standards are observed when a risk is accer. E.g., a company may decide that it will accept no fire exposures situated in areas where the fire department protection is situated or will accept no one for life insurance who has had cancer within previous five years. When reviewing an application for property insurance for a piece of property, such as a farm, to calculate where there is no fire department protection or when reviewing an application for insurance in which the individual had cancer four and half years ago, the underwriter asks questions. Questions such as "Can I make an exception for this application, or should I reject it because it does nothing with the technical limitations of my instructions?" In answering this question, the underwriter visualises what would happen to the company's loss experience if a very large number of ideas were accepted. If the aggregate experience would be very unfavourable, the underwriter probably rejects the application.

The objectives of underwriting can be expressed as follows:

- Product Equitable to Customer: The underwriter should fairly assess the risk in a proposal and fix the premium justifiable to the consumer.
- Deliverable to the Customer Consumers: These are the final authority for buying the products. Marketers are not able to sell so that the product becomes undeliverable, the bonus is given to sound writers to carry an introspection of the various factors that caused differences between consumers and company's expectations.
- Financially Feasible to the insurance Company: The insurers are not in the business of change. The underwriting benefit must be reflected by the financial statements. Although, underwriters are not directly involved in the pricing of insurance products, yet their contribution is as vital as that of actuaries, because they operationalise the business of risk. most of the insurance companies formulate underwriting policy which provides the frame word writing decisions. It is also called as the underwriting philosophy. The underwriting specifies the line of insurance that will be written as well as prohibited exposures, the amouverage to be permitted on various types of exposure, the area of the country in which each line written, and similar restrictions. Generally, the individual who applies the underwriting rule guidelines, called the desk underwriter, do not involve in forming the company underwriting.

- The underwriting philosophy also describes in general terms how the underwriter will use reinsurance its risk management. The underwriting philosophy can be translated into underwriting guide which specify the general standards that specify which applicants are to be assigned to the established for each insurance product. Life insurance, the underwriter is assisted by medical reports from the physicians that exam applicant, by information from the agent, by an independent report (called inspection report applicant prepared by an outside agency created for that purpose, and by advice from co company's own medical advisor. In property-liability insurance (as well as life insurance)
- Rewriter has the services of reinsurance facilities and credit departments to report on the fine.
- Ending the applicants and also can review loss of histories of applicants.

7.3 Underwriting in Non-Life Insurance

The underwriting of commercial, business insurances is a much more complicated and involved commercial insurances range from small shops and factories to large multinational corporations, rations in many countries throughout the world. The degree of complexity of the underwriting requirement would obviously vary with the sheer size of the risk, but certain basic principle fundamental.

The essence of the task is that the underwriter has to evaluate the hazard associated with the insurance which is being proposed. In small cases he may be able to do this from reading a proposal for responding with the sponsor. It may be that a local inspector is asked to call and see the factory for himself. In large cases this is simply impossible. Detail of the risk could not be confined proposal form since there is just too much information to condense, no matter how large they be. The insurance companies may take the help of brokers in these cases. The broker insteps will be in a position to prepare the case for the underwriter. This may mean site inspection broker and the preparation of plans and reports on the relevant aspects of the risk.cumentation, which may be extremely extensive, is then passed to the underwriter and negotiating commence on the terms, conditions, cover and price. general sources of information are available to the underwriter regarding the hazards of a common applicant for property and liability insurance:

- Application Containing the Insurers Statements: The basic source of underwriting information the application, which varies for each line of insurance and for each type of coverage. The brand more liberal the contract, usually more detailed information is required. The questions application are designed to give the underwriter the information needed to decide whether to accept the exposure, reject it or ask for additional information.
- Information from the Agent or Broker: In some line of non-life insurance, the agent exercises his underwriting authority. For commercial insurances, the profit-sharing contract also entered with the agents, whereby the agent derives a special incentive if the business brought by him has resulted in a profit to the company.
- Prior Experiences: The past history of claims is also a source of information. In case of ex clients where the claims experience has been unfavourable, the insurance company penalise loads premium for new businesses or renewals of the existing ones.
- Inspection: Surveys are also conducted by the company's specialists/consultants to find accuracy of information as contained in the proposal form.

7.4 Process of Underwriting

The process of underwriting is explained below:

Collecting the necessary information

To begin the underwriting process, an underwriter needs to have several pieces of information in order to provide the most accurate evaluation of a potential policyholder. This information includes the insurance application (previously completed by the customer or their insurance agent), VIN numbers (Vehicle Identification Number) for any vehicles to be insured, MVRs (Motor Vehicle Reports) for any drivers to be insured, loss histories from previous insurers, photographs of properties to be insured, and any other information related to the type of insurance being underwritten (commercial, small business, homeowner's, health, etc.).

Analysation

Once the required information has been collected, the underwriter can begin to analyze each piece of information. Underwriters are governed by underwriting guidelines set forth by their company. Therefore, all information is evaluated against these guidelines. Underwriters have different levels of authority, as well. If the information and analysis reveals that a decision needs to be made by someone with a higher level of authority it will then be passed on to that particular underwriter.

The main purpose of analysis is to determine how much risk a particular customer will bring to the company. A client with no losses, clean driving records, and good to perfect credit is preferable to one who has had several losses, driving violations or issues of imperfect credit.

Identifying options

Once the analysis of the provided information is complete, the underwriter basically has three options:

- Accept the application and approve a policy
- Reject the application and deny coverage/refuse to write a policy
- Approve an application with conditions attached (lower coverage limits, modification of loss control practices, higher premiums)
- After the underwriter chooses how to proceed, the application will either be forwarded to the policy processing department, back to the agent for modifications and review with the customer, or a rejection letter will be sent to the agent and the customer.

The importance of underwriting

Without underwriting, an insurance company would be placed on shaky ground with regards to its financial stability. Underwriting ensures that a company will not be confronted with a consistent barrage of losses. Just as a customer is evaluated to determine their risk, an insurance company has to evaluate its own tolerance for risk, and has to determine the ratio of favorable policyholders to those with a less favorable profile.

Each insurance company has its own underwriting guidelines and standards for who they will and will not insure. The underwriting process is the method of determining that the company continues to function within workable boundaries.

7.5 Underwriting Authority

For a general insurance company, underwriting business is the basic core activity. All other activities, in fact, emanate from this core activity only. Not much attention was being paid to this core activity in the nationalised set-up under tariff era. Underwriting was reduced to referring to the pages of tariff. There was no application of mind. Any innovation was out of question. The customer has to tailor his needs according to the available products rather than it being other way. In an environment like this the underwriting skill and expertise development saw a decline. Then came the liberalisation of insurance sector and gradual withdrawal of tariff with the ultimate aim of ushering in a fully tariff free regime. Suddenly underwriting became all important. The environment became very competitive. Profit and solvency concern forced insurance companies to relook at there underwriting operation. Then came IRDA regulation on “File & Use” system. This meant amongst other, all insurance company must have

- An underwriting policy duly approved by the board
- The pricing has to be actuarially evaluated and if it is subsidized, this has to be spelt out.
- The concept of appointed actuary in general insurance company has come.
- Nominated underwriters and issues connected with that.
- Marketing and underwriting delinked.

Then there are regulations to protect policyholders interests and certification of outstanding claims provisioning by Appointed Actuary. These regulations have their own bearing on underwriting and pricing, which cannot be ignored now. There is now talk of risk perception based effective underwriting. Risk management and related issues are increasingly becoming crucial and important which is the way it should always be. Persuit of premium for obvious reasons is the goal of all general insurance companies. But this premium underwritten must be quality premium and must generate profit. The excellence and the quality of underwriting will determine the long term survival of general insurance companies. This realisation is now coming. Then there are whole lot of other issues (e.g. marketing, claims settlement, investment operation, etc.) which are dependent upon the underwriting operation of the company. The underwriting issues therefore can not be seen in isolation and there is a need to relook at things in the present day context.

7.6 Rate Making

Rate of premium is fixed on the basis of the following principles:

- Premium varies with intensity of risk to the loss or damage to subject matter of insurance.
- Assessment of variation in intensity of risk. It must be classified on the basis of risk involved.
- Intensity of risk is determined on the basis of past loss experience.

7.7 Intensity of Risk

The first principle says more the risk higher the premium. Premium increases with probability of risk and intensity of risk e.g., Goods carriers are exposed to more risk than private vehicles, so attract higher premium.

Classification of risk

Rate of premium charged should be based on risk exposure in each individual case. But it is not feasible. So risk is classified in broad classified in broad categories. Further sub- division is made within these categories based on risk exposure e.g. Categories Private cars and commercial vehicles.

Further sub division is made on the basis of cubic. Higher the cubic capacity, more the premium.

7.8 Underwriting in Special Policies

- In any mutual company, the ultimate objective is to furnish policyholders with protection at the lowest cost commensurate with good service and safe and progressive management. The Ordinary Department of the Metropolitan Company yields to no company in this test of all round efficiency. Unprecedented low cost in this Department has been achieved despite serious handicaps.
- One must not forget that the average Ordinary policy in the Metropolitan is considerably lower in amount than in purely Ordinary companies. This is a notable item. Few Metropolitan policyholders buy large amounts of insurance, and for this reason it is imperative that expenses per policy be reduced to a minimum.
- New methods have been devised to improve efficiency. Much effort has gone into building a skillful organisation in the Home Office to overcome the handicap of small policies.
- The mortality experience is also a major factor in determining the life insurance quotes/rates for term life insurance and even farmers insurance. Low mortality is, in fact, the major cushion or factor of safety in Company operations during the present period of low interest rates.
- Offhand, it might be assumed that Metropolitan mortality would be higher than that of strictly Ordinary companies, because its policyholder group is composed largely of wage earners who suffer greater exposure to occupational hazards.
- Despite this factor the type of Metropolitan selection and underwriting of risks has produced a very favorable experience. Virtually all Metropolitan insurance is written by its fulltime representatives, who have a natural interest in good service to their own company.
- Furthermore, with policies of small average size, the element of selection against the Company and the adverse speculation so frequently associated with insurances for large amounts, so- called “jumbo” cases, are reduced. The net result has been an excellent ordinary mortality experience.

- Underwriting problems are, of course, complex for a company like the Metropolitan, which has such a variety of insurance as the Whole Life policy, the standard policies, and the three substandard branches - Intermediate, Special Class, and Special Class B.
- When an application is received, it must be reviewed in the light of the information given as to the health, habits, occupation, and financial condition of the applicant, and appraised as to his comparative status in these respects.
- Insurance in the proper standard or substandard branch is issued on the basis of this appraisal. In the interest of complete justice to applicants, it is imperative that the Underwriters judgment be based upon sound and up-to-date information on the factors influencing the level of mortality.
- For that purpose, the Metropolitan alone, or in association with other companies, regularly conducts investigations into the mortality of various classes of insured persons, especially on those in occupations presenting any type of hazard and those with various impairments or with adverse medical histories. The underwriting practices are modified from time to time as the result of such studies.
- It is significant that the proportion of men and women eligible for standard life insurance has increased steadily over the years. Affordable life insurance (both term and whole life insurance) is becoming available to more people than ever.
- Today, more than 90% of the applicants for insurance in the Ordinary Department are medically eligible for standard insurance, and all but 3.5 % are eligible for either standard or substandard policies. Many classes of workers, who in earlier days were ineligible for Ordinary insurance because of occupation, are now accepted as standard risks.
- It may be noted, too, that the Company keeps its methods of medical examination up to date, with the result that the medical selection of applicants is increasingly accurate and liberal.
- Those in charge of underwriting - the Medical Directors, the Actuaries, and the Application Approvers - have the responsibility of making sure that every applicant pays the premium for his protection which is commensurate with the degree of risk undertaken by the Company. The Underwriters in the Metropolitan have carried their responsibility toward the successful administration of the Ordinary Department with flying colors.

7.9 Reinsurance

Although to many, reinsurance is a relatively unknown aspect of the insurance industry, its root traced as far back as the late 14th century. From that time forward, reinsurance evolved intesiness as it operates today. While the early focus of reinsurance was in the marine assurance lines, it has expanded during the last century to encompass virtually every aspect modern insurance market. Reinsurance is a device whereby the insurance company may rebuke by transferring a portion to one or more insurance companies. Reinsurance is a special, tehchnically, competitive industry whose existence makes possible a more effective institution of risk

Definition: Reinsurance is a transaction in which one insurer agrees, for a premium, to indemnify another inanest all or part of the loss that insurer may sustain under its policy or policies of insurance company purchasing reinsurance is known as the ceding insurer; the company selling reinsurance own as the assuming insurer, or, more simply, the reinsurer. Reinsurance can also be described as insurance of insurance companies.

Summary

- Insurance underwriting is the process of choosing who and what the insurance company decides to insure. This is based on a risk assessment.
- Insurance underwriting is primarily based on the analysis of claim experience by different portfolio sectors that relate to premiums and exposures.
- The primary objective of underwriting is to see that the applicant accepted will not have a experience that is very different from that assumed when the rates were formulated.
- The insurers are not in the business of change. The underwriting benefit must be reflected by the financial statements. Although, underwriters are not directly involved in the pricing of insurance products, yet their contribution is as vital as that of actuaries, because they operationalise the business of risk. Most of the insurance companies formulate underwriting policy which provides the frame word writing decisions.
- The mortality experience is also a major factor in determining the life insurance quotes/rates for term life insurance and even farmers insurance. Low mortality is, in fact, the major cushion or factor of safety in Company operations during the present period of low interest rates.
- The past history of claims is also a source of information. In case of ex clients where the claims experience has been unfavourable, the insurance company penalise loads premium for new businesses or renewals of the existing ones.

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Self Assessment

1. Which of the following is false?
   a. Insurance underwriting is the process of choosing who and what the insurance company decides to insure.
   b. Insurance underwriting involves choosing who the insurance company will not insure.
   c. Insurance underwriting involves choosing who the insurance company will insure.
   d. Insurance underwriting is primarily based on the analysis of claim experience by different portfolio sectors that relate to premiums and exposures.

2. The primary objective of _____ is to see that the applicant accepted will not have an experience that is very different from that assumed when the rates were formulated.
   a. underwriting
   a. client
   b. rewriter
   c. insurer

3. Which of the following is false?
   a. The underwriter should fairly assess the risk in a proposal fix the premium justifiable to the consumer.
   b. The underwriting benefit must be reflected by the financial statements.
   c. Most of the insurance companies formulate underwriting policy which provides the frame word writing decisions.
   d. Most of the insurance companies formulate underwriting policy which does not provide the frame word writing decisions.

4. _____ has the services of reinsurance facilities and credit departments to report on the fine.
   a. Underwriter
   b. Rewriter
   c. Client
   d. Insurer

5. Which of the following is false?
   a. The underwriting of commercial, business insurances is a much more complicated and involved commercial insurances range from small shops and factories to large multinational corporations, rations in many countries throughout the world.
   b. The degree of complexity of the underwriting requirement would obviously vary with the sheer size of the risk, but certain basic principle fundamental.
   c. The degree of complexity of the underwriting requirement would not vary with the sheer size of the risk, but certain basic principle fundamental.
   d. Detail of the risk could not be confined proposal form since there is just too much information to condense, no matter how large they are.

6. Which of the following is true?
   a. If the information and analysis reveals that a decision needs to be made by someone with a higher level of authority it will then be passed on to that particular underwriter.
   b. If the information and analysis reveals that a decision needs to be made by someone with a higher level of authority it will then be passed on to that particular rewriter.
   c. If the information and analysis reveals that a decision needs to be made by someone with a higher level of authority it will then be passed on to that particular company.
   d. If the information and analysis reveals that a decision needs to be made by someone with a higher level of authority it will then be passed on to that particular client.

7. A _____ with no losses, clean driving records, and good to perfect credit is preferable to one who has had several losses, driving violations or issues of imperfect credit.
   a. rewriter
   b. underwriter
   c. client
   d. insurer

8. Which of the following is false?
   a. Without underwriting, an insurance company would be placed on shaky ground with regards to its financial stability.
   b. Underwriting ensures that a company will not be confronted with a consistent barrage of losses.
   c. Each insurance company has its own underwriting guidelines and standards for who they will and will not insure.
   d. Without rewriting, an insurance company would be placed on shaky ground with regards to its financial stability.

9. The _____ process is the method of determining that the company continues to function within workable boundaries.
   a. underwriting
   b. reinsurance
   c. application
   d. claim

10. What increases with probability of risk and intensity of risk?
   a. Claim amount
   b. Principle amount
   c. Loss amount
   d. Premium

Chapter VIII

Claims Settlement

Aim

The aim of this chapter is to:

- introduce the process of claim settlement
- define the meaning of claim settlement
- highlight the importance of claim settlements

Objectives

The objectives of this chapter are to:

- explain claim handling
- describe the IRDA guidelines of claim settlements
- elaborate on types of claims

Learning outcome

At the end of this chapter, you will be able to:

- understand maturity claim
- interpret the concept salvage
- know how to file an auto claim

8.1 Introduction

Underwriting and claims settlement are the two most important aspect of the functioning of an insurance company. Out of any insurance contract, the customer has the following expectations:

- Adequate insurance coverage, which does not leave him high and dry in time of need, with right pricing.
- Timely delivery of defect free policy documents with relevant endorsements / warranties / conditions / guidelines.
- Should a claim happen, quick settlement to his satisfaction.

Unlike life insurance, where all policies necessarily result in claims – either maturity or death in general insurance not all policies result in claim. Approximately around 15% policies in general insurance result in claim. The claim settlement in general insurance thus have their own peculiarities and therefore need proper handling. Also how 15% policy holders are attended is of great importance. The services being rendered will determine the attitude of the customers. How the services being rendered is perceived by the customer? That also needs to be kept in mind. Do we have a mechanism to find out the same?

The insurance companies have hitherto been handling the claim rather than managing them. Typically this process involves:

- As soon as a claim is reported, the insurance company checks as to whether the cover was in force at the time of loss and whether the peril is covered under the policy.
- A surveyor is appointed who visits the spot, do the assessment and submits the report.
- Insurance company examines the report, calls for relevant supporting documents.
- On receipt of survey report and documents, the same are examined. The claim file is processed and settlement is offered.

The claims handling is thus more process oriented and does not pay adequate attention to the monitoring and claims cost aspect as also to the service parameters.

In the present liberalised scenario, with cut-throat competition being the order of the day, the insurance companies have to go much beyond the handling of claims. The following aspect needs to be kept in mind.

- General insurance being a market driven service industry, the customer has to be kept satisfied. With so many options available, a customer once lost is most likely a loss forever. Claim settlement can be used as a marketing tool. Brining in a new customer is much more costly than retaining the existing ones.
- In a de-tariff market, pricing will be the key factor. Proper claims management quick settlement at optimal cost will help keep the price competitive.
- A dissatisfied customer is a bad publicity. It has all the potential to damage the reputation of the company. It is an accepted fact that most of the customers complaint relate to claims. It should be the endeavour of any insurance company to ensure that such complaints do not occur in the first place and in some cases if they do occur it is attended promptly, efficiently and transparently.
- IRDA guidelines on 'protection of policyholders' interest' stipulates certain obligation on the part of insurance company including time limit for claim settlement. This is a regulatory requirement and insurance company personnel at every level must understand its implication.
- Delayed claim settlement generally result in higher claims cost. Claims cost is a very important factor vis-à-vis profitability. Why do delays take place in claim settlement? Nobody will buy the excuse that the claimant is not forthcoming with documents and other requirements for settlement of claim. Is it because of the delay in submission of survey reports? If so, who is responsible for this. Are we undertaking necessary follow up steps for timely submission of report. The surveyors are duty bound as per IRDA regulations to submit report within a stipulated time. Even after submission of report and completion of other requirements how much time does it take to finally issue settlement cheque and its delivery to the claimant. Do we have a system to monitor it? How about our accounts department people meeting the claimants for a change to understand "the sensitivity of the client" so that they are better sensitised on the issue.

- Claims files must be monitored as they progress. A little time spent thinking clearly right from the beginning will avoid lot of unnecessary and time consuming patch-ups and straightening out later on. Unpleasant decisions conveyed timely with proper justification of the decision is better than procrastination which is bound to create more problems and unpleasant situations.
- Proper u/w is essential as defective u/w results in complication at the time of settlement of claims. U/w and claims department should not work in isolation. There has to be a coordination between them. Defective U/w may saddle the companies with unwanted claims. Various court judgments and consumers forum awards bear testimony to the same. Any defect / ambiguity in the documents issued invariably goes against insurance companies. It is therefore of utmost importance that the client is made aware in very clear terms about what exactly is covered and what is not. There should be a strong system of audit for examining the documents being issued.
- Lot of time / energy / money is spent when claim cases go to Ombudsman / Consumer Forum/ Court. Besides, adverse comment bring bad name, when we are held liable. Insurance companies are invariably at the receiving end. The "watch and wait" attitude must change. There is a need to find out why so many cases go to consumer forum or the ombudsman and what should be done about it.
- Claims-settlement have social service angle which must be met. In times of natural calamity lot of bad publicity comes to insurance company for delay in settlement of claims. This is in spite of the fact that in such situation insurance companies goes out of their way to settle claims. In any case claims relating to the assets of weaker section needs to be attended on priority. So do the health / medical related claims.

8.2 Types of Claim

In all types of endowment policies the payment of the sum assured is payable on the date of maturity, provided only the life assured is alive then. In case of the pure term insurance plan, the sum assured is not payable on the maturity date. There are few insurance companies who refund the premiums paid by the policy holder under term insurance money on the maturity date. Broadly there are two types of claims:

- Maturity Claims
- Death Claims

Claims may arise because:

- The policyholders survives upto the end of the policy term known as Maturity Claim.
- In certain plans, popularity claims such as in money back plans a fixed portion of the sum assured is payable on the survival of the policyholder after the specified period say on 4^{th}, 8^{th}, 12^{th} year. Its is known as the survival Benefit Claim.
- The death of a policyholder may happen during the term of the policy known as the Death Claim.

In death claims further classification is made as:

- **Early claims:** In case the policy holder dies within 3 years from the date of the policy/Revival, it is treated as an early claim.
- **Non-early claims:** In case the death of the policyholder occurs after 3 years from the policy/ revival it is treated as a Non- early claims.

8.3 Maturity Claim

Let us now discuss the procedure followed and the various documents/ forms called, for the settlement of the Maturity/ Survival Benefit Claim. These procedures are laid to avoid wrong payment or payment to the wrong person.

Strictly speaking the claim is to be put-up by the insured person on the happening of the event. However in respect of Maturity Claims/Survival benefit Claims, these are initiated by the insurance company without waiting for the policy holders formal demand.

Where the policy holder survives at the end of the term, Maturity Claims become payable depending upon the conditions of the policy for different plans.

Let us now discuss the procedure followed and the various documents/ forms called, for the settlement of the Maturity/ Survival Benefit Claim. These procedures are laid to avoid wrong payment or payment to the wrong person.

Strictly speaking the claim is to be put-up by the insured person on the happening of the event. However, in respect of Maturity Claims/Survival benefit Claims, these are initiated by the insurance company without waiting for the policy holders formal demand. Maturity claim should include:

- full sum assured
- part sum assured or paid- up value
- refund of premium
- payment in instalments (annuity)

With the computerisation in the insurance offices, a company generally lists in advance the maturity claims payable during a particular month, datewise. Insurance companies therefore send intimations to policyholders in advance and ask for the documents required for the settlement of claim. The insurer wants to settle the claim on the due date itself by sending a post-dated cheque. The following are the requirements normally called for.

- Policy document for cancellation
- Assignment deed made by the policyholder on a separate sheet of paper if any.
- Proof of age, if it is not admitted previously. Now- days this is not a requirement as age is admitted at the time of issue of policy.
- Discharge Voucher duly signed on a revenue stamp and duly witnessed.

Discharge voucher shows the various components of the gross amount of claim such as sum assured, vested bonus, interim bonus refund of an deposit. It also shows the deductions made from the gross amount e.g. outstanding loans on policy and loan interest up to the date of maturity, outstanding premium (gap in premium), etc. After subtracting the total deductions, the net claim amount is arrived at. If the policyholder has any doubt about the net amount payable, he can always seek the help of the Agent; or the nearest Branch of the insurer and have his doubt cleared before signing the discharge voucher. Once it is signed by the policyholder the insurer is absolved of its responsibility.

The Policy document is called for cancellation to avoid its misuse in the future. Similarly it shows whether a policy is assigned to anybody without giving notice to the insurer. It also serves as a proof of identity of the policyholder. Life Insurance is a long term and the contract signatures on the proposal form may change in style over the period of years. Hence the policy document is the only available record to identify the policy holder.

In case the policyholder has taken a loan on the policy, the policy document is available with the insurance company as the policy is duly assigned and is in the custody of the insurer. In such cases the policy document is not called for from the policyholder.

If the policyholder informs that he has lost the policy, then the insurance company asks the policyholder to give an advertisement in a newspaper and after waiting for a reasonable period, may settle the maturity claim after obtaining an indemnity bond with a surety of sound financial standing. It is not necessary to issue a duplicate policy at this stage.

Payment

After receipt of the policy document, a discharge voucher is duly signed and an undertaking about the assignment, the insurer pays the net amount of claim by a post dated A/c payee cheque. In case the policy is not in full force, the paid up value is paid at the time of maturity along with a Vested Bonus. The payment is made to assignee. If the policy is issued under the married woman property act, the payment is made to the trustees. If the assured has been declared insolvent, the payment is made to the official assignee appointed by the court. In case the assured is mentally deranged, the payment can be made to the guardian appointed by the court.

In case of non-resident policyholders the provision of Exchange Control Regulations will have to be taken into account while settling claims. It is needless to mention that when the payment is made to a person other than the policyholder as enumerated above, the discharge voucher has also to be signed by the person to whom the payment is made.

In case the policy is financed through the HUF, the discharge voucher is to be signed by the Karta of HUF and the payment can be made only to the Karta of HUF.

Thus the settlement of maturity claims is simple as the policyholder is alive, on the date of maturity. However the problem arises when policyholder is alive on the maturity date but dies before signing the discharge voucher. As the nomination is invalid and the policy has matured for payment, the claim amount is to be paid, to the legal heirs of the deceased life assured after obtaining a death certificate.

Survival benefit

A survival benefit is payable in case of Money Back plans of insurance wherein if a policyholder is alive after the specified period during the policy term mentioned in the policy, a fixed percentage of sum- assured e.g. 15% , 20% or 25% is payable after ever y say.3,4,or 5 years from the date of commencement .

Settlement of the survival Benefit Claims is easier than maturity claims as the Bonus part is payable only on maturity date. The calculations of amount payable are easy. Similarly loans are not granted under money back plans and hence the question of recover y of loan and interest thereon does not arise. Thus there are no additions/subtractions from the survival claims.

The procedure followed for the settlement of survival benefits is the same as maturity claims. The Insurer calls for the policy document for endorsement and the discharge voucher duly signed from the policyholder and undertaking an assignment on a separate sheet. Some companies send an endorsement slip to the policy holder and advise him to keep the same attached to the policy document. This saves the trouble of receiving the policy documents and returning these by Post.

After ascertaining that the policy is in full force, and getting the policy document and Discharge Voucher duly signed the survival benefit is paid by a post-dated A/c payee cheque. No Survival benefit is paid in respect of paid-up polices. However some companies do pay survival benefit in respect of paid-up policies also.

In case the assured dies after the due date of the survival benefit claim, the claim amount can be paid to the nominee after receiving a death certificate. That is the difference between Maturity claim and the survival Benefit claim. The reason is obvious, as in the survival benefit claim the nomination is valid upto the date of maturity .

- As regards, who should sign the Discharge Voucher and to whom the claim amount is payable, the instructions given in respect of a maturity claim are applicable also to the survival Benefit claim.
- In case the policy is reported lost, there is a slight difference in the procedure. In case of a survival Benefit Claim, all the procedures for the issue of a duplicate policy such as identity Bond, advertisement, surety, collection, cost of issue of duplicate policy are followed. The payment is made only on the issue of a duplicate policy. In Maturity Claim cases a duplicate policy is not issued as the contract comes to an end. However in case of Survival Benefit Claims the contract continues upto the date of maturity.

8.4 Rival Claimant

Sometimes even though a nomination subsists under a policy, some other relatives approach the insurer claiming the policy money. Under such circumstances the company advises the rival claimants to obtain a prohibitory order from a court of law in a reasonable period of say one/two months. When the prohibitory order is not served on the insurance company, the insurer is free to make the payment to the nominee. However, in case the prohibitory order is received, the company cannot make the payment till the case is finally decided by the court. The insurance company cannot pay the nominee, hence it informs the nominee accordingly and waits till the courts final decision is received.

Claims concession

Strictly in terms of policy contract if the premium is not paid, the policy lapses and no claim can be entertained on a lapsed policy. However, some companies take a liberal view and give some concession to protect the interests of policyholders. These are called claims concessions. One of the insurers in India allows the following concession.

- After at least 3 full years premiums are paid and if death takes place within 6 months from the date of the first unpaid premium the policy is treated as in full force and fullsym assured is paid. Other wise only paid-up value would have been paid, ofcourse after deducting the outstanding premium with interest
- If at least 5 years premiums are paid and if death takes place within 12 months from the date of the first unpaid premium, the full sum assured would be paid, treating the policy status as 'in force'. The outstanding premium is deducted with interest from the claim amount.

8.5 Accident Benefit / Extended Disability Benefit

When the life assured is reported to be dead in an accident, and the policy is issued with the accident benefit, an additional sum equal to the sum assured subject to maximum limit prescribed in the policy conditions is paid to the claimants. Accident benefit is payable provided certain conditions as mentioned below are fulfilled:

- Death is caused by injuries caused by accident
- The accident must be caused by outward, violent means and not by self inflicted
- Death must occur within the specified period, say 120 days.

The exclusions may be:

- Intentional self injuries, attempted suicides, insanity, immorality, intoxication
- Injuries resulting from riots, civil commotion etc.
- War, hunting, mountaineering or aeronautics other than as a passenger.
- When accident resulting in death arises from the employment of the assured as police on duty or military personnel.

Some companies limit the accident benefit upto Rs. 5 lacs. Each company may decide its own limits.

8.6 How to File a Mediclaim

The following aspects are important in handling of claims under the mediclaim policy:

- Intimation of Claim
- Processing of Claim

For settling a hospitalisation claim, policyholders should furnish:

- A duly completed claim form.
- Bills, receipts and discharge certificate / card from the hospital.
- Cash memos from the hospital / chemist(s), supported by proper prescriptions.
- Receipt and Pathological test reports from a Pathologist supported by the note from the attending Medical Practitioner / Surgeon demanding such pathological tests.
- Surgeon's certificate stating nature of operation performed and surgeon's bill and receipt.
- Attending Doctors / Consultants / Specialists / Anesthetists etc. bill and receipt.

Note: The GIC has informed that some offices do not accept stamped receipt on Doctor's letter head as supporting document under a mediclaim cover but insist on a printed serial numbered bill / receipt. The GIC has advised that stamped receipts issued by doctors on their letterheads may be treated as valid document. For settling domicilary, hospitalisation claims, policyholders should furnish:

Duty completed claim form.

- Receipt and Pathological test reports from a Pathologist supported by the note from the attending medical Practitioner / Surgeon demanding such pathological tests.
- Attending Doctors / Consultants / Specialists / Anesthetists etc. bill and receipt.
- Certificate from attending medical practitioner, giving reasons like severity of disease, for allowing treatment at home to confirm the requirement of domiciliar y hospitalisation.

The above documents have to be submitted within 15 days of completion of the treatment.

8.7 How to File Public Liability Claim

- The Insured has to give a written notice to the company as soon as possible of any claim made against him (or any specific event or circumstance that may give rise to a claim being made against the Insured) which forms the subject of indemnity under the policy and shall give all such additional information as the company may require.
- Ever y claim, writ, summons or process and all documents relating to the event shall be for warded to the Company immediately after they are received by the Insured, along with the claim form duly filled up.
- No admission, offer, promise or payment shall be made or given by or on behalf of the insured without the written consent of the company.
- The company will have the right to take over and conduct in the name of the Insured in defence of any claim in case of voluntary public liability policies.

In the event of liability rising under the policy or payment of a claim under the policy, the limit of indemnity per any one year under the policy shall be reduced to the extent of quantum of liability to be paid or actual payment of such claim.

No claim is payable under the policy unless the cause of action arises in India and the liability to pay the claim is established against the Insured in an Indian Court. It is also to be understood that only the Indian Law shall be applicable in such action.

8.8 How to File a Fire Claim

In the event of a loss, the insured is expected to do the following:

- To intimate to the insurer about the loss immediately, submit full statement in writing of the claim providing the nature and extent of loss and also the estimate of loss. Please note that if the insured fails to intimate the claim within 14 days, then the insurer will not be liable for any liability of the loss / damage.
- To take all steps to reduce and minimise the extent of loss / damage and liability.
- To extend full co-operation to the insurer and the surveyor appointed for completion of the survey work and for proper assessment of the loss.
- Produce all such records and proof as may be required by the surveyor or the insurer for arriving at the extent of loss and the liability under policy.
- Keeps the damaged property under safe custody until advised by the surveyor / insurer regarding its disposal.
- Inform the fire brigade also immediately and obtain their reports.
- Obtain the fire brigade bill as fire fighting expenses are reimbursable as part of the claim.
- Obtain meteorological report if required in case of natural calamities.

8.9 How to File Burglary Claim

- All losses are required, to be reported to the police authorities through a formal written complaint, a copy of which has to be given to the insurer along with the FIR number/Dairy entry number.
- The insured must thereafter give immediate notice of the loss to the insurance company.

- The insurance company registers the claim and a claim form is issued to the insured to be filled by him.
- On receipt of the claim documents, the same are scrutinised by the insurer to decide upon the admissibility of the claim and the amount payable.
- Burglar y claims upto Rs. 2500 are generally settled by the insurer on the basis of the completed claim form and copy of the First Information Report, provided the insurer is satisfied about the genuineness of the claim.
- Burglar y claims over Rs. 2500 are required to be surveyed by an independent surveyor. If the need arises, the matter may also be entrusted to a professional investigator for a thorough investigation. The client is expected to provide documentary evidence about the value of the stock stolen through invoice, bill, books of account etc.
- Claims in excess of RS. 2500 will be settled on further obtaining the survey report (subject to the surveyor not raising any doubt as to the cause and quantum of loss) and after submission of the Final Investigation Report / Non-Detectable Certificate issued by the police authorities. Usually when the police register cases on such occurrence, they cannot close their files without an order from the magistrate to do so. Hence a copy of such an order is also usually taken from the police through the insured.
- A necessary letter of undertaking / subrogation from and the loss voucher duly discharged should be obtained prior to the issue of cheque towards settlement.
- On payment of the claim, the sum insured is automatically reduced by the amount of claim paid. The sum insured maybe reinstated on the payment of pro-rata additional premium on the amount to be reinstated

Documents required for processing claims are as under:

- Duly completed claim form.
- Copy of First Information Report.
- Sur vey/Investigation Report if a surveyor/investigator had been appointed by the insurer.
- Copy of Final Investigation Report/Non-Deductible Certificate issued by the police authorities/ magisterial order.
- Letter of undertaking/subrogation obtained from the insured

8.10 How to File Auto Claim

The following are the main requirements in the event of filing an auto claim: These requirements can be classified into two categories:

- Claim arising due to own damage: theft, damage by fire.
- Third party claim

8.11 Claims Documents

In addition to the claim form, independent survey report etc., certain documents are required to be submitted by the claimant or secured by the insurers to substantiate the claim. For example, for fire claims, a report from the Fire Brigade is obtained; in burglary claims, a report from the Police; for Workman's Compensation Fatal Claims a report from the Coroner, Police report and post mortem report; for motor claims; driving license, registration book, police report etc.

In marine cargo claims, the nature of documents varies according to the type of loss i.e., total loss, particular average, inland transit claims etc. For example, the documents required for total loss claims are: (under Evidence Act and Civil Procedure Code, all the documents should be in original and not copies, otherwise, no recovery is possible)

- Original Policy
- Invoice
- Bill of Lading
- Bill of Entry

- Copy of Protest, i.e., statement made by the Captain of the Vessel on the loss before a Notary Public (if relevant)
- Non-delivery or short landing certificate (if relevant)
- Landed but missing certificate (if relevant)
- Letter of subrogation and Power of Attorney, Notice of loss to the carrier under section 10 (carriers act) correspondence exchanged with Carriers, Port Trust etc. regarding claims filed against them.

8.12 Settlement

The claim is processed on the basis of:

- the claim form;
- independent report from surveyors, legal opinion, medical opinion, etc., as the
- case may be;
- various documents furnished by the insured; and
- any other evidence secured by the insurers
- Final & full satisfaction discharge is a must. Otherwise claimant can go to court for payment of additional amounts after realising the claim cheque. There are many case laws saying that the discharge voucher was obtained by the insurer due to misrepresentation, undue influence, etc.

If the claim is in order, settlement is effected by cheque. The payment is entered in the claims register as well as in the relevant policy record. Appropriate recoveries are made from the co-insurers, if any. Before effecting payment, it is essential to decide whether the claimant is entitled to receive the claim monies. For example for payment of fatal claim under personal accident insurance, probate or letters of administration or succession certificates have to be produced by legal heirs. If the property insured under a fire policy is mortgaged to the bank, then according to the agreed bank cause, claim monies are to be paid to the bank, whose receipt will be a complete discharge to the insurers. Similarly claims for Total Loss on vehicles subject to hire purchase agreements are paid to financiers. Marine cargo claims are paid to the claimant who produces the marine policy duly endorsed in his favour.

Post Settlement Action

The action taken after settlement of the claim in relation to underwriting varies from one class of business to another. For example, sum insured under a fire policy stands reduced to the extent of the amount of claim paid. However, it can be reinstated on payment of pro-rata premium. On payment of the capital sum insured under a personal accident policy, the policy, stands cancelled. Similarly, payment of a claim under fidelity guarantee policy automatically terminates the policy. With a total loss claim on a motor vehicle, the policy is returned to the insurers.

Recoveries

Recoveries may be in the form of salvage or from third parties under subrogation rights. Recoveries of salvage are to be entered in the claims register. After settlement of claim, the insurers under the law of subrogation, are entitled to succeed to the rights and remedies of the insured and to recover the loss paid from a third party who may be responsible for the loss under respective laws applicable. Thus, insurers can recover the loss from shipping companies, railways, road carriers, airlines, Port Trust Authorities. For example, in the case of non-delivery of consignment, the carriers are responsible for the loss. Similarly, the Port Trust is liable for goods which are safely landed but subsequently missing.

For this purpose, a letter of subrogation duly stamped is obtained from the insured. The letter is worded along the following lines :
In consideration of your paying to me/us a sum of Rs. _____ In respect of the undermentioned goods insured with you under Policy No. _____ I/We hereby assign and transfer to you all my/our right(s), title and interest in respect of the said goods, and all rights or claims against any person or persons in respect thereof. AND I/We also authorise you to use my/our name in any action or proceedings you may bring in relation to any of the matters hereby assigned and transferred to you, and I/We undertake for myself/ourselves to concur in any matters or proceedings and to execute all documents which may be necessary, and generally to assist therein by all means in my/our power.

I/We further undertake if called upon by you to do so, myself/ourselves to undertake any such action or proceedings that you may direct on your behalf; it being understood that you are to indemnify me/us and any other persons whose names may necessarily be used against any costs, charges or expenses which may be incurred in respect of any action or proceedings that may be taken by virtue of this Agreement.

Date: _____ Signature

Salvage
Salvage refers to partially damaged property. On payment of loss, salvage belongs to insurers. For example, when motor claims are settled on total loss basis, the damaged vehicle is taken over by insurers. Salvage can also arise in fire claims, marine cargo claims etc.

Salvage is disposed off according to the procedure laid down by the companies for the purpose. Surveyors, who have assessed the loss, will also recommend methods of disposal. Finally, recoveries have to be made from reinsurers, under relevant reinsurance arrangements, if applicable, and this is done at Head Office level.

Summary

- Unlike life insurance, where all policies necessarily result in claims – either maturity or death in general insurance not all policies result in claim. Approximately around 15% policies in general insurance result in claim.
- Delayed claim settlement generally result in higher claims cost. Claims cost is a very important factor vis-à-vis profitability.
- General insurance being a market driven service industry, the customer has to be kept satisfied. With so many options available, a customer once lost is most likely a loss forever.
- In the present liberalised scenario, with cut-throat competition being the order of the day, the insurance companies have to go much beyond the handling of claims.
- Lot of time / energy / money is spent when claim cases go to Ombudsman / Consumer Forum/ Court. Besides, adverse comment bring bad name, when we are held liable. Insurance companies are invariably at the receiving end.
- In all types of endowment policies the payment of the sum assured is payable on the date of maturity, provided only the life assured is alive then. In case of the pure term insurance plan, the sum assured is not payable on the maturity date.
- Where the policy holder survives at the end of the term, Maturity Claims become payable depending upon the conditions of the policy for different plans.

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Self Assessment

1. Which are the two most important aspects of an insurance company?
   a. Underwriting and claims settlement
   b. Property handling and underwriting
   c. Rate making and claims settlements
   d. Salvage and rate making

2. Unlike _____, where all policies necessarily result in claims either maturity or death in general insurance not all policies result in claim.
   a. Motor insurance
   b. Fire insurance
   c. Life insurance
   d. Accident insurance

3. Which of the following statement is false?
   a. Approximately around 10% policies in general insurance result in claim.
   b. The claim settlement in general insurance thus has their own peculiarities and therefore need proper handling.
   c. The insurance companies have hitherto been handling the claim rather than managing them.
   d. In marine cargo claims, the nature of documents varies according to the type of loss i.e., total loss, particular average, inland transit claims etc

4. Which of the following statement is false?
   a. An unsatisfied customer is a bad publicity.
   b. IRDA guidelines on 'protection of policyholders' interest' stipulate certain obligation on the part of insurance company not including time limit for claim settlement.
   c. Delayed claim settlement generally result in higher claims cost.
   d. Recoveries may be in the form of salvage or from third parties under subrogation rights

5. _____ files must be monitored as they progress.
   a. Rate making
   b. Salvage
   c. Insurer
   d. Claim

6. What may saddle the companies with unwanted claims?
   a. Defective U/w
   b. Salvage
   c. Rate making
   d. Claims

7. _____ have social service angle which must be met.
   a. Rate making
   b. Salvage
   c. Claims settlement
   d. Insurer

8. _____ shows the various components of the gross amount of claim such as sum assured, vested bonus, and interim bonus refund of a deposit.
   a. Claims document
   b. Discharge vouchers
   c. Rate making
   d. Salvage

9. The _____ is called for cancellation to avoid its misuse in the future.
   a. policy documents
   b. claims documents
   c. salvage
   d. rate making

10. _____ is a long term and the contract signatures on the proposal form may change in style over the period of years.
   a. Fire insurance
   b. Accident insurance
   c. Life insurance
   d. Motor insurance

Case Study I

Travel insurance and exclusion for "insurrection"

Last year in September, Mr B was stranded in Thailand because the Phuket airport was closed due to an anti-government protest. As a result, Mr B had to purchase new flight tickets and incurred additional costs. The policy provider denied his claim on the basis that the proximate cause for the loss arose from an excluded clause in the policy that is "a loss that arises from any act of war, or from a rebellion, revolution, insurrection or taking power by the military".

The policy, however, provided cover if Mr B could establish the incurred additional travelling expenses resulted out of cancellation of public transport services caused by riot, strike or civil commotion.

The critical issue for determination was to whether the events giving rise to the claim should be categorised as a riot or civil commotion, or whether they should be categorised as an insurrection.

In order to support its case that the events giving rise to the claim should be categorised as an insurrection, the member provided the Financial Ombudsman Service with press reports from the New York Times, the Washington Post and other international newspapers, using terms like 'protest' and the 'demonstrators'.

In determining this dispute, the Financial Ombudsman Service considered it was important to examine the exclusion as a whole and to apply what is called the "ejusdem generis rule of interpretation" which requires the court or decision maker to interpret words in their context. In this regard, it was noted that other words used in the policy exclusion included "war, rebellion, revolution, or taking of power by the military".

The Financial Ombudsman Service felt the term "insurrection" needed to be construed in that context i.e. a significant element of violence needs to be established. It was concluded from the press report that there was little evidence of violent revolution, at least as of 1 September which was the critical date in terms of the determination. It was decided that the events might more comfortably be described as a "riot" or "civil commotion" rather than an "insurrection".

The Financial Ombudsman Service upheld Mr B's claim.

(Source: General Insurance case studies [Online] < http://www.fos.org.au/centric/home_page/cases/general_insurance_case_studies.jsp#Travel_insurance>)

Questions

1. Why was Mr. B's claim denied?

   Answer

   The policy provider denied his claim on the basis that the proximate cause for the loss arose from an excluded clause in the policy that is "a loss that arises from any act of war, or from a rebellion, revolution, insurrection or taking power by the military".

2. What was the critical issue that had to be determined?

   Answer

   The critical issue for determination was to whether the events giving rise to the claim should be categorised as riot or civil commotion, or whether they should be categorised as an insurrection.

3. Which concept do you think the Financial Ombudsman Service should be considered?

   Answer

   The Financial Ombudsman Service considered it was important to examine the exclusion as a whole and to apply what is called the "ejusdem generis rule of interpretation" which requires the court or decision maker to interpret words in their context.

Case Study II

Accident Insurance

A dispute arose from a claim made on behalf of the applicant, a 17 year old school boy, who allegedly suffered a severe asthmatic attack as a result of exposure to chemicals during the school's musical production following the operation of a 'fog machine' and exposure to other allergens. As the applicant had previously been diagnosed as an asthmatic, the issue arose as to whether he sustained an injury as covered by the policy.

In applying relevant case law, the Panel found that the injury was indeed suffered by violent external and visible means. The Panel decided that the inhalation of fumes from the fog machine and other fumes satisfies that definition of injury in the same way as exposure to dust and other pollutants. In this regard, the Panel applied a High Court decision where the Court held that the addition of these words to the definition of injury means "no more than to draw attention to the distinction between the injury suffered and the means by which it was caused".

The next critical element considered by the Panel was whether the injury had been suffered independently of any other cause. This was a difficult issue for the Panel because the applicant had previously suffered from asthma, although the condition was under control with the use of medication. In other words, the evidence was that the applicant functioned without difficulty in terms of leading an active life, prior to the incident giving rise to the claim, albeit with the use of medication when required.

Whilst the Panel was satisfied that the applicant had an increased propensity to suffer an asthmatic attack than other persons, this of itself was not a separate cause of the injury. The Panel stated that if the applicant had been actively suffering from asthma at the time of the exposure to the allergens, a different result may have ensued. However, the Panel was satisfied that in the particular circumstances of this case, there was only one cause of the injury which had been described above. The Panel, therefore, determined the dispute in favour of the applicant.

The Panel has also had to deal with disputes requiring determination as to whether the policyholder's claim was excluded by virtue of a pre-existing medical condition. In several cases recently determined by the Panel, the policy provider alleged that as the individual had an increased propensity to suffer from an illness, they suffered from a pre-existing medical condition. In one case, the person had undergone surgery for a small bowel obstruction in 2003 and required similar treatment in 2008 causing cancellation of a journey. As the policy holder's medical advisor said the applicant was at a much higher risk of the condition reoccurring than other members of the community, she in effect suffered from a pre-existing medical condition.

However, the Panel rejected this argument on the basis that simply because a person was at greater risk of developing a condition (e.g. a bowel obstruction) than other members of the community, the increased risk factor could not be translated into diagnosis that the person was actively suffering from a pre-existing medical condition, in the same way that the student was entitled to compensation following the severe asthmatic attack notwithstanding his vulnerability in this regard.

(Source: General Insurance case studies [Online] < http://www.fos.org.au/centric/home_page/cases/general_insurance_case_studies.jsp#Travel_insurance>)

Questions

1. Why did the dispute arise?
2. Why were the panel satisfied in the above case?
3. Why did the panel reject the argument?

Case Study III

Maximum demerit points – you cannot disclose what you do not know

The financial services provider refused to pay the claim of Mr B for damage to a motor car following an accident, on the basis that he, as policyholder, had not made disclosure that he had reached the maximum 12 penalty points. Mr B claimed he was unaware he had reached the maximum number of allowable demerit points. Mr B said he did not receive the warning letter and the law of non-disclosure is clear that you cannot be obliged to disclose what you do not know.

At relevant times, Mr B held both a Queensland and New South Wales licence. During the course of the dispute, financial services provider wrote to Mr B offering to "welcome him back" as a policyholder. The issue arose as to whether this was a marketing tool or a direct invitation to Mr B. Whilst this was not central to the decision making, it demonstrated the risk a financial services provider runs when on the one hand it says it would not insure an individual because of their particular driving history, and on the other hand sends them marketing material with an invitation to re-insure.

In this determination, the Financial Ombudsman Service panel found accepted that a person cannot disclose what they do not know. After considering all the material provided by the parties, the Panel was not satisfied that the financial services provider had discharged the burden of proof that Mr B failed in his disclosure obligations to disclose he had received the maximum allowable demerit points at policy renewal.

(Source: General Insurance case studies [Online] < http://www.fos.org.au/centric/home_page/cases/general_insurance_case_studies.jsp#Travel_insurance>)

Questions

1. On what basis was Mr. B claim rejected?
2. What reason do you think Mr. B gave to the panel?
3. Which of the two states did Mr. B have license of?

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Self Assessment Answers

Chapter I

1. b
2. c
3. a
4. c
5. c
6. c
7. a
8. b
9. d
10. d

Chapter II

1. b
2. a
3. c
4. b
5. b
6. d
7. c
8. a
9. a
10. d

Chapter III

1. c
2. a
3. b
4. d
5. a
6. d
7. b
8. c
9. a
10. a

Chapter IV

1. a
2. b
3. c
4. c
5. a
6. d
7. d
8. a
9. b
10. a

Chapter V

1. b
2. a
3. c
4. d
5. a
6. b
7. c
8. d
9. a
10. b

Chapter VI

1. a
2. c
3. d
4. d
5. b
6. b
7. d
8. a
9. c
10. c

Chapter VII

1. c
2. a
3. d
4. b
5. c
6. a
7. c
8. d
9. a
10. d

Chapter VIII

1. a
2. c
3. a
4. b
5. d
6. a
7. b
8. a
9. a
10. c