CHAPTER 1

OVERVIEW OF AN INSURANCE INDUSTRY
# Overview of An Insurance Industry

## CHAPTER-1

### OVERVIEW OF AN INSURANCE INDUSTRY

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1.1. INTRODUCTION

Man has always been in search of security and protection from the beginning of civilization. At the same time “Risk” is inevitable in life and any business activity. It is a commonly acknowledged phenomenon that there are countless risks in every sphere of life. For property, there are fire risks; for shipment of goods, there are perils of sea; for human life, there are risks of death or disability; and so on. Again, risk is closely connected with “ownership”. It is the owners who want to save themselves from risk and it is out of this desire, the concept of insurance has originated. The chances of occurrences of the events causing losses are quite uncertain because these may or may not take place. In other words, life and property of human beings are not safe and there is always a risk of losing it. A simple way to cover this risk of loss money-wise is to get life and property insured.

The aim and objective of insurance is to protect the owner from financial losses that he suffers for the risks that he has taken. In the Insurance business, people facing common risks come together and make their small contributions to the common fund. While it may not be possible to tell in advance, which person will suffer the losses, it is possible to work out how many persons on an average out of the group may suffer the losses. When risk occurs, the loss is making good out of the common fund. In this way, each and every one shares the risk. In fact, insurance companies bear risk in return for a payment of premium, which is calculated on the likelihood of loss. The basis of insurance is sharing of losses of a few amongst many. Insurance provides financial stability and security to both individuals and organizations by this distribution of losses of a few among many by building up a fund over a period of time.

1.2 THE CONCEPT OF RISK

The term risk may be defined as the possibility of adverse results flowing from any occurrence. Risk arises therefore out of uncertainty. It can also represent the possibility of an outcome being different from the expected. The notion of an in
terminating outcome is implicit in the definition of risk because the outcome must be in question. When risk is said is exist, there must always be at least two possible outcomes. If it is known for certain that a loss will occur, there is no risk. At least one of the possible outcomes is undesirable. This may be a loss in the generally accepted sense in which something an individual possesses is lost or it may be a gain smaller than the gain that was possible.

The term risk is used in the insurance business is also meant either a peril to be insured against (e.g. Fire is a risk to which property is exposed) or a person or property protected by insurance.

1.2.1 DEFINITION OF RISK

The word "risk" has been defined in many different ways by economists, insurance manager, and scholars.

"Risk as measurable uncertainty". - Knight,

“Capability to estimate risk factors in a way to overcome any kind of uncertain burden and manage the organization for the sake of future survival". - M. Ahmad, -"

"Risk as the objectified uncertainty regarding the occurrence of an undesirable event." - Willett

“Risk as a combination of hazards measured by probability." - Pfeffer,

According to above definitions, it is evident that the risk involves the nature of uncertain losses. As it can be viewed in a physiological phenomenon that is meaning full in term of human experiences and reactions. Another way it can also be viewed as an objective phenomenon that may be or may not be recognized as we are uncertain about many types of losses that may or may not occur for causes yet to be recognized.
1.3 INSURANCE

1.3.1. Meaning of Insurance

Insurance provides financial protection against a loss arising out of happening of an uncertain event. A person can avail this protection by paying premium to an insurance company.

A pool is created through contributions made by persons seeking to protect themselves from common risk. The premium is collected by insurance companies which also act as trustee to the pool. Any loss to the insured in case of the happening of an uncertain event is paid out of this pool. Insurance works on the basic principle of risk-sharing. A great advantage of insurance is that it spreads the risk of a few people over a large group of people exposed to risk of similar type.

1.3.2. Definition of Insurance

Insurance is a contract between two parties whereby one party agrees to undertake the risk of another in exchange for consideration known as premium and promises to pay a fixed sum of money to the other party on happening of an uncertain event (death) or after the expiry of a certain period in case of life insurance or to indemnify the other party on happening of an uncertain event in case of general insurance. The party bearing the risk is known as the 'insurer' or 'assurer' and the party whose risk is covered is known as the 'insured' or 'assured'.

1.3.3. Nature of Insurance

On the basis of the definition of insurance discussed above, one can observe its following characteristics:

- Risk Sharing and Risk Transfer: Insurance is a mechanism adopted to share the financial losses that might occur to an individual or his family on the happening of a specified event. The event may be death of the earning member of the family in the case of life insurance, marine-perils of marine insurance, fire in fire insurance and other certain events in miscellaneous insurance, e.g., theft in burglary insurance, accident in motor insurance, etc. The loss arising from these
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Events is shared by all the insured in the form of premium. Hence, risk is transferred from one individual to a group.

- **Co-operative Device:** Insurance is a cooperative device under which a group of persons who agree to share the financial loss may be brought together voluntarily or through publicity or through solicitations of the agents. An insurer would be unable to compensate all the losses from his own capital. So, by insuring a large number of persons, he is able to pay the amount of loss.

- **Large Number of Insured Persons:** The success of insurance business depends on the large number of persons insured against similar risk. This will enable the insurer to spread the losses of risk among a large number of persons, thus keeping the premium rate at the minimum.

- **Evaluation of Risk:** For the purpose of ascertaining the insurance premium, the volume of risk is evaluated, which forms the basis of insurance contract.

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

- **Payment of Happening of Specific Event:** On the happening of a specified event, the insurance company is bound to make payment to the insured. The happening of specified event is certain in life insurance, but in the case of fire, marine of accident insurance, it is not necessary. In such cases, the insurer is not liable for payment of indemnity.

- **Transfer of Risk:** Insurance is a plan in which the insured transfers his risk to the insurer. This may be the reason that may person observes, that insurance is a device to transfer some economic losses would have been borne by the insured themselves.

- **Spending of Risk:** Insurance is a plan which spread the risk & losses of the few people among a large number of people. John Magee writes, “Insurance is a plan by which large number of the person's associates themselves and transfers to the shoulders of all, risk attached to individuals”.

- **Protection against Risks:** Insurance provides protection against risks involved in life, materials and property. It is a device to avoid or reduce risks.
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- **Insurance is not a Charity:** Charity pays without consideration, but in the case of insurance, the premium is paid by the insured to the insurer in consideration of future payment.

- **Insurance is not a gambling:** Insurance is not a gambling. Gambling is illegal, which gives gain to one party and loss to another. Insurance is a valid contract to indemnify against losses. Moreover, insurable interest is present in insurance contracts it has the element of investment also.

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

- **Social Device:** Insurance is a plan of social welfare and protection of interest of the people. Ridged and Miller observe “Insurance is by the social nature”.

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

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

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

- **Institutional Setup:** After nationalization, the insurance business in the country is operated under statutory organization setup. In India, the General Insurance Companies and the Life Insurance Corporation and subsidiary companies of General Insurance Corporations are operating the various fields of insurance.

- **Insurance for Pure Risk only:** Pure risks give only losses to the insured, and no profits. Examples of pure risks are accident, misfortune, death, fire, injury, etc., which are all the sided risks and the ultimate results in loss. Insurance Companies issue policies against a pure risk only, not against speculative risks. Speculative risk has chances of profit of losses.
Based on Mutual Goodwill: Insurance is a contract based on good faith between the parties. Therefore, both the parties are bound to disclose the important facts affecting to the contract before each other. Utmost good faith is one of the important principles of insurance

1.3.4. Concept of Insurance [How Insurance Works]

The concept behind insurance is that a group of people exposed to similar risk come together and make contributions towards formation of a pool of funds. In case a person actually suffers a loss on account of such risk, he is compensated out of the same pool of funds. Contribution to the pool is made by a group of people sharing common risks and collected by the insurance companies in the form of premiums.

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<td>SUPPOSE</td>
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<tr>
<td>• Houses in a village = 1000</td>
</tr>
<tr>
<td>• Value of 1 House = Rs. 40,000/-</td>
</tr>
<tr>
<td>• Houses burning in a year = 5</td>
</tr>
<tr>
<td>• Total annual loss due to fire = Rs. 2,00,000/-</td>
</tr>
<tr>
<td>• Contribution of each house owner = Rs. 300/-</td>
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<tr>
<td>UNDERLYING ASSUMPTION</td>
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<td>All 1000 house owners are exposed to a common risk, i.e. fire</td>
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<td>All owners contribute Rs. 300/- each as premium to the pool of funds</td>
<td>Everybody contributes Rs. 1200/- each as premium to the pool of funds</td>
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<tr>
<td>Total value of the fund = Rs. 3,00,000 (i.e. 1000 houses * Rs. 300)</td>
<td>Total value of the fund = Rs. 60,00,000 (i.e. 5000 persons * Rs. 1,200)</td>
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<tr>
<td>5 houses get burnt during the year</td>
<td>50 persons die in a year on an average</td>
</tr>
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<tr>
<td>Insurance company pays Rs. 40,000/- out of the pool to all 5 house owners whose house got burnt</td>
<td>Insurance company pays Rs. 1,00,000/- out of the pool to the family members of all 50 persons dying in a year</td>
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### EFFECT OF INSURANCE

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<th>Effect of Insurance</th>
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<td>A risk of 5 house owners is spread over 1000 house owners in the village, thus reducing the burden on any one of the owners.</td>
<td>A risk of 50 persons is spread over 5000 people, thus reducing the burden on any one person.</td>
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(Source: [http://www.appuonline.com/insurance/basics.html](http://www.appuonline.com/insurance/basics.html))

### 1.3.5. Brief History of Insurance

The roots of insurance might be traced to Babylonia (in Iraq), where traders were encouraged to assume the risks of the caravan trade through loans that were repaid (with interest) only after the goods had arrived safely—a practice resembling battery and given legal force in the Code of Hammurabi. In 18th Century BC, Hammurabi (Babylonian king) formulated a code of law, known as the code of Hammurabi, which codified rules governing the practices of early risk-sharing activities. Seagoing merchants from Phoenicia (in and around present-day Lebanon) started using an insurance system known as bottomry about 1200 BC. In this system, backers loaned money to merchants to finance voyages. The insurance system of bottomry became famous in other parts of Asia and the Mediterranean by 400 BC.
The Phoenicians and the Greeks applied a similar system to their seaborne commerce. The Romans used burial clubs as a form of life insurance, providing funeral expenses for members and later payments to the survivors. With the growth of towns and trade in Europe, the medieval guilds undertook to protect their members from loss by fire and shipwreck, to ransom them from captivity by pirates, and to provide decent burial and support in sickness and poverty. By the middle of the 14th Century, as evidenced by the earliest known insurance contract (Genoa, 1347), marine insurance was practically universal among the maritime nations of Europe.

Insurance as we know it today can be traced to the Great Fire of London, which in 1666 devoured 13,200 houses. In the aftermath of this disaster, Nicholas Barbon opened an office to insure buildings. In 1680, he established England’s first fire insurance company, “The Fire Office,” to insure brick and frame homes. By the end of the 18th Century, Lloyd’s had progressed into one of the first modern insurance Companies. In 1693 the astronomer Edmond Halley constructed the first mortality table, based on the statistical laws of mortality and compound interest. The table, corrected (1756) by Joseph Dodson, made it possible to scale the premium rate to age; previously the rate had been the same for all ages.

The first insurance company in the United States underwrote fire insurance and was formed in Charles Town (modern-day Charleston), South Carolina, in 1732. As per another thought ology Marine insurance is the oldest form of insurance followed by life insurance and fire insurance. The history of insurance can be traced back to the early civilization. As civilization progressed, the incidence of losses started increasing giving rise to the concept of loss sharing. The Aryans through their village co-operatives practiced loss of profit insurance. The code of Manu indicates that there was a practice of marine insurance carried out by the traders in India with those of Sri Lanka, Egypt and Greece. The earliest transaction of insurance as practiced today can be traced back to the 14th century A. D. In Italy when ships were only being covered. This practice of Marine Insurance gradually spread to London during the 16th century. The history of Marine Insurance is closely linked with the origin and rise of the Lloyd’s ship owners. Marine traders, who used to gather in
Lloyd’s coffee house in London, agree to share losses to goods during transportation by ship.

**Marine related losses included:**
- Loss of the ship by sinking due to bad weather
- Goods in transit by ship robbed by sea pirates
- Loss or damage to the goods in transit by ship due to bad weather in high sea.

The Lloyd’s Act was framed to set up the Lloyd’s by whom they were empowered to transact other classes of Insurance. Today, Lloyd’s is regarded as the largest insurance underwriter in the world. The first insurance policy was issued in England in 1583.

### 1.3.6. Function of Insurance

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

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

**1. Primary Function**

(a) **To provide Protections:** The most important function of insurance is to provide protection against the risk of loss. It is one check the reality of the misfortune happening, and pays the cost of damages of losses.

(b) **To Provide Certainty:** We know the future is totally uncertain. Any misfortune happening may occur at any stage of life. The amount of loss and time of losses both is uncertain. No doubt better planning and administration can reduce the chances of happening these types of accidents, but it requires lots of attention towards strengths and weaknesses, special knowledge of the field after all these precautions, the uncertainty remains steady. Insurance provides certainly towards the losses. The policy holders pay the premium to by certainty.
(c) **Distribution of Risk:** It is a co-operative effort where the risk is distributed among the group of people. Thus, no one has to bear the losses occurred due to uncertainty.

### 2. Secondary Function

(a) **Helps in Economic Progress:** Insurance plays an important role in economic progress. It gives fullest certainty to the industrialists towards the risks. The entrepreneurs can more concentrate on innovation and profitable techniques of the production. They should not require thinking over the risks. The industrialists can establish new industries in the environment. Thus, industries have got development in economic and commerce of the nation.

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

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

### 3. Indirect Function

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

(b) **It Promote Foreign Trade:** It is compulsory to take marine insurance policy in foreign trade in India. Foreigners can’t issue the foreign trade bill unless the cargo is
fully insured. This foreign trade is totally depends upon the insurance sector of the nation. It gives relief for entrepreneurs from the uncertainty of foreign trade.

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

1.3.7 Advantage of Insurance

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

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

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

4. **Invisible Export:** Providing insurance service overseas is our invisible export, like export of material goods and the profit brought in is contributing to the favorable balance of trade.

5. **Reducing Cost of Social Services:** No victim or heirs of a deceased victim of motor accidents nowadays go without compensation from insurance funds built out of compulsory insurance of motor vehicles and this is no small benefit social relief.
1.3.8 Terminologies used in Insurance

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

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

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

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

4. **Contract**: An agreement binding at law between two or more parties is called a contract.

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

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

7. **Exception**: A peril specifically excluded from the scope of a policy is called an exception.

8. **Peril**: A peril is an event that causes a person or property loss by fire, windstorm, explosion, collision premature death, sickness, floods, dishonesty etc.

9. **Underwriter**: An insurer an official in an insurance company whose main responsibility is to accept risks.

10. **Hazard**: Hazard is a condition that may create, increase or decrease the chances of loss from a given peril.

11. **Exposure**: An exposure is a measure of the physical extent of the risk. An individual who owns a business house may be subjected to economic loss and individual loss because of his business and personal exposure.
12. **Chance of loss**: It is the probable number of times in any given number of that loss will occur. The highest chance of loss is 100 percent, that means the loss is certain. When the chance of loss is zero, the degree of risk is also zero.

13. **Accident**: An unlooked for mishap or an untoward event which is not expected or designed.

14. **Case Law**: The law which is found in the decision of law courts.

15. **Common Law**: The law based on usage, custom and legal decisions as distinct from statute Law.

16. **Condition**: Provisions inserted in a policy to define extend or reserve rights and responsibilities.

17. **Cover note**: An unstamped document issued by or on behalf of insurers as evidence of insurance pending issue of policy.

18. **Damage**: Monetary compensation award at law for a civil wrong or breach of contract.

19. **Indemnity**: Compensation for actual loss suffered is called indemnity.

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

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

1.3.9 **Basic Principles of Insurance**

The mechanism of insurance involves a contractual agreement in which the insurer agrees to provide financial protection against a specified set of risk for a price called the premium. It is hence essentially an intangible product. The insurance customer cannot see or feel the product he or she is buying. And though the policy document does give the comfort that the coverage is on; generally no real service is
delivered until a claim occurs. In normal commercial transactions, the legal maxim “Caveat Emptor” Latin for “Let the buyer Beware” operates. This means that the buyer takes the risk regarding the quality or condition of the property purchased. This, in turn, implies that the buyer has the opportunity to examine the product before purchase since, in view of what is stated in the preceding paragraph, the insurance customer has no such opportunity, and insurance transactions need be governed by special principles in order to protect the interests of the contracting parties, particularly the customer.

It is in view of this that the contracts are governed by certain special basic legal principles. These make insurance contracts very unique and different from other kinds of commercial contracts. As one shall see below, there are, however, differences between life and general insurance with regard the application, of the principles. One shall indicate these in the course of the discussions. The basic principles are:

1. **The Principle of Insurable Interest:** The legal right to insure – it is a must for an insurance contract to have validity. This principle is also relevant to both life and general insurance.

2. **The Principle of Utmost Good Faith:** The duty of insured and the insurer to disclose all relevant facts. This is relevant to both life and general insurance.

3. **The principle of indemnity:** It determines the extent of insurer’s liability in the case of loss. The need for determining the liability is however, largely applicable to general insurance alone.

4. **The principle of subrogation:** Another corollary of the indemnity principle, and again exclusively applicable to general insurance refer to the rights that an insurer has paid him an indemnity.

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

6. **The Principle of Proximate Cause:** The rule that determines how to proceed with processing a claim lodged by an insured, when a loss could apparently be traced to more than one event, some of which are not covered by the insurance contract.
1.3.10 Nature of Insurance Contract

Insurance contracts like other contracts are governed by the general principles of the law of contract as codified in the Indian contract act 1872, which prescribed the following essential elements in order for a contract to be legally valid:
(i) Offer and acceptance
(ii) Consideration
(iii) Agreement between the parties
(iv) Capacity of the parties
(v) Legality of the contract

1.3.11 Insurance and Social Security

The path of insurance has been evolved to look after the interests of people from uncertainty by providing certainty of compensation at a given contingency. The insurance principle comes to be more useful in modern affairs. It not only serves the ends of individuals, or of special groups of individuals, but also tends to spread through and renovate modern social order.

[A] Social Security for Individuals
1. Insurance Provides Security and Safety
2. Insurance offers peace of mind
3. Insurance Protects mortgaged property
4. Insurance eliminates dependency
5. Life Insurance encourages savings
6. Life Insurance Fulfills the Personal Needs of Person

[B] Social Security for Business
1. Uncertainty of Business and Losses if reduced
2. Business Efficiency is increased with insurance
3. Key Man Indemnification
4. Enhancement of Credit
5. Business Continuation

1.3.12 Classification of Insurance Companies

These are establishments, which provide insurance to the people. Insurance Act, 1938 provides a framework for the registration of various insurers. According to it, the following types of insurance companies are allowed in India:
1. **Proprietary Companies**: Companies having a specified minimum share capital of Rs. 100 crores are incorporated under the Indian Companies Act, 1956 and registered as per section 2 (2)7 A of the Insurance Act. All the new players in the field fall under this category.

2. **Mutual Companies**: Profits of these companies are shared by the policyholders who own them. These are not allowed to operate in India.

3. **Co-operative Insurance Companies**: These are registered under the Co-operative Societies Act, 1912. It will also have a share capital of Rs. 100 crores of which foreign entity will not hold more than 26 per cent. [Section 2 (2) 8A of Insurance Act, 1938]. No such company has so far been registered.

4. **Specialist Companies**: An insurance company which opts for some specialized branch of insurance falls under this category. An example can be of Health insurance, Terrorism insurance, etc.

5. **Provident Society Companies**: With the opening of Insurance to private sectors, the entries of these companies have been allowed. A Provident society company is that which writes life insurance policies for a sum up to Rs. 1000 or an annuity up to Rs. 100. This type of company is similar to the industrial life companies in U.K. For such types of Insurance companies, rules for registration and share capital are different from other types of companies. Refer to sections 65 to 94 of Insurance Act, 1938.

6. **Captive Insurance Companies**: A large organization may start its own insurance company and pass on its entire insurance business to its subsidiary. This subsidiary will be the Captive Insurance of its Parent Organization. To prevent that captive companies do not become the personal arm of big houses, IRDA have made it mandatory for these companies to transact at least 50% of its business from outside its parent organization.

7. **Composite Companies**: A single company doing life and non-life insurance business is called a Composite Company. However, in the interest of business and people IRDA do not allow such companies in India. A separate company for each branch of business can be set up by the same promoters.

8. **Government Aided Insurance**: There are risks of high magnitude, such as failure of crops, epidemic or catastrophic occurrence, for which no insurance company is
capable of undertaking any financial relief. In our country Government has come to finance some schemes through the two National Insurers, Examples are:

a. Scheme for Landless Agriculture, Labor Scheme (through LIC)

b. Scheme for borrowers of Rural Integrated Development Programs (through LIC)

c. Crop Insurance through GIC

d. Credit Guarantee Corporation of Government

e. Postal Life Insurance for Government and some special category of employees administered by the Postal Department.

1.3.13 Milestones in Insurance Business in India

Insurance in India has its history dating back to 1818, when the Oriental Life Insurance Company was started by Europeans in Kolkata to cater to the needs of the European community. Later developments were as follows:

1850  The first general insurance company, Triton, established in Calcutta by the British Government.

1870  Bombay Mutual Life Assurance Society

1907  Indian Mercantile Insurance

1912  The Indian Life Insurance Company Act, enacted as the first statute to regulate the life insurance business.

1928  Indian Insurance Companies Act, enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

1938  The Insurance Act: Comprehensive Act to regulate the insurance business in India Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.

1956  Nationalization of life insurance business in India with a monopoly awarded to the Life Insurance Corporation of India245 Indian and foreign insurers and provident societies taken over by the central government and nationalized. LIC formed by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs. 5 crores from the Government of India.

1972  Nationalization of general insurance business in India with the formation of a holding company General Insurance Corporation (GIC).
The General Insurance Business (Nationalization) Act, 1972 nationalized the
general insurance business in India with effect from 1st January, 1973.
107 insurers amalgamated and grouped into four companies viz. (i) The
National Insurance Company Ltd., (ii) The New India Assurance Company
Ltd., (iii) The Oriental Insurance Company Ltd. and (iv) The United India
Insurance Company Ltd. GIC incorporated as a company.

1993 Setting up of Malhotra Committee
1994 Recommendations of Malhotra Committee
1995 Setting up of Mukherjee Committee
1996 Setting up of (interim) Insurance Regulatory Authority (IRA)
Recommendations of the IRA
1997 Mukherjee Committee Report submitted, but not made public
1997 The Government gives greater autonomy to Life Insurance Corporation,
General Insurance Corporation and its subsidiaries with regard to the
restructuring of boards and flexibility in investment norms aimed at
channelling funds to the infrastructure sector.
1998 The cabinet decides to allow 40% foreign equity in private insurance
companies - 26% of foreign companies and 14% to Non-Resident Indians and
Foreign Institutional Investors.
1999 The Standing Committee headed by Murali Deora decides that foreign equity
in private insurance should be limited to 26%. The IRA bill is renamed the
Insurance Regulatory and Development Authority Bill.
1999 Cabinet clears Insurance Regulatory and Development Authority Bill.
2000 President gives Assent to the Insurance Regulatory and Development
Authority Bill.
2003 Law Commission initiates comprehensive consolidation of insurance laws.
Insurance in India has gone through two radical transformations. Before 1956,
insurance was private with minimal government intervention. In 1956, life
insurance was nationalized and a monopoly was created. In 1972, general
insurance was nationalized as well. But, unlike life insurance, a different
structure was created for the industry. One holding company was formed with
four subsidiaries. As a part of the general opening up of the economy after
1992, a Government appointed committee recommended that private
companies should be allowed to operate. It took six years to implement the recommendation. The private sector was allowed into the insurance business in 2000. However, foreign ownership was restricted.

Insurance business was conducted in India without any specific regulation for the insurance business. They were subject to Indian Companies Act (1866). Although some legislation was passed, comprehensive insurance legislation covering both life and non-life business did not materialize for many years.

Finally, in 1938, the Insurance Act was passed. This piece of legislation was the first comprehensive one in India. It covered both life and general insurance companies. It clearly defined what would come under different heads of insurance business. It covered deposits, supervision of insurance companies, investments, commission agents, directors appointed by the policyholders among others. This piece of legislation lost significance after nationalization.

Life insurance was nationalized in 1956 and general insurance in 1972 respectively. With privatization of Insurance in the late twentieth century, it has returned as the backbone of the current legislation of insurance companies.

The Government initiative, in the insurance sector, led to the nationalization of the industry after the promulgation of general Insurance Business (nationalization) Act, 1972. The post nationalization general insurance business was undertaken by the General Insurance Corporation of India (GIC) and its four subsidiaries:

1. Oriental Insurance Company Limited
2. New India Assurance Company Limited
3. National Insurance Company Limited
4. United India insurance Company Limited

Towards the end of 2000, the relation ceased to exist and the four companies are, at present, operating as independent companies.

1.3.14 Types of Insurance

Insurance occupies an important place in the modern world because the risks, which can be insured, have increased in number and extent owing to the growing complexity of the present day economic system. It plays a vital role in the life of every citizen and has developed on an enormous scale leading to the evolution of
many different types of insurance. In fact, now a day almost any risk can be made the subject matter of the contract of insurance.

The different types of insurance have come about by practice within insurance companies, and by the influence of legislation controlling the transacting of insurance business. Broadly, insurance may be classified into the following categories:

**Basis of Classification of Insurance**

- **Nature Point of view**
  - (a) Life Insurance
  - (b) Fire Insurance
  - (c) Marine Insurance
  - (d) Social Insurance
  - (e) Miscellaneous Insurance

- **Business Point of view**
  - (a) Life Insurance
  - (b) Non-Life Insurance

- **Risk Point of view**
  - (a) Personal Insurance
  - (b) Property Insurance
  - (c) Liability Insurance
  - (d) Fidelity Guarantee Insurance

### 1.3.14.1 Life Insurance in India

In India, insurance started with life insurance. It was in the early 19th century, when the Bruisers on their postings in India felt the need of life insurance cover. It started with English Companies like ‘The European and the Albert’. The first Indian insurance company was the Bombay Mutual Insurance Society Ltd., formed in 1870. In the wake of the Swadeshi Movement in India in the early 1900s; quite a good number of Indian companies were formed in various parts of the country to transact insurance business. To name a few: ‘Hindustan Co-operative’ and ‘National Insurance’ in Kolkata; ‘United India’ in Chennai; ‘Bombay Life’, ‘New India’ and ‘Jupiter’ in Mumbai and ‘Lakshmi Insurance’ in New Delhi. Life insurance is a contract that pledges payment of an amount to the person assured (or his nominee) on the happening of the event insured against. Life insurance or life assurance is a contract between the insurer and the policy owner(policyholder) whereby a benefit is paid to the designated Beneficiary (or Beneficiaries) if an insured event occurs which
is covered by the policy. In return, the policy owner (or policy payer) agrees to pay a stipulated amount called a premium at regular intervals or in lump sums to be a life policy the insured event must be based upon life (or lives) of the people named in the policy. The contract is valid for payment of the insured amount on the date of maturity or Specified dates at periodic intervals or Unfortunate death, if it occurs earlier.

Definition of Life Insurance:

Under Section 2 (11) of the Insurance Act, 1938, Life Insurance is defined as: The business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is assured on death (except death by accident only) or the happening of any Insured events that may be covered include: Death; Accidental death; Sickness.

Life policies are legal contracts and the terms of the contract describe the limitations of the insured events. Specific exclusions are often written into the contract to limit the liability of the insurer; for example claims relating to suicide (in India after one year suicide is covered), fraud, war, riot and civil commotion.

Insurance vs. Assurance

The terms, ‘Assurance’ and ‘Insurance’ are commonly used in insurance contracts. In historical point of view, the word 'Assurance is an older used in all types of insurance contracts by the end of the 16th century. But, from the year 1826, this term is used to indicate life insurance only and the word 'Insurance' for all other types of insurance like marine, fire, etc. This is because that in life insurance, there is an assurance from the insurer to make payment of the policy either on the maturity or on death. Thus, the word 'Assurance, indicates certainty. On the other hand, the word insurance is used against indemnity insurance, like fire insurance, marine insurance, etc. In these types of insurance, the insurer is liable to indemnity only in case of loss to property or goods, otherwise not. The test of whether a policy is assurance or insurance is that with an assurance policy the insured event will definitely occur (at some point) whereas with an insurance policy there is a risk the insured event might occur.
CHAPTER -1  
Overview of An Insurance Industry

During recent years, the distinction between the two terms has become largely blurred. This is principally due to many companies offering both types of policy, and rather than refer to themselves using both insurance and assurance titles, they instead use just one.

**Nationalization of Life Insurance in India**

In 1956, life insurance business was nationalized and LIC of India came into being on 01-09-1956. The government took over the business of 245 companies (including 75 provident fund societies) who were transacting life insurance business at that time. Thereafter, LIC got the exclusive privilege to transact life insurance business in India. Relevant laws were amended in 1999 and LIC’s monopoly right to transact life insurance business in India came to an end. At the close of financial year ending 31-03-2004, twelve new companies were registered with the Insurance Regulatory and Development Authority (IRDA) to transact life insurance business in India. As the name suggests, Life Insurance is an insurance on the life of an individual. Thus, life insurance is a contract between the insured and the insurer, i.e., the Life Insurance Corporation (LIC). The written record of this contract is called an Insurance policy.

**1.3.14.2 Non-Life Insurance in India**

**History of Non-Life Insurance (General Insurance)**

Globally, the history of general insurance can be traced back to the early civilization. As the incidence of losses increased with the advancement of civilization, slowly the idea and concept of loss pooling and loss sharing started taking roots. Historical facts show that the Aryans through their cooperatives practiced the loss of profits insurances. The Mediterranean merchants also practiced insurances from as early as the 4th century BC through the issue of bottom bonds, which is an advance of money in a ship during the period of the voyage, repayable on the arrival of the ship. The Code of Manu also indicates the practice of marine insurance by an Indian with their counterparts in Sri Lanka, Egypt and Greece. Marine insurance is the oldest type of insurance originating in England, as early as in the 12th century. The earliest transaction of insurance as practiced today can be traced back to the 14th century AD.
in Italy. General insurance as a whole, developed with the industrial revolution in the West and with the consequent growth of seafaring trade and commerce in the seventh century. In India too, evidence of insurance in some form can be traced as early as from the Aryan period. The British and some of the other foreign insurance companies through their agencies transacted insurance business in India.

The first general insurance company in India was the Triton Insurance company Ltd., established in Calcutta in 1850 AD, with the British holding major share. The first general insurance company by Indian promoters was the Indian Mercantile Insurance company Ltd. started in Bombay in 1906-07. Following the First World War, several foreign insurance companies started insurance business in India, capturing about 40 percent of the insurance market in India at the time of Independence. Insurance business in India is governed by the Insurance Act of 1938, which was amended later in 1969. However, in 1971, the government by an ordinance nationalized the general insurance business, under the General insurance Nationalization Act, 1972 to ensure orderly and healthy growth of the business. The then existing 107 companies were brought under the aegis of General Insurance Corporation (GIC) of India. The GIC was thus entrusted with the responsibility of superintending, controlling, and ensuring smooth and healthy conduct of the general insurance business in India along with its four subsidiaries in all the zones in India.

Providers

The Insurance market comprises the insurers, the buyers, and the intermediaries who mediate between the two parties and reward for their efforts by the insurer. The insurance market in India hitherto consisted of the General Insurance Corporation of India (GIC) and its four subsidiaries namely:

1. National Insurance Co. Ltd. with Head Office in Kolkata.
2. United India Insurance Co. Ltd. with Head Office in Chennai.
3. The New India Assurance Co. Ltd. with Head Office in Mumbai.
4. The Oriental Insurance Co. Ltd. with Head Office in New Delhi

The GIC was formed on 1st January, 1973, under the Insurance Act, 1938 in accordance with the provisions of the General Insurance Business (Nationalization)
All the existing companies carrying on general insurance business in India were merged under Section 16 of the Nationalization Act, and notified by the government on 31.12.1972. Thus, from 1.1.1973, the four subsidiaries of GIC as mentioned above started insurance operations.

A brief review of the four public sector companies as subsidiaries of GIC under The nationalization program in chronological order is examined in the following paragraphs.

The National Insurance Company is one of the four public sector companies. Since its incorporation in the year 1906 headquartered in Kolkata, the company had been carrying out general insurance business under private management until 1972, the year of its nationalization. In the same year, 21 foreign and 11 Indian Insurance Companies were amalgamated with National Insurance Company Limited, as a subsidiary company of General Insurance Corporation of India.

The New India Assurance Company was incorporated on 23rd July, 1919 and Commenced business from 14th October, 1919 with head office in Mumbai. In 1972, The year of its nationalization, Government of India took over the management of the company along with all other non-life insurers in the country. New India Assurance (NIA) was subsequently reconstituted taking over 23 companies under the Scheme of Merger, following the nationalization of General Insurance Business in 1973.

United India Insurance Company Limited was incorporated as a Company on 18th February 1938 with its head office in Chennai, with 12 Indian Insurance Companies, 4Cooperative Insurance Societies and Indian operations of 5 Foreign Insurers, besides General Insurance operations of the southern region of Life Insurance Corporation of India were merged with United India Insurance Company Limited.

The Oriental Fire & General Insurance Co. Ltd., with its head office in New Delhi was incorporated in the year 1947 as a subsidiary of Oriental Government Security Life Assurance Co. Ltd. In 1956, Oriental became a subsidiary of the Life
Insurance Corporation of India until 13th May 1971, when the Government of India (GOI) took over the management of all general insurance companies in India.

This was followed by the nationalization of general insurance business with effect from 1st January 1973 and the Oriental Fire and General insurance company came under the General Insurance Corporation of India as one of the four subsidiaries. It commenced its operations from 1st January 1975. Later on in 2002, with the passage of Insurance amendment Bill (2002), all the four Public sector companies were delinked from GIC and are functioning as independent companies since then.

Following the convergence of the financial services and financial institutions, the Indian government also initiated reforms based on the recommendations made in the Report of the Malhotra Committee, set up in 1993. As a result, the insurance sector was opened up to private participation to make the sector efficient, vibrant, and competitive.

At present, the Insurance Regulatory and Development Authority (IRDA), is the statutory body entrusted with the responsibility for regulation of the operations of the insurance companies as well ensuring the orderly development and growth of the insurance business in India. The primary concern of the IRDA is the protection of the policyholder’s interest.

As we have discussed that insurance is an important aid to minimize the effect of uncertainties of life as well as property. With the increasing complexities in our personal and professional life, the range of risks that the insurance companies accept has also expended substantially. The broadest classification of insurance is in terms of Life Insurance and non-Life Insurance (General insurance).

A non-life insurance contract is different from a life insurance contract. A life insurance contract is a long term contract, while the general insurance contract is a one-year renewable contract. The risk, namely ‘death’ is certain in life insurance. The only uncertainty is as to when it will take place, whereas in general insurance, the insured event may or may not take place. It is difficult to determine the economic value of life, whereas the financial value of any asset to be insured under a general
insurance policy can be determined. Because of these peculiar features, a non life insurance contract is different from a life insurance contract. In this lesson we will learn in detail the treatment of each type of non-life insurance.

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

Meaning & Importance of Non-life Insurance

Non-life insurance refers to the property and liability insurance. Fire insurance covers stationary property. Marine insurance covers mobile property. Bonding is a special coverage that guarantees the performance of the contract by one party to another. Casualty coverage includes accident and health insurance besides the above mentioned categories. Miscellaneous Insurance business means all other general insurance contracts, including therein motor insurance.

The role of insurance is two fold. Insurance achieves both risk transfer and risk reduction. The insurer collects the premium from a group of business firms who wants to protect their property against the damage caused by fire. The insurer will then indemnify the firm that suffers a loss of property due to fire out of the premium so collected. So the collective contributions of this entire group of the insured have been utilized to pay for the losses of the unfortunate few who sustain losses.

Insurance also acts as a risk reduction mechanism in various senses. Firstly, the individual risks has been shifted to the insurance company by way of pooling. Secondly, firm’s risk exposure is well spread out because the insurer has an access to the reinsurance market making possible a further spread of risk. If an aircraft is destroyed, the airline company will have a big hole in its finances. If the aircraft is insured, the loss would be spread out among a large number of insurance companies throughout the world. Every business enterprise is exposed to a large number of risks
and uncertainties to its premises, plant and machinery, raw materials, finished stock and other things. Goods may be damaged or lost in the process of transportation and may be destroyed due to fire or flood while in storage. As a matter of fact, business means risk and uncertainties. Some of the risks can be avoided by timely precautions, but some are unavoidable and are beyond the control of a businessman. For those types of risks, Insurance is the best protection. By providing protection against at least some of these risks, the insurance industry helps him better manage his risks and contributes to capital formation in the economy. After transferring risks and uncertainties of the business to the insurance company, the entrepreneur can focus on his core activity- of running the business. Also, the insurance companies bring their experience and expertise to the field of risk management. Thus, they are able to add value to the customer’s business processes.

**Objectives of non-life insurance**

1. Defines the contract of fire insurance.
2. Explain the characteristics of fire insurance contract.
3. Understand the meaning of the term ‘fire’.
4. Describe the special policies under fire insurance.
5. Write about fire claims and the procedures followed to settle a fire claim.
6. Defines the contract of marine insurance.
7. Explain different types of perils that can affect a marine adventure.
8. How to assign a marine policy.
9. What are various clauses of a marine policy.
10. Explain the difference between express and implied warranties.
11. Describe different types of marine policy.
12. Know the claim procedure to be followed for marine insurance.
13. Defines the contract of health insurance.
14. Describe the various health insurance policies.
15. The future of health insurance in India.
16. Defines the contract of Motor insurance.
17. Explain the basic principles of motor insurance.
18. Describe the motor insurance policies.
19. Mention the classification of motor vehicles.
20. Understand the operation of motor accident claims tribunal.


1.3.14.2 Types of Non-Life Insurance

[A] Fire Insurance: Fire is hazardous to human life as well as property. Loss of life by fire is covered under Life insurance and loss of property by fire is covered under fire insurance. Fire causes enormous damage by physically reducing the materials to ashes.

A fire insurance policy provides protection strictly against fire. There could be enormous reasons for fire. In practice certain other related perils are also covered by the fire insurance policy. The General Insurance Act (Tariff) recommends the form of the contract in which a fire insurance is to be written. The policy form contains a preamble and operative clause, general exclusions and general conditions. Fire Insurance comes under tariff class of business. All India Fire Tariff is the revised fire insurance tariff, which came into force on May 1, 2001. Now a single policy was introduced to cover all property risks called standard fire and special peril policy in the place of three standard policies i.e. A, B&C.

Meaning of Fire

Fire is not described in the policy. It should, therefore, be taken in the general sense as an ignition of any kind. Damage by lightening or explosion is not covered unless these cause actual ignition which spread into the fire. A claim for loss by fire must satisfy the following conditions:

A) The loss must be caused by actual fire or ignition and not just by high temperatures. There should be rapid combustion that produces ignition and may result in flames. Hence, chemical action producing heat, but not actual fire and damage caused by an acid is not considered as fire damage.
B) The proximate cause of loss should be fire.

C) The loss or damage must relate to the subject matter of the policy.

D) The fire must be accidental, not incidental. If the fire is caused through a deliberate act of the insured or his agents, the insurer will not be liable for the loss. Fire due to the negligence of the insured or his servant is, however, covered by the policy. If a third party willfully sets fire to the insured’s property, the loss is by fire and the insurer is liable.

E) The ignition must be either of the goods or of the premises where the goods are kept.

Essential features of a contract of fire insurance are as under:

1) **It is a contract under the Indian Contract Act, 1872:** Like other insurance contracts, fire insurance contracts are also governed by the general provisions of Indian Contract Act, 1872. It implies that fire insurance also has to satisfy the essentials of a valid contract.

2) **It is a contract of indemnity:** The principle of indemnity implies that the insurer restores the insured to his position before incurring the loss caused by the fire. The insured cannot claim anything more than the amount of actual loss. He can be indemnified only to the extent of damage incurred, not the entire value of the property insured.

3) **It is a contract of utmost faith:** It is a contract of ‘uberrimaefidei’, i.e. utmost good faith. Both the insured and the insurer must disclose everything which is in their knowledge and can affect the contract of insurance.

4) **Existence of insurable interest:** Insurable interest arises out of a pecuniary relationship between the insured and the subject matter of the insurance. The destruction or damage to the latter involves the insured in financial loss. Insurable interest should exist at the time of taking a fire insurance policy and continue throughout the policy term. A claim can be made for the loss due to fire only when the insurable interest exists. The insurable interest in the goods may arise out of ownership, possession or contract.

The following persons have insurable interest in the subject matter of insurance in case of fire policy:
1. A person has an insurable interest in the property he owns.
2. Partner has an insurable interest in the property of the partnership.
3. A businessman has an insurable interest in his stock, plant, machinery and building.
4. The agent has an insurable interest in the property of his principle.
5. The mortgagee has an insurable interest in the property which is mortgaged.

5) **It is a yearly contract:** Generally, a contract of fire insurance is a contract from year to year only and the insurance automatically comes to an end after the expiry of the year. However, the contract can be renewed before the expiry of the contract.

### Types of Fire Policies

The important fire insurance policies are discussed below:

1. **Valued Policy.** They are the exception in fire insurance. Undervalued policy, the value declared in the policy is the amount the insurer will have to pay to the insured in the event of a total loss irrespective of the actual value of the loss. The policy violates the principle of indemnity. The insurer has to pay a specified amount quite independent of the market or actual value of the property at the time of loss. So such a policy is very rarely issued. It may be issued only for artistic work, antiques and similar rare articles whose value cannot be determined easily.

2. **Specific Policy.** Under this policy, the insurer undertakes to make good the loss to the insured up to the amount specified in the policy. Supposing, a building worth Rs.2,00,000 is insured against fire for Rs. 1,00,000. If the damage to the property is Rs.75,000 the insurer will get the full compensation. Even if the loss is Rs.1,00,000 the insurer will get the full amount. But if the loss is more than Rs.1,00,000 the insured will get Rs. 1,00,000 only. Hence, the value of property is not relevant in determining the amount of indemnity in case of a specific policy.

3. **Average Policy.** Under a fire insurance policy containing the ‘average clause’ the insured is liable for such proportion of the loss as the value of the uncovered property bears to the whole property. e.g. if a person gets his house insured for Rs. 4,00,000 though its actual value is Rs. 6,00,000, if a part of the house is damaged in a fire and the insured suffers a loss of Rs. 3,00,000, the amount of compensation to be paid by
the insurer comes out to Rs. 2,00,000 calculated as follows:

\[
\text{Amount of claim} = \frac{\text{Insured amount} \times \text{Actual loss}}{\text{Actual value of property}}
\]

\[
= \frac{4,00,000 \times 3,00,000}{6,00,000}
\]

\[
= 2,00,000
\]

4. **Floating policy.** A floating policy is used for covering fluctuating stocks of goods held in different lots for one premium. With every transaction of sale or purchase, the quantities of goods kept in different places fluctuate. It is difficult for the owner to take a policy for a specific amount. The best way is to take out a floating policy for all the stocks of goods.

5. **Reinstatement Policy.** In such a policy, the insurer has the right to reinstate or replenish the property destroyed instead of paying compensation to the insured in cash. It may be granted for building, machinery, furniture, fixture and fittings only.

6. **Consequential loss Policy.** Sometimes the insured has to suffer a greater financial loss on account of dislocation of business caused by fire. e.g. Close down business after fire for repair, to meet fixed expenses such as rent, salaries, taxes and other expenses as usual. Such considerable loss to the insured is not covered by the ordinary fire policy. In order to cover such loss by fire, the ‘Consequential Loss Policy’ has been introduced. So the loss suffered is separately calculated from the loss actually suffered.

7. **Comprehensive policy.** This policy covers the risks of the fire arising out of any cause that is civil commotion, lightening, riots, thefts, labor disturbances and strikes etc. It is also known as ‘all insurance policy’.

8. **A Blanket policy.** This policy is issued to cover all the fixed and current assets of an enterprise by one insurance.

9. **Declaratory policy.** In this policy, the trader takes out a policy for the maximum value of stock which may be expected to hold during the year. At a fixed date each month, the insured has to make a declaration regarding the actual value of stock at risk on that date. On the basis of such declaration, the average amount of stock at risk in the year is calculated and this amount becomes the sum assured.
10. **Sprinklers leakage policy**. It covers the loss arising out of water leakage from sprinklers which are setup to extinguish fire.

**Claim Procedure for fire Insurance**

In the event of fire the insured must immediately give the insurer a notice about the loss caused by fire. A written claim should be delivered within 15 days from the date of loss. The insured is required to furnish all plans, invoices, documents, proofs and other relevant information required by the insurer. If the insured failed to submit these documents within 6 months from the date of loss, the insurer has the right to consider it as no claim. On receipt of the claim the insurer verifies whether the essentials of a valid claim are satisfied or not. e.g. The cause of the fire should be an insured peril. The insured completes the form, signs the declaration given in the form as to the truthfulness and accuracy of the information and returns the same. An official employed by the insurer investigates small and simple claims. For large claims, the insurance company employs independent loss surveyor. On the basis of the claim form and the investigation report, the company then settles the claim.

**[B] Marine Insurance**

Insurance on the risks of transportation of goods is one of the oldest and most vital forms of insurance. The value of goods shipped by business firms, each year cost millions of rupees. These goods are exposed to damage or loss from numerous transportation perils. The goods can be protected by marine insurance contracts. It is an important element of general insurance. It essentially provides cover for loss suffered due to marine perils. In India the marine insurance is regulated by the Indian Maritime Insurance Act 1963, which is based on the original English Act.

Marine insurance as we know it today can be described as the mother of all insurances. It is believed to have originated in England owing to the frequent movement of ships over high seas for trade. In India, insurance has been in vogue for several centuries. History holds proof that these people had a system of pooling their contributions, if any one of their clan were to meet a tragedy in their voyages. Today marine insurance has assumed a vast canvas due to the expanding trade across the
globe, which involves large shipping companies that require protection for their fleet against the perils of the sea.

**Definition**

“Marine insurance is a contract under which, the insurer undertakes to indemnify the insured in the manner and to the extent thereby agreed, against marine losses, incidental to marine adventures”.

It may be defined as a form of insurance covering loss or damage to vessels or to cargo during transportation to the high seas. It follows from the above discussion the marine insurance is a contract between the insured and the insurer. The insured may be a cargo owner or a ship owner or a freight receiver. The insurer is known as the underwriter. The document in which the contract is incorporated is called “Marine policy”. The insured pays a particular sum, which is called a premium, in exchange for an undertaking from the insurer to indemnify the insured against loss or damage caused by certain specified perils.

The salient features of a contract of marine insurance are as follows:

1. It is based on utmost good faith. Both the insured and the insurer must disclose everything which is in their knowledge and can affect the contract of insurance.
2. It is a contract of indemnity. The insured is entitled to recover only the actual amount of loss from the insurer.
3. Insurable interest in the subject-matter insured must exist at the time of the loss. It need not exist when the insurance policy is taken. Under marine insurance, the following persons are deemed to have insurable interest: (a) The owner of the ship. (b) The owner of the cargo. (c) A creditor who has advanced money on the security of the ship or cargo. (d) The mortgagor and mortgagee. (e) The master and crew of the ship have insurable interest in respect of their wages. (f) In case of advance freight, the person advancing the freight has an insurable interest if such freight is not repayable in case of loss.
4. It is subject to the doctrine of *causaproxima*. Where a loss is brought by several causes in succession to one another, the proximate or nearest cause of loss must be taken into account. If the proximate cause is covered by the policy, only then
the insurance company will be liable to compensate the insured.

5. It must contain all the essential requirements of a valid contract, e.g. lawful consideration, free consent, capacity of the parties, etc.

Meaning of Marine Perils

Maritime perils can be defined as the fortuitous (an element of chance or ill luck) accidents or casualties of the sea caused without the willful intervention of human agency. The perils are incidental to the sea journey that arises in consequence of the sea journey. There are different forms of perils, of which only a few are covered by insurance while others are not. Accordingly, we have insured and uninsured perils.

Insured perils are storm, collision of one ship with another ship, against rocks, burning and sinking of the ship, spoilage of cargo from sea water, mutiny, piracy or wilful destruction of the ship and cargo by the master (captain) of the ship or the crew, jettison etc.

Uninsured perils are regular wear and tear of the vessel, leakage (unless it is caused by an accident), breakage of goods due to bad movement of the ship, damage by rats and loss by delay. All losses and damages caused due to reasons not considered as the perils of the sea are not provided insurance cover

Subject Matter of Marine Insurance

The insured may be the owner of the ship, the owner of the cargo or the person interested in freight. In case the ship carrying the cargo sinks, the ship will be lost along with the cargo. The income that the cargo would have generated would also be lost. Based on this we can classify the marine insurance into three categories:

(a) Hull Insurance: Hull refers to the ocean going vessels (ships trawlers etc.) as well as its machinery. The hull insurance also covers the construction risk when the vessel is under construction. A vessel is exposed to many dangers or risks at sea during the voyage. An insurance affected to indemnify the insured for such losses
(b) **Cargo Insurance**: Cargo refers to the goods and commodities carried in the ship from one place to another. The cargo transported by sea is also subject to manifold risks at the port and during the voyage. Cargo insurance covers the shipper of the goods if the goods are damaged or lost. The cargo policy covers the risks associated with the transhipment of goods. The policy can be written to cover a single shipment. If regular shipments are made, an open cargo policy can be used that insures the goods automatically when a shipment is made.

(c) **Freight Insurance**: Freight refers to the fee received for the carriage of goods in the ship. Usually the ship owner and the freight receiver are the same person. Freight can be received in two ways- in advance or after the goods reach the destination. In the former case, freight is secure. In the latter the marine laws say that the freight is payable only when the goods reach the destination port safely. Hence, if the ship is destroyed on the way the ship owner will lose the freight along with the ship. That is why, the ship owners purchase a freight insurance policy along with the hull policy.

(d) **Liability Insurance**: It is usually written as a separate contract that provides comprehensive liability insurance for property damage or bodily injury to third parties. It is also known as protection and indemnity insurance, which protects the ship owner for damage caused by the ship to the docks, cargo, illness or injury to the passengers or crew, and fines and penalties.

**Types of Marine Policy**

There are different types of marine policies known by different names according to the manner of their execution or the risk they cover. They are:

1. **Voyage Policy**: Under the policy, the subject matter is insured against risk in respect of a particular voyage from a port of departure to the port of destination, e.g. Mumbai to New York. The risk starts from the departure of the ship from the port and it ends with its arrival at the port of destination. This policy covers the subject matter irrespective of the time factor. This policy is not suitable for hull insurance as a ship usually does not operate over a particular route only. The
2. **Time Policy**: It is one under which the insurance is affected for a specified period of time, usually not exceeded twelve months. Term policies are generally used in connection with the insurance to ship. Thus, if the voyage is not completed within the specified period, the risk shall be covered until the voyage is completed or till the arrival of the ship at the port of call.

3. **Mixed Policies**: It is one under which insurance contract is entered into for a certain time period and for a certain voyage or voyages, e.g., Kolkata to New York, for a period of one year. Mixed Policies are generally issued to ships operating on particular routes. It is a mixture of voyage and time policies.

4. **Valued Policies**: It is one under which the value of the subject matter insured is specified on the face of the policy itself. This kind of policy specifies the settled value of the subject matter that is being provided cover for. The value which is agreed upon is called the insured value. It forms the measure of indemnity in the event of loss. The insured value is not necessarily the actual value. It includes (a) invoice price of goods (b) freight, insurance and other charges (c) ten to fifteen per cent margin to cover expected profits.

5. **Unvalued policy**: It is the policy under which the value of the subject matter insured is not fixed at the time of effecting insurance, but has to be ascertained wherever the subject matter is lost or damaged.

6. **Open policy**: An open policy is issued for a period of 12 months and all consignments cleared during the period are covered by the insurer. This form of insurance Policy is suitable for big companies that have regular shipments. It saves them the tedious and expensive process of acquiring an insurance policy for each shipment. The rates are fixed in advance, without taking the total value of the cargo being shipped into consideration. The assured has to declare the nature of each shipment, and the cover is provided for all the shipments. The assured also deposits a premium for the estimated value of the consignment during the policy period.

7. **Floating Policy**: A merchant who is a regular shipper of goods can take out a ‘floating policy’ to avoid botheration and waste of time involved in taking a new policy for every shipment. This policy stands for the contract of insurance in general terms. It does not include the name of the ship and other details. The
other details are required to be furnished through subsequent declarations. Thus, the insured takes a policy for a huge amount and he informs the underwriter as and when he makes shipment of goods. The underwriter goes on recording the entries in the policy. When the sum assured is exhausted, the policy is said to be “fully declared” or “run off”.

8. **Block Policy**: This policy covers other risks also in addition to marine risks. When goods are to be transported by ship to the place of destination, a single policy known as block policy may be taken to cover all risks. E.g. when the goods are dispatched by rail or road transport for shipment, a single policy may cover all the risks from the point of origin to the point of destination.

**Assignment of Marine Policy**

A marine insurance policy may be transferred by assignment unless the terms of the policy expressly prohibit the same. The policy may be assigned either before or after loss. The assignment may be made either by endorsement on the policy itself or on a separate document. The insured need not give a notice or information to the insurer or underwriter about the assignment. In case of death of the insured, a marine policy is automatically assigned to his heirs.

At the time of assignment, the assignor must possess an insurable interest in the subject matter insured. An insured who has parted with or lost interest in the subject matter insured cannot make a valid assignment. After the occurrence of the loss, the policy can be assigned freely to any person. The assignor merely transfers his own right to claim to the assignee.

**Clauses in Marine Policy**

A policy of marine insurance may contain several clauses. Some of the clauses are common to all marine policies while others are included to meet special requirements of the insured. Hull, cargo and freight policies have different standard clauses. There are standard clauses which are invariably used in marine insurance. Firstly, policies are constructed in general, ordinary and popular sense, and, later on,
specific clauses are added to them according to the terms and conditions of the contract. Some of the important clauses in a marine policy are described below:

1. **Valuation Clause.** This clause states the value of the subject matter insured as agreed upon between both the parties.

2. **Sue and labor clause.** This clause authorizes the insured to take all possible steps to avert or minimize the loss or to protect the subject matter insured in case of danger. The insurer is liable to pay the expenses, if any, incurred by the insured for this purpose.

3. **Waiver Clause.** This clause is an extension of the above clause. The clause states that any act of the insured or the insurer to protect, recover or preserve the subject matter of insurance shall not be taken to mean that the insured wants to forgo the compensation, nor will it mean that the insurer accepts the act as abandonment of the policy.

4. **Touch and Stay Clause.** This clause requires the ship to touch and stay at such ports and in such order as specified in the policy. Any departure from the route mentioned in the policy or the ordinary trade route followed will be considered as a deviation unless such departure is essential to save the ship or the lives on board in an emergency.

5. **Warehouse to warehouse clause.** This clause is inserted to cover the risks to goods from the time they are dispatched from the consignor’s warehouse to their delivery at the consignee’s warehouse at the port of destination.

6. **Intimate Clause.** This clause covers the loss or damage caused to the ship or machinery by the negligence of the master of the ship as well as by explosives or latent defect in the machinery or the hull.

7. **F.P.A. and F.A.A. Clause.** The F.P.A. (Free of Particular Average) clause relieves the insurer from particular average liability. The F.A.A. (Free of all average) clause relieves the insurer from liability arising from both particular average and general average.

8. **Lost or Not Lost Clause.** Under this clause, the insurer is liable even if the ship insured is found not to be lost prior to the contract of insurance, provided the insurer had no knowledge of such loss and does not commit any fraud. This clause covers the risks between the issue of the policy and the shipment of the goods.
9. **Running Down Clause.** This clause covers the risk arising out of collision between two ships. The insurer is liable to pay compensation to the owner of the damaged ship. This clause is used in hull insurance.

10. **Free of Capture and Seizure Clause.** This clause relieves the insurer from the liability of making compensation for the capture and seizure of the vessel by enemy countries. The insured can insure such abnormal risks by taking an extra ‘war risks’ policy.

11. **Continuation Clause.** This clause authorizes the vessel to continue and complete her voyage even if the time of the policy has expired. This clause is used in a time policy. The insured has to give prior notice for this and deposit a monthly prorate premium.

12. **Barratry Clause.** This clause covers losses sustained by the ship owner or the cargo owner due to willful conduct of the master or crew of the ship.

13. **Jettison Clause.** Jettison means throwing overboard a part of the ship’s cargo so as to reduce her weight or to save other goods. This clause covers the loss arising out of such throwing of goods. The owner of jettisoned goods is compensated by all interested parties.

14. **At and From Clause.** This clause covers the subject matter while it is lying at the port of departure and until it reaches the port of destination. It is used in voyage policies. If the policy consists of the word ‘from’ only instead of ‘at and from’, the risk is covered only from the time of departure of the ship.

**Warranties**

Besides the three important principles, i.e. good faith, indemnity, and insurable interest, it is necessary that all the marine insurance contracts must fulfil the warranties also. Warrantee means a condition which is basic to the contract of insurance. The breach of which entitles the insurer to avoid the policy altogether. If the warranty is not complied with by the insured, the contract comes to an end. There are two exceptions where the breach of warranty is excused and does not affect that insurer’s liability:

(i) Where owning to change in the circumstance the warranty is inapplicable

(ii) Where due to enactment of a subsequent law the warranty becomes unlawful.
Kinds of Warranties

Warranties are of two types: (i) Express, (ii) Implied.

An express warranty is one which is expressed or clearly stated in the contract and it can be easily ascertained whether it has been fulfilled or not. For instance a marine policy usually contains the following express warranties:

1. The ship will sail on a specified day.
2. The ship is safe for a particular day.
3. The ship will proceed to the port of destination without any deviation.
4. The ship is neutral and will remain so during the voyage.

The implied warranty, on the other hand, is not expressly mentioned in the contract, but the law takes it for granted that such warranty exists. An express warranty does not exclude implied warranty unless it is inconsistent therewith. Implied warranties do not appear in the policy documents at all, but are understood without being put into words, and as such, are automatically applied. These are included in the policy by law, general practice, long established custom or usage.

The important implied warranties are discussed below:

(a) **Seaworthiness of the ship:** A ship is seaworthy when it is in a fit condition as to repair, equipment, crew, etc. to encounter the ordinary perils of the voyage. This implies that the ship must be suitably constructed, properly equipped and manned, sufficiently fuelled and provisioned and capable of withstanding the ordinary strain and stress of the voyage. It must not be overloaded.

(b) **Legality of Voyage:** The journey undertaken by the ship must be for legal purposes. Carrying prohibited or smuggled goods is illegal and therefore, the insurer shall not be liable for the loss.

(c) **Non-deviation of the ship route:** It is assumed that the ship will maintain the same route as stated in the policy in ordinary course, but in case of peril it is permitted to deviate. If the ship does not follow the usual route, the insurer will not be liable even if the ship regains her route before any loss takes place. However, the insurer remains liable for any loss which might have occurred prior to the deviation.
Types of Marine Losses

A loss arising in a marine adventure due to the perils of the sea is a marine loss. Marine loss may be classified into two categories:

1) **Total loss:** A total loss implies that the subject matter insured is fully destroyed and is totally lost to its owner. It can be Actual total loss or Constructive total loss. In actual total loss subject matter is completely destroyed or so damaged that it ceases to be a thing of the kind insured. e.g. sinking of the ship, complete destruction of cargo by fire, etc.

In case of constructive total loss the ship or cargo insured is not completely destroyed, but is so badly damaged that the cost of repair or recovery would be greater than the value of the property saved. e.g. a ship dashed against the rock and is stranded in a badly damaged position. If the expenses of bringing it back and repairing it would be more than the actual value of the damaged ship, it is abandoned.

2) **Partial loss:** A partial loss occurs when the subject matter is partially destroyed or damaged. Partial loss can be generally average or particular average. General average refers to the sacrifice made during extreme circumstances for the safety of the ship and the cargo. This loss has to be borne by all the parties who have an interest in the marine adventure. e.g. A loss caused by throwing overboard of goods is a general average and must be shared by various parties. Particular average may be defined as a loss arising from damage accidentally caused by the perils insured against. Such a loss is borne by the underwriter who insured the object damaged. e.g. If a ship is damaged due to bad weather the loss incurred is a particular average loss.

Marine Insurance in India

There is evidence that marine insurance was practiced in India since a long time. In earlier day's travels by sea and land were exposed to risk of losing their vessels and merchandise because of piracy on the open seas.
It was the British insurers who introduced general insurance in India, in its modern form. The first company known as the Sun Insurance Office Ltd. was set up in Calcutta in the year 1710. This followed by several insurance companies of different parts of the world, in the field of marine insurance. In India marine insurance is transacted by the subsidiaries of the General Insurance Corporation of India- New India Assurance, National Insurance, Oriental Insurance and United India Insurance. Marine and hull insurance contribute 20% of the total premium of the general insurance industry in India.

[C] Health Insurance

A systematic plan for financing medical expenses is an important and integral part of a risk management plan. With rising health care costs, it was no longer possible for an individual to meet the heavy cost of treatment involving hospitalization. The reasons for the rise in health care costs are:

1. Increase in medical treatment costs.
2. Technological advancements in medical equipment.
3. High labour costs.

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 depend on the insurance provider and the policy purchased.
Health Insurance Policies

The health insurance policies available in India are:

1. Mediclaim policy (individuals and groups)
2. Overseas Mediclaim policy
3. Raj Rajeshwari Mahila KalyanYojna
5. Cancer Insurance Policy
6. Jan ArogyaBima Policy

Future of Health Insurance

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 recognized as a separate segment in the Indian insurance industry. Privatization of the insurance industry is likely to encourage the development of this segment. Health insurance in India has indeed a long way to go.

[D] Motor Insurance

There has been a sudden rise in the motor accidents in the last few years. Many of these are attributable to increase in the number of vehicles. Every vehicle before being driven on roads has to be compulsorily insured. The motor insurance policy represents a combined coverage of the vehicles, including accessories, loss or damage to his property or life and the third party coverage.

Persons driving vehicles may cause losses and injuries to other persons. Every individual who owns a motor vehicle is also exposed to certain other risks. These include damage to his vehicle due to accidents, theft, fire, collision and natural disasters and also injuries to himself.

In 1939, motor vehicle act came into force in India. Compulsory insurance was introduced by the motor vehicle act to protect the pedestrians and other third parties. Claims for damages may arise due to possession of car, usage and maintenance of the car. Motor insurance policy will pay the financial liability arising
out of these risks to the insured person.

**Definition**

“Motor insurance policy is a contract between the insured and the insurer, in which the insurer promises to indemnify the financial liability in the event of loss to the insured.”

Motor Vehicles Act 1939 was passed to mainly safeguard the interests of pedestrians. According to the Act, a vehicle cannot be used in a public place without insuring the third party liability.

According to Section 24 of Motor Vehicles Act, “No person shall use or allow any other person to use a motor vehicle in a public place, unless the vehicle is covered by a policy of insurance.”

**Classification of Motor Vehicles**

As per the Motor Vehicles Act for the purpose of insurance the vehicles are classified into three broad categories such as:

**Private cars**

a) Private Cars - vehicles used only for social, domestic and pleasure purposes

b) Private vehicles - Two wheeled
   1. Motorcycle / Scooters
   2. Auto cycles
   3. Mechanically assisted pedal cycles

**Commercial vehicles**

1. Goods carrying vehicles
2. Passengers carrying vehicles
3. Miscellaneous & Special types of vehicles
The risks under motor insurance are of two types:

1) Legal liability due to bodily injury, death or damage caused to the property of others.
2) Loss or damage to one’s own vehicle, injury to or death of self and other occupants of the vehicle.

Basic Principles of Motor Insurance

Motor insurance being a contract like any other contract has to fulfil the requirements of a valid contract as laid down in the Indian Contract Act 1872. In addition, it has certain special features common to other insurance contracts. They are:

1) **Utmost good faith:** The principle of Utmost good faith casts an obligation on the insured to disclose all the material tracts. These material facts must be disclosed to the insurer at the time of entering into the contract. All the information given in the proposal form should be true and complete. e. g. The driving history, physical health of the driver, type of vehicle etc. If any of the mentioned material facts declared by the insured in the proposal form are found inappropriate by the insurer at the time of claim it may result in the claim being repudiated.

2) **Insurable Interest:** In a valid insurance contract it is necessary on the part of the insured to have an insurable interest in the subject matter of insurance. The presence of insurable interest in the subject matter of insurance gives the person the right to insure. The interest should be pecuniary and must be present at inception and throughout the term of the policy. Thus the insured must be either benefited from the safety of the property or must suffer a loss on account of damage to it.

3) **Indemnity:** Insurance contracts are contracts of indemnity. Indemnity means making good on the loss by reimbursing the exact monetary loss. It aims at keeping the insured in the same position he was before the loss occurred and thus prevent him from making profit from the insurance policy.

4) **Subrogation and Contribution:** Subrogation refers to transfer of the insured's right of action against a third party who caused the loss to the insurer. Thus, the insurer who pays the loss can take up the assured's place and sue the party that
caused the loss in order to minimize his loss for which he has already indemnified the assured. Subrogation comes into the picture only in case of damage or loss due to a third party. The insurer derives this right only after the payment of damages to the insured. Contribution ensures that the indemnity provided is proportionately borne by other insurers in case of double insurance.

Types of Motor Insurance Policies

The All India Motor Tariff governs motor insurance business in India. According to the Tariff all classes of vehicles can use two types of policy forms. They are form A and form B. Form A which is known as Act Policy is a compulsory requirement of the motor vehicle act. Use without such insurance is a penal offense. Form B which is also known as Comprehensive Policy is an optional cover.

1. **Liability only policy** – This covers third party liability and / or death and property damage. Compulsory personal accident covers for the owner in respect of owner driven vehicles is also included.

2. **Package policy** – This covers loss or damage to the vehicle insured in addition to 1 above.

3. **Comprehensive policy**- Apart from the above-mentioned coverage, it is permissible to cover private cars against the risk of fine and / or theft and third party/ theft risks.

Every owner of a motor vehicle has to take out a policy covering third party risks, but insurance against other two risks is optional. When an insurance policy covers third party risks, third party who has suffered any damages, can sue the Insurance Company even though he was not a party to the contract of insurance.

Insurance policies for the vehicles subject to the purchase agreements, lease agreements and hypothecation are to be issued in the joint names of the hirer and owner, lease and lessor, owner and pledge respectively. In case of policy renewal a notice of one month in advance before the date of expiry is issued by the insurers. The notice gives the details of premium payable for renewal.
Terms of Insurance Policy

(1) **Transfer of ownership:** In case of any sale of vehicle involving transfer of policy, the insured should apply to the insurer for consent to such transfer. The transfer is allowed, if within 15 days of receipt of application, the insurer does not reject the plea. The transfer shall apply within fourteen days from the date of transfer in writing to the insurer who has insured the vehicle, with the details of the registration of the vehicle, the date of transfer of the vehicle, the previous owner of the vehicle and the number and date of the insurance policy so that the insurer may make the necessary changes in his record and issue fresh Certificate of Insurance.

(2) **Insurer’s Duty to Third Party:** It is obligatory on the part of the insurer to pay the third party for, the insurer has no rights to avoid or reject the payment of liability to a third party. The duties of the insurer towards a third party are provided in section 96 (1). The court determines the third party liability and accordingly compensation is paid. The liability is unlimited.

(3) **Cancellation of Insurance:** The insurer may cancel a policy by sending of the insured seven days notice of cancellation by recorded delivery to the insured’s last known address and the insurer will refund to the insured the pro-rate premium for the balance period of the policy. A policy may be cancelled at the option of the insured with seven days notice of cancellation and the insurer will be entitled to retain premium on short period scale of rates for the period for which the cover has been in existence prior to the cancellation of the policy. The balance premium, if any, will be refundable to the insured.

(4) **Double Insurance:** When two policies are in existence on the same vehicle with identical cover, one of the policies may be cancelled. Where one of the policies commences on a date later than the other policy, the policy commencing later is to be cancelled by the insurer concerned. If a vehicle is insured at any time with two different offices of the same insurer, 100% refund of premium of one policy may be allowed by canceling the later of the two policies. However, if the two policies are issued by two different insurers, the policy commencing later is to be cancelled by the insurer concerned and pro-rata refund of premium thereon is to be allowed.
CHAPTER -1 Overview of An Insurance Industry

Calculation of Premiums

In the case of Comprehensive Insurance Cover, for the purpose of premium, vehicles are categorized as follows:

**Private Car**

This is used for personal purposes. Private cars are lesser exposed than taxis, as the latter is used extensively for maximum revenue. The premium is computed on the following basis

1. **Geographical area of use:** Large cities have a higher average claim costs followed by suburban areas, smaller cities, and small towns or rural areas. In India, the geographical areas have been classified into Group A and Group B.

2. **Cubic capacity:** The more the cubic capacity, the higher the premium rate.

3. **Value of the vehicle:** The premium rate is applied to the value of the vehicle. The owner has to declare the correct value of the vehicle to the insurer. This value is known as the Insured’s Estimated Value (IEV) in motor insurance and represents the sum insured.

   (a) **Two-wheeler:** It is used for personal purpose only. The premium is calculated on cubic capacity and value of the vehicle. Theft of accessories is not covered, unless the vehicle is stolen at the same time.

   (b) **Commercial Vehicle:** This is the vehicle used for hire. For goods carrying commercial vehicle, premium is calculated on the basis of carrying capacity, i.e. gross vehicle weight and value of the vehicle. For passenger carrying commercial vehicles, premium is calculated on the basis of again carrying capacity, i.e. number of passengers and the value of the vehicle. Accessories extra, as specified. Heavier vehicles are more exposed to accidents since the resultant damages they incur are more. Similarly, vehicles with a higher carrying capacity expose more passengers to risk. Therefore, heavier vehicles attract a higher premium rate.

Claim Settlement

A claim arises when

1) The insured’s vehicle is damaged or any loss incurred.

2) Any legal liability is incurred for death of or bodily injury Or damage to the third party’s property.
The claim settlement in India is done by opting for any of the following by the insurance company

a) Replacement or reinstatement of vehicle
b) Payment of repair charges

In case, the motor vehicle is damaged due to accident it can be repaired and brought back to working condition. If the repair is beyond repair, then the insured can claim for total loss or for a new vehicle. It is based on the market value of the vehicle at the time of loss.

Motor insurance claims are settled in three stages. In the first stage the insured will inform the insurer about a loss. The loss is registered in claim register. In the second stage, the automobile surveyor will assess the causes of loss and extent of loss. He will submit the claim report showing the cost of repairs and replacement charges, etc. At the third stage, the claim is examined based on the report submitted by the surveyor and his recommendations. The insurance company may then authorize the repairs. After the vehicle is repaired, the insurance company pays the charges directly to the repairer or to the insured if he had paid the repair charges.

Section 110 of the Motor Vehicle Act, 1939 empowers the State Government in establishing motor claims tribunals. These tribunals will help in settling the third party claims for the minimum amount.

Vehicle Insurance

There are two types of insurance for the vehicle

(i) **Act Insurance or the Third Party Insurance**: This is compulsory for all vehicles under the Motor Vehicle Act. If a vehicle is insured under “Act Insurance” only, then the damage caused to another person or his property (Including Vehicle) is payable by the company in case of an accident i.e. the person who suffers the loss is compensated and not the insured. The insured doesn’t get any compensation.
(ii) **Comprehensive Insurance**: Under this scheme, the person whose vehicle is assured also gets compensation, in addition to the money paid to the third party. Thus, the insured also gets a cover for the damage or loss suffered by him (or her) or his/her vehicle.

**No Claim Bonus:**

If no claim is made during the year of comprehensive insurance, the company allows a rebate to the insured (i.e. Owner of the vehicle) in the premium to be paid in the successive year. The rate of rebate continues to increase year after year if no claim is made on the policy. This is called “No Claim Bonus”

**Note: ‘No Claim Bonus’ is not given to ‘Act Insurance’**.

The present rates of ‘No Claim Bonus’ are as under

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<thead>
<tr>
<th>Year</th>
<th>Car</th>
<th>Scooter</th>
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<tr>
<td>First Year</td>
<td>15%</td>
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<tr>
<td>Second Year</td>
<td>30%</td>
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<tr>
<td>Third Year</td>
<td>45%</td>
<td>30%</td>
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<tr>
<td>Fourth Year</td>
<td>60%</td>
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<td>Fifth Year and after</td>
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Thus, the maximum ‘No Claim Bonus’ for cars is 60% after 4 consecutive years of not claiming the policy and for two wheelers it is 60% after 5 consecutive years of not claiming the policy.

‘No Claim Bonus’ is a sort of reward for not claiming any damages by the insured and not for the vehicle. Thus, an insured who manages his (or her) car without any claim for 5 years, pay only 40% of the basic premium.
[E] Miscellaneous Insurances

In addition to life, fire and marine Insurance, several other general types of insurances are available today. The nationalized general insurance companies have also offered 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.

[F] Personal Accident Insurance

All of us are exposed to the risk of an 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, Janta personal accident policy and Garmin personal accident policies are available in India.

Scope of cover

Personal accident policy pays compensation to the insured in the event of happening of one or more of the following listed below which may be selected by insured at the time of taking the policy:

1. On death
2. On permanent total and partial disability and
3. On temporary total disability

In case of accidental 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 the armed forces, aircraft accidents, accidents due to nuclear weapons etc.

The Janta personal accident policy is meant for weaker sections of the society. Thus the premium charged under this policy is comparatively less. The 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.

In case of accidental 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. It does not cover the injuries resulting out of war, diseases, attempted suicides etc.

[G] 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 it 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.

[H] 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, damage by house breaking and burglary of stock-in-trade, goods-in-transit, cash-in-safe, fixture and fittings etc.

[I] 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.

[J] 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 usually payable 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 him against the legal liabilities arising out of death or bodily injury to this workman. It also extends
coverage through reimbursement of medical, surgical and hospital expenses, 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.

[K] Travel Insurance

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

[L] 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 custom functions or rituals or programs 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 videography, 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 arises when marriage is cancelled or postponed because of a dispute between marriage parties, willful negligence and criminal misconduct of the bride, bridegroom or their parents.

[M] 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 have been using power and employing 10 or more workers. However, since 1989 the scheme has been expanded, and it now includes all such factors which are not using power and employing 20 or more persons. Mines and plantations are explicitly excluded from coverage under the ESIS Act.

[N] 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:

1. Provide cash income during involuntary unemployment.
2. To help unemployed workers find jobs.
3. Encourage employees to stabilize employment.

Unemployment insurance is a popular concept in developing countries like the U.S., where they have well defined laws and regulations. However, in India it will take a long time to come.
Personal liability insurance provides protection against the legal liability, which arises due to insured’s personal acts. The insurance company will pay for legal defense to third party damages or injuries up to the 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 the 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.

1. Accidental fire to neighbour’s house as a result of insured’s negligence
2. Accidental injury to a third party while playing
3. Damaging costly antique accidentally belonging to neighbours
4. Injuring another person while riding a bicycle

**Goods in Transit Insurance**

When goods are sent from one place to another, there is a possibility of loss/damage occurring in transit due to accident, strike, riots, etc. The mode of transit could be road, rail, sea or air. To cover such risk, there are many policies with different rates of premium.

**1.4 INSURANCE COMPANIES IN INDIA**

As on March 11, 2013, there were 51 insurance companies operating in India. Of these, 27 were general insurance companies and 24 life insurance companies as Listed below**
### Overview of An Insurance Industry

#### (a) Life Insurers:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Sector Company</strong></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Life Insurance Corporation of India</td>
</tr>
<tr>
<td><strong>Private Sector Companies</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>HDFC Standard Life Insurance</td>
</tr>
<tr>
<td>2</td>
<td>Max New York Life Insurance Co. Ltd.</td>
</tr>
<tr>
<td>3</td>
<td>ICICI Prudential Life Insurance Co. Ltd.</td>
</tr>
<tr>
<td>4</td>
<td>Kotak Mahindra Old Mutual Life Insurance Ltd.</td>
</tr>
<tr>
<td>5</td>
<td>Birla Sun Life Insurance Co. Ltd.</td>
</tr>
<tr>
<td>6</td>
<td>Tata AIG Life Insurance Co. Ltd.</td>
</tr>
<tr>
<td>7</td>
<td>SBI Life Insurance Co. Ltd.</td>
</tr>
<tr>
<td>8</td>
<td>IngVysya Life Insurance Co. Ltd.</td>
</tr>
<tr>
<td>9</td>
<td>Bajaj Allianz Life Insurance Co. Ltd.</td>
</tr>
<tr>
<td>10</td>
<td>Met Life India Insurance Co. Pvt. Ltd.</td>
</tr>
<tr>
<td>11</td>
<td>AMP Sanmar Life Insurance Co. Ltd. *</td>
</tr>
<tr>
<td>12</td>
<td>Aviva Life Insurance Co. India Pvt. Ltd.</td>
</tr>
<tr>
<td>13</td>
<td>Sahara India Life Insurance Co. Ltd.</td>
</tr>
<tr>
<td>14</td>
<td>Shriram Life Insurance Co. Ltd.</td>
</tr>
<tr>
<td>15</td>
<td>Reliance Life Insurance Co. Ltd.</td>
</tr>
<tr>
<td>16</td>
<td>BhartiAxa Life Insurance Co. Ltd.</td>
</tr>
<tr>
<td>17</td>
<td>Future General India Life Insurance Company Limited</td>
</tr>
<tr>
<td>18</td>
<td>IDBI Federal Life Insurance Company Ltd.</td>
</tr>
<tr>
<td>19</td>
<td>Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd.</td>
</tr>
<tr>
<td>20</td>
<td>AEGON Religare Life Insurance Company Limited.</td>
</tr>
<tr>
<td>21</td>
<td>DLF Pramerica Life Insurance Co. Ltd.</td>
</tr>
<tr>
<td>22</td>
<td>Star Union Dai-Ichi Life Insurance Co. Ltd.</td>
</tr>
<tr>
<td>23</td>
<td>IndiaFirst Life Insurance Company Limited</td>
</tr>
<tr>
<td>24</td>
<td>Edelweiss Tokio Life Insurance Co. Ltd.</td>
</tr>
</tbody>
</table>

* Amp Sanmar Life insurance Co. Ltd. Now Converted in Reliance Life Insurance Co. Ltd.

(b) List of General Insurance Company in India

Updated up to 11/03/2013

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The Oriental Insurance Company Limited</td>
</tr>
<tr>
<td>2.</td>
<td>The New India Assurance Company Limited</td>
</tr>
<tr>
<td>3.</td>
<td>National Insurance Company Limited</td>
</tr>
<tr>
<td>4.</td>
<td>United India Insurance Company Limited</td>
</tr>
<tr>
<td>5.</td>
<td>Agriculture Insurance Company of India Limited</td>
</tr>
<tr>
<td>6.</td>
<td>Export Credit Guarantee Corporation Limited</td>
</tr>
<tr>
<td>7.</td>
<td>Royal Sundram Alliance Insurance Company Limited</td>
</tr>
<tr>
<td>8.</td>
<td>Reliance General Insurance Company Limited</td>
</tr>
<tr>
<td>9.</td>
<td>IFFCO Tokio General Insurance Company Limited</td>
</tr>
<tr>
<td>10.</td>
<td>TATA AIG General Insurance Company Limited</td>
</tr>
<tr>
<td>11.</td>
<td>Bajaj Allianz General Insurance Company Limited</td>
</tr>
<tr>
<td>12.</td>
<td>ICICI Lombard General Insurance Company Limited</td>
</tr>
<tr>
<td>13.</td>
<td>Apollo DKV Health Insurance Company Limited</td>
</tr>
<tr>
<td>14.</td>
<td>Future General India Insurance Company Limited</td>
</tr>
<tr>
<td>15.</td>
<td>Universal Compo General Insurance Company Limited</td>
</tr>
<tr>
<td>16.</td>
<td>Star Health and Allied Insurance Company Limited</td>
</tr>
<tr>
<td>17.</td>
<td>Cholamandalam General Insurance Company Limited</td>
</tr>
<tr>
<td>18.</td>
<td>HDFC-Chubb General Insurance Company Limited</td>
</tr>
<tr>
<td>19.</td>
<td>Shri Ram General Insurance Company Limited</td>
</tr>
<tr>
<td>20.</td>
<td>BhartiAxa General Insurance Company Limited</td>
</tr>
<tr>
<td>21.</td>
<td>Raheja QBE General Insurance Company Limited</td>
</tr>
<tr>
<td>22.</td>
<td>SBI General Insurance Company Limited</td>
</tr>
<tr>
<td>23.</td>
<td>Max Bupa Health Insurance Company Limited</td>
</tr>
<tr>
<td>24.</td>
<td>L &amp; T General Insurance Company Limited</td>
</tr>
<tr>
<td>25.</td>
<td>Religare Health Insurance Company Limited</td>
</tr>
<tr>
<td>26.</td>
<td>Magma General Insurance Company Limited</td>
</tr>
<tr>
<td>27.</td>
<td>Liberty Videocon General Insurance Company Limited</td>
</tr>
</tbody>
</table>

1.5 BUSINESS OF NON LIFE INSURANCE COMPANIES AS ON 31ST MARCH – 2005

It is evident from the above list that as a result of the introduction of reforms in the insurance sector in India, many large and well established world class private companies have entered into the area to grab new opportunities in the non-life insurance sector. It is essential that this involvement should be channeled into a positive factor for the growth of the Indian insurance sector in particular and the Indian economy in general.

**Table: 1**

**Business of Public Sector General Insurance Companies**
As on 31.03.2005 (Rs. In Lakhs)

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Fire Business</th>
<th>Marine Business</th>
<th>Misc. Business</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>The New India Assurance Company Limited</td>
<td>79884</td>
<td>17297</td>
<td>279536</td>
<td>376717</td>
</tr>
<tr>
<td>The Oriental Insurance Company Limited</td>
<td>33690</td>
<td>11784</td>
<td>166843</td>
<td>212317</td>
</tr>
<tr>
<td>National Insurance Company Limited</td>
<td>35259</td>
<td>11300</td>
<td>219855</td>
<td>266414</td>
</tr>
<tr>
<td>United India Insurance Company Limited</td>
<td>42548</td>
<td>11329</td>
<td>162387</td>
<td>216265</td>
</tr>
</tbody>
</table>

Source: IRDA Annual Report 2004-05 P.P. 93 to 96

**Table: 2**

**Business of all existing Private Sector General Insurance Companies**
As on 31.03.2005 (Rs. In Lakhs)

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Fire Business</th>
<th>Marine Business</th>
<th>Misc. Business</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bajaj Allianz General Insurance Company Limited</td>
<td>5264</td>
<td>1586</td>
<td>30241</td>
<td>37092</td>
</tr>
<tr>
<td>TATA AIG General Insurance Company Limited</td>
<td>810</td>
<td>1802</td>
<td>20148</td>
<td>22760</td>
</tr>
<tr>
<td>ICICI Lombard General Insurance Company Limited</td>
<td>3616</td>
<td>1591</td>
<td>16353</td>
<td>21561</td>
</tr>
<tr>
<td>IFFCO Tokio General Insurance Company Limited</td>
<td>3158</td>
<td>1602</td>
<td>12777</td>
<td>17537</td>
</tr>
<tr>
<td>Royal Sundram Allianz Insurance Company Limited</td>
<td>1909</td>
<td>838</td>
<td>14581</td>
<td>17328</td>
</tr>
<tr>
<td>HDFC-Chubb General Insurance Company Limited</td>
<td>109</td>
<td>16</td>
<td>1180</td>
<td>11925</td>
</tr>
<tr>
<td>Cholamandalam General Insurance Company Limited</td>
<td>1085</td>
<td>380</td>
<td>5639</td>
<td>7104</td>
</tr>
<tr>
<td>Reliance General Insurance Company Limited</td>
<td>1625</td>
<td>330</td>
<td>2847</td>
<td>4803</td>
</tr>
</tbody>
</table>

Source: IRDA Annual Report 2004-05 P.P. 96 to 100
1.6 LEGAL FRAMEWORK OF INSURANCE

History of Insurance Legislation in India

Up to the end of the nineteenth century, the insurance was in its Inspectional stage in India. Therefore, no legislation was required till that time. Usually the Indian Companies Act, 1883 was applicable in business concerns, banking and insurance companies. New Indian Insurance companies and Provident Societies started at the time of national movement; but most of them were financially unsound. It was asserted that the Indian Companies Act, 1883 was inadequate for the purpose. Therefore, two Acts were passed in 1912, namely, Provident Insurance Societies Act V of 1912 and Indian Life Insurance Companies Act VI of 1912. These two Acts were in pursuit of the English Insurance Companies Act of 1909 with the difference that the Indian Life Insurance Companies related to life insurance only and excluded the non-life business from its fold. The Act puts the life insurance business in India on a sounder footing and resulted in creating a healthier atmosphere than before. It was instrumental in the dissolution of some unsound Indian as well as non-Indian life offices or in the merging of some of them with the others. The legislation in India was confining to life business because there were very few general insurance companies and did not call for any legislation. To prevent financial weakness the insurers were required to keep certain stated deposits. The Indian insurers were required to submit returns giving particulars of their business. The foreign insurers were exempted from submitting separate particulars regarding the business done in India. Some English companies ceased to underwrite further business with a view to avoid submission of reports to the Government of India. Some Indian Companies, which conducted business on assessment or on an actuarially unsound basis, either dropped or mortgaged them to conform to actuarial requirements. The policies issued by these companies were not less than Rs. 1,000. The aim of the Provident Insurance Societies Act, 1912 was to govern Provident Insurance Societies which were engaged in issuing life policies worth Rs. 1,000 or less and marriage and disease policies, of every nominal amount. This act was purely based on the Friendly Societies Act.
These two enactments were governing only life insurance. There was no control on general insurance for such businesses were not so developed. Besides, there were the following defects of these Acts

1. The control and inquiry were slight. Non-compliance of rules and regulations was not strictly penalized.

2. The foreign companies were to submit reports of their total business both in India and outside India. But separate particulars regarding business done in India were not demanded and the absence of these made it impossible to get any idea of the cost of procuring business in India for foreign companies and comparing them with similar data of the Indian companies.

3. The Government Actuary was not vested with the power to order an investigation into the conduct of a company even when it appeared that the company was insolvent under the power of exemption.

4. Anyone can start life insurance business only with the sum of Rs. 25,000. It was too low to prevent the mushroom growth of companies. Foreign insurer was not bound to deposit a certain sum of life policy issued in India.

These defects were compelling the above Acts to be replaced. The public was aware of the fact that the Indian companies in foreign countries or in England were directed to have a certain sum in the shape of the reserve as contrary to above regulation.

The law in India was not in line with the law in force in other countries. Persistent demands were made by various important public bodies in the country for statutory provisions which would provide for disclosure and publication of the business carried on in India by foreign companies. After a few years it was realized that there should be another efficient and adequate act.

So, the Government placed a bill for essential amendment of the Act, in 1924. The bill was containing a wide scope of insurance business. The bill came to the legislative assembly after thorough comments by different bodies.

During the time, an important thing happened miraculously about the enactments of insurance business in England. The Government of India thought it fit to watch the course of new legislation on Insurance Law in England. Great Britain appointed Claus on (under the chairmanship of Mr. A.C. Claus on) Committee to
report the possible and required changes in the Legislation. Therefore, the Government of India thought it wise to postpone the bill to include the reports of Claus on Committee.

The Clauson Committee submitted its report in February 1927, but the Government of England took no action on its recommendations. The Government of India in 1928 passed stopgap legislation with the main object of collecting statistics regarding insurance matters so that the information collected would be of value when the time would come to pass a comprehensive Act. This act was not very comprehensive.

The Government of India wanted to wait the English Legislation, which was expected to be passed in 1929 or so and base the law in India to the British model, but the legislation was not passed in Britain. The slow progress of events in Britain again reviewed the agitation for amendment of the law of Insurance in India.

Since the Act of 1928 was not very comprehensive, the demand for another act was made. The Government accepted the genuine demand and appointed one special officer for investigations the special and required reform of legislation in 1935. He was a well-known Calcutta Solicitor and was placed on special duty to report on the amendments necessary to modernize insurance legislation in India. His report was considered by the Advisory Committee (comprising representatives of all branches of insurance) appointed by the Government of India. The committee made several changes and the Government of India introduced the bill in the Legislative Assembly in 1937 and after much debate and several changes; it emerged as the Insurance Act of 1938.

**Insurance Laws in India**

There are mainly four laws are concerned with the insurance business in India are as follows:

1. Insurance Act, 1938
2. Life Insurance Corporation Act, 1956
4. Insurance Regularity and Development Authority Act, 1999 (IRDA)
A. INSURANCE ACT 1938

The insurance act originally passed in the year 1938 however it amended for several times. Its latest amendment of the insurance act was the, the IRDA itself when it became the authority to perform many tasks required to be done under the insurance act such as issuing licenses, issuing registration certificates, monitoring compliance with the provisions of the Act, issuing directives, laying down norms. The all above said functions were performed by the controller of Insurance earlier as per the Insurance Act, 1938.

The provisions of the Act may be briefly described as follows:

(a) Registration: To obtain the certificate of registration is compulsory to every insurance company. The Registration should be renewed annually. The paid up capital must be of Rs. 100 crores for life insurance or general and Rs. 200 crores for re-insurance business. Every insurer has to deposit in cash or approved securities, a sum equivalent at 1% in life insurance or 3% in general insurance of the total gross premium in any financial year commencing after 31st March, 2000 with the Reserve Bank of India. The amount does not exceed Rs. 10 crores. The deposit amount is Rs. 20 crores for reinsurance businesses.

Every insurance company must keep the accounts separate of all receipts and payment in respect of each class of insurance business such as the marine or miscellaneous insurance. Insurers must invest his assets only in those investments which approved under the provisions of the Act. Every insurance company has to do a minimum insurance business in the rural or social sector, as may be specified in the order. The authority can be investigated the affair of the insurer at any time.

(b) Licensing of Agents: License is the pre requirement for becoming the agent. A person can’t work as an insurance agent unless he has obtained a license from the authority. There is some disqualification for being as per the act except the minor age or having an unsound mind as follows:

1. Being unsound mind.
2. Being convicted of criminal misappropriation or criminal breach of trust or cheating or Forgery or Abetment or Attempt to commit any such offense.
3. Being found to have been guilty of or connived at any fraud, Dishonesty or Misappropriation against any insured to the insurer.

(c) **Licensing of Surveyors and Loss Assessors**: No insurer can settle any claim equal to or exceeding Rs. 20000/- without the report on the loss from a licensed surveyor. The person can act as a surveyor or loss assessor only after obtaining license from the authority. The authority can’t issue the license without getting satisfaction about the applicant that he

1. Has been in presence as a surveyor loss accessory at the date of commencement of the IRDA Act, 1999. Or
2. Possesses any of the qualifications specified in the act, e.g. degree in engineering, chartered accounting, diploma in insurance etc.
3. Does not suffer from any of the disqualification specified for grant of agent’s license.

If the applicant for the surveyor is the company of a firm, the requirements must be satisfied to all the directors or the partners, as the case may. Limits have been laid down for the extent of the management expenses of the insurers. The commission to an insurance agent shall not exceed 15% of the premium payable under fire, marine or miscellaneous insurance policies. The rebate is not only parting of commission by the agent, but also changing less than the tariff rate of premium by the way of inducement to the insured.

(d) **Solvency Margin**: The authority of the insurer also decides the solvency margin. The act clarifies how the assets and liabilities have to be determined and the extent to which the assets are to exceed the liabilities. These provisions exist to ensure the adequacy of insurer’s solvency.

(e) **Payment of Premium before assumption of Risk**: A risk can be assumed by the, insurance company after receiving the premium or a guarantee that the premium will be paid within the prescribe time. Sometimes agents collect the premium amount and dispatch or deposited with the insurance company.

They have to deposit the money within the 24 hours except the bank and postal holiday. The agent has to deposit the premium in full without deducting his commission. If any refund of, the premium will be due, the insurer directly shall pay the amount to the insured by crossing or order check or by postal money order.
B. Life Insurance Corporation Act 1956

Life Insurance Business in India was nationalized with effect from January 19, 1956. On the date, the Indian business of 16 non-Indian insurers operating in India and 75 Provident Societies were taken over by the Government of India. Life Insurance Corporation of India, an Act was passed by the Parliament on June 18, 1956 and came into effect from July 1, 1956. Life Insurance Corporation of India commenced its functioning as a corporate body from September 1, 1956. Its working is governed by the LIC Act. The LIC is a corporate having perpetual succession and a common seal with a power to acquire, hold and dispose of property and can by its name sue and be sued. Certain important provisions of the Act (as amended by IRDA Act, 1999) are discussed as follows:

Important Provisions of Life Insurance Corporation Act, 1956

1. Constitution
2. Capital
3. Functions of the Corporation
4. Transfer of Services
5. Set-up of the Corporation
6. Committee of the Corporation
7. Authorities
8. Finance, Accounts and Audit
9. Miscellaneous


The General Insurance Business Nationalization Act passed in 1972 to set up the general insurance business. It was the nationalization of 107 insurance companies into one main company called General Insurance Corporation of India and its four subsidiary companies with exclusive privileges for transacting general insurance business.

This act has been amended and the exclusive privilege ceased on and from the commencement of the insurance regulatory and development authority act 1999. General Insurance Corporation has been working as an insurer in India. Their subsidiaries are working as a separate entity and plays a significant role in the public sector of general insurance.
D. IRDA (Insurance Regulatory and Development Authority-1999)

In 1993, Malhotra Committee headed by former Finance Secretary and RBI Governor R. N. Malhotra was formed to evaluate the Indian Insurance Industry and recommend its future direction. The committee was set up with an objective of complementing the reforms in the Indian Financial Sector. The reforms were aimed at "Creating a more efficient and come positive financial system suitable for the requirement of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an Important part of the overall financial system where it was necessary to address the need for similar reforms."

Malhotra Committee Recommendations

In 1994, the committee submitted the report and gave the following recommendations now in the point forms.

**STRUCTURE**

1. Government stake in the insurance companies to be brought down to 50%.
2. Government should take over the holdings of GIC and its subsidiaries so that there is subsidiaries can act as Independent Corporation.
3. All the insurance companies should be given greater freedom to operate.

**COMPETITION**

1. Private companies with a minimum paid up capital of Rs.1 billion should be allowed to enter the industry.
2. No company should deal in both life and general insurance through a single entity.
3. Foreign companies may be allowed to enter the industry in collaboration with the domestic companies.
4. Postal Life Insurance should be allowed to operate in the rural market.
5. Only one State Level Life Insurance Company should be allowed to operate in each state.
6. The Insurance Act should be changed.
7. An Insurance Regulatory body should be set up.
8. Controller of Insurance (Currently, apart from the Finance Ministry) should be made independent.
INVESTMENT

Mandatory Investments of LIC Life Fund in government securities to be reduced from 75% to 50%. GIC and its subsidiaries are not to hold more than 5% in any company. First mortgage of immovable property is allowed, if the property is situated in India or any other country where the insurer is carrying on insurance business.

Investment Management of General Insurance Companies
1. First mortgage of immovable property is allowed, if the property is situated in India or any other country where the Insurer is carrying on insurance business provided that if the mortgage is in a leasehold property the outstanding lease is not less than 15 years and the value of the property exceeds one third or if the property consists of the building by one half of the mortgage money.
2. The insurer is also permitted to invest 25% of the assets in other than in approved investment. The 25% limit shall be applied on assets, including other than Approved Investment. The unanimous approval of all directors other than directors interested is also necessary.
3. Investment in any one company other than banking or investment company shall not be more than 10% of the assets of the insurer or 10% of the subscribed capital and debentures of the company, whichever is less.
4. No insurer shall invest in Private Limited Company.
5. An Insurer shall not keep more than 10% of his assets in fixed and current deposit or in both with one banking company or co-operative society doing banking business. In calculating the limits, premiums credited in proceeding 60 days or amounts deposited during preceding 30 days for payment of claims shall be excluded. All assets which may be offered as security for any loan taken for investment or payment of claims or which may be kept as security deposit with bank for acceptance of policies be kept free of encumbrances. The loan taken shall be repaid in three months.
Customer Service

LIC should pay interest on delays in payments beyond 30 days. Insurance companies must be encouraged to set up unit linked pension plans. Computerization of operations and updating of technology to be carried out in the insurance industry. Overall the committee strongly felt that in order to improve the customer services and increase the coverage of the insurance industry should be opened up to competition. But at the same time, the committee felt the need to exercise caution as any failure on the part of new players could ruin the public confidence in the industry.

The Act passed in 1999, which has the main objective as follows:

"To provide for the establishment of an authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry. The authority has been established under the provision of the act.

The authority shall consist some members as follows:

i. A chairperson,
ii. Not more than five whole time members
iii. Part time members (not more than four)

All the members are appointed by the central government. The persons are able, who have ability, integrity, knowledge or experience in life insurance, general insurance, actuarial science, finance, economics law, accountancy; administration or any other discipline which would be useful to the authority in the opinion of the central government.

Duties, Powers and Function of the Authority

The authority has the powers and functions include

1. Registration of insurers, intermediaries and agents.
2. Regulation of the terms and the conditions of the contracts of insurance
3. Promoting and regulating professional organizations connected with the insurance and re-insurance business.
4. Monitoring investment of funds and solvency margins of insurance companies.
There is a committee, which advised the authority. The committee is known as the Insurance Advisory Committee. The committee consists of not more than 25 members excluding ex officio members. The members are the representative of the interest of commerce, industry, transport, agriculture, consumer forum, survey or agents, intermediaries, organizations engaged in safety and loss prevention, research bodies and employees association in the insurance sector. The insurance advisory committee is advised the authority on the matters relating to the making decision of the regulations.

The authority has issued a number of regulations, which have to be complied with the insurance companies. Only Indian insurance companies will be given a Registration to transact in the insurance business. An Indian company has been defined as a company under the company Act 1956 and, in the paid up capital of which, the holding of a foreign company, directly or through its subsidiaries and / or nominees, does not exceed 26%.

The paid up capital of the insurance (whether life or general) company will have to be not less than Rs. 100 crores and in the case of companies wanting to transact reinsurance business the paid up capital will have to be not less the Rs. 200 crores.

The insurers have to maintain their assets up to specified limits as per the provisions of the authority at any time. Every insurance company has to appoint an actuary, who must be approved by the authority. The duty of the actuary is:

1. The assets are valued in the appropriate manner.
2. The liabilities are evaluated as required.
3. The prescribed margins for maintaining solvency are complied with.

The authority has also issued regulations with regard to the advertisement. These regulations are applicable to all advertisements whether it issued by the insurance company or an insurance intermediary includes an agent. The scope of the advertisement is wide which includes almost any public communication, which recommends a sale of an insurance policy. The provision mentions that each advertisement should have full disclosure of the product mentioned and of the advertiser including license and Registration number. Advertisement, which is issued
by agents, must be approved by the insurer in writing before issue. There are certain other acts which directly or indirectly affect the general insurance businesses which are as follows:

E. Marine Insurance Act 1963

The act is specially formulated for the marine insurance business. It codifies the law relating to Marine Insurance. There are only a few exceptions from the U.K. Marine Insurance Act, 1905 Underwriters have thorough knowledge about how to pursue rights of recovery from carrying or baileys under subrogation proceedings. In addition to the Marine Insurance Act, 1963 the following laws govern the practice of marine insurance.

F. The Carriage of Goods by Sea Act 1925

The act specifies the minimum rights, liabilities and immunities of a ship owner in respect of loss or damage to cargo carried. The act specifies three aspects of ship owner's liabilities towards cargo owners as follows:

1. The circumstances when the ship owner is deemed to be liable for loss or damage to cargo.
2. The circumstances when the ship owner is exempted from liability such as when loss or damage is caused by events outside his control, e.g. perils of the sea.
3. The limits of liability of a ship owner for the loss or damage to cargo calculated in monetary terms per package or unit of cargo.

G. The Merchant Shipping Act 1958

It provides protection to ship owners. The ship owners liability arises up to certain maximum sums for certain losses, provided the incident giving rise such claims has arisen without the actual fault or priority of the ship owner, whether the claims relates to loss of life, personal injury, or damage to property on land or water. It also confers an obligation on the ship owner to send his ship to sea in a sea worthy and safe condition.
H. The Bill of Lading Act 1855

Bill of lading is an evidence of the contract of carriage of goods between the ship owner and the shipper, as an acknowledgement of the receipt of the goods on board the vessel. It is a document of title. This document requires in connection with settlement of marine cargo claims.

I. The Indian Ports Act 1963

The act described the liability of port trust- authority for loss of or damage to goods whilst in their custody. It also defines the prescribed time limit for filing a monetary claim on, or suit against the Port Trust Authorities.

G. The Carriers Act 1865

The act defines the rights and liabilities of truck owners or operators who carry goods for public hire in respect of loss or damage to goods carried by them. It also mentions the time limit within which notice of loss or damage must be filed with the road carriers.

H. Indian Railways Act, 1889

The act deals with various aspects of railway administration; there are also provisions, which are relevant to marine insurance. The provisions of the relate to the rights and liabilities of railways as carriers of goods. The tribunals deal with claims for cargo loss, personal injuries, and refund of excess freight.

I. The Indian Post office Act 1898

The act defines the liability of the government for loss, wrong delivery, delay of or damage to any postal article in course of transmission of post.

J. The Carriage by Air Act 1972

This act defines the liability of the air carrier for death of or injury to passages and for loss of or damage to registered luggage and cargo. It also prescribes the maximum limits of liability for death, Injury, damage, etc., it specifies the time limits within which claims have to be filed with the air carrier. The provisions also apply to domestic carriage with some changes.
CHAPTER -1 Overview of An Insurance Industry

K. Multimodal Transportation Act, 1993
This is the act of the persons who engage in more than one mode of transportation such as rail, road, sea or air. The act specifies limits of liability of the operator, contents of documents issued by them, notice of loss etc.

L. The Motor Vehicles Act 1988
The act specifies for compulsory third party insurance of motor vehicles, no fault liability, solution fund for victims of ‘Hit and run’ victims of motor vehicle accidents

M. The Inland Steam vessels Act 1977
The act is in relation to the insurance of mechanically propelled vessels against third party risks. It makes the same insurance compulsory for owners or operators of inland vessels to insure against legal liability for death or bodily injury of third parties or of passengers carried for hire or reward and for damage to property of third parties. It prescribes the limits of the liability.

N. Public Liability Insurance Act 1991
It deals with the immediate relief to the persons affected by accidents arising of hazardous substances. It also deals with that this liability, which is on ‘no fault’ basis, has to be compulsorily insured.

O. The Workman’s Compensation Act 1923
It describes the payment by employers to their employee / workmen, of compensation for injury by accident or disease, arising out of and in the course of employment.

P. Sales of Goods Act 1930
The act relates to the rights and obligations of sellers and buyers of goods like the merchantable quality of goods, the point or time at which ownership transfers from sellers to buyer.
Q. The Indian Stamp Act 1899

A policy of insurance must be stamped as per the schedule of rates for various classes of insurance prescribed in the act. A policy can't be enforced ‘in a court of law’ if it is not stamped.

R. Exchange Control Regulations

Generally, premiums and the amount of the claim are payable in Indian currency, rupees. The regulations describe the circumstances when premiums and claims can be paid in foreign currency and the procedure for obtaining permission from the reserve Bank of India.

S. Consumer Protection Act 1986

The objective to pass this act is to provide for better protection of the interests of consumers and for the settlement of consumer disputes. It is applicable to the buyers of goods and services. Insurances have been defined as a service, for the purpose of the act. The buyer of insurance is a consumer. The customer or consumer, who thinks that the service given to him was deficient, can file a complaint under the act before the respective forum for redressal. Forums are appointed at different levels to hear grievances.

The procedure for filling a complaint is very simple in all the redressal agencies namely, District Forum, State Commission, National Commission, There is no fee for filling a complaint or filing an appeal. No advocate is required for the purpose of filling a complaint. If the forum is satisfied about the allegations contained in the complaint, the forum can issue the order directly to the opposite party to do one or more of the following things such as.

1. To return to the complainant the price (premium) or, as the case may be the charges paid by the complainant.
2. To pay such amount as may be awarded by it as compensation to the consumers for any loss or injury suffered by the consumer due to the negligence of the opposite party.
3. To remove the defects or deficiencies in the services in question.
4. To discontinue the unfair trade practices or the restrictive trade practice or
not to repeat them.

5. To provide for adequate cost to the parties.

The majority of insurance consumer disputes with the three forums is in the nature of

1. Delay in settlement of claims
2. Non settlement of claims
3. Repudiation of claims
4. Assessment of loss

1.7 INSURANCE OMBUDSMAN

Ombudsman traces its history to Sweden was back in 19Un century and it literally means an authority who is empowered to-investigate individual complaints against public authorities, departments, etc. later it has been adopted in many countries including UK, Australia etc.

In India the idea of an insurance ombudsman (IO) was first mooted in the year1998. Central government by the powers conferred on it by sub section (I) section 114of insurance act 1938, has set up an ombudsman specifically for the insurance sector.

The main objective of insurance ombudsman is redressal and settlement of disputes arising between insured and insurer. Insurance ombudsman is a quasi judicial body established for speedy settlement of disputes in fair, impartial and judicial manner.

The proceedings before the insurance ombudsman are summary proceedings without involving any cost and they are speedy too. Thus, the main advantage of IO is its cost effectiveness and expeditious settlement of disputes Insurance ombudsman is open to all individuals where the claim amount is less than Rs. 20 lakhs. Powers of insurance ombudsman include examining the complaint regarding

1. Partial or total repudiation of claims
2. Delay in settlement of claims
3. Legal construction of policy (Policy wordings)
4. Premium paid or payable
5. Non issue of insurance documents to customers after receipt of premium.
   Therefore the insurance ombudsman cannot attend to all complaints.
   Following are the instances where the insurance ombudsman cannot entertain any complaint.
6. Any complaint which falls outside the territorial limits of the ombudsman.
7. Any complaint where the claim amount is more than 20 lakhs.
8. Any dispute / issue / complaint which is under trial in any other judicial or quassi judicial body.
9. Where the complaint is not regarding personal lines of business.
10. Where the complaint is filed by any artificial juristic person.
11. Any complaint which is lodged after one year from the date of issue of first reply by the insurer.

The first step to seek redress under IO scheme is that the insured has to apply in writing to the IO under whose jurisdiction the insurer falls. A complaint can be filed either by the insured or his legal heirs and should clearly state the name and address of the insurer against whom the complaint is made, nature and circumstances giving rise to dispute, the nature of loss sustained by the complainant and the relief sought from IO. Further, the complainant has to substantiate his claim with all the documentary evidences. It would be for a maximum of a month. After hearing both the parties IO may pass on Award, which, if acceptable to the complaint, is sent to insurer for final execution. Insurer has to comply with the award within 15 days and the same has to be informed to the IO.

If the grievance is not settled on a mutually agreeable basis, IO gives a speaking award within a period not exceeding three months. If the complainant is not satisfied with the award, he can appeal in any other forum or court, however such facility is not available to the insurer. To this extent IO is a one sided system. Here it may be noted that award passed by the IO has to be complied with, by the insurer within the specified time i.e., 15 days. However, if the insurer opts for non Compliance of the award, there is nothing an IO can do that is to say that it has no judicial powers for the execution of the award given by it, like other judicial systems like consumer forums, civil courts etc.
A specific feature of the IO is that no advocates are allowed to represent insurer/complaint to argue their respective cases. Further IO being a non-judicial authority, does not have the powers of summoning particular persons/witness and examining them on oath. Another specific feature of IO is that it can pass award for exgratia settlement of disputes, while such powers of exgratia settlement are not vested with other redressal mechanisms such as consumer courts etc.

1.8 INTRODUCTION OF IRDA & ITS SALIENT FEATURE

Introduction

The Government of India realized the necessities of setting-up Insurance Regulatory and Development Authority (IRDA) in 1999. The IRDA was set-up to provide for the establishment of an Authority, for protecting the interests of holders of insurance policies, to regulate, promote and insurer orderly growth of the insurance industry and for matters connected therewith or incidental thereto. With the birth of IRDA, the Government amended the insurance Act, 1938, the Life insurance Corporation Act, 1956 and the General Insurance Business (Nationalization) Act, 1972 for the sake of proper control] at apex level."

Salient Features

The Government introduced IRDA Bill in 1999, which was passed by the parliament.

The salient features of IRDA Act, 1999 are as under:

1. The Authority may make rules and regulations dealing with various matters such as to provide for fee relating to registration of insurers, manner of suspension or cancellation of registration, manner and procedure of disinvesting excess share capital, time and manner of investment of assets held by an insurer, the requisite qualifications and practical training of insurance agents/intermediaries, passing of examination by them, the preparation of balance sheet, profit and loss account and a separate account of receipts and payments and revenue account, valuation of assets and liabilities, etc. amongst various other matters
2. "Indian Insurance Company" defined to mean a company registered under the Companies Act, 1956 with foreign equity not exceeding 26% of the total equity shareholding including equity holding of Non-resident Indians (NRI), Foreign Institutional Investors (FIIs), and Overseas Corporate Bodies (OCBs) have been allowed to carry on Insurance Business (Life Insurance, General Insurance and Reinsurance).

3. After commencement of Insurance Company, the Indian promoters can hold more than 26% of the total equity holding for a period of ten years, the balance shares being held by non-promoter Indian Shareholders that will not include the equity of foreign promoters, and share holding of FIIs, NRI, add OCBs.

4. After the permissible period of ten years, excess equity above the prescribed level of 26% will be disinvested as per a phased programme to be indicated by IRDA. The Central Government is empowered to extend the period of ten years in individual cases and also to provide for higher ceiling on the shareholding of Indian promoters in excess of which disinvestments will be required.

5. Of foreign promoters, the maximum of 26% will always be operational. They will thus be unable to hold any equity beyond this ceiling at any stage.

6. The Insurance Company, in the event of shares are sought to be transferred by an Individual, Firm, Group, Constituents of a Group or Body Corporate under the same management, jointly or severally exceeds 1% of the paid-up capital of the insurance company, shall register such transfer only after obtaining the previous approval of the authority. All the powers presently being exercised under the Insurance Act, 1938 by the Controller of Insurance (COI) will be transferred to the Insurance Regulatory and Development Authority (IRDA).

7. The Central Government by notification supersedes the Authority for such period not exceeding 6 months and appoint a person to be the Controller of Insurance. This power is to be exercised only in the event the Authority is unable to perform its functions or discharge its duties or has persistently defaulted in complying with the Central Government directions or when such super-session is necessary in the public interest.
8. The minimum amount of paid-up capital is Rs. 100 crore in case of life insurance as well as general insurance and Rs. 200 crore in case of reinsurance.

9. Solvency margin (excess of assets over liabilities) to be maintained at not less than Rs. 50 crore for life as well as general insurers and Rs. 100 crore for reinsurer.

10. Insurance Companies to deposit in cash and/or approved securities with RBI a sum equal to 1% of the gross premium written in India in any financial year commencing after 31.03.2000 subject to a maximum of Rs.10 crores. However, in case of re-insurance business the maximum limit is Rs. 20 crores.

11. In non-life sector, IRDA would give preference to companies providing health insurance.

12. No insurer shall directly or indirectly invest the funds of the policy holders outside India. The authority may specify the time and manner and other conditions of the investments of the assets of the insurer and may also issue directions relating thereto.

13. Insurance agents to undergo training for a period not exceeding 12 months and to pass the examination as may be specified by regulations to be framed by the authority. Existing License Holders are, however exempt from it.

14. The intermediary and/or insurance intermediary will also have to undergo a 12 Months training and will be required to pass the specified examination. Intermediary will include insurance brokers, re-insurance brokers, insurance consultants, surveyors and loss assessors.

15. Every insurer shall provide life insurance or general insurance policies (including insurance for crops) to the persons residing in the rural sector, workers in the unorganized or informal sector or for economically vulnerable or backward classes of the society and other categories of persons as may be specified by regulations made by IRDA.

16. Failure to fulfil the social obligations would attract a fine of Rs. 25 lacks incase the obligations are still not fulfilled, the license would be cancelled.
### Overview of An Insurance Industry

#### 1.9 MILESTONES OF INSURANCE REGULATIONS IN THE 20TH CENTURY

<table>
<thead>
<tr>
<th>Year</th>
<th>Significant Regulatory Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1912</td>
<td>The Indian Life Insurance Company Act</td>
</tr>
<tr>
<td>1928</td>
<td>Indian Insurance Companies Act</td>
</tr>
<tr>
<td>1938</td>
<td>The Insurance Act Comprehensive Act to regulate insurance business in India</td>
</tr>
<tr>
<td>1956</td>
<td>Nationalization of life insurance business in India with a monopoly awarded to the Life Insurance Corporation of India</td>
</tr>
<tr>
<td>1972</td>
<td>Nationalization of general insurance business in India with the formation of a holding company General Insurance Corporation</td>
</tr>
<tr>
<td>1993</td>
<td>Setting up of Malhotra Committee</td>
</tr>
<tr>
<td>1994</td>
<td>Recommendations of Malhotra Committee published</td>
</tr>
<tr>
<td>1995</td>
<td>Setting up of Mukherjee Committee</td>
</tr>
<tr>
<td>1996</td>
<td>Setting up of (interim) Insurance Regulatory Authority (IRA)</td>
</tr>
<tr>
<td>1997</td>
<td>Mukherjee Committee Report submitted, but not made public</td>
</tr>
<tr>
<td>1997</td>
<td>The Government gives greater autonomy to Life Insurance Corporation, General Insurance Corporation and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector</td>
</tr>
<tr>
<td>1998</td>
<td>The cabinet decides to allow 40% foreign equity in private insurance Companies - 26% of foreign companies and 14% of Non-resident Indians and Foreign Institutional Investors</td>
</tr>
<tr>
<td>1999</td>
<td>The Standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26V The IRA bill is renamed the Insurance Regulatory and Development Authority Bill</td>
</tr>
<tr>
<td>2000</td>
<td>Cabinet clears Insurance Regulatory and Development Authority Bill</td>
</tr>
</tbody>
</table>

**Source:** Tapan Sinha, CRIS Discussion Paper Series- 2005 III, The University Of Nottingham, Mexico
1.10 MEASUREMENT STANDARDS

1. **Detailed Standards:** As part of new framework, detailed standards should be issued covering the constitution and methods of calculation of reserves and provisions and the amount of credit for amounts recoverable under reassurance arrangements of ensure that all companies follow sound policies while accounting and actuaries practices used by most companies are in line with best international practices, the insurance section should be able to challenge all assumptions used by actuaries in the valuation of technical provisions especially in case of smaller companies.

2. **Capital Adequacy Standards:** Capital adequacy standards should be brought in line with best international practice. The solvency margin based on the volatility of losses should be introduced to complement the solvency margin that is based on net premiums.

3. **Risk Management Standards:** Consolidation of the insurance industry needs to be promoted to insure souder completion and greater safety. This can be achieved by raising the level of minimum capital and introduction risk-based capital requirements as well as by encouraging weaker firms to merge with other firms or exit the market.

4. **Insurance Information Bureau:** An insurance information bureau should be crafted with the date on underwriting policies, loss claims, and incidents of insurance fraud. The bureau should facilitate sharing of these data by all licensed companies and should contribute toward higher underwriting standards. Competition policy should be the practice of tying sales were by customers of large companies are forced to by several services from the same group.

5. **Special Consideration:** Consideration needs to be given to the creation of a compensation fund to cover the unpaid claims of tailing companies, on a protect policy holders, especially in connection with life and non-life annuity policies with special provisions would require the submission of reorganization plans and facilitate the re-insurance and or transfer of policies. These measures would protect the assets of failed companies from the expenses of protracted liquidation and thus maximize the amounts available for distribution to policyholder and other clients.
1.11 INTERIM PROVISIONS FOR MANAGEMENT OF INDIAN INSURANCE COMPANIES

1. Notwithstanding any contained in the Companies Act or in the memorandum and articles of association of any Indian insurance company, on and from the appointed day and until a new board of directors of the Indian insurance. The company is duly constituted, the management of the company shall continue to vest in the Custodian in charge of the management of the undertaking of that company immediately before the appointed day by virtue of the provisions contained in the General Insurance (Emergency Provisions) Act, 1971, and the Custodian shall be entitled, subject to such directions as the Central Government may issue in this behalf, to exercise all the powers and do all acts and things as may be exercised or done by the company or by its board of directors.

2. Nothing contained in sub-section (1) shall be deemed to prevent the Central Government from appointing any other person to take charge of the management of the undertaking of any Indian insurance company during the period referred to in that sub section if for any reason it becomes necessary so to do, and any person so appointed may exercise all the powers and do all acts and things which a Custodian may exercise or do under sub-section (1).

3. The Custodian referred to in sub-section (1) and the person appointed under sub section (2) shall be entitled to such salaries and other allowances as the Central Government may specify in this behalf and shall hold office during the pleasure of the Central Government.

Power of Central Government

(a) To Transfer Employees: The Company may at any lime transfer any officer or employee from an acquiring company or the Corporation to any other acquiring company or the Corporation, as the case may be, and the officer or employee so transferred, shall continue to have the same terms and conditions of service as were applicable to him immediately before such transfer.

(b) To Issue Directions: The Company and every acquiring company shall, in the discharge of its functions, be guided by such directions in regard to matters of policy involving public interest as the Central Government may give.
Overview of An Insurance Industry

Job/Professional Opportunities

The Insurance sector offers the following job opportunities
1. The Actuary
2. Professional Underwriters
3. Marketing of Insurance policies
4. Software Professionals
5. Investment professionals
6. Administrative officers
7. Development officers
8. Insurance Brokers
9. Insurance Surveyors and
10. Insurance Agents

General Insurance Business in Abroad

Insurance plays an important role not only in the national economy, but also in the international economy. Marine cargo insurance, for example, provides risk coverage for shippers and importers and the banks which finance international trade. This role becomes all the more important in the context of an active government policy to encourage exports. When we go through these propositions in relation to a single business house, we observe that in the end there is an economic effect of the consumption of the society. A mere extension of these to the entire business world.

This environment, in the present day is tending to be more and more complex. In its macro level, it has to take, into account the government style, the capital market, domestic sector and foreign sectors. These things put together influence the structure and tend of the national economy.

Competition in the market has led to exploration of new innovative and diversified channels of distribution for capturing wider market, which will provide cost-effective services to policyholders. These alternative channels will also build strong and effective customer relationship. Entry to privet players in the market has explored new channels on the lines of development economics. Besides, tradition
intermediaries as corporate agent, broker and new methods like bank assurance, direct marketing, telemarketing, independent financial advisors and sale of a policy through the internet would play a crucial role in penetrating the insurance market in India cooperative societies, village Panchayats and post offices have been identified to tap the rural market segment.

The basic principles of insurance operations are “spread of risk” which is achieved not only by accepting a large number of risks in as many classes of insurance as possible, but also by a geographical spread internationally. This is possible through an active inward and outward reinsurance exchange programme with as many countries as possible.

Pattern of Organization

Board of Directors

Functions of Board of Directors
1. To determine the long-term policies of the company.
2. To take decision for doing any work prescribed under the Act.
3. Decentralization & delegation of authority at different levels.
4. Tasks to be assigned to the top level, which are not delegated to lower levels.
5. Constitution of committees, according to requirements.
6. To take decision in regard to promotions & conditions of services of important officers.

Committees of the Company
The Board of Directors has the power to appoint different committees for the effective discharging, directing & control as well as advising the Board of directors in such matters. Some of the important committees are as below:
1. Executive Committee
2. Investment Committee
3. Persons Advisory Committee
4. Building Advisory Committee
5. Development Advisory Committee
6. Budget Advisory Committee
7. Legal Advisory Committee
8. Policy holders Service Advisory Committee

The Chairman: The chairman of the GIC is the Chief Executive Officer of the Company. He heads all the committee of the Company. But he has no authority to exercise the power of the investment committee.

In the matters of investment of funds, the Chairman has to follow the advice of the Investment Committee. But he can ask the Board of Directors to reconsider any decision or advice given by the committee. There are restrictions on the exercise of powers of the Chairman, but in emergencies he has all the powers of the Company.

The Managing Director: The Managing Director is the whole time officer of the Company. He discharges all the functions entrusted to him by the executive committee of the Company. The Company can appoint one or more persons as Managing Director. The Managing Director needs are not a member of the Board. He delegates some of his powers to the officers working at different levels, but before such delegation taken place, prior approval of the Board of Directors / Chairman is necessary.

Offices of the GIC & Departments
For the effective management & control of the GIC, the offices of the Company are divided into

1. Head Office
2. Regional Office
3. Divisional Office
4. Branch Office
Important Departments in Head Office.

For the purpose of discharging these functions, some departments have been set up in the Central Office. The important departments are:

(1) Development Department  (2) Investment Department  (3) Corporate Department
(4) Organization Planning Department  (5) Policy holder Servicing Department  (6) The Finance & Accounts Department  (7) The Actuarial Department  (8) Audit & Inspection Department  (9) Legal & Mortgage Department  (10) Group & Superannuation Department  (11) Personal Department  (12) Vigilance Department  
(13) Electronic Data Processing Department  (14) Integration Department  (15) Publicity Department  (16) Foreign Department

Functions of Head Office

The important functions of the Central office are as under:

1. Determination of requisite policies & plans.
2. Issues directions to Zonal & Divisional Offices, from time to time.
3. Establishing co-ordination between Zonal & Divisional Office.
4. Exercise control over Divisional & Branch Offices through Zonal Offices.
5. Investment of Funds of the Corporation.
7. Supervision of the activities of Divisional & Branch Offices & auditing of their accounts.
8. Standardization of work methods, fixation of premium rates, arrangement of re-insurance, publicity, etc.

Regional Office

Committees of the Regional Office

1. Regional Advisory Board/committee
2. Employees & Agents Relations Committee
3. Regional Managers
Important Department in Regional Office

(1) The Personal & Industrial Relations Department
(2) The Development Department
(3) The Estates Department
(4) The Legal & Mortgage Department
(5) The Accounts Department
(6) The Actuarial Department
(7) Building and Engineering Department
(8) Office Services Department
(9) Regional Training Department

Functions of Regional Office:

1. To control the functioning of the officers & employees to prepare the development planning of insurance business in the particular zone.
2. It evaluates the quantum of risk involved in the revival of policies, which are beyond the powers of Divisional Office.
3. To take policy decisions in technical matters received from subordinate offices in the zone.
4. To advise & guide the Divisional Offices on the principles, practices & methods of accounting system.
5. It also plays an advisory role in personnel & legal matters, management of corporation's office buildings, purchase of stationary, furniture & equipment, printing of forms & other documents, etc.

The roles of the two committees are very important to organize & management of zonal offices. They are:

Divisional Offices

Important Department in Divisional Offices

The departments under divisional offices are as follows:

(1) Planning Department
(2) Policy holder Servicing Department
(3) Accounts & Cash Department
(4) Claim Department
(5) New Business Department
(6) Office Service Department
(7) Legal & Mortgage Department
(8) Marketing Department
(9) Personal & Industrial Relations Department
(10) Data Processing Department
(11) Branch Support Department
(12) Establishment Department
(13) Mailing Department
Function of Divisional Offices:

1. Approval of the budget proposals of branch / divisional office.
2. Evaluate the monthly progress reports.
3. Accepting the proposals of common supervision.
4. Issues of directions for inter-departmental cooperation.
5. Give suggestions to top officers for improvement in policies towards work methods & policies.
6. Efforts to increase the goodwill of the corporation.
7. Consideration of matters where collective efforts are needed.
8. Discharging of functions delegated by top authority.
9. To consider the matters, which improve the efficiency of every unit of the corporation.

Branch Offices

Important Department in Branch Offices

Usually the following departments are setup in a branch office.

(1) New Business Department  (2) Policy holder Servicing Department (3) Account Department (4) Office Service Department (5) Sales & Development Department (6) Claim Department (7) Machine Department

Functions of General Insurance Companies

Section 19 of the Act lays down the functions of the acquiring company to be:

(1) To carry on general insurance business and to develop it to the best advantage of the community, subject to the rules it any made in this behalf by the Central Government under section 89 of the act and subject to its memorandum and articles of association and

(2) To act so far as may be on business principles and in conformity with any directions that may have been issued to it by the GIC s19(4) clarifies that the GIC and the acquiring companies may enter into reinsurance contracts or treaties for the protection of their interests for the protection of their interests, subject to rules if any made by the Central Government in this behalf.
Each acquiring company shall so function under this Act as to secure that general insurance business is developed to the best advantage of the community.

In the discharge of any of its functions, each acquiring company shall act so far as may be on business principles and were any directions have been issued by the Corporation, shall be guided by such directions.

For the removal of doubts it is hereby declared that the Corporation and any acquiring company may, subject to the rules, if any, made by the Central Government in this behalf, enter into such contracts of reinsurance of reinsurance treaties as it may think fit for the protection of its interests.

Capital of General Insurance Public Sector Companies.
No insurer carrying on the business of general insurance in India or after the commencement of the IRDA Act 1999 shall be registered unless he has

1. A paid up equity capital of rupees one hundred Crore, in case of a person carrying on the business of age.

2. Paid up equity capital of rupees two hundred crore in case of a person carrying on exclusively the business of re-ins provided that in determining the paid up equity capital specified under the deposit to be made under section 7.

1.12 IMPORTANT ASPECTS OF INSURANCE BUSINESS

1. Actuary: An ACTUARY is a person who has passed specialized examinations dusted by the Actuarial Society of India or the Institute of Actuaries, London. Actuaries are technical experts who have received specialist training in the mathematics of insurance. Their job is to ensure that the insurance products provided by the company are mathematically sound. They undertake various activities like calculation of mortality rates, estimating expenses to be incurred by the insurance company in administrating various policies, and determining the rate of return that will be earned by the company on its investments. Based on the above, they decide on the premiums to be charged on various policies. As is obvious from the above, a good actuary has to be a good economist, a good statistician as well as a good security
Every insurance company requires good actuaries to continuously study its operations and advise the management on the appropriateness of their policies.

2. **Underwriting**: An UNDERWRITER scrutinizes, analyses and takes the decisions on the proposals received for insurance. While analysing the risks arising from the insurance applications, the underwriters ensure that the company issues the maximum possible policies while keeping the risk of loss within acceptable limits. Any applications that pose reasonable risks are accepted and those posing lower or higher than average risks are accepted at lower or higher rates" of premium than normal. Any applications posing unreasonable risks are declined. The job of accepting or declining the proposals of insurance received by a company and deciding on the premium at which to accepts the proposals are done by the underwriting department.

3. **Policy Owner Services**: The employees in this area are the ones who issue the actual policy" documents. They also ensure customer satisfaction by attending to various requirements arising during the duration of a contract like nominations, assignments, alterations, etc. These employees are basically responsible for maintenance of policy records, proressim1, customer requests and informing policy-owners about any material changes that affect their policies.

4. **Claim Administration**: The employees in this area are responsible for the actual settlement of claims. They analyse the claims received against various policies. After thoroughly studying the claims, they decide whether the claim is valid. They calculate the benefit amounts for settlement of all valid claims. Any claims that are found invalid are rejected.

5. **Marketing**: The marketing department studies consumer behaviour needs and wants. On the basis of these studies, they give suggestions for new products which can satisfy those needs. The marketing executives also develop marketing plans, design promotional material for the different products, market the products to the customers and provide them services. The marketing department's role starts even before the inception of a product and carries on well after the product has been sold to the customer.
6. **Investment:** The employees in this area manage the company's assets and investments. They study the financial markets in order to give recommendations on the best avenues of investments so that the company can maximize its returns.

7. **Accounting:** As in any other organization, the accountants in an insurance company keep records of the income and expenses. They keep track of the income from premiums and investments as also the expenses for running the office, agents' commission, claim payments, etc. They prepare the reports and statements which show the financial position of the company. The policy holders, shareholders, and insurance regulators can get to know the financial status of the insurance company from these reports.

8. **Information System:** The employees looking after this area provide their services to all the departments of an insurance company. They design and maintain computer systems so that any required information can be easily retrieved at any time. They also develop and test new systems and procedures for the company, install them and ensure that they operate efficiently and effectively.

9. **Legal and Compliance:** The employees in this department play an important role in ensuring that the company is complying with all the regulations and laws in the country. They develop the policy forms, contracts for agents, etc., in line with the existing rules and regulations and also advise the staff and management on any legal issues. In case there is any dispute arising out of a claim, the attorneys from the legal department defend the company's position.

These, then, are the different activities carried out by the various departments in an insurance company. An equally important activity which has not been covered above is the distribution of the different products of the insurance companies. This distribution is carried out by various components of the distribution channel.

10. **Distribution channels:** These are routes by which the product prepared by the producer reaches the ultimate consumer. Thus, the distance between the producer and
the consumer is bridged by the distribution channel. In the case of insurance companies, the distribution system is a network of individuals and organizations that are involved in making the insurance products available to the customers. They form a link between the insurance company and the buyers of insurance products.

The various components of the distribution channel in an insurance company are:

(a) **Agents:** An insurance agent is an agent licensed under section 42 of the Insurance Act, 1938. He/she receives payment by way of commission for procuring insurance business. He/she is also responsible for business relating to the continuance, renewal or revival of policies of insurance. An agent could also be a corporate agent i.e. a company or firm could also be an agent. The primary function of an agent is to procure business for the insurance company. However, the agent can only procure business for the particular insurance company which he/she represents, and for no other company. Once the insurance contract has been put into force, the agent has to ensure continuance of the policy through regular payment of renewal premiums. In case of a claim, the agent should help the insured in proper settlement of claims.

(b) **Insurance Brokers:** An individual or firm, whose full-time occupation is the placement of insurance business with insurance companies, is known as an insurance broker. The broker receives brokerage as a percentage of the premium from the insurer. The main difference between an agent and a broker is that there are no restrictions on the procurement of business by a broker for various different insurance companies, while the agent can only procure business for that particular company which he represents. Insurance brokers give advice to the insured without charging them.

(c) **Insurance Consultants:** Insurance consultants are usually specialists who give advice to consumers who wish to buy insurance products. However, unlike the brokers, they get paid by the insured for this advice.

(d) **Banking Outlets:** These days, there has been a trend of using outlets of banks for distribution of insurance products. The logic behind this is that, as both banks and
insurance companies target the same segments of population, using the bank outlets for distribution of insurance products, it can help in saving overheads as well as infrastructure costs. The concept of banc assurance has gained importance in the banking sector which is good for the insurance sector.

1.13 LIMITATION OF INSURANCE

In spite of number of advantages of insurance, it has certain limitations. On account of such limitations, the benefits of insurance could not be availed in full. These limitations are:

(a) All the risks cannot be insured. Only pure risks can be insured and speculative risks are not insurable.
(b) Insurable interest (financial interest) on the subject matter of insurance either at the time of insurance or at the time of loss, or at both the times must be present, in the absence of which the contract of insurance becomes void.
(c) In case the loss arises from the happening of the event cannot be valued in terms of money, such risks are not insurable.
(d) Insurance against the risk of a single individual or a small group of persons are not advisable, since it is not practicable due to higher cost involved.
(e) Another important limitation is that the premium rates are higher in our country & as such, certain category of people cannot avail the advantage of insurance. The main reason for the higher rate of premiums is the higher operating cost.
(f) It becomes difficult to control moral hazards in insurance. There are certain person who mystifies the insurance plans for their self-interest by claiming false claims from insurance companies.
(g) Insurance is not a profitable investment. Its main object is to provide security against risks; insurance business cannot be a source to acquire profits. Certain specified risks can be insured with co-operation of the government only; such as, unemployment insurance, insolvency of banks, food insurance, etc.
1.14 A BRIEF REVIEW OF THE FOUR PUBLIC SECTOR COMPANIES

1. **National Insurance Company** is one of the four public sector companies. Since its incorporation in the year 1906 headquartered in Kolkata, the company had been carrying out general insurance business under private management until 1972, the year of its nationalisation. In the same year, 21 foreign and 11 Indian Insurance Companies were amalgamated with National Insurance Company Limited, as a subsidiary company of General Insurance Corporation of India.

National Insurance Company Limited was incorporated in 1906 with its registered office in Kolkata consequent to passing of the general insurance business nationalisation act 1972, 21 foreign and Indian Companies were amalgamated with it and national became a subsidiary of general insurance corporation of India, which is fully owned by Government Insurance Business (Nationalisation) Amendment Act, on 7th August 2002, National has been linked from its holding company GIC and presently operating as a Government of India undertaking. National Insurance Company Ltd. is one of the leading public sector insurance companies India, carrying out non-life insurance business.

Headquarter in Kolkata, NIC’s network of above 1,000 offices, manned by more than 16,000 skilled personal, is spread over the length and breadth the country covering remote rural areas, town ships and metropolitan cities. IC’s foreign operations are carried out from its branch offices in Nepal and Hong Kong. Befittingly, the product ranges of more than 180 policies offered by NIC cater to the diver insurance requirements of its 10 million policyholders. Innovative and customized policies ensured that even specialized insurance requirements are fully taken care of.

The company services the Indian sub-continent with a network of 1000 offices comprising 24 Regional offices, 309 divisional offices, 561 branch offices and 71 DAB offices. At present, the company has operation in Nepal only. Hong Kong Branch stopped accepting new business with effect from 18-02-2002.
2. **The New India Assurance Company** was incorporated on 23rd July, 1919 and commenced business from 14th October, 1919 with head office in Mumbai. In 1972, the year of its nationalisation, Government of India took over the management of the company along with all other non-life insurers in the country. New India Assurance (NIA) was subsequently reconstituted taking over 23 companies under the Scheme of Merger, following the nationalization of General Insurance Business in 1973.

The New India can claim to be the largest non-life insurer not only in India but in the whole afro Asia region, excluding Japan. The New India was incorporated on 23rd July, 1919 and commenced transacting business on 14th October, 1919. There was hardly any Indian insurance company of significance till that time. The emergence of such a major national enterprise during this period British rule was not a coincidence. It was a product of historical forces. The birth of New India was the result of emergence of the Indian National movement for independence of the country; Mahatma Gandhi had emphasized that Indian political liberation without economic infrastructure in the country.

Thus Sir Doab Tata was inspired by this Swedish movement to setup a large composite company to provide sound and efficient insurance protection to the Indians. New India is a leading global insurance group, with offices and branches thought India and various countries abroad. The company services the Indian subcontinent with a network of 1068 offices, comprising 26 regional offices, 393 Divisional Offices and 648 Branches. With approximately 21,000 employees, New India has a largest number of specialist and technically qualified personal at all levels of management, who are empowered to underwrite and settle claims of high magnitude.

Company’s foreign operations were affected by major claims in misact (Gonu Cyclone), Dubai (Major fire claims) and curacao (Free zone Fire). The foreign exchange earnings during the year 2007-08 amounted to Rs. 6.87 Crores towards dividend and repatriation of management fees companies Associate and subsidiary companies.


**CHAPTER -1**  

**Overview of An Insurance Industry**

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

3. **United India Insurance Company Limited** was incorporated as a Company on 18th February 1938 with its head office in Chennai, with 12 Indian Insurance Companies, 4 Cooperative Insurance Societies and Indian operations of 5 Foreign Insurers, besides General Insurance operations of southern region of Life Insurance Corporation of India were merged with United India Insurance Company Limited.

United India Insurance Company Ltd. was incorporated as a Company on 18th February 1938. General Insurance Business in India was nationalized in 1972. 12 Indian Insurance Companies, 4 co-operative insurance societies and Indian operations of sturgeon of Life Insurance Corporation of India were merged with United India Company limited. After nationalization United India has grown by leaps and bounds and has 18300 work force spread across 1340 offices providing insurance cover to more than 1 Crore policy holders. The company has variety of insurance cover to more than 1 Crore policy holders. The company has variety of insurance products to provide insurance cover from bullock carts to satellites.

United India Co. Ltd. has 25 regional offices, 1 region cell, 3 large corporate brokers and units, 361 divisional offices, 677 branch offices, 271 micro offices. The head office of United India Co. Ltd. is as Chennai. The Co’s employees strength of class I officers is 4135, class II 2129, class III 8444 and class IV 2573.

4. **The Oriental Fire & General Insurance Co. Ltd.**, with its head office in New Delhi was incorporated in the year 1947 as a subsidiary of Oriental Government Security Life Assurance Co. Ltd. In 1956, Oriental became a subsidiary of the Life Insurance Corporation of India until 13th May 1971,
when the Government of India (GOI) took over the management of all general insurance companies in India.

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

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

Oriental Insurance made a modest beginning with a first year premium of Rs. 99.46 in 1950. The goal of the company was “Service to Clients” and achievement thereof was helped by the strong traditions built up overtime. It also offers several payment options such as internet banking, debit cards, credit cards, and cash cards. This was followed by the nationalisation of general insurance business with effect from 1st January 1973 and the Oriental Fire and General insurance company came under the General Insurance Corporation of India as one of the four subsidiaries. It commenced its operations from 1st January 1975. Later on in 2002, with the passage of Insurance amendment Bill (2002), all the four Public sector companies were delinked from GIC and are functioning as independent companies since then.
Following convergence of the financial services and financial institutions, the Indian government also initiated reforms based on the recommendations made in the Report of the Malhotra Committee, set up in 1993. As a result, the insurance sector was opened up to private participation to make the sector efficient, vibrant, and competitive. At present, the Insurance Regulatory and Development Authority (IRDA), is the statutory body entrusted with the responsibility of regulation of operations of the insurance companies as well ensuring orderly development and growth of the insurance business in India. The primary concern of the IRDA is the protection of the policyholder’s interest.

4.15 A BRIEF REVIEW OF THE FOUR PRIVATE SECTOR COMPANIES

1. **Bajaj Allianz General Insurance** is a joint venture of Allianz SE and Bajaj Finserv, which has recently established its separate identity from Bajaj Auto Limited. Both Allianz SE and Bajaj Finserv are reputed to be expert, stable, and strong entities in their respective domains. The Insurance Regulatory and Development Authority (IRDA) provided Bajaj Allianz General Insurance its Certificate of Registration on May 2, 2001, which enabled to start its operations in India. At present it’s paid up and authorized capital is equal to INR 180 crores. Allianz SE owns 26 per cent of the organization's shares and the remaining 74% are owned by Bajaj Finserv. The insurer has been a leading name in the insurance sector by achieving a regular level of growth along with substantial profits. At present the insurer is operating across 200 towns across India and has been employing the very best in technology to make sure it can respond and communicate in the shortest possible time with its customers and interested parties. Its headquarters are at Pune.

2. **Tata AIG Insurance company**, one of the leading insurance company offering both life and general insurance, is a joint initiative of the Tata Group and American International Group, Inc. (AIG). The ratio of stake holding of the respective companies is slated at 76:24. Tata AIG has over the years has created a
name for themselves in the insurance sector of India. The company provides life insurance alongside an extensive range of general insurance products ranging from automobile, health, accident, property, home, travel to personal offering solutions to individuals as well as corporates and tries to serve all sections of people.

The Company believes in being innovative and provide meaningful insurance solutions in the sectors covering life plans and general insurance. The Company channelizes its products through various distributors like agents, brokers, banks and direct channels like tele marketing, digital marketing, etc.

3. **ICICI Lombard GIC Ltd** is a combined venture of ICICI Bank Limited and Fairfax Financial Holdings Limited from Canada. ICICI Bank is the second biggest bank in India and has consolidated aggregate assets worth US$ 91 billion till March 31, 2012. Fairfax Financial Holdings is worth 30 billion US dollars and operates in various areas of financial services such as the following:
   1. General insurance
   2. Insurance claims management
   3. Reinsurance
   4. Investment management

   In the 2011-12 fiscal the Gross Written Premium (GWP) of ICICI Lombard has been INR 5358 crores. As of that date, the company has sold more than 76 lakh plans and settled in excess of 44 lakh claims. Till March 31, 2012 its claim disposal ratio is 99 per cent. It is a diversified financial services provider engaged in several sectors such as general insurance, management of investment claims, reinsurance, and investment management.

4. **IFFCO-TOKIO General Insurance**, which is also referred to as ITGI, was established on December 4, 2000. It is a combined enterprise of Tokio Marine and Nichido Fire Group, and Indian Farmers Fertilizer Co-operative (IFFCO) and its associate companies. Tokio Marine and Nichido Fire Group is the biggest insurance group whose stocks are publicly traded.
IFFCO-Tokio Office Network

IFFCO-Tokio General Insurance has built up a pan Indian network with 65 strategic business units. It also has more than 255 Bima Kendras and 120 Lateral Spread Centers. At present it operates in more than 350 towns in India. ITGI is well known for its diverse array of plans that are customized in a unique way and caters to a varied clientele that includes some of the biggest automobile makers in India as well as farmers. In 2001-02 it had earned a Gross Written Premium (GWP) worth INR 213 crores. That figure has increased to INR 2248.16 crores in 2011-12. This has made it one of the leading private insurers in the country. ITGI utilizes the technical support of Tokio Marine for its reinsurance and underwriting operations. For its risk management functions it relies on Tokio Risk Consulting's (TRC) support. The insurer presently has more than 1500 employees.

IFFCO-Tokio General Insurance Distribution Network

IFFCO-Tokio General Insurance is the sole insurer in India to have a totally owned distribution channel for servicing its retail clients. It is known as IFFCO-TOKIO Insurance Services Ltd (ITIS). Its unique operational methods have been mentioned at the Cap Gemini World Insurance Report 2009.

IFFCO-Tokio General Insurance Surveys

The ITGI conducts customer satisfaction surveys after every two years. These are done through independent companies in order to determine how effectively the company is functioning. It also has a commendable infrastructure for information technology and this has been a major contributor to the quick pace at which the company settles its claims.

4.16 INFORMATION TECHNOLOGY AND GENERAL INSURANCE COMPANIES

With the opening up of the Insurance industry the domestic companies are no longer insulated from the changes taking place around the world. The need of the hour is to devise a Comprehensive, “Information Technology” strategy to help itself
in this atmosphere of turmoil.

The fanatical services industry the world over is undergoing a major transformation. Today companies are actively pursuing new initiatives such as data warehousing E- Commerce and componentization. The objection is to get clarity around product, Channels and Service Features. This in turn will help in designing the distribution blueprint so that the right product reach the right customers through the right channels in the possible time. It service providers will pay a key role in the areas of systems integration reengineering and system emigration.

The liberalization process has led to the strong emergence of foreign and private players in the insurance marked which has facilitated the entire approach of insurance towards their customers to spread insurance coverage. As IT is changing insurance sector, investment in IT is strategically, important to increase profitability, operational Efficiency and developing and maintain and customer relationship. There are two types of operational and analytical IT applications which provide secure electronic system to overcome the problems of cumbersome and paperwork in tune with rest of financial service industry. But the basic issues in insurance as marketing, distribution, new business and claim management need to be emphasized. The focus of the now companies is on revenue generation, growth through geographical expansion, customer acquisition and a need to capture a sizable share. Simultaneously, they are grappling with the issue of expansion, innovation and differentiation in products and services, knowledge dissemination, target marketing, developing alternative channels, maintaining underwriting discipline and implementing an effective service delivery model with optimizing costs.

**4.17 OPPORTUNITIES AND CHALLENGES**

Insurance is a contract between two parties whereby one party called insurer undertakes in exchange for a fixed sum called premium, to pay the other party called insured a fixed amount of money on the happening of certain event. Insurance indemnifies assets and income. Every asset (living and non-living) has a value and it
Overview of An Insurance Industry

generates income to its owner. The income has been created through the expenditure of effort, time and money. Every asset has expected life time during which it may depreciate and at the end of the life period it may not be useful, till then it is expected to function. Sometimes it may cease to exist or may not be able to function partially or fully before the expected life period due to accidental occurrences like burglary, collisions, earthquakes, fire, flood, theft etc. these types of possible occurrences are "risks". Future is uncertain; nobody knows what is going to happen? It may or may not? Insurance is the concept of risk management the need to manage uncertainty on account of above stated risks. Insurance is a way of financing these risks either fully or partially. Insurance business in India can be broadly divided into two categories such as Life Insurance and General Insurance of Non-life Insurance.

In the coming years, insurers would face the most difficult challenge to provide returns as compared to other financial options. Return on investment are going down, therefore there is pressure on insurance companies to produce better operational results to safeguard the interest of insuring public investment regulation should ensure that both security and profitability requirement are respected. It should promote the diversification, spread and liquidity of investment portfolios as well as the maturity and currency matching of assets and liabilities. Regulation must include a list of admitted assets on which ceilings may be set and requirement on the way in which investment should be valued. Public insurance companies have been showing their persistent faith in government securities. Investment management should consider increasing investment in equity as the long term option, especially when the stock market is doing well by substantial positive results. IRDA should allow securitized assets as an eligible investment option, with the objective to achieve optimization of return and immunization of risk, there is need to replace of traditional approach of investment with the dynamic quality initiatives.

The investment management of fund require multifaceted skills for assessing the characteristics of the liabilities, aspirations of the policy holders and other factors which have a bearing on the investment policy for identifying relevant asset allocation strategies, and/or assets and putting strong organization in place for efficient management of funds.
The future growth of insurance industry depends on continuing macros anomic stability, sound irrigation and avoidance of company failures and scandals that would more the good reputation of the industry.

Two new draft insurance bills are under consideration. These aim to modern it’s the legal team work and address most of the current gaps in regulation and the responsibilities of directors, on internal control and risk management systems, and on the duties of actuaries and auditors. They also require the creation of separate subsidiaries for engaging in loan term and general insurance. The following are the same challenges needed to be taken by the insurance sector to improve services.

1.18 CONCLUSION

This chapter deals with an overview of insurance sector The chapter covers introduction of insurance with number of terms of insurance like risk insured, insurer, Beneficiaries, control etc. The chapter also reveals the history of general insurance in world as well as in India, back ground and definition of general insurance, importance and function of general insurance, Advantages and limitations insurance.

The chapter reveals basic principles of insurance, nature of insurance business, classification of insurance and the organisational set-up and management of general insurance public sector companies, The chapter deals with the regal framework of Insurance, the policy of general insurance companies, products of general insurance companies and finally the opportunities and challenges before the insurance industry in India as well as in the world.
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