Chapter 1
Introduction to Insurance

Intro: This chapter presents how insurance helps in times of unexpected eventualities and how insurance is an important tool of transfer in risk management

Evolution of insurance

Modern commercial insurance

- The earliest kind of risks to be addressed through the concept of insurance was losses due to misadventures at sea
- Marine insurance was the forerunner to other kinds of insurance
- The origins of insurance business as practiced today, is traced to the Lloyd's Coffee House in London

History of insurance in India

The first life insurance company
- The Oriental Life insurance Co. Ltd.

The first non-life insurer
- The Triton Insurance Co. Ltd.

The first Indian insurance company
- The Bombay Mutual Assurance Society Ltd., formed in 1870 in Mumbai

Nationalisation of life insurance

On 1st September 1956 the Life Insurance Corporation of India (LIC) was formed

Nationalisation of non-life insurance

With the enactment of General Insurance Business Nationalisation Act (GIBNA) in 1972, the non-life insurance business was also nationalised and the General Insurance Corporation of India (GIC) and its four subsidiaries were set up

Malhotra Committee and IRDA

The passing of the Insurance Regulatory & Development Act, 1999 (IRDA) led to the formation of Insurance Regulatory and Development Authority (IRDA) in April 2000 as a statutory regulatory body both for life and non-life insurance industry

Working of insurance

Insurance	sharing of the losses of a few who are unfortunate to suffer such losses, amongst those exposed to similar uncertain events / situations
An asset	▪ May be physical (e.g. car, building) ▪ May be non-physical (e.g. goodwill, name) ▪ May be personal (e.g. eyes, limbs, any part of the body)
An asset may lose its value	▪ On the occurrence of a certain event, referred to risk ▪ Cause of risk event is known as peril
Pooling principle	▪ Collecting premiums from various persons ▪ Persons have similar assets which are exposed to similar risks
Compensation	▪ Pool of funds used to compensate the few who might suffer the losses as caused by a peril
Insurer	▪ Carries out the process of pooling funds and compensating the unlucky few
Insurance contract	▪ Contract between insurer and insured (person who seeks to participate in the insurance scheme)

Different approaches to risk management

Risk avoidance
- Controlling risk by avoiding a loss situation
- Negative way to handle risk

Risk retention
- One tries to manage the impact of risk and decide to bear the risk and its effects
- Known as self insurance

Risk reduction and control
- Loss prevention measures: measures to reduce chance of occurrence
- Loss reduction measures: measures to reduce degree of loss (education and training, environmental changes, changes to dangerous or hazardous operations, separation)

Risk financing
- Risk retention through self financing
- Risk transfer

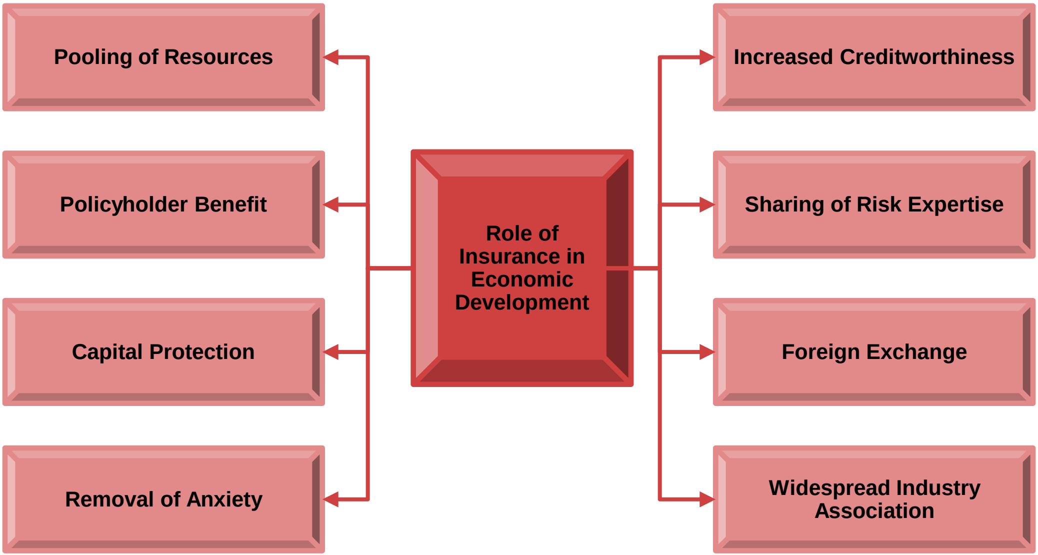
Cost of risk

The cost of risk → increase in direct proportion → with both → probability and amount of loss

Considerations of the cost of risk

Don't risk a lot for a little	**Don't risk more than you can afford to lose**	**Consider the likely outcomes of the risk carefully**

Role of insurance in economic development



Intro: The chapter deals with the elements of insurance and the special features of an insurance contract.

Elements of insurance

Elements of the insurance process

- **Asset** — anything that confers some benefit and has an economic value to its owner
- **Risk**
  - the chance of a loss
  - the event, whose occurrence actually leads to the loss, is known as a peril
- **Risk pooling** — mathematical principle that makes insurance possible
- **Insurance contract** — involves a contractual agreement in which the insurer agrees to provide financial protection against specified risks for a price or consideration known as the premium

Basis of Risk Classification

- **Extent of Damage Likely to be Suffered**
  - Critical or Catastrophic
  - Major
  - Marginal /Insignificant
- **Nature of Risk Environment**
  - Static risks
  - Dynamic Risks
- **Who is Affected**
  - Fundamental Risks
  - Particular Risks
- **Result / Consequence / Outcome**
  - Speculative risk
  - Pure Risk

Speculative risk : a situation in which the consequence can be either a profit or a loss

Pure risk: situations in which the outcomes can result only in loss or no loss, but never in gain

Insurance only applies in case of pure risks, where it protects against loss that may arise. Speculative risks cannot be insured

Hazard → The condition or conditions which increase the probability of a loss or its severity → And thus impact(s) the risk

Types of hazards

- Physical hazard — a physical condition that increases the chance of loss
- Moral hazard — dishonesty or character defects in an individual that influence the frequency or severity of the loss
- Legal hazard — arises when certain features of the legal system or regulatory environment can increase the incidence or severity of losses

The insurer is able to assume risk and its financial impact

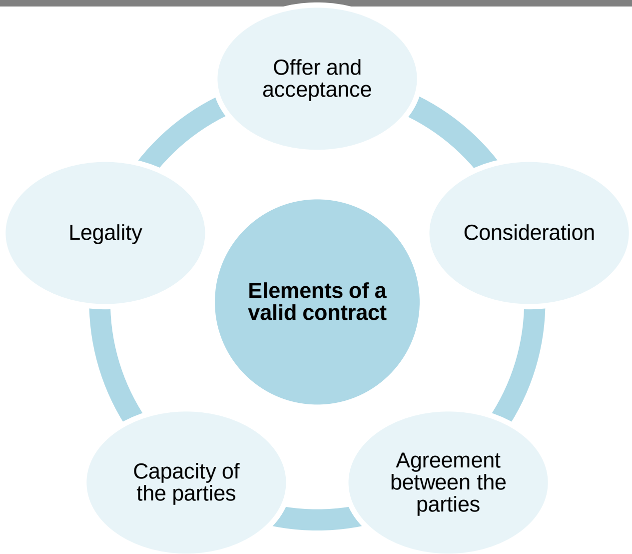
- by pooling number of risks of all the insured similarly placed and exposed to possibility of loss due to a peril

Chapter 2
Principles of Insurance

Conditions for insuring risk

- A sufficiently large number of homogenous [similar] exposure units
- Loss produced by the risk must be definite and measurable
- Loss must be fortuitous or accidental
- Sharing of losses of the few by many
- Economic feasibility
- Public policy

Insurance contract – legal aspects



Insurance contract – special features

Indemnity: the policyholder, who suffers a loss, is compensated so as to put him or her in the same financial position as he or she was before the occurrence of the loss event

Subrogation

The transfer of all rights and remedies, with respect to the subject matter of insurance, from the insured to the insurer

Contribution

Applicable to only non-life insurance

Implies that one cannot gain more from insurance than one has lost through the peril

Uberrima Fides or Utmost Good Faith

Material information is that information which enables the insurers to decide:

Whether they will accept the risk

If so, at what rate of premium and subject to what terms and conditions

Insurable interest

- an essential ingredient of every insurance contract
- considered as the legal pre-requisite for insurance

Proximate cause

a key principle of insurance and is concerned with how the loss or damage actually occurred and whether it is indeed as a result of an insured peril

the active and efficient cause that sets in motion a chain of events which brings about a result, without the intervention of any force started and working actively from a new and independent source

Intro: This chapter provides an understanding of the selling profession and the concept of marketing and its various activities.

Significance of selling

Sale

- the act of giving a product or service in return for money

Insurance agents

- sales persons who seek to get members of the community to buy insurance products in exchange for a premium
- sell a variety of insurance and financial products that most appropriately meet the needs of their clients
- receive remuneration in the form of an agency commission

Marketing vs. selling

Marketing	Selling
• means by which the insurance company seeks to identify, serve, satisfy, and retain or keep the customer. • end purpose and focus of marketing activities is customer	• In insurance, unlike other products, one is not selling any tangible product but only a promise [in the form of an insurance policy] to pay in the event of a fortuitous / contingent event causing financial loss

Marketing activities

- Understanding and segmenting customers
- Targeting and positioning – Implementing the marketing plan

Traditional Selling	Marketing
▪ Spotlight is on products & services rather than the customer's needs, desires & concerns	▪ Spotlight on finding the gap between customers need, want / desire & what is made available to them today
▪ A firm using a sales orientation focuses primarily on somehow pushing its already existing products & services, using aggressive promotion techniques to attain the highest sales possible	▪ A firm with a marketing orientation tries to create & deliver products & services that are appropriate & ideal, from the customer's standpoint. It is a way to engage customers gainfully & build a beneficial relationship
▪ Selling is essentially a strategy of push	▪ Marketing is a strategy of pull

Sales process – steps

Sales process

- Prospecting
- The Pre-Interview Approach
- The Sales Interview - Conducting a Need – Gap Analysis
- Determining the appropriate solutions for the prospect
- Presenting the solution
- Closing the sale
- Sales follow-through
- Commitment to service

Prospecting: process of gathering names of people whom we can approach and secure a sales interview with

- An important issue that arises when matching the product to customer needs: the dilemma faced when the customer wants a complete and comprehensive coverage for all kinds of assets against all kinds of perils but is not willing to pay the price.
- In such cases, there is a need for establishing a trade off between the benefit and the premium and getting the customer to agree to the same

Negotiation is the art of finding a third alternative or the shade of grey between black and white

Selling non-life insurance

Need for non-life insurance products

- Insurable interest: people insure their assets or properties against unfortunate incidents caused by perils, which they think may damage the longevity or value of their assets or property

Customers covered

- Individuals
- Business owners

Cross selling

- Cross selling opportunities are major sources for generating sales

In case of retail selling to individuals one must

- Look at the asset
- Look for approach the customer comes up at the time of renewal
- Look for another approach would be when purchase of an asset is financed through a loan
- Consider risk of profession al liability
- Look for how health insurance can help people
- Look for overseas travel policies

Insurance market development parameters

First parameter

- It is the absolute size of industry in terms of **premiums**
- This measure tells us what is the amount of resources expended towards securing insurance cover

Second parameter

- It is know as insurance **penetration**
- It is given by the ratio of total premiums to Gross Domestic Product [or premium / GDP].
- Penetration is a measure of the economic significance of insurance.
- It tells us what portion of an economy's income it spend on insurance.

Third parameter

- It is of market development is know as **density.**
- It is measured by premium per head of population and is arrived at by dividing the total amount of premiums in a country for given market by its population.
- Density is a measure of the reach and spread of insurance in a given population

Chapter 4
Legal and Regulatory Aspects of Insurance Agency

Intro: This chapter provides you with an understanding of the legal status of an insurance agent; the various rules and regulations applicable to agents in general; and to insurance agents in particular.

Importance of insurance regulations

Prime purpose of insurance regulation

to protect the policyholder

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Regulations made by IRDA

to ensure that insurance companies should exist as financially sound organisations to honour the contracts that they have entered into.

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IRDA

regulates companies from their registration onwards	monitors all major activities of insurance companies like investments, accounting etc.

Insurance regulatory framework - India

The Insurance Act, 1938

- was the basic insurance legislation of the country, governing insurance business in India
- has provisions for monitoring and control of operations of insurance companies

Insurance Regulatory and Development Authority (IRDA)

- established in 2000 as an independent authority to regulate and develop the insurance industry by an act of Parliament
- namely Insurance Regulatory & Development Authority Act, 1999

Other Acts / Regulations linked to insurance

- The Workmen's Compensation Act, 1923 [amended and renamed as Employees Compensation Act in 2010]
- Employees' State Insurance Act, 1948
- Life Insurance Corporation Act, 1956
- Deposit Insurance and Credit Guarantee Corporation Act, 1961
- Marine Insurance Act, 1963
- Export Credit Guarantee Corporation Act, 1964
- General Insurance Business (Nationalisation) Act, 1972
- General Insurance Business (Nationalisation) Amendment Act, 2002
- Motor Vehicles Act, 1988
- Public Liability Insurance Act, 1991

Regulations applicable to Insurance Agents

Insurance Act 1938

An insurance agent — has to be licensed under Section 42. — receives or agrees to receive "payment by way of commission or other remuneration in consideration of her soliciting or procuring insurance business — including business relating to the continuance, renewal or revival of policies of insurance"

An individual agent — an individual representing an insurance company — while a corporate agent is other than an individual, representing an insurance company

No agent or corporate agent of life and / or non-life insurance company → **shall offer her services to more than one standalone health insurance company**

A situation could arise wherein a corporate agent works for three non-life insurers. → In all such cases those agents shall achieve in full, the minimum business requirements laid down by their respective parent insurance companies

Adverse Selection (Anti-selection) → insurance firm's acceptance of applicants → who are at a greater than normal risk (or uninsurable) → but conceal/ falsify information about their actual condition or situation

Rules governing licensing of insurance agents

Practical training

The first time applicant for agency licence shall have completed from an IRDA approved institution, at least, **fifty hours**' practical training

The first time applicant seeking licence to act as a composite insurance agent shall have completed from an IRDA approved institution, at least, **seventy five hours** practical training in life and general insurance business

Agent's licence application

For any renewal of licence, the agent needs to undergo additional 25 hours of training in life or general as the case may be from an approved institution

The Authority may issue a duplicate licence to replace a licence lost, destroyed, or mutilated on payment of fee of rupees fifty

Rules governing licensing of insurance agents

Qualifications of the applicant

- minimum qualification of a pass in 12th standard or equivalent examination conducted by any recognised Board/ Institution, where the applicant resides in a place with a population of five thousand or more as per the last census
- a pass in 10th standard or equivalent examination from a recognised Board / Institution if the applicant resides in any other place

Disqualifications of the applicant

- Minor age
- Unsound mind
- Found guilty of criminal misappropriation or criminal breach of trust / cheating / forgery / abetment of / attempt to commit any such offence, by a court of competent jurisdiction
- Found guilty of knowingly participating in or connived at any fraud, dishonesty or misrepresentation against an insurer or an insured
- **In the case of an individual:** does not possess the requisite qualifications and practical training for a period not exceeding twelve months
- **In the case of a company or firm, if a director/ partner/ the chief executive officers/ other designated employees:** does not possess the requisite qualifications and practical training and have not passed the prescribed examination
- violates the code of conduct as specified by the regulations made by the IRDA

Section 41 of the Insurance Act, 1938

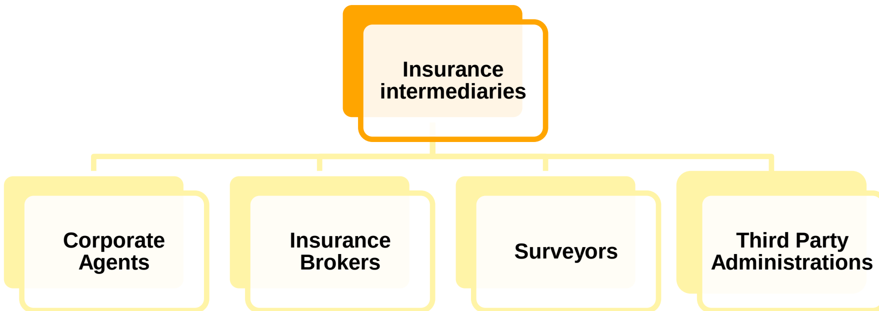
No person shall allow or offer to allow, either directly or indirectly,

as an inducement to any person to take or renew or continue an insurance

in respect of any kind of risk relating to lives or property in India, any rebate of the whole or part of the commission payable or any rebate of the premium shown on the policy,

nor shall any person taking out or renewing or continuing a policy accept any rebate, except such rebate as may be allowed in accordance with the published prospectuses or tables of the insurer

Insurance intermediaries and their roles



Indian Contract Act, 1972: Principal – Agent relationship

A contract of insurance

an agreement whereby one party, called the insurer, undertakes, in return for an agreed consideration, called the premium

to pay the other party, namely, the insured, a sum of money or its equivalent in kind

upon the occurrence of a specified event resulting in loss to her / him

'Caveat emptor' / 'buyer be aware' / 'Buyer Beware'

the buyer is expected to be careful while purchasing the goods

and seller is not liable for any defects in goods sold by her / him

Agent

a person employed to do any act for another, or to represent another in dealing with third persons.

Principal

the person for whom such act is done, or who is so represented

Termination of agency – Section 201

- An agency is terminated
- by the principal revoking her / his authority,
- or by the agent renouncing the business of the agency;
- or by the business of the agency being completed;
- or by either the principal or agent dying
- or becoming of unsound mind;
- or by the principal being adjudicated an insolvent
- under the provisions of any Act for the time being in force for the relief of insolvent debtors

Agent's duty in conducting principal's business – Section 211

- An agent is bound to conduct the business of her / his principal
- according to the directions given by the principal,
- or in the absence of any such directions according to the customs which prevails in doing business of the same kind
- at the place where the agent conducts such business

Right of principal when agent deals, on her / his own account, in business of agency without principal's consent – Section 215

- If an agent deals on her / his own account in the business of the agency,
- without first obtaining the consent of her / his principal and acquainting her / his with all material circumstances
- which have come to her / his own knowledge on the subject,
- the principal may repudiate the transaction, if the case shows,
- either that any material fact has been dishonestly concealed from her / his by the agent,
- or that the dealings of the agent have been disadvantageous to her / him

Agent not entitled to remuneration for business misconduct – Section 220

- An agent, who is guilty of misconduct in the business of the agency,
- is not entitled to any remuneration
- in respect of that part of the business which she / he has misconduct

Intro: This chapter discusses the various documents and their importance in an insurance contract. It also gives an insight to the exact nature of each form, how to fill it and the reasons for calling specific information.

Proposal forms

Proposal forms

- first stage of documentation
- through which the insured informs
  - who she / he is,
  - what kind of insurance she / he needs,
  - details of what she / he wants to insure, and
  - for what period of time
- contains information which are useful for the insurance company to accept the risk offered for insurance
- the principle of utmost good faith and the duty of disclosure of material information begin with the proposal form for insurance

Declaration in the proposal form

- at the end of the proposal form to be signed by the insurer
- ensures that the insured has filled up the form accurately and understood the facts given therein,
  - so that at the time of a claim there is no scope for disagreements, on account of misrepresentation of facts
- serves the main principle of utmost good faith on the part of the insured
- number & nature of questions in a proposal form vary according to the class of insurance concerned

Elements of a proposal

Proposer's name in full	Proposer's address and contact details	Proposer's profession, occupation or business	Details and identity of the subject matter of insurance	Sum insured	Previous and present insurance	Loss experience	Declaration by insured

The intermediary has a responsibility towards both parties i.e. insured and insurer

Acceptance of the proposal (underwriting)

Underwriting

- process of scrutinizing the proposal and deciding about acceptance

As per guidelines, an insurance company has to process an insurance proposal within 15 days

Premium receipt

As per Insurance Act,

premium is to be paid in advance, before the inception date of the insurance contract

Section 64 VB of the Insurance Act-1938

provides that no insurer shall assume any risk unless & until the premium is received in advance or is guaranteed to be paid or a deposit is made in advance in the prescribed manner

Methods of payment of premium

- Cash
- Any recognised banking negotiable instrument (cheques, demand drafts, pay order, banker's cheques drawn on any schedule bank in India);
- Postal money order;
- Credit or debit cards;
- Bank guarantee or cash deposit;
- Internet;
- E-transfer
- Direct credits via standing instruction of proposer or the policyholder or the life insured through bank transfers;
- Any other method or payment as may be approved by the Authority from time to time;

Cover Notes / Certificate of Insurance / Policy Document

A cover note would incorporate the following:

- Name and address of insured
- Sum insured
- Period of insurance
- Risk covered
- Rate and premium: if rate is not known, the provisional premium
- Description of the risk covered: for example a fire cover note would indicate identification particulars of the building, its construction and occupancy.
- Serial number of the cover note
- Date of issue
- Validity of cover note is usually for a period of a fortnight and rarely up to 60 days

Cover notes are used predominantly in marine and motor classes of business.

Certificate of Insurance – Motor Insurance

- Provides existence of insurance in cases where proof may be required
- Issued in addition to the policy, as required by the Motor Vehicles Act
- Provides evidence of insurance to the Police and Registration Authorities

Chapter 5 Documentation

Policy document: formal document which provides an evidence of the contract of insurance. It contains

- Name(s) and address/es of the insured and any other person having insurable interest
- Full description of the property or interest insured;
- Location/s of the property or interest insured under the policy, with respective insured values;
- Period of insurance; Sums insured; Perils covered and exclusions ; Any excess / deductible applicable;
- Premium payable and for provisional premiums subject to adjustment, the basis of adjustment of premium ;
- Policy terms, conditions and warranties;
- Action to be taken by the insured upon occurrence of a contingency likely to give rise to a claim under the policy;
- Obligations of the insured in relation to the subject-matter of insurance upon occurrence of an event giving rise to a claim and the rights of the insurer in the circumstances;
- Any special conditions ;
- Provision for cancellation of the policy on grounds of misrepresentation, fraud, non-disclosure of material facts or non-cooperation of the insured;
- Address of the insurer to which all communications in respect of the policy should be sent;
- Details of the riders if any;
- Details of grievance redressal mechanism and address of ombudsman

Warranties

Warranty

a condition expressly stated in the policy which has to be literally complied with for validity of the contract

not a separate document

part of both cover notes and policy document

Endorsements

If certain terms and conditions of the policy need to be modified at the time of issuance, it is done by setting out the amendments / changes through a document called **endorsement**

Endorsements normally required under a policy related to:

- Variations /changes in sum insured
- Change of insurable interest by way of sale, mortgage, etc.
- Extension of insurance to cover additional perils / extension of policy period
- Change in risk, e.g. change of construction, or occupancy of the building in fire insurance
- Transfer of property to another location
- Cancellation of insurance
- Change in name or address etc.

Interpretation of policies

The most important rule of construction

the intention of the parties must prevail and this intention is to be looked for in the policy itself

The principal rule of construction

the intention of the parties of the contract must prevail, that intention must be gathered from the policy document itself and the proposal form, clauses, endorsements, warranties etc. attached to it and forming a part of the contract

Renewal notice

Most of the non-life insurance policies are insured on annual basis

As a matter of courtesy and healthy business practice → insurers issue a renewal notice in advance of the date of expiry → inviting renewal of the policy

Chapter 6
Theory and Practice of Premium Rating

Intro: This chapter presents the basics of underwriting and rate making; the different methods of dealing with hazards in the process of rating of risks and how to decide the Sum Insured for various types of insurance policies.

Underwriting basics

A rate

- Is a factor on which the amount of premium to be paid by each depends
- Is determined by two factors
  - The probability of loss due to a loss event (caused by an insured peril)
  - The estimated amount of loss that may arise due to the loss event

The process of classifying risks and deciding into which category they fall is important for rate making

The whole mechanism of insurance

involves pooling of a large number of statistically similar risks

so that the law of large numbers would operate

and the probability of number of losses (frequency) as well as the extent of loss (severity) becomes predictable

Underwriting → the process of determining whether a risk offered for insurance is acceptable, → and if so, → at what rate, terms and conditions the insurance cover will be accepted

Steps involved in underwriting process

1. Assessment and evaluation of hazard and risk in terms of frequency and severity of loss
2. Formulation of policy coverage and terms and conditions
3. Fixing of rates of premium

- The need for careful underwriting and risk classification in insurance arises from the simple fact that not all risks are equal
- The purpose of underwriting is to classify risks so that, depending on their characteristics and degree of risk posed, an appropriate rate of premium may be levied

Main features of underwriting

- To identify risk based upon the characteristics
- To determine the level of risk presented by the proposer
- To ensure that the insurance business is conducted on sound lines

Ratemaking basics

Rate

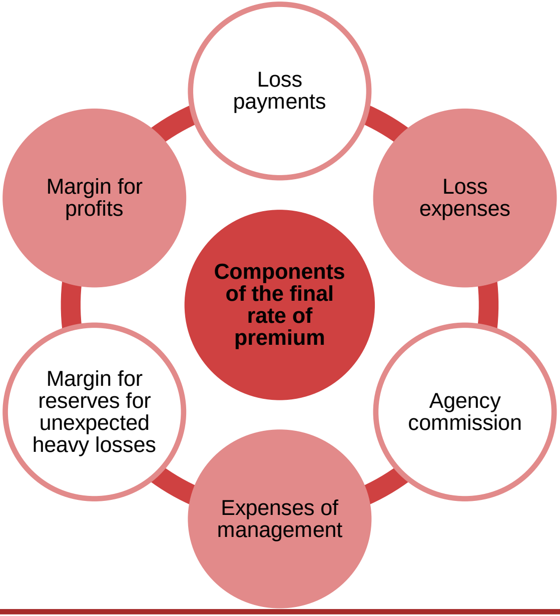
- The price of a given unit of insurance
- Not the same as premium: Premium = (Sum Insured) x (rate)

Ratemaking

- The process of calculating a price to cover the future cost of insurance claims and expenses, including a margin for profit
- Basic objective is to ensure that price of insurance should be adequate & reasonable, both from the point of view of the insurer & the insured

Rate determination: The pure rate of premium is arrived at on the basis of past loss experience. Therefore, statistical data regarding past losses is most essential for purposes of calculating rates

The 'pure premium' is suitably loaded or increased by adding percentages to provide for expenses, reserves and profits


Loss payments
Loss expenses
Agency commission
Expenses of management
Margin for reserves for unexpected heavy losses
Margin for profits
Components of the final rate of premium

Rating factors

Sources of information for underwriting

- Proposal form or underwriting presentation
- Risk surveys
- Historic claims experience data

For some classes of business, such as personal & motor lines, underwriters often utilise historic claims experience data to provide an indication of the likely future claims experience, and to arrive at a suitable premium

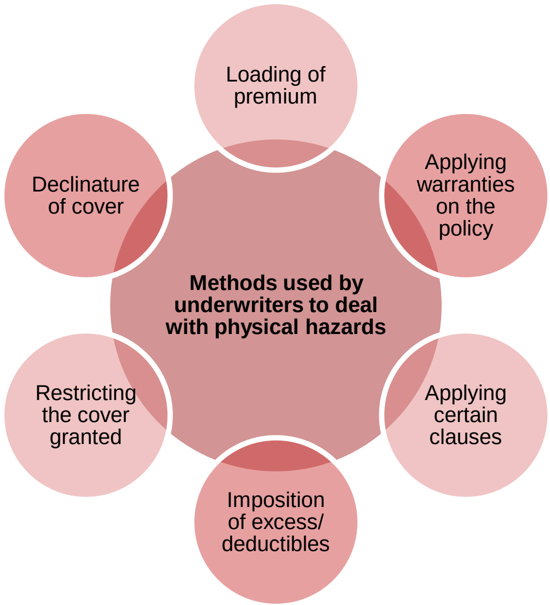
Hazards

Conditions or features or characteristics which create or increase the chance of loss arising from a given peril

Can be classified into

- Physical hazard — fire, marine, motor, burglary, personal accident, health insurance
- Moral hazard — dishonesty, carelessness, industrial relations, wrong claims

can be reduced using the mechanisms of co-payment, deductible, sub-limits & offering incentives like no-claim bonus in health insurance



Short period scale

- Normally, premium rates are quoted for a period of twelve months
- If a policy is taken for a shorter period, the premium is charged according to a special scale

Need for short period scales

- Expenses involved in the issue of the policy whether for a 12 months period or a shorter period, are almost the same
- Involve more frequent renewals; if a proportionate premium is allowed, there would be a tendency on the part of the insured to go on taking short period policies and thereby, in effect, pay premiums in instalments
- Applicable when annual insurance is cancelled by the insured
- Preferred when insurance are seasonal in character and the risk is greater during that season

Sum insured

Sum insured

- the maximum amount that an insurance company will indemnify as per policy condition.
- always fixed by the insured and is the limit of liability under the policy
- an amount on which rate is applied to arrive at the premium under the policy

An insured has to be very careful in choosing the limit of indemnity, for that is the maximum amount that would be reimbursed at the time of claim.

Deciding sum insured	
Personal accident insurance	some insurance companies may give a benefit equal to 60 times or 100 times of the insured's monthly income for a particular disability
Health insurance	the insurer may offer a sum insured of 10 lakhs or higher and for age group of 3 months to 5 years it could be 2 lakhs or so
Motor insurance	Insured's declared value [IDV] is the value of the vehicle, which is arrived at by adjusting the current manufacture's listed selling price of the vehicle with depreciation percentage as prescribed in the IRDA regulations
Fire insurance	may be fixed on the basis of market value or reinstatement value for buildings / plant and machinery and fixtures
Stocks insurance	their market value
Marine cargo insurance	as per the agreement between insurer and insured at the time of contract
Liability insurance	the liability exposure of the industrial units based on the degree of exposure, geographical spread

Intro: The chapter discusses common insurance products such as personal accident, health, travel, home and shop keeper's insurance that are bought by retail customers.

Personal accident insurance

Accident → usually denotes a sudden, unforeseen and an unexpected event → caused by external, violent and visible means (but does not include any illness or disease), → which results in physical bodily injury → but does not include mental, nervous or emotional disorders, depression or anxiety

Generally Personal Accident (P.A.) policies cover

- Death arising out of accident
- Permanent total disability (PTD): totally disabled for lifetime viz paralysis of all four limbs, comatose condition, loss of both eyes/both hands/both limbs or one hand and one eye and one leg or one hand and one leg
- Permanent partial disability (PPD): partially disable for lifetime e.g. loss of fingers, toes, phalanges etc.
- Temporary total disability (TTD): totally disabled for temporary period of time; here, it is intended to cover the loss of income during the disability period

Premium calculation → Depends on various factors → Age, number of family members and occupation of the insured → Occupation may be classified as risk levels 1, 2 or 3 by the insurers depending on hazard involved

Group Personal Accident Policy

- issued to large groups that are already in existence for a common purpose, which is other than insurance
- the insured is usually an entity like an employer, a bank, a society or the like
- insured persons would be employees, deposit holders, registered members etc.

Health insurance

Health insurance: a contract between the insurer and the insured wherein insurer agrees to pay hospitalisation expenses to the extent of an agreed sum assured in the event of any medical treatment arising out of an illness or an injury

Expenses covered usually include

- Cost of room / bed
- Boarding expenses
- Nursing expenses
- Doctor's fees
- Diagnostic tests
- Operation theatre charges
- Expenses related to surgical appliances & the like

Standalone health insurance companies

- IRDA lowered the capital requirements for opening standalone health companies, so that more health insurance companies can be established
- These companies brought in a lot of specialised expertise and research into the country
- These companies got involved in special schemes of the Government for covering rural masses

Third Party Administrators (TPA)

- any person who is licensed under the IRDA (Third Party Administrators - Health Services) Regulations, 2001 by the Authority, and
- is engaged, for a fee or remuneration by an insurance company, for the purposes of providing health services

Portability

- the right accorded to transfer the credit gained for pre-existing conditions and time bound exclusions, from one insurer to another insurer or from one plan to another plan of the same insurer, provided the previous policy has been maintained without any break.
- moving between policies of the same company itself has been excluded

Health insurance policies in India normally provide a comprehensive health cover, covering nearly all illnesses and injuries requiring minimum 24 hours of hospitalization

There are certain waiting periods (usually 48 months) with regard to pre-existing diseases (PEDs), some specific illnesses like cataract, some procedures like hysterectomy etc., for a defined period which usually range from one year to four years

Family Floater Policy is another version of a health insurance policy.

Here, the sum insured floats among the family members.

Family floaters usually cover husband, wife and two children

In order to promote health insurance, the Government gives certain tax incentives to policyholders

An important incentive is that the premium paid for health insurance policy qualifies for tax benefit under section 80D of Income Tax Act

Cashless facility: A facility extended by the insurer to the insured where the payments, of the costs of treatment undergone by the insured in accordance with the policy terms and conditions, are directly made to the network provider by the insurer to the extent pre-authorization approved

As per IRDA Regulations issued in February 2013, all health insurance policies are required to have the below features / benefits

Free look period

Period of 15 days from the date the documents are received by the customer.

During this period, the customer can decide whether or not to continue with the policy

In case she decides not to continue with it, the premium, after making some deductions for expenses, may be refunded in full

30 days grace period

allowed beyond the expiry date of the policy, for renewal

Overseas travel insurance

- General insurance companies offer a variety of plans under travel insurance policies envisaging all kinds of exigencies one is likely to face whilst travelling overseas
- The **premium rates** are based on type / plan of cover, age, duration of travel

Some of the perils covered are

- Accidental death / disability,
- Emergency hospitalisation,
- Repatriation,
- Hijack cover,
- Emergency dental relief,
- Delay or loss of checked baggage,
- Delay or cancellation of trip,
- Loss of passport and documents,
- Third party liability for property and personal damages etc.

Householder's insurance

A householder's insurance policy only provides coverage on losses incurred to the insured's property from hazards or events named in the policy. The perils covered will be clearly spelt out

Householder's insurance covers the **house structure and its contents** against fire, riots, bursting of pipes, earthquakes etc. Apart from the structure, it covers the contents against burglary, housebreaking, larceny and theft

Methods of fixing the Sum Insured: Market Value (MV) and Reinstatement Value (RIV)

Shopkeeper's insurance

Shopkeeper's insurance

- Usually covers damage to the shop structure and contents
  - due to fire, earthquake, flooding or malicious damage; and burglary
- can also include business interruption protection.
- will cover any lost income or additional expenditure in the event of an unexpected claim
- coverage can be selected by the insured depending on her / his range of activities
- Additional covers
  - Burglary and Housebreaking; Machinery Breakdown; Electronic Equipment and Appliances; Money Insurance; Baggage
  - Fixed Plate Glass and Sanitary Fittings covers accidental loss of damage
  - Personal accident
  - Infidelity / Dishonesty of employees
  - Legal Liability

- Two methods of fixing the sum insured, viz. market value and reinstatement / replacement value.
- For additional coverage like money, baggage, personal accident the premium would depend on the sum insured and the covers opted for

Motor insurance

Motor insurance → must be taken by a vehicle owner → whose vehicle is registered in her / his name with the Regional Transport Authority in India

The Motor Vehicles Act, 1988

- Mandatory for every owner of a vehicle plying on public roads,
  - to take an insurance policy,
  - to cover the amount, which the owner becomes legally liable
  - to pay as damages to third parties as a result of accidental death, bodily injury or damage to property
- A Certificate of Insurance must be carried in the vehicle as a proof of such insurance

'Third-Party Insurance'

An insurance policy purchased for protection against the legal actions of another party.

Purchased by the insured (first party) from an insurance company (second party) for protection against another party's claims (third party) for liability arising out of the action of the insured

Is called 'Liability Insurance' as well.

Two popular and important types of covers

Act [Liability] Only Policy: As per Motor Vehicles Act it is mandatory for any vehicle plying in public place to insure liabilities towards third parties

Package Policy / Comprehensive Policy: (Own damage + Third party liability)

The sum insured of a vehicle in a Motor Policy	Rating / premium calculation
• is referred to as Insured's Declared Value (I.D.V.).	• depends on factors like the Insured's Declared Value, cubic capacity, geographical zone, age of the vehicle etc.

Intro: This chapter focuses on the various kinds of insurance products available for the commercial or business enterprises or firms, who are engaged in or deal with various kinds of goods and services

Property / Fire Insurance

Types of commercial enterprises
- Small and Medium Enterprises [SMEs]
- Large Business Enterprises

The fire policy for commercial risks covers the perils of
- Fire – Lightning; Explosion / implosion
- Riot strike and malicious damage
- Impact damage ; Aircraft damage
- Storm, tempest, cyclone, typhoon, hurricane, tornado, flood and inundation
- Earthquake
- Subsidence and landslide including rock slide
- Bursting and overflowing of water tanks, apparatus and pipes
- Missile testing operations
- Leakages from automatic sprinkler installation
- Bush fire

Exclusions

Losses due to excepted perils like

- War and war like activities.
- Nuclear perils
- Ionisation and radiation
- Pollution and contamination losses

Perils that are covered by other policies in general insurance

- Machinery Breakdown,
- Business Interruption

Market Value or Reinstatement Value Policies

- In the event of a loss, the insurer would normally pay the market value [which is the depreciated value]
- Under Reinstatement Value Policy however, the insurers would pay cost of replacement of the damaged property by new property of the same kind

Declaration policy

- Stocks stored in warehouse can be covered by what in termed as a declaration policy as such stocks are subject to fluctuation in quantity

Floater policies

- may be issued for stocks of goods which are stored at various specified locations under one sum insured.
- also called fire floater policies as the sum insured 'floats' over multiple locations

Business interruption insurance

Consequential Loss (CL) Policy [Business Interruption (BI)]

It provides indemnity for loss of what is termed as gross profit – which includes Net Profit plus Standing Charges along with the increased cost of working incurred by the insured to get the business back to normalcy, as soon as possible to reduce the final loss

Burglary insurance

Risks covered under burglary insurance

- Loss of property following actual forcible and violent entry into the premises or loss followed by actual, forcible and violent exit from the premises or hold up.
- Damage to insured property or premises by burglars. Property insured is covered only when it is lost from the insured premises and not from any other premises

Rates of premium for burglary policy : depend upon the nature of insured property, the moral hazard of the insured himself, construction and location of premises, safety measures (*e.g. watchmen, burglar alarm)*, previous claims experience etc.

Money insurance

Money insurance policy

designed to cover the losses that may occur while cash, cheques / postal orders / postal stamps are being handled

normally provides cover under two sections

- Transit section
- Premises section

Premium is fixed depending on the insured, estimated total cash carrying liability of the company at any one time, the mode of conveyance, distance involved, safety measures taken etc.

Fidelity guarantee insurance

Fidelity guarantee insurance → indemnifies employers against the financial loss suffered by them due to fraud or dishonesty of their employees by forgery, embezzlement, larceny, misappropriation and default

Types of Fidelity Guarantee Policy

- Individual policy
- Collective policy
- Floating policy or floater
- Positions policy
- Blanket policy

The rate of premium depends upon the type of business occupation, status of the employee, the system of check and supervision

Bankers indemnity insurance

Coverage under Bankers Indemnity Insurance

There are different variations to this policy based on the requirement of banker.

- Money securities lost or damaged whilst within the premises due to fire, burglary, riot and strike.
- Loss suffered due to any cause whatsoever including negligence of the employees, when the property is carried outside the premises in the hands of authorized employees.
- Forgery or alteration of cheques, drafts, fixed deposit receipts etc.
- Dishonesty of employees with reference to money/securities or in respect of goods pledged.
- Dispatches by registered post parcels.
- Dishonesty of appraisers.
- Money lost while in the hands of agents of the bank like ‘Janata Agents’, ‘Chhoti Bachat Yojana Agents’

The premium calculation is based on

- Basic sum insured
- Additional sum insured
- Number of staff
- Number of branches

Jewelers' Block Policy

Jewelers block policy

Section I: Covers loss of or damage to property whilst in the premises insured, as a result of fire, explosion, lightning burglary, house-breaking, theft, hold-up, robbery, riot, strikes and malicious damage and terrorism.

Section II: Covers loss or damage whilst the property insured is in the custody of the insured and other specified persons.

Section III: Covers loss or damage whilst such property is in transit by registered parcel post, air freight etc.

Section IV: Provides cover for trade and office furniture and fittings in the premises against the risks specified in Section I

Engineering insurance

Types of engineering insurance policies

Contractors All Risks (CAR) Policy	Contractors Plant & Machinery (CPM) Policy	Erection All Risks (EAR) Policy	Machinery Breakdown Policy (MB)
designed to protect the interests of contractors and principals engaged in civil engineering projects from small buildings to massive dams, buildings, bridges, tunnels, etc.	suitable for contractors involved in construction business for covering all kinds of machinery like cranes, excavators, from unforeseen and sudden physical loss or damage	suitable for the principal or contractors of a project being erected as the project is exposed to various external risks during the construction	covers unforeseen and sudden physical damage by mechanical or electrical breakdown by any cause to the insured property: While it is at work or at rest, While being dismantled for cleaning or overhauling, During cleaning or overhauling operations and during reassembly thereafter, When being shifted within the premise

Boiler and Pressure Plant Policy

- covers boilers and pressure vessels, against:
  - damage, other than by fire, to the boilers and / or other pressure plant and to surrounding property of the insured; and
  - legal liability of the insured on account of bodily injury to the person, or damage to the property, of third parties, caused by explosion or collapse due to internal pressures of such boiler and / or pressure plant

Machinery Loss of Profits (MLOP) Policy

- suitable for industries where interruptions or delays as a result of machinery breakdown or boiler explosion result in huge consequential losses

Deterioration of Stock Policy

- suitable for the owner of the cold storage (individual or a cooperative society) or those who take the cold storage on lease or hire for storage of perishable commodities

Electronic Equipment Policy

- is available to the owner, lessor or hirer, depending upon the responsibility or liability in each case. It has usually three sections that cover various types of losses:
  - Section 1: Loss and damage to equipment
  - Section 2: Loss and damage to external data media like computer external hard disks
  - Section 3: Increased cost of working - to ensure continued data processing on substitute equipment upto 12, 26, 40 or 52 weeks

Advance Loss of Profit Cover (ALOP) or Delay in Start-up Policy (DSU)

- covers financial consequences of a project being delayed because of accidental damages during the project

Industrial all risks insurance

Industrial all risks insurance

- provides indemnification against material damage and business interruption
- provides cover for
  - Fire and specified perils as per fire insurance practice,
  - Burglary (except larceny)
  - Machinery breakdown / boiler explosion / electronic equipment
  - Business interruption following operation of perils

Marine insurance

Marine insurance is classified into two types: marine cargo and marine hull

Marine Cargo Insurance

- provides indemnity in respect of loss of or damage to goods during transit by rail, road, sea, air or registered post, within the country as well as abroad.
- type of goods may range from diamonds to household goods, bulk items like cement, grains, over dimensional cargoes for projects etc.
- the terms and conditions applicable are governed by either;
  - Inland Transit Clause (ITC) A, B or C for inland transit
  - Institute Cargo Clause (ICC) A, B, or C for voyage by sea
  - Institute Cargo (Air) Clause – A for transport by air

Different types of marine policies

- Specific Policy
- Open Policy
- Open Cover
- Duty and increased value insurance
- Delay in Start Up

Marine Hull insurance

- done as per international clauses applicable across different countries
- covers essentially of two types:
  - **covering a particular voyage: Institute Voyage Clauses**
  - **covering a period of time: usually one year, Institute (Time) Clauses**

Liability policy

Compulsory Public Liability Policy

- The Public Liability Insurance Act, 1991 imposes liability on no fault basis on those who handle hazardous substances if a third party is injured or his property is damaged during the course of such handling

Compensation payable

Fatal Accident	Rs. 25,000
Permanent Total Disability	Rs. 25,000
Permanent Partial Disability	% of Rs. 25,000 based on % of disability
Temporary Partial Disablement	Rs. 1000 per month, maximum 3 months
Actual Medical Expenses	Upto a maximum of Rs. 12,500
Actual damage to property up to	Rs. 6,000

Professional Liability

provides insurance protection to professional people against their legal liability to pay damages arising out of negligence in the performance of their professional duties.

available for doctors hospitals; engineers, architects; chartered accountants, financial consultants, lawyers, insurance brokers

Employee's Compensation Insurance

provides indemnity to the insured in respect of his legal liability to pay compensation to his employees who sustain personal injury by accident or disease arising out of and in the course of his employment

also called **Workman's Compensation Insurance**

Chapter 9
Claims Procedure

Intro: This chapter we will discuss about the procedures and documents involved in claim process and for disputed claims

Claims settlement process

Claim settlement

- Promptly settle claims of policyholders without differentiating size of claim or the legal status of claimant
- Insurance officials should handle claims based on merit and do not reject the claim without examining all the documents

Intimation or Notice of Loss

- Loss should be intimated by the insured to the insurer immediately, which allow to investigate a loss at its early stages

Investigation and assessment

On receipt of claim insurers should investigate and assess the loss	If the claim amount is small, an officer of the insurer can determine the cause and extent of loss	Independent surveyor should assess the cost of the loss, which should be accepted by both parties as well as court of law	Claim is assessed on the basis of a police report and investigators report

Chapter 9
Claims Procedure

On receipt of intimation of loss or damage insurers need to check

- The insurance policy is in force on the date of occurrence of the loss or damage
- The loss or damage is caused by an insured peril
- The property (subject matter of insurance) affected by the loss is the same as insured under the policy
- Notice of loss has been received without delay

Surveyors and Loss Assessors

- Surveyors are professionals licensed by IRDA
- They are experts in inspecting and evaluating losses in specific areas

Claim forms

- Contents of the claim form vary with each class of insurance
- Designed to get full information regarding the circumstances of the loss, such as date of loss, time, cause of loss, extent of loss, etc

Loss Assessment & Claim settlement

- Loss / claims assessment is the process of determining whether the loss suffered by the insured is caused by the insured peril and there is no breach of warranty
- Settlement of claims has to be based on considerations of fairness and equity

Important aspects to be considered in processing an insurance claim

- Whether the loss is within the scope of the policy
- Whether the insured has complied with policy conditions
- Compliance with warranties
- Observance of utmost good faith by the proposer
- Duty to take measures to minimise the loss.
- The amount payable will also depend upon
  - The extent of the insured's insurable interest in the property affected
  - The value of salvage
  - Application of underinsurance
  - Application of contribution and subrogation conditions

Categories of claim

Standard claims

Claims which are clearly within the terms and conditions of the policy

Non-Standard claims

Claims where the insured may have committed a breach of condition or warranty

Condition of average or average clause

Imposes penalty for underinsurance

On account payment

Usually happens if the loss is large and the completion of assessment may take some time

Discharge vouchers

- Settlement of the claim is made only after obtaining a discharge under the policy

Salvage

- Refers to damaged property. On payment of loss, the salvage belongs to insurers

Recoveries

- After claim settlement, the insurers, are entitled to the rights and remedies of the insured and to recover the loss paid from a third party

Disputes related to claims

- Either due to delay in notice of loss or non-submission of documents by clients
- Most common reasons are
  - Non-disclosure of material facts
  - Lack of coverage
  - Loss caused by excluded perils
  - Lack of adequate sum insured
  - Breach of warranty
  - Issues regarding quantum due to underinsurance, depreciation, etc.
- Disputes relating to question of liability are to be settled through litigation

Arbitration

- It is a method of settling disputes arising out of contracts
- It is done in accordance with the provisions of the Arbitration and Conciliation Act, 1996
- There is no arbitration condition in marine cargo policies

Other dispute resolution mechanisms

- In case of claims under personal lines of business, a dissatisfied insured can approach the ombudsman, the details of whose office are provided in the policy

Intro: This chapter discusses the importance of customer service and the role of agent to provide customer service.

Customer service – General concepts

The goal of every enterprise should be to delight its customers

Five major indicators of service quality

Reliability	Responsiveness	Assurance	Empathy	Tangibles

Customer lifetime value → defined as the sum of economic benefits that can be derived from building a sound relationship with a customer over a long period of time

Insurance agent's role in providing great customer service

Agent role to provide service to the customer

The Point of Sale - Best advice

- Determine the amount of coverage [Sum Insured] to be bought
- The role of an insurance agent should be more than mere sales person
- Insurance agent needs to be a risk assessor, underwriter, risk management counsellor, designer of customised solutions and a relationship builder who thrives on building trust and long-term relationships

The proposal stage

- Agent has to support the customer in filling out the proposal for insurance
- Agent should explain and clarify to proposer the details to be filled as answer to each of questions in the proposal form

Policy renewal

Cover note

It is the agent's responsibility to ensure that the cover note is issued by the company

Delivery of the policy document

It is another major opportunity that an agent gets to make contact with the customer

Policy renewal

Non-life insurance policies have to be renewed each year and the customer has a choice at the time of each renewal

Insurers issue a **"Renewal Notice"** as a healthy business practice

The claim stage

- Insurance agent need to ensure that the incident giving rise to the claim is immediately informed to the insurer an
- Insurance agent need to ensure that customer carefully follows all the formalities and assists in all the investigations that may need to be done to assess the loss

Grievance redressal

Reasons of service failure

- sense of unfairness, a feeling of being cheated
- hurt ego – of being made to look and feel small

Word of mouth publicity (Good/Bad) has significant role in selling and servicing

Integrated Grievance Management System (IGMS)

- Acts as a central repository of insurance grievance data and as a tool for monitoring grievance redress in the industry

The Consumer Protection Act, 1986

- Passed to provide for better protection of the interest of consumers
- To make provision for the establishment of consumer councils and other authorities for the settlement of consumer's disputes
- The Act has been amended by the Consumer Protection (Amendment) Act, 2002.

Service

- Means made available to potential users and includes the provision of facilities in connection with banking, financing, insurance, transport, processing, supply of electrical or other energy, board or lodging or both, housing construction, entertainment, amusement or the purveying of news or other information
- It does not include the rendering of any service free of charge or under a contract of personal service

Consumer

- Buys any goods for a consideration and includes any user of such goods
- It does not include a person who obtains such goods for resale or for any commercial purpose
- Hires or avails of any services for a consideration and includes beneficiary of such services

Consumer dispute

- Means a dispute where the person against whom a complaint has been made, denies and disputes the allegations contained in the complaint

Consumer disputes redressal agencies

- District Forum
- State Commission
- National Commission
- All the three agencies have powers of a Civil Court

Consumer disputes categories

- Delay in settlement of claims
- Non-settlement of claims
- Repudiation of claims
- Quantum of loss
- Policy terms, conditions

The Insurance Ombudsman

By mutual agreement of the insured and the insurer can act as a mediator and counsellor within the terms of reference

Complaints can be made to the Ombudsman

- If insurance company had rejected the complaint
- The complainant had not received any reply within one month after receipt of the complaint by the insurer
- The complainant is not satisfied with the reply given by the insurer
- The complaint is made within one year from the date of rejection by the insurance company
- The complaint is not pending in any Court or Consumer Forum or in arbitration

Communication process

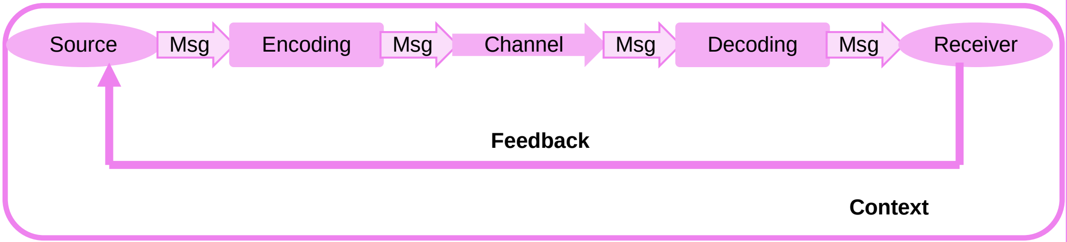
Communication and customer relationships

It is both the service and the relationship experience that ultimately shapes how the customer would look at the company

Every relationship begins with **attraction**

The second element of a relationship is one's **presence** – being there when needed

Communication process



Non-verbal communication

Making a great first impression

- Be on time always
- Present yourself appropriately
- A warm, confident and winning smile
- Being open, confident and positive
- Interest in the other person

Body language

- refers to movements, gestures, facial expressions, confidence and trust

Listening skills

- one needs to be aware about and cultivate are listening skills
- elements of active listening
  - Paying attention
  - Demonstrating that you are listening
  - Provide feedback
  - Not being judgemental
  - Responding appropriately
  - Empathetic listening

Ethical behaviour

Ethical behaviour automatically leads to good governance

Unethical behaviour happens when the benefits of self are considered more important than of the other

characteristics of ethical behaviour

- Placing best interests of the client above one's own direct or indirect benefits
- Holding in strictest confidence and considering as privileged, all business and personal information pertaining to client's affairs
- Making full and adequate disclosure of all facts to enable clients make informed decisions

Intro: This chapter introduces career of an agent in the non–life insurance industry & also a brief perspective about this industry

Insurance agency as a career

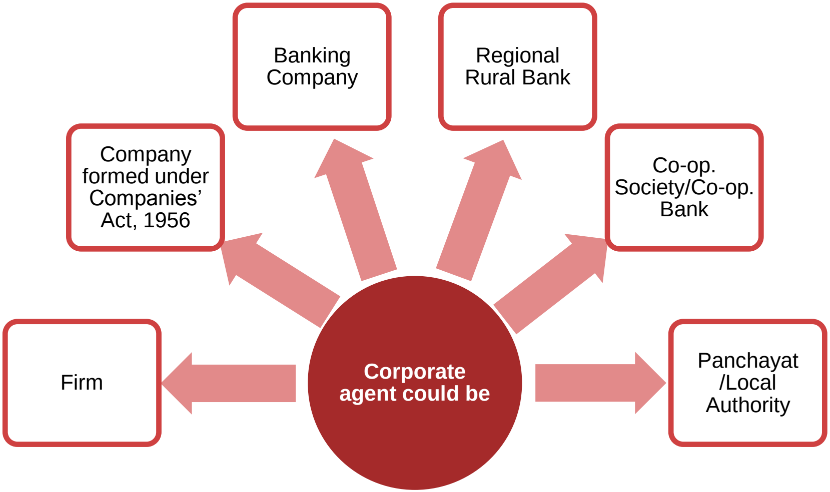
Good salesman should have two basic qualities

Empathy	Ego drives
Ability to feel as the other person does in order to be able to sell him a product or service	Refers to the sales person's intense drive and effort to make the sale, not merely for the money to be gained, but because it gives a feeling of self achievement

Rewards of a career in non-life insurance sales

- recognised by the society as a knowledgeable professional
- able to provide insurance solutions to problems of people is a matter of immense social value that non-life insurance agents enjoy
- social prestige that comes from being instrumental in financially helping out people who are affected by a misfortune

Different careers in insurance



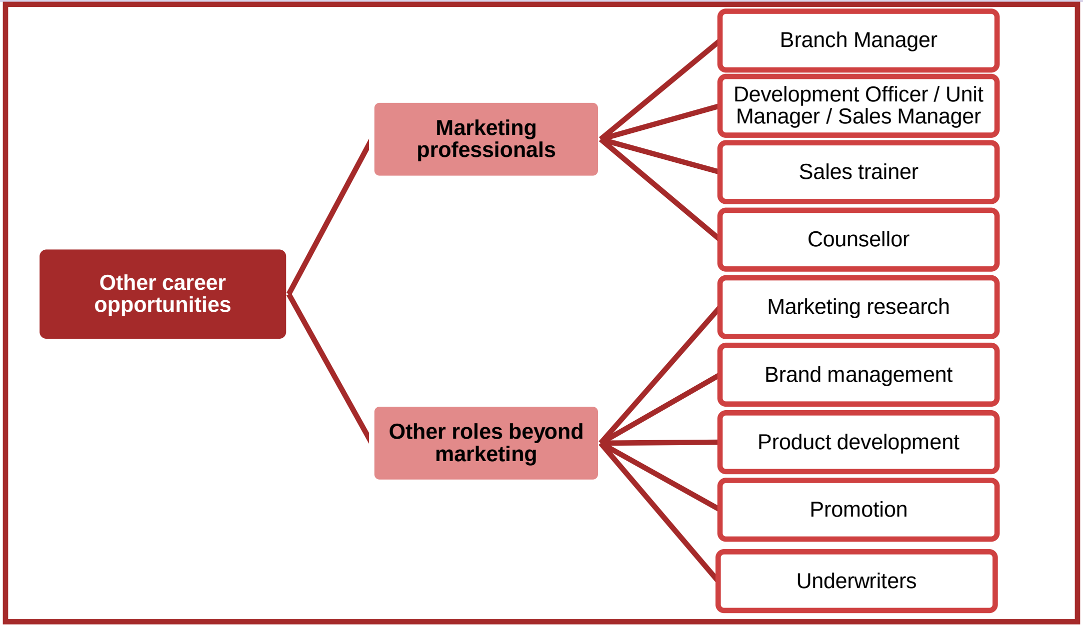
Insurance brokers

- brokers are insurance intermediaries representing the customer
- broking firm requires a minimum amount of capital and its officers are required to undergo 100 hours training and pass an examination
- both agents & brokers are intermediaries who interact with the insurance company and the customer

Bancassurance → Refers to the tie up between banks & insurers to distribute insurance products to their customer base

India has two broad bancassurance models

- Bank becomes a corporate agent of an insurer and taps its customer base to sell insurance products
- Referral model, where the bank supports the insurance company with the data base while the sale of insurance products is done by the insurance company


Other career opportunities
Marketing professionals
Other roles beyond marketing
Branch Manager
Development Officer / Unit Manager / Sales Manager
Sales trainer
Counsellor
Marketing research
Brand management
Product development
Promotion
Underwriters

Varied types of training interventions

- Pre-recruitment training
- Product training
- Sales training
- Process training
- Soft skills training