MAR GREGORIOS COLLEGE
OF ARTS & SCIENCE

Block No.8, College Road, Mogappair West, Chennai – 37

Affiliated to the University of Madras
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An ISO 9001:2015 Certified Institution

DEPARTMENT OF COMMERCE

SUBJECT NAME: FUNDAMENTALS OF INSURANCE (NME)

SEMESTER: I

PREPARED BY: PROF.T.BALACHANDAR

LEARNING OBJECTIVES:

To enable the students to understand the fundamentals of insurance, Learn how to attain the agency license and Learn the organization functions, structures & promotional strategies.

LEARNING OUTCOMES:

On successful completion of this course the students would be able to,

- Acquire the basics of insurance and types of insurance.
- Acquire the skills of Agency Law and its Compensation.
- Apply the procedural aspects of agency license and identify the code of conduct
- Apply the procedure for settlement of Policy claims
- Recognize the organization function, structures & promotional strategies.

UNIT I Introduction to Insurance: Purpose and need of insurance, insurance as a social security tool insurance and economic development, Fundamentals/Principles of insurance, various kinds of insurance: life, marine, fire, medical, and general insurance, features, insurable interest.

UNIT II Fundamentals of Agency Law: Definition of an agent; Agent's Regulation; Insurance Intermediates, Agents compensation.

UNIT III Insurance Agents: Procedure, Pre – requisite for obtaining a License, Duration of license, Cancellation of License: Revocation or Suspension / Termination of Agency; Right Appointment; Code of Conduct; Unfair Practices.

UNIT IV Function of an Agent: Proposal Form and other Forms for Agent of Cover, Financial and Medical Underwriting; Material Information; Nomination and Assignment; Procedure for Settlement of Policy Claims.

UNIT V Company profile: Organizational of the Company; Structure – Market Share; Product Pricing – Actuarial Aspects, Distribution Channels – Promotion Strategies - J.R.A and its Functions.

REFERENCES:

1. Mishra M.N *Insurance Principles and Practice,* S. Chand and co. New Delhi 2002.
2. GOI, *Insurance Regulatory Development Act* 1999.
3. GOI, *Life Insurance Corporate Act* 1956.
4. Vinayakam. N. Kandhaswamy and Vasudevan SG, *Insurance Principles and Practice* S.Chand and Co., New Delhi,2002.
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UNIT I

Introduction to Insurance:

Introduction

Insurance is a way of managing risks. When you buy insurance, you transfer the cost of a potential loss to the insurance company in exchange for a fee, known as the premium. Insurance companies invest the funds securely, so it can grow, and payout when there's a claim. The life and property of an individual are surrounded by the risk of death, disability or destruction. These risks may result in financial losses. Insurance is a prudent way to transfer such risks to an insurance company.

What is Insurance?

Insurance is defined as a contract, which is called a policy, in which an individual or organisation receives financial protection and reimbursement of damages from the insurer or the insurance company. As part of the contract, the insurance company promises to make good the losses of the insured on happening of the insured contingency. The contingency is the event which causes a loss. It can be the death of the policyholder or damage/destruction of the property. There's uncertainty regarding the happening of the event and therefore it is termed as a contingency. The life insured pays a premium in return for the promise made by the insurer.

Definition

1. **E. W. Patterson** : Insurance is a contract by which one party , for a consideration called premium assumes particular risk of the other party and promises to pay him or his nominee a certain or ascertainable sum of money on specified contingency.

2. **Justice Tindall :** Insurance is a contract in which a sum of money is paid to the assured as consideration of insurers incurring the risk of paying a large sum upon a given contingency.

Purpose

Here are some of the reasons why insurance could prove to be essential:

1. Insurance plans will help you pay for medical emergencies, hospitalization, contraction of any illnesses and treatment, and medical care required in the future.
2. The financial loss to the family due to the unfortunate death of the sole earner can be covered by insurance plans. The family can also repay any debts like home loans or other debts which the person insured may have incurred in his/her lifetime.
3. Insurance plans will help your family maintain their standard of living in case you are not around in the future. This will help them cover the costs of running the household through the insurance lump sum payout. The insurance money will give your family some much-needed

breathing space along with coverage for all expenditure in case of death/accident/medical emergency of the policyholder.

4. Insurance plans will help in protecting the future of your child in terms of his/her education. They will make sure that your children are financially secured while pursuing their dreams and ambitions without any compromises, even when you are not around.

5. Many insurance plans come with savings and investment schemes along with regular coverage. These help in building wealth/savings for the future through regular investments. You pay premiums regularly and a portion of the same goes towards life coverage while the other portion goes towards either a savings plan or investment plan, whichever you choose based on your future goals and needs.

6. Insurance helps protect your home in the event of any unforeseen calamity or damage. Your home insurance plan will help you get coverage for damages to your home and pay for the cost of repairs or rebuilding, whichever is needed. If you have coverage for valuables and items inside the house, then you can purchase replacement items with the insurance money.

INSURANCE AS A SOCIAL SECURITY TOOL INSURANCE AND ECONOMIC DEVELOPMENT

Social Security Tool

Typically, an individual has only three resources to fall back upon when a calamity strikes: savings, charity and insurance.

Saving money can be a slow and tedious process. On average, one saves only 10% of one's earnings. Also, the exact amount that will be required to take care of sudden emergencies is extremely unpredictable, making savings insufficient at most critical junctures.

For some people, it may take a life time to accumulate a substantial sum of money that can come in handy during a crisis. This list could include those who didn't invest in avenues such as Fixed Deposits and Mutual Funds.
Charity, on the other hand, could be a demeaning and unreliable resource since you are completely at the mercy of the provider. Thus, insurance remains the only viable option to fall back upon whenever crisis strikes.

Life Insurance is one of the most effective social security tools in use across the globe. It is especially important in India where social security is offered in the form of Employee Provident Fund and Public Provident Fund, which are available only to the working classes.
Unlike any socialist or developed capitalist society, where states are responsible for the deprived and destitute, India is unfortunately not yet equipped to handle social security for such a large populace.

In the absence of a bread winner in a family, there is little that the government or other social agencies can do to look after the welfare of those left behind. Thus, in order to ensure that a family continues to enjoy the same financial status as before, insurance is probably the best social security tool that can help in case of unforeseen eventualities.

It not only provides peace of mind, but also helps secure the future of the entire family. The government is also encouraging people to take up Life Insurance policies by giving policyholders tax benefits under Section 80C of the Income Tax Act.

Economic Significance of Insurance

The economic significance of insurance may be explained with the help of following points.

1. **Encouragement to saving:**

Insurance encourages to people to make systematic savings through payment of regular premium. The regular payment of premium develops a habit of saving among citizens in the country.. The small savings of millions of insured persons results into a huge amount of national savings.

2. **Generation of Employment :**

Insurance business has a tremendous capacity of generating employment both directly and indirectly in the country. It provides employment to millions of people in administrative and development department. Insurance business generates direct employment in the form of agents, advisors, surveyors, development officers, administrative staff etc.

Besides these direct employment opportunities, the real estate, information technology and other services are also increased due to protection of insurance which enhanced their employment capacity.

3. **Infrastructure development:**

The development of economy is mostly depending upon development of basic infrastructure such as electricity, water supply, transportation facilities and communication. Insurance companies provide funds to development of these basic needs in the form of share capital, loans and advances. Thus, the rapid development of infrastructural facilities in the country is the output of insurance.

4. **Promotes economic development :**

The investment policies of insurance companies facilitate the speedy economic development of a country. Insurance accelerate the process of economic development through mobilizing domestic savings. It helps to convert accumulated capital into productive investments. Insurance companies invest in the central and state government's securities, public and private sector companies, co-operative sector, industries, corporations etc. Thus, insurance plays important role in sustainable development of the economy.

5. **Facilitates agriculture and rural development:**

India is an agriculture country. Indian agriculture is mostly depends upon regularity of monsoon. Therefore, there may be losses caused by heavy rain, drought, flood, wind, pests and diseases. Through crop insurance such losses are compensated by insurance . Besides this they can provide protection to the farmers and their assets as like agriculture, poultry, cattle, horticulture, sericulture, agricultural pump sets, farm equipment's etc. Insurance make available the funds for construction of wells and irrigation schemes. Insurance Regulatory and Development Authority (IRDA) has made it obligatory to the insurance company to conduct insurance business to certain extent every year in rural area. Thus, insurance companies can contribute significantly to the development of rural areas.

6. Increase in foreign exchange reserves:

By doing business in various countries, insurance companies can earn valuable foreign currency to the country. It helps to increase the foreign exchange reserves. It facilitates to meet import requirement of the country.

7. Facilitates the development of capital market:

The contribution of insurance companies in the development of capital market in the country is significant. They can invest large amount of funds in state and central governments securities. The insurance companies have started issuing unit linked insurance policies. These schemes provide more attractive benefits to the policy holders. Thus, insurance helps in development of capital market.

FUNDAMENTALS/PRINCIPLES OF INSURANCE

The concept of insurance is risk distribution among a group of people. Hence, cooperation becomes the basic principle of insurance.

To ensure the proper functioning of an insurance contract, the insurer and the insured have to uphold the 7 principles of Insurances mentioned below:

1. Utmost Good Faith
2. Proximate Cause
3. Insurable Interest
4. Indemnity
5. Subrogation
6. Contribution
7. Loss Minimization

Let us understand each principle of insurance with an example.

Principle of Utmost Good Faith

The fundamental principle is that both the parties in an insurance contract should act in good faith towards each other, i.e. they must provide clear and concise information related to the terms and conditions of the contract.

The Insured should provide all the information related to the subject matter, and the insurer must give precise details regarding the contract.

Example – Jacob took a health insurance policy. At the time of taking insurance, he was a smoker and failed to disclose this fact. Later, he got cancer. In such a situation, the Insurance company will not be liable to bear the financial burden as Jacob concealed important facts.

Principle of Proximate Cause

This is also called the principle of 'Causa Proxima' or the nearest cause. This principle applies when the loss is the result of two or more causes. The insurance company will find the nearest cause of loss to the property. If the proximate cause is the one in which the property is insured, then the company must pay compensation. If it is not a cause the property is insured against, then no payment will be made by the insured.

Example –

Due to fire, a wall of a building was damaged, and the municipal authority ordered it to be demolished. While demolition the adjoining building was damaged. The owner of the adjoining building claimed the loss under the fire policy. The court held that fire is the nearest cause of loss to the adjoining building, and the claim is payable as the falling of the wall is an inevitable result of the fire.

In the same example, the wall of the building damaged due to fire, fell down due to storm before it could be repaired and damaged an adjoining building. The owner of the adjoining building claimed the loss under the fire policy. In this case, the fire was a remote cause, and the storm was the proximate cause; hence the claim is not payable under the fire policy.

Principle of Insurable interest

This principle says that the individual (insured) must have an insurable interest in the subject matter. Insurable interest means that the subject matter for which the individual enters the insurance contract must provide some financial gain to the insured and also lead to a financial loss if there is any damage, destruction or loss.

Example – the owner of a vegetable cart has an insurable interest in the cart because he is earning money from it. However, if he sells the cart, he will no longer have an insurable interest in it.

To claim the amount of insurance, the insured must be the owner of the subject matter both at the time of entering the contract and at the time of the accident.

Principle of Indemnity

This principle says that insurance is done only for the coverage of the loss; hence insured should not make any profit from the insurance contract. In other words, the insured should be compensated the amount equal to the actual loss and not the amount exceeding the loss. The purpose of the indemnity principle is to set back the insured at the same financial position as he was before the loss occurred. Principle of indemnity is observed strictly for property insurance and not applicable for the life insurance contract.

Example – The owner of a commercial building enters an insurance contract to recover the costs for any loss or damage in future. If the building sustains structural damages from fire, then the insurer will indemnify the owner for the costs to repair the building by way of reimbursing the owner for the exact amount spent on repair or by reconstructing the damaged areas using its own authorized contractors.

rinciple of Subrogation

Subrogation means one party stands in for another. As per this principle, after the insured, i.e. the individual has been compensated for the incurred loss to him on the subject matter that was insured, the rights of the ownership of that property goes to the insurer, i.e. the company.

Subrogation gives the right to the insurance company to claim the amount of loss from the third-party responsible for the same.

Example – If Mr A gets injured in a road accident, due to reckless driving of a third party, the company with which Mr A took the accidental insurance will compensate the loss occurred to Mr A and will also sue the third party to recover the money paid as claim.

Principle of Contribution

Contribution principle applies when the insured takes more than one insurance policy for the same subject matter. It states the same thing as in the principle of indemnity, i.e. the insured cannot make a profit by claiming the loss of one subject matter from different policies or companies.

Example – A property worth Rs. 5 Lakhs is insured with Company A for Rs. 3 lakhs and with company B for Rs.1 lakhs. The owner in case of damage to the property for 3 lakhs can claim the full amount from Company A but then he cannot claim any amount from Company B. Now, Company A can claim the proportional amount reimbursed value from Company B.

Principle of Loss Minimisation

This principle says that as an owner, it is obligatory on the part of the insurer to take necessary steps to minimise the loss to the insured property. The principle does not allow the owner to be irresponsible or negligent just because the subject matter is insured.

Example – If a fire breaks out in your factory, you should take reasonable steps to put out the fire. You cannot just stand back and allow the fire to burn down the factory because you know that the insurance company will compensate for it.

Characteristics of Insurance

The analysis of above definitions explains the nature of insurance as follows.

1. Insurance is a Contract

Insurance is a contract between two parties i.e. insurer and insured by which the insurer, in consideration of insurance premium, agrees to compensate the insured against certain probable risks. Since insurance is a contract the provisions of Indian Contract Act viz. proposal, acceptance, consideration, competency of parties lawful object etc. are applicable to insurance contracts as well. It is a contract to pay compensation on the happening of a certain event in the case of fire, marine and general insurance. If there is no loss , no compensation is paid and even no premium is returned to policyholder. But in case of life insurance , insurance company pay certain sum of money on the death of the insured person or if insured is alive, paid to them the amount of premium with interest and bonus.

2. Means of Mutual help/ Cooperative device

All for one and one for all is the basis for cooperation. The insurance is a strong cooperative device to spread the loss caused by a specific event. Insurance is based on the principle of mutual help. Under this arrangement persons exposed to same risks come together and create a common fund and compensate the person who has actually suffered the loss. People individually can not afford to bear the entire loss. But jointly they can get protection by contributing a small amount each to the common fund.

In other words, insurance is a cooperative mechanism wherein large number of persons comes together. They have similar risk and share the loss by contributing a small amount in the form of premium.

3. Large number of Insured Person –

The insurance mechanism works on the principle of large number of insured persons. Insurance is spreading of loss over a large number of persons. Larger the number of persons, lower the cost of insurance and amount of premium. On the other hand, lower the number of persons, higher the cost of insurance and amount of premium.

4. Uncertainty of events:

The event to be insured must be uncertain and unforeseen. It may occur or may not occur, e.g. every property insured for fire risk may be not catches fire Insurance can be taken in case of uncertain events.. In life insurance even though death of insured person is certain its timing is uncertain. Hence life insurance is also a lawful agreement.

5. **Protection of Financial Risk** :

Insurance is a contract to indemnify the financial loss caused to the insured property due to the specific risk during the period of insurance contract. If the insured suffers no loss during this period he is not entitled to receive any amount from the insurer. In other words, insurance is a contract of indemnity and not a contract of profit. The maximum amount of compensation is limited to the actual loss of the property. Thus, the insured can not make any profit out of the loss incurred. In other words an insurer is protected from financial risks which are measured in terms of monetary values. Life insurance contracts are an exception to the principle of indemnity. He can also take life policies of any amount as the loss of death can not be measured in monetary terms.

6. **Based on certain principles and regulated by law** –

Insurance business is regulated by certain act passed by central or state government in every country. The life insurance is regulated by Life Insurance Corporation of India Act 1956 whereas General Insurance is regulated by General Insurance Business (Nationalization)Act 1972 In India Insurance Regulatory and Development Authority (IRDA) is set up in 1999 to regulate the Insurance business in the country. The insurance business is stands upon certain principles such as insurable interest, utmost good faith, indemnity, subrogation, causa-proxima, contribution etc.

7. Sharing and transfer of risk :

Insurance is a social and economic device. It share the financial loss occurred due to unforeseen events between the public who are exposed to risk. Insurance is a plan to bear the risks and financial losses occurs due to unexpected event. The death of the insured, fire losses, marine perils, burglary, fidelity etc. may cause a tremendous loss to the policy holder. The insurance shared this risk amongst all the insured in the form of premium. That means the risk is transferred from one individual (person) to a group of person.

8. Valuation of Risk :

First of all insurance company should evaluate the risk and finalize the amount of premium. Thereafter the insurance company enters into the contract. It is the basis of charging premium which is depends upon the risk. If risk is high the rate of premium becomes high. The risks involved in the subject matter can be evaluated by several methods. The procedure of valuation of risk is different in case of life, fire, marine and accident insurance.

9. Payment of claim at contingency:

The insurance company is liable to pay compensation i.e. claim amount only if certain unforeseen event takes place in case of fire, marine and accident insurance. In other words if the unforeseen event occurs, payment is made to policy holder.If contingency not take place, there is no need to pay any amount of compensation to the insured. In case of life insurance, the contingency i.e. death or the maturity of the policy will certainly happen. In such case insurer is liable to pay the policy amount on the death of the insured or on the expiry of the term whichever is earlier.

10. Insurance is not Gambling or Wagering :

Insurance is a lawful contract. It transfers the risk of one person to group of person. Under insurance contract policy holder paid consideration in the form of premium. The insurance serves indirectly to increase the productivity and converted the uncertainty into certainty. Therefore insurance contract is not a gambling or wagering contract. Persons involved in gambling or wagering bid and expose themselves to risks of losing.

There is no chance to convert risks or losses into gains. In the game of gambling there may be either result into profit or loss.

11. Insurance is not a charity but business :

The insurance is a business which provides protection to the life or property from unforeseen event. However, insurance company collect the amount of premium as a consideration form policy holders for the cost of risk so covered. *Charity i*s a payment without claiming anything in return.

Need of Insurance

Life insurance is an intangible property and its need may not be realized properly by the people / firms. It is, therefore, rightly said that

"Insurance is a subject matter of solicitation." The need and purpose of insurance is explained below.

1. Provide Economic Protection :

Insurance provides economic protection to the people and their property. Events like fire, flood, lightening, earthquake, theft, breakdown in machinery may damage the property and cause financial loss. The primary objective of insurance is to provide protection against the financial loss of property due to specific risks. It should however, be remembered that insurance does not protect the property from any risk nor it can avoid the risk. It can also not reduce the loss. It only indemnifies such financial loss. A fire insurance policy can not prevent the occurrence of fire. It pays the amount of loss caused to the property by fire.

2. Investment:

Another important purpose of life insurance is investment for meeting a person's future needs such as education, marriage of children, provision of income for old age etc. The small amount paid regularly as premium for a certain number of years grows into a large investment in the long run besides providing insurance protection. Thus, insurance helps to generate investment through collection of small amount of premium which fulfills the future economic needs of the people.

3. Tax Benefit :

Besides providing insurance protection to policyholder it also helpful to get income tax relief in proportion of premium payment made during the financial year. So through insurance savings in income tax can be made. Thus, It gives tax rebate to the insured and his tax liability is reduced.

3. Social Security:

In recent years the importance of insurance as a social security device has increased significantly. The state is devising various insurance schemes to provide protection to the economically and socially weaker sections, rural people, farmers, workers and artisans at lower or subsidized premium. The use of insurance as advice
of social security has helped the state to maintain social stability and peace reduce the economic burden on the society and discharge its responsibility towards the society.

4. Business Needs:

Business also needs insurance protection. Insurance safeguards the investment in business against various risks, ensures continuity of operations, and thus .gives boost to business growth. It indemnifies the loss of factory buildings, machinery, equipment, inventories and other assets caused by fire, flood, earthquake, theft etc.

It also provides protection against the fraudulent acts, dishonesty or misappropriation of money by the employees. Insurance can also be taken for risks in foreign trade, fluctuations in foreign exchange rates, political instability etc. Thus the economic tensions and fear of loss, discontinuity of the business can be reduced.

5. Cover against uncertainty :

By providing financial support insurance system minimizes uncertainties in business and human life. However, it should be noted that, insurance does not protect the property from any peril or risk nor avoid it. But, insurance only indemnifies the financial loss occur due to unforeseen events. Thus, insurance provides coverage against uncertainties.

6. Provision against unexpected death :

The life of person is full of uncertainties and risk. Due to unforeseen incidents like early death life of person becomes end. Sometimes due to accident life of person becomes non functional through partial or total disabilities. Insurance system makes a provision to help dependents in the form of financial compensation.

7. To generate financial resources :

Insurance generate huge funds by collecting small amount from number of persons i.e. policy holders in the form of regular premium. These funds are invested in government securities, bond and stock. It is also gainfully employed in industrial development and utilized for the economic development of the nation. The employment opportunities can be increased through collective investments.

Types of Insurance in brief

The insurance contract is classified in to three main types i.e. Personal Insurance, Property Insurance and Guarantee Insurance.

I) Personal Insurance:

When an individual person takes insurance policy of own life then it is called as personal insurance. In broad sense personal insurance is also called as Life Insurance. Under this policy insurer provides insurance cover against unexpected happenings like death, illness and accident. We cannot measure the loss of insured when he dies; hence the principle of indemnity is applicable to this insurance.

The personal insurance classified in-to three types such as Life Insurance, Personal Accident Insurance and Health Insurance.

Life Insurance : In life insurance individual can take the insurance of own life. Any person are having unlimited insurable interest in own life, hence principle of indemnity is notapplicable to life insurance. Life insurance again classified in to two types i.e. whole life policy and endowment life policy.

Personal Accident Insurance : Under personal accident insurance insurer has to pay compensation to insured if he disable to do work due to accident or his nominee after death of insured. The compensation is depending upon percentage of impairment.

Health Insurance: Under health insurance individual can make arrangement of medical expenses, expenses of operation and other expenses of hospitalization. Under this policy insurer undertake the responsibility of payment of the entire amount directly to respective hospitals.

II) Property Insurance :

When individual or any organization can take insurance of his property for compensation of future loss then it is called as Property Insurance. Property insurance is a contract of indemnity. Therefore, principle of indemnity is applicable to this insurance contract. The insured must have insurable interest in such property. The insurer promise to pay loss occurs by insured due to damage of property within the limit of policy amount. However, insurance does not protect the property from any peril nor avoid the peril. Insurance only indemnifies the financial loss occur due to uncertain risks. It is the main objective of the insurance to provide protection against the financial loss due to the perils.

A person can take insurance of office building, house, furniture, domestic products, raw material, plant and machinery, motor vehicle, jewelry, precious goods etc.

III) Guarantee Insurance:

It is new type of insurance. Guarantee insurance is evolved early in the 20th century. After industrial revolution the scope and volume of business transaction are tremendously increased. Most of the businessmen are rely upon employees of the organization. The two classes such as owner and employees are generated in the society. At the same time risk of fraud and dishonesty is increased. Guarantee insurance is an arrangement whereby the insurer agree to indemnify the insured for a fixed amount against loss arising through dishonesty, fraud or a breach of contract. e.g. If borrower not repaid the loan amount of bank, cashier of bank or any credit

1. **Principle of Insurable Interest –**

Insurable interest means interest of the insured in the subject matter of insurance. Prof. Hansell has defined insurable interest as "a financial involvement in which is able to be insured". It is the basic condition of insurance contract that insured must possess insurable interest in the subject matter of insurance. The insured should have monetary relationship with the subject matter. This monetary relationship must be legally acceptable.

Insurable interest is the pecuniary interest whereby the insured is benefited by the existence of the subject matter and is prejudiced by the death or damage of the subject matter. In other words policy holder (insured) is economically benefited by the survival or the existence of the subject matter and suffers economic loss vice versa. This principle is applicable to all types of insurance contract

When insurable interest is exist?

Generally, in life insurance contract the insurable interest should exist at the time of taking insurance, while in marine insurance it should exist at the time of indemnification. In case of fire and accident insurance it should exist both the time.

Who can hold Insurable Interest?

Husband and wife - Husband and wife both have unlimited insurable interest in each other's life. They can insure each other. For other relatives the right to insure does not arise e.g. father, mother, independent son or daughter etc. unless some economical interest in each other.

Partners - All partners have a mutual insurable interest in each other. The death of any partner may cause an economical loss to other partner.

Debtors and Creditors – A creditor has a right to insure the life of debtor to the extent of his debt.

Trustee's – Trustee's, attorney, administrator have a right to insure property entrusted to them.

Owner – Legal owner of the property has insurable interest in the said property.

TYPES OF INSURANCE

LIFE INSURANCE

Meaning and Nature Life Insurance

The concept of life insurance is based on two fundamental elements of 1) 'Death Cover' and 2) 'Survival Benefits'. According to the former element, in the event of the death of an insured within the specific period, his family members are liable to get the promised amount by the insurance company and according to the later element, if the insured survives after the specific period the insurance company undertakes to pay him amount of Insurance. Though, life insurance can not avoid one's death, at least it tries to minimize the economic burden, to some extent, of the family members by taking risk of the insured.

Definitions

Insurance Act 1938 - "Life Insurance business means 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 contingency dependent upon human life and any contract which is subject to payment of premiums for a term dependent on human life."

J.H. Magee - "Life insurance contract embodies an agreement in which broadly stated, the insurer undertakes to pay a stipulated sum of money upon the death of the insured' or at some designated time to a designated beneficiary"

R.S. Sharma – " Life insurance contract may be defined whereby the insurer, in consideration of a premium paid either in lump sum or in periodical installments , undertakes to pay an annuity or a certain sum of money either on death of the insured or on the expiry of certain number of years."

"A contract of life insurance is that in which one party agree to pay a given sum of money upon the happening of a particular event contingent upon duration of human life in consideration of the immediate payment of a smaller sum or certain equivalent periodical payments by another.

1.2.2 Nature of Life Insurance

The analysis of above definitions explains the nature of insurance as follows.

1. Life Insurance is a Contract

Life Insurance is a contract between two parties i.e. insurer and insured by which the insurer, in consideration of insurance premium, agrees to pay the certain amount to the insured against certain probable unexpected incidence. In life insurance, insurance company pay certain sum of money on the death of the insured person or if insured is alive, paid to them the amount of premium with interest and bonus.

2. Cooperative device

All for one and one for all is the basis for cooperation. A life insurance is a good example of cooperative device to spread the loss caused by a specific event. Insurance is based on the principle of mutual help. Under this arrangement persons exposed to same risks come together and create a common fund and compensate the person who has actually suffered the loss. In other words, life insurance is a cooperative mechanism wherein large number of persons comes together. They have similar risk and share the loss by contributing a small amount in the form of premium. Thus, it is cooperative device which is helpful to society to protect the family, if the policy holder dies before maturity date of the policy.

3. Large number of Person –

Life insurance mechanism works on the principle of large number of insured persons. Insurance is spreading of loss over a large number of persons. The persons involved in life insurance collect the amount in the form of premium and such amount is paid to persons who actually suffer the risk.

4. Sharing of risk :

Life insurance is a social and economic device. It share the financial loss occurred caused by unexpected incidence between the public who are exposed to risk. The death of the insured, illness, disable due to accident etc. may cause a tremendous loss to the insured. Under life insurance mechanism this risk shared amongst all the insured in the form of premium. Life insurance provides financial help to dependents of insured, if he dies before the maturity date.

5. Uncertainty:

The event to be insured must be uncertain and unforeseen. However, In life insurance even though death of insured person is certain its timing is uncertain. Hence life insurance is also a legal contract.

6. Payment of claim:

In case of life insurance, the contingency i.e. death or the maturity of the policy will certainly happen. In such case insurer is liable to pay the policy amount on the death of the insured or on the expiry of the term whichever is earlier. If insured dies before date of maturity of the life policy, sum assured will receive by the legal heir or nominee of the policy holder.

7. Insurable interest –

The interest of the insured in the subject matter of insurance is called as insurable interest. In the life insurance the life of the person is the subject matter. In life insurance contract the insurable interest should exist at the time of taking insurance. Husband and wife, other relatives e.g. father, mother, independent son or daughter etc., partners, Debtors and Creditors, trustee etc. can hold Insurable Interest.

8. Life insurance is not an Indemnity contract-

Though life insurance is a contract, it is not a contract of indemnity. Because the loss caused by the death cannot be calculated in terms of money nor money is a compensation for loss of one's life. Life insurance contracts are an exception to the principle of indemnity. He can also take life policies of any amount as the loss of death can not be measured in monetary terms.

9. Protection to family :

Life insurance protects the families from the economic hardship, if insured dies before the maturity of policy. It is the basic principle of the life insurance to save a person from uncertain future incidents such as premature death, old age, accident etc.

10. Life Insurance is not a charity but business :

Life insurance is a business which provides financial protection to the life of insured from unforeseen event. However, insurance company collect the amount of premium as a consideration form insured for the cost of risk so covered. Charityis a payment without claiming anything in return.

11. Investment of Saving –

It is the differential characteristic of the life insurance. Life insurance combines the element of protection and investment. There is no any other mechanism or device, which involves both the elements of protection and investment. Though the insured is interested in protecting his life against risk of premature death, he also

wants to save or invest some amount for fulfillment of future needs . Life insurance provides assurance to meet future financial needs particularly arises due to old age, premature death or accident or any unforeseen events.

Life Insurance Products:

The life insurance companies have introduced different policies to meet different needs of different people. The social and economical conditions of different classes of the society are never equal or same. The occupations, risks in occupations, income, economical needs, expectations, priorities and difficulties are relatively different by person to person. Hence, the different schemes need to be introduced.

A person who wants to buy an insurance product has to consider the various factors such as the amount of sum assured, amount of premium, source of income, type of risk, maturity time and circumstances at the time of maturity etc. He can select one of best product from life insurance products available in the market. Therefore, insurance companies offer various types of life insurance products by considering different needs and situation of the insured.

There are five basic types of life insurance products are offered by insurance companies such as Whole Life Policy, Endowment Life Insurance policy, Term Insurance Policies, Pension and Annuities and Unit Linked Insurance Plans.

MARINE INSURANCE

Marine insurance refers to a contract of indemnity. It is an assurance that the goods dispatched from the country of origin to the land of destination are insured. Marine insurance covers the loss/damage of ships, cargo, terminals, and includes any other means of transport by which goods are transferred, acquired, or held between the points of origin and the final destination.

The term originated when parties began to ship goods via sea. Despite what the name implies, marine insurance applies to all modes of transportation of goods. For instance, when goods are shipped by air, the insurance is known as the contract of marine cargo insurance.

Importance of Marine Insurance

Marine insurance is required in many import-export trade proceedings. Admitting the terms, both parties are liable for the payment of goods under insurance. However, the subject matter of marine insurance goes beyond contractual obligations, and there are several valid arguments necessary for buying it before dispatching the export cargo

Principles of Marine Insurance

1. Principle of Good faith - Parties demand absolute trust on the part of both; the insurer and the guaranteed.
2. Principle of Proximate Cause - The proximate cause is not adjacent in time; also, it is inefficient. Nevertheless, it is the definitive and adequate cause of loss.
3. Principle of Insurable Interest - Any object presented as a marine risk and the assured covering the insurance of goods - both should have legal relevance. Also, a series is devoted called 'Incoterms' to respectfully assign the insurance of goods to each party.
4. Principle of Indemnity - The insurance extended to the parties will only be applicable up to the loss. The parties can't buy insurance to gain profits. If they do, they won't get more than the actual loss.
5. Principle of Contribution - Sometimes, the risk coverage for goods has more than one insurer. In such cases, the amount has to be fairly distributed amongst the insurers.

Types of Marine Insurance

- Freight Insurance
- Liability Insurance
- Hull Insurance
- Marine Cargo Insurance

Freight Insurance

In freight insurance, for example, if the goods are damaged in transit, the operator would lose freight receivables & so the insurance will be provided on compensation for loss of freight.

Liability Insurance

Marine Liability insurance is where compensation is bought to provide any liability occurring on account of a ship crashing or colliding.

Hull Insurance

Hull Insurance covers the hull & torso of the transportation vehicle. It covers the transportation against damages and accidents.

Marine Cargo Insurance

Marine cargo policy refers to the insurance of goods dispatched from the country of origin to the country of destination.

FIRE INSURANCE

Fire insurance meaning and definition

A fire insurance policy is a type of property insurance policy, which covers the damages and losses caused to a residential or business property due to fire. This policy enables the policyholder to claim compensation for costs incurred towards repairing, replacing or reconstructing a property damaged in a fire. Since it is not possible to predict the estimation of losses due to a fire, insurance providers issue fixed value compensations when policyholders file claims. Therefore, you get the maximum sum assured when you file your claim for fire insurance.

What is included in fire insurance?

Having explained what is fire policy, let's understand the type of coverage you can get when you file an insurance claim, along with its inclusions.

A fire insurance policy covers you against the losses arising due to an accidental fire, as per the policy's terms and conditions. The coverage is limited to the value of the policy and not as per the extent of damage sustained by the policyholder. Typically, you can get coverage against:

- The actual loss of goods caused by the fire
- The loss of any adjacent property or building caused due to the fire in the insured property
- Additional everyday expenses affected due to the damage endured by your property
- Compensation amount paid to the firefighters
- The fire triggered due to electricity issues
- Damage caused due to overflowing pipes or water tanks.

Types of Fire Insurance

Specific Policy: Under it, any loss suffered by the assured is covered only up to a specific amount which is less than the real value of property. A specific policy is an example of under-insurance. The insurer generally inserts an average clause in such a policy so that in the event of loss, he only bears the rateable proportion of such loss.
2. **Comprehensive policy**: It is also known as an all-in-one-policy. It covers losses arising from many kinds of risks, such as, fire, theft, burglary, third party risks, etc.
3. **Valued policy**: Under this, the insurer agrees to pay a fixed sum of money irrespective of the amount of loss to the insured.
4. **Floating policy**: It covers the property lying at different places against loss by fire. An average clause will always be there in a floating policy.
5. **Average Policy**: A fire policy containing an 'Average Clause' is called an Average Policy. Under a specific policy (i.e., a policy without the Average clause), in the event of loss, the insured can claim up to the full amount of his policy, even if he has under-insured his property. Suppose, the property insured for Rs. 10,000 is valued at Rs. 20,000 at the time of loss. This is a case of under-insurance.
In case of policy without an Average Clause, if the loss is say, for Rs.8,000 the insured can claim this full amount from the insurer. But, if the policy is 'subject to average, i.e., if it is an average policy, the insured will be paid (Rs. 8,000 x 10000 / 20000) = Rs. 4,000 only. Thus under an average 20,000 policy, the insured is penalized for under-insurance of the property.

6. **Adjustable Policy**: Adjustable policy is issued for a particular period on the existing stock. The premium amount is paid in full at the time the policy is taken. Any variation in the value of the stock covered by the policy is intimated to the insurer by the insured. The insured, on receipt of such an information, endorses the policy in accordance with the change intimated and the premium adjusted. The premium is finally settled at the expiry of the policy.
7. **Blanket Policy**: Blanket policy is issued to cover more than one named building or property, or all the contents of more than one named building. Under such a policy, all the fixed and current assets of a manufacturer or a trade lying in different buildings can be covered by one policy at the same premium.
8. **Consequential Loss Policy**: It is a policy under which the insurer agrees to indemnify the insured for the loss of profits which he suffers due to the dislocation of his business caused by fire. It is also known as loss of Profit Insurance.
9. **Valuable Policy**: The value of property insured is determined only at the time of happening of risk. In case of risk, the market value of property would be the basis for payment of compensation.
10. **Reinstatement Policy**: If the insurer undertakes to reinstate (replace) the insured property in case of risk, it is called as reinstatement or replacement policy.
11. **Transit Policy**: It covers risk due to fire during transit. The policy commences with the loading of goods in the carriage and ends once the goods are unloaded at the destination.

HEALTH INSURANCE

Health Insurance: A health insurance policy gives you access to the best healthcare & selecting health insurance plans based on your needs is hence very important. Learn everything about health insurance, including its importance, types, features & benefits.

Health insurance policies are designed to cover the medical expenses in case of such an emergency. A health insurance policy gives you access to the best healthcare. Your healthcare needs are covered when you get health insurance. Once you have the right health insurance, you can brave any illness or medical emergency, without worrying about the mounting bills.

Health insurance policy

Let us understand what the meaning of a health insurance policy is. Simply put, a health insurance policy is a binding contract issued between the insurer and an individual. Under the contract, the insurer promises to pay for health care reasonably required by the policyholder to treat illness or injury. If the insurance policy is issued to an individual, the individual applies for the policy and pays the premiums either directly. Typically, in individual health insurance, the individual policyholder is insured. To extend the cover to the family, a family health insurance policy has to be obtained. These plans work out to be cheaper than an individual health insurance policy. Selecting health insurance based on your needs is thus very important.

Online health insurance and mediclaim policy

A mediclaim policy provides the policyholder with financial assistance in case of a medical emergency. It provides the coverage for hospitalization and treatment towards accident and pre-specified illnesses for a specific sum assured limit. The medical premium is based on the sum assured. It reimburses your actual medical expenses, either through direct reimbursement or cashless hospitalization opportunities.

In contrast, online health insurance provides much broader coverage. It offers a comprehensive cover that extends further than hospitalization expenses. Other than cashless treatment facilities, online health insurance also provides pre and post hospitalization cover, ambulance charges, medical check up facilities.

ypes of health insurance

There are various types of health insurance policies available in India. These are classified based on the cover they provide. The policies are targeted to each section of the society – individuals, families, exclusively for senior citizens etc. Broadly, the health insurance policy can be classified in the following categories:

-Individual health insurance policy: It is specially designed to provide coverage to an individual against a variety of illnesses with cashless hospitalization and other add-on benefits.

-Family Floater health insurance policy: Under this health insurance policy, you can get coverage for yourself and your family under a single insurance policy. This insurance policy offers a fixed sum insured amount for all the family members. A single health insurance policy can cover all your family members against diseases under a single cover. It is cheaper than obtaining individual health insurance policies and pay premiums separately.

-Surgery & Critical Illness policy: This is a standalone health insurance policy which provides coverage against serious illnesses like- cancer, kidney failure, heart attack, paralysis etc. The premium paid for such policies is very high because the treatment of these diseases is extremely expensive.

-Preexisting Disease Cover: Few insurers also offer coverage against pre-existing diseases. These diseases could be diabetes, hypertension, cancer etc. This means that the insurer is already aware of the disease that a policyholder is suffering from. The coverage is provided for any treatment of these illnesses. Before obtaining these policies, the insurer will insist that the policyholder undergoes a through health check up.

-Senior Citizen health insurance policy: This insurance policy is specially designed to protect the senior citizens from various health issues during old age. IRDA, the insurance regulator, has directed every insurer to provide cover for people up to the age of 65 years.

-Preventative Healthcare: This plan offers preventive care treatments like regular checkups, consultation charges and other tests or x-ray fee concessions. The objective of this health insurance policy is to keep an eye out for any potential diseases. This policy offers health benefits as it makes the management of your health and well being much easier.

Importance of health insurance

High-quality health care affects health and wellness. A health insurance policy is a contract between an insurance company and a policyholder to provide coverage for high and unexpected health care costs. To receive the benefits, the policyholders have to pay a premium. However, the outcome of the coverage provided by a good health insurance policy outweighs the investment made in the form of premium. The premium paid is much less than the amount required is paid fully out-of-pocket.

It is important to buy a health insurance policy for yourself and your family. Quality medical care is expensive. Private hospitals provide services at a premium. Without a robust health insurance policy, any medical emergency can burn a huge hole in your pocket. A health insurance policy is your cushion when an unforeseen emergency strikes. If you are the breadwinner of the family, the health insurance will take care of the worries of your family.

The importance of having health insurance should not be dismissed or underestimated. The medical costs are sky rocketing. A small procedure or hospitalization can completely wipe out a lifetime of savings. With inflation, the costs of all medical procedures have gone up significantly. Hospitalization for a few days after a procedure only adds more zeros to your invoice. With a health insurance policy, you can afford the sky-high costs of healthcare. All the benefits can be availed on the payment of a premium.

A good health insurance policy would usually provide comprehensive coverage. It would cover the expenses made towards doctor consultation fees, costs towards medical tests, ambulance charges, hospitalization costs and even post-hospitalization recovery costs to a certain extent.

Benefits and features of a health insurance policy

As indicated above, a good health insurance policy should provide comprehensive coverage. We have listed below the key features of a good health insurance policy. The benefits of health insurance policies are formulated based on the specific needs of the individuals, families and senior citizens.

These are typically the coverage provided under most individual and family floater plans:

In-patient Hospitalization: Medical expenses incurred due to the hospitalization of any person covered under the family health insurance plan are covered. The hospitalization should be for more than 24 hours.

Pre-hospitalization Expenses: Before a hospitalization, expenses may be incurred as several tests have to be conducted. These expenses are termed as pre-hospitalization expenses. A family health insurance plan will cover the cost of these expenses.

Post-hospitalisation Expenses: Any medical expenses which may be incurred once the patient is discharged from the hospital are termed as post-hospitalization expenses. Therefore, if any diagnostic tests have to be conducted after discharge, the family health insurance plan will provide coverage for such expenses.

Hospital Cash: Several family health insurance plans provide a daily allowance in case of hospitalization of the patient. This can be utilized to cover the cost of the transportation or other basic requirements of the person who is attending the patient hospitalized.

Day care treatment: In a few instances, hospitalization may not be required. The medical condition may be treated through a day care stay in the hospital. For example, a cataract surgery takes only a few hours. Policies also cover for such day care treatments.

In addition to the above, various policies also provide a cove for pre-existing diseases. These diseases could be diabetes, hypertension, cancer etc. This means that the insurer is already aware of the disease that a policyholder is suffering from. The coverage is provided for any treatment of these illnesses. You can also obtain a standalone critical illness policy. This health insurance policy provides cover against chronic diseases. Subject to the terms and conditions of the policy, typically such a policy will provide a lump-sum amount incurred for the treatment of such condition.

GENERAL INSURANCE

- A policy or agreement between the policyholder and the insurer which is considered only after realization of the premium.
- The premium is paid by the insurer who has a financial interest in the asset covered.
- The insurer will protect the insured from the financial liability in case of loss.

How does the concept of General Insurance work?

Insurance is a concept that applies to a large group of people which may suffer the same risk in the same conditions or region. The money collected as the premium can be called as a pool and when anyone faces a loss, the person is paid from that pool.

Still perplexed at how does a general insurance policy come into play? Consider that your mother suffered a heart attack suddenly and she needs a transplant.

At the same time, your daughter's college fee was due. It definitely is a huge expense to be made at the same time and none can be preferred over the other.

In this time of stress, the family's health insurance policy can save your burden and the fees can be paid from the savings. A General Insurance Policy here works to save your burden for money.

Once we've understood what General Insurance is, let us understand how and when will the policy apply.

Why do we need General Insurance?

Imagine you're driving back home in your car and suddenly, a taxi hits you from behind. Your car has a dent and its bumper has come off too. Now you need about Rs. 2000/- for the dent and Rs.7500/- for the bumper to be able to fix it all.

A car insurance policy, in this case, will play well. You can get the amount reimbursed under the insurance policy. Your car is the asset here in which you have a financial interest. But remember, an insurance policy will pay only as per its predefined conditions.

Types of General Insurances in India

Almost everything is insurable. However, General Insurance in India is bifurcated as Fire, Engineering, Marine and Miscellaneous Insurance.

Let us look at them as per the use and general acceptability. Following are the different types of General Insurances in India:

- Health Insurance
- Travel Insurance
- Motor Insurance
- Marine Insurance
- Home Insurance
- Commercial Insurance

Digit Insurance also offers insurance policies for Mobile, Bicycle, Shop Protection, and others.

1. Health Insurance

The Health Insurance cover from Digit offers protection for the medical expenses incurred due to hospitalization caused because of an accident or illnesses.

Although every policy is different, based on who it's being purchased for, it mainly covers:

- Accidental Hospitalization (pre & post)
- Accidental illness and hospitalization
- Daycare procedures

- Psychiatric Support
- Annual Health Checkups
- Daily Hospital Cash

The cover can be extended to cover the following with some predefined conditions:

- Maternity benefit with Infertility benefit
- Critical Illness
- Organ Donation
- AYUSH (Alternate Treatment)

The premium for the health insurance is charged on the basis of:

- Age
- Pre-existing illness
- Lifestyle Habits
- Type of coverage
- Your family health history

2. Travel Insurance

Travel Insurance covers your financial liability, if any, when you travel within or beyond the Indian boundaries. The financial liability may arise due to medical or non-medical emergencies.

The duration of the travel for one time can be 180 days at the maximum. The policyholder can take more than one trip in a year. Your Travel Insurance will cover:

- Loss of Baggage
- Loss of Passport
- Hijacking
- Medical Emergencies
- Delayed Flights
- Accidental Deaths
- Adventure Sports

Digit’s Travel cover comes with worldwide support and special features like:

- Zero Deductibles.
- Smartphone enabled claim process.
- Customized Travel Plan Cover.
- Missed call claim facilitation.

3. Motor Insurance

A Motor Insurance Policy is mandatory to be able to drive legally in India. Broadly there are two types a) Third-Party Liability b) Comprehensive Package Policy.

A Third-Party Policy covers for losses faced in a situation where your vehicle damages any third-party such as a public property, person or third-party vehicle. The same is the minimum requirement to be able to drive legally in India, as stated by the Motor Vehicles Act.

A Comprehensive Package Policy covers both third-party damages and liabilities and damages/losses caused to you and your own vehicle. The losses may arise due to an accident, theft, fire, natural calamities, and others.
Digit Insurance provides some add-ons under its Comprehensive Package Policies for Cars and Bikes that act as additional shields to your vehicle, such as:

- Tyre Protect Cover
- Zero Depreciation Cover
- Return to Invoice
- Engine and Gearbox Protection
- Breakdown Assistance Cover

4. Home Insurance

You build your home with your toil and hard earned money. Everything you buy is a priceless possession for you and hence it needs to be protected.

A Home Insurance Policy protects your valuable and other assets. It is a comprehensive package policy that covers all valuables.

Digit Insurance gives protection for Home against Burglary, Loss/Damage of Jewelry, Fire and Natural Disasters.

5. Commercial Lines

The lines of insurance that affects the business operations in the real terms are categorized under the Commercial Lines of Insurance. Type of the insurance covers that one can buy may include:

1. Property Insurance
2. Engineering Insurance
3. Liability Insurance
4. Marine Insurance
5. Employees Benefit Insurance
6. Business Interruption

Depending on the type of occupation, risk exposure, and the money involved, the insurance could be different for each industry or business.

For example; an insurance that is specific to a cement plant, versus one for an IT company will be different. The premium charged for a cement plant will be higher than a showroom of air conditioner.

Therefore, Insurance is completely based on the level of the risk exposure. A worker in the cement plant is more prone or susceptible to injury than to the one who is working in the showroom.

6. Mobile Insurance

Simple as it reads. A mobile insurance protects the phone from accidental damage. Under the mobile protection cover, Digit Insurance compensates for repair of accidental screen damage to your phone.

7. Bicycle Insurance

Not just the cars and two wheelers, people are now passionate for expensive bicycles also. Call it a fashion or change of lifestyle, Bicycle Insurance is another sought product these days. Digit Insurance offers cover against Personal Accident, Theft, Accidental Damage, and Hospital woes.

1. **Principle of Insurable Interest –**

Insurable interest means interest of the insured in the subject matter of insurance. Prof. Hansell has defined insurable interest as "a financial involvement in which is able to be insured". It is the basic condition of insurance contract that insured must possess insurable interest in the subject matter of insurance. The insured should have monetary relationship with the subject matter. This monetary relationship must be legally acceptable.

Insurable interest is the pecuniary interest whereby the insured is benefited by the existence of the subject matter and is prejudiced by the death or damage of the subject matter. In other words policy holder (insured) is economically benefited by the survival or the existence of the subject matter and suffers economic loss vice versa. This principle is applicable to all types of insurance contract.

When insurable interest is exist?

Generally, in life insurance contract the insurable interest should exist at the time of taking insurance, while in marine insurance it should exist at the time of indemnification. In case of fire and accident insurance it should exist both the time.

Who can hold Insurable Interest?

Husband and wife - Husband and wife both have unlimited insurable interest in each other's life. They can insure each other. For other relatives the right to insure does not arise e.g. father, mother, independent son or daughter etc. unless some economical interest in each other.

Partners - All partners have a mutual insurable interest in each other. The death of any partner may cause an economical loss to other partner.

Debtors and Creditors – A creditor has a right to insure the life of debtor to the extent of his debt.

Trustee's – Trustee's, attorney, administrator have a right to insure property entrusted to them.

Owner – Legal owner of the property has insurable interest in the said property.
Landlord and tenant – They have insurable interest to the extent of the rent.

UNIT II

Fundamentals of Agency Law

Definition of an agent;

Who is insurance agent (or agent or captive agent)? An insurance agent is a person who works for an insurance company and sells the insurance products of this company. An important aspect of working with an agent is that he / she sells insurance products of **one company only**, and thus is typically not able and not interested to compare prices and features of other products on the market. Agents should not be confused with brokers (or insurance brokers) who are typically able to compare products from several insurance providers.

An insurance agent is a professional who sells an insurance company's products to consumers for a commission. To sell insurance, an agent helps consumers select the right insurance to buy, but represents the insurance company in the transaction.

There are two types of insurance agents:

- **Captive agents** typically represent only one insurer.
- **Independent insurance agents** typically represent more than one insurer.

Both captive and independent agents work on commission and can execute an insurance transaction from start to finish, on a variety of insurance plans.

What is an insurance broker?

An insurance broker is a professional who represents consumers in their search for the best policy for their needs. Brokers work closely with their clients to research the client's needs. The broker examines the terms and conditions of several options, and recommends an insurance policy that best suits the client's needs at the best price.

Unlike captive and independent agents, who represent one or more insurance companies, a broker's primary duty is to the client.

Since brokers don't represent insurance companies, they can't bind coverage on behalf of an insurer. They must hand over the account to an insurer or insurance agent to complete the transaction.

What are the key differences between an agent and a broker?

There are two main differences between insurance agents and brokers:

- Agents represent insurers, while brokers represent consumers.

- Agents can complete insurance sales (bind coverage), while brokers cannot.

Agents also receive appointments to represent one or more insurance companies, but brokers do not. An appointment is a contract an agent and insurer sign that outlines the products the agent can sell and for what commission rates.

Brokers, on the other hand, can solicit price quotes from multiple insurers. When consumers are ready to buy, they must obtain a binder directly from an insurance agent or the insurance company.

Insurance Agent

Insurance agent is the salesperson of the insurer. An agent is one who is licensed under Section 42 of the Insurance Act, 1938, and who receives or agrees to receive payment by way of commission or remuneration in consideration of his soliciting or procuring insurance business including business relating to the continuance, renewal or revival of policies of insurance.

[Sec. 2 (10) of Insurance Act, 1938.] In simple words, we can say that an insurance agent is a licensed representative of the insurer who agrees to work for the insurer in exchange of commission or remuneration. He plays a promotional job.

Functions of Insurance Agent:

To solicit and procure new business: An agent is bound to obtain certain specified amount of new business as required under the rules. He should always make effort in getting new insurance proposals beyond his prescribed limit.

To conserve the present business: In addition to procuring new business, he should ensure the continuation of the policies already issued and prevent them from lapsing on account of default in the payment of premium.

Assist in selection of suitable policy: The agent should give proper guidance and help to the prospects in selection of a suitable policy, keeping in view the needs of the proposed by guiding him.

To enquire into full details of prospects : It is an important duty of the insurance agent to enquire into all the requisite information from the prospective insured. This becomes necessary to ascertain the extent of risk.

Inform the agency about the factors which can cause damage to insured : It is the duty of an agent to inform the agency about all the related information which can influence the insurance policy by any means.

Assuring the age of insured : It is the duty of an agent to assure date of birth of an insured at the time of starting the policy. This helps in future settlements of policies.
To motivate the policy holders to pay premium in time: It is the duty of an agent to inform the insured to pay premium in time and get benefits of payments by avoiding penalties applicable in late payments.

To prevent the policy from lapsing: Agent should inform the disadvantages of policy lapse to the insured.

Inform the insured for appointing nominee(s): It is the duty of an agent to make sure that the nominees column is filled by the insured. This helps in future settlements of policies without any ambiguity.

To prepare the necessary documents : This proposer has to submit other important documents like birth certificate, medical certificate, etc. The agent can help the proposer by guiding him.

Other important duties of an agent:

 Inform about the policies to theinsurer.

 By knowing the requirements of prospects, providing him the best suitablepolicy.

 Working hard withhonesty.

 Introducing himself as an insurance agent, and if asked, to show hisI.D.

 If asked by the insured, telling him about the rate ofcommission.

 Calculating the amount of premium which is payable by theinsured.

 Explaining the details of insurance application form to theprospect.

 Informing the prospects about the refusal of insurance application by the insuranceagency.

 Following the rules and regulations of insuranceauthority.

10.Providing insurance bond to the insured within 45

Like any small business, insurance agents and brokers both need business insurance to operate.

Is Insure on an agent or a broker?

Insureon is both an agency and an insurance brokerage, with licensed professionals in every state. Our agents help small business owners with their coverage options, from among top carriers in the insurance industry, so they can find the right policies for their insurance needs.

Our insurance brokers help clients with finding coverage outside of standard insurance products, such as excess and surplus lines, from a variety of insurance underwriters. They can help in putting together an insurance program that fits your risk management needs.

Role of an InsuranceAgent

An insurance agent represents the insurer with whom he or she is attached. He solicits or procures insurance business only for such insurer. The responsibilities of an insurance agent broadly include thefollowing:

 Perform Need analysis for the customer – The agent is expected to sell the products of the insurance company, which suit the needs of the customer. For this purpose he has to analyse the needs of the customer, such as Insurance protection for family, Asset protectionneeds, Children’s marriage or education needs, Health insurance, Pension etc. Depending on the needs and the stage of the life cycle of the customer, the appropriate product of the insurer which suits the customer is recommended

- Explain the product benefits, premiums, exclusions and other terms and conditions so that the customer can take an informeddecision

Assist the customer in getting the requisite documents for the purpose of seeking an insurance cover and clarify the doubts of the customer in the proposal form fillingprocess

(d) Bring to the notice of the insurer any adverse habits of the customer which will have a bearing on the insurer’s decision to accept a risk

- Inform the customer about the decision of the insurer to issue a policy orotherwise

- Provide assistance to customer at various stages of policy servicing and when a claim ismade

Qualification and training

Most insurance companies and independent firms prefer to hire young graduates who hold degrees in business or economics. Generally, companies do not prefer non-graduates for this post. However, there are certain exceptions to this condition. In case a non-graduate has previous work experience or has proven expertise in any business areas can be employed as an insurance agent.

Experience in sociology and public speaking can prove as a benefit for the candidate to improve their sales skills. Proficiency insoftware and computer are significantly essential for an insurance agent as an educational, advertising, and communicationaltool.
While the criteria to become an insurance agent may differ from one company to another, all companies demand a candidate to acquire a license from IRDAI. To receive a license, applicants need to clear an examination and undergo pre-licensing training related to insurance practicing and laws.

Skills

A candidate who is conducting a job search in the insurance field needs to possess a specific skill set. Insurance is all about marketing and selling the right products to the clients.

This type of job requires a candidate to have excellent communication skills, need to be well-organized and possess the ability to analyse the customer's requirements. This will help an insurance agent to suggest the insurance policy that will fulfill their insurance needs effectively.

Individuals interested in becoming insurance agents will need to undertake training with an insurance company regarding its products and insurance regulations and laws.

An insurance agent needs to have the ability to demonstrate and listen carefully to the prospect. He/she should have the ability to take complex information and convert it into simple language that anyone can understand. This is another skill that most insurance companies look into a candidate.

Insurance agent's functions are mainly based on demonstrating, communicating, and convincing powers. An insurance agent with proficiency in these features has enormous scope to make a successful career in this field.

TYPES OF INSURANCE AGENTS:

The following are the different types of Insurance Agents recognized under the Regulations:

- IndividualAgent
- CorporateAgent
- Micro InsuranceAgent

Individual Agents

IRDA (Licensing of Insurance Agents) Regulations, 2000 as amended from time to time, contains provisions relating to licensing of individual Insurance Agents. The following are the different types of licencesissued within theRegulations:

- DirectLife
- Direct NonLife
- Composite Licence (both Life and Non-Life)

The following are the pre-requisites for a candidate intending to get a licenceissued (common for all types ofagents):

 Minimum qualifications: The minimum qualifications prescribed are a pass in 12th standard or equivalent examination conducted by a recognised Board/Institution. This condition is relaxed to a pass in 10th standard for applicants residing in a place where the population is not less than 5,000 (‘Ruralagents’)

(b) The applicant must not suffer from the following disqualifications:

a. That the applicant is notminor

b. That he is not found to be of unsound mind by a Court of competentjurisdiction

c. That he has not been found guilty of criminal misappropriation or criminal breach of trust or cheating or forgery or an abetment of or an attempt to commit any offence by a Court of competent jurisdiction and five years have not elapsed from the date ofconviction

d. That he has been found guilty of or has knowingly participated in or connived at any fraud, dishonesty or misrepresentation against an insurer or an insured during the courseof:

 Any judicial proceeding relating to any policy of insurance(or)

 Winding up of an insurance company(or)

 In the course of investigation of affairs of aninsurer

(e) That he does not violate the code of conduct prescribed under the Regulations

 Practical Training: The applicant shall undergo a minimum of 50 hours practical training on insurance related matters in life or general insurance business, as the case may be, spreading to 1 to 2 weeks. Where the application is for a composite licence, the training shall be 75 hours spread over 3 to 4 weeks covering both life and general insurance subjects. Where the applicant holds special qualifications such as membership of Institute of Chartered Accountants of India, Institute of Cost and Works Accountants of India, Institute of Company Secretaries of India, Insurance Institute of India or the Institute of Actuaries of India or a Masters degree in Business Administration of any institution recognised by Central Government or State Government, it is sufficient if the training is undergone for 25 hours (35 hours if the licenceis composite). The training can be undergone in any of the IRDA accredited traininginstitutions

 Examination: Every applicant shall undergo a pre-recruitment examination in life or general insurance business or both, as the case may be, conducted by the Insurance Institute of India or any other body authorised by IRDA.

 AML & ULIP training: In addition to the above, the insurer with whom the agent is attached provides a special training on Anti money laundering (under the IRDA's Anti money laundering Guidelines dated 31 March 2006) for all Insurance Agents. Training in Unit Linked Insurance Products (ULIP) is compulsory for life insurance agents before they are allowed to sell ULIPs on behalf of a life insurer (under the IRDA (Linked Insurance Products) Regulations, 2013)

 Payment of fees of Rs.250 along with the application for grant of licence enclosing proof of age, qualifications, training andexamination.

Renewal of licence

A licence is issued for a period of three years at a time. At the end of the third year, the licence is required to be renewed. The following are the conditions for renewal of licence:

 Completion of practical training for 25 hours for Life or General insurance, as the case may be or 50 hours for renewal of composite agency licence

 Payment of fees of Rs.250 towards renewal of licence. If the application for renewal does not reach atleast 30 days before the due date for renewal, an additional fee of Rs.100 by way of penalty is payable. If the application for renewal reaches after the expiry of licence, IRDA may consider the application for renewal upon imposition of a penalty ofRs.750.

 Maintenance of a minimum persistency of 50% during the licence period (as per IRDA's persistencyguidelines.

 The Agent does not suffer from any of the disqualifications mentioned in the previoussection

 Renewal training on Anti-money laundering as may be prescribed by the insurer from time to time

Authorization to sell for one insurer at a time

A licence issued under the provision of the above Regulations entitles an Insurance Agent to sell on behalf of one life insurer or one General insurer at a time. An identity card is issued by the concerned Insurer for this purpose. An Agent is entitled to change insurer but has to follow the process laid down in IRDA's circular on issue of a 'No objection Certificate" by the insurers.

Corporate Insurance Agent

Corporate entities represent an **insurance** company and sell its policies. ... When a bank becomes the **corporate agent** of an **insurance** company it is referred to as a bancassurance arrangement or partnership. Banks offer **insurance** policies to their customers based on their knowledge of their situation and needs.

Licensing of Corporate Agents

The IRDA (Licensing of Corporate Agents) Regulations, 2002 provides the licensing framework for Corporate Agents similar to the Regulations applicable to Individual Agents. The Corporate Agents regulations recognize agents who are one of the following entities (as against individual agents who are licensed under the IRDA (Licensing of Insurance Agents) Regulations, 2002):

Firm

- Company under the Companies Act,1956
- Bankingcompany
- Co-operative society
- Panchayat or local authority
- Non-Government organisation

The licence is issued to the entity as against the individual under licensing of individual agents. However, the persons who are authorised to sell on behalf of a Corporate Agent will have to undergo the training and examination requirements similar to that of an Individual agent.

The Corporate agent shall have the following persons at the minimum as per the Regulations:

- Corporate Insurance Executive ('CIE') (b) Specified Persons ('SP') A Corporate Insurance Executive is the Director or Partner or one or more of its officers or employees so designated by it (where the applicant is a Company or a Firm). Where the applicant is any other person, the Chief Executive or one or more of his employees designated by him shall be the CIE. In either case, the CIE shall possess the minimum qualifications, undergo the practical training and pass the required examination.A Specified Person is responsible for soliciting or procuring insurance business on behalf of the Corporate Agent entity. He may be a Director or a Partner or one or more of its officers or other employees so designated by the Corporate Agent. The individual desirous of acting as a Specified Person shall also possess the requisite qualifications, undergo the practical training and pass the examination. A Certificate is issued to a Specified Person which authorises him to solicit or procure insurance business on behalf of the Corporate Agent. There may be as much number of Specified Persons as the Corporate Agent requires depending upon the business requirements. The minimum qualifications, practical training and examination requirements are similar to that of an individual agent. A Corporate Agent is also allowed to act for only one life insurer (Direct-Life) or one general insurer (Direct-Non-Life) or Composite Corporate Agent (one Life and one General at atime)

As per the IRDA guidelines on Corporate Agents, dated 14 July 2005, two types of Corporate Agents are recognized:

- Exclusive Corporate Agents – i.e. those entities whose primary activity is solicitation or procuration of insurance business. Such entities shall be Public Limited companies under the Companies Act, 1956, with a minimum paid up capital of Rs.15 lakhs deposited in a Scheduled Commercial Bank. Further entities belonging to Banking or Insurance Groups alone are allowed to form Exclusive CorporateAgencies
- Non-exclusive Corporate Agents – entities which are already engaged in some other business and would like to take up insurance agency as a subsidiary activity. Further a Group to which the applicant Corporate Agent belongs to, can be granted only one corporate agency licence. In other words, any proposal from an applicant, some of whose group entities are already engaged in insurance business, such as corporate agent, broker, insurer etc., shall not be normally granted a corporate agency licence. IRDA does not normally grant any exception unless the entities are licensed by Reserve Bank of India with substantial client base or otherwise have assets, turnover or net worth of Rs.15 Crores.

Requirements for becoming a Corporate Agent:

(a) Formation or existence of an entity as required under the Regulations asabove

Identification of persons possessing the minimum qualifications to become a CIE or SP (a minimum of 1 CIE and 2 SPs are normally insisted by IRDA at the time of licensing). The actual number of persons will depend on the business plan of the applicant corporate agent. CIEs or SPs can also be changed or added (in addition to minimum)subsequently

 Document evidencing constitution of the Corporate agent entity (e.g. Memorandum and Articles of Association) shall contain “procuring or solicitation of insurancebusiness” as one of the mainobjects

Proof of CIE and SPs having undergone the practical training and passed the required examination

 Either CIE or one of the SPs must possess one of the following additional qualification:

 An Associate/Fellow of the Insurance Institute of India,Mumbai.

 an Associate/Fellow of the Institute of Chartered Accountants of India, New Delhi; with diploma in Insurance and RiskManagement.

 an Associate/Fellow of the Institute of Costs and Works Accountants of India, Calcutta;

 an Associate/Fellow of the Institute of Company Secretaries of India, NewDelhi;

an Associate/Fellow of the Actuarial Society of India,Mumbai;

possessing Certified Associate ship of Indian Institute of Bankers(CAIIB)

 MBA (Two year) Course / PG Diploma (One year) course in Insurance from Amity School of Insurance & Actuarial Science,Noida

PG Diploma (One year) course in Insurance from Institute of Insurance and Risk Management,Hyderabad

MBA (Two year) course in Insurance from National Insurance Academy,Pune

PGMBA (Two Year) course in Insurance from National Law University,Jodhpur

PGMBA (Two year) course in Insurance from MET,Mumbai

MBA (Two year) course in Insurance from Birla Institute of Management Technology, Noida the persons with above qualifications (except at (a) shall undergo a “Workshop for Insurance executives” at National Insurance Academy, Pune orInsurance

Institute of India, Mumbai or Institute of Insurance and Risk Management, Hyderabad as prescribed by the Authority.

In the case of exclusive Corporate Agencies, proof of formation of a public company, injection of a capital of Rs.15 lakhs and depositing the money into aBank

- Fee of Rs.250 for issue of licence to the Corporate Agent and Rs.500 for issue of Certificate for each Specified person Renewal of licence. A license is issued for a period of 3 years and shall expire at the end of the term, unless renewed. The annual fee to the Authority in such manner as may be specified by the regulations for renewal of an individual agency license. The conditions for renewal of licence for a corporate agent is similar to that of an individual agent, including maintenance of a minimum persistency of 50%

Micro Insurance Agent

Micro insurance Agents are a special category of insurance agents who support financial inclusion, i.e. the distribution of financial services at an affordable cost to the masses. Micro insurance contracts are typically low sum assured contracts which provide for the sum assured to be paid either on death – both natural and accidental, or an Endowment (which also provides a sum assured on maturity in addition to death) or a health insurance.

Only a Non-Governmental organisation or a Self Help Group Micro Finance Institutions or Associations not formed for Profit are entitled to become Micro Insurance Agents. Such Agents can distribute the products of one life insurer or one general insurer or both. A Micro insurance agent shall employ Specified persons with the prior approval of the Insurer to distribute the micro insurance products on its behalf. All the Micro insurance agents and their Specified persons shall be imparted 25 hour training by the insurer in local vernacular language in the areas of insurance selling, policyholder servicing and claimsadministration.

A Micro insurance agent can sell only a Micro insurance product and not any other type of insurance products. However an Agent who is licensed to sell all products of an insurer can sell the Micro insurance products of such insurer, if any. An Insurance Broker who can sell any product of any insurer, can sell Micro insurance products of any insurer as well.

All Micro insurance policies may be reckoned for the purpose of fulfillment of social obligations of an insurer pursuant to the provisions of the Insurance Act and Regulations. Where a micro insurance policy is issued in a rural area and falls under the definition of social sector, such policy may be reckoned for both under rural and social sectorobligations as well.

Insurance Broker

Regulation 2(i) of the IRDA (Insurance Brokers) Regulations, 2002, defines Insurance Broker as a person for the time being licensed by the Authority under Regulation 11, who for remuneration arranges insurance contracts with insurance companies and/or reinsurance companies on behalf of his clients. Licensing of Insurance Brokers Every Insurance Broker shall possess a valid and subsisting licence to act as an Insurance Broker issued by IRDA. The framework for licensing of an Insurance Broker is similar to that of a Corporate Agent. However, as we have seen earlier a Broker differs from an Agent in the sense that a Broker represents customers interests and is required to select the best product amongst all insurance companies, while an agent represents an insurer at any point in time (one in life and one in general insurance) and will present the product of only such insurer(s) with whom the agent is attachedwith.

Categories of Insurance Brokers

- Direct Broker(Life)
- Direct Broker(General)
- Direct Broker (Life &General)
- Reinsurance Broker (Reinsurance Life orGeneral)
- Composite Broker (Life and/or General + Reinsurance)

A Direct Broker is authorised to recommend the products of any of the life insurance companies or general insurance companies to their clients, as the case may be.

A Reinsurance broker arranges for reinsurance contracts between direct insurers and reinsurance companies.

Reinsurance is a contract under which insurance companies can pass on the risk they assume under the policies issued by them, to yetanother insurance company (called reinsurer). Therefore, the insurance company which issues the policy becomes the Policyholder under the reinsurance contract entered into with a reinsurer.

A broker can be an intermediary who can arrange reinsurance contracts with reinsurance companies.

Agent's Regulation;

Why Regulation of Insurance Businesses is required?

Any industry wherein the stakes of the public are high would come within the purview of a Regulation – reason being that failure of such companies could result in serious implications on
the economy of the country at large. Insurance business involves collection of money from various Policyholders, investing them properly, honouring the obligations of the Policyholders and providing an efficient service. It is important to ensure that the entities providing these services stick to their commitments. Failure to honour commitments by such entities could have major repercussions on the financial services industry. After liberalisation and entrance of Private players in Insurance business and Seeing the large numbers of customers and high risk potential, Government of India constituted the Insurance Regulatory and Development Authority in Year1999.

AGENTS COMPENSATION

We sell our insurance products and services through appointed independent insurance agencies and agents ("Agent" or "Agents"). Because Agents also generally represent several of our competitors, our primary marketing strategy is to:

- Develop close relationships with each Agent by (i)soliciting their feedback on products and services, (ii) advising them concerning company developments, and (iii) investing significant time with them professionally and socially; and
- Develop with each Agent, and then carefully monitor, annual goals regarding (i) types and mix of risks placed with us, (ii) amounts of premium or numbers of policies placed with us, (iii) customer service levels, and (iv) profitability of business placed with us.

We pay Insurance Agents commissions and other consideration for business placed with us (and we do not authorize our Agents to receive other monies for our insurance). We seek to compensate our Agents fairly and in a way consistent with market practices.

Our insurance Agent compensation programs may include one or more of the following depending on the Agent's overall business relationship with us:

- **Commission Payments.** We pay commission based on a percentage of the premium the policyholder pays. The amount of commission varies depending on policy type, state location of risk, and other factors.
- **Additional Commission Payments.** We may pay additional and varying percentages of premium for attainment of certain goals we set with the Agent, including:
  - **Profitability,** which we determine by comparing losses and expenses to premium;
  - **Volume,** which is the amount of premium written with us;
  - **Growth and Retention,** which we measure by comparing premium volume or number of policies for overall or specific types of policies; or
  - **Annual Plan Performance,** which we measure according to performance standards determined by us and the Agent.

In certain cases, an Agent may put additional commissions at risk and become obligated to pay us amounts if certain goals are not met.

- **Expense Reimbursement.** We may reimburse certain marketing and other expenses incurred for placing business with us.
- **Entertainment and Other Things of Value.** We may entertain or provide other things of value, including travel and gratuities, to Agents who we believe provide exceptional value to our policyholders and shareholders.
- **Business Production Incentive Programs.** We may provide Agents or their employees opportunities to receive additional compensation (cash or contest prizes) for certain activities or tasks, such as placing specific types of policies with us or inputting data through one of our technology systems.
- **Loss Control Agreements.** We may pay Agents a flat fee or a percentage of commission for safety and loss control surveys, inspections, accident or claim investigations.
- **Agent Stock Purchase Plan.** Certain of our Agents participate in a stock purchase plan that allows those Agents to purchase common stock in Selective Insurance Group, Inc. at a 10% discount to market and requires those agents to hold the stock for at least one year before they can transfer it.

UNIT III

Insurance Agents:

n exercise of the powers conferred by Section 42 and Clauses (m), and (o) of sub-section (2) of section 114A of the Insurance Act, 1938 (4 of 1938), the Authority, in consultation with the Insurance Advisory Committee, hereby makes the following regulations in supersession of Insurance Regulatory and Development Authority (Appointment of Insurance Agents) Regulations2000,namely:-

1. Short title and commencement.

(3) These regulations shall be called Insurance Regulatory and Development Authority of India (Appointment of Insurance Agents) Regulations, 2015.

(4) These regulations shall come into force on the date of their publication in the Official Gazette.

2. **Definitions.-**In these regulations, unless the context otherwise requires, -

(a) *"Act" means the Insurance Act1938;*

(b) *"Appointment Letter" means a letter of appointment issued by an insurer to an to act as its insurance agent*

(c) ***"Insurance agent"** means an individual appointed by an insurer for the purpose of soliciting or procuring insurance business including business relating to the continuance, renewal or revival of policies of insurance;*

(d) *"Authority" means the Insurance Regulatory and Development Authority of India established under the provisions of Section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999);*

(e) *"Composite Insurance Agent"* means an individual who is appointed as an insurance agent by two or more insurers subject to the condition that he/she shall not act as insurance agent for more than one life insurer, one general insurer, one health insurer and one of each of the mono-line insurers.

(f) *"Centralised list of Agents" means a list of agents maintained by the Authority, which contains all details of agents appointed by all insurers.*

(g) *"Centralised list of black listed agents" means list of agents maintained by the Authority whose appointment is cancelled/suspended on grounds of violation of code of conduct or fraud by a designated official of insurer.*

(h) *"Designated Official" means an officer authorised by the Insurer to make Appointment of an individual as Insurance Agent.*

(i) *"Examination Body" means an Institution, which conducts pre-recruitment tests for insurance agents and which is duly recognised by the Authority;*

(j) *"Multilevel Marketing Scheme" means any scheme or programme or arrangement or plan (by whatever name called) for the purpose of soliciting and procuring insurance business through persons not authorised for the said purpose with or without consideration of whole or part of commissions or remuneration earned through such solicitation and procurement and includes enrolment of persons into a multilevel chain for the said purpose either directly or indirectly.*

(5) All words and expressions used herein and not defined but defined in the Insurance Act 1938, or in the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), or any other rules and regulations made there under shall have the meanings respectively assigned to them in those Acts, Rules and Regulations.

3. Appointment of Insurance Agent by the Insurer:

(i) An applicant seeking appointment as an Insurance Agent of an Insurance Company shall submit an application in Form I-A to the Designated Official of the Insurance Company for appointment as an Insurance Agent.

(ii) The Designated Official of the insurer, on receipt of the application, shall satisfy himself that the applicant:-

a) has furnished the Agency Application in Form I-A complete in all respects;
b) has submitted the PAN details along with the Agency Application Form;
c) has passed the insurance examination as specified under Regulation 5;
d) does not suffer from any of the disqualifications mentioned in Regulation 6
e) has the requisite knowledge to solicit and procure insurance business; and capable of providing the necessary service to the policyholders;

(iii) The designated official shall exercise due diligence in verifying the agency application form and ascertaining from the applicant that he/she does not hold agency appointment with more than one life insurer, one general insurer, one health insurer and one of each of the mono-line insurers.

(iv) The designated official shall also verify the centralised list of agents maintained by the Authority with the PAN Number of the applicant to ascertain as in (iii) above.

(v) The designated official shall also verify the list of black listed agents maintained by the Authority to ascertain that the applicant is not a black listed agent.

(vi) The designated official on satisfying himself that the applicant has complied with all the conditions mentioned in 3 (ii) to 3 (v) above; may process the agency application and grant appointment to the applicant as an insurance agent within 15 days of receipt of all documents from the applicant. The designated official shall allot an agency code number to the appointed agent and the agency code number shall be prefixed by the abbreviation of the company name.

(vii) The designated official shall issue the agency appointment letter, which shall lay down the terms of appointment covering all points governing appointment and functioning of the applicant as insurance agent and the code of conduct as outlined in Regulations 6 not later than 7 days after the appointment of the agent as mentioned in vi) above.

(viii) The applicant so appointed as an insurance agent shall be provided an identity card, by the insurer which shall identify the agent with the insurance company to which he/she is acting as an agent

(ix) The designated official shall update the Agency Data of the applicant appointed as an Insurance agent by the insurer in the Agency Portal maintained by the Authority through online mode. The online up-dation of Agency database records by the insurer is to maintain the updated centralised list of agents maintained by the Authority.

(x) The designated official may refuse to grant Agency Appointment to any applicant under this regulation, if the applicant does not fulfil any of the conditions mentioned in these regulations. The designated official shall communicate the reasons for refusal for appointment as agent to the applicant in writing in all such cases, within 21 days of receipt of the application.

(xi) An applicant who is aggrieved by the decision of the designated official regarding refusal of granting insurance agency as mentioned in (x) above, may submit a review application to the insurer for review the decision. The insurer shall consider the review application of the applicant and communicate the final decision within 15 days of receipt of the review application from the applicant.

4. Appointment of Composite Insurance Agent by the insurer:

(i) An applicant seeking appointment as a ‘Composite Insurance Agent’, shall make separate applications to the designated official of respective life, general, health insurance companies or mono line insurance companies as the case may be, in the ‘Composite Agency Application Form- Application Form I-B’, The designated official of the respective insurers shall deal with the application forms in the manner and procedure outlined in Regulation 3.

5. Insurance Agency Examination. — (i) An applicant shall pass in the Insurance Agency Examination conducted by the Insurance Institute of India, Mumbai, or any other examination body approved by the Authority in the Life, General, Health Insurance as the case may be, in the syllabus notified by the Authority from time to time. The insurer shall provide the necessary assistance and guidance to the candidates so that they are equipped with adequate insurance knowledge required to qualify in the agency examination.

(ii) The applicant who has successfully passed the Insurance Agency Examination as mentioned above shall be issued a pass certificate for having qualified in the Agency Examination by the Examination body. The pass certificate issued by the Examining body shall be valid for a period of twelve months only.

(iii) Only candidates who have qualified in the Insurance Agency Examination as mentioned above and who hold a valid pass certificate issued by the examination body shall be eligible to be considered for appointment as agent.

6. Disqualification to act as an Insurance Agent: —The conditions for disqualification shall be the following:

(a) that the applicant for insurance agency is a minor

(b) that he is found to be of unsound mind by a Court of competent jurisdiction;

(c) that he has been found guilty of criminal misappropriation or criminal breach of trust or cheating or forgery or an abetment of or attempt to commit any such offence by a Court of competent jurisdiction:

Provided that where at least five years have elapsed since the completion of the sentence imposed on any person in respect of any such offence, the conviction shall cease to operate as a disqualification under this clause;

(d) that in the course of any judicial proceeding relating to any policy of insurance of the winding up of an insurance company or in the course of an investigation of the affairs of all insurer it has then found that he has been guilty off or has knowingly participated in or connived at any fraud, dishonestly or misrepresentation against an insurer or an insured.

(e) that he has not passed the examination as specified in the Regulation 5.

(f) that he violated the code of conduct as maybe specified in the Regulation 7.

7. Code of Conduct.----(1) Every agent, shall adhere to the code of conduct specified below:-

(i) Every insurance agent shall,---

(a) identify himself and the insurance company of whom he is an insurance agent;
(b) show the agency identity card to the prospect, and also disclose his agency appointment letter to the prospect on demand;
(c) disseminate the requisite information in respect of insurance products offered for sale by his insurer and take into account the needs of the prospect while recommending a specific insurance plan;
(d) where the Insurance agent represents more than one insurance company offering same line of products, he should dispassionately advice the policyholder on the products of all Insurers whom he is representing and the product best suited to the specific needs of the prospect.
(e) disclose the scales of commission in respect of the insurance product offered for sale, if asked by the prospect;
(f) indicate the premium to be charged by the insurer for the insurance product offered for sale;
(g) explain to the prospect the nature of information required in the proposal form by the insurer, and also the importance of disclosure of material information in the purchase of an insurance contract;
(h) bring to the notice of the insurer any adverse habits or income inconsistency of the prospect, in the form of a report called "Insurance Agent's Confidential Report" along with every proposal submitted to the insurer, and any material fact that may adversely affect the underwriting decision of the insurer as regards acceptance of the proposal, by making all reasonable enquiries about the prospect;
(i) obtain the requisite documents at the time of filing the proposal form with the insurer; and other documents subsequently asked for by the insurer for completion of the proposal;
(j) advise every prospect to effect nomination under the policy
(k) inform promptly the prospect about the acceptance or rejection of the proposal by the insurer;
(l) render necessary assistance and advice to every policyholder on all policy servicing matters including assignment of policy, change of address or exercise of options under the policy or any other policy service, wherever necessary;
(m) render necessary assistance to the policyholders or claimants or beneficiaries in complying with the requirements for settlement of claims by the insurer;

(ii) No insurance agent shall,----

(a) solicit or procure insurance business without being appointed to act as such by the insurer
(b) induce the prospect to omit any material information in the proposal form;
(c) induce the prospect to submit wrong information in the proposal form or documents submitted to the insurer for acceptance of the proposal;
(d) resort to multilevel marketing for soliciting and procuring insurance policies and/or induct any prospect/policyholder to join a multilevel level marketing scheme.
(e) behave in a discourteous manner with the prospect;

(f) interfere with any proposal introduced by any other insurance agent;
(g) offer different rates, advantages, terms and conditions other than those offered by his insurer;
(h) demand or receive a share of proceeds from the beneficiary under an insurance contract;
(i) force a policyholder to terminate the existing policy and to effect a new policy from him within three years from the date of such termination of the earlier policy;
(j) apply for fresh agency appointment to act as an insurance agent, if his agency appointment was earlier cancelled by the designated official, and a period of five years has not elapsed from the date of such cancellation;
(k) become or remain a director of any insurance company;

(iii) Every insurance agent shall, with a view to conserve the insurance business already procured through him, make every attempt to ensure remittance of the premiums by the policyholders within the stipulated time, by giving notice to the policyholder orally and in writing;

(iv) The insurer shall be responsible for all acts and omissions of its agents including violation of code of conduct specified under these Regulations, and shall be liable to a penalty which may extend to one crore rupees.

8. Authority's right to inspect and issue directions:

(1) The Authority may appoint one or more of its officers as an "investigating officer" to undertake inspection of affairs of an insurance Agent, whether with or without any notice to ascertain and see whether the business is carried on by him/he as per the Act, Regulations and the instruction issued by the Authority from time to time, and also to inspect the books of accounts, records and documents of the Agent.

Provided such inspection will be limited to the matters pertaining to insurance business undertaken by the Insurance Agent.

(2) The investigating officer may, during the course of the inspection, examine on oath the insurance agent or any person who is found to be in possession or control of any books, accounts or other documents, and any statement made by the insurance agent or such person during such examination may thereafter be used as evidence in any proceedings under these regulations.

The Authority may also call for any information from the insurance agent and he shall submit the same within the time lines referred therein by the Authority.

(3) The purposes referred to under this Regualtion8 may include but not limited to ;-

a. Ensuring adherence to the provisions of the Act, rules, regulations are being complied with;
b. Investigation of the complaints of serious nature received from any insured, any insurers, other stakeholders or any other individual on any matter having a bearing on the insurance related activities of the Agent; and
c. Investigating into the affairs to the Insurance Agent in the interest of proper development of insurance business or in protection of policyholder's interest.

9. Suspension of Appointment of Agency. ---

1. The insurer may suspend the appointment of an insurance agent, if the insurance agent suffers, at any time during the currency of the agency appointment, from any of the following: -
   i. Any of the disqualifications mentioned in Regulation 6.
   ii. Any violation of the code of conduct as prescribed in Regulation 7.
   iii. Fails to comply with any of the conditions subject to which he/she is appointed
   iv. Contravenes of any of the provisions of Act, the Insurance Regulatory and Development Act, 1999 (41 of 1999), the regulations framed there under and such other guidelines or directions issued by the Authority from time to time.
   v. Fails to furnish any information relating to his activities to designated official or to the Authority when sought by the Authority in terms of this Regulations
   vi. Furnishes wrong or false information, or conceals or fails to disclose material facts in the application submitted for appointment.
   vii. Acts in a manner against the interest of the policyholder or against public interest;
   viii. Fails in cooperating with the investigating officer of the Authority in terms of Regulation 8

(b) The insurer shall issue a show cause notice to the suspended agent immediately on placing the agent under suspension. No agent shall be deemed to be placed under suspension until the insurer issues a show cause notice.

(c) The show cause notice issued to the suspended agent shall contain therein the
   a. charges under which the agent is placed under suspension
   b. information that the suspended agent shall not be eligible to procure insurance business during the period of the suspension of the agency, and the insurer shall not register any insurance business of the suspended agent during the period of the suspension of the agency.

(d) The agent who has been issued the show cause notice shall be required to show cause in writing within 21 days from the date of receipt of the show cause notice, the reasons as to why the agency appointment granted to him/her as the case may be, should not be cancelled and any further action in terms of these Regulations not be initiated.

(e) The suspended agent maybe informed in the show cause notice that he/she may seek an opportunity of personal hearing while submitting his/her reply to the show cause, if he so desires.

(f) The show cause notice to the suspended agent shall be served by the insurer and a proof of delivery be obtained and preserved by the insurer.

10. Action to be taken by insurer on the Show Cause Notice issued to a suspended agent :

(a) In case the suspended agent does not submit a reply in writing to the show cause notice within stipulated time, the insurer shall pass a final order after considering the charges, evidences and material information available on record within 15 days of the expiry of the stipulated time for submission of the reply to the show cause notice.

(b) In case suspended agent submits a reply in writing to the show cause notice but does not seek opportunity of personal hearing in his/her reply, the insurer shall pass a final order after considering the charges, evidences and material information available on record, within 15 days of the receipt of the reply to the show cause notice from the suspended agent.

(c) In case, the suspended agent desires opportunity of personal hearing, the insurer shall give him/her the opportunity of being heard and the enquiry proceedings shall be concluded within 45 days of receipt of reply of the suspended agent. The insurer shall pass the final order within 15 days of the expiry of the enquiry proceedings.

11. Cancelation of agency appointment:

a. The appointment of an insurance agent shall be cancelled if the final order issued by the insurer so directs.

   Notwithstanding what is stated above, the appointment an insurance agent shall not be cancelled by the insurer unless a show cause notice is issued to the suspended agent and an opportunity for personal hearing is granted to the agent by the insurer if the suspended agent requests for the personal hearing.

b. An agent who is aggrieved by the order can appeal to the insurer for review of the decision within 45 days of the order. The insurer shall appoint an appellate officer who shall examine the appeal and give his decision in the matter in writing within 30 days of the receipt of the appeal.

c. The insurer shall recover the appointment letter and identity card from the agent whose appointment has been cancelled under these regulations within 7 days of issuance of final order effecting cancellation of appointment.

d. The insurer shall black list the agent and enter the details of the agent whose appointment is suspended/cancelled into the black listed agents database maintained by the Authority and the centralised list of agents database maintained by the Authority, in online mode, immediately after issuance of the order effecting suspension/cancellation.

e. The insurer shall also inform other insurers be it, Life or General or Health Insurer or mono line insurer of the action taken against the Agent for their records and necessary action.

   Nothing contained in the above regulation shall prevent the Authority to initiate penal action keeping in mind the extent of violation and level of violation as per the provisions of the Insurance Act, 1938

12. **Procedure to be followed in respect of resignation/surrender of appointment by an insurance agent:**

(a) In case an insurance agent appointed by an insurer wishes to surrender his agency with his insurer; he shall surrender his appointment letter and identity card to the designated official of the insurer with whom he is currently holding agency.

(b) The Insurer shall issue the cessation certificate as detailed in Form 1-C within a period of 15 days from the date of resignation or surrender of appointment.

(c) An agent who has surrendered his appointment may seek fresh appointment with other insurer. In such a case, the agent has to furnish to the new insurer all the details of his/her previous agency and produce Cessation Certificate issued by the previous insurer issued in Form I-C, along with his agency application form.

(d) The insurer will consider the agency application as outlined in Regulation3 after a period of 120 days from the date of the issue of the cessation certificate by the previous insurer.

13. Power to remove difficulties:

In order to remove any difficulties in respect of the application or interpretation of any of the provisions of these regulations, the Chairperson of the Authority may issue appropriate clarifications or guidelines, as and when required.

14. General conditions for appointment of Agents by the insurer:

(a) No individual shall act as an insurance agent for more than one life insurer, one general insurer, one health insurer and one of each of other mono-line insurers

(b) Any individual who acts as an insurance agent in contravention of the provisions of this Act, shall be liable to a penalty which may extend to ten thousand rupees

(c) Any insurer or any representative of the insurer acting on behalf of the insurer, who appoints an individual as an insurance agent not permitted to act as such or transact any insurance business in India shall be liable to penalty which may extend to one crore rupees.

(d) No insurer shall, on or after the commencement of the Insurance Law Amendment Ordinance 2014 appoint any Principal Agent, Chief Agent, and Special Agent and transact any insurance business in India through them.

(e) No person shall allow or offer to allow, either directly or indirectly or an inducement to any person to take out or renew or continue an insurance policy through multilevel marketing scheme.

(f) The Authority may through an officer authorized in this behalf, make a complaint to the appropriate police authorities relating to the entity or persons involved in the Multi Level Marketing schemes

(g) Every insurer and every designated official who is acting on behalf of an insurer in appointing insurance agents shall maintain a register showing the name and address of every insurance agent appointed by him and the date on which his appointment began and the date, if any, on which his appointment ceased.

(h) The records as mentioned in (g) above shall be maintained by the insurer as long as the insurance agent is in service and for a period of five years from the cessation of the appointment.

15. Existing Agents licensed by Authority---

(i) Insurance agents holding a valid license issued by the Authority to act as insurance agents of different insurers, agents whose licenses are tagged by standalone health insurers and/or Agriculture Insurance Company Ltd under special permission granted by the Authority to Standalone Health Insurers, and AIC of India shall be deemed to have been appointed by the respective insurers, and shall continue to operate as insurance agents of the respective insurance companies.

(ii) The designated official of insurer shall recover the agency license and identity cards issued on behalf of the Authority to the agent before commencement of these Regulations, and issue the agent, appointment letters and fresh identity card under these Regulations within 90 days of commencement of these Regulations.

(iii) The agency license and identity card issued on behalf of the authority and recovered by the insurer and the fresh appointment letter issued by the insurer should be carefully preserved by the insurer for submission to the Authority as and when called for.

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UNIT IV

Function of an Agent:

Insurance Broker vs. Insurance Agent

An insurance agent directly represents an insurance company and focuses on selling insurance products to consumers on behalf of the company. Unlike an insurance broker, an insurance agent only targets to increase the sales of the insurer by bringing more clients on board. He/she works as a bridge between the insurance company and consumers for selling insurance products. An insurance agent offers products of a company and gives a detailed insight of the product to the consumers. He also helps clients with paperwork and premiums for the chosen insurance plans.

In general, if you are looking for a new insurance policy and not sure about which insurance policies from which company will be best for your needs, then you should go to an insurance broker. Insurance brokers work with different insurance companies and keep an eye on the market to help their clients get the best coverage plans. They are equipped with technical knowledge and expertise to serve their clients with their insurance and **financial planning**.

An insurance broker performs the following duties:

- Risk analysis and evaluation based on client's business information
- Research insurance policies, coverage plans, terms, conditions, and prices on behalf of the client
- Give appropriate advice and insurance solutions to the clients
- Keep updated with the insurance market and policies
- Negotiate with the insurance companies on behalf of the client
- Responsible for progress reports and written acknowledgments
- Offers insurance consultancy during negotiations, claims, risk management, and premiums

There are many insurance broking companies that closely work with their clients to craft their coverage plans as per their needs. They offer all kinds of insurance and investment solutions to their clients. If you are looking for **insurance broking companies in UAE**, you can connect with the professionals and experts at New Age Insurance Brokers for the quality of services. They have years of experience in providing insurance consultancy and solutions as per the clients' demands.

Financial and Medical Underwriting;

Underwriting is a term used to describe the consideration given to a life insurance application, to determine whether a policy applied for should be issued or there are changes to be made depending on the person's risk profile. The process helps in the selection of risks for the insurance company involved in issuance of an insurance policy to the person in question. Underwriters are the risk managers of the organization. They help the organization to keep actual experience within the mortality assumption used in calculating the premium rates, which helps the company to offer insurance cover at competitive terms, maintain equity between policyholders, and offer cover to as wide a group of lives as possible.

The most important underwriting tools include the Proposal Form, Age Proof, Income Documents, Questionnaires Sales Report and a Client Confidential Report (CCR). These tools are used to implement the following process:

Step 1: Application Quality Check

Your application is first gone through to make sure the information provided is complete and correct. Therefore, it is important you fill your proposal form carefully and completely. Unless the missing information is related to your medical history, a minor change required in an application does not typically slow down the underwriting process. After this, your application goes into the official underwriting process. Each of the following checks can increase the turnaround time, but it is worth it to get you the right premium price you will need to pay over the policy term.

Step2: Medical Examination

This step involves looking thoroughly at the results of your paramedical exam, conducted only if required for health proof. This medical test is a simple checkup with the doctor recommended by the insurance company. After the medical examination, the results are sent to the underwriter for evaluation. The information used by the underwriter is mainly of three types – basic measurements, your blood test and drug test. Basic measurements include regular metrics like height, weight, blood pressure. Blood test can get a lot of information on potential health risks such as heart disease, stroke, diabetes, and blood-borne illnesses, among others. Finally, a urine test for a full drug panel will alert the underwriter to the use of drugs, smoking and alcohol consumption.

Step 3: Final Application Rating

Once the underwriting process is complete and all your medical and financial background have been checked, you are either made a counter offer suggesting the changes basis you policy evaluation, or you are proudly offered the life insurance policy. Depending upon your acceptance or rejection of the new policy term, your policy is then issued. The whole process can take anywhere between three to eight weeks. After this, all that’s left to be done is to confirm the premium rate, sign the policy to put it in force to keep your family protected.

While not every applicant will require a detailed medical examination, underwriters may sometimes request an inspection report, or independent information on the applicant's financial situation and lifestyle. The premium that you have to pay for your life insurance policy depends majorly on this evaluation done basis factors like your age, your medical history, gender, lifestyle, and job. However, you must remember that a life insurance policy should not be bought on the basis of lower premiums. While term insurance plans are usually known to have the lowest premiums, you can choose an insurance provider that offers a relatively higher implied investment return, a high death benefit and relatively lower surrender charges, along with a high

Nomination and Assignment;

Nomination and assignment are two legal terms very widely used in the life insurance sector. On the surface, they might look similar. However, they suggest two different activities by the policy holder and hence you must thoroughly know what they imply so that you do not make any mistakes and use them in the right way.

What do these words mean?

The term nomination means appointing a person to receive the policy benefits upon the death of the policy holder. The person thus chosen legally by the policy holder is called ‘Nominee’. The word assignment means the legal transfer of all the rights and benefits of the policy to the person to whom the policy holder has assigned it. Here the person assigned by the policy holder through a legal procedure is called the ‘Assignee’.

n the act of nomination, the amount or property represented by the policy will remain under the disposal of the policy holder till the time he or she is alive. Only the benefits of the policy will go to the nominee in case of death of the assured. In case of assignment, all the assets and policy amount passes on by default to the assignee. The assignee now gets the title or ownership of the policy.

In the life insurance sector, nomination is a kind of facility that allows the policy holder (the insured) to nominate a person. The legal process of nomination authorizes the nominee to claim amount accrued on the policy upon the death of the policyholder. In case the nominated person is a minor, a major must be specified during the process of nomination to receive the money on behalf of the minor nominee.

Procedure for Settlement of Policy Claims.

Payment of claim is the ultimate objective of life insurance and the policyholder has waited for it for a quite long time and in some cases for the entire life time literally for the payment. It is the final obligation of the insurer in terms of the insurance contract, as the policyholder has already carried out his obligation of paying the premium regularly as per the conditions mentioned in the schedule of the policy document. The policy document also mentions in the schedule the event or events on the happening of which the insurer shall be paying a predetermined amount of money (S.A.).
There may be three types of claim in life insurance policies–

1. Survival Benefit Claim
2. Maturity Benfit Claim
3. Death Benefit Claim

We shall discuss hereunder the details of each category of claims.

We shall discuss hereunder the details of each category of claims.

Survival Benefit :

Survival benefit is not payable under all types of plans. It is payable in endowment or money back plans after a lapse of a fixed period say 4 or 5 years, provided firstly the policy is in force and secondly the policyholder is alive.

As the insurer sends out premium notices to the policyholder for payment of due premium, so it sends out intimation also to the policyholder if and when a survival benefit falls due. The letter of intimation of survival benefit carries with it a discharge voucher mentioning the amount payable.

Maturity Claim

It is a final payment under the policy as per the terms of the contract. Any insurer is under obligation to pay the amount on the due date. Therefore the intimation of maturity claim and discharge voucher are sent in advance with the instruction to return it immediately.

Death Claim

If the life assured dies during the term of the policy, the death claim arises. If the death has taken place within the first two years of the commencement of the policy, it is called an early death claim and if the death has taken after 2 years, it is called a non early death claim

CLAIM DOCUMENTS & FORMS AND SETTLEMENT PROCEDURE

We will discuss in this section the insurance documents necessary at the time of the final payment. The final payment may relate to the maturity or death claim payment.

The documents required for payment of maturity claim :

1. Age proof, if age is not admitted.
2. Original policy document for cancellation
3. In case assignment is executed on a separate paper, that document has to be surrendered.
4. Discharge form duly executed.
5. Indemnity bond in case the policy document is lost or destroyed, duly executed by the policyholder and a surety of sound financial standing.

The documents required for payment of a death claim.

3. An intimation of death by the nominee or a near relative.
4. Proof of age if not already admitted.
5. Proof of death.
6. Doctor’s certificate who attended the deceased during his last illness.
7. Identity certificate from a reputable person who saw the body of the deceased life assured.
8. Certificate of cremation or burial from a reputable person who attended the funeral.
9. An employer certificate if any, of the deceased.

If the policy has been assigned validly or if there is a valid nomination in the policy document, no further proof of title to the policy money is necessary. In other cases, the satisfactory evidence of title to the estate of the deceased is required from competent court of law. e.g.

4. A probate of the will, if a will has been executed by the deceased life assured.
5. A succession certificate if no will has been left.
6. A certificate from the Administrator General, if the total amount of the estate left does not exceed Rs. 2,000/-.

In case there is a rival claim court’s prohibitory order may be required to prevent the insurer from making the payment to the nominee as mentioned in the policy document.

PROCEDURE OF CLAIM SETTLEMENT

Maturity Benefit

If the policyholder lives through the duration of the policy and becomes eligible to get the maturity value it is called the settlement of a maturity claim. As the policyholder is alive, the nomination is of no significance. Age is normally admitted at the stage of the proposal. If it has not been admitted for some reason, it is necessary to submit the age proof before the payment of the maturity value.

Much before the date of maturity the insurer sends the claim discharge voucher which has to be returned duly signed and witnessed along with the policy document for payment of the maturity value.

Death Claim

In case of the death of the policyholder at anytime during the duration of the policy, the claim amount becomes payable to the nominee mentioned in the policy document. The nominee or the nearest relative shall send an intimation of death of the policyholder to the insurer stating therein the fact of death, the date of death, cause of death and the place of death along with the policy number.

Insurer deals with the death claim differently on the basis of the duration or the policy. If the policyholder has died within two years of the commencement of the policy, i.e., acceptance of risk which may be different from the date of commencement if the policy has been dated back it is treated as “early or premature claim” and if the death has occured after 2 yrs of the commencement, it is treated as normal death claim.

In a normal death claim, that is if the life assured has died after two years of the commencement of risk, the insurer, on being intimated about the death of the policyholder, calls for the age proof, if not earlier admitted, the original policy document and proof of death. The proof of death can be a certificate from the municipal authorities under which cremation has taken place, or other local body like death registry. The claimant generally is required to fill in a form giving certain routine information about his title to the policy money and the information relating to death, which is normally called a claimant’s statement.

7.4.3 Premature claim

It is a premature claim if the death has occurred within two years from the commencement of the policy or the date of last revival, or medical examination. The insurer takes certain precautions before making payment under such a premature claim.

It wants to satisfy itself that it is a genuine case i.e., the correct policyholder has died and that the cause of death does not go back to a date prior to the commencement of the policy. The duration of last illness is of vital importance to eliminate any fraudulent intention. Last medical attendants’ certificate, hospital report, burial certificate, employees’ leave record, if he was an employee in a reputed firm etc, are the different records examined and normally a senior officer is deputed by the insurer to make on the spot investigation, through neighbours, colleagues or doctor of the locality.

Claim concession

Normally, a death claim becomes payable so long as the policy is kept in force by payment of due premium. In other words if

the payment of premium is stopped and the grace period expires and if the death occurs thereafter the policy is treated as lapsed or paid up depending upon whether the premium has been paid for less than 3 yrs or 3yrs & more. Under a lapsed policy no claim is payable. In case of a paid up policy, only the paid up value is payable.

However, some companies provide certain concessions with regard to the claim payment, if the policy has run for 3 yrs or more:

If the premiums under a policy have been paid for a minimum period of three full years, and the life assured has died within 6 months from the date of the first unpaid premium insurer pays the full sum assured instead of the paid up value and only the unpaid premiums for the policy year are deducted from the claim amount.

This concession is extended to a period of twelve months and the full sum assured is paid if the life assured dies within one year from the due date of the first unpaid premium, provided the premiums have been paid for a minimum period of 5 years subject to deduction of the unpaid premiums for the policy year.

UNIT V

Company profile:

ORGANIZATIONAL OF THE COMPANY

Insurance companies operate under one of two business structures. These structures have their own unique features, advantages and disadvantages. The structure of the company also drives the long-term business activity and how the company operates. It may affect the investments it makes and even the types of policies it designs and sells.

Mutual Structure

A mutual insurance company is an insurance company that is not publicly traded. The company is effectively owned by the policyholders. Because of this, the interests of the management are aligned with those of the policyholders in a direct way. The management is incentivized to work for the long-term benefit of the policyholders, since actions that work against the policyholders may cause them to leave the company. Mutual insurers generally have only one way to make money. They must sell new policies. The exception to this is life insurers, which may also raise funds through interest on policy loans.

Stock Structure

A stock insurance company is publicly traded. The company is not necessarily disincentivized to work for the long-term best interest of the policyholders. However, the insurer has to balance the interests of the policyholders with that of outside stockholders. These stockholders may or may not own policies issued by the company. A stock company may raise money by selling policies or issuing more stock of the company. In the case of life insurance companies, stock insurers may encourage policyholders to take policy loans and collect interest payments.

Changing Structure

A mutual insurance company may demutualize. This means that the company becomes a stock company. Likewise, a stock company may mutualize. The stock company buys up all of its outstanding shares and can then do business as a mutual insurer.

Product Incentives

Mutual insurance companies may be incentivized to build and sell certain kinds of products. This is because policyholders own the company. The insurer may elect to pay dividends to policyholders. For life insurance companies, this means that whole life insurance which pays dividends may be favored over universal life insurance which does not.

PRODUCT PRICING – ACTUARIAL ASPECTS

Although pricing has become an increasingly critical factor in achieving competitive advantage in the global insurance industry, many companies are still trying to find the right balance in their pricing schemes. Simply put, insurers need a system capable of attracting new business and retaining profitable existing business. But the schemes must also be sufficiently robust to overcome severe cost challenges.
Why are so many insurers struggling with pricing? The reasons vary and tend to be country specific. And they are not mutually exclusive.

For some companies, the problem is that despite price increases, their systems and processes have not reached a level of sophistication capable of delivering their intended pricing strategy. For others, overcapacity in their markets is driving prices down. One overarching trend, particularly in mature markets, is that customers are increasingly discerning and price sensitive. In addition, the entry of direct players and price aggregators has meant greater transparency, which allows customers to choose the least expensive deal. This transparency has contributed, in particular, to the commoditization of the motor-vehicle insurance industry. Some companies are feeling the effects of many of the above circumstances simultaneously.

Fortunately, there are concrete actions that insurers can take to improve both pricing strategy and price realization. We call these actions the six steps to pricing power in insurance.

BUILDING A STURDY PRICING PROCESS

In our view, insurers can enhance their pricing capabilities by acting on the following six imperatives:

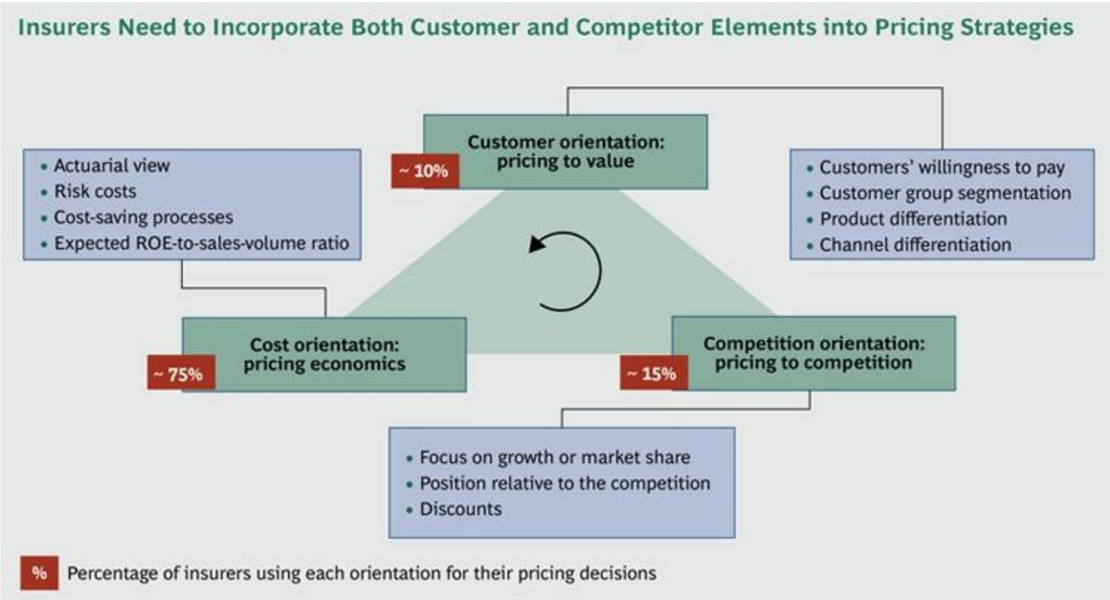
Improve portfolio price management. Too few insurers have reached their potential in terms of maximizing retention of the most profitable clients and improving the profitability of low-value clients. This goal can be achieved only by gaining a deeper understanding of one's own client base and by developing increasingly granular segmentation. The ability to generate deep client insight from comprehensive data collection is critical, particularly for identifying prospects for cross selling and for adding higher-margin auxiliary coverage alongside principal policies.
Sharpen new-business pricing. Many insurers are tempted to attract clients with initial deep discounts, hoping for price appreciation at renewal time. But this strategy is proving increasingly ineffective. Insurers need to leverage data not only from their own client portfolios but also from a thorough examination of industrywide buying behavior in order to both optimize the pricing of new business and reinforce risk management. Insurers should also incorporate more realistic assumptions into customer lifetime-value projections in order to avoid being taken unawares when customers choose not to renew policies.

Minimize the variation between list and street prices. Sales forces always have a certain amount of leeway in offering price discounts. But discount budgets are often abused, resulting in a distorted overall pricing structure and the generation of unprofitable portfolios. Minimizing the discrepancies in intended price, rating structure, and actual price is especially important in a business intermediated by agents and brokers. Moreover, the distribution of discount budgets must be controlled and linked to agents' overall performance. Agents who misuse their discount budgets should be penalized by having their pricing discretion curtailed going forward.

Align distribution objectives with companywide goals and pricing strategy. Insurers' distribution networks are typically remunerated on the basis of top-line performance only. And in some cases, new business earns higher commissions than renewals. The result of such compensation schemes can be insufficient focus on retention and sales that lack the potential for long-term profitability.

In our client work, we have observed that aligning distribution incentives with organizational objectives is crucial to success. Insurers need to base their design incentives on the bottom line (loss ratio) as well as on the top line. Furthermore, insurers need to provide agents with tools such as alternatives to monetary discounts (including higher deductibles, free supplementary coverage, and vouchers for future renewals) and access to first-rate customer-relationship-management systems that can help them retain their best customers. Agents should also receive regular training updates on how to retain customers and provide the best possible sales experience.

Incorporate customer and competitor elements into pricing. Many insurers are adept at setting cost-oriented pricing structures that are based on claims experience. But few excel at incorporating client price sensitivity and prevailing market prices (those of competitors) into their own pricing. Although some insurers might say that regulations in their market do not allow demand-based pricing or that their agents do not like it, we have seen organizations find innovative ways to work within regulatory frameworks, ultimately earning returns of up to 5 percent of gross written premiums. (See the exhibit, "Insurers Need to Incorporate Both Customer and Competitor Elements into Pricing Strategies.")



Source: BCG analysis.
Note: ROE = return on equity.

Distribution Channels

Insurance distribution Channels:

Distribution is the process of delivering your products or services into your target markets. Distribution channels are key to success for all insurance companies. They ensure that products and services provided by insurers reach target customers in the most linear and cost-efficient manner. A variety of distribution channels with various strategies and positions are available in the market. Distribution channels are divided into the following two types:

1. Direct channels:

   These channels make direct contact between insurers and customers. In the direct channel total control over how the product is marketed and sold is in the hands of the insurer.

2. Indirect channels:

   Indirect channels are those in which there is no direct contact between insurers and customers. It includes insurance brokers, reinsurance brokers, financial organizations, independent financial advisers, managing general agents, retail organizations, affinity groups, peer-to-peer, broker networks, and aggregators.

In today's world, Insurance companies have a lot of delivery methods for their products and services. Digital marketing is substantially on the rise but along with this, we can't undermine the efforts of agents or brokers in insurance marketing. A variety of distribution channels are currently used in the marketplace, and some insurers utilize a combination of distribution channels. The following are some distribution channels of insurance products in the US:

- Bank-led channel

  The bank-led distribution channel is also known as 'Bancassurance'. In this channel, banks and insurance carriers join together to sell insurance products to consumers. The passage of the Financial Modernization Act of 1999, was predicted for the U.S. market which ensured the growth of the bank-led channel in the U.S. The channel utilizes the strengths of both the insurance carriers and banks to not just distribute insurance policies but also to increase customer satisfaction and maximize their own profits by minimizing the costs. Banks with their expanded reach in the financial services market were the perfect vehicle to assist the insurance carriers. Thus bancassurance channel appeared like a boosting fuel for insurance companies.

- Peer to peer(P2P) groups

  Peer to peer(P2P) group is a recent innovation in the insurance industry which attracts many customers towards itself. P2P insurance is a risk-sharing network where a group of people pools their premiums together to insure against a risk. Peer-to-Peer Insurance reduces the conflict that inherently arises between a traditional insurer and a policyholder when an insurer keeps the premiums and it doesn't pay out in claims. The P2P insurance pool is comprised of family members, friends, or individuals with similar interests who team up to contribute to each other's losses. This type of insurance may also be known as "social insurance."

- Direct response marketing

Direct response marketing may be defined as the use of mass media advertising to generate inquiries directly to insurers. It does not involve the sale of insurance through local agents. In direct response marketing, employees of the insurer deal with applicants and customers through telephone, by personal meeting or more frequently via the Internet. Direct selling continues to be the dominant channel of distribution for insurance companies.

- The Internet channel

The Internet is likely to be the latest and important of the new forms of insurance distribution channel. It is already apparent that customers are using new Internet technology in almost all business fields. Web technology supports multiple marketing channels, including agents, sales of insurance products and call centers. However, insurers have been slow to get to this distribution channel.

- Direct mail marketing

It means selling insurance products by dealing directly with consumers rather than through intermediaries. Direct mail campaigns deliver better overall response than digital channels. In this marketing channel, there is no need to share profit margins and the insurer has complete control over the sales process.

Branch offices, one of the direct channels of insurance marketing, has also continued to be a key element in the distribution systems of both life and non-life insurance companies. All insurance companies have an agency-building distribution strategy under which they recruit, train, finance, and oversee their agents/advisors. Through these offices, personal contact and relationship can be established with the customers. The insurance industry is witnessing a growing trend in adopting alternate channels of distribution to fuel business growth. An innovative idea of distribution is the new mantra and insurers are aligning their business strategy in line with changing customer requirements and preferences. It is imperative for them to strike the right balance between traditional and modern models to survive for a longer period of time.

Promotion Strategies

Marketing in the insurance industry is in a very different place today than it was a decade ago.

- Where people relied on agents to recommend the right policies, today everyone relies on the Internet.
- A relatively shorter buying cycle has gotten lengthy due to the vast number of options and amount of information put in front of users today.
- Trust in the insurance provider is a must even before buying a policy, and that stems from customer reviews and the provider’s success stats.
- With lesser patience than before, and a low tolerance for ads, people want to research providers but don’t actually want to hear from them unless they choose to.
- They may research providers and different policies online, but they still take their research to the agent for the final purchase, thus requiring the brand to even now be dependent on agents.

Insurance marketing, then, has a need of the hour: to attract, engage, convert and retain policyholders using the platform where the user journey actually begins today - digital media.

Sounds difficult? The change isn't easy, but investing time and effort in digital will keep you ahead of the game if you do it right. If you think about it, users don't call their agent to make the final purchase because they're unable to complete online transactions - they do it because they have some questions to be asked or comparisons to be made.

Your future marketing success all ties into how you market your brand online, and we can say that confidently because the internet is consumer-driven and consumers are definitely not moving backwards from the internet to in-person transactions. Google's updates, Facebook's updates, the conveniences offered, the information offered, the way apps are built...tomorrow's insurance buying experience is all based on the users' convenience - you'll never be left behind if you focus on the consumer experience.

- **1. Create a cohesive online experience for your audience**

  The digital marketing experience is a subtle dance of discovery and selling across search results, your website, other websites, videos, blog posts, reviews and research papers. And we're not even mentioning offline channels. Your customers will come across and interact with your brand on many different platforms, so it's important that you maintain cohesiveness in your brand experience across all marketing collaterals.

  But don't just ensure the visuals are all in line with one another - plan your user experience on different platforms to be unique to each platform. Instagram is a visual platform which will attract attention, blog posts will engage users, and research papers will engage and help convert users. Each of these deserves a different type of content that will create a 360º brand experience for your users, across all stages of the funnel.

- **2. Use lifecycle marketing to create loyalty**

  We've already spoken about creating cohesive experiences across different platforms, but you also need to ensure that you are creating a cohesive experience that takes your user further and further down the buying funnel. Lifecycle marketing involves creating experiences for each stage of your user's buying journey, nudging them from one stage to the next.

  Pro tip: Segment your users, analyse their buying journey, and ensure you have experiences and communication planned for everyone at every stage.

  Let's drill that down:

  1. Identify your audience segments
  2. Identify their path to purchase (there will be multiple)
  3. Decide which platforms you'd want to be using in your marketing (those frequented by your users)
  4. Plan your marketing strategy accordingly - ads, re-marketing, landing pages, content marketing, chatbot, etc.
  5. Plan your sales strategy accordingly - nurturing plan, sales executives, etc.

Remember, the idea is to convince your potential customers of your brand's calibre, ensure all their questions are answered and doubts quelled so they are ready to make a purchase decision.

- **3. Use social media to your benefit**

  Don't overlook the power of social media - even if you feel like it may not be the platform to match the seriousness of your industry, it's where a lot of content and brands are discovered, and purchase journeys begin. Use information, contests, polls, Q&As, moment marketing and other such social tools to keep your brand interesting to users while educating them about insurance.

  However, it's not enough to simply post a few times a week and hope for the best. You must track the impact and interactions of each platform, understand what segments of users each platform is attracting, and work out how to best engage them with your brand long-term.

  Social media is also a great way to interact with your existing policyholders and keep them engaged with your brand. You can answer queries, troubleshoot their problems, and make them feel part of a community.

- **4. Get better returns on ad spends with growth experimentation**

  We at Amura specialise in using **growth marketing** to get long-term business success for our clients. One of the many things that contribute to this is our experimental, data-driven approach.

  In traditional marketing approaches, a campaign is taken live with the entire budget mapped into the plan, and end goals are either met or not. What we do as a part of growth marketing, is run small experiments with an initial portion of the budgets, constantly analysing what's working and what's not, and then only scale the successful ones. These strategic smaller experiments allow for faster go-live time and better ROI.

  In the insurance industry, you're always on the fence about which audiences will actually respond to your ads, you're uncertain about which segment is buying a policy and for whom (for themselves, for their parents, for their family?) and which plan/product will see more subscriptions. The experimental approach allows you to test all your theories, and scale what's working to sell more policies with minimum wastage of spends.

- **5. Leverage existing policyholders to create trust**

  Trust is one of the biggest decision influencers in insurance, and the best way for insurance providers to establish trust in today's cluttered market is customer reviews. Make sure you create plenty of touch points and platforms for people to share their experiences with you, so you can choose the best ones to use in marketing collateral.

  But don't stop at publishing them on your website! The more contextual the reviews, the better they'll work to convert potential policyholders. While your site is a great place for a repository of testimonials, use the ones that talk about your claim ratio, prompt service, etc. in your digital ads. If there are any reviews that go a step further to talk about one claim agent in particular, or about their pleasant purchase experience, use it in your re-marketing collaterals.

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