UNIT- I

Introduction to Risk Management: Risk Identification: Risk-Risk and Uncertainty-Types of Risk- Burden of Risk-Sources of Risk-Methods of handling Risk-Degree of Risk-Management of Risk. Risk Identification-Business Risk Exposures-Individual Exposures-Exposures of Physical Assets - Exposures of Financial Assets - Exposures of Human Assets - Exposures to Legal Liability - Exposure to Work-Related Injury.

RISK AND UNCERTAINTY

- **RISK** can be defined as uncertainties resulting in adverse outcome, adverse in relation to planned objectives or expectations.
- According to Haynes, Mote and Paul, "**Risk** refers to relatively objective probabilities which can be computed on the basis of past experience or some prior principle".
- **UNCERTAINTY** refers to a state of mind characterized by doubt, based on a lack of knowledge about what will or will not happen in the future.
- uncertainty refers to the inability to foretell consequences or outcomes because there is a lack of knowledge or bases on which to make any predictions.

RISK VS UNCERTAINTY

BASIS FOR COMPARISON	RISK	UNCERTAINTY
Meaning	The probability of winning or losing something worthy is known as risk.	Uncertainty implies a situation where the future events are not known.
Ascertainment	It can be measured	It cannot be measured
Outcome	Chances of outcomes are known	The outcome is unknown
Control	Controllable	Uncontrollable
Minimization	Yes	No
Probabilities	Assigned	Not assigned

TYPES OF RISK

- BASED ON OBJECTIVITY:

  (i) Objective risk- Actual loss- Estimated loss

  (ii) Subjective risk- Perception based

- BASED ON INSURABILITY:

  (i) Pure Risk- Insurable- beyond the control of the insurer. Personal, property & liability(loss/no loss)

  (ii) Speculative risk- Non- insurable Ex.: horse race

- BASED ON NATURE OF EVENT:

  (i) Fundamental Risks- Systematic- All

  (ii) Particular Risks- Unsystematic- Specific.

- BASED ON NATURE OF ENVIRONMENT:

  (i) Static Risks- Insurable- not by economy

  (ii) Dynamic Risks- Non- insurable.- economy

•OTHERS-
Liquidity,
Counterparty/ Settlement,
Interest rate,
Exchange rate,
Country/ Political,
Default,
Financial/ Financial leverage,
Basis risk/ spread risk.

BURDEN OF RISK

Losses that are actually suffered by individuals, households or business units.

TYPES:

- Primary- Pure risk- due to happening of an event. Ex: medical expense
- Secondary- Opportunity cost. Ex: Medical insurance premium.

RESULT: Larger Emergency Fund, Loss of certain goods and services and Worry and fear

SOURCES OF RISK

Sources of risk are divided into:

- External sources of risk
- Internal sources of risk

- **External sources of risk**

Forces belonging to the external environment affecting the particular business enterprise cause external risks.

- **Internal sources of risk**

Internal risks are caused by the internal events associated with the working of a business enterprise.

External sources of risk

- **Economic factors -**They result form the changes in the prevailing market conditions, they may be in the form of changes in demand for the product, price, fluctuations, changes in tastes and preferences of the consumers and changes in income, output or trade cycle.
- **Natural factors -**These are the unforeseen natural calamities over which an entrepreneur has very little or no control. They result from events like earthquake, flood, famine, cyclone, lightning, tornado, etc. such events may cause loss of life and property to the firm or they may spoil its goods.
- **Political factors -**They result from political changes in a country like fall or change in the government, communal violence or riots in the country, civil war as well as hostilities with the neighbouring countries. Besides, changes in government policies and regulations may also affect the profitability and position of a enterprise

Internal sources of risk

- **Operational factors**

This is the risk of monetary losses resulting from inadequate or failed internal processes, human error, and systems failure or from external events.

- **Human factors**

These are an important cause of internal risks. They may result form strikes and lock-outs by trade unions; negligence and dishonesty of an employees; accidents or deaths in the industry incompetence of the manager other important people in the organization, etc,

- **Technological factors**

These are the unforeseen changes in the techniques of production or distribution. They may result in technological obsolescence and other business risks.

- **Physical factors**

These are the factors which result in loss or damage to the property of the firm. They include the failure of machinery and equipment used in business; fire or theft in the industry; damages in transit of goods, etc.

RISK MANAGEMENT

- Risk management is the identification, assessment and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor and control the probability and/or impact of unfortunate events.
- It refers to the systematic application of principles, approach and processes to the tasks of identifying and assessing risks, and then planning and implementing risk responses.

METHODS OF HANDLING RISK

There are five major methods/tools of handling risk as follows:

1. **Risk Avoidance**
2. **Loss Control- prevention & reduction**
3. **Risk Retention**
4. **Non-Insurance Transfers**

   Contract

   Hedging

   For Business Risks by Incorporating
5. **Insurance**

OBJECTIVES OF RISK MANAGEMENT

1. Ensure the management of risk is consistent with and supports the achievement of the strategy and corporate objectives.
2. Provide a high quality service to customers.
3. Initiate action to prevent or reduce the adverse effects of risk.
4. Minimize the human cost of risk, where responsibly practicable.
5. Meet statutory and legal obligations.
6. Minimize the financial and other negative consequences of losses and claims.
7. Minimizing the risk associated with new developments and activities.
8. Be able to inform decisions and make choices on possible outcomes.

RISK MANAGEMENT PROCESS

Risk management consists of all efforts to preserve the assets and earning power of a business. The process of risk management consists of several steps which are as follows:

1. Identification Loss Exposures
2. Analysis Loss Exposures
3. Select The Appropriate Risk Management Technique
4. Implement And Monitor The Risk Management Program

1. Identification Loss Exposures

The process of managing risk is to identify potential risks. Risks are about events that, when triggered, cause problems. Hence, risk identification can start with the source of problems, or with the problem itself.

1. Source Analysis
2. Problem Analysis

Risk identification methods: Objective- based risk identification, Scenario- based identification, taxonomy- based risk identification, common risk checking, risk charting.

2. Analyzing Loss Exposures

- Once the risks have been identified, they must then be assessed as to their potential severity of loss and to the probability of occurrence. These quantities can be either simple to measure, in the case of the value of a lost building, or impossible to know for sure in the case of the probability of an unlikely event occurring.
- The assessment process it is critical to make the best educated guesses possible in order to properly prioritize the implementation of the risk management plan.
- The fundamental difficulty in risk assessment is determining the rate of occurrence since statistical information is not available on all kinds of past incidents.
- Evaluating the severity of the consequences is often quite difficult for immaterial assets. Asset valuation is another question that needs to be addressed.

3. Select The Appropriate Risk Management Technique

Once risks have been identified and assessed, all techniques to manage the risk fall into one or more of these four major categories:

1. Avoidance of risk
2. Reduction of risk
3. Retention of risk
4. Transfer of risk

4. Implement And Monitor The Risk Management Program

- Implementation of all the planned methods are followed for mitigating the effect of the risks. Purchase insurance policies for the risks that have been decided to be transferred to be an insurer, avoid all risks that can be avoided without sacrificing the entity's goals, reduce others, and retain the rest.
- **A risk management policy statement is documentation of the risks involved in performing a specific action.** Because any activity can have some risk involved, companies create a risk management policy statement as a way of defining those risks. It also informs the person performing that activity of the associated risks.
- Risk management policy statements can be for actions ranging from physical activity, such as risks involved in a manufacturing environment, to financial risks, such as participating in a risky investment venture.
- Risk management statements can make for a safer work environment by alerting employees to the risks associated with specific jobs and what needs to be done to minimize those risks. The process gives a small business the opportunity to identify these risks and to take steps to reduce them.

Risk identification

- Risk identification is a process by which a business systematically and continuously identifies property, liability and personnel exposures as soon as or before they emerge.
- Risk Identification can be classified as:

1. Business risk exposure- Exposures-Exposures of Physical Assets - Exposures of Financial Assets -Exposures of Human Assets - Exposures to Legal Liability - Exposure to Work-Related Injury and Losses from Economic forces.
2. Individual risk exposure

Exposure to Physical Assets/ Property Losses

- Property Insurance indemnifies on the basis of:
- **1. ACV-** present cost to replace or repair damage property less depreciation and obsolescence.
- **2. Replacement cost- re- instatement value** i.e. cost at the time of loss to replace the damaged property.
- Types of Exposure of physical assets/ Property losses:

1. Direct Loss
2. Indirect Loss
3. Net Income Loss
4. Decrease in Revenues- loss of rent, interruption in operations, contingent business interruption.
5. Increase in Expenses.

Exposure to Financial Assets

- Financial asset exposure is associated with risk related to any form of financing.
- FR= AR< ER
- **Features:**
- Associated with the method through which it plans the financial structure.
- If CS tends to make unstable earnings, the Co. might fail.
- When Co. raises funds, it will have an impact on future earnings and its stability.
- Debt financing lowers cost but brings in FL to ESH.
- Higher Debt financing increases risk to ESH.
- Risk in Levered firms> risk in unlevered firms.

Types of Financial Asset Exposure

- Credit Exposure
- Currency Exposure
- Country Exposure- political, regulatory and economic exposure

Exposure of Human Assets

- Arise when one or more people who are the employees in whom firm has direct interest- die, fall ill, or lose their jobs due to some reason.
- Reason for managing HA exposure- Part of corporate strategy and policy for attracting and retaining good work force and raising morale and productivity of employees.
- Contingencies: Loss of income due to any of above resons.
- Remedies: Retirement income provision- PF, gratuity, PF, health cover and disability cover.

Exposures to Legal Liability/ Liability loses

Liability for causing harm to others- Criminal liability and civil liability.

TYPES:

- Liability arising from ownership, use or possession of premises.
- Liability arising from manufacturing activity- manufacturing, distribution, sale of products and services by the firm, breach of warranty, defective product or process.
- Liability arising from fiduciary relations- Failure to discharge the due duties give rise to this liability.
- Employer's Liability- Job- related injuries and diseases.

Exposure to Work-Related Injury

- Injury, illness or disease arising out of employment, course of employment.
- Normally covered by Workmen's compensation insurance- medical care and replaces some income employee lost.
- No coverage for reduction in efficiency, cost of training replacements, increased overtime expenditure.
- **Costs-** Cost to disabled workers and cost to employers.
- **Risk control practices-** injury prevention, Accident response, Injury reporting procedures and Claim management.
- **Techniques for mgt.-** risk avoidance, prevention of loss and loss reduction
- **Financing**- retention, self- insurance, workmen's compensation insurance

Individual loss Exposure

- Personal loss exposure
- Property Loss exposure
- Liability Loss exposure

Unit - 2
Risk Measurement

Risk Measurement: Evaluating the Frequency and Severity of Losses-Risk Control-Risk Financing Techniques-Risk Management Decision Methods-Pooling Arrangements and Diversification of Risk. Advanced Issues in Risk Management: The Changing Scope of Risk Management-Insurance Market Dynamics-Loss Forecasting-Financial Analysis in Risk Management -- Decision Making Other Risk Management Tools.

RISK MEASUREMENT

- Risk measurement is a process of estimating both frequency and severity of losses.
- Frequency is the probability of risk arising at individual level.
- Severity is the likely size of the loss.

TECHNIQUES:

- Risk Profiling/ Mapping
- Statistical Concepts
- Loss distribution used in RM
- Integrated risk measures

- It is a method for determining the expected number of claims that an insurer will receive during a given time period, and how much the average claim will cost.
- Frequency-severity method uses historical data to estimate the average number of claims and the average cost of each claim. The method multiplies the average number of claims by the average cost of a claim.
- Instead, insurers develop estimates as to how many claims they may expect to see and how expensive the claims will be based on the types of policies they provide to policyholders.

- **Frequency** refers to the number of claims that an insurer expects to see. High frequency means that a large number of claims is expected to come in.

- **Severity** refers to the cost of a claim, with high severity claims being more expensive than average estimates and low severity claims being less expensive than the average.
- The average cost of claims may be estimated based off on historical cost figures.
- Standard deviation is used to evaluate and measure the frequency and severity of losses.

- Examples of high frequency low severity events include:

1) Private passenger automobile physical damage insurance and
2) Home owners property insurance (in non-coastal / non-earthquake/ non-coastal areas)

- Examples of low frequency high severity events include:

1) Hurricane or earthquake damage
2) Terrorism

Risk Mapping

- Technique for profiling pure risks
- Mapping risk in a matrix
- Identifying greatest risk on priority basis

PROBABILITY/SEVERITY	LOW	HIGH
LOW	LP, LI	LP, HI
HIGH	HP, LI	**HP, HI**

- LP, LI- Periodic review
- LP, HI- Have a contingency plan
- HP, LI- Consider action to deal with risk
- **HP, HI- Take immediate action**

STATISTICAL CONCEPTS

- Random Variable- the value of the variable determined by the o/c of a random experiment
- Probability- A PD is a mutually exclusive and collectively exhaustive list of all events that can result from a chance process and contains the probability associated with each event.
- Measures of Central Tendency- Mean Median & Mode.
- Measures of Variation- Variation from what is expected.(SD, Variance & CV)
- Skewness- Extent of symmetry/ asymmetry in a distribution
- Covariance & Correlation

Loss Distributions used in RM

- Empirical probability- what the RM actually observes
- Theoretical probability- mathematical way of computing probabilities namely BD, PD and ND

Integrated Risk Measures:

VAR- statistic to measure the risk of loss of investment

RAROC- allocation of risk costs to many activities of the firm to keep the probability of bankruptcy below a certain level.

'Risk Control‘

- Risk control is the method by which firms evaluate potential losses and take action to reduce or eliminate such threats.
- Risk control is a technique that utilizes findings from risk assessments (identifying potential risk factors in a firm's operations, such as technical and non-technical aspects of the business, financial policies, and other policies that may impact the well-being of the firm), and implementing changes to reduce risk in these areas.
- Risk control takes that information gained during risk assessments and develops and applies changes to control the risks.
- Risk control can involve the implementation of new polices and standards, physical changes and procedural changes that can reduce or eliminate certain risks within the business.

Risk control is an important action taken by firms that is intended to proactively identify, manage and reduce or eliminate risks.

Types of Loss Control:

Loss Prevention

Loss Reduction- pre- loss activities, concurrent loss activities, post- loss activities

Benefits:

Reduction in :

Repair/ replacement costs

Income loses

Extra maintenance cost

Adverse liability

Medical cost

Loss control process

- Identification and analysis of losses
- Detailed analysis
- Evaluation

Techniques:

Risk avoidance

Loss Prevention

Loss reduction

Separation

Duplication

Diversification

Risk Financing

- The determination of how an organization will pay for loss events in the most effective and least costly way possible.

- ***Risk financing is the achievement of the least-cost coverage of an organization's loss exposures.***

- Risk financing is designed to help a business align its desire to take on new risks in order to grow, with its ability to pay for those risks.

RISK FINANCING

Risk financing is the technique that provide for the funding of losses after they occur.

Techniques

Retention

- Active And Passive
- Planned And Unplanned
- Funded Or Unfunded

Non – Insurance Transfers

- Household-harmless Agreement
- Incorporation
- Hedging
- Insurance

Commercial Insurance

RISK FINANCING TECHNIQUES

- Retention- active and passive retention, Planned and unplanned retention & funded and unfunded retention
- Non Insurance transfers- Hold harmless agreements, Incorporation, Hedging and Insurance.
- Commercial Insurance

Risk Retention Techniques

- Use of Available cash
- Use of Borrowed funds
- Establishment of loss reserves
- Formal self- insurance- Self insurance and Captive Insurers

Advantages:

Save money

Lower expenses

Encourage loss prevention

Increase cashflow

Demerits:

Higher loses

Higher expenses

Higher Taxes

Risk Transfers

- Hold harmless agreements
- Incorporation
- Diversification
- Hedging
- Insurance

Advantages:

Transfer loses, non-insurance transfer, transferred to better risk control

Disadvantages: Contract, Reliability and Cost

RISK POOL

- A **risk pool** is one of the forms of risk management mostly practiced by insurance companies. Under this system, insurance companies come together to form a pool, which can provide protection to insurance companies against catastrophic risks such as floods, earthquakes etc.

- In insurance, the term "risk pooling" refers to the spreading of financial risks evenly among a large numbers to the event.

History

- Risk pooling is essential to the concept of insurance. The earliest known insurance policies were written some 5,000 years ago, to protect shippers against the loss of their cargo and crews at sea, by pooling their resources, these ancient businessmen were able to spread the risks more evenly among them.

Risk Pooling Basics

- Risk pooling is an insurance practice that groups large numbers of people together to minimize the cost impact of the highest-risk individuals. Health, car, home and life insurance all practice risk pooling.

- Whether insurance is covering health, a car, a home or a life, some people are at greater risk of actually needing the coverage. Most people decide to buy insurance even if they have very low risk of death, injury or property damage because the cost of insurance is typically less.

- By insuring both low and high risk customers, insurance companies can reduce the overall cost.

Cost and Pools

- High-risk people frequently pay more for insurance. This rewards low-risk people with lower insurance premiums and ensures that an insurance company gets sufficient money from high-risk people to cover their costs.

- Insurance companies use actuarial tables to determine the risk of an individual. As a person's risk increases, costs usually do, too. Life insurance, for example, tends to be more expensive for older people as well as people with significant health risks.

Risk Pool Examples

- Larger insurance pools typically result in lower costs, which is why employer-funded health insurance with large companies is often less expensive: The employer can provide the insurer with a large pool of participants and negotiate a lower cost.

- The Affordable Care Act, which is designed to make health care accessible and more affordable, will begin offering government-sponsored health-care exchanges from which people can buy health insurance. These exchanges pool large groups of people together, thus reducing the cost to both the individual and the insurance company.

Diversification

- It is a risk control technique that spreads loss exposures over a myriad of projects, products, areas, or markets.

- This technique is important since financial returns from various enterprises are not always directly correlated, so that when one activity has low returns, other activities likely would have higher returns.

- In finance, **diversification** is the process of allocating capital in a way that reduces the exposure to any one particular asset or risk. A common path towards diversification is to reduce risk or volatility by investing in a variety of assets.

- Diversification, or the concept of spreading risks, forms the foundation of insurance and is the key-stone on which important risk management processes rests.

- Risk diversification is a critical component of successful risk management for insurance companies.

- Diversification effects are uniquely determined by a company’s portfolio mix and legal entity structure.

- Risk diversification ensures insurers' regulatory capital and their risk profile in a consistent & transparent way.

- **Within the insurance industry, diversification plays two key roles.**

- First, it provides consumers with access to protection from risk at a reasonable cost. The fundamental service that insurers provide is to pool individual exposures into a shared portfolio, allowing individuals and businesses a way of reducing their overall exposure to individual risks, and increasing their ability to plan and invest with confidence for the future.
- Second, it enables insurers to manage the type and amount of risk in their portfolio. Insurers have the ability to manage risks by pursuing diversifying strategies,

- India is one of the most heavily regulated insurance markets in the world.

- Unlike most of their international peers, insurers here are not allowed to use third-party asset managers, and are barred from investing in a large variety of instruments and asset classes including all overseas investments that could help to manage, diversify risk and boost returns.

- Bringing in international portfolio diversification would protect Indian insurers against pro-cyclicality and generate greater returns. Many large international insurance companies already have a presence in India through local partnerships.

- However, the current regulatory system bars them from using their expertise to manage the portfolios of Indian firms, be it onshore or offshore.

- Given the limited scope of currently available investments, Indian insurance companies are forced to rely on domestic fixed income assets and equity products, limiting their abilities to mitigate risks and achieve higher returns.

Evaluating the Frequency and Severity of Losses

Consideration of risk involves frequency and severity. Frequency means probability of risk arising at individual level. Higher the frequency of ask, higher will be the response to the product. That is because people ways like protection against the risks that strike frequently. But its insurability will be reduced by higher frequency as claims-processing costs increase. And that would increase premium. A high premium will act a disincentive for people, who will in turn prefer not to buy insurance. his will result in insured people having to pay a higher premium. And if frequency is too low, but the risk is high and insurable, people will hardly find insurance against such risk worth buying. In nutshell, the frequency has to be high enough to be credible but low enough to keep claims processing costs within reasonable limits.

Severity is the likely size of the loss. It is derived from expected losses of group likely to buy a policy. In simple terms, it is the average (mean) of ABCs suffered by members of a common group divided by the expected number of members of the group. In addition to expected losses, variability (standard deviation) around the mean also plays a role in arrived at the severity factor. In fact, variability in a loss distribution is the 'risk'. It is because one has to assume that expected losses would occur the long run. Expected losses and their deviation would provide Probable Maximum Loss (PML) of loss distribution that is the sever factor. High-severity risks (like flood, earthquake, etc.) are bound to individual interest among the people and thus result in high saleability . Very high probable maximum loss is likely to affect insurability. Thus while severity of risk has to be sufficiently threatening for the people, it has

Techniques of Estimating Frequency and Severity

The actual estimation of the frequency and severity of losses may be do in various ways. Some risk managers consider these concepts informally evaluating identified risks. They may broadly classify the frequency various losses into categories such as "slight", "moderate", and "certain and may have similarly broad estimates for loss severity. Even this type informal evaluation is better than none at all. But as risk management becomes increasingly sophisticated, most large firms attempt to be me precise in evaluating risks. It is now common to use probability distributions and statistical techniques in estimating both loss frequency an severity.

Techniques of Estimating Frequency and Severity

- Risk Profiling or Mapping
- Statistical Concepts
- Loss Distributions used in Risk Management
- Integrated Risk Measures

Concept of Risk/Loss

Control A major issue for risk managers is the decision about how much money to spend on the various forms of loss control. The general rule is that to justify the expenditure, the expected gains from an investment in loss control should be at least equal to the expected costs. This comparison of costs and benefits, which is similar to the financial decision-making used for other capital budgeting issues. Before such methods can be used effectively, however, the risk manager must have a clear understanding of all of the costs and benefits associated with a particular form of loss control.

Loss control is an organized and usually continuous effort to help to decrease the possibility of unforeseen losses and the impact of those that do occur. Loss control can be applied to all kinds of losses such as those caused by fires, electrical surges, burglary, car crashes, hurricanes, or just about anything that causes unexpected harm, injuries, or damage.

Types of Loss Control

There are two types of loss control which are as follows:

- Loss Prevention
- Loss Reduction

1) **Loss Prevention:** It refers to measures that reduce the frequency of a particular loss. Loss prevention as its name implies, focuses on stopping loss from happening. The foremost purpose of loss prevention is to preserve human life. That is, a risk manager's first goal in a loss prevention program is to reduce or eliminate the change of death or injury to people. Examples of loss prevention activities include the use of tamper- resistant packaging, security guards in banks, driver training and safety education programs, and warnings printed on drugs and dangerous chemicals. As a rule, when the frequency of loss in high, loss prevention activities should be considered as one alternative for dealing with the problem. Loss prevention measures are feasible, however, only as long as the benefits realized from fewer occurrences of loss are greater than the cost of the loss prevention measures.
2) **Loss Reduction:** Risk reduction involves methods that reduce the severity of the loss or the likelihood of the loss from occurring. In this method, the business reduce risk by taking appropriate steps for prevention of business risk or avoiding loss, such steps include adaptation of safely programs, installation of burglar alarm and extinguisher, employment of night security guard, arranging for medical care and disposal of waste material, etc. Outsourcing could be an example of risk reduction if the outsourcer can demonstrate higher capability at managing or reducing risks. In this case companies outsource only some of their departmental needs . **For example**, a company may outsource only its software development, the manufacturing of hard goods, or customer support needs to another company, while handling the business management itself. This way, the company can concentrate more on business development without having to worry as much about the manufacturing process, managing the development team, or finding a physical location for a call center.

RISK MANAGEMENT DECISION METHODS

- Risk Avoidance
- Loss Control
- Risk Retention
- Non-insurance Transfers
- Insurance

POOLING ARRANGEMENTS AND DIVERSIFICATION OF RISK

- **Pooling:** Pooling refers to the spreading losses incurred by the few over the entire group so that the average loss is substituted for actual loss.
- **Diversification:** Diversification is a risk management technique that mixes a wide variety of investments within a portfolio.
- The benefits of diversification will hod only if the securities in the portfolio are not perfectly correlated.

RISK REDUCTION THROUGH POOLING INDEPENDENCE LOSSES

- Here the loss and risk are shared equally or split evenly through pooling arrangements.
- The pooling arrangements reduce risk when losses are independent (uncorrelated).

1. Two Persons Pooling Arrangement:

- This is the type of risk division where losses of one are borne by another also.
- Here the losses are divided among two people.

2. Pooling Arrangement with many people or Business:

- The pooling arrangement can be borne with many people also where the losses are divided or spread through more than two people.
- By adding more people the probability distribution of each person accident cost will continue to be changed.

3. Pooling Arrangement with correlated losses:

- Pooling arrangements decreases the standard deviation for each participant, provided losses are not perfectly positively correlated.
- The magnitude of the risk reduction I slower when losses are positively correlated than when they are independent.

ADVANCED ISSUES IN RISK MANAGEMENT

- Financial Risk- Interest rate risk, Currency risk- transaction risk and translation risk.

- Enterprise Risk Management- Credit risk, Market risk, Underwriting risk, operational risk, strategic risk, liquidity risk.

INSURANCE MARKET DYNAMICS

- Until 1st April 2000, the Indian Insurance industry comprised of mainly two state insurers.
- Post de-regulation, it has been seen that marked changes in market dynamics.
- The public sector insurers control the dominant share while their competitors are trying hard to find their footing.
- Insurance industry is highly cyclical and goes through alternate period of underwriting profit and loss.

Phases Of The Cycle

1. **Soft Markets:** In this phase there are lower insurance premiums, broader coverage, reduced underwriting criteria, which means underwriting is easier, increased capacity, which means insurance carriers write more policies and higher limits and increased competition among insurance carriers.
2. **Hard Markets:** During this phase there are higher insurance premiums, more stringent underwriting criteria, which means underwriting is more difficult, reduced capacity, which means insurance carriers write less insurance policies and less competition insurance carriers.

FACTORS INFLUENCING THE INSURANCE MARKET

1. **Underwriting Cycle:**

- It refers to the tendency for commercial property and liability insurance markets to fluctuate between periods of tight underwriting with high insurance premiums and loose underwriting with low insurance premiums.
- Here the it is not the competitors who set the market price rather they have to accept the price set by market dynamics of demand and supply.

2. Consolidation in the Insurance Industry:

- Consolidation in the insurance industry refers to amalgamation insurance business organizations through mergers and acquisitions. Three types of consolidation have been generally occurring:

➢ *Insurance Company Mergers and Acquisitions:* Insurance Company merger refers to a combination of two or more companies into a single new company, where the new company survives and others loose the corporate identity.

➢ *Insurance Brokerage Mergers and Acquisitions:* Insurance brokerages have been merging with, or acquiring other insurance brokerages. Ex: Marsh and Mc Lennan.

➢ *Cross- Industry Consolidations:* This occurs when a company in one financial services area merges with or acquires a company in another financial services area like a bank acquires an insurance company.

3. Securitisation Of Risk:

- Securitisation is the process of conversion of existing assets or future cash flows into marketable securities. For the purpose of distinction
  - The conversion of existing assets into marketable securities is known as asset-backed securitization.
  - The conversion of future cash flows into marketable securities is known as future-flows securitization.
- In securitisation, insurable risk is transferred to the capital markets through creation of financial instruments, such as catastrophe bonds, derivative contracts, options, swaps, futures or other financial instruments.

LOSS FORECASTING

- PROBABILITY ANALYSIS
- STATISTICAL ANALYSIS
- LAW OF LARGE NUMBERS

Advance issues in risk management

1. Changing scope of risk management

1.Financial Risk

Risk Financial risk is the risk of losses inherent in financial transactions. There are numerous types of financial risks faced by banks. The most common ones can be defined as the risks associated with maintaining accounts, issuing loans and collecting debts. Following are the risks which are classified as under financial risk:

1) **Interest Rate Risk:** Interest rate risk is the chance that an unexpected change in interest rates will negatively affect the value of an investment
2) **2) Currency Risk:** It is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged:

i) Transaction Risk: It is the risk that exchange rates will change unfavorably over time. It can be hedged against using forward currency contracts.

ii) ii) Translation Risk: It is an accounting risk, proportional to the amount of assets held in foreign currencies. Changes in the exchange rate over time will render a report inaccurate, and so assets are usually balanced by borrowings in that currency.

2.Enterprise Risk Management (ERM)

1) Credit Risk: Counterparty credit exposure from all potential creditors, including agents, reinsurers, bond issuers and large, institutional clients.

2) Market Risk: Exposure to liquidity events, asset/liability mismatches and risks in investment portfolios due to changes in equity prices, commodity prices, interest rates and exchange rates.

3) Underwriting Risk: Financial exposures arising from various activities integral to the underwriting of insurance products, including: product development; regulatory relations; establishing reserves and pricing metrics; analyzing loss experience, mortality, morbidity and lapses; and loss trends.

4) Operational Risk: Financial exposures arising from damage to a company's reputation or franchise value stemming from a wide variety of external and internal factors, such as: management change; business interruption; fraud; data capture; data security and integrity; claims handling; and employee retention.

5) Strategic Risk: Financial exposures arising from adverse business decisions, improper implementation of decisions or a lack of response to industry changes.

6) Liquidity Risk: Liquidity is the ability to pay, whether it is to pay a bill, to give a depositor their money, or to lend money as part of a credit line.

3.Insurance Market Dynamics

The insurance industry is highly cyclical, and goes through alternate period of underwriting profit and loss - the insurance market is characterised as hard or soft depending on the phases of the cycle which are as follows:

1) **Soft Markets:** In this phase there are lower insurance premiums, broader coverage, reduced underwriting criteria, which means underwriting is easier, increased capacity, which means insurance carriers write more policies and higher limits and increased competition among insurance carriers.
2) **Hard Markets**: During this phase there are higher insurance premiums, more stringent underwriting criteria, which means underwriting is more difficult, reduced capacity, which means insurance carriers write less insurance policies and less competition insurance carriers.

There are various methods of dealing with risks.

1) Risk Retention, and

2) Risk Transfer.

4.Underwriting Cycle

The underwriting cycle refers to the tendency for commercial property and liability insurance markets to fluctuate between periods of tight underwriting with high insurance premiums and loose underwriting with low insurance premiums.

4.Consolidation in the Insurance Industry

Three types of consolidation have been generally occurring:

1) **Insurance Company Mergers and Acquisitions:** Insurance company merger refers to a combination of two or more companies into a single new company, where the new company survives and others loose the corporate identity.
2) **Insurance Brokerage Mergers and Acquisitions:** Insurance brokerages have been merging with, or acquiring other insurance brokerages. For example, in November 1998, Marsh and McLennan 10 Companies Inc., particularly known as MMC (Risk and Insurance Services Subsidiary), acquired Sedgwick Inc. (Claims Management Services). As a result of the acquisition, Sedgwick was merged into various subsidiaries of MMC.
3) **Cross-Industry Consolidations:** Cross-industry consolidation occurs when a company in one financial services area merges with, or acquires a company in another financial services area, like a bank acquires an insurance company or an insurance company may purchase an investment (mutual fund) company.

5.Securitization of risk

Examples of Securitization

1) City Bank carved out car loan portfolios to ICICI Bank.
2) The Housing and Urban Dev. Corporation Ltd.

Loss Forecasting

An important risk identification tool is that of statistical analysis of past losses. This method is primarily applicable to very large firms. Some of the characteristics of past losses that may prove to be important in this regard include cause of loss, the absolute amount of loss and particular employees (if any) involved in such loss.

For example, suppose a transport company experiences several vehicle accidents involving the same driver. Upon further investigation, the firm may discover that there are quite a few bad drivers in the system, who have been recruited because the firm is not conducting an adequate scrutiny of past driving records before offering employment. The concept of risk mapping (sometimes referred to as risk profiling).

The concept of risk mapping (sometimes referred to as risk profiling) offers one such statistical tool, which firms are adopting for managing risks Risk mapping involves arraying these risks in a matrix, with one dimension being the frequency of the event and the other dimension representing the severity of event. By considering the likelihood and severity of each of the risks in the matrix, as well as the extent to which insurance protection is already available, it becomes possible for the firm to identify the risks that are in the matrix, check the extent, insurance cover already taken and identify those risks that are most likely to seriously affect the firms future.

The risk manager will not be able to estimate an insurance coverage proposal unless he has some level of confidence about the enormity of expected losses and the reliability of the estimate. Based on the loss forecasting, the risk manager may be able to judge correctly whether to opt for retention, when an insurance bid is too high or opt for insurance, when the insurance bid is relatively low to the expected losses.

Financial Analysis in Risk Management

Financial analysis in risk management can be done through following ways

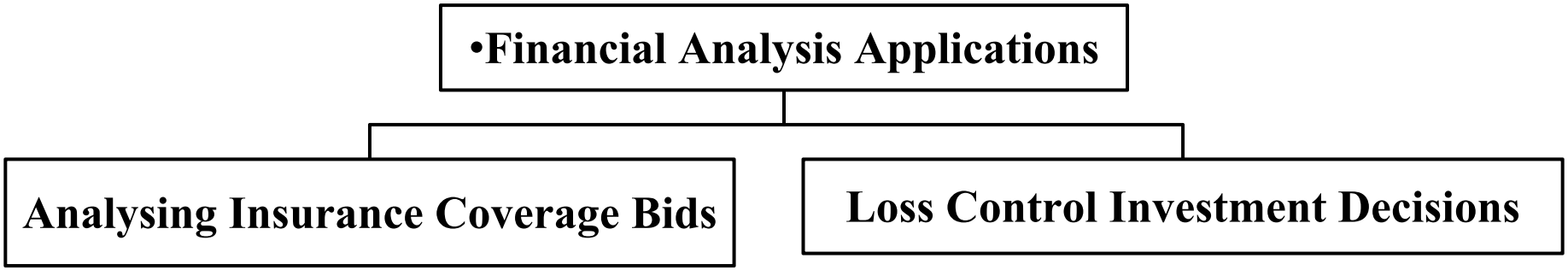


• Time Value of Money

Time value of money (TVM) refers to the idea that money has a different value at different points in time. A dollar today is worth more than a dollar tomorrow because you can invest today's dollar and earn interest on it. This means that a future sum of money is equivalent to a smaller present sum of money.

• Financial Analysis Applications

In the financial analysis of application time value of money is considered while risk management decision making. The two types of applications involved in it are



• Analysing Insurance Coverage Bids

Analyzing insurance bids involves comparing costs over time. You'll weigh the difference in premiums against deductibles, considering how likely you are to make claims and how much you can afford to pay upfront.

• Loss Control Investment Decisions

Loss control investments are decisions that aim to reduce potential financial losses. This can involve things like security upgrades to prevent theft or employee training programs to minimize accidents. The goal is to spend a smaller amount upfront to avoid larger potential losses down the road.

The two types of capital budgeting techniques which help in loss control in the project are as follows :

- Net Present Value
- Internal Rate of Return

Unit – 3 Introduction To Insurance

Risk and Insurance-definition and basic characteristics of Insurance. Types of Insurance-Essentials of Insurance contracts.

Indian Insurance Industry- Historical Framework of Insurance. Insurance sector reforms in India. IRDA- Duties and powers of IRDA-IRDA Act 1999.

Management of Insurance Companies- Functions and Organization of Insurers- Types of Insurance Organization.

Organizational structure of Insurance Companies-Functions of Insurers. Underwriting – Principles of Underwriting.

Insurance

Meaning:

It is a contract between the insurer and insured under which the insurer undertakes to compensate the insured for the loss arising from the risk insured against.

Definitions:

- According to Gosh and Agarwal, “Insurance may be defined as a co - operative form of distributing a certain risk over a group of persons who are exposed to it’.
- According to Mc Gill, “Insurance is a process in which uncertainties are made certain”.
- In the words of Jon Megi, “Insurance is a plan wherein persons collectively share the losses of risks”.

Basic Characteristics of Insurance

- **Sharing of risk:** Insurance is a co-operative device to share the burden of risk, which may fall on happening of some unforeseen events, such as the death of head of family or on happening of marine perils or loss of by fire.
- **Co-operative device:** Insurance is a co-operative form of distributing a certain risk over a group of persons who are exposed to it. A large number of persons share the losses arising from a particular risk.
- **Large number of insured persons:** The success of insurance business depends on the large number of persons Insured against similar risk. This will enable the insurer to spread the losses of risk among large number of persons, thus keeping the premium rate at the minimum.
- **Evaluation of risk:** For the purpose of ascertaining the insurance premium, the volume of risk is evaluated, which forms the basis of insurance contract.

- **Payment of happening of specified event:** On happening of specified event, the insurance company is bound to make payment to the insured. Happening of specified event is certain in life insurance, but in the case of fire, marine of accidental insurance, it is not necessary. In such cases, the insurer is not liable for payment of indemnity.
- **Transfer of risk:** Insurance is a plan in which the insured transfers his risk on the insurer. This may be the reason that may person observes, that insurance is a device to transfer some economic losses would have been borne by the insured themselves.
- **Spreading of risk:** Insurance is a plan which spread the risk & losses of few people among a large number of people. John Magee writes, "Insurance is a plan by which large number of people associates themselves and transfers to the shoulders of all, risk attached to Individuals".
- **Protection against risks:** Insurance provides protection against risk involved in life, materials and property. It is a device to avoid or reduce risks.

- **Insurance is not charity:** Charity pays without consideration but in the case of insurance, premium is paid by the insured to the insurer in consideration of future payment.
- **Insurance is not a gambling:** Insurance is not a gambling. Gambling is illegal, which gives gain to one party and loss to other. Insurance is a valid contact to indemnity against losses. Moreover, Insurable interest is present in insurance contracts it has the element of investment also.
- **A contract:** Insurance is a legal contract between the insurer and insured under which the Insurer promises to compensate the insured financially within the scope of insurance Policy, the insured promises to pay a fixed rate of premium to the insurer.
- **Social device:** Insurance is a plan of social welfare and protection of interest of the people. Rieger and miller observe "insurance is of social nature".
- **Based upon certain principle:** Insurance is a contract based upon certain fundamental principles of insurance, which includes utmost good faith, insurable interest, contribution, indemnity, causa Proxima, subrogation etc, which are operating in the various fields of insurance.

TYPES OF INSURANCE

- **1.Life Insurance:** It is a contract where the insurance company agrees to pay a particular sum of money to the insured on expiry of certain time or on the death of the person whose life is assured. Life insurance may be:

- **a)Term Insurance:** Term Insurance can be defined as "a policy in life insurance may be defined as a contract that furnishes life insurance protection for a limited numbers of years, the face value of the policy being payable only if death occurs during the stipulated term, and nothing being paid in case of survival".

- **b)Whole Life Insurance:** Here the sum is payable only on the death of the insured or assured and the premium is throughout the life of the policy at a regular interval.

- **c) Endowment Insurance:** In this case, the sum assured is payable on the death of the insured or a fixed period of time which is earlier and premium are payable only for a fixed period of time as per contract.

- **d) Money Back Policy:** Money back policy offers periodical payments of fractional survival benefits during the term of the insurance policy, only if the insurance holder is alive. In the money back policy, the death claim includes the entire assured sum in case any death incident occurred.

e) Annuity: An annuity is a periodical level payment made in exchange of the purchase money for the remainder of the lifetime of a person or for specified period.

f) Unit Linked Insurance Policy (ULIP): A Unit Linked Insurance Plan (ULIP) is a life insurance plan, which offers the dual benefits of protection as well as savings. The protection component is the insurance cover while the savings component is that portion of the premium that is invested by the insurance company on your behalf in a fund/(s) of your choice. The first one is called Death Benefit and the second one, Maturity Benefit.

2. General Insurance: It is a contract of indemnity whereby the insurer undertakes to pay compensation to the insured for the actual loss only. If the loss does not occur, the payment need not be made. General insurance is of the following types:

a) Fire Insurance: It is a contract to make good the loss due to fire.

b) Marine Insurance: It is a contract to make good any loss due to marine adventure and transport.

c) Motor Insurance: It is a contract where the cars are covered for theft, damage, etc. In case of a third-party injury the compensation to the third-party is also payable by the insurance company.

d) Accident Insurance: It is a contract to make good the loss due to physical injury, or damage of property due to any accident.

e) Credit Insurance: Credit insurance pays some or all of a loan back when certain things happen to the borrower such as unemployment, disability, or death.

f) Public Liability Insurance: Public liability insurance covers any damage caused by the insured to a customer's (third party) property, e.g., if you were a carpet fitter and knocked over an expensive vase while carrying your carpet in then this is when your liability insurance would come into effect.

g) Property/Casualty Insurance: Provides protection for properties like home, car and house-hold possessions. It may also protect from liability as a result of their use.

h) Fidelity Insurance: It is a special insurance for special business mainly financial business.

i) Burglary Insurance: It is a contract whereby the loss is made good for dacoity and burglary.

j) Workmen Compensation Insurance: It is an insurance where the insurance company pay on behalf of employer, any compensation paid to employees, who have lost their life, limb or any part of the body during and in course of employment.

k)Unemployment Insurance: It is a contract of paying a certain sum of money to the insured during his tenure of unemployment for sustaining basic minimum of life.

l) National Health Insurance: It is a part of Indian National Social Security Scheme. A basic minimum health coverage is provided to all mainly the BPL people.

m)) Cash Transit Insurance: It is a contract covering of theft, dacoity of cash when moved from one location to another.

n) Employment Liability Insurance: It is an insurance for the employer for its statutory liability for the payment of corporation to the employers.

Essentials of Insurance Contracts

Insurance contracts are crucial financial agreements that protect individuals or entities against specified risks.

Here are some essential components and principles of insurance contracts:

- **Offer and Acceptance**: Like any contract, an insurance policy begins with an offer made by the insured to the insurer. The insurer then accepts this offer, creating a binding agreement.
- **Free Consent:** Meeting of minds. It must be free of coercion, fraud, mistake, misrepresentation and undue influence.
- **Consideration**: In exchange for assuming the risk, the insured pays a premium to the insurer. This payment is the consideration that supports the contract.
- **Insurable Interest**: The insured must have an insurable interest in the subject matter of the insurance. This means they must derive a financial benefit or avoid a financial loss from the existence or non-existence of the insured property or person.
- **Utmost Good Faith (Uberrimae fidei)**: Both parties to the contract must act in utmost good faith towards each other. The insured must disclose all relevant information accurately, and the insurer must

•**Indemnity**: Insurance contracts are generally contracts of indemnity, meaning they aim to restore the insured to the same financial position they were in before the loss occurred, no better or worse.

•**Subrogation**: After paying a claim, the insurer may take legal action against third parties who are responsible for any loss or damage to the insured.

•**Policy Conditions**: The insurance policy includes conditions that specify the rights and obligations of both parties. These may include requirements for notifying the insurer of a claim, cooperation in the claims process, and maintaining the insured property in good condition.

•**Policy Exclusions**: Insurance policies typically list specific risks that are not covered by the policy. It's crucial for the insured to understand these exclusions to avoid misunderstandings during a claim.

•**Policy Limits**: Insurance policies also specify the maximum amount the insurer will pay under different circumstances. It's essential for the insured to choose coverage limits that adequately protect their interests.

•**Cancellation and Renewal**: The terms under which an insurance policy can be cancelled or renewed are specified in the contract. These terms may include notice periods and conditions for renewal.

Indian Insurance Industry - Historical framework of Insurance

Early Beginnings

- The concept of insurance in India dates back to the early 19th century.
- The first life insurance company established in India was the Oriental Life Insurance Company in Calcutta in 1818. This marked the beginning of formalized insurance practices in the country.
- Initially, insurance was primarily meant for Europeans living in India, and Indian natives were not considered eligible for coverage.
- Over time, more companies entered the market, such as the Bombay Mutual Life Assurance Society in 1870, which was the first to cover Indian lives at standard rates.

Regulatory Evolution

- The Indian insurance sector saw significant regulatory evolution starting in the early 20th century.
- The Indian Life Assurance Companies Act of 1912 was the first statutory measure to regulate life insurance business.
- This was followed by the Insurance Act of 1938, which consolidated earlier legislation and introduced comprehensive regulation of insurance companies, covering both life and non-life insurance.
- The Act also established the office of the Controller of Insurance to oversee the industry, ensuring solvency and fair practices.

Post-Independence Developments

- Post-independence, the insurance industry in India underwent major changes with the nationalization of life insurance in 1956.
- The Life Insurance Corporation (LIC) was formed by merging 245 Indian and foreign insurers.
- This move was aimed at spreading the message of life insurance and mobilizing people's savings for nation-building activities.
- The general insurance industry was also nationalized in 1972, leading to the formation of the General Insurance Corporation (GIC) along with its four Subsidiaries .
- National Insurance, New India Assurance, Oriental Insurance, and United India Insurance.

Liberalization and Growth

- The liberalization of the Indian economy in the 1990s brought significant changes to the insurance sector.
- The Malhotra Committee, set up in 1993, recommended opening up the insurance sector to private players to improve competition and customer service.
- Following these recommendations, the Insurance Regulatory and Development Authority (IRDA) was established in 1999 to regulate and promote the development of the insurance industry.
- In 2000, the market was opened to private and foreign companies, leading to rapid growth and diversification of insurance products and services.

Current Landscape

- The Indian insurance industry is a dynamic and competitive market with numerous public and private sector players.
- The sector has witnessed significant growth, driven by rising awareness, increasing income levels, and supportive government policies.
- The introduction of innovative products, digitalization, and improved regulatory frameworks continue to shape the industry.
- Despite the growth, insurance penetration in India remains lower compared to global averages, indicating substantial room for expansion and development in the coming years.

Insurance Sector Reforms in India

In 1993, the committee under the Chairmanship of R.N. Malhotra was set-up to evaluate the Indian insurance industry and recommend its future direction, submitted its report in 1994 and its major recommendations involved around the structure and regulation of insurance industry.

The main recommendations were as follows:

1) The government should bring-down its stake in the insurance companies to 50 per cent.
2) Private companies with a minimum paid-up capital of 100 crore should be allowed to enter the industry.
3) No single company should be allowed to transact business in both the life and general insurance business. The number of entrants should be controlled.
4) Foreign companies may be allowed to enter the industry in collaboration with domestic companies. The committee did not favor foreign companies operating in India through branches.
5)Postal Life Insurance should be allowed to operate in the rural markets.
6) The mandatory investments of LIC Life Fund in government securities
need to be reduced from 15 per cent to 50 per cent. 7) The GIC and its subsidiaries should not hold more than 5 per cent in any company.
8) The promoters' holding in a private insurance company should not exceed 40 per cent of the total. However, if the promoters wish to start with a higher holding, they should be permitted to do so provided their holding is brought-down to 40 per cent within a specified period of time through public offering. No person other than the promoters should be allowed to hold more than one per cent of the equity. Promoters should, at no time, hold less than 26 per cent of the paid-up capital.

9) Regulatory and prudential norms as well as conditions for ensuring level-playing field among insurers should be finalized early so that intending entrants into the insurance business would be aware of the inter stipulation they would have to comply with. These conditions should aim to ensure that life insurers do not neglect the small man or the rural business and that the general insurers have balanced portfolios.

10) Though nationalized insurance companies are in a position to face competition, it is essential that they quickly upgrade their technology, re-organize themselves on more efficient lines, and are enabled to operate as board-run enterprises.

11) As an interim measure, the office of Controller of Insurance should be restored its full functions under the insurance act and it should be set- up as a separate office as a matter of high priority.

12) Legislation and government notifications through which LIC and GIC were exempted from several provisions of the insurance act should be withdrawn.

13) A strong and effective insurance regulatory authority in the form of a statutory autonomous board on the lines of the SEBI should be set-up.
‘

14) The state-level cooperatives should be allowed to set-up cooperative societies for transacting life insurance business in the state. There will not be more than one society for each state which will be subject to the regulations of the Insurance Regulatory Authority.

15) GIC should cease to be the holding company for its subsidiaries and the exclusive function of GIC should remain that of re-insurer.

16) When GIC ceases to be holding company of the four subsidiary companies, then the government should acquire GIC's stake, which is ₹40 crore in every company. This share then should be raised to 100 crore for every company, the government holding 50 per cent and the rest being held by the public at large.

Duties and Powers of IRDA

Under Section 14 of the IRDA Act, the authority's duty is to regulate, promote and to ensure an orderly growth of the insurance and the re- insurance business. TA Under sub-Section 1 of Section 14 of the IRDA Act, the authority has the following duties and responsibilities:

1) **Registration:** Issuance of certificate of registration, or to renew, modify, withdraw, suspend or cancel such registration.

2) **Protection:** Protection of the interests of policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions in contracts of insurance.

3) **Qualification:** Specifying the requisite qualifications, code of conduct and practical training for insurance intermediaries and agents.

4) **Code of Conduct:** Specifying the code of conduct for surveyors and loss assessor.

5) **Efficiency:** Promoting efficiency in the conduct of the insurance business.

6) **Professionalism:** Promoting and regulating professional organizations connected with the insurance and re-insurance business.
7) **Fees:** Levying fees and other charges for carrying out the objectives of this act.
8) **Information:** Calling for information from, undertaking inspection of, and conducting enquiries and investigations, including audit of the insurers, intermediaries, insurance intermediaries and other organizations connected with the insurance business.
9) **Terms of Business:** Control and regulation of the rates, advantages, terms and conditions that may be offered by insurers for general insurance, business not so controlled and regulated by the Tariff Advisory Committee under Section 64U of the Insurance Act, 1938 (4 of 1938).
10) **Books of Accounts:** Specifying the form and the manner in which books of account shall be maintained, and statement of accounts shall be rendered by insurers and other insurance intermediaries.
11) **Funds Investment:** Regulating investment of funds by insurance companies.
12) **Margin of Solvency:** Regulating the maintenance of margin of solvency.
13) **Premium Income:** Specifying the percentage of the premium income going into finance schemes for promoting and regulating professional
organizations pursuing assurance business.
14) **Rural and Social Insurance:** Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector.
15) **Others:** Exercising other powers as may be prescribed

Types of Insurance/Insurers Organization

Insurance organizations are classified by basis of risk coverage(life, general, health, property, auto). Their agency system (Independent, exclusive, direct selling) and formation from legal point of view- stock or mutual:

1. Stock Insurers: Stock companies owned and controlled by common Stockholders. They appoint Board of Directors who in turn engage officers to run operations. Profits distributed among stockholders. Normally policyholders are eligible for benefit but not dividends.

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.

2. Mutual Insurers: Mutual companies normally non-profit organisations. Owned by policyholders. Initial contribution arranged by them or a financial intermediary which must be repaid.

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.

3. Lloyd's of London: Lloyd's of London is not an insurer, but is the world's leading insurance market that provides services and physical facilities for its members to write specialized lines of insurance.

4. Reciprocal Exchanges: It is another type of private insurer. A reciprocal exchange (also called an inter-insurance exchange) can be defined as an unincorporated organisation in which insurance is exchanged among the members (called subscribers).

Functions of Insurers

1. Production: production or sales is usually used in manufacturing and marketing industries. In insurance industry, the term production and sales refers to the process where an insurer creates and sells policies to the applicants. A producer is the insurer who produces a particular insurance policy. If an insurer gets more number of applicants, then the production is said to be high. The sales section of insurance industry highly depends upon the insurance agents.

2.Underwriting: This is defined as a process of analyzing risks of insurance applicants and deciding whether the insurance company should accept or reject the application. Underwriting is a challenging task where the underwriter has to consider the applicant’s side and also the risks that the company will have to face if it accepts the new policy. Though the task of choosing policies is the responsibility of underwriters, the power to accept or reject the policy lies with the insurer. Underwriting differs for life and property insurances.

3. Rate Making: It refers to the pricing of insurance. Insurance pricing differs consideration from the pricing of other products. When other products are sold, company generally knows in advance what its costs of production are, that a price can be established to cover all costs and yield a profit. However, the insurance company does not know in advance what its actual costs are going to be. The premium charged for the insurance may be inadequate for paying all claims and expenses during the policy period. It is only after the period of protection has expired that an insurer can determine its actual losses and expenses.

4. Managing Claims and Losses: Claims management is the basic goal of the insurance industry. It means to settle the losses of the insurer and the differences between the insurer and insured. Claims management is more than just settling the losses with money. Insurance companies have claim settlement representatives to carry-out this task. An insurance company should pay for the claim reasonably. Rejection of undeserved claims also falls under claim settlement. Claim management is the function of an insurance adjuster There are various such adjusters working in the insurance industry.

5. Investment and Financing: The financial side of an insurance company is unique and critically important to the operation of the firm. The responsibilities of this division include all the usual corporate treasury functions, such as liquidity and capital structure management.
In addition, the finance and investment arm of an insurance company is also responsible for the Asset-Liability Management (ALM) activities of the firm, which includes investing premium revenue in assets to fund subsequent policy payouts.

6. Accounting and Record Keeping: The accounting department is responsible for the financial accounting operations of an insurer. Accountants prepare financial statements, develop budgets, analyse the company's financial operations, and keep track of the millions of dollars that flow into and out of a typical company each year. Periodic reports are prepared dealing with premium income, operating expenses, claims, investment income, and dividends to policy owners. Accountants also prepare statutory annual statements that must be filed with state insurance departments.

Organizational Companies Structure of Insurance Companies

Organizational structure of insurance companies includes:

1. Components of the Organizational Structure

Coordination of activities takes place through the organizational structure of the business. An effective organizational structure benefits a company by:

- **Responsibility**: Enabling the business to assign responsibilities throughout the organisation. A responsibility is a duty or task assigned to an employee.
- **Authority**: Providing employees with the proper authority to meet their responsibilities. By authority, they mean the right of an employee to make decisions, take action, and direct others to fulfil the responsibilities.
- **Accountability**: Providing a process for holding employees accountable for their job performance. Accountability means the employees are answerable for how well they use their authority and how effectively they carry out their responsibilities.
- **Delegation**: Setting clear guidelines for the delegation of authority and accountability. Delegation is the process of assigning to another employee the accountability for completing a specific task.

2. Pyramidal Structure and Levels of Authority

The pyramidal structure illustrates that the authority in a company starts from the top with one person or a small group of people, authority is distributed through the chain of command to ever-larger numbers of people throughout out the company.

- **Policy Owners or Stockholders**: The owners of a company- the policy owners in mutual companies or the stockholders in stock-companies are the ultimate source of authority over a life insurance company. Here the owners elect a Board of Directors and delegate their authority to the board.
- **Board of Directors**: It is the primary governing body of a corporation. In representing the owners of the corporation, the board has a primary responsibility to review the activities and finances of the company and to set company policies. A board member who holds a position with the company in addition to his position on the board is known as an inside director. A board member who does not hold another position with the company is known as an outside director.

Duties of the Board of Directors

Board of Directors has the following duties:

i) Setting the major policies for the firm.

ii) Evaluating the firm's operating results.

iii) Authorizing major transactions, such as mergers and acquisitions.

iv) Declaring the dividends to be paid to stockholders/policy owners.

v) Appointing the officers who operate the company.

vi) Setting the compensation for the firm's top-level executives.

Principles of Underwriting

The basic principles of underwriting, which the underwriter has to follow to achieve profit in insurance business, are:

1) **To Select the Applicants According to the Company's Underwriting Principles:** The underwriters should consider those applicants whose actual loss rating is less than the expected loss rate.

For example, a company may consider insuring buildings which are highly protected against fire hazards as the actual loss rate will be less than the expected loss rate. Assume that the loss percentage is expected as 20%. Then the underwriters should make sure that the applicant meet the underwriting requirements strictly so that the actual loss percentage does not exceed 20%.

2)To Balance the Rate Classification Effectively: The underwriter should ensure that there is a balance in rates between the below average applicants and above average applicants. The applicants are grouped according to the percentage of expected loss rate . Then the underwriters have to use their skills wisely and choose this applications to keep the rate balanced.

3) To Charge Equitable Rates to the Policy Owners: Apart from this rate balancing, the underwriter should make sure that one set of policy holders should not subsidise some other set. For example, a 25-year old person and a 84-year old person should not be charged the same premium for a life insurance policy. Here the rate is inequitable, as the 25-year old person will be charged more premium compared to the 84-year old. This equity balance should be maintained while underwriting.

MODULE - 04

LIFE INSURANCE

CONTENT

LIFE INSURANCE-Basics of life insurance,Growth of Actuarial science,Features of life insurance,Life insurance contract,Life insurance documents.

Life insurance classification,Insurance premium calculations,

Duration-Premium payment participation in profit,Number of person assured.

Payment of policy amount-money back policies-Module linked plans.

Annuities-need of annuity contract,Classification of annuities,annuity vs Life insurance

Meaning of life Insurance

Life insurance refers to a contract between an individual and an insurance company, where the insurer promises to pay a designated beneficiary a sum of money upon the death of the insured person. The primary purpose of life insurance is to provide financial protection and support to the insured person's dependents or beneficiaries after their death. This financial support can help cover various expenses such as funeral costs, mortgage payments, debts, and living expenses.

In essence, life insurance is a way for individuals to ensure that their loved ones are financially secure in the event of their death, easing the burden of financial uncertainty during a difficult time.

Features of life Insurance

1. Death Benefit: This is the core feature of life insurance. The insurer pays a lump sum or periodic payments to the beneficiaries upon the death of the insured person. This benefit is typically tax-free for the beneficiaries.

2. Premiums: Policyholders pay premiums, usually on a regular basis (monthly, quarterly, or annually), to maintain coverage. The amount of premiums can vary based on factors such as the insured person's age, health, coverage amount, and type of policy.

3. Guarantees: Some life insurance policies come with guarantees, such as guaranteed minimum interest rates on cash value growth, guaranteed level premiums (for term policies), or guaranteed death benefits.

4. Cash Value: Permanent life insurance policies typically have a cash value component that accumulates over time. This cash value grows tax-deferred and can be accessed by the policyholder through withdrawals or loans. The cash value can also be used to pay premiums or increase the death benefit.

5. Flexibility: Some life insurance policies offer flexibility in terms of premiums and death benefits. For example, universal life insurance allows policyholders to adjust their premium payments and death benefits within certain limits.

6. Riders: Policyholders can often add riders to their life insurance policies for an additional cost. Riders provide extra benefits or coverage options, such as accelerated death benefits

7. Policy Term: Life insurance policies can be either term policies (covering a specific period, such as 10, 20, or 30 years) or permanent policies (providing coverage for the insured's entire life). Term policies generally have lower premiums but do not accumulate cash value, whereas permanent policies often have higher premiums but include a savings or investment component.

8. Income Tax Benefits: Life insurance policies generally provide income tax benefits. Death benefits paid to beneficiaries are usually income tax-free. The cash value growth is tax-deferred, meaning you don't pay taxes on the earnings until you withdraw them (and even then, certain withdrawals might be tax-free up to the amount of premiums paid).

Growth of Actuarial Science

Actuarial Science is the discipline that applies mathematical and statistical methods to the systematic observation of natural events to assess the risk of events occurring and help formulate policies that minimize this risk and its financial impact on companies and clients.

- ❖ Increasing Complexity of Risks
- ❖ Expansion of Insurance and Financial Services
- ❖ Regulatory Requirements
- ❖ Technological Advancements
- ❖ Diverse Applications
- ❖ Actuarial Education and Professional Development
- ❖ Risk Management Focus
- ❖ Demographic Changes

Types of life insurance include examples

❖ Term Insurance Plans

Term insurance protects your family's financial future if something were to happen to you. Designed as a simple and affordable way to give financial cover, a term plan is a vital part of financial planning for the primary wage earner in a family.

Example: John, a 35-year-old primary wage earner, buys a 20-year term insurance policy with a coverage amount of $500,000. He pays an annual premium of $300. If John were to pass away during the 20-year term, his beneficiaries would receive the $500,000 death benefit. If John survives the 20-year term, the policy expires and no benefits are paid out.

❖ ULIPs – Unit Linked Insurance Plans

A unit linked insurance plan (ULIP) is a combination of insurance and investment. A ULIP provides life cover that offers financial protection for your loved ones. In addition to this, it also gives you the potential to create wealth through market-linked returns from systematic investments.

Example: Jane, a 30-year-old, purchases a ULIP with an annual premium of $2,000. The insurer allocates $500 of this premium towards life insurance coverage, and the remaining $1,500 is invested in a mix of equity and debt funds. Over time, the value of Jane's investment component grows based on the market performance of the selected funds. If Jane passes away during the policy term, her beneficiaries receive the higher of the sum assured (say $50,000) or the fund value. If Jane survives the policy term, she receives the fund value, which represents the accumulated investment returns

❖ Endowment Insurance Plans

Endowment plans are ideal for people who want guaranteed returns along with the protection of life insurance. An endowment plan is a life insurance policy that provides life coverage along with an opportunity to save regularly. This enables you to receive a lump sum amount on the maturity of the policy. In case of death during the policy term, your nominee(s) also receives a death benefit.

Example: Mary, a 30-year-old professional, buys a 20-year endowment plan with a sum assured of $100,000. She pays an annual premium of $1,500. At the end of the 20-year term, Mary receives the sum assured of $100,000 along with any bonuses declared by the insurance company. If Mary passes away during the policy term, her beneficiaries receive the $100,000 death benefit plus any applicable bonuses.

❖ Money Back Insurance Plans

A money back plan is a life insurance policy where the insured person gets a percentage of sum assured at steady intervals. Since you save regularly, the money back plan rewards you regularly. In simple words, a money back plan is an endowment plan with the benefit of increased liquidity with systematic payouts.

example:

David, a 40-year-old business owner, buys a 20-year money back insurance plan with a sum assured of $50,000. He pays an annual premium of $1,200. The plan offers periodic payouts of 20% of the sum assured every 5 years. During the policy term, David receives $10,000 at the end of the 5th, 10th, and 15th years. At the end of the 20-year term, he receives the remaining 40% of the sum assured, which is $20,000, along with any bonuses. If David passes away during the policy term, his beneficiaries receive the full sum assured of $50,000 plus any bonuses, regardless of the periodic payouts he has already received.

❖ Child Insurance Plans

Children deserve the best, and a child insurance plan helps to build a corpus for your child's future. A child plan is one of the most vital financial planning tools for parents. These plans can help you build a significant sum for your child's education and marriage expenses.A child plan provides maturity benefits either in the form of annual instalments or as a one-time payout after the child turns 18.

Example: ICICI Pru SmartKid Solution

- **Maturity Benefit**: Offers lump sum payouts at specific intervals aligned with the child's key education milestones.
- **Policy Term**: Flexible terms ranging from 10 to 25 years.
- **Premium Payment Term**: Can be single pay, limited pay, or regular pay.
- **Additional Benefits**: Provides life cover and critical illness cover to the policyholder, ensuring the child's future is secure even in unforeseen circumstances.

❖ Retirement Insurance Plans

Retirement plans are designed to help you build a sizeable corpus for your post-retirement days. They help you gain financial independence in your non-working years. A retirement plan allows you to save and invest for the long-term, thereby offering the potential to accumulate a significant amount of wealth.

Example : SBI Life - Saral Pension

- **Accumulation Phase**: Allows policyholders to build a corpus over time through regular premiums.
- **Vesting Age**: The age at which the policyholder starts receiving the pension, typically ranging from 40 to 70 years.
- **Annuity Options**: Includes various options like lifetime annuity, joint life annuity, and annuity with a return of purchase price.
- **Additional Benefits**: Offers bonuses during the accumulation phase, enhancing the corpus for a better retirement fund.

❖ Whole Life Insurance Plans

A whole life insurance plan is a life insurance policy that gives you life coverage for 99 years. Unlike other policies that have a relatively shorter term of 10-30 years, the long coverage period of such plans ensures protection for your family for an extended period of time.

LIC Jeevan Umang

- **Coverage Term**: Provides life cover up to 100 years of age.
- **Premium Payment Term**: Flexible options ranging from 15, 20, 25, or 30 years.
- **Survival Benefits**: After the premium payment term, the policyholder receives annual survival benefits (8% of the Basic Sum Assured) until maturity or death.
- **Maturity Benefit**: If the policyholder survives until the end of the policy term (100 years), a lump sum maturity benefit is paid.
- **Additional Benefits**: Option to add riders such as accidental death and disability rider for enhanced protection.

Insurance Premium

The insurance company stipulates that an individual or business periodically pay them a specific amount of money as premium for the availing and maintenance of their insurance policy and coverage. Insurance companies consider many factors while determining the premiums, particularly in case of life insurance.

Calculation of Premium

➢ Gross Premium/ Office Premium:

The gross premium is the total amount of premium charged by an insurance company to provide coverage to a policyholder. It includes both the cost of the actual insurance protection and the expenses associated with providing the coverage such as administration costs, commissions, regulatory fees, and a margin for profit including loading.

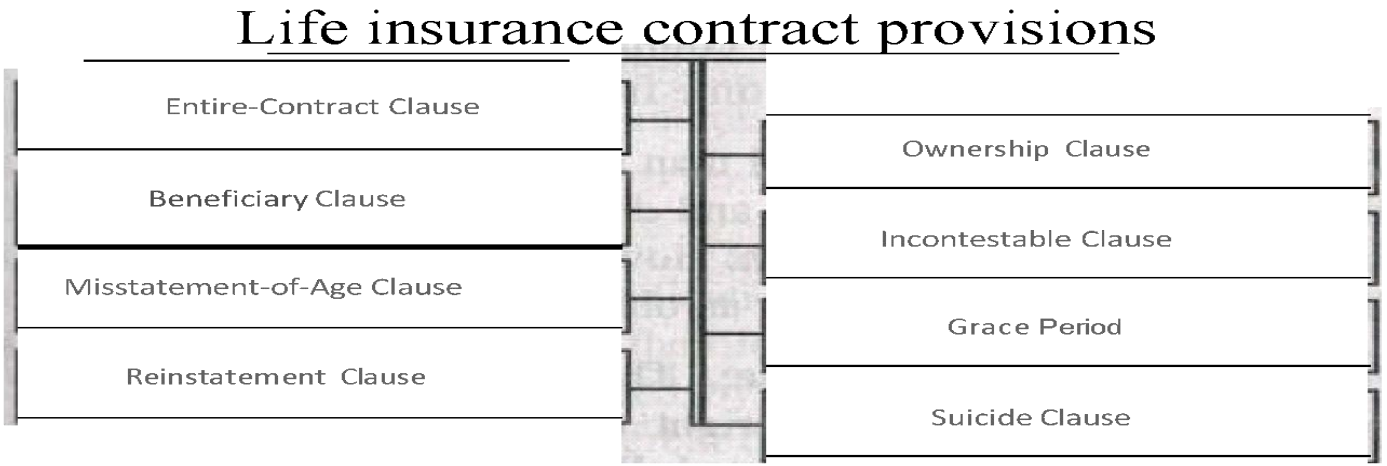
- Allocation of Expense: The business expenses included in the net premiums can be allocated either over various polices or over the period of policy
- Determination of Percentage: It is also necessary for the insurer to determine the percentage in which the expenses vary with the premium. The percentage can be ascertained on the basis of the past experience.

- **Net Premium:**

It may be further classified into:

Net single Premium(NSP): it means the present monetary worth of the future death benefit. It is the lump sum premium amount, which together with the interest earned thereon, is precisely adequate to pay the claim amount.

Net Level Premium: Net premium is the amount received or written on insurance policies when premiums are incurred or paid, and return premiums are deducted from gross premiums.



- **Entire-Contract Clause:** The entire-contract clause makes the policy issued with the application attached to the total agreement between the parties to the contract. The application contains ally of the pertinent underwriting and medical information. Most states do not allow the life insurance company to contest the contract based on statements in an application not attached to the policy.

- **Ownership Clause:** The owner of the life insurance policy is usually the applicant even if the coverage is on another person's life. A parent would own a policy on a child, a spouse may own a policy on his or her partner, and a business may own insurance on a partner, shareholder or employee. Whenever the insured is of age, is not a minor.
- **Beneficiary Clause:** There are three levels of beneficiaries in your insurance policy. First there is the primary beneficiary. This is the person to whom the proceeds of the policy will be paid. If the primary beneficiary should die before the insured and if the insured has not changed or named someone else as beneficiary before his or her death the benefits will be paid to a named contingent beneficiary.

- **Incontestable Clause:** After the policy has been in force for two years the insurer is barred from contesting the validity of the contract. With this provision, the insurance company may not contest any claims following a specific period of time from the initiation of the policy.

- **Misstatement-of-Age Clause:** The misstatement-of-age provision guarantees the beneficiary's right to receive policy proceeds if the insured's age was misrepresented. When the correct age is discovered before the insured's death, either the face amount is adjusted or the premiums are corrected to maintain the policy's face amount .

- **Grace Period:** The grace period is a length of time after the premium due date during which the contract remains in force even though premium payments have not been received. The following is the text a typical grace period clause found in life insurance contracts.
- **Reinstatement Clause:** With this provision, if premiums are not paid in a timely fashion and the policy lapses, it may be reinstated within in specific period of time if the policy holder remains insurable.
- **Suicide Clause**: lf the insured commits suicide within two years after the policy is issued, the face amount of insurance will not be paid, but the beneficiary can get a refund of the premiums paid. If the insured commits suicide after the period expires, the proceeds are paid to the benefic1cry.

Life Insurance Documents

The document issued by an insurance company/broker that is used to verify the existence of insurance coverage under specific conditions granted to held individuals. Various documents are as follows:

1.Proposal Forms: The proposal form is a standardized form. The proposal form is a type of an application form, which a proposer has to fill all the relevant details about the life to be assured. The agent has the proposal form with him provided by the insurer. There are different types of policies and so the different types of proposal forms are there.

Usually the proposal form contains the following information to be filled by the prospective insured:

- Name of life assured,
- Address,
- Date of Birth,
- Occupation,
- Age,
- Name of the employer (if any),
- Sum assured of the proposed policy, viii)Number and age of the family members,
- Family medical history,
- Proposer's Medical history.

2.First Premium Receipt: The agent provides the proposal form other related documents and the underwriter examines the form & other documents and then determines the terms on which to accept risk or reject the same. The consent of the person assured is obtained if the form of payment of premium. After receiving the payment. insurance company issues the First Premium Receipt, acknowledges the proposal of the life-assured. Policy bond is sent within 50 days of first premium payment.

3.Policy Bond: After issuing the First Premium Receipt, the next step is that of the insurer of sending the policy bond to the life-assured and document is also known as Policy Contract, which is the evidence of the life-assured. The Policy Contract contains all the terms and conditions of the contract between insurance company and the assured, duly stamped as per the Indian Stamp Act.

4. **Alterations and Endorsements:** Endorsement is an authentic noting on the back of Policy Contract and forms a part of the contract. In the case of lack of space, the endorsements can be put on a se sheet of papers and attached to the policy. Endorsements are request because life assurance is a long-term contract and the life assured want certain changes in the terms of contract.

5. Reminding Notice: It is basically information sent by the insurer to policyholder, reminding the latter about the due date of a particular premium and the amount of premium. However it is not the duty of insurance company (insurer) to do so. The insurer also informs the policy holder about the lapse of a policy if the premiums are not paid time.

6. Other Documents: Apart from other documents there are some other specialized documents, which are as follows:

1)Proposal on the lives of Non-Resident Indians, which consists of some special questionnaire asking for relevant information.

ii)Partnership Insurance which consist of papers asking for the Profit and Loss account of the firm for the last three years, the insurance of the partner, the partnership deed and the deed of variation allowing the purchase of the assurance policy.

Duration (Premium Payment) Term Insurance

It is a life insurance where the entire premium paid goes towards covering the risk of death during a certain period of time.

Features of Term Insurance

- Term insurance is valid only for a particular period.
- It is relatively expensive when compared to permanent life insurance.
- This policy can renewed.
- Insurance company allows the policyholders to convert their term insurance policies to permanent life insurance policies.
- The premiums are not fixed.

Advantages of Term Insurance

- A person having low income can provide for meeting family obligations at low cost.
- It is useful to whole life policies with a view to get higher risk cover.
- It is useful to those who need extra protection for a short duration.

Disadvantages of Term Insurance

- Term insurance provides coverage only for a limited period of time.
- Premium rates are guaranteed only until the end of the term.
- Deteriorating health can trap insurer in a policy with rapidly increasing premiums.

Participation in Profit (Number of Persons)

Whole Life Insurance

It means that the sum assured is payable only to the beneficiary on the death of the insured.

Features

- It provides insurance coverage for life.
- The premiums will never increase.
- The death benefit is guaranteed as the policyholder knows exactly how much the policy will pay upon claim.
- The participating whole life insurance policy has the opportunity to earn dividends.

Advantages

- It provides economic security to the dependents of assured.
- It helps to discharge the liabilities after the death.
- The premium rates are lower in comparison to other policies.
- Lifetime insurance coverage.
- Premiums that are guaranteed are never to increase.

Disadvantages

- More expensive than term life insurance.
- Less flexible than universal life insurance.
- This policies are extremely complicated.
- Whole life policies have a “surrender period”.

Endowment Insurance

These policies assure that the benefits under the policy will be paid on the death of the life insured during the selected term.

Features

- With profit and a without profit plans are available under this policy.
- Premiums can be limited to shorter term.
- Premiums cease on death or expiry of term..
- This policy is suitable for the people of all ages and social groups.
- It is flexible in that the term of the policy can be chosen to meet the financial need of the policyholder.

Advantages

- It provides life insurance protection together with a large savings and investment element.
- It has surrender values, loan values and paid-up values.
- Non-forfeiture privileges are included.
- It is flexible.

Disadvantages

- It only provides protection for a specific period.
- The premium payable is usually much higher than that of whole life insurance or term insurance.

Difference between Whole Life Plan and Endowment Plan

Basis	Whole Life Plan	Endowment Plan
Payment of sum assured	Sum assured is payable only to the dependants after the death of the assured.	Sum assured is payable either on death or on the date of maturity.
Period	A whole life policy is for longer period.	An endowment policy is comparatively for a shorter period.
Object	The object is to provide security to the family after the death of life assured.	The object is to provide security as well as saving for old age.
Premium rates	The premium is low as compared to endowment policies.	The premium is higher than whole life policies.
Suitability	The policy is ideally suited to person having good financial status and other fixed income sources.	The policy is suited to those who want provision for old age and also for the family.
Popularity	The whole life policy is not very popular.	This plan is more popular.

Payment of Policy Amount - Money-Back Policy

These policies are structured to provide sums required a s anticipated expenses (marriage, education, etc.) over a stipulated period of time.
A portion of the sum assured is payable at regular intervals. On survival the remainder of the sum assured is payable.
In case of death, the full sum assured is payable to the insured. Under money-back policies, premiums can be paid as per the insurance company's policy. These could be quarterly, half-yearly, or annually.

By buying such policies one can receive income at regular intervals other than the risk cover it provides. Also a good amount of bonus on the full sum assured is quite a good bargain.

Features of Money Back Policy

1) It is the policy where lump sum amounts are paid to the life assured at periodic intervals on survival.
2) In case of death of the life assured within the term, the total sum insured is paid to the nominee, irrespective of earlier survival benefits.
3) Bonus is payable under this policy.
4) Premiums are to be paid regularly to get survival benefits under this policy.
5) In this policy, premiums cease at death or on expiry of term whichever is earlier.

Advantages of Money Back Policy

1) It helps in saving tax.
2) It provide guaranteed returns.
3) 3) They offer dual benefits of insurance and redemption of money at regular intervals.
4) Money which is given at regular intervals may be used to pay the premium or some other investment.

Disadvantages of Money Back Policy

1) They require long term commitment like, for instance, 15 or 25 years.
2) Overall maturity value is less when compared to endowment plans.
3) The premium charge in it is higher than endowment plans and term insurance.

Money Back Policy Insurance Products

1) **Back Policy 20-Years and 25-Years**: Unlike ordinary endowment insurance plans where the survival benefits are payable only at the end of the endowment period, this scheme provides for periodic payments of partial survival benefits as follows during the term of the policy, of course so long as the policyholder is alive.

1) **Jeevan Surabhi - 15 Years - 20 Years - 25 Years**: Jeevan Surabhi plan is similar to other money back plans. However main differences in regular money back plans and Jeevan Surabhi are as under:

i)Maturity term is more than premium paying term.
ii) Early and higher rate of survival benefit payment.
iii) Risk cover increases every five years.

3)Bima Bachat: Bima Bachat is a money-back policy which offers financial security and assurance to the policyholder and his family. Bima Bachat requires the policyholder to pay only one premium. The amount paid for the premium depends on the duration of the policy taken and life insurance is available till the date of maturity.

4) Jeevan Bharati-I: Jeevan Bharati-I is a plan exclusively for women. It is a with-profit plan having special features considering the needs of women. The plan also provides for Accident Benefit, Critical Illness Benefit, and Congenital Disability Benefit as optional Riders.

Features of Money Back Policy

1) It is the policy where lump sum amounts are paid to the life assured at periodic intervals on survival.
2) In case of death of the life assured within the term, the total sum insured is paid to the nominee, irrespective of earlier survival benefits.
3) Bonus is payable under this policy.
4) Premiums are to be paid regularly to get survival benefits under this policy.
5) In this policy, premiums cease at death or on expiry of term whichever is earlier.
6) This plan can be availed of for terms 20 or 25 year's.

Advantages of Money Back Policy

1) It helps in saving tax.
2) It provide guaranteed returns.
3) They offer dual benefits of insurance and redemption of money at regular intervals.
4) Money which is given at regular intervals may be used to pay the premium or some other investment.

Disadvantages of Money Back Policy

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3) The premium charge in it is higher than endowment plans and term insurance.

Unit Linked Insurance Plans (ULIPs)

A Unit Linked Insurance Policy (ULIP) is one in which the customer is provided with a life insurance cover and the premium paid is invested in either debt or equity products or a combination of the two.

To put it simply, ULIP attempts to fulfill investment needs of an investor with protection/insurance needs of an insurance seeker. It saves the investor/insurance-seeker from the hassles of managing and tracking a portfolio or products. More importantly, ULIPs offer investors the opportunity to select a product which matches their risk profile.

Unit Linked Insurance Plans came into play in the 1960s and became very popular in Western Europe and Americas. In India the first Unit Linked Insurance Plan, popularly known as ULIP - Unit Linked Insurance Plan in India was brought out by Unit Trust of India in the year 1971 by entering into a group insurance arrangement with LIC to provide for life cover to the investors, while UTI, as a mutual fund was taking care of investing the unitholders money in the capital market and giving them a fair return.

Subsequently in the year 1989, another Unit Linked Product was launched by the LIC Mutual Fund called by the name of "Dhanaraksha" which was more or less on the line of ULIP of UTI. Thereafter LIC itself came out with a Unit Linked Insurance Product known by name "Bima Plus" in the year 2001-02.

Features of ULIP

1) Premiums paid can be single, regular or variable. The payment period too can be regular or variable. The risk cover can be increased or decreased.oltaru

2) As in all insurance policies, the risk charge (mortality rate) varies with age.

3) The maturity benefit is not typically a fixed amount and the maturity period can be advanced or extended.

4) Investments can be made in gilt funds, balanced funds, money market funds, growth funds or bonds.

5) The policyholder can switch between schemes, e.g., balanced to debt or gilt to equity, etc.

6) The maturity benefit is the net asset value of the units.

7) The costs in ULIP are higher because there is a life insurance component in it as well, in addition to the investment component.

8) Insurance companies have the discretion to decide on their investment portfolios.

9) Being transparent the policyholder gets the entire episode on the performance of his fund.

10) ULIP products are exempted from tax and they provide life insurance.

11) Provides capital appreciation.

12) Investor gets an option to choose among debt, balanced and equity funds.

Types of ULIP

1) Pension Plans: The pension plans come with two variations with and without life cover and are meant for people who want to generate returns for their sunset years.
2) Children Plans: The children plans, on the other hand, are aimed at taking care of their educational and other needs.
3) Group Linked Plans: The group linked plans are basically designed for employers who want to offer certain benefits for their employees such as gratuity, superannuation and leave encashment.
4) Capital Guarantee Plans: The plan promises the policyholder that atleast the premium paid will be returned at maturity. But the guaranteed amount is payable only when the policy's maturity value is below the total premium paid by the individual till maturity. However, the guarantee is not provided on the actual premium paid but only on the portion of the premium that is net of expenses.

Advantages of ULIP

1) Insurance Cover Plus Savings
2) Multiple Investment Options variants:
i) Aggressive ULIPs (which can typically invest 80%-100% in equities, balance in debt).
ii) Balanced ULIPs (can typically invest around 40%-60% in equities).
iii) Conservative ULIPs (can typically invest upto 20% in equities).
3) Flexibility.
4) Works like an SIP
5) Transparency

Disadvantages of ULIP

1) No Standardization
2) Lack of Flexibility in Life Cover
3) Overstating the Yield
4) Internally made Sales Illustration
5) Not all show the Benchmark Return
6) Early Exit Options

ANNUITY

DEFINITION:

According to D.S. Hansell, "Annuities are a form of pension, whereby & return for a certain sum of money (paid in a lump sum or by installments) the insurer agrees to pay the annuitant an annual amount (an annuity) for a specified period or for the remainder of the annuitant's life".

NEED FOR ANNUITY CONTRACT

1. Investors are their tax deferred status.under Sec

Section 80CCC:Tax Deduction on Premiums Paid

Section 10(10A):Tax Exemption on Commutation:

Section 194P:Tax on Annuity Payments

1. Their high rate of return.
2. Faster growth to savings that they offer.
3. The security of the investment.

Classification of Annuities;

i. Immediate Annuity: This type of annuity should be purchased with a single premium. The benefit payment i.c. the payment made by the insurer to the insured, is made within a short period of taking the policy.

ii. Deferred Annuity: Under this type of policy, the annuitant starts receiving the annuity payment after lapse of fixed number of years as agreed upon at the inception of the policy. The premium may be paid either as one lump sum payment or it could be monthly,quarterly.

iii.Guaranteed Annuity: The insurer is required to make annuity payments for at least a certain number of years, which is called period certain, irrespective of whether the annuitant is alive or dead.

Difference Between Annuity and Life Insurance

Annuity	Life Insurance
Annuities pay a set amount monthly. quarterly or annually to meet future financial needs, usually in retirement.	Life insurance pays the value of the policy at the time of your death.
The annuity pays back the total value of the investment made plus the gains earned on.	The life insurance investment returns an amount that may be multiple times larger than the premiums paid.

General Insurance

Laws Related to General Insurance Business (Nationalization) Act, 1972

- The act provides for the acquisition and transfer of shares of Indian insurance companies and undertakings of other existing insurers. Main provisions of the Act :

1) Acquiring Company: merger of one Indian insurance company in another or the amalgamation of two or more such companies.
2) Appointed Day: not being a day later than the 2nd day of Jan 1973
3) Companies Act: Companies Act, 1956
4) Corporation: Corporation of India formed under sec 9
5) Existing insurer: It means every insurer, the management of whose undertaking has vested in Central Government under sec 3 of GI Act 1971.
6) Foreign Insurer: An existing insurer incorporated under the law of any country outside India.
7) General Insurance Business
8) Government Company
9) Indian Insurance Company
10) Insurance Act- 1938

General Insurance Contract

- The general principles of contract are described in the Indian Contract Act. The essentials elements of a contract including insurance contract are:

1) Offer and acceptance
2) Consideration
3) Agreement between the parties
4) Capacity of the parties to contract
5) Legality of the contract

- An offer is made by the insured on duly submitting a proposal and acceptance is made by the insurer usually by the issue of a cover note or policy. The acceptance is valid only on payment of premium.
- Premium is the consideration received by the insurer and promise to indemnify is the benefit received by the insured. Legally speaking the consent must be based on common intention and understanding and the parties to contract should be competent to contract, have attained age of majority, possess sound mind and not otherwise disqualified by the law. The Insurance Act stipulates that all insurance contracts should be in writing, duly stamped.

General Insurance Corporation (GIC) of India

- 107 insurers, including branches of foreign companies, operating in India, were amalgamated and grouped into 4 companies namely:

1) The National Insurance Company Limited
2) The New India Assurance Company Limited
3) The Orientatal Insurance Company Limited
4) The United India Assurance Company Limited

- Head offices at Kolkata, Mumbai, Delhi and Chennai
- GICI was incorporated as a holding company of the 4 general insurance companies in November 1972.
- All the 4 companies are government companies registered under the Companies Act.

Objectives of GIC

- The main objectives of GIC were superintending, controlling and carrying on the business of general insurance.

1) To provide need based and low- cost general insurance cover, to the rural population .
2) To administer a crop insurance scheme for the benefits of farmers.
3) To develop and introduce covers with social security benefits.
4) To develop a marketing network throughout the country and to promote balanced regional development and make insurance available to the masses.

Functions of GIC

1) The carrying on of any part of general insurance business as deemed desirable
2) Aiding, assisting and advising the companies in the matter of setting up of standard of conduct and sound practice in general insurance business and in rendering efficient customer service.
3) Advising the acquiring companies in the matter of controlling the expenses including the payment of commission and other expenses.
4) Advising the acquiring companies in the matter of investment of funds.
5) Issuing directions to acquiring companies in relation to the conduct of general insurance business.

GIC and its Subsidiaries

- With effect from December 2000, the following 4 subsidiaries now function as independent insurance companies.

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

Meaning of Health Insurance

Health Insurance, also known as medical insurance is a form of insurance which covers the expenses incurred on medical treatment and hospitalisation. It covers the individual and family against any financial Constraints arising from medical emergencies.

Health insurance, like other forms of insurance, is a form of collectivism by means of which people collectively pool their risk, in this case the risk of Incurring medical expenses. The collective is usually publicly-owned or else is organized on a non-profit basis for the members of the pool, though in some countries health insurance pools may also be managed by for-profit companies. It is sometimes used more broadly to include insurance Covering disability or long-term nursing or custodial care needs. It may be provided through a government-sponsored social insurance program, or from private insurance companies. It may be purchased on a group basis (0.g., by a firm to cover its employees) or purchased by an individual. In each case, the covered groups or individuals pay premiums or taxes to help in protecting themselves from unexpected healthcare expenses. Similar benefits paying for medical expenses may also be provided through social welfare programs funded by the government.

By estimating the overall risk of healthcare expenses, a routine finance Structure (such as a monthly premium or annual tax) can be developed, ensuring that money is available to pay for the healthcare benefits specified in the insurance agreement. The benefit is administered by a central organization such as a government agency, private business, or not-for- profit entity.

Individual Medical Expense Insurance

Individual health insurance is, quite simply, coverage that an individual Phases for himself and/or his family. Individual insurance policies and visions are regulated by the state where the policy is purchased. Individual health insurance is defined as health coverage that is purchased of an individual basis and not as a part of a group. Individual health insurance generally has a higher premium, compared to a group policy. People who purchase individual insurance policies typically do so because they do not have access to employer-provided group health coverage. These people also may not qualify for public programmers such as Medicaid or Medicare. Other reasons for buying individual health insurance is if the sun is self-employed, works for a small company that does not offer insurance or retires before Medicare can kick in.

Advantages of Individual Health Insurance

- If people are healthy, it may be cheaper to purchase insurance on their own. In a group policy, they have averaged high-risk and low-risk people together.
- People can choose coverage that fits their specific needs. Their monthly premium may not be cheaper, but they can purchase an individual policy that meets them and their family's needs for prescriptions and medical care that will save their money overall.
- A major advantage of an individual health insurance plan is that it is table. People can leave their job without any concern that they are Jeo pardising their healthcare. They do not have to qualify for new Insurance, the way they would if their group health terminated, so they Be not at risk for losing coverage if they have become high-risk.

Disadvantages of Individual Health Insurance

- The main disadvantage of applying for an individual health insurance policy is that people can be turned down because of their health, due to the Individual risk-assessment that the insurance provider makes. Higher risk mean higher cost; people do not want an individual policy if they are high risk and a group policy is available.

Long-Term Care Coverage /Insurance

Long-Term Care Insurance, an insurance product sold to provide for the cost of long-term and can beyond a predetermined period. Long-term care insurance covers can generally not covered by health insurance, Medicare, or Medicaid.

Individuals who require long-term care are generally not sick in the traditional sense, but instead, are unable to perform the basic Activities a Daily Living (ADLs) such as dressing, bathing, eating, toileting continence, transferring (getting in and out of a bed or chair), and walking.

Age is not a determining factor in needing long-term care. About 60 percent of individuals over age 65 will require atleast some type of long-term care services during their lifetime. About 40% of those receiving long-term care today are between 18 and 64. Once a change of health occurs, long term care insurance may not be available.

Features of Long-Term Care Insurance Policies:

1) **Type of Care Covered:** While the largest expenses related to long term care result from a stay in a nursing home, many people are able to remain in their homes with the assistance of visiting nurses, therapists and even housekeepers. Long-term care policies can be written to cover such in-home care.
2) **Your Age:** The younger you are when you take-out your policy, the lower the premium. This difference arises because premiums can be collected for many years before long-term care is needed at an advanced age. The trade-off lies between buying young and paying premiums for many years versus waiting to purchase a policy, at which time it may be difficult to buy coverage because of the pre-existing condition exclusion.
3) **Benefits:** Long-term care insurance generally covers home care, assisted living, adult day care, respite care, hospice care, nursing home and Alzheimer's facilities. If home care coverage is purchased, long- term care insurance can pay for home care, often from the first day it is needed. It will pay for a visiting or live-in caregiver, companion, housekeeper, therapist or private duty nurse up to 7 days a week, 24 hours a day (upto the policy benefit maximum).

4) Benefit Period: Although it is possible to buy a policy with lifetime benefits, this option can be very expensive. The average nursing home stay is about two and one-half years. A policy with a three-year limit might cost one-third less than a policy with a lifetime benefit period.

5) Waiting Period: Policies can pay benefits from the first day of nursing home care or can include a waiting period. Selecting a 30-day or 90- day waiting period can significantly reduce premiums.

6) Inflation Protection: If a person buy a policy prior to age 60, he/she face a significant risk that inflation will render his/her daily benefit woefully inadequate when care is ultimately needed. Some policies increase the daily benefit 4 or 5 per cent per year to adjust for inflation, but this protection adds considerably to the premium. The younger the person's age when a policy is purchased, the more his/her might need inflation protection. Persons over age 65 or so are less likely to benefit from this protection.

Types of Long-Term Care Insurance Policies

1) **Facility-Only Policy:** It typically covers care in a nursing home, assisted-living facility, Alzheimer's facility, or hospice as long as the insured satisfies the benefit trigger.
2) **Home Healthcare Policy:** It covers care received outside of an institution and typically covers home healthcare, adult day care, and respite care. Respite care is a benefit that provides occasional full-time care to an insured who is receiving home healthcare services, allows a caregiver to take a needed break.
3) **Comprehensive Policy:** It typically covers care in a nursing home, assisted living facility and hospice and also makes available optional benefits for home healthcare and adult day care .

Personal Accident Policy:

Personal accident policy is a cover meant for compensation in case of accident causing injury/death to person/persons by violent external means. Insurers pay compensation for death, permanent total disablement, permanent partial disablement (like loss of finger, etc.) and temporary total disablement (like fractures). A personal accident policy gives financial relief to you/other insured people If they sustain any injury/death due to accidents. Frost bites and snake bites are also treated as accidents.

Fire Insurance Contract:

The law relating to fire insurance is found in the Insurance Act, 1938.Section 2 (6A) of the Act, defines a fire insurance business as "The business of effecting, otherwise than incidentally to some other class business, contracts of insurance against loss by or incidental to fire, or occurrence customarily included among risk insured against the fire insurance policies"

Marine Insurance

Meaning & Definition of Marine Insurance

Marine insurance is a contract under which, the insurer undertakes to indemnify the insured in the manner and to the extent thereby agreed, against marine losses, incidental to marine adventures. It may be defined as a form of insurance covering loss or damage to vessels or to cargo during transportation to the high seas. The marine insurance is a contract between the insured and the insurer.

The insured may be a cargo owner or a ship owner or a freight receiver. The jurer is known as the underwriter. The document in which the contract is incorporated is called "Marine policy". The insured pays a particular sum, which is called premium, in exchange for an undertaking from the insurer to indemnify the insured against loss or damage caused by certain specified perils.

According to Helsbry, "It is contract whereby the insurer undertakes to indemnify the assured in the manner and to the extent thereby agreed against marine losses, that is to say loss incidental to marine adventure".

According to Section 3(IA) of Marine Insurance Act, "The business of affecting contracts of insurance upon the vessels any description including cargo, freights, and other interests which may be legally insured".

Motor vehicle Insurance :-

Motor vehicle insurance is a type of insurance policy that provides financial protection for vehicles and their owners in the event of an accident, theft, or other damage.

Need for motor Insurance :-

Motor vehicle insurance is essential for several reasons, primarily to protect individuals, vehicles, and financial stability.

Here are the key reasons why motor insurance is necessary:

Legal Requirement

Mandatory by Law: In most places, having at least liability insurance is required by law. This ensures that if you are at fault in an accident, you can cover the costs of damage or injury you cause to others.

Financial Protection

Accident Coverage: Accidents can result in significant repair costs or even total loss of the vehicle. Insurance helps cover these expenses, reducing the financial burden on the vehicle owner.

Medical Expenses: In the event of an accident, motor insurance can cover medical expenses for injuries sustained by you, your passengers, and others involved in the accident.

Theft and Vandalism: Comprehensive insurance protects against the financial loss of vehicle theft or damage due to vandalism or other non-collision incidents.

Natural Disasters: Comprehensive coverage also includes protection against natural disasters like floods, storms, and earthquakes, which can cause extensive damage to vehicles.

Liability and Legal Costs

Third-Party Liability: If you are found responsible for an accident, liability insurance covers the cost of damage to the other party's vehicle and property, as well as medical expenses. It also helps with legal fees if the other party decides to sue.

Uninsured/Underinsured Motorist Protection: If you are involved in an accident with a driver who does not have sufficient insurance, your policy can cover the costs that the other driver's insurance cannot.

Peace of Mind

Risk Management: Driving involves inherent risks, and having insurance provides peace of mind knowing that you are financially protected against unforeseen events.

Roadside Assistance: Many insurance policies offer additional benefits like roadside assistance, which can be invaluable in case of breakdowns or other emergencies.

Types of Motor Insurance

Motor vehicle insurance comes in various types, each designed to cover different aspects of risk and liability associated with owning and operating a vehicle. Here are the main types of motor insurance:

1. Liability Insurance

Bodily Injury Liability (BIL): Covers medical expenses, lost wages, and legal fees for injuries you cause to others in an accident.

Property Damage Liability (PDL): Covers repair or replacement costs for damage you cause to another person's property, including vehicles, buildings, and other structures.

2. Collision Insurance

Covers the cost of repairing or replacing your vehicle after a collision with another vehicle or object, regardless of who is at fault.

3. Comprehensive Insurance

Covers damage to your vehicle from non-collision incidents such as theft, vandalism, fire, natural disasters, and falling objects.

4. Personal Injury Protection (PIP) / Medical Payments (MedPay)

PIP: Covers medical expenses, lost wages, and other related costs for you and your passengers, regardless of fault.

Med Pay: Similar to PIP but typically more limited, covering medical expenses for you and your passengers.

5. Uninsured/Underinsured Motorist Coverage (UM/UIM)

Uninsured Motorist (UM): Covers your expenses if you're involved in an accident with a driver who has no insurance.

Underinsured Motorist (UIM): Covers your expenses if the at-fault driver's insurance is insufficient to cover your damages.

6. Gap Insurance

Covers the difference between the actual cash value of your vehicle and the amount you still owe on your auto loan or lease, in case your vehicle is totalled or stolen.

7. Rental Reimbursement Coverage

Pays for a rental car if your vehicle is being repaired due to a covered insurance claim.

8. Towing and Labor Coverage

Covers the cost of towing and labor if your vehicle breaks down or is involved in an accident.

9. Custom Parts and Equipment (CPE) Coverage

Covers aftermarket modifications or enhancements to your vehicle that standard policies might not cover.

10. Classic Car Insurance

Specialized coverage for classic or antique cars, often including agreed value coverage and allowances for limited use.

Factor to be Considered for Premium Fixing

The image outlines various factors considered for determining motor vehicle insurance premiums. Here are the factors in detail:

Driving Record: A history of traffic violations or accidents can increase premiums. A clean driving record often results in lower premiums.

Age and Gender: Younger drivers, particularly males, generally face higher premiums due to higher risk levels associated with their demographic.

Vehicle Type:

Make and Model: High-performance or luxury cars typically cost more to insure.

Age of Vehicle: Newer cars may have higher premiums due to their higher replacement value, while older cars may cost less to insure but might require more frequent repairs.

Location:

Residential Area: Urban areas with high traffic congestion or crime rates may lead to higher premiums.

Parking: Vehicles parked in secure locations like garages may have lower premiums compared to those parked on the street.

Usage of Vehicle:

Annual Mileage: Higher annual mileage can lead to higher premiums as more time on the road increases the risk of accidents.

Primary Use: Vehicles used for business purposes or long commutes might have higher premiums compared to those used for occasional driving.

Coverage and Deductibles:

Type and Amount of Coverage: Comprehensive coverage and higher coverage limits increase premiums.

Deductible Amount: Higher deductibles can lower premiums but increase out-of-pocket costs in case of a claim.

Claims History: A history of frequent claims can result in higher premiums, as it indicates higher risk.

Credit Score: In some regions, insurers use credit scores to assess risk. Higher credit scores can lead to lower premiums.

Safety Features: Vehicles equipped with advanced safety features like anti-lock brakes, airbags, and anti-theft systems may qualify for lower premiums.

Marital Status: Married drivers often receive lower premiums due to statistically lower risk levels.

Occupation: Certain professions are considered lower risk and may qualify for lower premiums.

Types of Marine Insurance

The following types of the marine insurance:

1. **Hull Insurance:** Insurance of vessel and its equipments are included un hull insurance. There are a number of classifications of vessels such ocean steamers, sailing vessels, builders, risks, fleet policies and so on.

2. **Cargo Insurance**: Cargo insurance provides coverage against physical damage or loss of goods during shipping, whether by land, sea or air. Because of the many dangers inherent in shipping, most individuals and businesses choose to insure their goods while they are in transit. It may be written under a single risk policy or floating policies. The cargo may be of any description, e.g., wares, merchandise, property, goods and so on.

3. **Freight Insurance**: Freight is to be payable for the carriage of cargoes or if the vessel is chartered, the money to be paid for the use of the vessel. The carrier is unable to earn freight if the goods or property (called cargoes) are not safely transported.

4. **Liability Insurance**: The marine insurance policy may include liability hazards such as collision or running down. Insurance can also be taken for the expenses involved in non-compliance of rules and regulations without any intention to deceive. It should be clear here that marine perils insurance covers not only the "ocean but also the inland perils". The perils to be included in the policy are clearly defined and the insurer will be liable only for the insured perils.

Marine Insurance Principles:

1. Fundamental of General Contract

A marine insurance policy must fulfill all the essentials of a valid contract, like offer acceptance, agreement, lawful consideration, competent parties, free consent and legal object.

Here the proposal may be offered by a ship owner or a cargo owner freight receiver. When the insurer accepts the proposal, it becomes agreement. The insurer is known as "underwriter" and person take insurance-cover is called insured. The premium is determined on the of risk covered, and is paid at the time of signing the contract.

2. Insurable Interest

An insured person will have insurable interest in the subject matter what that person stands in any legal or equitable relation to the subject matter such a way that person may benefit by the safety or due arrival of insured property or may be prejudiced by its loss, or by damage thereto or by detention thereof or may incur liability in respect thereof. If insured person fails to acquire insurable interest in due course, then person does not become entitled to indemnification. Since the owner and other interest of the subject matter often change from hands-to-hands, the requirement of the insurable interest to be present only at the time loss makes a marine insurance policy freely assignable.

Forms of Insurable Interest:

Under marine insurance, the following persons are deemed to insurable interest:

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

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

3) A creditor who has advanced money on the security of the ship or has insurable interest to the extent of his loan.

4) The master and crew of the ship have insurable interest in respect to their wages.

5) If the subject matter of insurance is mortgaged, the mortgagor insurable interest in the full value thereof and the mortgagee insurable interest in respect of any sum due to him.

6) A trustee holding any property in trust has insurable interest in property.

7) In case of advance freight the person advancing freight insurable interest in so far as such freight is repayable in case of lo 8) The insured has an insurable interest in the charges of any insure policy which that person may take.

3. Disclosure and Representations/Utmost Good Faith

Marine insurance is a contract of uberrimae fidei' or a contract of good faith. The insured must disclose all such relevant facts to the in which are likely to affect his inclination or willingness to undertake risk. According to Section 19 of the Marine Insurance Act, 1963, if party does not observe utmost good faith, the other party may avoid the contract. In addition, under Section 22 of the Act, every material representation that is made by the insured to the insurer during negotiations for the contract and before the contract is concluded must be true. If it is found to be untrue, the insurer may avoid the contract. Moreover, if either party does not disclose complete facts, the other party can avoid the Contract.

According to Section 19, "A contract of marine insurance is a contract fed upon the utmost good faith, and if the utmost good faith be not served by either party, the contract may be avoided by the other party.

Subject to the provisions of Section 20(i) of this Act, the assured must disclose to the insurer, before the contract is concluded, every material circumstance which is known to the assured, and the assured is deemed to know every circumstance which, in the ordinary course of business, night to be known to him

If the assured fails to make such disclosure, the insurer may avoid the contract. Section 20(ii) includes that, every circumstance is material which would influence the judgment of a prudent insurer in fixing the premium, or determining whether one does will take the risk.

In the absence of inquiry the following circumstances need not be disclosed, namely:

i) Any circumstance which diminishes the risk;

ii)Any circumstance which is known or presumed to be known to the insurer. The insurer is presumed to know matters of common notoriety or knowledge, and matters which an insurer in the ordinary course of his business as such, ought to know;

iii)Any circumstance as to which information is waived by the insurer;

iv)Any circumstance which it is superfluous to disclose by reason of any express or implied warranty.

According to Section 22, of Marine Insurance Act,

i)Every material representation made by the assured or his agent to the insurer during the negotiations for the contract, and before the contract is concluded, must be true. If it be untrue the insurer may avoid the contract.

ii)A representation is material which would influence the judgment of a prudent insurer in fixing the premium, or determining whether one does take the risk.

iii)A representation may be either as to a matter of fact, or as to a matter of expectation or belief.

iv)A representation as to a matter of fact is true, if it be substantial correct, that is to say, if the difference between what is represented and what is actually correct would not be considered material by a prudent insurer.

v)A representation as to a matter of expectation or belief is true if it be made in good faith.

vi)A representation may be withdrawn or corrected before the contract is concluded.

vii)Whether a particular representation be material or not, is, in each case, a question of fact.

4. Proximate Cause

'Causa proxima' is a Latin word which means the 'nearest or proximate cause'. It helps is deciding the actual cause of loss when a number of causes have contributed to the loss. The immediate cause of loss should be determined to fix the responsibility of the insurer. The remote cause for a loss is not important in determining the liability. If the proximate cause is insured against, the insurer will indemnify the loss. In other words, "Proximate cause" is a legal term that refers to exactly how a loss occurred. The cause of a loss must be established because only risks specifically insured against can be compensated.

If there is more than one cause for a loss, the dominant and effective cause is the one considered; a more remote cause will not count. The rule is than immediate and not the remote cause in to be regarded. The maxim is 'sed causa proxima' non-remote spectature, i.e., see the proximate cause and not the distant cause.

The real cause must be seen while payments of the loss. If the real cause of loss is insured, the insurer is liable to compensate the loss; otherwise the insurer may not be responsible for loss. So, proximate cause means the active efficient cause that acts in motion a train of events which brings about result, without intervention of any force started and working activity from a new and independent source.

According to Section 55(i) of Marine Insurance Act, "Subject to the provisions of this Act, and unless the policy otherwise provides, the insure is liable for any loss proximately caused by a peril insured against, but, subject as aforesaid, that person is not liable for any loss which is not proximately caused by a peril insured against".

According to Section 55(ii) of Marine Insurance Act, "In particular:

1) The insurer is not liable for any loss attributable to the willful misconduct of the assured, but, unless the policy otherwise provides every person is liable for any loss proximately caused by a peril insured against, even though the loss would not have happened but for the misconduct or negligence of the master or crew;

2) Unless the policy otherwise provides, the insurer on ship or goods is not liable for any loss proximately caused by delay, although the delay be caused by a peril insured against;

3) Unless the policy otherwise provides, the insurer is not liable for ordinary wear and tear, ordinary leakage and breakage, inherent vice or nature of the subject-matter insured, or for any loss proximately caused by rats or vermin, or for any injury to machinery not proximately caused by maritime perils.

5. Warranties

A warranty is that by which the assured undertakes that some particular thing shall or shall not be done, or that some conditions shall be fulfilled or whereby one's affirms or negatives the existence of a particular state of facts. Warranties are the statement according to which insured person promises to do or not to do a particular thing or to fulfill or not to fulfill a certain condition. It is not merely a condition but statement of fact.

Warranties are of two types:

1) Express Warranties: These are those warranties which are expressly included or incorporated in the policy by reference.

2) Implied Warranties: These are not mentioned in the policy at all but are tacitly understood by the parties to the contract and are as fully binding as express warranties.

Warranties can also be classified as:

1) Affirmative Warranty: It is the promise which insured gives to exist or not to exist certain facts.

2) Promissory Warranty: It is the promise in which insured promises that person will do or not do a certain thing up to the period of policy.

6. Doctrine of Subrogation

The aim of doctrine of subrogation is that the insured should not get more than the actual loss or damage. After payment of the loss, the insurer gets the right to receive compensation or any sum from the third party from whom the assured is legally liable to get the amount of compensation.

Subject to the foregoing provisions, where the insurer pays for a partial loss, he acquires no title to the subject-matter insured, or such part of it as may remain, but he is thereupon subrogated to all rights and remedies of the insured and in respect of the subject-matter insured as from the time of the casualty causing the loss, in so far as the assured has been indemnified, according to this Act, by such payment for the loss.

7. Contribution

The doctrine of contribution also applies to marine insurance. If the subject matter has been insured with more than one insurer, each insurer has to only the ratable proportion of loss. If he has paid more than his share loss, he is entitled to recover the excess paid from his co-insurers.

The principle again supports the concept that the insured cannot recover amounts on the same property for the same peril from more than insurer. If by chance he has taken cover from more, than one insurer the all of them contribute in the ratio of the sum assured with them subject the maximum loss.

If any insurer pays more than his proportion of the loss, he is entitled maintain a suit for contribution against the other insurers, and is entitled the like remedies as a surety who has paid more than his proportion of debt.

8. Doctrine of Indemnity

The contract of marine insurance is of indemnity. Under no circumstan an insured is allowed to make a profit out of a claim. In the absence of principle of indemnity it was possible to make a profit.

The insurer agrees to indemnify the assured only in the manner and only the extent agreed upon. Marine insurance fails to provide complete indemnity due to large and varied nature of the marine voyage.

Important Clauses of Marine Insurance:

The marine insurance contains the following important clauses:

1) Lot of Not Lot: This clause protects the insured, which in good faith insures goods which are on a ship which has left a foreign port, in which they were destroyed reasons unknown to him, before he affected policy. In this case both the injured as well as the insurer ought not have been aware of the loss of the goods or the steamer at the time the insurance.

If the insured knew of the loss and did not inform the insurer at the time of effecting insurance the policy would be void.

2) Name of the Ship and Master: Here is given the name of the ship the master for the voyage which is insured.

3) Valuation Clause: This clause states the actual value of the goods agreed upon between the underwriter and the insured in the case of valued policy, and in the case of an open policy a bland is left after words, and shall be valued at.'

4)Parties: All persons competent to contract may be parties to policy of insurance. A policy may be underwritten or undertaken either by an insurance company or an individual underwriter as is the case with Lloyd's in England.

The expression for and in the name of all and every other person or persons, etc., protects all persons who has insurable interest at the time of effecting the policy or who acquired insurable interest during the continuation of the risk.

5)Description of the Voyage or Duration of the Risk: This clause begins with the works 'at and from' and in the blank left in the policy is inserted the description of the voyage intended to be insured. The risk begins from the place at which the steamer is at the time of insurance and ends when she arrives at the port of destination.

6)**Sea Perils Insured Against, or the Perils of the Sea:** These perils include in detail all the perils against which the insured is protected. This clause in Lloyd's embraces almost all the sea perils including 'periods of the seas, men-of-war, fire, pirates, rovers, thieves, jettisons, arrests restraints and detention of all kings, princes and people, and mariners and of all other perils, losses, and misfortunes that have or shall come to the hurt, detriment, or damage of the sail goods or merchandise and the ship."

7)Receipt of Premium and the Rate Charge: The receipt of premium and the rate charged are stated in this clause. Premium is the consideration paid by the insured to the underwriter for undertaking to indemnify him against the loss as per the terms of the policy.

The form of Lloyd's policy clearly uses the words, 'confessing ourselves paid the consideration due....., as if the premium had already been paid to the underwriter, at the time the policy was affected. In practice, however, the premium in London on Lloyd's is not paid by the broker at the time of affecting the policy. The practice there is to pass the amount in account between the insurance broker and the underwriter.

8)Memorandum: The commodities which are the subject matter of marine insurance comprise various articles which are liable to undergo deterioration or damage to a greater or lesser extent according to their peculiar nature.

Marine Insurance Policies:

1) **Voyage Policy:** It is a policy in which the subject matter is insured for a particular voyage irrespective of the time involved in it. In this case, the risk attaches only when the ship starts on the voyage.

2) **Time Policy:** It is a policy in which the subject matter is insured for a definite period of time. The ship may pursue any course it likes, the policy would cover all the risks from perils of the sea for the stated period of time. A time policy cannot be for a period exceeding one year, but it may contain a 'continuation clause'. The 'continuation clause' means that if the voyage is not completed within the specified period, the risk shall be covered until the voyage is completed, or till the arrival of the ship at the port of call.

3) **Mixed Policy:** It is a combination of voyage and time policies and covers the risk during particular voyage for a specified period of time.

4) **Valued Policy:** It is a policy in which the value of the subject matter insured is agreed upon between the insurer and the insured and it is specified in the policy itself.

5) **Open or Unvalued Policy:** It is the policy in which the value of the subject matter insured is not specified. Subject to the limit of the sum assured, it leaves the value of the loss to be subsequently ascertained.

6) **Floating Policy:** It is a policy which only mentions the amount for which the insurance is taken-out and leaves the name of the ship(s) and other particulars to be defined by subsequent declarations. Such policies are very useful to merchants who regularly dispatch goods through ships.

7) **Wagering or Honor Policy**: It is a policy in which the assured has no insurable interest and the underwriter is prepared to dispense with the insurable interest. Such policies are also known as 'Policy roof of Interest (PPI)'.

8)**Builder's Risk Policy:** This policy is issued for more than one year. This covers the risk of damage to vessels from the time its construction commences until its trail is completed.

9) **Port Risk Policy:** This policy covers all the risk of a vessel while it is standing at a port for particular period of time.

Marine Risks:

The marine insurance covers many risks. The types of risks covered by modern marine insurance are as follows:

1)Perils of the Sea: Perils of sea means any type of incident of contingent accidents or casualties at the sea. In course of the voyage, the ship may be damaged due to sea storm, sea pirates, tsunami and accidents of any kind. These all risks are covered by marine insurance.

2)Fire: It is likely that fire may occur in the ship, when it is voyage. Inflammable items such as coal, oil, electricity and others are required in larger quantity for the operation of ship. Thus, fire may be included as risk in marine insurance.

3) Theft: The goods may be stolen during a sea voyage. Therefore, theft is one of the risks associated with the sea transportation. For the purpose of marine insurance, the thieves must not be the captain and his crew themselves or the people traveling by the ship. They must be outsiders, who use force for stealing goods.

4)War Risks: The shipping companies may have to face many risks during the war period. There may exist a risk of loss of ship, cargo and freight due to attacks and counter defensive operations. War risks are insurable in marine insurance.

5)Land Risk: Marine insurance indemnifies the subject-matter (cargo) of the parties right from the godown of the exporting country to the godown of the importing country against any risk of loss. The risks of loss associated with other means of transportation such as railways, roadways and others, warehouses, ports of both the countries and others are included and covered under marine insurance.

6)Jettison: Jettison means throwing overboard a part of cargo or any other goods in order to reduce the weight in the ship. Some of the cargo is deliberately thrown away with the object of preventing the ship from further damage. Loss caused by this method is one kind of marine risk and it can be covered under the marine insurance policy.

Clauses in Marine Insurance Policy:

1) Waiver Clause: This clause is included in the policy to safeguard interest of the insured and maintain that no act of the insured or the insurer meant to save, retrieve, or preserve the insured subject matter shall be taken to imply that either the insured intends to forego compensation or that the insurer accepts the act as abandonment of policy.

2) Sue and Labor Clause

3) Valuation Clause

4) Touch and Stay Clause

5) Lost or Not Lost Clause

6)**Inchmaree Clause**

7)Warehouse to Warehouse Clause

8)Running down Clause

9)Free of Capture and Seizure Clause

10)At and From Clause: This clause, usually used in voyage policies, covers the subject matter insured while it is lying at the port of departure and until they reach the final port of destination. If the policy incorporates only the word from instead of at and from, the policy would cover the risk only from the time of departure of the ship.

11)Barratry Clause: This clause covers losses incurred by the ship owner or the cargo owner due to willful conduct of the master or crew of the ship.

12)Jettison Clause: Jettison denotes an act of throwing overboard a part of the ship's cargo in order to reduce the weight of the vessel and/or to save other goods. Under this clause, all interested parties collectively compensate the loss suffered by owner(s) of jettisoned goods as a result of such acts.

13)Continuation Clause: With this clause, the vessel is allowed continue and complete its voyage even after the policy period has out. This clause is generally incorporated in a time policy. The insure is required to give a prior notice for this and deposit a monthly pro ro premium.

Essentials of Fire Insurance Contracts

Following are the essentials of fire insurance contracts:

1) **Written Contract**: It means that fire insurance do the contract between insured and insurer.

2) **Two Parties**: In fire insurance the contract is made between two parties, i.e., insured and insurer.

3) **Period of Insurance**: This type of insurance is done maximum for on year.

4**) Only Protection Element:** Here, in fire insurance, only protection element is present and lacks investment elements.

5) **Use of Word Insurance:** In fire insurance word is used instead of 'assurance'. This means the compensation will be paid only if there is loss.

6) **Indemnity Contract**: It is a contract of Indemnity because in case of loss, the insured can recover only the actual loss and not more than the loss. The maximum amount of loss to be compensated shall be the value for which the policy has been taken.

7) **Utmost Good Faith**: Fire insurance is a contract Period

A fire insurance contract is only for one year. It can be renewed, after making payment of the premium within the days of price.

8)Insurable Interest: In case of fire insurance, the insured has to show insurable interest, proprietary or pecuniary in the subject matter. It should be present both at the time of taking the policy as well as at the time of loss. Owners, bailees, mortgagees and a carrier have all insurable interest. Owners have proprietary interest and bailee or mortgagee has pecuniary interest. The later can insure even without the knowledge of the owner, and to the extent of full value of goods or property.

10) **Proximate Cause of Damage:** The risk covered by the insurance contract is the loss resulting from fire or some other cause which is the proximate cause of damage.

11) Subrogation & Contribution: These two principles apply to fire insurance.

12).Surrender Value: There is no surrender value in case of fire policy.

13) Actionable Claim: A fire policy can be assigned as an actionable claim under Transfer of Property Act. 1882.

Types of Fire Policies

The fire policies can be of various types which are explained below:

Valued Policy: The value of the property to be insured is determined at the inception of the policy. In this case, the insurer pays the total admitted value irrespective of the then market value of the properties. The measure of indemnity is, in consequence, not value at the time of fire, but a value agreed at the inception of the policy.

Specific Policy: Where a specific sum is insured upon a specific property in case of a specified period, the whole of the actual loss payable provided it does not exceed the insured amount. Here the value of property insured has no relevance in arriving at the measure indemnity in a specified policy and the insured sum sets a limit up time which the loss can be made good.

Floating Policy: The floating policy is the policy taken to cover one or more kinds of goods at one time under one sum assured for of premium and in relation to the same owner. This policy is useful cover fluctuating stocks in different localities. Since the properties spread over various localities and in different forms, the physical and moral hazards are also varying and, therefore, it makes difficult determine premium rates.

Average Policy: Policy containing 'average clause's called Average Policy. The amount of indemnity is determined with referend to the value of the property insured. If the policyholder has taken policy for lesser amount than the actual value of the property, the insured will be deemed to be his own insurer for the amount of under-insurance. The insurer will pay only such proportion of the actual loss as his insured amount bears to the actual value of the property at the time of loss.

Declaration Policy: The excess policy contributes to only a rateable proportion of the loss because if the amount of excess stock exceeds the sum set in the excess policy the businessman will not have a full cover owing to average condition. Moreover, if the First Loss Policy was also subject to average condition the assured will be at a loss. The declaration policy will give a better protection in such cases where the stock fluctuates from time to time.

Adjustable Policy: The above disadvantage is removed by adjustable policy. This policy is nothing but an ordinary policy on the stock of the businessman with liberty to the insured to vary at his opinion, the premium is adjustable pro rata according to the variation of the stock. In case of declaration policy, since the excess premium is refundable at the end of the year, the insured may put fire to the property. This danger is avoidable in an 'Adjustable Policy".

Reinstatement Policy: This policy is issued to avoid the conflict of indemnity. In other types of policies only the market value of the damage or loss is indemnified but this policy undertakes to reinstate the insured property lost by fire to new condition irrespective of its value at the time of loss. This policy is also called "New for Old' policy because the old property is replaced by new properties.

Comprehensive Policy: This policy undertakes full protection not only against the risk of fire but combining within the risk against burglary, riot, civil commotion, theft, damage from pest, lightning. also termed as 'All in policies'. Here the 'Comprehensive' does not mean that every type of risk is covered. There may be many exclusion and limitations. This policy is beneficial to the insured and the insurer The insurer can get higher premium and the assured is protected again losses due to several specified perils.

Consequential Loss Policy: The fire insurance is originally purchased to indemnify the material loss only. The intangible interest will not be indemnified. This provided a check on the insured to exercise a greater care with respect to the property.

Fire insurance coverage:

Fire:

•**Covered:** Destruction or damage to property by fire.
•**Not Covered:** Damage from own fermentation, natural heating, spontaneous combustion, heating/drying process, or burning by public authority order.

•**Lightning:**
•**Covered:** Fire damage or other damage caused by lightning (e.g., structural damage).

•**Explosion/Implosion:**
•**Covered:** Damage from sudden, violent bursts, including fire or concussion damage.

•**Aircraft Damage:**
•**Covered:** Loss/damage by aircraft or aerial devices.
•**Not Covered:** Pressure waves from supersonic aircraft.

•**Storm, Cyclone, Typhoon, Tempest, Hurricane, Tornado, Flood, and Inundation:**
•**Covered:** Damage from violent natural disturbances, abnormal water levels, and water
•accumulation due to choked drains.

•**Subsidence and Landslide (including Rockslide):**
•**Covered:** Destruction/damage from sinking land/buildings or sliding land.
•**Not Covered:** Normal cracking, settlement, coastal/river erosion, defective
•design/workmanship, and demolition/construction activities.
•**Bursting and/or Overflowing of Water Tanks, Apparatus, and Pipes:**
•**Covered:** Loss/damage from water due to bursting/overflowing.
•**Missile Testing Operations:**
•**Covered:** Damage from trajectory/projectiles during missile testing.
•**Leakage from Automatic Sprinkler Installations:**
•**Covered:** Water damage from accidental discharge/leakage.
•**Not Covered:** Damage from building repairs/alterations, sprinkler system
•maintenance, and known construction defects.

- **Bush Fire:**
- **Covered:** Damage from burning bush/jungles and land clearing.
- **Not Covered:** Forest fire damage.
- **Impact Damage:**
- **Covered:** Impact by rail/road vehicles or animals.
- **Not Covered:** Vehicles or animals owned by the insured, occupants, or employees.

Personal Accident Policy Insurance Coverage :

The scope of cover includes the following:

1.Death,

2. Permanent total disability,

3.Permanent partial disability, and Temporary total disability.

The full sum insured is paid for the first two types of injuries. Some permanent total disabilities specifically mentioned in the policy are:

1. Loss of both eyes,
2. Los of both hands, or legs by physical separation,
3. Loss of one limb and sight of one eye, and
4. Any other disability that directly and as a consequence of the injury prevents the insured person from carrying out any occupation.

Child Welfare Policy :

Secure the child's future and build stronger financial security with the double-edge sword called child insurance. Child Plan is insurance-cum- investment plan that serves two purposes:

1)Financially secure the child's future, and

2)Finance the turning points in his life such as higher education and marriage.

So, like a double-edged sword, the best child plan is designed to protect the future of your child in case of your unfortunate demise and at the same time, builds a corpus over a term to be utilised to finance prime moments in his life. Child education plan gives you various benefits such as life cover, building in corpus for the child's future needs and the option of adding specific riders. Go ahead and invest in an education plan, but always compare quotes before you finally sign on the dotted line.

Employee Group Insurance : An employee group policy may be issued to an employer (or to the trustee if a fund established by an employer) where insurance is secured for the benefit of the employees, or for persons other than the employer. The employer is the policy owner, and establishes the eligible class of employees to be covered under the group policy. Usually, this classification will include al full-time employees (including the employer). Further, the classification can also specify full-time, salaried, non-union employees. By classifying the employee group in this manner, the employer is legally able to exclude certain groups of employees (part-time, unions, etc.) from the eligible class of covered employees. The eligible class of employees may also include retired employees.

Features of Group Health Insurance

The most common type of employee benefit is Group Health Insurance. Studies show that employees value their health insurance benefits second only to base pay as a reason to select or keep a job, features of Group Health Insurance include:

1)**Composite Rates:** Blended rates that are the same for every employee, no matter what the age, gender, or number of children in their family.

2)**Easy Enrolment:** Newly hired employees will not be asked health questions in order to qualify to enrol in an existing group plan. Also, employees who previously waived can enrol again at Open Enrolment, and many times they can enrol mid-year.

3)**Better Benefits:** A richer, broader array of benefits, with higher levels is allowed on group plans.

4)**Custom Design:** Employers can semi-custom, or fully custom design their plans.

Features of group availability plan:

shift Scheduling: Organizing shifts to cover all required hours of operation, including peak times, weekends, and holidays.

•**Leave Management**: Tracking and managing employee leave requests to ensure sufficient coverage. This includes vacation, sick leave, and other types of leave.

•**Flexibility**: Allowing for flexible work hours or remote work options to accommodate employees' needs and improve work-life balance.

•**Cross-Training**: Training employees to handle multiple roles or tasks to provide coverage in case of absences or increased demand.

•**Availability Tracking**: Using software tools to track and manage employee availability in real-time.

- **Contingency Planning**: Preparing for unexpected absences or emergencies by having backup plans in place, such as on-call staff or temporary workers.
- **Compliance**: Ensuring that the plan complies with labor laws and regulations regarding working hours, overtime, and rest periods.
- **Performance Monitoring**: Regularly reviewing and adjusting the plan based on performance metrics and feedback from employees and managers.