

UNIT-II

INSURANCE

Meaning, Advantages, Types of Insurance

DEFINITION OF INSURANCE

- Insurance is a means to spread the loss caused by particular risk, over a number of people against some amount called premium.
- Insurance creates a fund under which many persons contribute a certain amount of money called the premium, and out of which the persons who suffer losses are compensated.

- Insurance has become a business in which the party doing the business promises to indemnify the losses against some amount, of persons who insure themselves.
- Insurance can not prevent loss.
- It can compensate those who suffer loss.

- A contract of insurance is a contingent contract.
- The general principles of the law of contract apply to a contract of insurance.
- It is perfectly a valid contract.
- It becomes into existence by the process of offer in the form of proposal and its acceptance by the issue of a policy.

- Competent parties must make the contract of insurance.
- The object of the contract must not be immoral or illegal.
- It must be supported by consideration.
- Briefly, it must fulfill all the essentials of a valid contract like every other contract

4

Finally

Insurance may be defined as an agreement consisting of one party (the insurer) who agrees to pay the other party (the insured) or his/her beneficiary, a certain sum of money upon a given contingency (the risk) against which insurance is sought.

Insurer, Insured

- **Insurer;**

- is the party who agrees to pay for the losses

- **Insured;**

- Is the party who claim for the damage from the insurer.

- **Premium**

- Is paid by the insured and received by the insurer for the insurance

Features

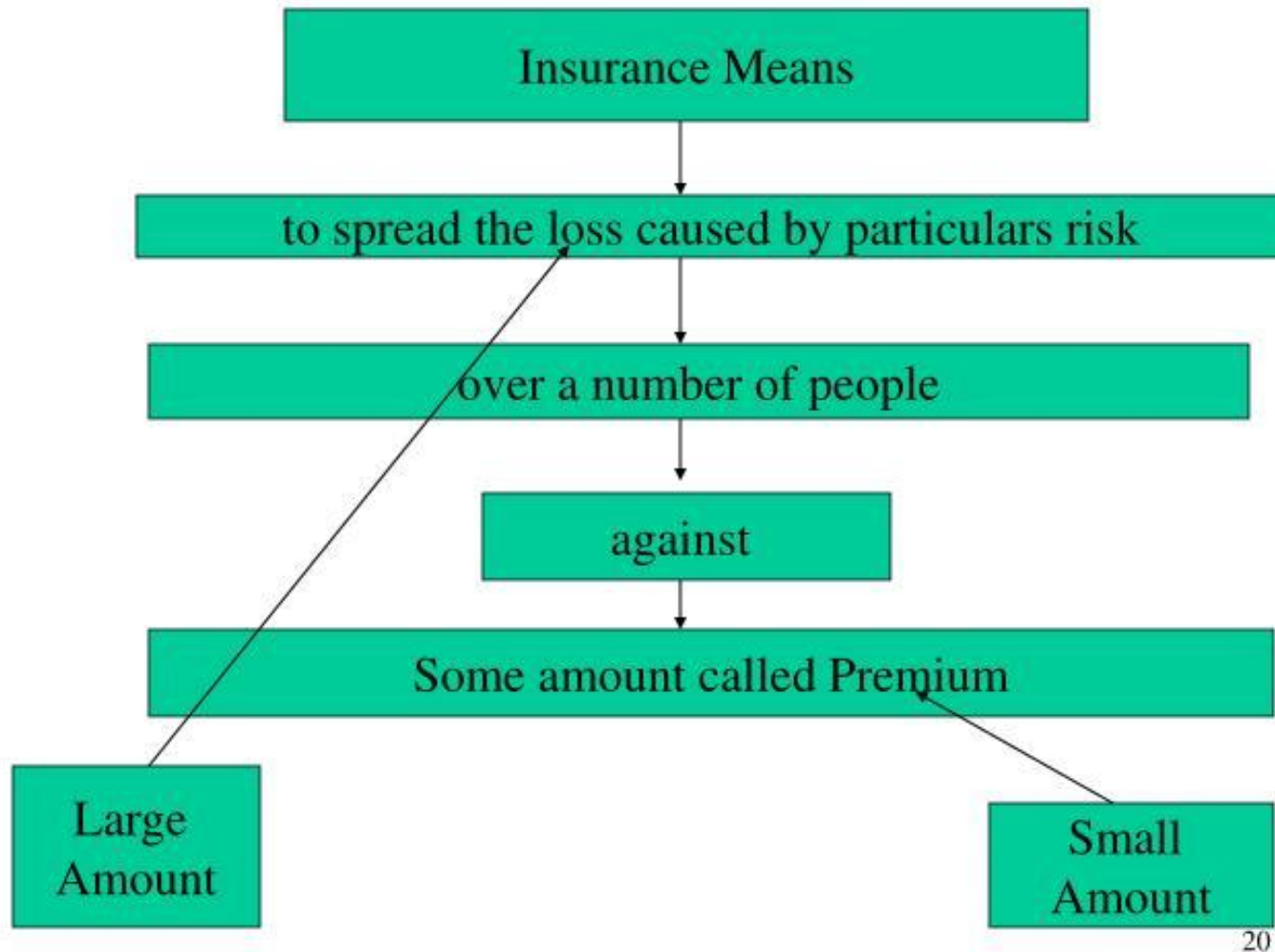
- The party, which promises to pay a certain sum of money to the other party, is called the Insurer (insurance company).
- The party to whom a certain some of money is paid is called the insured (policy-holder) .
- The document containing the terms and conditions of the contract of insurance is called a policy.

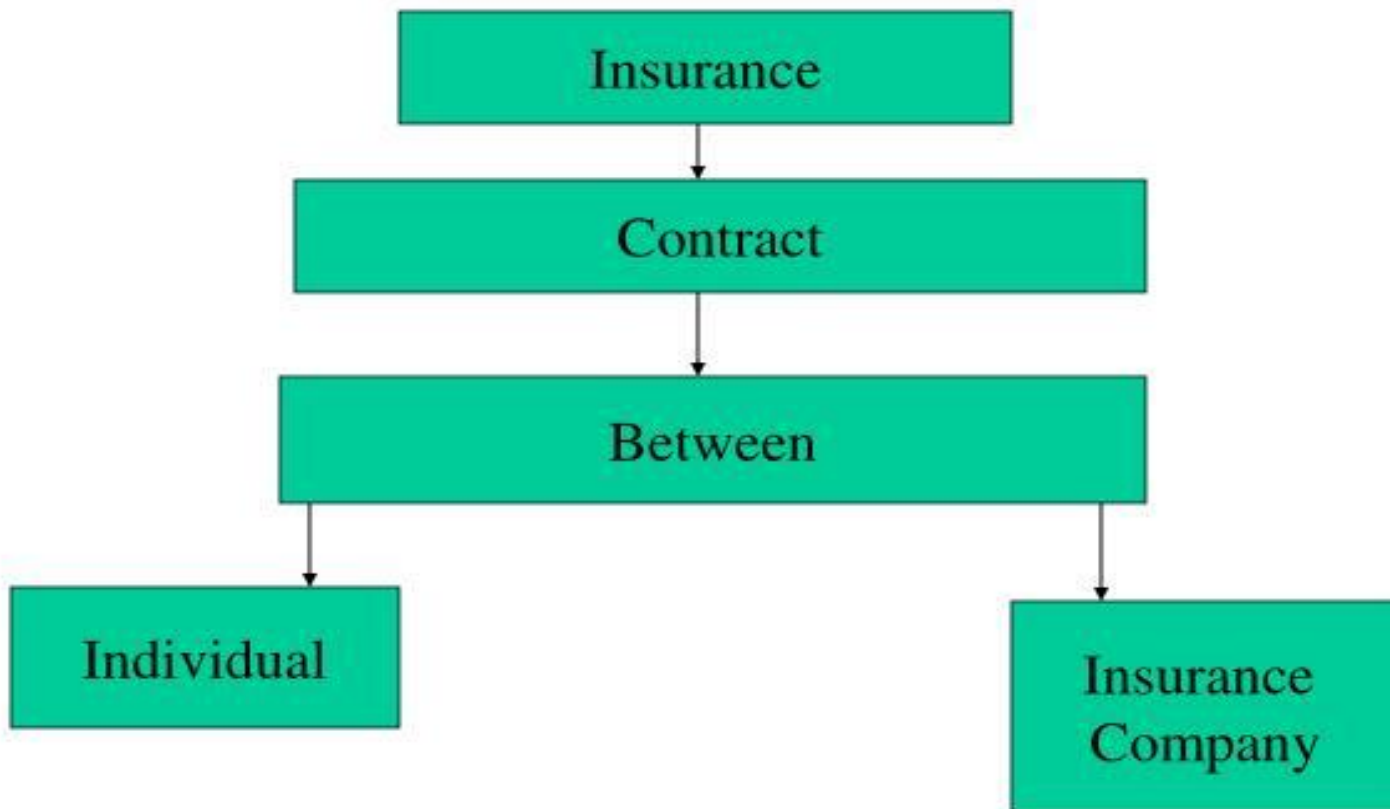
- The consideration, which the insured has to pay to the insurer for the protection given to him is called premium.

- The amount for which a policy is issued is known as policy amount.

- The thing or property insured is called the subject matter of insurance.

- The interest of the insured in the subject matter is called his insurable interest.

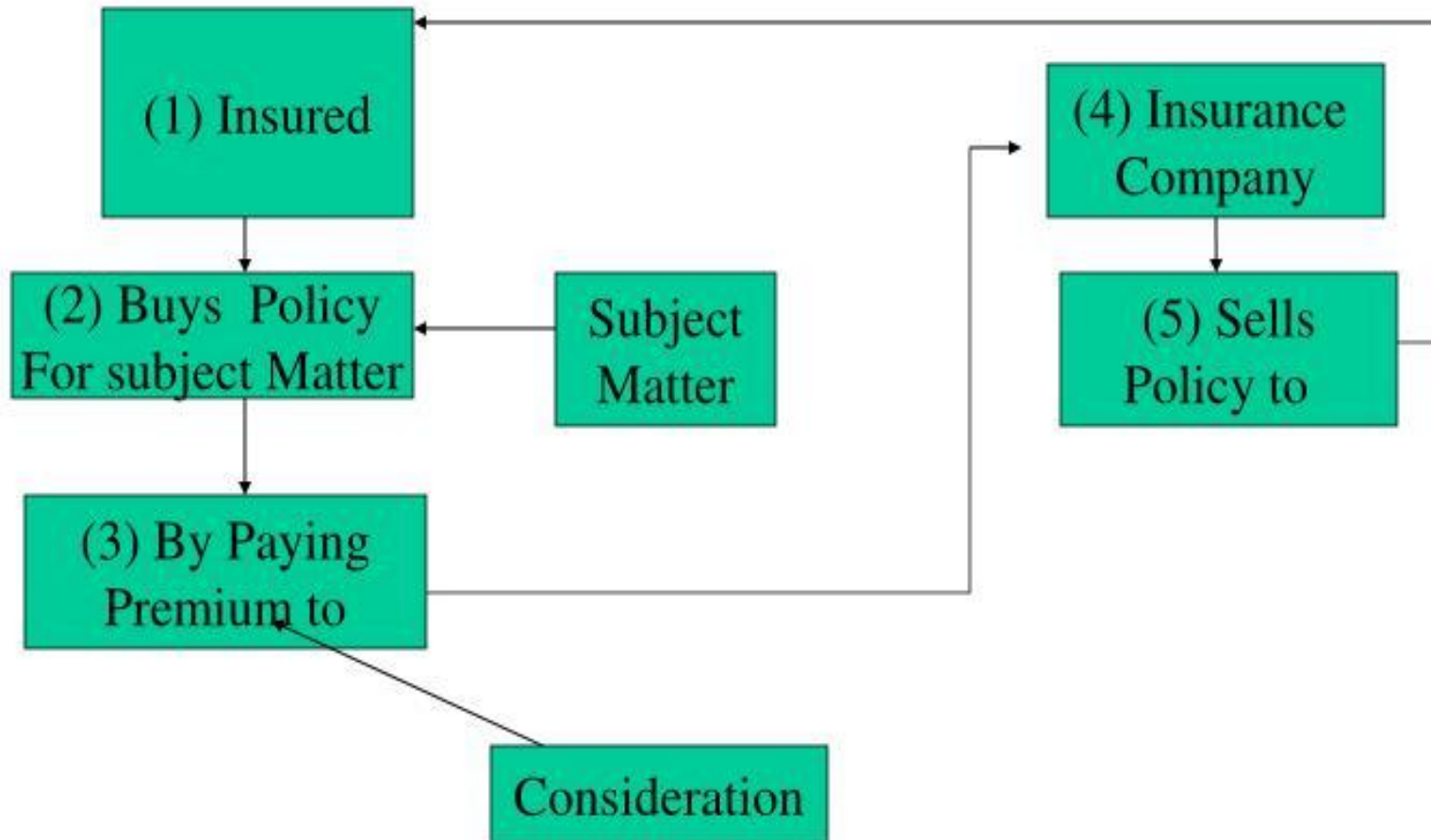


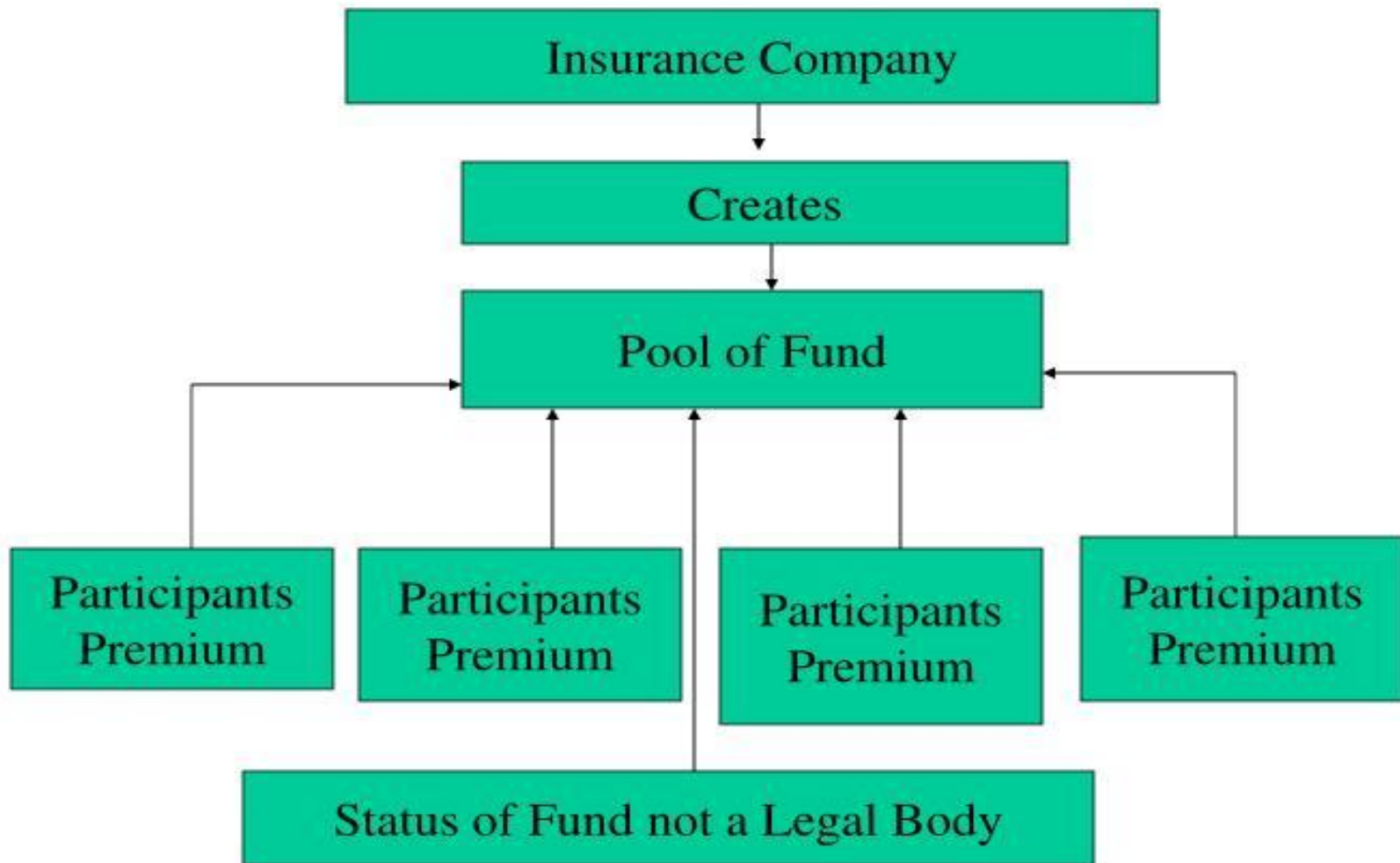


Meaning of insurance

- The person or business that gets compensated if the loss occurs is known as the **Insured**.
- The company that agrees to pay the compensation is known as the **Insurer**.
- The money that is paid by the Insured to the Insurer is called the **Premium**.

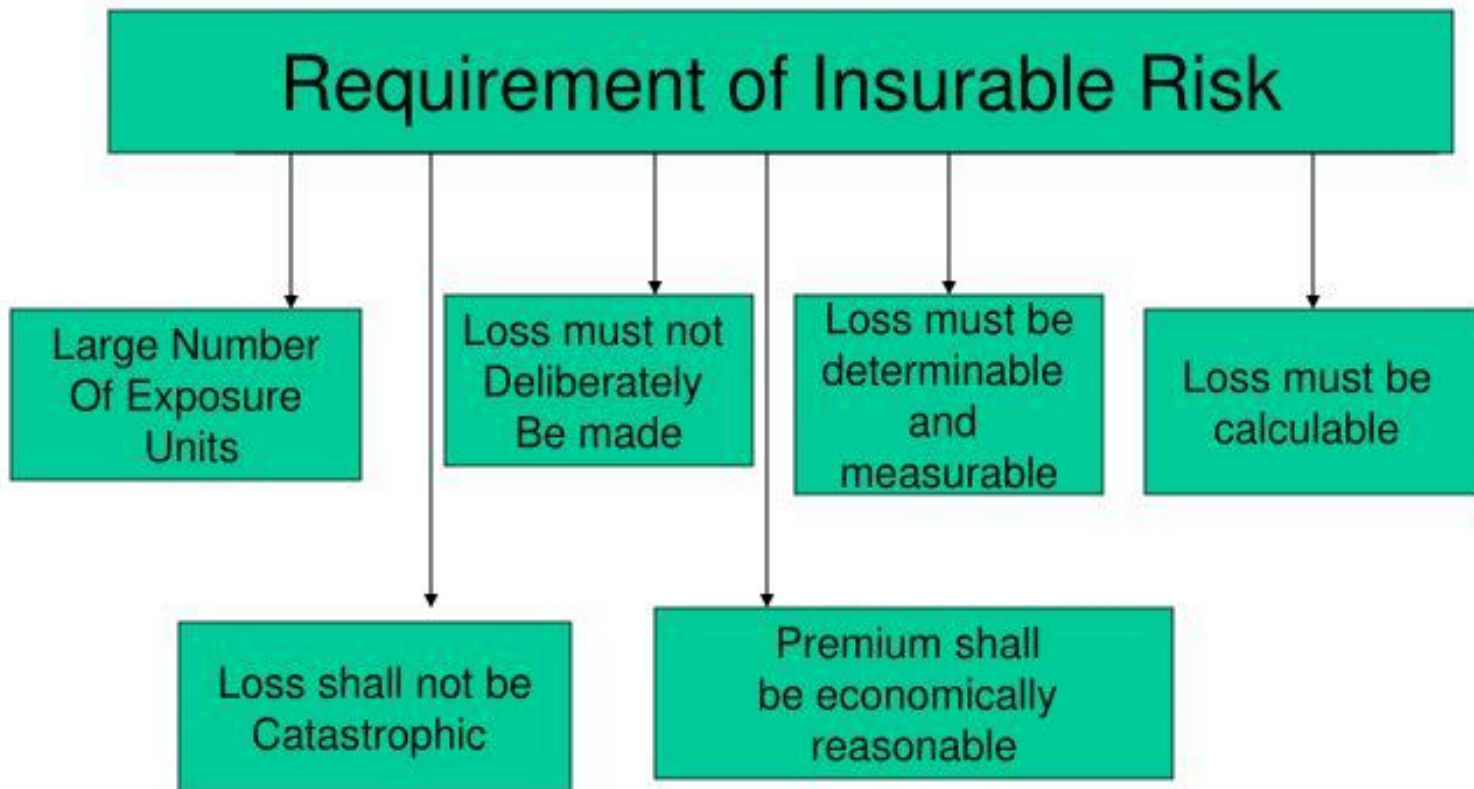
Contract of Purchase and Sales





Basic Characteristics of Insurance

- Pooling of losses
 - Spreading losses incurred by the few over the entire group
 - Risk reduction based on the Law of Large Numbers
- Payment of fortuitous losses
 - Insurance pays for losses that are unforeseen, unexpected, and occur as a result of chance
- Risk transfer
 - A pure risk is transferred from the insured to the insurer, who typically is in a stronger financial position
- Indemnification
 - The insured is restored to his or her approximate financial position prior to the occurrence of the loss



Functions of Insurers



The functions of insurer necessarily depend on

The type of business it writes, the degree to which it has shifted certain duties to others, the financial resources available, the size and type of organization used, etc.

Functions:

- Production
- Underwriting
- Rate making
- Managing claims and losses
- Investing and financing
- Accounting and other recordkeeping

Functions of Insurers

- Ratemaking (Pricing) – estimate costs (insurance much more complex than consumable products)
- Underwriting – classify people into different groups
- Investment
- Production – marketing
- Loss Settlement – after loss occurs, need to identify if loss actually happened and then determine size and severity

Advantages

Benefits of Insurance to Society

- Life Insurance as Social Security Tool
- Economic Growth of the Country
- Reduction in Inflation
- Conventional Plans Benefitting the Individual
- Tax Benefits of Life Insurance
- Encourage International Trade

Benefits of Insurance to an Individual

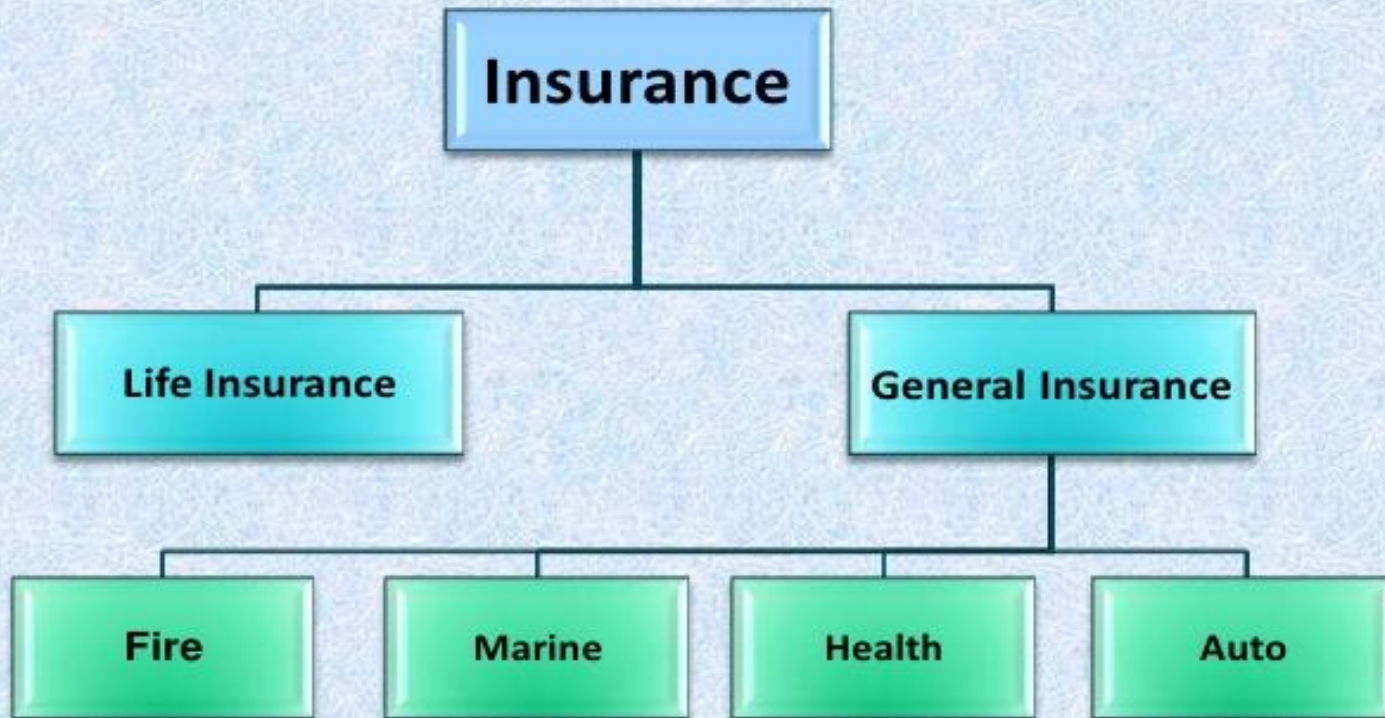
- Peace of mind
- Aversion of risk
- Protects mortgaged properties
- Provides self dependency
- Tool of savings
- Tool of investment
- Satisfies various needs

Benefits of Insurance to Business

- Reduced reserve requirements
- Capital freed for investment
- Indemnification
- Reduction of uncertainty
- Reduced cost of capital
- Reduced credit risk
- Loss control activities
- Business and social stability

Types of Insurance

Insurance Classification



Players in the Industry

Life Insurance	General Insurance
Life Insurance Corporation of India.	General Insurance Corporation of India. 1. Oriental Insurance Company Ltd. 2. New India Assurance Company Ltd. 3. National Insurance Company Ltd. 4. United India Insurance Company Ltd.
New Entrants	
ICICI Prudential Life Insurance Ltd.	Bajaj Allianz General Insurance Company Ltd.
Tata AIG Life Insurance Corporation Ltd.	Reliance General Insurance Company Ltd.
ING Vysya Life Insurance Corporation Ltd.	Tata AIG General Insurance Company Ltd.
Kotak Mahindra Life Insurance Corporation Ltd.	Royal Sundaram Alliance Insurance Company Ltd.

Classification of Insurance - Life

- Life Insurance

- It is a contract between the insured person and the company or "carrier" that is providing the insurance.
- It offers a way to replace the loss of income that occurs when the insured person dies, usually the person who is the majority income provider of the family.
- If the death of the insured occurs while the contract is in force, the insurance company pays a specified sum of money free of income tax to the person named as beneficiary.
- It can also be a form of savings in the long run where there is the option of contributing regularly.

Benefits of Life Insurance

- Provides
 - Continuity of income
 - Mortgage protection
 - Protection against disabilities
 - Children's education
 - Marriage expenditure
 - Retirement fund
 - Tax relief
 - “Peace Of Mind”

Types of Life Insurance

- Temporary (Term)
 - This provides coverage for a limited period of time for a specified premium. After that period, the insured can either drop the policy or pay annually increasing premiums to continue the coverage.
 - The death benefit would be paid by the insurance company if the insured died during the term of the policy, while no benefit is paid if the insured dies after the last day of the term of the policy.
 - These have the lowest possible premium among all insurance plans. There is complete absence of survival benefit and on maturity no death benefit money is provided.
- Permanent
 - Life insurance that remains in force until the policy matures, or unless the policy lapses. Such policy is for the life of the insured.
 - The payout is assured at the end of the policy.

Classification of Insurance – Non Life

- Also known as General Insurance, is a form of insurance mainly concerned with protecting the policyholder from loss or damage caused by specific risks.
- Categorized depending on the need level
 - Property/ Casualty Insurance
 - Health and Disability Insurance
 - Business and Commercial Insurance

Types of Non-Life Insurance

- Agricultural
- Aviation
- Car insurance
- Engineering
- Fire
- Health insurance
- Critical Illness Insurance
- Home insurance
- Marine
- Motor
- Shop/office insurance
- Travel insurance

Defining General Insurance

- General insurance or non-life insurance policies, including automobile and homeowners policies, provide payments depending on the loss from a particular financial event.
- General insurance typically comprises any insurance that is not determined to be life insurance.
- It is called property and casualty insurance in the U.S. and Non-Life Insurance in Continental Europe.

Classification

- **Commercial lines:** products are usually designed for relatively small legal entities. These would include workers' comp (employers liability), public liability, product liability, commercial fleet and other general insurance products sold in a relatively standard fashion to many organizations. There are many companies that supply comprehensive commercial insurance packages for a wide range of different industries, including shops, restaurants and hotels.
- **Personal lines:** products are designed to be sold in large quantities. This would include autos (private car), homeowners (household), pet insurance, creditor insurance and others.

Types of General Insurance

Main types of general insurance are:

- Fire
- Health
- Marine
- Motor Vehicle

Fire Insurance

Fire insurance is a form of property insurance which protects people from the costs incurred by fires. When a structure is covered by fire insurance, the insurance policy will pay out in the event that the structure is damaged or destroyed by fire.



Fire Insurance Claim Procedure

- Individuals/corporate must inform insurer as early as possible , in no case later than 24 hours.
- Provide relevant information to the surveyor/claim representative appointed by the insurer.
- The surveyor then analyzes the extent/ value of loss or damage.
- The claim process takes anywhere between one to three weeks.

What is Health Insurance?

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.



Importance of Health

- Rising medical costs
- Sharing of health related risk
- uncertain hospital bills
- Expensive/quality health care services
- Money value – Sick Vs Healthy
- Family health insurance
- Tax benefit
- Productivity of workforce
- Removes some of the burden from the state
- Keeping pace with the customer needs while achieving profitability

Types of Health Insurance Plans

- Individual health plan
- Family floater plan
- Senior Citizens' plan
- Critical illness plan
- Daily hospital cash and
- Unit-linked health plan (ULHP).

Health Insurance in India

The health insurance market in India is very limited covering about 10% of the total population. The existing schemes can be categorized as:

- Voluntary health insurance schemes or private-for-profit schemes;
- Mandatory health insurance schemes or government run schemes (namely ESIS, CGHS).
- Insurance offered by NGOs / community based health insurance, and
- Employer-based schemes

Defining Marine Insurance

Marine Insurance covers the loss or damage of ships, cargo, terminals, and any transport or cargo by which property is transferred, acquired, or held between the points of origin and final destination.



Defining Auto Insurance

Auto insurance (also known as vehicle insurance, car insurance, or motor insurance) is insurance purchased for cars, trucks, and other vehicles. Its primary use is to provide protection against losses incurred as a result of traffic accidents and against liability that could be incurred in an accident.

