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# Insurance Awareness

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**Basic Material relating to Insurance Sector for reference by students appearing for competitive examinations in the insurance sector (as on 1 march 2016)**

**Basic Principles of Insurance:**

Insurance is a contract between **Insurer (Insurance Company)** who undertakes to protect the Insured(the person whose risk is protected) from potential risks, for payment of a premium and subject to certain conditions. The underlying principles are given below.

1) It is a contract of **utmost good faith** which means it is the duty of the insured to voluntarily disclose all facts material(relevant, important) to risk covered

2) **The proposer or assured** (the person who is taking the insurance) should have an **insurable interest.** Insurable interest financial interest which the assured possesses in what is being insured. If the assured does not have any financial interest then it is a **wagering(betting) contract which is void (**a contract not valid) under Section 30 of the Indian Contract Act. Compensation is limited by the value of subject matter and extent of insurance coverage. In life insurance contracts the value of human life cannot be measured in money terms. So insurers determine sum assured as a multiple of income of the life insured and remaining productive years.

3) **Agent and Broder**: An agent represents one company or insurer and a broker acts on behalf of the customer looking into the products and services of different insurance companies.

Under the Indian Contract Act an agent can represent one life insurer, one nonlife insurer, one health one credit insurer and one Agricuture insurer.

4) **Insured Peril** refers to the risk covered by the relevant insurance policy. An assured cannot make a claim for a loss incurred on account of a peril which is not covered. For instance if the property is insured against fire only, cannot make a claim against damage caused to the property due to riot.

5) **Proximate Cause:** If the loss is caused by two or more causes acting simultaneously, it is necessary to identify the most important or effective cause which cause d the damage.

6) **Reinstatement or Replacement Insurance:** Normally loss or damage to the insured property is assessed with reference to the depreciated value of the asset at the time of damge. But in **Replacement Cost Insurance,** cost of replacement of the asset is covered.

7) **Deductibles** are specific amounts deducted from the loss before claim admissibility is calculated. For instance, in industrial policies, if the loss is due to terrorist act, 0.5% of the loss subject to a minimum of Rs. 1 lakh is deductible and no

claim is admitted if the loss is below one lakh.

8) **Co- insurance:** In large insurance policies, there is more than one insurer. They are all called **CO- insurers.** There is a `Leader' with whom client deals with and the leader shares premium/ claims with the co-insurers.

9) **Insured responsible for Loss Minimization:** The insured should take all reasonable steps to protect the subject of insurance and should behave as if a prudent uninsured would.

10) **Riders** are conditions added to the main terms of the policy to provide additional/ supplementary benefits with the main risk cover in the form of accident/disability cover, critical illness support, income benefit, waiver of premium (in case of permanent disability) etc

11) **Insurance Ombudsman:** Under the Public Grievance Rules 1998, the Insurance Ombudsman is appointed to resolve complaints relating to

- Partial or total repudiation of claims
- Disputes regarding premium paid / payable
- Disputes about legal construction of policy relating to claims
- Delay in settlements of claims
- Non issue of any insurance document to customers after receipt of premium

12) **Third Party Administrators** are entities duly licensed by IRDA. Their services are used by life and non life insurance companies

- Guiding the insured regarding claims process
- Issue photo id cards to insured persons
- Issue pre-authorisation to hospitals for treatment under cashless facility

13) **Paid up Value**: If premium payment is stopped before maturity , the sum assured under a life insurance policy is proportionately reduced and the sum assured + any bonus accrued up to the time premium was paid is known as Paid up Value

14) **Surrender Value:** Suppose the insured stops payment of premium and wishes to terminate the policy the amount which the insured can get is worked out as a proportion of paid up value known as Surrender Value

**Types of Life insurance policies**

15) **Whole Life Policies** provide life time protection. Premiums could be payable for a fixed period or whole life

16) **Term Insurance Policies:** only risk cover is provided during the term (period of coverage) of insurance. If the insured survives the term nothing is paid

17) **Endowment Policies** involve both savings and life cover. Therefore if the insured survives the term of insurance he would get sum assured + bonus accrued if any.

18) **Money back Policies** provide for payment of specified amount to the insured at specified intervals during the term of insurance. These amounts are called **Survivor Benefits.** If the insured survives the period of insurance, he would get sum assured – survivor benefits already received. Even though an amount is paid at regular intervals the insured gets the life cover equal to the sum assured for the entire term.

19) **Participating and Non Participating policies :** In participating policies the insurer shares his profit with the insured declared in the form of bonus declared annually as a percentage of sum assured. Such bonus amounts are accrued and paid along with sum assured. In **Non Participating** policies there is no sharing of profit by the insurer.

20) **Annuities** are a series of payments at regular intervals. Sometimes the payments could be upto death. The premium may be a single premium or for a specific period of time after which the annuities start.

21) **Unit Linked Insurance Plans** are savings + insurance cover. Unlike endowment policies the risk of return on the savings portion ( a portion of the premium is used for life cover) is transferred to the insured with options to the insured for investing in specific funds of equity, Income / Fixed Income Bond funds, Cash Funds or Money Market Funds or Balanced Funds which are a combination of equity and fixed income funds. Investment portion is arrived at after deducting charges for premium allocation, Mortality fund management, Policy Administration, Surrender charges and Fund Switching. Switching is an option available to the insured for a specified number of times during a year to switch the investment of the savings portion from one type of fund to another to take advantage of market fluctuations in capital markets.

**Micro Insurance**

22) **Micro Insurance Policy** is a general or life policy with a sum assured equal to Rs. 50000 or less. They are issued on individual or group basis. It is done through intermediaries like NGOs (Non Government Organisations), SHGs (Self Help Groups) and MFIs (Micro Finance Institutions)

A general micro insurance policy is

- Any health insurance contract
- Any contract covering belongings such as huts, livestock, tools or instruments or any personal accident contract
- Issued on individual or group basis

A life micro insurance product is

- A term insurance policy with or without return of premium
- Any endowment insurance contract
- Health insurance contract
- Can be with or without accident benefit rider
- On individual or group basis

Under term micro insurance product

- Benefit – term insurance protection – generally life risk with accident benefit with some permanent disability benefit
- No insurer is paying any bonus
- Sum assured is between 5000 and 50000 or 100 times the annual premium
- Some insurers are giving more than 110% refund of premium on maturity under term products
- Most insurers give reund of premium for suicide during first year

23) **About LIC:** LIC is the largest insurer in India both in terms of policies sold and number of agents. It issues policies in the category of endowment, savings and pension.

24) The salient features of **Group Micro Insurance** policies are

- Life protection – both survival and death
- Pension can also be built into the product
- Some insurers offer accident / permanent disability benefit
- Majority of products are under non medical scheme and automatic acceptance if size of group is more than 200 members
- Provision to cover automatic cover facility after 2 years of premium payment
- Policy bond is given and administration done through the agent
- Some insurers may exclude risk cover for first 45 days
- Some policies cover suicide during first year to protect third party interest and provide for return of premium
- Maximum term is 10/15 years
- Maximum maturity age upto 60 and premium payment upto 45/50/55
- Most insurers give liberal surrender value after 1/2/3 years
- **Free look cancellation (option to the insured to decline the policy and seek refund of premium)** available during 30/15 days after receiving policy bond
- Health insurance products cover disability/hospitalization expenses/ loss of wages
- Under health insurance products generally there is a condition the family needs to be covered under one sum assured any no times during the year

**25) Health Insurance Policies**

- Policies cover hospitalization expense
- Insurance cover from 5000 to rupees 50 lakhs. Standard policies are for 1 lakh to 5 lakhs
- Tax benefits available under Section 80D of IT Act
- Premium depends on age
- Normally coverage pre existing diseases restricted but covered after

48 months of continuous insurance cover

- Policy to be renewed within 15 days

26) **Motor Insurance**

- Third party liability insurance (risk cover for damage to the person/properties of third parties, the insured is first party and insurer is second party) is compulsory in India
- Under comprehensive insurance liability to third party + own damage is also covered
- Sum insured for the vehicle is called **`insured's declared value'.** It should reflect the current market value
- No limit on third party personal liability but third party property damage is limited upto Rs.7.5 lakhs
- Registration of the vehicle and insurance should be in the name of the same person
- Minimum compulsory deductible for 2 wheelers is Rs.50 and it is Rs.500 for 4 wheelers
- NCB(No Claim Bonus) is from 20 % to 50% on own damage portion of premium only
- Certificate of Insurance must be compulsorily issued by the insurer and should always be carried with the vehicle along with fitness certificate and Registration copy under Rule 141 of Motor Vehicles Act

27) **Agricultural Insurance**

Presently agri insurance is provided by Agriculture Insurance Corporation of India (set up in 2002) jointly owned by NABARD and the four public sector general insurance companies. It has been implementing three products National Agri Insurance Scheme, National Crop Insurance Plan and Weather based Crop Insurance Scheme. However presently 40 million hectares of gross cropped area or 20% is covered by insurance. The following issues have hampered the progress of agriculture insurance'

- Under Area Based Insurance for notified crops the insurance is compulsory for all farmers including small farmers growing the notified crop in the area. But assessment of loss on area based crop cutting experiment are often disadvantageous to individual farmers suffering losses much higher than the area based assessment.
- One of the main reasons for farmers defaulting repayment of crop loans is crop loss but non repayment of loans make them ineligible to claim under insurance

Government of India is planning to introduce **Modified National Agricultural Insurance Scheme (MNAIS)** which aims to restrict the premium to 3% (from the present high level of 3-5 to 20% of crop value

Recent Insurance News of Importance

1. IRDA releases India Insurance Vision 2025
   - The Industry has a potential to reach 8250 billion by 2025
   - Life Insurance Industry to grow at 12% CAGR to reach $ 160 to 175 billion,and nonlife to grow at 22% CAGR to reach Gross Written Premium of $ 80 billion.

2. LIC launched 2 new plans in March 2015
   - Jeevan Sangam, a participating, non-linked, savings cum protection, single premium plan wherein the risk cover is a multiple of single premium
   - The proposer has the option to choose the maturity sum assured
   - The single premium will depend on the age and maturity amount chosen
   - The second product, Children's Money Back Plan, is a participating non linked money back plan
   - Designed to educational, marriage and other needs of growing children
   - Provides risk cover for the child for the term and also Periodic payments on surviving to the end of specified duration

**3. Pradhan Mantri Suraksha Bima Yojana**
   - Accidental death and disability cover of Rs 2 lakh.
   - Available to people in age group 18 to 70 with a bank account
   - Premium is Rs 12 per year debited to the bank account
   - Anybody who has a savings account in the banks that offer this scheme. and who are exposed to the risk of accidental death or disability

**4. Pradhan Mantri Jeevan Jyoti Bima Yojana**
   - A life insurance cover of Rs 2 lakh to dependents in the event of the policyholder's death.
   - Available to people in the age group of 18 to 50 with a bank account
   - Premium is Rs 330 per annum debited to the bank account.
   - People continue to have risk cover upto 55 subject to payment of premiu

5. Pradhan Mantri Jan Dhan Yojana
   - A savings account with no minimum balance. The Rupay ATM-cum-debit card comes with in-built accident and life covers of Rs 1 lakh and Rs 30,000 respectively.
   - No separate premium
   - Meant for anyone belonging to the economically weaker sections of society. All future welfare and subsidy schemes are likely to be linked to bank accounts

6**. Atal Pension Yojana** is an Annuity Scheme substituting for SWALAMBAN launched 2010-11, in which there were confusions about pension after 60. Features of the new **National Pension Scheme (NPS)** are

- Focus is on individuals in unorganized sector who join NPS and are not members of any statutory Social Security scheme.
- Pension amounts of 1000/2000/3000/4000/5000 starting after attaining the age of 60, the monthly pension depending on contribution
- Entry age is 18 – 40. Minimum contribution period is 20 years
- Fixed pension guaranteed by government
- Government to contribute 50% of annual premium or maximum Rs.1000 pa for the first 5 years ( 2015-16 to 2019-20)
- Existing subscribers of SWALAMBAN migrated to APY

7**. LIC's New Plan Jeevan Pragati launched in January 2016**

- This is a non-linked, with-profits Endowment Assurance plan. The main feature of this Jeevan Pragathi plan is the 'sum assured on death' (part of death benefit) automatically increases after every five years during the term of the policy.
- Basic Sum Assured (payable on maturity) : Rs. 1,50,000/- to maximum no limit
- Policy Term : 12 to 20 years
- Age at entry for Life Assured : 12 years (completed) to 45 years (nearer birthday)
- Maximum Age at Maturity for Life Assured : 65 years
- Minimum Accident Benefit Sum Assured is Rs 10,000
- Maximum Accident Benefit Sum Assured is an amount equal to the Basic Sum Assured subject to the maximum of Rs 1 cr.

**8. LIC's JEEVAN SHIKHAR Plan**

- Participating, non-linked, saving cum protection single premium plan
- risk cover is ten times of Tabular Single Premium.
- The proposer will have an option to choose the Maturity Sum Assured.
- The premium payable shall depend on the chosen amount of Maturity Sum Assured and age at entry of the life assured.
- The plan will be open for sale for a maximum period of 120 days from the date of launch.
- Minimum Entry Age : 6 years (completed) to 45 years (nearer birthday)
- Sum Assured on Death : 10 times of tabular single premium
- Minimum Maturity Sum Assured : Rs. 100,000/-

- Maximum Maturity Sum Assured : No Limit (Maturity Sum Assured shall be in multiple of Rs. 20,000/- only.)
- Policy Term : 15 years
- Premium payment mode : Single premium only
- In case the age at entry of the Life assured is less than 8 years, the risk under this plan will commence from one day before the policy anniversary coinciding with or immediately following the age of 8 years.
- For those aged 8 years or more at entry, risk will commence immediately from the date of acceptance of risk.

Other Terms relating Life Insurance Policies for reference (Source: LIC of India website)

**1. Accident Benefit**

Provides for payment of an additional benefit equal to the sum assured in installments on permanent total disability and waiver of subsequent premiums payable under the policy.(This is an additional benefit to the insurance value covered by premium payments)

**2. Annuity Plans**

These plans provide for a "pension" ( or a mix of a lumpsum amount and a pension ) to be paid to the policy holder or his spouse. In the event of death of both of them during the policy period, a lumpsum amount is provided for the next of kin.(Now pension schemes are based on such policies. People contribute monthly some amount upto certain age and thereafter they get some amount every month lifelong)

**3. Assignment**

Assignment means legal transference. A method by which the policy holder can pass on his interest to another person. An assignment can be made by an endorsement on the policy document or as a separate deed.(whenever loan is taken against insurance policies, NSCs etc the surrender/maturity value is assigned in f/o lender through endorsement or separate deed which are then registered with the insurance companies, post office etc)

**4. Beneficiary**

The person(s) or entity(ies) (e.g. corporation, trust, etc.) named in the policy as the recipient of insurance proceeds upon the death of the insured.(when the policy holder survives beyond the premium payment period he is the first person eligible to receive the maturity value. He can also nominate some other person as beneficiary to receive the maturity proceeds after his death when it happens before the maturity proceeds become due for payment)

**5. Endowment Policy**

The assured has to pay an annual premium which is determined on the basis of the assured's age at entry and the term of the policy. The insured amount is payable either at the end of specified number of years or upon the death of the insured person, whichever is earlier.

**6. Exclusions**

Specific conditions or circumstances for which the policy will not provide benefits.

**7. Family Insurance.**

A life insurance policy providing insurance on all or several family members in one contract, generally whole life insurance on the principal breadwinner and small amounts of term insurance on the spouse and children, including those born after the policy is issued

**8. Fire Insurance**

Coverage for losses caused by fire and lightning, plus resultant damage caused by smoke and water.

**9. Flood insurance**

Coverage against loss resulting from the flood peril, available at low cost under a programme developed by the Central government.

**10. Franchise Insurance**

A form of insurance in which individual policies are issued to the employees of a common employer or the members of an association under an arrangement by which the employer or association agrees to collect the premium and remit them to the insurer.

**11. Guaranteed Insurance Sum (GIS)**

A lump sum purchase price is given to purchase future pensions under the Jeevan Akshay Plan of Life Insurance Corporation of India. This amount is referred to as GIS. The monthly pension that is payable one month after payment of first premium is calculated on the basis of the age at entry. This amount is referred to as GIS.

**12. Group Life Insurance**

Life insurance usually without medical examination, on a group of people under a master policy. It is typically issued to an employer for the benefit of employees, or to members of an association, for example a professional membership group. The individual members of the group hold certificates as evidence of their insurance

**13. Indemnity**

Legal principle that specifies an insured should not collect more than the actual cash value of a loss but should be restored to approximately the same financial position as existed before the loss.

**14. Insurable Interest**

A condition in which the person applying for insurance and the person who is to receive the policy benefit will suffer an emotional or financial loss, if any untouched event occurs. Without insurable interest, an insurance contract is invalid.

**15. Insurability**

All conditions pertaining to individuals that affect their health, susceptibility to injury and life expectancy; an individual's risk profile.

**16. Insured**

The person whose life is covered by a policy of insurance.

**17. Keyman Insurance Policy**

A life insurance policy taken by a person on the life of another person who is or was his employee/connected to his business in any manner whatsoever.

**18. Lapsed Policy**

A policy which has terminated and is no longer in force due to non-payment of the premium due

**19. Limited Payment Life Policy**

Premiums need to be paid only for a certain number of years or until death if it occurs within this period. Proceeds of the policy are granted to the beneficiaries whenever death of the policy holder occurs. Again, this policy can also be of the "with profits " or "without profits" type.

**20. Loyalty Additions**

The loyalty addition is given upon the maturity of the policy, and not before. It's a small percentage of the sum assured. Broadly speaking, loyalty addition is the difference between the performance, of the insurance company and the guaranteed additions. It is LIC s effort to further share its surplus after valuation with the policy holders, as LIC is a non-profit organization.

**21. Life Assured**

The person whose life is insured by an individual life policy is called life assured.

**22. Maturity**

The date upon which the face amount of a life insurance policy, if not previously invoked due to the contingency covered (death), is paid to the policyholder.

**23. Maturity Claim**

The Payment to the policy holder at the end of the stipulated term of the policy is called maturity claim.

**24. Money Back Policy**

Unlike endowment plans, in money back policies, the policy holder gets periodic "survivance payments" during the term of the policy and a lumpsum amount on surviving its term. In the event of death during the term of the policy, the beneficiary gets the full sum assured, without any deductions for the amounts paid till date, and no further premiums are required to be paid. These type of policies are very popular, since they can be tailored to get large amounts at specific periods as per the needs of the policy holder.

**25. Nomination**

An act by which the policy holders authorises another person to receive the policy moneys. The person so authorised is called Nominee.

**26. Premium**

The payment, or one of the regular periodic payments, that a policy holder makes to an insurer in exchange for the insurer's obligation to pay benefits upon the occurrence of the contractually-specified contingency (e.g., death).

**27. Salary Saving Scheme**

This scheme provides for payment of premiums by money deduction from the salary of the employees by one employer.

**28. Surrender Value**

The value payable to the policy holder in the event of his deciding to terminate the policy before the maturity of the policy.

**29. Survival Benefit**

The payment of sum assured to the insured person which has become due by installments under a money back policy.

**30. Whole Life Policy**

Premiums are paid throughout the life time of life assured. This can be with profits or without profits (A "with profit" policy is eligible for various bonuses declared by LIC every year, while a "without profits" policy does not have this privilege)

**31. With-Profit policy**

Policies entitled to bonus, which is paid at the time of claim-death or maturity one with profit policies.

**32. Without-Profit policy**

These policies are not entitled to participate in bonuses.

Terms Relating to General Insurance (Source: The New India Insurance website)

**33. Cargo Insurance**

Type of insurance that protects the shipper/owner of the goods against financial loss if the goods are damaged or lost while in transit in between place of commencement and destination.

**34. Comprehensive**

A loosely used term signifying broad or extensive coverage of insurance(For instance in vehicle insurance comprehensive policy covers damages even when the vehicle is driven by other than the owner whereas third party insurance excludes damages due to use of vehicle by third party)

**35. Cover Note**

A cover note is a document issued in advance pending the issue of the policy, and is normally required if the policy cannot for some reason or other be issued straight away. Cover notes can also be issued during the course of negotiations to provide cover on a provisional basis. A cover note is not a stamped document but is honored, all the same, by all parties concerned.

**36. Credit Insurance**

A form of guarantee to manufacturers and wholesalers against loss resulting from default on the part of debtors (Another sort of credit insurance for bank loans were in vogue till recently but since has been discontinued on the advice of IRDA)

**37. Double Insurance**

If the insurance policy is taken from more than one underwriter where period of insurance, subject matter of insurance and sum insured are same, then this is called double insurance.

**38. Employers liability**

Legal liability imposed on an employer making him or her responsible to pay damages to an employee injured by the employer's negligence. Generally, replaced by 'workers compensation', which pays the employee whether the employer has been negligent or not.

**39. Ex Gratia**

A payment made where there is no legal liability

**40. Fidelity Bond**

A form of protection which reimburses an employer for losses caused by dishonest or fraudulent, acts of employees.

**41. Financial Loss Insurance**

Insurance of legal liability for financial loss not involving bodily injury or loss of or damage to property

**42. Floater Policy**

A policy under which protection follows moveable property, covering it wherever it may be

**43. Gross Premium**

The premium paid by the policyholder.

**44. Indirect Loss (Or Damage)**

Loss resulting from a peril, but not caused directly and immediately thereby.

For example: Loss of property due to fire is a direct loss, while the loss of rental income as the result of the fire would be an indirect loss.

**45. Marine**

Pertaining to the sea or to transportation: usually divided as to 'ocean marine' and 'inland marine'; the insurance covering transportation risks

**46. Marine Insurance**

A form of insurance primarily concerned with means of transportation and communication, and with goods in transit

**47. Ombudsman**

An authority established either by the company or the Government for the quick redressal of grievances

**48. Policyholder**

A person who pays a premium to an insurance company in exchange for the insurance protection provided by a policy of insurance. The person (or persons) whose risk of financial loss from an insured peril is protected by the policy.

**49. Policy Term**

The period for which an insurance policy provides coverage

**50. Product Liability Insurance**

Protection against financial loss arising out of the legal liability incurred by a manufacturer, merchant, or distributor because of injury or damage resulting from the use of a covered product

**51. Property Insurance**

Insurance providing financial protection against the loss of, or damage to, real and personal property caused by such perils as fire, theft, windstorm, hail, explosion, riot, aircraft, motor vehicles, vandalism, malicious mischief, riot and civil commotion, and smoke

**52. Proposal**

A person interested in taking out insurance has to make an offer by means of a proposal. This is an application for the cover required, or for obtaining quotations of the premium chargeable

**53. Rider**

Usually known as an endorsement, a rider is an amendment to the policy used to add or delete coverage

**54. Workers Compensation**

A system of providing for the cost of medical care and weekly payments to injured employees or to dependants of those killed in the course of or arising out of their employment in industry in which Absolute Liability is imposed on the employer, requiring him or her to pay benefits prescribed by law

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