SUB: INSURANCE(THEORY) STD:XI INSURANCE (VOCATIONAL)

UNIT-I 10 marks

Introduction to Insurance

Meaning of Insurance, Definition of Insurance, Brief history of insurance, purpose and need of insurance, role of insurance in economic development.

UNIT-II 10 marks

Basic principles of insurance contract-

Principles of Insurance contract, Principles of utmost good faith, Insurable interest, Principle of indemnity, Principle of contribution and Subrogation-Material facts-general rules of contract in relation to Life insurance

UNIT-III 10 marks

Underwriting

Meaning, Objectives, Procedure of taking Life insurance and general insurance policies

Factors to be considered while underwriting in respect of major class of insurance

Cover note, Certificate of insurance, Proposal forms

UNIT-IV 10 marks

Insurance Agency as a career

Definition of an Agent

Authority of an Agent, Rules and regulation governing Agents licence

Agents remuneration, agency as a Profession

Procedure to become an Agent, Role and functions of an Agent, Qualification of an Agent, Qualities of good Agent, Disqualification of an agent, Code of conduct, Types of policies issued in General insurance and life insurance

UNIT-V 5 marks

<u>Accounting practice and Taxation</u>

Types of final accounts prepared by Insurance companies

Income tax, Wealth tax and Gif tax with reference to Insurance

UNIT-VI 5 marks

<u>Types of Insurance Act</u>

Motor Vehicle Act 1939

Workmen's Compensation Act 1923

Employee's State Insurance Act 1948

Marine Insurance Act 1963

Insurance Stamp Act 1899

TOTAL 50 marks

SUB: INSURANCE(PRACTICAL) STD:XI INSURANCE (VOCATIONAL) (Total marks-100)

UNIT-I	20 marks
Filling of proposal forms in Life insurance and General Insurance, preparation of vouchers, documents and applications for Agency, scrutiny of proposal forms.	
UNIT-II	10 marks
Draft specimen of Balance sheet, specimen of Income and Expenditure account, Letter writing.	
UNIT-III	10 marks
Procedure for taking out Fire, Marine, motor and Life insurance policies.	
Calculation of premiums of Fire, Motor, Marine and life insurance policies, Age Nearer Birthday calculation.	
VIVA AND JOURNAL	10 marks
TOTAL	50 marks
UNIT-IV	20 marks
Preparation of prospecting list for selling insurance policies.	
UNIT-V	10 marks
Filling of Revival forms, Quotation forms, Policy loan forms, filling of Assignment forms	
UNIT-VI	10 marks
Filling of Re -Assignment forms, filling of forms of No-16, filling of DGH forms	
VIVA AND JOURNAL	10 marks
TOTAL	50 marks

UNIT-I

Introduction to Insurance

In today's age of consumerism insurance requirement have expanded to keep pace with the increasing risks. Today we have a wide assortment of risk coverage commencing from health insurance to travel insurance to theft insurance. A suitable general insurance cover is absolutely essential for every family. This is a necessity to overcome uncertainties and risks prevalent in life. It is also necessary to protect ones property against risk as a loss or damage to one's property.

General insurance comprises of:

Insurance of property against fire, theft, burglary, terrorism, natural disasters, etc. Personal insurance such as accident policy, health insurance and liability insurance which covers legal liabilities. Errors and omissions insurance for professional credit insurance etc. policy covers such as coverage of machinery against breakdown or loss or damage during the transit. Policy that provide marine insurance covering goods in transit by sea, air railways waterways and roads and cover the hull of ships. Insurance of motor vehicle against damage or a theft. There are package policies specially designed for house holders, shopkeepers, industrialists, agriculturists, entrepreneurs, employees and professionals such as doctors, engineers, charted accountants etc. Losses created by catastrophes such as the tsunami, earthquakes, cyclones, floods, volcanoes, eruptions or landslides.

A health insurance policy can provide financial relief and lowering mental agony to an individual undergoing medical treatment on account of disease or an injury.

Public sector undertaking insurance companies are

1. National Insurance Company ltd
2. Oriental Insurance Company Ltd.
3. The New India Assurance Pvt Ltd.
4. United India Insurance Company Ltd.

Private insurance companies are

1. Apollo DKV Health Insurance

2. Bajaj Alliance General Insurance
3. Cholamandalam MS General Insurance Company Ltd.
4. Future Generali Insurance Company Ltd
5. HDFC Ergo General Insurance Company Ltd.
6. ICICI Lombard General Insurance Company Ltd.
7. Iffco Tokyo General Insurance Pvt Ltd.
8. Reliance General Insurance Ltd.
9. Royal Sundaram General Insurance Company Ltd.
10. Star Health Insurance Company Ltd.
11. Tata AIG Insurance Company Ltd.
12. Universal Sompo General Insurance Pvt. Ltd.

Introduction to Life insurance?

<u>Meaning of Insurance</u>

Insurance is an agreement between two parties, the insurer and insured. The insured pays an agreed amount by way of premium to the insurer. In return the insurer undertakes to pay the insured a sum of money upon the occurrence of a specified event resulting in loss. It is thus a contract. Insurance is a free growth of economic activities. Accident is untowered event and unpleasant feeling to the people. Premium is the consideration earned by the insurer in return for the protection given. Insurance means an arrangement by which a company or the state undertakes to provide a guarantee of compensation for specified loss, damage, illness or death in return for payment of a specified premium.

<u>Purpose and Need of Insurance</u>

- Insurance is a mechanism that helps to reduce the effects of adverse situations in the economical way.
- The business of insurance is related to the protection of the economic development.
- Assets are insured because they are likely to be damaged
- Can provide funds for the marriage if policy is taken.
- To safeguard the interest of insured.

- Even if you are in a good health an unexpected illness or injury could require you to pay out of pocket.
- Purpose of insurance is to provide you with a form of protection against a possible risk.
- Insurance contributes a lot to the general economic growth to the society to provide stability.
- The purpose of insurance is a contract in which an insurer promises to pay the insured a sum of money if one or more specified events occur in the future.
- The fundamental purpose of insurance is to spread out the risk of individual investment among many parties to reduce loss.

Definition of Insurance

The business of insuring person or property coverage by contract where one party undertakes to indemnify or guarantee another against loss by a specified contingency or peril the sum for which something is insured.

"The act system or business of insuring property, life of one person, etc against loss."

History of Insurance

The history of insurance consisted of the development of the modern business of insurance against risk. During the Aaryn civilisation, some form of insurance existed in the village co-operatives in our country. Similarly around 1800 A.D some insurance company seemed to have transacted marine insurance in the eastern part of our country. Later around 1825 A.D fire insurance appears to have been introduced in Madras. In 1815 A.D Triton insurance company, an Indian Insurance company was formed to transact General Insurance. In 1872 the underwriter association was established in Bombay. The workman compensation act was passed in 1923. Road traffic act was passed in the year 1930. Indian insurance act was passed and brought into force from first July 1939. Motor Vehicle act was passed in the year 1939. The employee state insurance act was passed in 1948. Appointment of Cowasjee Jahangir enquiry committee in 1945 resulting in amendments to insurance act in 1950. The first 5 year plan and the development activities in the country resulted in rapid growth of insurance from 1951. Marine insurance act in the year 1963 with a view to conserve foreign exchange all the insurers both Indian and foreign operating in

India formed the Reinsurance Corporation in 1956. On 13th May 1971, the government took over the management of the general insurance company both Indian and Foreign. The functions of general insurance general insurance corporation was stated in section 18 of the general insurance business act 1972 (Nationalisation).

Objectives of LIC

Spread life insurance widely and in particular to rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.

- Maximize mobilization of people's savings by making insurance linked savings adequately attractive.
- Bear in mind, in the investment of funds, the primary obligation to its policyholders, whose money it holds in trust, without losing sight of the interest of the community as a whole; the funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.
- Conduct business with utmost economy and with the full realization that the moneys belong to the policyholders.
- Act as trustees of the insured public in their individual and collective capacities.
- Meet the various life insurance needs of the community that would arise in the changing social and economic environment.
- Involve all people working in the corporation to the best of their capabilities in furthering the interests of the insured public by providing efficient service with courtesy.
- Promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards achievement of Corporate Objective.

Various Insurance Plan

1. Endowment assurance plan
2. Term Assurance plans

3. Children Plans
4. Pension Plans
5. Micro Insurance Plans
6. Health Insurance Plans
7. Unit Link Plans

Difference between Life Insurance and General Insurance

Life Insurance	General Insurance
There is certainty as to the happening of event i.e. death	The event insured against may or may not happen.
Life insurance is a type of investment. It is not a contract of indemnity	The contracts of fire and marine insurances are contracts of indemnity. The insured can claim only the actual amount of loss-subject to a maximum of sum assured.
In life insurance the insurable interest must be present at the time of contract.	In fire insurance, insurable interest must be present at both- time of contract and time of loss.
Life insurance contract is for the whole life of the insured or for the assured attaining a specified age-whichever is earlier.	In marine insurance insurable interest must be present, at the time of loss.
There is a surrender value of policy, in life insurance	There is no surrender value of policy in General Insurance.

Role of Insurance in Economic Development

Insurance is a free growth of economic development. It provides stability in important area of economy insurance plays a fruitful part. In operations of inflow and outflow of money from country to country foreign exchange is involved. If the net results of the operation of the spread of risk in favourable, insurers will be earning foreign exchange for their country. Thus insurance serves an invisible foreign exchange earner. Yet another significant role of insurance could be noticed when we remember that the insurance companies build up funds out of the small premiums collected over the years. This funds could be fruitfully utilised in gainful investments. These investments help the developmental activities of our economy and contribute to the progress of the nation. Insurer takes active interest in the minimisation of losses in the different classes of insurance such as fire, marine etc. They also have experts who carry out inspections of risk and suggest ways and means to improve the risk and ensure greater safety. These are the valuable services provided to the nation in the preservation of assets of the nation. Marine insurance provides the necessary collateral security to the banker and helps the export business. This is another important role played by insurance in commercial world.

Questions:

Q1 What is Insurance?

Q2 Define insurance contract.

Q3 What is General Insurance?

Q4 What is life Insurance?

Q5 Distinguish between Life Insurance and General Insurance.

Q6 What are the Objectives of Life Insurance?

Q7 What is the need of Insurance?

Q8 What is the history of Insurance?

Q9 Name the various Life Insurance Plans.

Q10 What is gift tax?

Q11 What is the role of insurance in economic development?

UNIT-II

Basic Principles of insurance contract

1) **Principle of utmost good faith**: It means contract required absolute and utmost good faith from the parties to the contract. Insurance contract is different from other commercial contract which are based on good faith only. Good faith means absence of fraud on the part of parties to the contract. Contract of insurance are contract of Uberrimaefidei. The usual principal is "coveat emptor" that is let the purchaser beware. The seller is not bound to disclose any defect in the subject matter of the contract. The buyer should make his enquiry and satisfy himself of the quality of the subject matter. But contract of insurance are fiduciary in nature and require parties to be contract to disclose fully on material information affecting the contract that is why contract of insurance are contract of utmost good faith.

   What is material information?

   Material information is the information or facts which enables the insurance company to decide

   a) Whether to accept or not to accept any risk
   b) If the risk is accepted, at what rate of premium and on what terms and conditions.

   Some of the examples of material information in life insurance are

   1) If the proposer suffer from any diseases
   2) If the occupation is a hazardous one
   3) If there is family or hereditary disease

   In fire insurance business

   1) Whether the said property had been rejected for insurance
   2) Whether any explosives is kept in the property
   3) Whether the property is damaged one

   Example: In marine insurance are whether ship is damaged one or whether the engine of the ship is defective etc.

   Who is responsible for disclosing material fact?

   Both the insurer and insured are responsible for disclosing material information. It is the insured who had full facts about the subject matter so the insured is more responsible than the insurer to disclose the material facts.

How much material fact should be disclosed?

All material facts should be disclosed in complete and full. All the facts as they exists should be disclosed. The breach of obligation of disclosing material facts may take any one of the following form.

1) Non disclosure of material facts by negligence or by oversight
2) Intentional non disclosure or concealment of material facts
3) Fraudulent misrepresentation of material information
4) Innocent misrepresentation

Material facts which need not to be disclosed

1) Facts which are public knowledge or very common like facts of breaking out of war.
2) Facts which are apparent from information already supplied
3) Facts which are mentioned in the policy as a condition
4) Facts which reduce the risk i.e installation of fire fighting equipment
5) Facts which are mentioned in other laws but affecting insurance. Insurer cannot claim ignorance of law as an excuse
6) Facts which were surveyed or inspected by the insurer. If the insurer has inspected the premises it is up to him to ascertain the real position.

2. **Insurable interest**

Interest means the relationship of the insured with the subject matter of insurance. This relationship should involve monetary gains from the existance of the subject matter or loss from its destruction. If the insured does not suffer loss out of destruction of the subject matter of the insurance he has no interest. He cannot make a contract. The definition of insurable interest as given in section 7(2) of the marine insurance act 1963 is as follows " a person is interested in a marine adventure where he stands in any legal or equitable relation to the adventure or to any insurable property at risk there in inconsequence of which he may benefit by this safety or due arrival of insurable property or may be prejudice by its loss or by damage there to or by detention there of or may incur liability in respect there of"

Essentials of insurable interest:

1) There must be some property, right, interest, life or potential liability capable of being insured.
2) Such property , right , life etc must be the subject matter of insurance
3) The insured should have legally recognised relationship with the subject matter
4) The insured should have a monetary interest in the subject matter where by he stands to benefit by the safety of the subject matter and stand to lose by damage to the subject matter
5) Insurable interest should be capable of measurement in terms of money

Importance of insurable interest

In property insurance if insurable interest is not required insurance policy would become simply gambling transaction. Any one then could insurer anyone else property and be tempted to bring about the loss to collect the claim under the policy. This is against the public policy. Secondly insurable interest is ascertained to find out the maximum amount of compensation the insured can get in case of damage to the subject matter.

How insurable interest arise?

1) **Interest arising from Ownership :** the most common example of the existence of an insurable interest is that of an owner of property. The owner of a house has insurable interest in his house. Insurable interest may also arise out of joint ownership.
2) **Interest of a person in his own life or the life of other person:** a person has insurable interest in his own life to an unlimited extent theoretically. He can insure his life for any amount but in practice the sum insured will depend upon his capacity and willingness to pay premium. Interest in the life of another person arises out of relationship of husband and wife. Husband has insurable interest in the life of his wife or vice versa
3) **Interest from business relationship :** business relationship may also constitute reason for insurable interest. Some relationship are as follows:
    a. A creditor has insurable interest in life of his debtor. But this is limited to the extent of amount due from him.

b. A partner is interested in the life of his co-partner
c. An employer has insurable interest in the life of his employee
d. Interest arising from contract
e. Interest arising from law
f. Interest arising from legal liability
g. Interest arising of insurance

When insurable interest must exist?

In life insurance insurable interest should be present at the time of affecting the insurance. Insurable interest need not be present at the time of loss. In fire and accident insurance insurable interest should exist both at the time of effecting insurance and at the time of loss. In marine insurance insurable interest must be present at the time of loss. It need not be present at the time of effecting the insurance.

Principle of Indemnity:

The dictionary meaning of the word indemnity means security against loss or damage or compensation for loss. Insurance contract promise to make good the loss or damage. For this the loss should be measured in money value, the amount paid by the insurance can be equal but never more than the value of loss.

Scope:

This principle is applicable to all insurance contract except personal insurance contract. The loss of individual life cannot be measured in terms of money. Therefore a person may insure his own life for any amount within reason. This principle is observed more strictly in property insurance. There may be some exception

1. In fire and marine insurance amount of loss plus a certain amount of profit that the insured might have earned if there was no loss is taken as amount of compensation
2. In some lines of insurance valued policies are written. Such cases arise when it is very difficult to assess the correct amount of loss.

Application of the Principle of Indemnity

When the principle of indemnity is applied following features are to be considered

1. Insured has to prove the actually suffers monetary loss in the event of loss taking place
2. Compensation is determined by comparing with actual value of loss or the insured value of the policy
3. Insurer takes over all rights of insured by paying compensation
4. Insurer has a right to claim against third party if the insured has such a right after the insurer pays compensation
5. This principle has limited application in personal insurance.

Methods of indemnification

There are four methods of indemnification

1. **Cash payment:** This is the common method of indemnification. The loss is ascertained and the insured is paid by means of a cheque
2. **Repair:** Instead of making a cash payment, the settlement of claim or damage may be effected by repair. If a car is met with an accident the insured may get it repaired with an approved workshop, the repair charges are borne by the insurer
3. **Replacement:** The insurer may directly arrange with a dealer to replace the property. For example: Jewellery lost or damaged. This method is rarely met with in practice
4. **Reinstatement:** This method would apply in respect of building or other property destroyed or damaged by fire. The insurer gets the property rebuilt to their formal condition

Material Facts

Material facts refers to all those facts which need to be disclose at the time of insuring a property. Following are the Example of material facts in the different branches of general insurance.

1. **Fire insurance**
    a. Construction of building such as terrace building, shade a roof tiles
    b. Occupation of the premises for the manufacture of engineering goods or for the manufacture of hazardous chemical
2. **Marine Insurance**
    a. Methods of packing: the cargo of chemicals in new drums or second hand drums
    b. Use of the ship as a bulk carrier, passenger carrier or a tanker
3. **Accident insurance**

a) The driving experience of the driver in motor insurance
b) Location of the premises in burglary insurance
c) The profession of the proposal in personal accident insurance.

The following material facts need not be furnished

1. Facts that diminish the risk eg. Installation of alarm
2. Matters of common knowledge which the insurer is presumed to know eg. War or riot
3. Matters which insurer is deemed to know in the ordinary course of business eg. Congestion in a particular port in cargo insurance
4. Matters of law : provisions of rules and regulations of law need not be furnished as the insurer is also expected to be familiar with them. Ignorance of law is not an excuse
5. Facts to which insurer is in different or about which he has waived further informationi.e accepting an incomplete answer without calling for further information or clarification
6. Facts possible of discovery :If the premises have been inspected by the insurer or is represented it. It is up to the insurer to observe the position and satisfy themselves.

Principle of subrogation

Subrogation is the transfer of rights and remedies of the insured in the subject matter to the insurer after the indemnification. In other words the insurer steps into the shoes of the insured and becomes entitled to all rights of action against the third party to cover the loss from the responsible person regarding the subject matter of insurance after the claim of the insured has been fully settled and paid.

Need:

The principle of subrogation is for safeguarding the interest of the insurer. The purpose behind this principle are

a. The insured should recover his loss but not more than the actual loss
b. The insurer after paying for loss should avail of the ways and means opened to insured to reduce his liability.
c. The wrong doer should not escape liability but should be punished for his wrong act

How right of subrogation arise?

The right of subrogation may arise in any of the following ways

a. Right arising out of tort: A tort is a "civil wrong" and the most common types of being negligence and insurance. The property of "A" damaged due to the negligence of "B", the insurance company may proceed against B after paying the loss to A.
b. Right arising out of contract: where a contract is imposed on the third person. The obligation of making compensation to the insured in respect of loss , the benefit of the obligation shall pass over to the insurer for example when goods are damaged in the custody of common carrier
c. Subrogation arising out of salvage: where an insured is paid for total loss , ignoring the monetary value of the wreckage of remains of the insured articles, the subrogation rights arise out of the subject matter of the insurance. For example a motor car damaged and total loss paid, the scrap value of the damaged car goes to the insurer.

Principle of Contribution

Principle of contribution is another outcome of the doctrine of the indemnity. It applies to all contracts of indemnity. A person can get the subject matter insured with several insurer in the event of damage. In such cases the total loss suffered by the insured is contributed by different insurer in the ratio of the value of policies issued by them of the same subject matter.

Principle of subrogation includes following

1. Subject matter must be common to all policies: All policies must cover the item for which a claim is made. Subject matter need not be the same in all respect.
2. The perils which cause the loss or damaged must be common to all policies. There is nothing wrong if any or all the policies cover some additional perils.
3. The policies must be legally enforceable. In case any policy becomes incapable of being, legally enforceable in a court of law, the principle of contribution will not apply.
4. The policies must be enforced at a time of loss.
5. The insurable interest under all policies must be the same and all policies must be effected in favour of a common person (insured) . The principle of contribution will not be applicable where the subject matter is insured under two or more policies to cover different insurable interest.

Mitigation of loss

Mitigation of loss literally means “ to make loss less severe violent or painfull”. It place a duty on the insured to make every effort and to take all such steps in the event of some mishap to the insured property to mitigate or minimize the loss as would have been taken by a prudent uninsured person. As such the principle of mitigation of loss provides only a cheaque on the behaviour in the event of loss. Principle of mitigation of loss should not be limited to the time of occurrence of loss but it should extent to the validity period of the policy.

Proximate cause:

The word proximate cause or causa proxima are used interchangeably in Insurance. The term causa proxima is a Latin phrase which means nearest or proximate or immediate cause. It is helpful in deciding the actual cauase of loss when a number of causes have contributed to the occurrence of loss. It is define as “The active efficient cause that sets in motion a train of events which brings about a result without the intervention of any force started and working actively from a new independent source. The objects of insurance is to provide indemnity not for any loss but for those loss caused by insured perils. If stock is insured against fire and if fire damage the stock the insured can get compensation but if the stocks are stolen, the loss is not payable as burglary is not a peril covered under a fire policy. Thus it is important to know the cause of loss for determining whether is compensation is payable or not. If the cause of loss is a insured peril, compensation will be paid.

Warranties:

Warranty is a stipulation which is collateral to the main purpose of the contract. Warranties are conditions which form a part of an insurance policy. If there is a breach of a warranty the aggrieved party can only claim damages.

Warranty in Marine insurance:

In marine insurance contract warranties are very important. Here any breach of warranties goes to the root of the contract and gives the aggrieved party the right to avoid the contract. Section 35(3) of India Marine Insurance Act 1963 states that it is immaterial for what purpose a warranty is introduced and whether it is material to the risk or not but being inserted it must strictly be compiled with

Kinds of Warranties:

There are two kinds of warranties Express warranties, and implied warranties

Express warranties: Are expressly mentioned in contract of insurance. They are clearly written in the policy as condition. The following are the express warranties included in Marine policies

1) Safety of ship on a particular day
2) Specified day of sailing the ship
3) Neutrality of ship during war period
4) Limits of navigation of ships etc

Implied Warranties: Are not mentioned in the policy but are tacitly understood by the parties to the contract and are as fully binding as express warranties. Eg 1) seaworthiness of ship, 2) legality of venture, 3) proper documentation of ship, 4) non deviation

QUESTION BANK:

Answer the following questions in one or two sentence:

1. What is meant by utmost good faith?
2. What is material information?
3. What is subrogation?
4. What is contribution?
5. What is indemnity?
6. Give the meaning of mitigation of loss?

Answer the following questions briefly:

1. What is meant by insurable interest in business? How it arise and when it is needed?
2. Explain the different methods of indemnification?
3. State the facts which need not to be furnished to insurance company.

UNIT-III

UNDERWRITING

The word underwriting denotes the process of analyzing a risk , deciding on the acceptance of the risk , determining the rates, terms and condition of acceptance , assessing the probable maximum loss, finalising the levels of retention and making reinsurance arrangements when necessary . Originally ,insurers used to allow their representatives to assemble in a common place where the insurance broker would bring details of a risk proposed for insurance written on a sheet of paper . After studying the details such of the representatives who felt that their companies could accept a portion of that risk , used to subscribe their company's names below or under that risk –narrative , indicated their shares also and signed the slip way and 100% of the risk subscribe , and it would be treated as fully underwritten . Then the broker had only to collect the premium cheque and deposit both the cheque and the slip with a common policy issuing office who would prepare the policy , send it to the insured under copy to each of the underwriters . This common policy issuing office as well as the broker used to be compensated for their efforts by all the insurers jointly . This procedure is still prevalent in some countries . Though in India we don't have such underwriting , the process of evaluation leading to such decision still exist in respect of every risk offered and hence that process is known as underwriting.

Underwriting means practicing of insurance .It includes proposal form ,scrutiny of proposal form, acceptance of proposalform,certificates of insurance ,cover note,policy,claims and re insurance.

We have seen that any valid contract should have an offer and an unconditional acceptance. The offer is made by a proposal. This is an **application** for the cover required and the quotation of the premium chargeable. The proposal may be made verbally, in writing, or by completing the company's printed proposal form. Oridinarily a proposal form contains questions which relate to the information required by the Insurance Company to consider acceptance of the risk. The number and type of question differ in various classes of business. Some of the proposal forms also contain a solemn declaration that the replies given therein, by the proponent, are true and would form the basis of the contract. Also, on the reserve of the proposal form, details about the covers granted are usually printed. The proposal further contains reproduction of sec. 41 of the Insurance Act 1938, which prohibits payment or acceptance of rebate.

Proposal form:

Normally a proposal form contains to elicit the following information .
1. Name ,Address, Occupation or profession of the proponent.
2. Details about the risk offered for insurance – like construction, occupation and situation in respect of fire insurance , Nature of goods ,packing , carrier for Marine insurance and so on
3.Sum insured
4.Details of cover required and period of insurance .
5.Previous loss experience .
6.Previous and present insurances in respect of the same risk whether it was rejected by any other insurer.

In marine cargo insurance it is not the practice to use forms. For the sake of convenienc, only a question aire is filled up. In fire insurance , proposal forms are not insisted upon when very big risks Marine cargo insurance it is not the practice ks like Factories etc., are offered for insurance . In such cases a detailed inspection is conducted , all required particulars are collected and the cover is granted based only on a simple letter offering the risk for insurance .In Motor and Miscellaneous business , proposal form is usually insisted upon . Thus a proposal serves various purposes.

After scrutiny of the proposal and ascertaining the limits of acceptance of the company , reinsurance arrangements available and after survey of the risk when necessary, conditions subject to which the risk can be accepted are determined and the risk is formally accepted by collecting the premium . This procedure is called New Business Procedure . Although the General Insurance business is a new business every year as the General Insurance contract is valid for only one year ,the detailed examination as aforesaid is limited only to the acceptance of the risk for the first time and hence the first acceptance procedure is normally referred to as new business procedure while the subsequent acceptances are said to be the renewals .

When a risk is so examined and it is decided to accept it, normally a cover note is issued which gives an immediate written acceptance to the client . Such cover notes however issued only in respect of certain classes of business .

POLICY FORMS

The policy is the document which provides an evidence of the insurance contract. Policy document have to be stamped in accordance with the provision of the Indian stamp Act, 1899.

In certain classes of business, e.g. fire and accident insurances, the policy contains a schedule wherein all individual details are grouped together. As against this,
the marine cargo insurance policy from used by some companies is in a narrative form, whereas in some others, a schedule forms a part of the policy. The basic policy
form used in marine insurance is requred to be modified to suit modern requirements. Various clauses are, therefore, attached to the policy to amplify or modify the
cover.

In those classes of business where the insurance is governed by a tariff, the policy wording is provided by the tariff itself.

A typical schedule policy contains certain distinct sections as follow:

(a) **The Heading**:Here, the insurer`s name address of their registered office, are given.

(b) **The preamble or recital clause:**In this section, the parties to the contract, namely the insurer`s and the insured, are indicated. If the insurance is based upon a
proposal form with a declaration, a reference to this effect is also made in the preamble.

(c) **Operative or insuring clause**: This clause sets out the essence of the contract. The perils insured under the policy ase specified, as also the circumstances in
which the insurers became responsible to make. payment of a claim. Perils which are specifically excluded are also clearly mentioned in this clause. Sometimes,
the clause is divided into various sections e.g., in a comprehensive private car insurance policy. There may be exceptions in each section followed by exceptions
generally applicable to the whole policy. This clause provides that the insurers undertake to pay loss or damage subject to the terms, exceptions and conditions contained in or endorsed on the policy. A reference is also made to the sum insured or other limits of liability.

(d) **Schedule:** In the schedule is included the typewritten information applicable to the particular contract, e.g., policy number, name of the insured, his address and
business, period of insurance, premium, sum insured, etc.

(e) **Attestation or signature clause:**The policy is signed by an authorised official of the insurers.

(f) **conditions:**Express conditions are printed on the policy In addition to the express conditions, there are certain implied conditions in every insurance contract,
e.g., (i) good faith, (ii) insurable intrest (iii) existence of subject matter, (iv) identification of the subject matter, etc.

Express conditions are necessary to regulate the contract or emphasise the legal principles governing the contract. Express conditions may also be incorporated to
modify the common law, or define or control the working of the contract, e.g., loss procedure, etc.

Both express and implied conditions can be classified as:

(i**) Conditions precedent,** e.g., disclosure of all material facts before the contract is concluded.

(ii) Conditions subsequent, e.g., notification of alterations in the risk during the currency of the policy.

(iii) **Conditions precedent to liability,** e.g., notice of loss within the limits prescribed in the policy.

COVER NOTE

A cover note is a document issued , advance , pending the issue of the policy and is normally required if the policy cannot be issued straightaway , for some reason or other . 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 honoured by all the parties concerned .

All conditions that are printed on a policy cannot find a place in any cover note . Hence the cover notes usually invite a reference to the terms , conditions, warranties and stipulations of the company`s printed policies and are made subject to those terms , conditions, warranties and stipulations . In short a cover note will state the following particulars :

1. Name and address of the Insured
2. Details of the risk covered
3. Sum Insured
4. Premium paid
5. Effective period of the cover
6. Details of the cover given
7. Additional risks, if any , covered
8. Special conditions subject to which the cover is given
9. Limitations, if any .

Normally a cover note will be super ceded by a policy and there will be a reference , in the policy , about the cover note earlier issued for that same period in respect of that same risk. Sometimes it may be felt at the time of preparation of the policy that the cover should not have been accepted at all. Then the insurer should have freedom to terminate the cover , not with standing the covernote having already been issued .Hence it is customary to add a condition in all the cover notes as follows:
…….the risk is hereby held covered …….unless the cover be terminated by the company , by noticed in writing , in which case the insurance will there upon cease and a proportionate part of the premium otherwise payable for such insurance will be charged for the time the company had been on risk .
In Motor Insurance the cover note, once issued ,is valid only for 15 days ,from the date of issuance . If the policy could not be prepared within that time, it is customary to extend that cover note by 15 days each time , for a maximum of three times . Thus a Motor cover note can be kept valid for maximum period of 2 months from the date of issue .However , cover notes under Fire and Miscellaneous Accident Insurances do not have such validity period or expiry date . They are valid until and unless they are superceded by the printed policies .It us also customary to issue what is known as letters of cover instead of ordinary cover notes. Such letters of cover have the same important role to play as cover notes have. It is the practice of some of the insurers to issue an Acceptance Advice giving the barest minimum details about the contract concluded . Others straight-away issue certificate of insurance (if it is a motor business) or policies.

Certificate of Insurance

In certain classes of risk Certificate of insurance may be necessary

(i) either because the law of the land demands that property owner to possess such certificate so that it could be shown to the law enforcing authorities , on demand , (ii) or because of commercial expediency. The former is the case with the Motor certificate of insurance . According to sec. VII of the MV Act 1939 every vehicle plying on a public place must be insured and the user of the vehicle must hold a certificate of insurance to be produced to any law enforcing authority , immediately on demand (as is the case with commercial vehicles or within a week from the time it is demanded (in the case of all other vehicles).

A Certificate of insurance is a document which testifies to the existence of valid insurance policy in respect of the subject matter mentioned in it .

This Certificate gives such essential details as:

i)Registration Mark and number and description of the vehicle insured

ii)Name and address of the insured

iii)Effective date of commencement of insurance for the purpose of the (MV) Act

iv)Date of expiry of Insurance

v)Persons or class of persons entitled to drive (the vehicle named); and

vi)Limitation as to use .

It is customary for the insurer, to indicate on the certificate , the following additional information also:

vii)Policy number under which that certificate is issued ; and

viii)Running serial number of that certificate .

Every Motor certificate of insurance should also contain a certificate by the insurer that the certificate as well as the policy under which it is issued are in accordance with the provisions of the motor vehicles Act 1939.

ALTERATION OF CERTIFICATE

When any material details mentioned in the certificate require alteration , the possessor of the certificate cannot alter it but should surrender it to the insurer who would issue another certificate in its place with the alteration duly made, or (if the alteration is minor) would alter that certificate itself under his signature and company `s seal and would send the certificate to the insured . Similarly when the certificate is **mutilated** the same should be surrendered to the insurer for a fresh one to be Issued . If it is lost , an affidavit should be given by the insured to the insurer that the certificate is lost and that the same , if found later on, would be surrendered by the insured to the insurer . On the strength of this affidavit a duplicate certificate will be issued by the insurer . In all such cases the insurer usually charge amount for fresh /duplicate certificate.

A Marine Certificate of Insurance is issued for commercial expediency . Where an open policy is issued covering the various despatches of an insured during a particular period of insurance, the insured has to declare each time he sends out a consignment . Against such declarations , individual marine certificates will be issued . It can be recalled that marine Insurance policy is freely assignable and on such a policy the consignee or other third parties (who derive an insurable interest in the property by then) can claim . In the case of an open policy designed to cover various despatches , the insured cannot assign and send that policy itself to the consignee . Hence the certificates are issued by the insurer .such certificates are substitutes for the open policy already taken and hence are assigned by the insured in the place of the original policy . Though the certificate does not contain all the terms and conditions of the policy , the terms etc. , are involved by their reference in the certificate . The certificate is also not a stamped document .

As in the case of Motor Certificate of Insurance , the marine Certificate also covers basic particulars about the property covered such as :

1. Details of policy Number etc.
2. Certificate Number
3. Name of the Assured
4. Details of property covered
5. Details of transit from and to which place
6. Rate of premium and amount

When a certificate of insurance is issued under an open policy, the sum insured under the policy stands reduced by the sum insured as per that certificate. Thus, till the entire sum insured under the policy is exhausted, certificates are issued . When it is over, a fresh open policy is issued and the certificates are continued. If the sum insured is not exhausted within one year from the date of issue of the open policy , the policy is closed at the level at which the sum insured was exhausted , excess premium collected ,if any, is refunded .

PREMIUM:

For the payments of premium a valid printed and stamped receipt signed by an authorised official of the company is issued. Premium is collected either in cash or by cheques or demand drafts or money orders or postal orders . The cover commences immediately on receipt of the premium (Unless the client himself wants it to commence from a future date). If any cheques get dishonoured, the cover automatically ceases. The premium that is collected is usually annual –i.e. for cover for one year. When cover for less than one year is required, the premium collected will not be proportionately less. It will be charged slightly at a higher percentage. This is called short period scale. For example , if cover is required for only 3 months i.e. ¼ of the year the premium collected will not be ¼ th of the annual premium but will be 40% or even ½ of the annual premium. This extra is collected (a) to defray the additional administrative cost involved in issuing policies frequently , for less than one year; (b) to be a disincentive against opting for short term cover. Every Insurance policy , other than Janatha and Gramin Accident policies , is subject to a minimum premium of Rs.30/- per document or if it is a certificate under marine , every certificate is subject to a minimum premium Rs.10/- . The premium has to be collected in full , whether on cash basis or through bank guarantee. It cannot be collected in instalments. However ,installment facility is allowable , as per the insurance Amendment Act 1968, in respect of the Marine Hull insurance and storage cum Erection Insurance .

With the issue of duly stamped policies with money receipts for the premium paid, the New business procedure is complete as far as the client is concerned . As far as the insurance company is concerned , it is complete only after i) due entries are made in the various records and registers maintained either statutorily or for convenience of recording of transactions, ii) Necessary statements are sent to the controlling offices iii) wherever the business is shared with other insurance companies i.e. coinsurers necessary statements of accounts are rendered to the coinsurers and their share of premium paid.

COINSURANCE

Coinsurance is an agreement were more than one insurer is involved in sharing a business. Under Coinsurance a client can have direct dealing with the various coinsurers who have shared the business placed by him. In Coinsurance, normally, the client would place the entire business with the company with instructions to share it with other companies named by him in the proportion indicated, allowing the company with which the entire business is originally placed, to be the leader of this arrangement with a major share. Hence, that insurer issues the policies also, on his own behalf and on behalf of the other companies attaching to such policies, what is known as Coinsurance Clause. The coinsurance clause will contain just the names of the other participants and their respective shares. These policies will be taken in sufficient numbers so that after issuing the original to the client (or original to the financier of the client and copy to the client) Copies can be sent to the other coinsurers. Before issuing a policy, however, even at the stage when the client indicates his desire that more than one company should share his business, the leader would write to the other companies and obtain their concurrence not only that they would accept that share but also that the leader could issue the policy , collectively , on behalf as well and that they would abide by the decision of the leader in underwriting as well as settlement of claims. This is usually referred to as letter of consent or letter of authority. By virtue of this consent and authority given, the leader would be free to service the client`s policy and when a claim arises to settle it in full and then recover the shares of the other coinsurers. When the leader thus does the entire work from issue of policies to settlement of claims his operating cost would increase and to meet this, in some countries, special commission is also allowed to the leader by the other coinsurers. However, this practice is not prevalent in India.

RENEWAL PROCEDURE

When a policy comes up for renewal, a renewal notice is sent to the client calling for premium for a further period of one year and also asking the client to indicate if there is any change in the risk. Issuing such a notice is not a statutory duty but it is done by the insurers as a matter of courtesy. To facilitate timely issuance of such notice, every insurer would maintain an expiry register, month wise and datewise, in which, as soon as a policy is issued, an entry would be made. Normally one month before, notices will be issued for all renewals due. Thus, for renewal due in June, the register will be scrutinised in April itself and notices would be issued before 30^{th} of April. If there is no response from the client it will be followed up by a reminder during the middle of May and simultaneously ihe Inspector or Agent concerned with the business will be alerted to follow it up. Unless it is a major industrial risk or unless any major claim had arisen during the period of insurance re-inspection of the risk at the time of renewal will not be resorted to. When once the business is secured on renewal , issuance of policy etc. will follow just as in the case of New Business Procedure. Normally when there is no change instead of a fresh policy of insurance, a renewal receipt indicating the brief particulars of risk and insurance will be issued. This document is also a stamped one but the stamp duty required is one half of that applicable to the original insurance.

Factors which influence the assessment of risk can be classified as:

1) Those relating to the physical hazard.

2) Those relating to the occupational hazard.

3) Those relating to the moral hazard.

FACTORS RELATING TO PHYSICAL HAZARD (life insurance)

Age of the proponent :

As age increases, the probability of death increases and, therefore, age is a relevant factor in risk assessment. The proponent for insurance is required to furnish proof of his age. Policies are issued in general, up to age 60 nearer birthday.

Sex:

In view of the risks relating to child-birth and weak insurable interest, female lives are treated differently from male lives. It is observed that in India mortality of female assured lives is more than that of males in the age group 20-40. Special considerations in underwriting of female lives are dealt with in a separate section.

Build:

The build of an applicant is most significant in underwriting of life risks. Build includes the applicant's height, weight and distribution of weight. Overweight particularly at middle and higher ages have significantly increased risks as compared to the normal lives. Also at higher ages overweight can magnify the significance of other physical ailments such as cardiac condition. Relative size of the abdominal girth compared to the expanded chest in conjunction with the height, weight, sex and age of the applicant are used to ascertain the expected effect on longevity.

Physical condition:

The physical condition of the applicant other than build is extremely important. Predicted future mortality of an applicant depends in varying degrees on the abnormalities present in one or more of the important systems of the body, viz., nervous, digestive, cardiovascular, respiratory, genitor-urinary, in the glands of the internal secretion, etc. Thus an examination of the circulatory system may reveal elevated blood pressure, a heart murmur or a high or intermittent pulse rate, which may affect the longevity of the lives concerned. An analysis of the urine may disclose abnormalities such as the presence of albumin, sugar or red blood cells. Such indications may require further examinations to ascertain whether the risk can be entertained and if so on what terms or whether it may be rejected.

Personal history:

The health record, habits and insurance history are some of the facets of the proponent's background having a bearing on his past serious illness require investigation for probable effect that may continue. Rheumatic fever often leaves the subject with a damaged heart. Pleurisy can be of tubercular origin. Diseases of brain, nervous systems, heart, lungs or other important parts of the require careful check to ascertain the probable effect of earlier illness on future life. Some ailments like stone in kidney, peptic ulcer, tuberculosis or cancer tend to recur. There is a possibility that a person who had suffered from those ailments recently may do so again in future. Even complains which may appear unimportant might provide to the presence or possibility of ailments. Indigestion might suggest gastric or duodenal ulcer; giddiness at times may indicate serious trouble in central nervous system.

Continued use of things in excess of what most people indulge, if formed as a regular habit, affects the longevity of the subject. Excess indulgence in food, smoking, drink, exercise, etc. is some instances. Healthy habits are indicative of better longevity.

If an applicant has been denied insurance because of a possible extra hazard which formerly existed careful examination of his present state is required. Apart from the possibility that the physical hazard might still be present in a higher degree, it may be that the life assured had already had large amount of insurance on his life and request for may be regarded as speculative.

Family history:

There is convincing evidence that physical characteristics are inherited from parents, grand-parents or remote ancestors some of them influence mortality. Build follows family traits and so do structural qualities of the heart and other organs to some extent. A greater than average susceptibility to infectious diseases may also be inherited.

If the history of the members of the family - usually restricted to parents, brothers and sisters, wife and children shows that most of them lived to old age and have been free from heart disease, insanity, diabetes, etc., we may infer that the proponent may likewise enjoy favorable longevity. On the other hand, if family history reveals deaths particularly at young ages due to cardiovascular disease and the proponent is also having overweight, blood pressure and kidney trouble there is need for closer appraisal of the risk. A family history of tuberculosis becomes important particularly when the life proposed is young and underweight. Possibility of contact of intimate nature with a person suffering from tuberculosis as in the case of mother and child or husband and wife enhances the risk.

Hobbies or avocations:

Certain hobbies such as mountain climbing, competitive racing, aviation, etc., have underwriting significance in as much as they involve accident and health hazards.

Aviation:

It is usual to ask the proponent whether he engages in aviation activities. Flights as a fare-paying passenger on regular scheduled airlines are not considered sufficiently hazardous to affect the risk. However, if the proponent engages himself in aviation hazard involving commercial, private or military flights, the applicant would be requested to fill in a special questionnaire relating to this subject. The insurer then may charge an extra premium to compensate for the extra hazard dependent on the nature and purpose of flights, circumstances in which flying is done and nature of his duties, hours of flying and in the of pilot, experience of flying, etc. Sometimes a policy issued where the risk is excluded if death occurs as a result of engaging in aviation, in a capacity other than a regular fare-paying passenger. In such a case the liability is restricted to premiums paid by the policy-holder or surrender value of the policy whichever is higher.

Other factors:

Travel and residence, expect in isolated special cases, do not attract any extra hazard and policies are issued without any restrictions on travel or residence.

FACTORS RELATING TO OCCUPATIONAL HAZARD

Certain occupations involve hazards due to accidents. In others there are adverse effects on the health of the employee which are revealed over a long time. Workers in low-wage occupations may generally be having poor living conditions and those in higher wage occupations may have the benefit of good living conditions.

All workers dealing with heavy machinery are exposed to some accident hazard. So also construction workers working at considerable heights, workers in underground mines, electrical workers exposed to high voltages, laborers handling heavy machinery are exposed to heavier than normal accident risk.

Dust is one of the important health hazards; workers in mines, stone mills and abrasive industry are exposed to the risk causing increased mortality due to lung ailments. Lead poisoning is a hazard in work relating to mining and smelting of lead, manufacture of storage batteries, risks relating to printing, file cutting, glaze-dripping and painting. Abnormalities of air pressure cause risks to divers and tunnel workers. Exposure to extremes of temperature take place in heavy metal industries such as iron and steel and the same hazard exists wherever high temperatures are necessary part of the industrial process. Refrigerating plant workers also experience sudden variations in temperatures leading to large incidence of respiratory diseases. Dampness in cotton mills, paper and pulp mills cause an increase in respiratory infections. With the development of atomic energy for peace purposes the hazards due to radiation is extended not only to workers with X-ray equipment but others working in nuclear power stations, atomic energy establishments, etc.

Social environment is related to the occupation and in some cases the hazards arise because of irregular living and overindulgence. In this connection, liquor and entertainment industry may be cited as examples.

With the advance of science and technical development, there has been considerable increase in safety control devices. The consequence is the reduction in the adverse effects of the above mentioned hazards in various industries. Safety engineering has reduced the accident rates considerably offset the deleterious effect of certain industrial risks to health by limiting and counteracting the exposure to these hazards. Public awareness and Governmental action have resulted in improvement in the living conditions and health of the industrial workers. As a consequence though workers in certain occupations have to be charged extra premiums importance of occupational risk in insurance underwriting has declined considerably. Current practice of the Life Insurance Corporation of India is to charge extra premiums only in those occupations where the hazard is significantly high.

Factors to be considered in General Insurance

Fire :

(a) The construction of the building, i.e., whether it is built of concrete or bricks or timber.

(b) The occupation of the building, i.e., whether as a residence warehouse, shop , manufacturing risk .

(c) The process of manufacture, i.e., whether electric power is used.

Accident:

(a) Motor : The age and condition of the vehicle, the type of vehicle, the use to which the vehicle is put.

(b) Personal accident: The age, health , physical condition and occupation of the proposer .

(c) Fidelity guarantee: Accounting systems of the insured, the methods of check and supervision of the employees , the social and financial position of the employee guaranteed.

In the marine department, there is no proposal form. In order to know all the material facts required for underwriting purpose, many insurers have declaration forms. These forms are to be filled up by the person proposing for insurance, giving all the information required by the insurance company. There is a difference, however, between the proposal form used in other departments and the declaration form. The declaration form does not contain any statements required to be made by the proposer warranting that all the statements made in the form are true. The declaration form is not incorporated by reference into the policy as is done in other departments.

For proper marine underwriting, a sound knowledge of the nature of all types of cargo, the type of damage to which cargo is easily susceptible and the conditions prevailing at different ports, is essential.

The following information is generally required for the consideration of a marine acceptance:

(a) Name of shipper or client to be insured.

(b) Full description of goods to be insured.
(c) Method and type of packing.
(d) Voyage and mode of transit.
(e) Cover required and conditions of insurance.
(f) Name of steamer.
(g) Sum to be insured.
(h) Past claims experience, if available.

(a)**Name of shipper or client to be insured** :This information is important for the moral hazard point of view, e.g., a client who does not take due care about packing of his goods or a client who does not engage the services of reputed and dependable clearing and forwarding agents, are examples of bad moral hazard.

(b) **Goods to be insured:** The description of goods gives an indication of the nature of loss or damage to which such goods are generally susceptible.

(c) **Method and type of packing:** The possibility of loss or damage depends on this factor. Generally, goods are packed in bales or bags, cases or bundles, cartons, or in bulk. The description of the cargo should be complete and give a proper idea of the hazard involved.

Given below are some important types of cargo and packing.

(i) **Machinery:** Machinery items can be heavy machinery, medium machinery and the delicate type of machinery are exposed to different types of risks during transit, exact description of machinery required to be covered is essential, e.g., textile machinery, sugar mill machinery, tractors, etc. It is important to know full details of packing such as whether the machinery is packed in cases or crates. If a machinery item is imported from abroad and is required to be covered for inland transit from the port to an interior destination, it must be clearly mentioned whether the original packing of the factory will be available for the inland transit also. If the machinery is second hand, it must be clearly mentioned, otherwise the insurer may accept thinking that it is new machinery and in the event of claim, a problem could arise.

(ii) **Bagged cargo:** Agricultural produce and similar cargo is usually packed in gunny bags. Double bags are safer than single bags. Bags generally are of gunny or hessian, or sometimes of paper. Begged cargo in whatever form presents the risk of tearing or bursting, and loss of contents.

(iii) **piece goods:** Full description of the interest and packing should be given e.g., "Woolen piece goods in cases", " cotton piece goods in bales", etc.

(iv) **Chemicals, oils, Pharmaceuticals, etc.** The interest and the packing must be described fully, e.g., “hair oil in bottles in cases”, “Paint in tins in cases “, etc. If oils and the like are transported in drums or barrels are new ones or second-hand, as the leakage risk depends on this factor.

(d) **Voyage and Mode of Transit:** Information will be required on the following points:

(i) The name of the place from where transit will commence and the name of the place where it is to terminate.

(ii) mode of conveyance to be used in transporting goods, i.e., whether by rail, lorry, air, etc., or a combination of two or more of these. The name of the vessel is to be given when an overseas voyage is involved .In land transit by rail, lorry or air, the number of the furnished. The postal receipt number and date is required in case of goods sent by registered post.

(iii) if a voyage is likely to involve a transshipment, it enhances the risk. This fact should be informed while seeking insurance.

A Voyage can be described as under:

(i) Berlin (Germany) to Bombay via Hamburg per s. s. (name of vessel) and thence to poona

per rail).

(ii) Bombay to Delhi by rail, R/R No…..dated…….

(e) **Cover required:** The risks against which cover is required should be stated. Merely stating that “full cover “is required is not enough. The risks must be fully described.

(f) **Name of steamer:** The correct name of the steamer is necessary to know the details of the age, tonnage, classification, ownership, etc. Shipments effected per old vessels or vessels of small tonnage are not considered attractive. If such business is to be accepted, it may warrant charging an addition/ higher rate of premium.

UNDERWRITING CONSIDERATIONS

On receiving the material information, an underwriter assesses the risk and determines the premium rates. Some of the underwriting considerations are as follows.

Cargo and nature of packing are naturally very important features .A marine policy covers risks of fire, water damage, theft, pilferage, breakage, leakage, damage by other cargo etc. While considering the fire risk, for example, the insurers consider if the good are hazardous, extra-hazardous or non- hazardous. For example, cotton and chemicals are examples of cargo liable to fire damage; some cargo is liable to spontaneous combustion.

In regard to water damage, commodities like salt, sugar, and cement are very susceptible. On the other hand, commodities like non-ferrous metals have no great risk of water damage. If breakage risk is to be considered, commodities like crockery, glassware, earthenware, and cast iron articles are bad risks, and should be carefully considered if they are to be covered at all.

CLAIMS

The very purpose of going in for insurance protection is guard against possible accidental losses or liabilities. However, it is not that all losses are covered under the policy. The losses are payable in accordance with the terms and conditions of the policy. For all classes of business viz., Fire, Maine and Miscellaneous insurance.

factors to be considered while dealing with a claim. Some of them are:-

1) The policy should be in force at the time of loss.

2) The claimant should be the person who is entitled to prefer the claim under the policy.

3) The cause of loss should be the one insured against.

4) The claim advice should have been given to the insurer within a reasonable time as delayed intimation would affect the position.

5) Proof of loss should be submitted by the claimant in support of the claim.

In all General Insurance Contracts, the underlying principle is that the insured should act always as though he is uninsured. For example-if a building insured under a policy catches fire, the insured should take al steps to put out the fire and salvage the property. Oil drums containing edible oil might be leaking or a fishing boat might be sinking or a motor car might meet with an accident. In all these instance notwithstanding the fact that the property has been insured, the insured has to take all the steps to protect and preserve the property. All the steps that he would have taken had he not insured the property should be taken even when it is insured. This is to ensure that not only the property is taken care of but also further aggravation of loss is prevented. The obligations cast on the insured are generally spelt in the policy conditions. For example, the insured should allow the surveyors to enter the premises to mitigate further damages. The undamaged items should also be segregated from the damaged ones. A consignment of hides and skins may be damaged by water. Unless the bad ones are removed, the entire cargo may become a total loss.

Since property insurances are contracts of indemnity, the sum insured must represent the market value. This factor will be taken into account while assessing the loss. In marine, as agreed value policies are issued, there is no need to compare the market value as the sum insured represents the liability of the insurers. Where the damaged property is available it may be taken over the salvages by the insurers or due allowances may be made in calculation of the claim amount. Whenever the insured has a right against a third party for any loss, the insurer becomes entitled to that right by way of subrogation. Therefore, the insured has to preserve such rights.

To find out the possible cause of loss and also to assess the quantum, a survey may be necessary. The services of professionally competent persons may be utilized for conducting the survey. This is to ensure impartial assessment. The Insurance Act stipulates that losses over rs. 20,000/- must be surveyed by a qualified surveyor. The surveyors are issued with a license by the controller of insurance. The findings of the surveyor are only recommendatory in nature and not binding. Where necessary a second survey can also be conducted. In the case of marine insurance, the cargo that is begin exported may result in a loss in any part of the world. Insurers have surveyors in all the majors parts of the world or may utilize the services of Lloyd's Surveyors who are available in almost all the parts of the world. Excepting marine the survey fee i.e. the remuneration payable to the surveyor is borne by the insurers. This is irrespective of whether the claim is admitted or not. In marine, the surveyor is appointed on behalf of the claimant and hence the survey fee has to be borne by the claimant. It will be subsequently reimbursed by the insurer only if the claim is admitted. Otherwise, it will not be reimbursed.

Where the property is damaged, a decision about the repairs/replacement to be allowed will be taken as per surveyor's findings. Where repairs are allowed, on completion of repairs to the satisfaction of the claimant, the bill may be settled directly with the repairers. Repairs due to the accident alone will be paid. The claimant has to bear expenses for maintenance or for routine wear and tear.

If parts are to be replaced, depreciation will have to charged after taking into account the wear and tear, maintenance, running, etc. The damaged items for which replacements are allowed will have to be surrendered to the insurer by way of salvage. The insurers will also take into account the amount to be borne by the claimant by way of excess-compulsory or voluntary, while settling the claim.

For the third party property or injury or death claims, it has to be ensured that the insured neither admits liability nor enters into a compromise. He has to promptly advise the insurers and co-operate in conducting the investigations. Any legal notice or summons he may receive will have to be forwarded to the insurers without even acknowledging it. Depending upon the merits of the claim, insurers may met the liability to the third party or may offer a compromise settlement or may even repudiate. When the claim is repudiated, or the amount offered is not acceptable, the claimant may take the matter to a court of law. The insurer may also require the claimant to initiate legal action or contest be petition. For example to preserve the right of recovery against the carrier, a suit may have to be field. The insured has to extend all co-operation in all these instances. When the legal action is taken at the instance of the insurer, the entire cost thereof will be borne by the insurer. However, one important point that has to be borne in mind is that there may be a dispute as to quantum of the loss. The liability might have been admitted by the insurer. Then the insured cannot take the matter to a court of law but has only to resort to arbitration as per the arbitration condition.

According to this condition, the matter will then be referred to an arbitration. However, if the insurers and insured could not agree upon a single arbitrator, each one can appoint a disinterested person as arbitrator and these two arbitrators will be appointing in writing. This appointment must be made within two months. If the two arbitrators do not agree, they can appoint an umpire. This umpire will sit with the arbitrators and preside at their meetings. The arbitrator's award has to be obtained first and then only an action can be commended in a court of law by the aggrieved party. Where the claim is repudiated there is a time limit for filing a suit against the insurance company i.e. Within a period of 12 months from the date of repudiation legal action should be commenced unless the claim is pending action or referred to arbitrators.

When an intimation is received about the claim, after satisfying that the claim relates to them, the insurers will enter the particulars in the claims register and also allot a number. This claim number will be quoted in all the correspondence and will also enable the insurers to connect the papers. The claims papers will be filed in a claim docket. The cover of the claim docket will indicate the essential details relating to the claim. After allotment of claim number, a claim form will be issued for completion by the claimant. The documents which are necessary will also be indicated to the claimant for submission. Where surveyors are to be appointed, the decisions will be taken after getting the duly completed claim form. Where repairs are to be carried out necessary communication giving the details of the repairs authorized, depreciation percentage to be borne by the insured as also the details of the salvage will be indicated. On completion of repairs, a satisfaction-cum discharge voucher in the printed form will be submitted by the claimant to the insurance company. This will enable the insurer to release the cheque directly to the repairer. The details of the payments made like survey fee, repairers' bills etc., will be indicated, in the claims register along with the payment details. Where the salvage is surrendered, the particulars there of will be recorded in the salvage register. If there is a possibility of recovery from the carrier, the papers may be entrusted to a professional recovery agent, who acts on no cur no pay basis.

As and when recovery is made the particulars of the amount recovered the amount payable to the recovery agent and like details will be entered in the register. At the end of the year, a detailed statement of outstanding claims will be prepared.

The claims settlement in different classes of insurance is as follows:

(a) **Preliminary:** Insurers insist on an early notification of a loss, and the policy provides for the time limit within which notice of loss, the relevant policy particulars are checked to see if the insurance is in force. The claim form is thereafter issued to the insured if the loss is in fire or accident department.

(b) **Investigation:** The completed claim form is the basis for the settlement of small claims. If, however, the claim is for a large amount or involves doubtful or complicated features, independent licensed surveyors and assessors are appointed by the company to investigate into the circumstances of the claim and give their opinion about the quantum of loss. A typical loss survey report deals with, among other things, the cause and extent of loss, as also the observance of warranties and other terms and conditions.

(c) **Settlement:** The claim is processed on the basis of the survey report, the claim form and other supporting documents. Settlement is made by cheque and payment entered in the claims register as also in the relevant policy records.

The claims which are dealt with under insurance policies fall into the following categories:

(a) **Standard Claims**: These are claims which are clearly within the terms and conditions of the policy. These claims are paid without any difficulty.

(b) **Non-Standard Claims**: These are claims where the insured has committed a breach of condition or warranty. The settlement of these claims considered subject to certain rules and regulations framed by the companies. The authority to settle these claims usually vests with the Head Office of the companies.

(c) **Ex-Gratia Losses:** These are losses which fall outside the scope of cover under the policy and hence are not payable. However, the payment of such losses is considered in very special cases. The approval of the Board of Directors is required for settlement of these losses.

Exercise:

1) What is a meaning of underwriting?

2) What is a proposal form?

3) What are the general contains of proposal form?

4) Explain briefly the different types of proposal form for different classes of insurance?

5) What is new business procedure?

6) Why is cover note issued keeping pending the issue of policy?

7) What are the contains of cover note?

8) Write a short note on motor certificate of insurance?

9) Explain briefly marine certificate of insurance?

10) What is the acceptance advice in motor insurance?

11) What is the maximum validity of motor cover note?

12) What is the full form of MV act?

13) What are the contains of motor insurance certificate?

14) Why is there need of certificate of insurance?

15) Write a short note on alteration of certificate of insurance?

16) Why is a marine certificate of insurance issued in marine cargo insurance?

17) Write the short note on premium?

18) What are the contains of policy document?

19) What is co-insurance as compared to re-insurance?

20) Explain briefly renewal procedure?

21) State the factors that are considered at the time of underwriting of life insurance?

22) What are the factors considered in physical hazards?

23) Explain briefly the factors relating to occupational hazard?

24) What is the significance of moral hazard?

25) State the common situation that gives rise to moral hazard?

26) Mention the factors that are normally considered in fire insurance with reference to building?

27) Explain in detail the underwriting factors in marine cargo insurance?

28) Explain briefly the factors that are considered in motor insurance?

29) Explain the procedure involved in settlement of claim?

30) Explain the following:

a) Standard claims

b) Non standard claims

c) Ex-gratia losses

UNIT IV

INSURANCE AGENCY AS A CAREER

DEFINITION OF AN AGENT

An agent is one who acts on behalf of another. The 'another on whose behalf the agent acts, is called the principal. This is the simple definition. The lawyer is the agent of the client, when he argues the case in court. An ambassador is an agent of his country. It is the function, which determines the relationship of agency, not the designation.

According to section 182 of the Indian Contract Act, an 'agent' is a person employed to do any act for another or to represent another in dealing with a third person. The person for whom such act is done or who is so represented is called the 'principal'. In the insurance industry, the term 'agent' is ordinary applied to a person engaged by the insurer to procure new business. The Insurance Act defines an insurance agent as one who is licensed under Section 42 of that Act and is paid by way of commission or otherwise, in consideration of his soliciting or procuring insurance business, including business relating to the continuance, renewal or revival of policies of insurance.

There is a legal maxim 'qui facit alium, facit perse' , which means that he who acts through others, acts to himself. The principal is bound by what the agent does. Therefore, contracts entered into through an agent, and obligations arising from acts done by an agent , may be enforced in the same manner and will have the same legal consequences, as if the contracts have been entered into ,and the acts done ,by the principal himself.

Under section 183 of the contract Act, any person who is a major , according to the law to which he is subject , and who is of sound mind ,can employ an agent . Section 184 provides that as between the principal and third person ,any person may become an agent.Thus ,though a minor may be employed as an agent and the principal would be bound by his actions, the minor himself will not be liable to his principal. Unlike other contracts, no consideration is necessary to create an agency contract

AUTHORITY OF AN AGENT

While the maxim cited above makes the principal liable for all the acts done by the agent ,he can restricts his liability by specifying the extent of authority granted to the agent . This authority may be expressed when it is stated by words, spoken or written .It is implied when it is to be inferred from the circumstances of the case .

The LIC does not authorize its agents to collect premium or other amounts from the policyholders .But if the agent collects such amount ,remits them to the insurer and gets receipts to be handed over back to the policy holder, implied authority can be inferred or construed. The LIC's stand as been that its agents are not authorized to collect renewal premiums and that if they do so ,they are acting as agent of the policyholders and not of the LIC.The implication is that if an agent collects premium from a policyholder and does not remit the same in the office, the LIC would not be liable for that amount. The courts have upheld this stand .Other insurance companies in India may not follow LIC's practice. They may grant more or less authority.

AGENTS' REGULATIONS

The Insurance Regulatory and Development Authority (IRDA), constituted by the IRDA Act of 1999, issued the IRDA (Licensing of Insurance Agents) Regulations,2000. These Regulations deal with the issue of licences under section 42 of the Insurance Act,1938 and other matters relating to agents. The Regulations are reproduced in full at the end of this course and form part of the Regulations, have been omitted. They can be obtained from the insurer,s offices as and when required.)

By another notification in October 2002, these Regulations were made ineffective for corporate agents and the new IRDA (Licensing of Corporate Agents) Regulations, 2002 were issued. These Regulations deal with the issue of licence's and other matters relating to corporate agents. The essential provisions of the Regulations are reproduced at the end of this course and from part of the study material.

In terms of these Regulations, a licence will not be given if the person if the person is (a) a minor, (b) found to be of unsound mind (c) found guilty of criminal misappropriation or criminal breach of trust or cheating or forgery or an abetment of or attempt to commit any such offence (d) found guilty of or knowingly participating in or conniving at any fraud, dishonesty or misrepresentation against an insurers or an insured € not possessing the requisite qualifications and specified training (f) not passed such examinations as are specified by the Regulations (g) found violating the code of conduct as specified by the Regulations.

It is not only an individual who can become an agent. Collectives like companies, firms, banks, cooperative societies, etc., can also become agents. These collectives will designate one or more person as 'Corporate Insurance executives', who will be required to obtain licences. Others who may also work for the corporate agent, will be called 'specified persons' and they will be required to obtain certificates.

The fee for grant of a licence is Rs.250 for individual as well as corporate agents a licence is granted for 3 years. It may be renewed after 3 years. It can be cancelled, if the agent acquires any of the disqualifications. The fees for the certification of the specified person is Rs. 500. This is also valid for 3 years.

OTHER INTERMEDIARIES

1. Different kinds if agents are recognized under the Contract Act. In the airline industry, for example, there is the system of the General Agent, who has authority to act on behalf of the principal on all matters within a specified sphere. Such general agents may represent more than one principal at the same time. Similar systems of general agents exist also in the shipping industry. They represent foreign shipping companies and are authorized to deal with shippers and local authorities like the ports or the stevedores, to ensure that the ship's visit to the port is profitable and without any problems.

   Brokers arrange to place the business of their clients with insurers on terms that are standard or negotiated. This becomes necessary when the needs of the proposers are unique and not met by the benefits under the standard plans of insurance. Brokers understand the nuances of the business well and also know the policies of the insurers. A broker usually does business with more than one insurance company. He collects commission from the insurer with whom the business is placed and does not charge the prospect.

In India till October 2002, only insurance agents licensed by the IRDA were permitted to procure and solicit life insurance business. Brokers dealt only with reinsurance business. The law was amended in September 2002, and the IRDA has issued (Insurance Brokers) Regulations, 2002 providing for the licensing of 'direct brokers', 'reinsurance brokers' and 'composite brokers', the last being authorized to deal with direct business as well as reinsurance business. The details of these provisions are given in the Annexure.

METHODS OF REMUNERATING AGENTS

A life insurance agent works on commission basis. He is paid a stated percentage of the premium collected through his agency. Section 40 A(1) of the Insurance Act stipulates that the maximum amount which can be paid to a life insurance agent, by way of commission or remuneration in any form, shall be 35% of the first year's premium, 7.5% of the second and third year's renewal premium and 5% of subsequent renewal premium.

There are some exceptions to this. During the first ten years of the insurer's business, he may pay 40% instead of 35% of first year's premium. Under certain circumstances, commission of 6 % can be paid on the renewal premium even beyond the third year. Within these limits, the manner of remunerating the agent will be determined by the insurer. Normally, under term assurance plans, commission rates are less. Similarly, for shorter duration policies, commission rates are lesser than under longer duration plans. Under single premium plans and pension\annuity plans, rate of commission is very small.

New agents may be paid a stipend to be adjusted against the commission to be earned, as and when the business begins to come in. Brokers are paid on a totally different basis.

AGENCY AS A PROFESSION

The insurance agent is bound by the terms of appointment of the insurer and is expected to procure business for the insurer. It is not a job that he has to do at fixed hours, in prescribed ways and under close supervision.

Once licensed and appointed, he is an independent professional. He is the master of his time. He is not prevented from pursuing any other interest or vocation. Many agents see the agency as a means to earn a living. They may spend only part of the time on insurance, being busy on other work the rest of the time. Some agents however, try to study and understand the business in great details and to improve their skills. They are trying to become the best in the profession. They would be recognized as experts in the field.

To most people, life insurance is just one of the many avenues for financial outlays. When an agent approaches a prospect with the proposal for life insurance, the chances are that the prospect will not know much about the benefits under various plans. He may be vaguely familiar with the alternatives available, but is unlikely to be sure of the details of all of them. He would need expert advice. If he sees the life insurance agent as one who is keen to divert his money to life insurance to the exclusion of other alternatives, then that agent's intentions and expertise would be suspect. On the contrary, if he sees the agent as one who knows about other alternatives and who is willing to take note of the needs of the prospect, then that agent would have a better chance of persuading the prospect one way or the other. In other words, a life insurance agent, while dealing with the prospect, should be thinking of his interests and requirements and the best financial arrangements that would be appropriate in his situation. Thus the life insurance agent, is an agent of the prospect also

As an agent of the insurer, the life insurance agent is expected to obtain life insurance business and contribute to the revenues of the insurer. He is also depended upon to bring in business that would be profitable, to report attempts to commit any fraud, to report on relevant features that affect the risk of the subject of insurance. He is in touch with the person to be insured. Having met him at his place of work or residence and observed his life style and habits, he would be aware of the nature and characteristics of the risk, beyond what is contained in the proposal form. He is therefore, called the primary underwriter.

As an agent of the prospect, he is expected to look after the interests of the prospect. Even people, who are generally experts in financial matters, may not be aware of the implications of insurance, in relation to terms and conditions, warranties, exclusions, tax provisions, rights of parties, etc. Agents have the duel responsibility of being true to the interests of both the parties in the transactions. He is obliged to reveal to the prospect all the important terms and conditions of the policy, even if they are restrictive and unpleasant. He is also obliged to report to the insurer all the true facts about the prospect and the subject of insurance. He should not mislead either.

To be able to advise the prospect on the best financial arrangements appropriate to his situation, the agent needs to be familiar with the alternatives available in the market. He is also expected to know in full the benefits and limitations of the various plan being offered by his insurer. A good agent is a good financial planner, taking into account not merely the plans offered by insurers, but by the innumerable schemes on offer in the market. This needs study on one's own. It also needs conviction that life insurance policies do not meet all the needs of all the people. Other instruments have their own advantages.

PROCEDURE FOR BECOMING AN AGENT

The Insurance Act, 1938 lays down that an insurance agent must possess a licence under Section 42 of that Act. The licence is to be issued by the IRDA. The IRDA has authorized designated persons, in each insurance company, to issue the licences on behalf of the IRDA. The fee for the licence, the manner of making an application, etc have been described in the IRDA Regulations.

A licence issued by IRDA will be valid for three years. The licence may be to act as an agent for a life insurer, for a general insurer or as a "composite insurance agent" working for a life insurer as well as a general insurer. No agent is allowed to work for more than one life insurer or more than one general insurer.

QUALIFICATIONS

The qualifications necessary before a licence can be given are that the person (individual or corporate insurance executive) must

1) Be at least 18 years old

2) Have passed at least the 12th standard or equivalent examination, if he is to be appointed in a place with a population of 5000 or more, or 10th standard otherwise.

3) Have undergone practical training for at least 100 hours in life or general insurance business, as the case may be, form an institution, approved and notified by the IRDA. In the case of a person wanting to become a composite insurance agent, the applicant should have completed at least 150 hours practical training in life and general insurance business, which may be spread over six to eight weeks.

4) Have passed the pre-recruitment examination conducted by the Insurance Institute of India or any other examination body recognized by the IRDA.

DISQUALIFICATION OF AN AGENT

A person with the following disqualification is debarred from holding a licence.

1) He has been found to be of unsound mind by a court of competent jurisdiction

2) He has been found guilty of criminal breach of trust, misappropriation, cheating forgery or abetment or attempt to commit any such offence.

The licence once issued, can be cancelled whenever the person acquires a disqualification.

Applications for renewal have to made at least thirty days before the expiry of the licence, along with the renewal fee of Rs. 250. If the application is not made at least thirty days before the expiry, but is made before the date of expiry of licence, an additional fee of Rs.100 is payable. If the application is made after the date of expiry, it would be normally be refused.

Prior to renewal of the licence, the agent should have completed at least 25 hours practical training in life or general insurance business or at least 50 hours practical training in life and general insurance business in the case of a composite insurance agent.

Insurer's who select agents for appointment, make arrangements for training, for appearing in the prescribed examinations, and obtaining the licence from the IRDA. The procedures have been streamlined and there is little loss of time for any step in the process.

AGENT'S CODE OF CONDUCT

The following may constitute the code of Ethics for life insurance agents:

1) To hold business in high esteem.
2) To keep client's interest uppermost.
3) To respect client's confidence and hold in trust personal information Passed on to him.
4) To render prompt and sincere service to his clients and their dependants.
5) To use only the right methods in enthusiastically persuading clients to protect their insurable interests.
6) To make accurate and truthful presentations.
7) To improve his knowledge of life insurance through constant study.

8) To work consistently and according to a programme.
9) To be fair in his relations with colleagues.
10) To strictly adhere to laws and regulations and to observe them in letter and spirit.
11) To procure proposals only on the lives of persons conforming to the Physical, moral and financial standard defined by the corporation.
12) To be loyal to the corporation.

ROLE OF AN INSURANCE AGENT

An insurance agent is defined in the Insurance Act. He requires a licence to be able to function as an agent. He is remunerated by way of commissions on the premium paid under policies procured through his efforts. Insurers designate agents differently like consultants, advisors and so on. The designations do not matter. He is the main component of the distribution channel for the life insurance business.

A life insurance agent would be required to solicit and procure new life insurance business, in a manner that is consistent with the interests of the policyholders and of the insurance company. For this purpose, he would have to do the following.

1) Contract prospects for life insurance, study their needs and persuade them to buy.

2) Complete all related formalities, including filling up proposal forms, collecting premium, arranging medical examinations, collecting proofs (of age or income), reports and other information required by the underwriter.

After having sold a new insurance policy, the agent has to ensure that the policy continues, without a lapse, till it becomes a claim. The conservation of the policy is in the interests of all the three persons concerned, the insurer, the policyholder and the agent. For this purpose, he has to

1) Keep in touch with the policyholder to make sure that renewal premiums are paid in time.

2) Ensure that nominations are made or changed according to changing circumstances.

3) Assist in settlement of the claim, by helping the claimants to complete the necessary formalities and requirements.

The other function is to be of assistance to the policyholder in case he needs a loan under the policy or wants to make an assignment. These services strengthen the relationship between the agent and the policyholder.

PREREQUISITES FOR SUCCESS

In order that he may perform all these tasks well, the agent has to be familiar with

A) The benefits under the various plans of insurance offered by his insurer.

B) The office procedures for various matters including the forms and documents. The forms and procedures will vary between one insurer and another.

As stated earlier, the insurance agent is an agent of the prospect as well. He is looked upon as a knowledgeable person, who can be trusted to give the right advice. To be able to match these expectations, the agent must be familiar with the benefit and advantages of other financial instruments suitable for savings and investment and also the laws, particularly on taxation matters, relevant to these instruments.The variety of instruments available for an individual, is very vast and it is difficult for anyone to master the details of all of them. Some agents, who so not have the necessary knowledge, give answers on the basis of guess work or hearsay. Others admit that they do not know enough and promise to come back after checking out the details. The latter are respected and trusted more.

SELLING INSURANCE

The first requirement is to have a continually expanding list of prospects, persons who can be approached for insurance. These are names of people within reach, obtained from acquaintances, newspapers reports, directories, contracts at parties, meetings seminars, etc. These names have to be qualified, which means that some preliminary work should be done to collect details about them. These details may indicate whether it may be worth approaching them for insurance. The work of 'qualifying' is done to ensure that the prospect is not apparently unfit for insurance like being sick, or with great moral hazard.

Those in the qualified prospect list have to be met. A sale results when the salesman takes the prospect through well defined steps. The steps are not separate and clear-cut but blend into one integrated process. The steps are as follows

1)**Pre-approach**:

Pre-approach means preparing to approach the prospect. This requires forming some idea as to how the interview could begin and proceed, for which you require basic information regarding his income, his habits, his concerns, his interests, his saving capacity, his family position, etc. These facts can be had form a varity of sources, and you may even have to make a personal call on the man himself, and get from him the facts you need to persuade him in taking a decision. If such a call is made, the proposal for insurance is not made at that stage, although in some circumstances a pre-approach call may develop further and end with the proposal and the cheque.

The information collected during pre-approach will provide a reasonable idea of the prospects financial position and his needs and concerns, and help to make a tentative recommendation of a plan. If you make the sale first in your mind, you will find it easy to make the sale to the prospect.

It is advisable to write down the proposal. The advantages of a written proposal are

1) Details are not missed by either the agent or the prospect.
2) The impression is more lasting.
3) The prospect can go back to earlier data on his own.
4) The prospect can understand, at his own pace.
5) It is easy to stop at any point, clarify questions and continue further without losing the trend.

2) **Approach**

When you knock on the prospect's door and are face to face with him, the dynamic phase of sales begins. You should make known to the prospect, at the very earliest, that you are calling on him for life insurance. There is no need to hesitate on this or to feel apologetic. The agent has to believe that he is calling on the prospect to render him the valuable servie of ensuring financial security for him and his family.

The agent should open the talk by explaining the purpose of his call in such a way so as to arouse enough interest. Otherwise, he may not pay attention to the proposal. In most of the cases, the situation may arise where the prospect will come out with a 'NO'. At this juncture of approach, when the prospect says 'No', the agent should not be in a hurry to convert the 'No' into 'Yes'. The purpose of the approach stage is not to sell insurance, but to sell an interview, which gives him the opportunity to talk about what he wants the prospect to think about.

3) **INTERVIEW**

The interview should first of all, make the prospect listen. This happens if the agent refers to things which interest him, his needs, or things that matter to him, without making it appear like patronizing or flattering. Any hint that the prospect' decisions of the past (relating to insurance or investments) were not appropriate or need to be changed, will have the opposite effect. The proposal being made by the gent should be seen as beneficial and complimentary to the existing arrangements.

The agent should follow some simple rules like the ones mentioned below

1) Do not talk more than necessary.
2) Ask questions, and make the prospect talk. Make it interactive.
3) Create doubts and get him to ask questions for clarification.
4) Listen to the prospect's point of view carefully. Do not interrupt, contradict or argue. People feel good when they are listened to and then they listen better.
5) Make your talk interesting. Tell a true story of how life insurance has helped families in various situations and how families have a personal appeal. Use names of his children or relatives. That will make the story more appealing.
6) Use pictorial aids, graphics and written presentations. If you have a lap top use power point presentation.
7) Let the prospect write down the figures of his needs, of his liabilities, of benefits of the concentrated attention.
8) Let your advice be in the best interest of the prospect, not your interest.

Successful agents prepare their presentations carefully every time. They rehearse in their minds the way the interview should proceed. This ensures that they do not fumble for ideas or the right words. The ideas, too, come in the most natural and logical sequence. Lastly, a prepared sales talk conveys more enthusiasm and conviction than a talk without preparation. A well prepared than a talk without preparation. A well prepared approach ensures a favorable interview.

4) Objection

Prospects will raise objections, one after another. Objections are a part of every sale. If prospects did not object, there would be no need for salesmen. People would buy on their own. Also, if the prospect remained silent, you will not know how his mind is working. The objection is his way of referring to the further information that he needs.

The entire selling process is, therefore, interspersed with objections. At the stage of approach itself the prospect may say-'I do not believe in life insurance', 'I do not need life insurance', and the like. Such objections are not against life insurance but rather against the agent whom he wants to put off gracefully, or signs of indecision, or of a fear of being "forced" into buying.

Then, there are objections during the interview, like, 'I pay more than what I get back', 'It is advantages only if I die', 'Meet me after six months'. Such objections, which come up during the main discussion are real objections. However, their intention is not to put you off. It is quite the contrary. The prospect wants you to convince him. He wants you to give him detailed information that will remove his fears and doubts and to back up his latent or unstated desire to buy. Every objection tells you about the prospects thinking and gives you an opportunity to remove his mental blocks. Indeed, a prospect, who puts forward an objection, is actually asking you to give him one more reason to buy. A true agent should therefore welcome objections.

Then there are objections raised at the closing stage, such as, 'I will think it over', 'I will consult my father', 'See me next month when I get my confirmation| Increment| promotion, 'etc. These objections reveal an inability to take a major decision.

Objections cannot be treated in a summary manner. The answers must be complete and convincing to the prospect. He needs help to make the decision to buy. His doubts or difficulties need to be removed or clarified. The agent, while answering the objections, should never get into an argument. The "yes…but" method is the most effective. You agree (say,' Yes') in principle with what the prospect says under circumstances assumed by him; "but", you say, "the actual circumstances are different" and then convey your point. The prospect is bound to be receptive to such an open 'give and take' in discussion. For example, you may say:

"Mr. prospect, I agree that conditions are hard and people have difficulty in saving; but imagine how much more difficult it will be if your family has to carry on without you". The secret of successful selling is to make the prospect feel that he has taken the decision-you only help him in the process by answering his objections. Agents should remember that an objection is a "blessing in disguise". It is also a stepping stone to a sale.

5) closing

The 'close' has to be sensed and timed, because very few prospects will, of their own accord, say 'I will insure'. The agent sensing the close, takes the prospect's positive decision for granted by asking for his implied (not direct) consent. " will you pay the premium by cash or cheque?", "Do you have your school certificate at hand now or can you have it tomorrow?"(affirmative choice). A positive answer to any of these questions in an indication to go ahead. If the interview does not end with a close and is put off to another time, the interview will have to be gone through all over again.

In selling life insurance, an appeal to the heart of the prospect is more useful than an appeal to the head. Life insurance is bought for the prime reason of protecting the loved ones, affording a good start in life to the children, duty to aged parents, or perhaps a desire for self-preservation in old age. So a sale can be accomplished only when an appeal is made to one of these motives; an appeal to sentiments of love, of affection and of concern. The agent need not be an export in psychology to do this

SERVICE

The prospect becomes a policyholder with the sale of a life insurance policy. The agent's relationship with the policyholder thereafter, depends on the service that he renders. Service assumes more important in life insurance, because unlike other savings or investment plans, a contract of life insurance is a long term commitment. People are often too involved in their day to day activities that they neglect their obligations, till it is too late. If the premium is not paid, the policy becomes a useless piece of paper. The agent's attention to service (including monitoring premium payments, nominations, revivals, if they become necessary, help in settling claims, etc.) will ensure that the insurance policy does not suffer from such neglect.

Every servicing call gives an opportunity to the agent to review the insurance programme. The insurance already sold may become inadequate because of changes in the policyholder's financial position or family. Perhaps may need more insurance or he may suggest insurance of his relatives and friends. Service benefits the policyholder.

But it benefits the agent more by conveying messages about his reliability and trustworthiness. This is his competitive advantages over other agents, of the same insurer and of other insurers.

EITHCAL BEHAVIOUR

Of late, serious concerns are voiced about the proprieties in business, because increasingly there are reports of improper behavior. Some of the world's biggest companies have been found to have cheated through false accounts and dishonest audit certification. The funds of banks have been misused by their managements to bolster the greed of some friends. Officials have used their authority to promote personal benefits. Courts of

justice have failed to render justice. Increasingly, people who are trusted by the community to perform their tasks are seen to have betrayed the trust. personal aggrement and greed prevails.
The insurance agent is in a position of trust. On his assurance, the policyholders entrust their small saving to an insurer, trusting it to look after these funds and look after their dependants in later years. Issues of propriety and ethics are extremely important in this business of insurance. Unethical behaviors happen when the benefits of self are considered more important than of the other. The code of ethics spelt out by the IRDA in the Agents Regulations, and referred to earlier, is directed towards ethical behavior. While it is important to know every clause in the code of conduct to ensure that there is no violation of the code, compliance would be automatic if the agent always kept in the interests of the prospect in the mind. Things go wrong when the agent becomes concerned with the commission that he will earn from the policy, rather than the benefits to the prospect.
The LIMRA, which is the premier international organization on matters concerning life insurance marketing, has found that ethics in life insurance selling consists mainly of putting the interests of the prospectl policyholder first. The research studies show that such an approach helps the agent through

a) Improved business and earnings.

b) Business remaining in the books longer, without causation.

c) Stronger relationships with the clients.

Some agents think that they are doing the prospect a good turn, when they do not reveal some vital information in the proposal form, for fear of the underwriter raising awkward queries. In fact they are doing harm to the prospect, because if there happens to be an early claim, who can guarantee that this will not happen, the claim may be repudiated. The loser at that time is the prospect's family. The commission collected by the agent is not affected. The loser is also the credibility of the entire life insurance industry, both agents and the insurers. Stories will circulate that insurers do not pay claims. The truth will not be known.

characteristics of good ethical behaviours:

1) Placing the best interests of the client above one's own direct or indirect benefits.

2) Holding in the strictest confidence and considering as privileged, all business and personal information pertaining to the client's affairs.

3) Making full and adequate discloser of all facts to enable clients make informed decisions.

There could be a likelihood of ethics being compromised in the following situations.

1) Having to choose between two plans one giving much less commission than the other.

2) Temptation to recommend discontinuance of an existing policy and talking out a new one.

3) Becoming aware of circumstances that, If known to the Insurer, could adversely affect the interests of the client or the beneficiaries of the claim.

QUESTIONS

1) Give Definition of an insurance Agent.

2) What is an authority letter ?

3) Explain the commissions payaple to an insurance Agent.

4) Explain procedures for becoming an Agent.

5) Explain the role of an insurance Agent.

6) What are the steps for selling insurance policy ?

7) Explain disqualification of an agent.

8) What are the code conducts of an agent ?

9) What is an ethical behaviour ?

10) What are the characteristics of a good ethical behaviour ?

UNIT-V

Accounting practice and Taxation

Final Accounts

At the end of an accounting year all the ledger accounts are balanced and then a trial balance in prepared. A trial balance is not a part of the final account. It is only a list of balances of the ledger accounts. It trial balance helps in preparation of final accounts. A trial balance is prepared to check the arithmetical accuracy of the account. The final accounts are prepared to find out the profit of loss and to know the financial position of the business. These accounts consist of trading account, the profit and loss account and balance sheet.

Final Accounts of General Insurance Company

1. Revenue Account
   A separate revenue account is prepared for each type of business, example fire, marine etc. It records income and expenses of particular business. Profit and loss is transferred to profit and loss account.
2. Profit and Loss Account. It records income and expenses of particular business. Its balance is shown in balance sheet.
3. Balance Sheet
   It records various assets and liabilities of general insurance companies.

Specimen of Revenue Account

Expenses	Amount	Income	Amount
TO Claims under policies less Reinsurance	X X	BY Balance of accounts at the beginning of the year	X X
TO Commission	X X	BY Reserve for unexpired risk	X X
TO Expenses of Management	X X	BY Additional Reserve	X X
TO Profit and Loss Account	X X	BY Premium XXX Less: Reinsurance. XX Commission on reinsurance ceded.	XX X X

Specimen of Profit and Loss Account

Particulars	Amount	Particulars	Amount
TO Amount written off in respect of depreciated investments	X X	BY Interest	X X
		BY Dividend	X X
TO Loss on realisation of investment	X X	BY Rent	X X
TO Loss transfer from Fire revenue account TO Marine revenue account & Miscellaneous Revenue accounts	X X	BY Profit on Realisation of Investment	X X
		BY Profit transfer from fire, marine, and miscellaneous revenue accounts	X X
		BY Profit on sale of assets	X X

TO Provision for Taxation	X X	BY Miscellaneous Income	X X
TO Difference in Exchange (Net	X X	BY Difference in Exchange (Net)	X X

<u>Specimen of Balance Sheet</u>

Liabilities	Amount	Assets	Amount
Provision for taxation less advance and other tax payments	X X	Ordinary shares	X X
		Debentures	X X
		Preference shares	X X
Agent Balance	X X	Holdings in Subsidiary company	X X
		Agent Balance	X X
		Outstanding Premium	X X
Contigent liability	X X	Interest Outstanding	X X
		Sundry debtors	X X
		Cash	X X
	X X	Vehicles	X X
		Furniture	X X

<u>Income Tax</u>

A tax, such as income tax which is levied on the income and profits of the person who pays it, rather than on goods and services. An income tax is generally a tax paid directly to the government by the person on whom it is imposed. Government collect income tax from Assessee as per the income slab. In case a person has total income exceeding Rs 1 Crore he/she has to pay additional surcharge @ 12% on income tax. Educational cess in levied at the rate of 2% on the amount of income tax. Secondary and higher secondary cess on the income tax is levied at the rate of 1%.

Wealth Tax

A wealth tax is a levy on total value of personal assets including owner occupied house, cash, bank deposits, money funds, and savings in insurance and pension plans, investments in real estate and unincorporated business and corporate stock, financial securities and personal trust.

The wealth tax act 1957 is an act of parliament of India which provides for levying of wealth tax on an individual.

Definition of Wealth Tax

It is a tax based on market value of assets that are owned. These assets includes but are not limited to cash, bank deposits, shares, fixed assets, private cars, assessed value of real property, pension plans, money funds, owner occupied housing and trust.

Gift Tax

In economics a gift tax is tax on money or property that one living person gives to another. Gift tax in India is regulated by the gift tax act which was constituted on April 1st, 1958. A new provision was introduced in the income tax act 1961 under section 56 (2).As per the income tax act 1961, if the value of gifts received in more than Rs 50,000 a year than such an amount is taxed as income in the hands of receiver. These gifts may be in any form cash, jewellery, movable and immovable property, shares etc.

Questions:

1. Draft a specimen of Revenue Account.
2. Draft a specimen of Profit and Loss Account.
3. Draft a specimen of Balance Sheet.
4. What is Income Tax?
5. What is wealth Tax?

UNIT-VI

Types of Acts

Motor Vehicle Act of 1939 :
The motor vehicle act was passed in 1939 and chapter VIII which provides the compulsory insurance of motor vehicles was made effective from 1stjuly 1946. No person shall use except as a passenger Motor vehicle in a public place unless there is in force a policy of insurance complying with the requirements of this chapter.
Section 94 deals with necessity for insurance against third party risk.
Section 95 explains the requirements of the policy and limits of liability. This section also tells about the duty cast on the insurer to satisfy judgement against person insured in respect of third party risk.
Section 105 cast duty on the insurer to notify the Registering Authority above cancellation or suspension of the policy within 7 days
Section 110 authorise state govt. to constitute one or more Motor Accident Claims Tribunals(MACT) for the purpose of adjudicating upon claims for compensation in respect of accident involving the death or bodily injury to person arising out of the use of motor vehicle.

The Workmen's Compensation Act, 1923:
Workmen's compensation insurance is available to cover the employers in respect of liability for payment of compensation in terms of the workmen's compensation act 1923, to their employees for personal injuries and to the dependence of their employees in the event of fatal accident , arising out of and in the course of employment. It is important to note that if a workman institutes a claim before the commissioner of workmen's compensation for damages in respect of his injury, he cannot subsequently institute civil

suit against his employer on the other hand , if the worker institutes a claim under common law he cannot subsequently claim compensation under the workmens compensation act. The act provides for cheaper and quicker disposal of claims or disputes relating to compensation through special tribunals and this were not possible under the civil law.

Employee's State Insurance Act 1948:

Under this act the Employees State Insurance Corporation has been set up to administer the insurance scheme. This Act provides for certain benefits to employees in case of sickness maternity and employment injury and to make provision for certain other matters in relation thereof. The scheme is applicable to industrial employees as defined in this Act. The scheme operates in many industrial areas which are notified by the government from time to time. The Act will ultimately be extended to all industrial areas in the country. Under this scheme, a fund is maintained consisting of contributions from the employees, employers and the government. This fund is intended to meet

1. Sickness benefit, Maternity benefit, Disablement benefit dependent benefit(death) ,medical treatment.
2. Establishment and maintenance of hospital and dispensaries for the benefit of insured persons and their families
3. Cost of administration of the scheme : in areas where this act operates the Workmen's Compensation Act 1923 will not apply.

Marine Insurance Act 1963:

The transaction of marine insurance business is dealt with by the Marine Insurance Act 1963. This actlargely follows the British Act. It defines the various terminologies used in marine insurance, the different types of insurable interest , the perils covered under a standard policy, the different types of policies, the statutory exclusions and also the different types of losses. It also recommends a form in which the policy can be issued.

Insurance Stamp Act 1899:

Article 47 of schedule I read with section 3 of the Indian Stamp Act 1899 prescibes the Stamp Duty applicable on different classes of insurance. The scale of stamp duty applicable to main classes of insurance.

QUESTION BANK:

1. Write a short note on Motor vehicle Act of 1939.
2. Enumerate the Workmen’s compensation Act of 1923 in detail.
3. Explain the importance of Employee’s Act of 1948.
4. Write a short note on Marine Insurance Act of 1963.