INSURANCE MANAGEMENT

INTRODUCTION TO INSURANCE

Insurance is a form of risk management in which the insured transfers the cost of potential loss to another entity in exchange for monetary compensation known as the premium. Insurance allows individuals, businesses and other entities to protect themselves against significant potential losses and financial hardship at a reasonably affordable rate. We say "significant" because if the potential loss is small, then it doesn't make sense to pay a premium to protect against the loss.

After all, you would not pay a monthly premium to protect against a loss because this would not be considered a financial hardship for most.

Insurance is appropriate when you want to protect against a significant monetary loss. Take life insurance as an example. If you are the primary breadwinner in your home, the loss of income that your family would experience as a result of our premature death is considered a significant loss and hardship that you should protect them against.

It would be very difficult for your family to replace your income, so the monthly premiums ensure that if you die, your income will be replaced by the insured amount. The same principle applies to many other forms of insurance. If the potential loss will have a detrimental effect on the person or entity, insurance makes sense. Everyone that wants to protect themselves or someone else against financial hardship should consider insurance. This may include:

- Protecting family after one's death from loss of income
- Ensuring debt repayment after death
- Covering contingent liabilities
- Protecting against the death of a key employee or person in your business
- Buying out a partner or co-shareholder after his or her death
- Protecting your business from business interruption and loss of income
- Protecting yourself against unforeseeable health expenses
- Protecting your home against theft, fire, flood and other hazards
- Protecting yourself against lawsuits
- Protecting yourself in the event of disability
- Protecting your car against theft or losses incurred because of accidents
- And many more.

INSURANCE-MEANING AND DEFINITION

Insurance is a contract between two parties. One party is the insured and the other party is the insurer. Insured is the person whose life or property is insured with the insurer. That is, the person whose risks are insured is called insured. Insurer is the insurance company to whom risk is transferred by the insured. That is, the person who insures the risk of insured is called insurer. Thus insurance is a contract between insurer and insured. It is a contract in which the insurance company undertakes to indemnify the insured on the happening of certain event for a payment of consideration. It is a contract between the insurer and insured under which the insurer undertakes to compensate the insured for the loss arising from the risk insured against. Some definitions of insurance are given below:

According to Gosh and Agarwal, “insurance may be defined as a co-operative form of distributing a certain risk over a group of persons who are exposed to it’According to Mc Gill, “Insurance is a process in which uncertainties are made certain”.

HISTORY OF INSURANCE IN INDIA

In India, insurance has a deep-rooted history. Insurance in various forms has been mentioned in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmashastra) and Kautilya (Arthashastra). The fundamental basis of the historical reference to insurance in these ancient Indian texts is the same i.e. pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. The early references to Insurance in these texts have reference to marine trade loans and carriers' contracts.

Insurance in its current form has its history dating back until 1818, when Oriental Life Insurance Company[3] was started by Anita Bhavsar in Kolkata to cater to the needs of European community. The pre-independence era in India saw discrimination between the lives of foreigners (English) and Indians with higher premiums being charged for the latter.

In 1870, Bombay Mutual Life Assurance Society became the first Indian insurer. At the dawn of the twentieth century, many insurance companies were founded. In the year 1912, the Life Insurance Companies Act and the Provident Fund Act were passed to regulate the insurance business. The Life Insurance Companies Act, 1912 made it necessary that the premium-rate tables and periodical valuations of companies should be certified by an actuary. However, the disparity still existed as discrimination between Indian and foreign companies.

The oldest existing insurance company in India is the National Insurance Company , which was founded in 1906, and is still in business. The Government of India issued an Ordinance on 19 January 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The Life Insurance Corporation (LIC) absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. In 1972 with the General Insurance Business (Nationalisation) Act was passed by the Indian Parliament, and consequently, General Insurance business was nationalized with effect from 1 January 1973.

107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on 1 January 1973. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. Before that, the industry consisted of only two state insurers: Life Insurers (Life Insurance Corporation of India, LIC) and General Insurers (General Insurance Corporation of India, GIC). GIC had four subsidiary companies. With effect from December2000, these subsidiaries have been de-linked from the parent company and were set up as independent insurance companies: Oriental Insurance Company Limited, New India Assurance Company Limited, National Insurance Company Limited and United India Insurance Company Limited. Insurance in India refers to the market for insurance in India which covers both the public and private sector organisations. It is listed in the Constitution of India in the Seventh Schedule as a Union List subject, meaning it can only be legislated by the Central government.

The insurance sector has gone through a number of phases by allowing private companies to solicit insurance and also allowing foreign direct investment. India allowed private companies in insurance sector in 2000, setting a limit on FDI to 26%, which was increased to 49% in 2014.[1] However, the largest life-insurance company in India, Life Insurance Corporation of India is still owned by the government and carries a sovereign guarantee for all insurance policies issued by it.

TERMS USED IN INSURANCE

Insured

The party or the individual who seeks protection against a specified task and entitled to receive payment from the insurer in the event of happening of stated event is known as insured. An insured is normally in insurance policy holder.

Insurer

The party who promises to pay indemnity the insured on the happening of contingency is known as insurer. The insurer is an insurance company.

Beneficiaries

The person or the party to whom the policy proceeds will be paid in the event of the death or happening of any contingency is called beneficiary.

Contract

An agreement binding at law between two or more parties is called contract.

Premium

The amount which is paid to the insurer by the insured in consideration to insurance contract is known as premium. It may be paid on monthly, quarterly, half yearly, yearly or as agreed upon it is the price for an insurance policy.

Insured sum

The sum for which the risk is insured is called the insured sum, or the policy money or the face value of the policy. This is the maximum liability of the insurer towards the insured.

Peril

A peril is an event that causes a personal or property loss by fire, windstorm, explosion, collision premature death, sickness, floods, dishonesty etc.

Hazard

Hazard is a condition that may create, increase or decrease the chances of loss from a given peril.

Exposure

An exposure is a measure of physical extent of the risk. An individual who owns a business house may be subjected to economic loss and individual loss because of his business and personal exposure.

Cover note

An unstamped document issued by or on behalf of insurers as evidence of insurancepending issue of policy.

Damages

Monetary compensation award at law for a civil wrong or breach of contract.

Indemnity

Compensation for actual loss suffered is call indemnity.

Reinsurance

Reinsurance is a method where by the original insurer transfer all or part of risk he has assumed to another company or companies with the object of reducing his own commitment to an reducing his own commitment to an amount that he can bear for his own account commensurate with his financial resources in the event of loss. It was originally confined to offers and acceptances on individual risk known as facultative reinsurance transactions.

Double Insurance

Double insurance implies that subject matter is insured in two or more insurance companies (insurers) and the total sum insured exceeds the actual value of subject matter. In other words, the same subject matter is insured in more than one insurer.

No claim bonus

The bonus is getting under the policy, if the claim is not reported during the policy period and after that the time renewal (in time) then as per the policy term no claim bonus is avail for the vehicle insurance policy and the rate of bonus is different in different general insurance companies, and the maximum rate should be up to 50% as per the norms.

CHARACTERISTICS OF INSURANCE

Insurance follows important characteristics – These are follows

1. Sharing of risk

Insurance is a co-operative device to share the burden of risk, which may fall on happening of some unforeseen events, such as the death of head of family or on happening of marine perils or loss of by fire.

2. Co-operative device

Insurance is a co-operative form of distributing a certain risk over a group of persons who are exposed to it. A large number of persons share the losses arising from a particular risk

3. Large number of insured persons

The success of insurance business depends on the large number of persons Insured against similar risk. This will enable the insurer to spread the losses of risk among large number of persons, thus keeping the premium rate at the minimum.

4. **Evaluation of risk**

For the purpose of ascertaining the insurance premium, the volume of risk is evaluated, which forms the basis of insurance contract.

5. **Payment of happening of specified event**

On happening of specified event, the insurance company is bound to make payment to the insured. Happening of specified event is certain in life insurance, but in the case of fire, marine of accidental insurance, it is not necessary. In such cases, the insurer is not liable for payment of indemnity.

6. Transfer of risk

Insurance is a plan in which the insured transfers his risk on the insurer. This may be the reason that may person observes, that insurance is a device to transfer some economic losses would have been borne by the insured themselves.

7. Spreading of risk

Insurance is a plan which spread the risk & losses of few people among a large number of people. John Magee writes, “Insurance is a plan by which large number of people associates themselves and transfers to the shoulders of all, risk attached to Individuals”.

8. Protection against risks

Insurance provides protection against risk involved in life, materials and property. It is a device to avoid or reduce risks.

9. Insurance is not charity

Charity pays without consideration but in the case of insurance, premium is paid by the insured to the insurer in consideration of future payment.

10. Insurance is not a gambling

Insurance is not a gambling. Gambling is illegal, which gives gain to one party and loss to other. Insurance is a valid contact to indemnity against losses. Moreover, Insurable interest is present in insurance contracts it has the element of investment also.

11. A contract

Insurance is a legal contract between the insurer and insured under which the Insurer promises to compensate the insured financially within the scope of insurance Policy, the insured promises to pay a fixed rate of premium to the insurer.

12. Social device

Insurance is a plan of social welfare and protection of interest of the people. Rieged and miller observe “insurance is of social nature”.

13. Based upon certain principle

Insurance is a contract based upon certain fundamental principles of insurance, which includes utmost good faith, insurable interest, contribution, indemnity, causa Proxima, subrogation etc, which are operating in the various fields of insurance.

14. Regulation under the law

The government of every country enacts the law governing insurance business So as to regulate, and control its activities for the interest of the people. In India General insurance act 1972 and the life insurance act 1956 are the major enactment in this direction.

15. Insurance is for pure risk only

Pure risks give only losses to the insured, and no profits. Examples of pure Risks are accident, misfortune, death, fire, injury, etc., which are all the sided risks and the ultimate results in loss. Insurance companies issue policies against pure risk only, not against speculative risks.

16. Based on mutual goodwill

Insurance is a contract based on good faith between the parties. Therefore, both the parties are bound to disclose the important facts affecting to the contract before each other. Utmost good faith is one of the important principles of insurance.

FUNCTIONS OF INSURANCE

Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. Risk is uncertainty of a financial loss. It should not be confused with the chance of loss which is the probable number of losses out of a given number of exposures. It should not be confused with peril which is defined as the cause of loss or with hazard which is a condition that may increase the chance of loss. Finally, risk must not be confused with loss itself which is the unintentional decline in or disappearance of value arising from a contingency. Wherever there is uncertainty with respect to a probable loss there is risk. Every risk involves the loss of one or other kind. The function of insurance is to spread the loss over a large number of persons who are agreed to co-operate each other at the time of loss.

The risk cannot be averted but loss occurring due to a certain risk can be distributed amongst the agreed persons. They are agreed to share the loss because the chances of loss, i.e., the time, amount, to a person are not known. Anybody of them may suffer loss to a given risk, so, the rest of the persons who are agreed will share the loss. The larger the number of such persons the easier the process of distribution of loss, In fact; the loss is shared by them by payment of premium which is calculated on the probability of loss. In olden time, the contribution by the persons was madeat the time of loss. The insurance is also defined as a social device to accumulate funds to
meet the uncertain losses arising through a certain risk to a person insured against the risk.

The functions of insurance can be studied into two parts:

- Primary Functions, and
- Secondary Functions.

Primary Functions:

(i) Insurance provides certainty:

Insurance provides certainty of payment at the uncertainty of loss. The uncertainty of loss can be reduced by better planning and administration. But, the insurance relieves the person from such difficult task. Moreover, if the subject matters are not adequate, the selfprovision may prove costlier. There are different types of uncertainty in a risk. The risk will occur or not, when will occur, how much loss will be there? In other words, there are uncertainty of happening of time and amount of loss. Insurance removes all these uncertaintyand the assured is given certainty of payment of loss. The insurer charges premium for providing the said certainty.

(ii) Insurance provides protection:

The main function of the insurance is to provide protection against the probable chances of loss. The time and amount of loss are uncertain and at the happening of risk, the person will suffer loss in absence of insurance. The insurance guarantees the payment of loss and thus protects the assured from sufferings. The insurance cannot check the happening of risk but can provide for losses at the happening of the risk.

(iii) Risk-Sharing:

The risk is uncertain, and therefore, the loss arising from the risk is also uncertain. When risk takes place, the loss is shared by all the persons who are exposed to the risk. The risk-sharing in ancient time was done only at time of damage or death; but today, on the basis of probability of risk, the share is obtained from each and every insured in the shape of premium without which protection is not guaranteed by the insurer.

Secondary functions:

Besides the above primary functions, the insurance works for the following functions:

(i) Prevention of Loss:

The insurance joins hands with those institutions which are engaged in preventing the losses of the society because the reduction in loss causes lesser payment to the assured and so more saving is possible which will assist in reducing the premium. Lesser premium invites more business and more business cause lesser share to the assured. So again premium is reduced to, which will stimulate more business and more protection to the masses. Therefore, the insurance assist financially to the health organisation, fire brigade, educational institutions and other organisations which are engaged in preventing the losses of the masses from death or damage.

(ii) It Provides Capital:

The insurance provides capital to the society. The accumulated funds are invested in productive channel. The dearth of capital of the society is minimised to a greater extent with the help of investment of insurance. The industry, the business and the individual are benefited by the investment and loans of the insurers.

(iii) It Improves Efficiency:

The insurance eliminates worries and miseries of losses at death and destruction of property. The carefree person can devote his body and soul together for better achievement. It improves not only his efficiency, but the efficiencies of the masses are also advanced.

(iv) It helps Economic Progress:

The insurance by protecting the society from huge losses of damage, destruction and death, provides an initiative to work hard for the betterment of the masses. The next factor of economic progress, the capital, is also immensely provided by the masses. The property, the valuable assets, the man, the machine and the society cannot lose much at the disaster.

ADVANTAGES OF INSURANCE

1. Assures for financial compensation
2. Reduction of risks
3. Encouragement to saving and investment
4. Basis of credit
5. Maintains economic stability
6. Promotes business activities
7. Provides employment opportunities

DISADVANTAGES OF INSURANCE

Besides a number of benefits, insurance has also some limitations.

- Insurance leads to negligence as the insured feels that he/she can be compensated for any loss or damage.
- Insurance companies do not make the compensation promptly on maturity of the policy or for the financial losses as the expectation of the insured.
- It may lead to the crimes in the society as the beneficiaries of the policy may be tempted to commit crimes to receive the insured amount.
- Although insurance encourages savings, it does not provide the facilities that are provided by bank.

BASIC PRINCIPLES OF INSURANCE

1. Nature of contract:

Nature of contract is a fundamental principle of insurance contract. An insurance contract comes into existence when one party makes an offer or proposal of a contract and the other party accepts the proposal.
A contract should be simple to be a valid contract. The person entering into a contract should enter with his free consent.

2. Principal of utmost good faith:

Under this insurance contract both the parties should have faith over each other. As a client it is the duty of the insured to disclose all the facts to the insurance company. Any fraud or misrepresentation of facts can result into cancellation of the contract.

3. Principle of Insurable interest:

Under this principle of insurance, the insured must have interest in the subject matter of the insurance. Absence of insurance makes the contract null and void. If there is no insurable interest, an insurance company will not issue a policy. An insurable interest must exist at the time of the purchase of the insurance. For example, a creditor has an insurable interest in the life of a debtor, A person is considered to have an unlimited interest in the life of their spouse etc.

4. Principle of indemnity:

Indemnity means security or compensation against loss or damage. The principle of indemnity is such principle of insurance stating that an insured may not be compensated by the insurance company in an amount exceeding the insured's economic loss. In type of insurance the insured would be compensation with the amount equivalent to the actual loss and not the amount exceeding the loss. This is a regulatory principal. This principle is observed more strictly in property insurance than in life insurance. The purpose of this principle is to set back the insured to the same financial position that existed before the loss or damage occurred.

5. Principal of subrogation:

The principle of subrogation enables the insured to claim the amount from the third party responsible for the loss. It allows the insurer to pursue legal methods to recover the amount of loss, For example, if you get injured in a road accident, due to reckless driving of a third party, the insurance company will compensate your loss and will also sue the third party to recover the money paid as claim.

6. Double insurance:

Double insurance denotes insurance of same subject matter with two different companies or with the same company under two different policies. Insurance is possible in case of indemnity contract like fire, marine and property insurance. Double insurance policy is adopted where the financial position of the insurer is doubtful. The insured cannot recover more than the actual loss and cannot claim the whole amount from both the insurers.

7. Principle of proximate cause:

Proximate cause literally means the 'nearest cause' or 'direct cause'. This principle is applicable when the loss is the result of two or more causes. The proximate cause means; the most dominant and most effective cause of loss is considered. This principle is applicable when there are series of causes of damage or loss.

KINDS OF INSURANCE

Business Point of View:

The insurance can be classified into three categories from business point of view:
(i) LifeInsurance, (ii) General Insurance, and (iii) Social Insurance.

(i) Life Insurance:

Life Insurance is different from other insurance in the sense that, here, the subject matter of insurance is life of human being. The insurer will pay the fixed amount of insurance at the time of death or at the expiry of certain period. At present, life insurance enjoys maximum scope because the life is the most important property of the society or an individual. Each and every person requires the insurance. This insurance provides protection to the family at the premature death or gives adequate amount at the old age when earning capacities are reduced. Under personal insurance a payment is made at the accident. The insurance is not only a protection but is a sort of investment because a certain sum is returnable to the insured at the death or at the expiry of a period. The business of life insurance is wholly done by that Life insurance Corporation of India.

(ii) General Insurance :

The general insurance includes property insurance, liability insurance and other forms of insurance. Fire and marine insurances are strictly called property insurance. Motor, theft, fidelity and machine insurances include the extent of liability insurance to a certain extent. The strictest form of liability insurance is fidelity insurance, whereby the insurer compensates the loss to the insured when he is under the liability of payment to the third party.

(iii) Social Insurance:

The social insurance is to provide protection to the weaker section of the society who is unable to pay the premium for adequate insurance. Pension plans, disability benefits, unemployment benefits, sickness insurance and industrial insurance are the various forms of social insurance. With the increase of the socialistic ideas, the social insurance is an obligatory duty of the nation. The Government of a country must provide social insurance to its masses.

Risk Point of View:

Insurance is divided into property liability and other form from high point of view

A. Property Insurance:

Under the property insurance property of person/persons are insured against a certain specified risk. The risk may be fire or marine perils, theft of property or goods, damage to property at accident.

(a) Marine Insurance:

Marine insurance provides protection against loss of marine perils. The marine perils are collision with rock, or ship attacks by enemies, fire and capture by pirates, etc. These perils cause damage, destruction or disappearance of the ship and cargo and non-payment of freight. So, marine insurance insures ship (Hull), cargo and freight. Previously only certain nominal risks were insured but now the scope of marine insurance had been divided into two parts: (i) Ocean Marine Insurance and (ii) Inland Marine Insurance. The former insures only the marine perils while the latter covers inland peril which may arise with the delivery of

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(b) Fire Insurance:

Fire insurance covers risks of fire. In the absence of fire insurance, the fire waste will increase not only to the individual but to the society as well. With the help of fire insurance, the losses, arising due to fire are compensated and the society is not losing much. The individual is protected from such losses and his property or business or industry will remain approximately in the same position in which it was before the loss. The fire insurance does not protect only losses but it provides certain consequential losses also. War risk, turmoil, riots, etc., can be insured under this insurance, too.

(c) Miscellaneous Insurance:

The Property, goods, machine, furniture, automobile, valuable articles, etc., can be insured against the damage or destruction due to accident or disappearance due to theft. There are different forms of insurances for each type of the said property whereby not only propertyinsurance exists but liability insurance and personal injuries are also insured.

B. Liability Insurance:

The general insurance also includes liability insurance thereby the insured is liable to pay the damage of property or to compensate the less of personal injury or death. Thisinsurance is seen in the form of fidelity insurance, automobile insurance and machine insurance, etc.

C. Other Forms:

Besides the property and liability insurances, there are certain other insurances which are included under general insurance. The examples of such insurances are export-credit insurances, State employees insurance, etc., whereby the insurer guarantees to pay certain amount at the certain events. This insurance is extending rapidly these days.

1. Personal Insurance:

The personal insurance includes insurance of human life which may suffer loss due to death, accident and disease. Therefore, the personal insurance is further sub-classified into life insurance, personal accident insurance and health insurance.

2. Property Insurance:

The property of an individual and of the society is insured against the loss of fire and marine perils, the crop is insured against unexpected decline in production, unexpected death of the animals engaged in business, break-down of machines and theft of the property andgoods.

3. Liability Insurance:

The liability insurance covers the risks of third party, compensation to employees, liability of the automobile owners and reinsurances.

4. Guarantee Insurance:

The guarantee insurance covers the loss arising due to dishonesty, disappearance and disloyalty of the employers or second. The party must be a party of the contract. His failure causes loss to the first party. For example, in export insurance, the insurer will compensate
the loss at the failure of the importers to pay the amount of debt.

LIFE INSURANCE VS GENERAL INSURANCE

Types

Life insurance is a non-personal insurance contract. This means that the policyholder and the person being insured do not have to be the same person. General insurance is always a personal contract where the insurance company contracts with you directly for insurance protection.

Function

Both life insurance and general insurance accept premiums in exchange for insurance benefits. Insurance premiums are invested into bonds or bond-like investments that produce stable and consistent returns for the insurance company.

The investments, plus premium payments, also ensure that the insurance company can pay the promised benefits that are outlined in the insurance policy.

When you need to file a claim, both types of insurance require a claim form for you to fill out.

The payment of benefits, and the amount of the benefit that is payable, are always spelled out in your insurance contract.

Significance

Life insurance insures your life or the life of someone that you have an economic interest in, like your spouse, children, siblings or business partners. When the insured individual dies, the life insurance policy pays a death benefit that is fixed. This is called a valued contract.

A valued contract pays a fixed sum of money, regardless of the nature of the loss insured by the contract.

General insurance insures homes, automobiles and other personal property. This type of insurance is sometimes referred to as "property and casualty" insurance.

General insurance is indemnity insurance. Indemnity insurance pays just enough money to you to repair or replaced the insured property.

For example, your homeowner's insurance may cover your entire home and the contents of it. However, if your roof is damaged in a storm, the policy only pays enough to repair the damage.

Benefits

The benefit of life insurance is that it pays off any financial obligations you have left after you die.

It can pay more than that, however, because life insurance pays a fixed amount. Death benefits can be used to create wealth for the surviving beneficiaries, or they can be used to replace the primary income earner's salary for a surviving spouse.

General insurance is beneficial in that the insurance ensures that, almost regardless of the damage done, that the property will be repaired or replaced.

While general insurance generally has a maximum payout determined by the value of your property, it does not pay a fixed amount, so you won't have to guess at how much insurance you need to purchase.

LIFE INSURANCE

Life insurance (or **life assurance**, especially in the Commonwealth), is a contract between an insurance policy holder and an insurer or assurer, where the insurer promises to pay a designated beneficiary a sum of money (the benefit) in exchange for a premium, upon the death of an insured person (often the policy holder). Depending on the contract, other events such as terminal illness or critical illness can also trigger payment.

The policy holder typically pays a premium, either regularly or as one lump sum. Other expenses (such as funeral expenses) can also be included in the benefits. Life policies are legal contracts and the terms of the contract describe the limitations of the insured events.

Specific exclusions are often written into the contract to limit the liability of the insurer; common examples are claims relating to suicide, fraud, war, riot, and civil commotion. Life-based contracts tend to fall into two major categories: Protection policies – designed to provide a benefit, typically a lump sum payment, in the event of specified event.

A common form of a protection policy design is term insurance. Investment policies – where the main objective is to facilitate the growth of capital by regular or single premiums. Common forms (in the U.S.) are whole life, universal life, and variable life policies.

BASIC PRINCIPLES OF LIFE INSURANCE

1. **Insurable interest**

The insured must have insurable interest in the life assured. In absence of insurable interest, Contract of insurance is void. Insurable interest must be present at the time of entering into contract with insurance company for life insurance. It is not necessary that the assured should have insurable interest at the time of maturity also.

2. **Utmost good faith**

The contract of life insurance is a contract of utmost good faith. The insured should be open and truthful and should not conceal any material fact in giving information to the insurance company, while entering into a contract with insurance company. Misrepresentation or concealment of any fact will entitle the insurer to repudiate the contract if he wishes to do so.

3. **Not a contract of indemnity**

The life insurance contract is not a contract of indemnity. A Contract of life insurance is not a contract of indemnity. The loss of life cannot be compensated and only a fixed sum of money is paid in the event of death of the insured. So, the life insurance contract is not a contract of indemnity. The loss resulting from the death of life assured cannot be calculated in terms of money.

FEATURES OF LIFE INSURANCE

Since the life insurance is not an indemnity contract, the insurer, in his part, is required to pay a definite sum of money agreed on maturity of policy at the death or anamount in instalment for a fixed period or during life. As such, contrary to other insurance policies, it has some distinct features. The essential features of life insurance are as follows:

1. Insurable interest

The insured or policyholder must have an insurable interest for a valid life insurance contract. Insurable interest arises out of pecuniary relationship which exists between the insurer and policy holder, the former or insurer stands to loose by the death of the policy holder or latter and or continuous to gain by his survival. In life insurance contract, a person may have insurable interest for his own life as well as lives of his relatives such as wife, son, daughter etc. No person can purchase life insurance policy for a third person unless he has financial interest in his life.

2. Utmost good faith

The life insurance requires that the principle of utmost good faith should be preserved by both the parties; insurer and insured. Utmost good faith between the parties is necessary in all kinds of contracts. The insured in particular, must disclose all facts accurately and completely with respect to the object of life policy.

3. Warranties

Warranties are the representations in life insurance which are embodied in the policy and expressly or impliedly forming part of the basis of the contract. Warranties are the integral part of the contract. These are the bases of the contract between insured and insurer and if any statement or information or presentation, whether material or non-material, is untrue the contract may be void and the premium paid by insured may be forfeited by the insurance company or insurer.

4. Assignment and nomination

The life insurance policy can be assigned free for a legal consideration or love and affection. The insured may assigned to anybody on any ground. As such, the assignment shall be complete and effectual only on the execution of such endorsement either on the policy itself or by a separate deed.

5. Return of premium

Generally, the amount of premium paid cannot be refunded. however, for the reason of equity, the premium may be refunded. If it is the case of misrepresentation or breach of warranty, the insured, in the absence of any express condition to the contrary, can claim for return of premium paid. But, in case of guilty of fraud in obtaining policy, the insured cannot claim the amount of premium to be returned.

IMPORTANCE OF LIFE INSURANCE

The following point shows the role and importance of insurance:

Insurance has evolved as a process of safeguarding the interest of people from loss and uncertainty. It may be described as a social device to reduce or eliminate risk of loss to life and property. Insurance contributes a lot to the general economic growth of the society by provides stability to the functioning of process. The insurance industries develop financial institutions and reduce uncertainties by improving financial resources.

1. Provide safety and security:

Insurance provide financial support and reduce uncertainties in business and human life. It provides safety and security against particular event. There is always a fear of sudden loss. Insurance provides a cover against any sudden loss. For example, in case of life insurance financial assistance is provided to the family of the insured on his death. In case of other insurance security is provided against the loss due to fire, marine, accidents etc.

2. Generates financial resources:

Insurance generate funds by collecting premium. These funds are invested in government securities and stock. These funds are gainfully employed in industrial development of a country for generating more funds and utilised for the economic development of the country. Employment opportunities are increased by big investments leading to capital formation.

3. Life insurance encourages savings:

Insurance does not only protect against risks and uncertainties, but also provides an investment channel too. Life insurance enables systematic savings due to payment of regular premium. Life insurance provides a mode of investment. It develops a habit of saving money by paying premium. The insured get the lump sum amount at the maturity of the contract. Thus life insurance encourages savings.

4. Promotes economic growth:

Insurance generates significant impact on the economy by mobilizing domestic savings. Insurance turn accumulated capital into productive investments. Insurance enables to mitigate loss, financial stability and promotes trade and commerce activities those results into economic growth and development. Thus, insurance plays a crucial role in sustainable growth
of an economy.

5. Medical support:

A medical insurance considered essential in managing risk in health. Anyone can be a victim of critical illness unexpectedly. And rising medical expense is of great concern. Medical Insurance is one of the insurance policies that cater for different type of health risks. The insured gets a medical support in case of medical insurance policy.

6. Spreading of risk:

Insurance facilitates spreading of risk from the insured to the insurer. The basic principle of insurance is to spread risk among a large number of people. A large number of persons get insurance policies and pay premium to the insurer. Whenever a loss occurs, it is compensated out of funds of the insurer.

7. Source of collecting funds:

Large funds are collected by the way of premium. These funds are utilised in the industrial development of a country, which accelerates the economic growth. Employment opportunities are increased by such big investments. Thus, insurance has become an important source of capital formation.

TYPES OF LIFE INSURANCE POLICIES

1. Term Policy

In case of Term assurance plans, insurance company promises the insured for a nominal premium to pay the face value mentioned in the policy in case he is no longeralive during the term of the policy.

Term assurance policy has the following features:

- It provides a risk cover only for a prescribed period. Usually these policies are shortterm plans and the term ranges from one year onwards. If the policyholder survives till the end of this period, the risk cover lapses and no insurance benefit payment is made to him.
- The amount of premium to be paid for these policies is lower than all other life insurance policies. As savings and reserves are not accumulated under this policy, it has no surrender value and loan or paid-up values are not allowed on these policies.
- This plan is most suitable for those who are initially unable to pay high premium
- when income is low as required for Whole Life or Endowment policies, but requires life cover for a high amount.

2. Whole Life Policy

This policy runs for the whole life of the assured. The sum assured becomes payable to the legal heir only after the death of the assured. The whole life policy can be of three types.

- Ordinary whole life policy – In this case premium is payable periodically throughout the life of the assured.
- Limited payment whole life policy – In this case premium is payable for a specified period (Say 20 Years or 25 Years) Only.
- Single Premium whole life policy – In this type of policy the entire premium is payable in one single payment.

3. Endowment Life Policy

In this policy the insurer agrees to pay the assured or his nominees a specified sum of money on his death or on the maturity of the policy whichever is earlier. The premium for endowment policy is comparatively higher than that of the whole life policy. The premium is payable till the maturity of the policy or until the death of the assured whichever is earlier. It provides protection to the family against the untimely death of the assured.

4. Health insurance schemes

An individual is subject to uncertainty regarding his health. He may suffer from ailments, diseases, disability caused by stroke or accident, etc. For serious cases the person may have to be hospitalized and intensive medical care has to be provided which can be very expensive. It is here that medical insurance is helpful in reducing the financial burden. These days the vulnerability to lifestyle diseases such as heart, cancer, neurotic, and pollution based, etc are on the increase. So it makes sense for an individual to go for medical insurance cover.

5. Joint Life Policy

This policy is taken on the lives of two or more persons simultaneously. Under this policy the sum assured becomes payable on the death of any one of those who have taken the joint life policy. The sum assured will be paid to the survivor(s). For example, a joint life policy may be taken on the lives of husband and wife, sum assured will be payable to the survivor on the death of the spouse.

6. With Profit AndWithout Profit Policy

Under with profit policy the assured is paid, in addition to the sum assured, a share in the profits of the insurer in the form of bonus. Without profit policy is a policy under which the assured does not get any share in the profits earned by the insurer and getsonly the sum assured on the maturity of the policy. With profit and without profit policies are also known as participating and non–participating policies respectively.

7. Double Accident Benefit Policy

This policy provides that if the insured person dies of any accident, his beneficiaries will get double the amount of the sum assured.

8. Annuity Policy

Under this policy, the sum assured is payable not in one lump sum payment but in monthly, quarterly and half-yearly or yearly instalments after the assured attains a certain age. This policy is useful to those who want to have a regular income after the expiry of a certain period e.g. after retirement. Annuity is paid so long as the assured survives. In annuity policy medical check-up is not required. Annuity is paid so long as the assured survives.

9. Policies For Women

Women, now a days are free to take life assurance policies. However, some specially designed policies suit their needs in a unique manner; important policies for women are

A. Jeevan Sathi is also known a Life Partner plan where the husband and wife are covered under this endowment policy

B. Jeevan Sukanya

10. Group Insurance

Group life insurance is a plan of insurance under which the lives of many persons are covered under one life insurance policy. However, the insurance on each life is independent of that on the other lives. Usually, in group insurance, the employer secures a group policy for the benefit of his employees. Insurer provides coverage for many people under single contract.

10.Policies For Children

Policies for children are meant for the various needs of the children such as education, marriage, security of life etc. Some of the major children policies are:

(1) Children's deferred assurances

(2) Marriage endowment and educational annuity plans

(3) Children endowment policy

11. Money Back Policy

In this case policy money is paid to the insured in a number of separate cash payments. Insurer gives periodic payments of survival benefit at fixed intervals during the term of policy as long as the policyholder is alive.

NEED FOR INSURANCE DOCUMENTATION

Life insurance is a legally enforceable contract between two parties both of whom are legally qualified to contract. It is therefore, necessary that the terms and conditions of the agreement must be suitably documented in a manner that would make it clear that both parties to the contract are Ad- idem i.e., of the same mind.

Ad-Idem means that both the parties understand the same thing in the same sense or are of the same mind on the same subject. There must be consensus or Ad-Idem between the parties to the contract. This is possible provided all the terms and conditions, rights and duties - privileges and obligations are properly documented in terms which can be clearly interpreted in a court of law.

Between two human beings sometime silence means an acceptance. But as the insurer is a legal personality entitled to contract verbal discussion between parties to the contract is not possible and hence there is a need for documentation.

Insurance is also a contract of utmost good faith and enforced only in the distant future. It is therefore necessary that thedeclarations made by both the parties should be put in black and white for future reference.

Any suppression, willful and material shall make the contract void. The insured, therefore, has a duty to declare all that he knows about himself, his health, his financial status in answering questions contained in the proposal form and other ancillary documents which may be required by the insurer.

CLAIM SETTLEMENT PROCESS:

Death Claim

Step One: Intimation of Claim The claimant must submit the written intimation as soon as possible to enable the insurance company to initiate the claim processing. The claim intimation should consist of basic information such as policy number, name of the insured, date of death, cause of death, place of death, name of the claimant etc .Claim intimation form can be availed from nearest branch of the insurance company or/and by downloading it from the company website.

Step Two: Documentation The claimant will be required to provide the following documents along with a claimant's statement:

I. Certificate of Death
II. Proof of age of the life assured (if not already given)
III. Deeds of assignment / reassignments (if required)
IV. Policy document
V. Any other document as per requirement of the insurer For early death Claim,

Step Three: Submission of required Documents for Claim Processing For faster claim processing, it is essential that the claimant submits complete documentation as early as possible.

Step Four: Settlement of Claim As per the regulation 8 of the IRDA (Policy holder's Interest) Regulations, 2002, the insurer is required to settle a claim within 30 days of receipt of all documents including clarification sought by the insurer. If the claim requires further investigation, the insurer has to complete its procedures within six months from receiving the written intimation of claim. After receiving the required documents the company calculates the amount payable under the policy. For this purpose, a form is filled in which the particulars of the policy, bonus, nomination, assignment etc. should be entered by reference to the Policy Ledger Sheet. If a loan exists under the policy, then the section dealing withloan is contacted to give the details of outstanding loan and interest amount, which is deducted from the gross policy amount to calculate net payable claim amount. Generally all claim payments would be made through the electronic fund transfer.

Maturity & Survival Claims: The payment by the insurer to the insured on the date of maturity is called maturity payment. The amount payable at the time of the maturity includes a sum assured and bonus/incentives, if any. The insurer sends in advance them intimation to the insured with a blank discharge form for filling various details in it. It is to be returned to the office along with Original Policy document, ID proof, Age proof if age is not already submitted, Assignment /reassignment, if any and Copy of claimant's Bank Passbook & Cancelled Cheque. Settlement procedure for maturity claim is simple after receipt of completed and stamped discharge form from the person entitled to the policy money along with policy documents, claim amount will be paid by account payee cheque.

Regarding maturity claims certain points are to be remembered:

If the life assured is reported to have died after the date of maturity but before the receipt is discharged, the claim is to be treated as the maturity claim and paid to the legal heirs. In this case death certificate and evidence of title is required. Where the assured is known to be mentally deranged, a certificate from the court of law under the Indian Lunacy Act appointing a person to act as guardian to manage the properties of the lunatic should be called. For Survival Benefit claim, Policy bond and discharge voucher is required.

Rider Claims:

The life insurance policy can be attached with different riders like accidental rider, Critical illness Rider, Hospital cash Rider, waiver of Premium Rider etc. For different Riders different proceedings can be opted for claim settlement. In some cases the claim may proceed as well as with the death Claim (Like Waiver of premium rider, accidental death Rider etc). But in some other cases different documents can be required for along with the duly filled Claim form & Policy Copy: For Critical Illness Rider, necessary medical documents such as first investigation report, Doctor's prescription, Discharge Summery etc are required For Accidental disability rider, Attested copy of FIR, Doctor Certificate of disability, Photograph of the injured with reflecting disablement, Original Medical bills with prescriptions/ treatment papers etc are required. For Hospital cash rider medical documents are required such as Medical & Investigation report, Prescriptions, Medical and Investigation Bills, Discharge Card etc.

Importance of Proper Documentation in Claim Processing: It is noted that in many cases

The life insurance claim has been denied by the insurer because the claimant has failed to follow some step or not able to submit the necessary information to the company. So it is recommended that when you claim for life insurance, take proper steps and documentation.

LAWS RELATING TO INSURANCE BUSINESS

There are mainly four laws are concerned with the insurance business of India are as follows.

A. Insurance Act, 1938
B. Life Insurance Corporation Act, 1956
C. General Insurance Business (Nationalization) Act, 1972
D. Insurance Regularity and Development Authority Act, 1999 (IRDA)

A. INSURANCE ACT, 1938

The insurance act originally passed in the year 1938. however It amended for several times, It latest amendment of the insurance act was the, the IRDA itself when it became the authority to perform many tasks required to be done under the insurance act such as issuing licenses, issuing registration certificates, monitoring compliance with the provisions of the Act, issuing directives, laying down norms. The all above said functions were performed by the controller of Insurance earlier as per the Insurance Act, 1938. The provisions of the Act may be briefly described as follows.

1. Registration
2. Licensing of agents
3. Licensing of surveyors and loss assessors
4. Solvency margin
5. Payment of premium before assumption of risk

B. Life Insurance Corporation Act,1956

Life Insurance Business in India was nationalized with effect from January 19, 1956. On the date, the Indian business of 16 non-Indian insurers operating in India and 75 Provident Societies were taken over by Government of India. Life Insurance Corporation of India, Act was passed by the Parliament on June 18, 1956 and came into effect from July 1, 1956. Life Insurance Corporation of India commenced its functioning as a corporate body from September 1, 1956. Its working is governed by the LIC Act. The LIC is a corporate having perpetual succession and a common seal with a power to acquire hold and dispose of property and can by its name sue and be sued. Important Provisions of Life Insurance Corporation Act,1956

1.Constitution
2.Capital
3. Functions of the Corporation
4. Transfer of Services
5. Set-up of the Corporation
6. Committee of the Corporation
7. Authorities
8. Finance, Accounts and Audit
9. Miscellaneous

LIFE INSURANCE CORPORATION OF INDIA (LIC)

The LIC of India was set up under the LIC Act, 1956 under which the life insurance was nationalised.

As a result, business of 243 insurance companies was taken over by LIC on 1 -9-1956. It is basically an investment institution, in as much as the funds of policy holders are invested and dispersed over different classes of securities, industries and regions, to safeguard their maximum interest on long term basis.

LIC is required to invest not less than 75% of its funds in Central and State Government securities, the government guarantee d marketable securities and in the socially-oriented sectors. At present, it is the largest institutional investor.

It provides long term finance to industries. Besides, it extends resource support to other term lending institutions by way of subscription to their shares and bonds and also by way of term loans. LIC which has entered into its 57th year has emerged as the world's largest insurance co.

in terms of number of policies covered. The LIC's total coverage of policies including individual, group and social schemes has crossed the 11 crore.

OBJECTIVES OF LIC OF INDIA

The LIC was established with the following objectives:

1. Spread life insurance widely and in particular to the rural areas, to the socially and economically backward claries with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost
2. Maximisation of mobilisation of people's savings for nation building activities.
3. Provide complete security and promote efficient service to the policy-holders at economic premium rates.
4. Conduct business with utmost economy and with the full realisation that the money belong to the policy holders.
5. Act as trustees of the insured public in their individual and collective capacities.
6. Meet the various life insurance needs of the community that would arise in the changing social and economic environment
7. Involve all people working in the corporation to the best of their capability in furtheringthe interest of the insured public by providing efficient service with courtesy.

ROLE AND FUNCTIONS OF LIC

The role and functions of LIC may be summarised as below:

1. It collects the savings of the people through life policies and invests the fund in a variety of investments.
2. It invests the funds in profitable investments so as to get good return. Hence the policy holders get benefits in the form of lower rates of premium and increased bonus. In short, LIC is answerable to the policy holders.
3. It subscribes to the shares of companies and corporations. It is a major shareholder in a large number of blue chip companies.
4. It provides direct loans to industries at a lower rate of interest. It is giving loans to industrial enterprises to the extent of 12% of its total commitment.
5. It provides refinancing activities through SFCs in different states and other industrial loan- giving institutions.
6. It has provided indirect support to industry through subscriptions to shares and bonds of financial institutions such as IDBI, IFCI, ICICI, SFCs etc. at the time when they required initial capital. It also directly subscribed to the shares of Agricultural Refinance Corporation and SBI.
7. It gives loans to those projects which are important for national economic welfare. The socially oriented projects such as electrification, sewage and water channelising are given priority by the LIC.
8. It nominates directors on the boards of companies in which it makes its investments.
9. It gives housing loans at reasonable rates of interest.
10. It acts as a link between the saving and the investing process. It generates the savings of the small savers, middle income group and the rich through several schemes. Formerly LIC has played a major role in the Indian capital market. To stabilise the capital market it has underwritten capital issues. But recently it has moved to other avenues of financing. Now it has become very selective in its underwriting pattern.

TYPES OF GENERAL INSURANCE

Basically there are four type of general insurance stated below. Beside these a number of different kinds of policies for hedging against the various kind of risk are available in the market these days.

- Fire Insurance
- Marine Insurance
- Motor Insurance
- Health Insurance
- Miscellaneous Insurance

FIRE INSURANCE

Fire is hazardous to human life as well as property. Loss of life by fire is covered under Life insurance and loss of property by fire is covered under fire insurance. Fire causes enormous damage by physically reducing the materials to ashes. A fire insurance policy provides protection strictly against fire. There could be enormous reasons for fire. In practice certain other related perils are also covered by the fire insurance policy. The General Insurance Act (Tariff) recommends the form of the contract in which a fire insurance is to be written. The policy form contains a preamble and operative clause, general exclusions and general conditions. Fire Insurance comes under tariff class of business. All India Fire Tariff is the revised fire insurance tariff, which came into force on May1, 2001. Now a single policy was introduced to cover all property risks called standard fire and special peril policy in the place of three standard policies i.e. A, B&C. A contract of fire insurance can be defined as a contract under which one party (the insurer) agrees for consideration (premium) to indemnify the other party (The insured) for the financial loss which the latter may suffer due to damage to the property insured by fire during a specified period of time and up to an agreed amount. The document containing the terms and conditions of the contract is known as 'Fire Insurance Policy'. A fire policy contains the name of the parties, description of the insured property, the sum for which the property is insured, amount of premium payable and the period insured against. The premium may be paid either in single installment or by way of installments. The insurer is liable to make good the loss only when loss is caused by actual fire. The phrase 'loss or damage by fire' also includes the loss or damage caused by efforts to extinguish fire.

Scope of cover

Standard Fire and special perils policy usually cover loss due to the following perils:

1. Fire: Destruction or damage to the property insured by its own fermentation, natural heating or spontaneous combustion or drying process can not be treated as damage due to fire.

2. Lightning: It may result in fire damage or other type of damage, such as cracks in a building due to a lightning strike.

3. Explosion: An explosion is caused inside a vessel when the pressure within the vessel exceeds the atmospheric pressure acting externally on its surface. This policy, however, does not cover destruction or damage caused to the boilers or other vessels where heat is generated.

4. Storm, cyclone, typhoon, hurricane, tornado, landslide: These are all various types of violent natural disturbances accompanied by thunder or strong winds or heavy rain fall. Loss or damage directly caused by these disturbances are covered excluding those resulting from earthquake, volcanic eruption etc.

5. Bush fire: This covers damage caused by burning of bush and jungles but excluding destruction or damage caused by forest fire.

6. Riot, strike, malicious, and terrorism damages: Any loss or physical damage to the property insured directly caused by such activity or by the action of any lawful authorities in suppressing such disturbance is covered.

7. Aircraft damage: Loss, destruction or damage caused by Aircraft, other aerial or space devices and articles dropped there from excluding those caused by pressure waves.

8. Overflowing of water tanks and pipes etc.: Loss or damage to property by water or otherwise on account of bursting or accidental overflowing of water tanks, apparatus and pipes is covered.

9. Add-on Covers: The insurer can issue the standard fire policy with added benefits at the option of the policyholders by charging additional premium. These added benefits are as follows:

1. Architects, Surveyors and Consulting engineer's fees (in excess of 3% claim amount)

2. Debris removal (in excess of 1% of claim amount)
3. Deterioration of stocks in cold storage due to power failure
4. Forest fire
5. Spontaneous combustion
6. Earthquake as per minimum rates and excess applicable as specified in the tariff.
7. Omission to insure additions, alterations or extensions.

The following types of losses, however, are not covered by a fire policy:

· Loss by theft during and after the occurrence of fire.
· Loss caused by burning of property by order of any public authority.
· Loss caused by underground fire.
· Loss or damage to property occasioned by its own fermentation or spontaneous combustion.
· Loss happening by fire which is caused by earthquake, invasion, act of foreign enemy, warlike operations, civil wars, riot etc.

In all the above cases the insurer is not liable, unless specifically provided for in the fire insurance policy. The insurer can issue the standard fire policy as per the New Fire Tariff along with added benefits at the option of the policyholders by charging additional premium.

TYPES OF FIRE POLICIES

The important fire insurance policies are discussed below:

(i) Valued Policy. They are the exception in fire insurance. Under valued policy, the value declared in the policy is the amount the insurer will have to pay to the insured in the event of a total loss irrespective of the actual value of loss. The policy violates the principle of indemnity. The insurer has to pay a specified amount quite independent of the market or actual value of the property at the time of loss. So such a policy is very rarely issued. It may be issued only on artistic work, antiques and similar rare articles whose value cannot be determined easily.

(ii) Specific Policy. Under this policy, the insurer undertakes to make good the loss to the insured upto the amount specified in the policy. Supposing, a building worth Rs.2,00,000 is insured against fire for Rs. 1,00,000. If the damage to the property is Rs.75,000 the insurer will get the full compensation. Even if the loss is Rs.1,00,000 the insurer will get the full amount. But if the loss is more than Rs. 1,00,000 the insured will get Rs. 1,00,000 only. Hence, the value of property is not relevant in determining the amount of indemnity in case of a specific policy.

CLAIM PROCEDURE FOR FIRE INSURANCE

1. In the event of fire the insured must immediately give the insurer a notice about the loss caused by fire. A written claim should be delivered with in 15days from the date of loss. The insured is required to furnish all plans, invoices, documents, proofs and other relevant informations required by the insurer. If the insured failed to submit these documents within 6 months from the date of loss, the insurer has the right to consider it as no claim.

2. On receipt of the claim the insurer verifies whether the essentials of a valid claim are satisfied or not. e.g. The cause of fire should be an insured peril.

3. The insured completes the form, signs the declaration given in the form as to the truthfulness and accuracy of the information and returns the same.

4. An official employed by the insurer investigates small and simple claims. For large claims, the insurance company employs independent loss surveyor.

5. On the basis of the claim form and the investigation report, the company then settles the claim.

MARINE INSURANCE

Marine insurance covers the loss or damage of ships, cargo, terminals, and any transport or cargo by which property is transferred, acquired, or held between the points of origin and final destination. Cargo insurance discussed here is a sub-branch of marine insurance, though Marine also includes Onshore and Offshore exposed property (container terminals, ports, oil platforms, pipelines); Hull; Marine Casualty; and Marine Liability.

The general principles of marine insurance are the same as with other types of insurance in that there are two parties: the assured and assurer (or carrier). The assured or insured agrees to pay a premium and the insurer agrees that, if certain losses or damage occurs to certain interests of the insured, the insurer will indemnify the insured. The similarities pretty much end here. The complex circumstances involved in sea voyages require very specific arrangements for the provision of marine insurance.

The fixing of rates and special conditions, for example, requires a vast knowledge of the nature of vessels and cargos and of the conditions of navigation. The marine policy may cover the risks of a single voyage, or may insure for a certain period of time. Cargo is almost always insured by voyage. Vessels are usually insured for certain duration of time, usually year by the year. Cargo policies may be on a single lot or may be open to cover cargo as shipped by the insured.

Hull insurance, or vessel insurance, may cover a ship or a whole fleet. Typical of marine insurance is the principle that no contract of marine insurance is valid unless the insured has an insurable interest in the subject matter at the time of loss.

The term insurable interest has been variously defined. According to the English Marine Insurance Act of 1906, "every person has an insurable interest who is interested in a marine adventure.... 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 therein, in consequence of which he may benefit by the safety or due arrival of insurable property, or may be prejudiced by its loss, or damage thereto, or by the detention thereof, or may incur liability in respect thereof".

The nature and scope of marine insurance is determined by reference to s. 6 of the Marine Insurance Act and by the definitions of “marine adventure” and “maritime perils”. A contract of marine insurance is a contract whereby the insurer undertakes to indemnify the insured, in the manner and to the extent agreed in the contract, against losses that are incidental to a marine adventure or an adventure analogous to a marine adventure, including losses arising from a land or air peril incidental to such an adventure if they are provided for in the contract or by usage of the trade; or losses that are incidental to the building, repair or launch of a ship.

"Marine adventure" means any situation where insurable property is exposed to maritime perils, and includes any situation where the earning or acquisition of any freight, commission, profit or other pecuniary benefit, or the security for any advance, loan or disbursement, is endangered by the exposure of insurable property to maritime perils, and any liability to a third party may be incurred by the owner of, or other person interested in or responsible for, insurable property, by reason of maritime perils.

"Maritime perils" means theperils consequent on or incidental to navigation, including perils of the seas, fire, war perils, acts of pirates or thieves, captures, seizures, restraints, detainments of princes and peoples, jettisons, barratry and all other perils of a like kind and, in respect of a marine policy, any peril designated by the policy.

Subject Matter of Marine Insurance

The insured may be the owner of the ship, owner of the cargo or the person interested in freight. In case the ship carrying the cargo sinks, the ship will be lost along with the cargo. The income that the cargo would have generated would also be lost. Based on this we can classify the marine insurance into four categories:

1. Hull Insurance: Hull refers to the ocean going vessels (ships trawlers etc.) as well as its machinery. The hull insurance also covers the construction risk when the vessel is under construction. A vessel is exposed to many dangers or risks at sea during the voyage. An insurance effected to indemnify the insured for such losses is known as Hull insurance.

2. Cargo Insurance: Cargo refers to the goods and commodities carried in the ship from one place to another. The cargo transported by sea is also subject to manifold risks at the port and during the voyage. Cargo insurance covers the shipper of the goods if the goods are damaged or lost. The cargo policy covers the risks associated with the transshipment of goods. The policy can be written to cover a single shipment. If regular shipments are made, an open cargo policy can be used that insures the goods automatically when a shipment is made.

3. Freight Insurance: Freight refers to the fee received for the carriage of goods in the ship. Usually the ship owner and the freight receiver are the same person. Freight can be received in two ways- in advance or after the goods reach the destination. In the former case, freight is secure. In the latter the marine laws say that the freight is payable only when the goods reach the destination port safely. Hence if the ship is destroyed on the way the ship owner will loose the freight along with the ship. That is why, the ship owners purchase freight insurance policy along with the hull policy.

4. Liability Insurance: It is usually written as a separate contract that provides comprehensive liability insurance for property damage or bodily injury to third parties. It is also known as protection and indemnity insurance which protects the ship owner for damage caused by the ship to docks, cargo, illness or injury to the passengers or crew, and fines and penalties.

Types of Marine Policy

There are different types of marine policies known by different names according to the manner of their execution or the risk they cover. They are:

(i) Voyage Policy: Under the policy, the subject matter is insured against risk in respect of a particular voyage from a port of departure to the port of destination, e.g. Mumbai to New York. The risk starts from the departure of ship from the port and it ends on its arrival at the port of destination. This policy covers the subject matter irrespective of the time factor. This policy is not suitable for hull insurance as a ship usually does not operate over a particular route only. The policy is used mostly in case of cargo insurance.

(ii) Time Policy: It is one under which the insurance is affected for a specified period of time, usually not exceeded twelve months. Time policies are generally used in connection with the insurance of ship. Thus if the voyage is not completed with in the specified period, the risk shall be covered until the voyage is completed or till the arrival of the ship at the port of call.

(iii) Mixed Policies: It is one under which insurance contract is entered into for a certain time period and for a certain voyage or voyages, e.g., Kolkata to New York, for a period of one year. Mixed Policies are generally issued to ships operating on particular routes. It is a mixture of voyage and time policies.

(iv) Valued Policies: It is one under which the value of subject matter insured is specified on the face of the policy itself. This kind of policy specifies the settled value of the subject matter that is being provided cover for. The value which is agreed upon is called the insured value. It forms the measure of indemnity in the event of loss. Insured value is not necessarily the actual value. It includes (a) invoice price of goods (b) freight, insurance and other charges (c) ten to fifteen percent margin to cover expected profits.

(**v) Unvalued policy**: It is the policy under which the value of subject matter insured is not fixed at the time of effecting insurance but has to be ascertained wherever the subject matter is lost or damaged.

(vi) Open policy: An open policy is issued for a period of 12 months and all consignments cleared during the period are covered by the insurer. This form of insurance Policy is suitable for big companies that have regular shipments. It saves them the tedious and expensive process of acquiring an insurance policy for each shipment. The rates are fixed in advance, without taking the total value of the cargo being shipped into consideration. The assured has to declare the nature of each shipment, and the cover is provided to all the shipments. The assured also deposits a premium for the estimated value of the consignment during the policy period.

(vii) Floating Policy: A merchant who is a regular shipper of goods can take out a 'floating policy' to avoid botheration and waste of time involved in taking a new policy for every shipment. This policy stands for the contract of insurance in general terms. It does not include the name of the ship and other details. The other details are required to be furnished through subsequent declarations. Thus, the insured takes a policy for a huge amount and he informs the underwriter as and when he makes shipment of goods. The underwriter goes on recording the entries in the policy. Whe the sum assured is exhausted, the policy is said to be "fully declared" or "run off".

(**viii) Block Policy:** This policy covers other risks also in addition to marine risks. When goods are to be transported by ship to the place of destination, a single policy known as block policy may be taken to cover all risks. E.g. when the goods are dispatched by rail or road transport for shipment, a single policy may cover all the risks from the point of origin to the point of destination.

Assignment of Marine Policy

A marine insurance policy may be transferred by assignment unless the terms of the policy expressly prohibit the same. The policy may be assigned either before or after loss. The assignment may be made either by endorsement on the policy itself or on a separate document. The insured need not give a notice or information to the insurer or underwriter about assignment. In case of death of the insured, a marine policy is automatically assigned to his heirs. At the time of assignment, the assignor must possess an insurable interest in the subject matter insured. An insured who has parted with or lost interest in the subject matter insured cannot make a valid assignment. After the occurrence of the loss, the policy can be assigned freely to any person. The assignor merely transfers his own right to claim to the assignee.

Clauses in a Marine Policy

A policy of marine insurance may contain several clauses. Some of the clauses are common to all marine policies while others are included to meet special requirements of the insured. Hull, cargo and freight policies have different standard clauses. There are standard clauses which are invariably used in marine insurance. Firstly, policies are constructed in general, ordinary and popular sense, and, later on, specific clauses are added to them according to terms and conditions of the contract. Some of the important clauses in a marine policy are described below:

1. Valuation Clause. This clause states the value of the subject matter insured as agreed upon between both the parties.

2. Sue and Labour clause. This clause authorizes the insured to take all possible steps to avert or minimize the loss or to protect the subject matter insured in case of danger. The insurer is liable to pay the expenses, if any, incurred by the insured for this purpose.

3. Waiver Clause. This clause is an extension of the above clause. The clause states that any act of the insured or the insurer to protect, recover or preserve the subject matter of insurance shall not be taken to mean that the insured wants to forgo the compensation, nor will it mean that the insurer accepts the act as abandonment of the policy.

4. Touch and Stay Clause. This clause requires the ship to touch and stay at such ports and in such order as specified in the policy. Any departure from the route mentioned in the policy or the ordinary trade route followed will be considered as deviation unless such departure is essential to save the ship or the lives on board in an emergency.

5. Warehouse to warehouse clause. This clause is inserted to cover the risks to goods from the time they are dispatched from the consignor's warehouse until their delivery at the consignee's warehouse at the port of destination.

6. In charge Clause. This clause covers the loss or damage caused to the ship or machinery by the negligence of the master of the ship as well as by explosives or latent defect in the machinery or the hull.

WARRANTIES

Warranty means a promissory warranty by which the insured undertakes that some particular thing will or will not be done or that some condition will be fulfilled; or affirms or negates the existence of particular facts. A warranty may be an implied warranty and express warranty.

Express Warranties:

The more common express warranties are:

- Navigation and trading warranties that limit the geographical areas in which a vessel may operate;
- Laid up and out of commission warranties that require a vessel to be laid up for a defined period or generally;
- Identity of the master warranties that require a named person to command the vessel;
- Towing warranties that prohibit the insured vessel from being towed except where customary or when the vessel is in need of assistance;
- Private pleasure use warranties that prohibit any commercial use of a yacht; and
- Warranties regarding surveys and inspections that require inspections to be conducted or recommendations by surveyors to be complied with.

Implied Warranty:

These are the warranties which are not expressly mentioned in the contract but the law takes it for granted that such warranty exists. An express warranty does not exclude implied warranty unless it is inconsistent therewith. Implied warranties do not appear in the policy documents at all, but are understood without being put into words, and as such, are automatically applicable. These are included in the policy by law, general practice, long established custom or usage. There are three warranties implied by the Act. They are the warranty of legality, neutrality and seaworthiness.

- Legality: The warranty of legality is one which is often expressly included in policies as well as implied. The journey undertaken by the ship must be for legal purposes. Carrying prohibited or smuggled goods is illegal and therefore, the insurer shall not be liable for the loss.
- Neutrality: Where in any marine policy insurable property is expressly warranted to be neutral, there is an implied condition in the policy (a) that the property will have a neutral character at the commencement of the risk and that, in so far as the insured has control, that character will be preserved during the risk; and (b) where the property is a ship, that, in so far as the insured has control, the papers necessary to establish the neutrality of the ship will be carried on the ship and will not be falsified or suppressed and no simulated papers will be used.
- Seaworthiness: There is an implied warranty in every voyage policy that, at the commencement of the voyage, the ship will be seaworthy for the purpose of the particular marine adventure insured.

Types of Marine Losses

A loss arising in a marine adventure due to perils of the sea is a marine loss. Marine loss may be classified into two categories:

Total loss:

A total loss implies that the subject matter insured is fully destroyed and is totally lost to its owner. It can be Actual total loss or Constructive total loss. In actual total loss subject matter is completely destroyed or so damaged that it ceases to be a thing of the kind insured. e.g. sinking of ship, complete destruction of cargo by fire, etc. In case of constructive total loss the ship or cargo insured is not completely destroyed but is so badly damaged that the cost of repair or recovery would be greater than the value of the property saved. e.g. a ship dashed against the rock and is stranded in a badly damaged position. If the expenses of bringing it back and repairing it would be more than the actual value of the damaged ship, it is abandoned.

Partial loss: A partial loss occurs when the subject matter is partially destroyed or damaged. Partial loss can be general average or particular average. General average refers to the sacrifice made during extreme circumstances for the safety of the ship and the cargo. This loss has to be borne by all the parties who have an interest in the marine adventure. e.g. A loss caused by throwing overboard of goods is a general average and must be shared by various parties. Particular average may be defined as a loss arising from damage accidentally caused by the perils insured against. Such a loss is borne by the underwriter who insured the object damaged. e.g. If a ship is damaged due to bad weather the loss incurred is a particular average loss.

Insurance business in India

The insurance industry of India consists of 53 insurance companies of which 24 are in life insurance business and 29 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company.

Apart from that, among the non-life insurers there are six public sector insurers. In addition to these, there is sole national reinsurer, namely, General Insurance Corporation of India (GIC Re).

Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims.

Out of 29 non-life insurance companies, five private sector insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments.

They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd.

There are two more specialised insurers belonging to public sector, namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agriculture Insurance Company Ltd for crop insurance.