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EFFECTIVENESS OF INSURANCE CONTRACT IN INSURANCE

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Abstract

Though the number of insurance companies operating in India has increased significantly, hundreds of millions of people have limited awareness and/or access to insurance and financial services. India as a country still remains grossly 'under-insured' in terms of insurance penetration and density.During April 2017 to March 2018 New Premium income is 2.22 trillion (US$ 31.71billion), During April 2015 to March 2016 period, the life insurance industry recorded a new premium income of Rs 1.38 trillion (US$ 20.54 billion), indicating a growth rate of 22.5 per cent. The general insurance industry recorded a 12 per cent growth in Gross Direct Premium underwritten in April 2016 at Rs 105.25 billion (US$ 1.55 billion).India39; s life insurance sector is the biggest in the world with about 360 million policies which are expected to increase at a Compound Annual Growth Rate (CAGR) of 12-15 per cent over the next five years. The insurance industry plans to hike penetration levels to five per cent by 2020.The country's insurance market is expected to quadruple in size over the next 10 years from its current size of US$ 60 billion. During this period, the life insurance market is slated to cross US$ 160 billion.The general insurance business in India is currently at Rs 78,000 crore (US$ 11.44 billion) premium per annum industry and is growing at a healthy rate of 17 per cent.The Indian insurance market is a huge business opportunity waiting to be harnessed. India currently accounts for less than 1.5 per cent of the world's total insurance premiums and about 2 per cent of the world's life insurance premiums despite being the second most populous nation. The country is the fifteenth largest insurance market in the world in terms of premium volume, and

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has the potential to grow exponentially in the coming years.The fundamental regulatory changes in the insurance sector would be significant for the future growth and would have huge impact on various sectors of economy. Active foreign participation is crucial for the sector as it would bring the best know how and implementing the best practices. India is one of the fastest growing insurance market and it is expected that Indian insurance industry can grow up to 125 % in the next decade. However there is also a risk that unless given the management control the foreign insurers would be reluctant to invest in India.A foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country .Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of cheaper wages, special investment privileges like tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generation of employment.Insurable population is anticipated to touch 750 million in 2020, with life expectancy reaching 74 years. Furthermore, life insurance is projected to comprise 35 per cent of total savings by the end of this decade, as against 26 per cent in 2009-10.

The future looks promising for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers.Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance.Also govt has taken some measures to brighten up the future of insurances sector in India:The Union Budget of 2016-17 has made the following provisions for the Insurance Sector:Foreign investment will be allowed through automatic route for up to 49 per cent subject to the guidelines on Indian management and control, to be verified by the regulators.Service tax on single premium annuity policies has been reduced from 3.5 per cent to 1.4 per cent of the premium paid in certain cases.Government insurance companies to be listed on the exchangesService tax on service of life insurance business provided by way of annuity under the National Pension System regulated by Pension Fund Regulatory and Development Authority (PFRDA) being exempted, with effect from April 01, 2016.

OBJECTIVE OF INSURANCE CONTRACT

Every day we face uncertainty and risk. Insurance offers individuals and organizations protection from potential losses as well as peace of mind in exchange for periodic payments known as premiums. Today, insurance companies offer a variety of insurance products in areas such as property, casualty and life insurance. To function effectively, insurance must satisfy a number of objectives including pooling risk, paying out claims, ensuring the solvency of insurers and incentivizing safe behavior.

- **Pooling Of Risk**: One of the objectives of insurance contract is to pool the risk of a sufficiently large number of policyholders clearly. By collecting premiums from many individuals or organizations, insurers can pay out relatively few claims each year while collecting premiums from the majority of policyholders who don't file claims over that same period. This conclusion follows the Law of Large Numbers.

- **Loss Recovery**: A second key objective of insurancecontract is to compensate policyholders following predetermined catastrophic events accordingly as prescribed. For example, auto insurance policyholders are reimbursed for part or all of the damages sustained by their vehicle in a collision only if it was mentioned. Other examples of assets covered by property insurance include houses, inventory and personal possessions.

- **Insurer Solvency:** A third objective of insurance contract is to satisfy policyholders that insurers are financially stable and solvent. This is important because if any policyholders weren't compensated for eligible losses it would undermine society's confidence in the system.

- **Behavioral Influence**: Yet another aim of insurance contract is to promote and reward responsible behavior. For example, individuals with safe driving records are more likely to be quoted lower auto insurance premiums than those with unsafe driving records. Such discriminatory pricing may cause some individuals and organizations to behave with greater caution, thereby making society safer for everyone.

Research Methodology: Present studybasedonSecondary data. Secondary datahasbeencollected f r o m various reports of IRDAI Annual Reports. Govt of India, besides these sources, we collect data from others relevant journals, Magazines, Newspaper and website also.

Review of Literature:

M.K.Govindan (2013) "The principle obligates the insurer also to observe Utmost Good Faith during the entire period of contract. The principle of insurable interest presumes that the subject matter of insurance exists and that insured has insurable interest in the subject matter. Breach of these implied conditions will render the contract voidable or void as from inception depending upon the severity of the breach."

DamodarBasaula (2017) Claim settlement has been like a mirror to each life insurance companies which public see the real face of their business. A company which fails to settle the claim, the satisfaction of customers would definitely distracts the business and discourage to continue or the repurchase of policy.

Insurance is a means to minimize future uncertainty and financial losses. Acting as a risk transfer mechanism is the primary function of insurance **(Holyoak&Weipers, 2002). Rejda (2008)** stated that sharing or pooling of losses is the heart of insurance, pooling is the spreading a losses incurred by the few over the entire group so that average loss is substituted for actual loss. Therefore, insurance is a cooperative device to spread the loss caused by particular risk over a number of persons who are exposed to it and who agree to insure themselves against the risk.

INTRODUCTION TO INSURANCE

- Insurance is a means of protection from financial loss. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. An entity which provides insurance is known as an insurer, insurance company, or insurance carrier. A person or entity who buys insurance is known as an insured or policyholder. The insurance transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate the insured in the event of a covered loss. The loss may or may not be financial, but it must be reducible to financial terms, and must involve something in which the insured has an insurable interest established by ownership, possession, or preexisting relationship. The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated. The amount of money charged by the insurer to the insured for the coverage set forth in the insurance policy is called the premium. If the insured experiences a loss which is potentially covered by the insurance policy, the insured submits a claim to the insurer for processing by a claims adjuster. Insurance is a promise of compensation for specific potential future losses in exchange for a periodic payment. Insurance is designed to protect the financial well-being of an individual, company or other entity in the case of unexpected loss. Some forms of insurance are required by law, while others are optional. Agreeing to the terms of an insurance policy creates a contract between the insured and the insurer. In exchange for payments from the insured (called premiums), the insurer agrees to pay the policy holder a sum of money upon the occurrence of a specific event.A financial risk management tool in which the insured transfers a risk of potential financial loss to the insurance company that mitigates it in exchange for monetary compensation known as the premium. Insurance policies, a contract between the policyholder and the insurance company, are of different types depending on the risk they mitigate. Broad categories include life, health, motor, travel, and home, rural, commercial and business insurance. The Insurance Regulatory and Development Authority, an agency of the Government of India, is the regulatory body for the insurance sector's supervision and development in India.

PRINCIPLES OF INSURANCE ACCORDING TO WHICH INSURANCE CONTRACT IS MADE

Insurance involves pooling funds from many insured entities (known as exposures) to pay for the losses that some may incur. The insured entities are therefore protected from risk for a fee, with the fee being dependent upon the frequency and severity of the event occurring. In order to be an insurable risk, the risk insured against must meet certain characteristics. Insurance as a financial intermediary is a commercial enterprise and a major part of the financial services industry, but individual entities can also self-insure through saving money for possible future losses.

INSURABILITY:

Risk which can be insured by private companies typically shares seven common characteristics:

1. Large number of similar exposure units: Since insurance operates through pooling resources, the majority of insurance policies are provided for individual members of large classes, allowing insurers to benefit from the law of large numbers in which predicted losses are similar to the actual losses. Exceptions include Lloyd's of London, which is famous for insuring the life or health of actors, sports figures, and other famous individuals. However, all exposures will have particular differences, which may lead to different premium rates.
2. Definite loss: The loss takes place at a known time, in a known place, and from a known cause. The classic example is death of an insured person on a life insurance policy. Fire, automobile accidents, and worker injuries may all easily meet this criterion. Other types of losses may only be definite in theory. Occupational disease, for instance, may involve prolonged exposure to injurious conditions where no specific time, place, or cause is identifiable. Ideally, the time, place, and cause of a loss should be clear enough that a reasonable person, with sufficient information, could objectively verify all three elements.
3. Accidental loss: The event that constitutes the trigger of a claim should be fortuitous, or at least outside the control of the beneficiary of the insurance. The loss should be pure, in the sense that it results from an event for which there is only the opportunity for cost. Events that contain speculative elements such as ordinary business risks or even purchasing a lottery ticket are generally not considered insurable.
4. Large loss: The size of the loss must be meaningful from the perspective of the insured. Insurance premiums need to cover both the expected cost of losses, plus the cost of issuing and administering the policy, adjusting losses, and supplying the capital needed to reasonably assure that the insurer will be able to pay claims. For small losses, these latter costs may be several times the size of the expected cost of losses. There is hardly any point in paying such costs unless the protection offered has real value to a buyer.
5. Affordable premium: If the likelihood of an insured event is so high, or the cost of the event so large, that the resulting premium is large relative to the amount of protection offered, then it is not likely that the insurance will be purchased, even if on offer. Furthermore, as the accounting profession formally recognizes in financial accounting standards, the premium cannot

be so large that there is not a reasonable chance of a significant loss to the insurer. If there is no such chance of loss, then the transaction may have the form of insurance, but not the substance

6. Calculable loss: There are two elements that must be at least estimable, if not formally calculable: the probability of loss, and the attendant cost. Probability of loss is generally an empirical exercise, while cost has more to do with the ability of a reasonable person in possession of a copy of the insurance policy and a proof of loss associated with a claim presented under that policy to make a reasonably definite and objective evaluation of the amount of the loss recoverable as a result of the claim.

7. Limited risk of catastrophically large losses: Insurable losses are ideally independent and non-catastrophic, meaning that the losses do not happen all at once and individual losses are not severe enough to bankrupt the insurer; insurers may prefer to limit their exposure to a loss from a single event to some small portion of their capital base. Capital constrains insurers' ability to sell earthquake insurance as well as wind insurance in hurricane zones. In the United States, flood risk is insured by the federal government. In commercial fire insurance, it is possible to find single properties whose total exposed value is well in excess of any individual insurer's capital constraint. Such properties are generally shared among several insurers, or are insured by a single insurer who syndicates the risk into the reinsurance market.

LEGAL

When a company insures an individual entity, there are basic legal requirements and regulations. Several commonly cited legal principles of insurance include:

1. Indemnity – the insurance company indemnifies, or compensates, the insured in the case of certain losses only up to the insured's interest.

2. Benefit insurance – as it is stated in the study books of The Chartered Insurance Institute, the insurance company does not have the right of recovery from the party who caused the injury and is to compensate the Insured regardless of the fact that Insured had already sued the negligent party for the damages (for example, personal accident insurance)

3. Insurable interest – the insured typically must directly suffer from the loss. Insurable interest must exist whether property insurance or insurance on a person is involved. The concept requires that the insured have a "stake" in the loss or damage to the life or property insured. What that "stake" is will be determined by the kind of insurance involved and the nature of the

property ownership or relationship between the persons. The requirement of an insurable interest is what distinguishes insurance from gambling.

4. Utmost good faith – (Uberrima fides) the insured and the insurer are bound by a good faith bond of honesty and fairness. Material facts must be disclosed.

5. Contribution – insurers which have similar obligations to the insured contribute in the indemnification, according to some method.

6. Subrogation – the insurance company acquires legal rights to pursue recoveries on behalf of the insured; for example, the insurer may sue those liable for the insured's loss. The Insurers can waive their subrogation rights by using the special clauses.

7. Causaproxima, or proximate cause – the cause of loss (the peril) must be covered under the insuring agreement of the policy, and the dominant cause must not be excluded.

8. Mitigation – In case of any loss or casualty, the asset owner must attempt to keep loss to a minimum, as if the asset was not insured.

INDEMNIFICATION

To "indemnify" means to make whole again, or to be reinstated to the position that one was in, to the extent possible, prior to the happening of a specified event or peril. Accordingly, life insurance is generally not considered to be indemnity insurance, but rather "contingent" insurance (i.e., a claim arises on the occurrence of a specified event). There are generally three types of insurance contracts that seek to indemnify an insured:

1. A "reimbursement" policy
2. A "pay on behalf" or "on behalf of policy"
3. An "indemnification" policy

- From an insured's standpoint, the result is usually the same: the insurer pays the loss and claims expenses.
- If the Insured has a "reimbursement" policy, the insured can be required to pay for a loss and then be "reimbursed" by the insurance carrier for the loss and out of pocket costs including, with the permission of the insurer, claim expenses.
- Under a "pay on behalf" policy, the insurance carrier would defend and pay a claim on behalf of the insured who would not be out of pocket for anything. Most modern liability

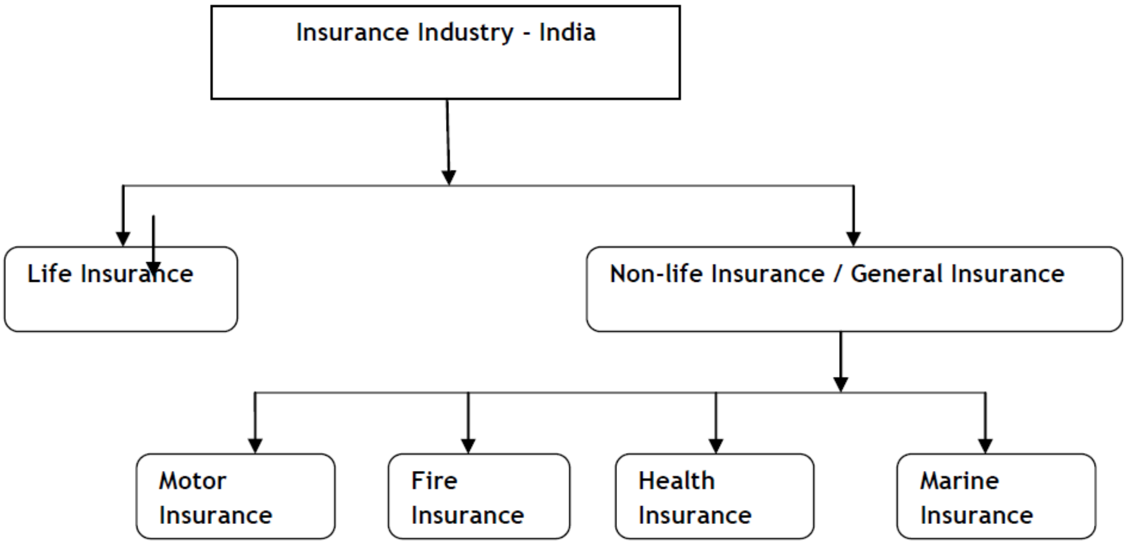
insurance is written on the basis of "pay on behalf" language which enables the insurance carrier to manage and control the claim.

- Under an "indemnification" policy, the insurance carrier can generally either "reimburse" or "pay on behalf of", whichever is more beneficial to it and the insured in the claim handling process.
- An entity seeking to transfer risk (an individual, corporation, or association of any type, etc.) becomes the 'insured' party once risk is assumed by an 'insurer', the insuring party, by means of a contract, called an insurance policy. Generally, an insurance contract includes, at a minimum, the following elements: identification of participating parties (the insurer, the insured, the beneficiaries), the premium, the period of coverage, the particular loss event covered, the amount of coverage (i.e., the amount to be paid to the insured or beneficiary in the event of a loss), and exclusions (events not covered). An insured is thus said to be "indemnified" against the loss covered in the policy.
- When insured parties experience a loss for a specified peril, the coverage entitles the policyholder to make a claim against the insurer for the covered amount of loss as specified by the policy. The fee paid by the insured to the insurer for assuming the risk is called the premium. Insurance premiums from many insured are used to fund accounts reserved for later payment of claims – in theory for a relatively few claimants – and for overhead costs. So long as an insurer maintains adequate funds set aside for anticipated losses (called reserves), the remaining margin is an insurer's profit.

✓ Out of all of the principles which have been explained above in detail the most significant ones are:

i. Principle of Insurable Interest
ii. Principle of Utmost Good Faith
iii. Principle of Indemnity
iv. Principle of Subrogation
v. Principle of Contribution
vi. Principle of CausaProximate
vii. Principle of Mitigation of Losses
viii.

TYPES OF INSURANCE CONTRACT



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risks insured against in fire insurance policies.There is no statutory enactment for regulation of fire business in India akin to Marine insurance which is governed by the Indian Marine Insurance Act, 1963Features of a Fire Insurance Contract

It is personal in nature It does not ensure the safety of the insured property Its purpose is to see that the insured does not suffer by reason of his interest in the insured property It is personal in the sense that it involves the payment of money if the loss occurs

Cause of fire is immaterial The insurer irrespective of the cause of fire will reimburse the loss due to fire . Indivisibility The fire insurance contract covers the fire losses in whole and generally indivisible unless specifically provided by the contract Standard Fire Policy Fire Insurance Business in India is governed by the All India Fire Tariff that lays of the terms of coverage, the premium rates and the conditions of the Fire Policy Fire insurance policy is suitable for the owner of property, one who holds property in trust or in commission, individuals/financial in situations who have financial interest in the property .

All immovable and movable property located at a particular premises can be insured .

Risks Covered by the Fire Insurance Policy

- Lightning
- Explosion/Implosion
- Aircraft Damage

- Riot, Strike, Malicious and Terrorism Damage
- Storm, Cyclone, Typhoon, Tempest, Hurricane, Tornado, Flood and Inundation
- Impact Damage
- Subsidence and Landslide Including Rockslide
- Bursting and/or Overflowing of Water Tanks,
- Apparatus and Pipes
- Missile Testing Operations
- Leakage from Automatic Sprinkler Installations
- Bush Fire

Considerations while Fixing Premiums

Premium rating depends on the type of occupancy-whether industrial or otherwise . All property located in an industrial complex will be charged on rate depending on the product(s) made Facilities outside industrial complexes will be rated depending on the nature of

occupancy at individual location Storage areas will be rated based on the hazardous nature of goods held

Additional premium is charged to include “Add on” covers Discount in premium is given based on past claims history and fire protection facilities provided at the premises The insured can also opt out riot, strike, malicious and terrorism damage covers and

flood group and perils for reduction in premium

Types of Fire Coverage Policies

Policy A

This policy covers the following perils

- Fire
- Lightning
- Explosion/implosion
- Impact damage
- Aircraft damage
- Riot, strike and malicious and terrorist damage
- Storm, cyclone, tempest, hurricane, tornado, flood and inundation
- Earthquake

- Subsidence and landslide

Only policy A can be issued to cover workshops, bio-gas plants, village andCottage industries, tiny sector or small scale industries

Policy B Fire Policy B covers the undernoted perils

Fire

Lightning

Explosion/implosion

Impact damage

Aircraft damage

Riot, strike and malicious and terrorist damage The Tariff permits exclusion of riot, strike and malicious and terrorist damage Perils, with specified reduction in the premium rate under the Policy C is issued to cover industrial/manufacturing risks and storage risk and covers

•Fire

•Lightning

•Explosion/implosion

•Impact damage

•Riot, strike and malicious and terrorist damage

The riot, strike and malicious and terrorist damage perils can be excluded onspecific request with an agreed reduction in the premium rate Special Coverage's. Apart from standard coverage's, fire, policy may also be issued to meet the specific requirements of clients. Some of these are:

a) Reinstatement Value Policies

b) Stock Policies

c) Consequential Loss Policies

Reinstatement Value Policies In this policy, the basis of settlement of claims is modified by attaching the Reinstatement Value Clause of the fire policy Under the latter policy, losses are settled on the basis of market value of the property on the date of fire Policies for Stocks There three types ofpolicies for stocks Floater Policies Stocks at various locations can be covered under one sum insured by floater policies, since these policies take care of frequent changes in sum insured at various locations Declaration Policies Declaration Are useful to businesses, which face frequent fluctuations in stock quantity or value Floater Declaration Policies These policies combine the features of the floater and declaration policies Consequential Loss Policy

Coverage's and Stability This policy is suitable for business establishments and corporate for whom business interruption would mean heavy monetary loss in view of huge fixed costs Premium hargeable depends on the type of industry/business, the anticipated gross profit, indemnity period chosen and additional covers required Advantage In case of major fire loss, the business operations get interrupted resulting in reduced turnover and eventually in loss of profits

MARINE INSURANCE CONTRACT

FEATURES OF MARINE INSURANCE CONTRACT

1) Offer & Acceptance:

It is a prerequisite to any contract. Similarly the goods under marine (transit) insurance will be insured after the offer r is accepted by the insurancecompany. Example: A proposal submitted to the insurance company along with premium on 1/4/2011 but the insurance company accepted the proposal on 15/4/2011.The risk is covered from 15/4/2011 and any loss prior to this date will not be covered under marine insurance contract.

2) Payment of premium: An owner must ensure that the premium is paid well in advance so that the risk can be covered. If the payment is made through cheque and it is dishonoured then the coverage of risk will not exist. It is as per section 64VB of Insurance Act 1938- Payment of premium in advance. (Details under insurance legislation Module).

3) Contract of Indemnity:

Marine insurance is contract of indemnity and the insurance company is liable only to the extent of actual loss suffered. If there is no loss there is no liability even if there is operation of insured peril.

Example: If the property under marine (transit) insurance is insured for Rs 20 lakhs and during transit it is damaged to the extent of Rs 10 lakhs then the insurance company will not pay more than Rs 10 lakhs

Claims:

To get the compensation under marine insurance the owner must inform the insurance company immediately so that the insurance company can take necessary steps to determine the loss

PROCEDURE TO INSURE UNDER MARINE INSURANCE CONTRACT

A) Submission of form

B) Quotation from the Insurance Company

C) Payment of Premium

D) Issue of cover note/Policy

A) Submission of form

The form will have the following information:

a) Name of the shipper or consignor (the insured).

b)Full description of goods to be insured:

The nature of the commodity to be insured is important for rating and underwriting. Different types of commodities are susceptible for different types of damage during transit- sugar, cement, etc are easily damaged by sea water; cotton is liable to catch fire; liquid cargoes are susceptible to the risk of leakage and crockery, glassware to breakage; electronic items are exposed to the risk of theft, and so on.

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, crates, drums or barrels, loose packing, paper or cardboard cartons, or in bulk etc.

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 consignment note and the date thereof should be furnished. The postal receipt number and date thereof is required in case of goods sent by registered post.

iii. If a voyage is likely to involve a trans-shipment it enhances the risk. This fact should be informed while seeking insurance. Trans-shipment means the change of carrier during the voyage.

e) Risk Cover required: The risks against which insurance cover is required should be stated.

B) Quotation by insurance company Based on the information provided as above the insurancecompany will quote the premium rate. In nutshell, the rates of premium dependupon:

(a) Nature of commodity.

(b) Method of packing.

(c) The Vessel.

(d) Type of insurancepolicy.

C) Payment of premium:

On accepting the premium rates, the concerned person will make the payment to the insurance company. The payment can be made on the consignment basis.

D) Issue of cover note /Policy document:

i) Cover Note

A cover note is a document granting cover provisionally pending the issue of a regular policy. It happens frequently that all the details required for the purpose of issuing a policy are not available. For instance, the name of the steamer, the number and date of the railway receipt, thenumber of packages involved in transit, etc., may not be known.

MOTOR VEHICLE INSURANCE CONTRACT

Vehicle insurance is an integral part of vehicle ownership. Though it is a recurring annual expense, good news is that you can pull off huge savings in the premiums. Hence, it would be a good idea to be well aware of the nitty-gritty of such policies.

1. Two types of policies.There are two types of vehicle insurance viz. Comprehensive and Third Party. Third Party (or Liability Only policy): Any injury/death of a third person and/or damage to his/her property - on account of any accident caused by your vehicle - is covered under Third Party Insurance. It also includes compulsory personal accident cover for the owner-driver. However, it does not cover any damage to your vehicle. As per law, it is mandatory for every vehicle owner to take Third Party Cover. Comprehensive (or Package policy): To cover for loss/damage to your vehicle, you have to buy a Comprehensive Policy. This will provide both

Third Party and Own Damage covers. As is not well known, taking policy for Own Damage is not mandatory. However, it is advisable to cover for damages to own vehicle too.

2. Risks covered The damage to your vehicle could be on account of - Natural disasters such as earthquake, flood, storm, etc. - Man-made disasters such as accident, theft, fire, riots, malicious act, etc. - While in transit by rail/road, lift, elevator, etc

3. Insured Value the vehicle is insured for a value (called Insured Declared Value in policy parlance) based on the manufacturer's price of the vehicle minus the depreciation as per the vehicle's age. Third Party cover is as per the Motor Vehicles Act, 1988. While damage to third party property is covered up to a sum of Rs.7.5 lakhs (for car)/Rs.1 lakh (for 2-wheelers), there is no such limit on the cover for injury/death to the third party.

4. Premium Your premium would be determined by - What type of vehicle you own such as model, capacity, age, fuel type, etc. - Which city you stay in - What is your age / profession - What has been the claim experience - Modifications made / Accessories added to the vehicle

5. Premium saving options one of the most common options to save premium is the facility of no-claim bonus (NCB), whereby you get a discount in your premium if you haven't made any claim in the previous year. Moreover, this discount increases with each successive year of zero-claim and goes up to, as high as, 50%. Since this benefit is available year after year, one should avoid making any small claims. (FYI: NCB is applied only on the Own Damage premium and not on the Third Party Liability premium. NCB is given to 'you', not your vehicle. As such you can transfer your NCB to any new vehicles that you buy. If your policy lapses and you don't renew it within 90 days, you will lose the benefit of NCB.) Other strategies to reduce your premium include installing safety devices; having membership of an automobile association; or opting for higher deductibles

6. Add-ons you can enhance the protection by opting for Add-on covers to insure for risks that are not covered under a standard policy. Some of the common add-on covers include zero depreciation, no-claim bonus protection, accidental hospitalization, etc. You can also buy add-on

cover to provide personal accident cover to the unnamed co-passengers in your vehicle or Workmen's Compensation to the driver.

7. Claims Similar to your health insurance, many insurers nowadays offer cashless facility if the vehicle is repaired at their authorized garages. Alternatively, you always have the option of getting the vehicle repaired at your preferred garage and then claim reimbursement from the insurer.

8. Exclusions You will not be eligible for claim if - It is a normal wear and tear - Depreciation - Mechanical or electrical breakdown - Using the vehicle for purposes other than what is it intended for (e.g. using a private car as a taxi) - Person driving the vehicle does not hold valid license - Person driving the vehicle is under the influence of alcohol or drugs

9. Deductible is the minimum specified amount of any claim that you will bear, with the balance claim amount being payable by the insurer. A standard policy normally has a compulsory deductible or excess of Rs.50 for 2-wheelers/Rs.500 for 4-wheelers. Higher deductible reduces the insurer's liability as also the likelihood of fraudulent claims. As such he may offer lower premium for higher deductibles. However, too high a deductible may defeat the very purpose of insurance. Hence an appropriate balance is desirable.

LIFE INSURANCE

The purpose of personal accident insurance is to pay fixed compensation for death or disablement resulting from accidental bodily injury. The personal accident insurance policy provides that, if at any time during the currency of this policy, the insured (person who has taken the policy) shall sustain any **bodily injury** resulting **solely and directly accident** caused by **external violent and visible means**, then the insurance company shall pay to the insured or his legal personal representative(s), as the case may be, the sum or sums set, forth, in the policy, if resulting in specified contingencies such as death, **permanentdisablement** etc.

To understand the meaning of definitions, we should understand the bold words mention in the Para above.

a) Bodily injury: Any disease due to accident is known as bodily injury but does not include any disease due to natural cause. Mental shock or grief does not amount to accident unless and until some physical injury is caused. In current scenario it is noticed that due to grief some disablement i.e. paralysis is taking place and the same is covered under this policy.

b) **Solely & Directly:** The bodily injury shall have been caused solely and directly by an accident and the bodily injury must directly and independent of any other cause result in death or disablement.

For eg:

1) A person is thrown from his horse while hunting and so injured that he cannot walk and he lies on the wet ground until he is pick up. He thus catches chill which turns pneumonia and dies. Though he dies because of pneumonia but the actual cause is an accident and it covered under personal accident insurance policy.

2) If a person breaks a leg in an accident and taken to hospital where he contracts an infectious disease from another patient which result in to death and the same is not covered under the personal accident insurance policy.

c) **Accident**: An accident is an event which is wholly unexpected not intended or designed. For eg: Snake biting, drowning suicide and unprovoked murder are covered under this policy.

d) **External, violent and visible means**: The cause of accident i.e. the means must be within the definitions as a whole but the result may not be external. In other wordsthe means or cause of accident must be within the definitions but the result or effect need not be external or visible so long as it is bodily injury e.g. injury may be internal i.e. inside the body but the result must be death or disablement.

e) **Disablement:** When a person is prevented by an accidental bodily injury from engaging in any occupation or business he is said to be disabled and his ability to attend to any occupation or business is call disablement.

FEATURES OF PERSONAL ACCIDENT INSURANCE CONTRACT

1) **Offer & Acceptance**: It is a prerequisite of any contract. Similarly the person will be insured under personal accident insurance policy after the offer is accepted by the insurance company. Example: A proposal submitted to the insurance company along with premium on 1/1/2011 but the insurance company accepted the proposal on 15/1/2011. The risk is covered from 15/1/2011 and any loss prior to this date will not be covered under fire insurance.

2) **Payment of premium:** An owner must ensure that the premium is paid well in advance so that the risk can be covered. If the payment is made through cheque and it is dishonoured then the coverage of risk will not exist. It is as per section 64VB of Insurance Act 1938. (Details under insurance legislation Module).

3) **Contract of Indemnity:** This principle is not applicable to personal accident policy. This is so because life is invaluable and no amount of money can compensate the death or disablement of a human being. When polices are issued to employer to reimburse under service conditions the amounts of compensation paid by them to their employees or their dependents on the disablement or the death of their employees i:e the insured are indemnified with the exact amount of compensation paid by them

4) **Claims:** To get the compensation under personal accident insurance the legal heirs should inform to the insurance company about the death of the insured and incase of disability the person himself can inform the insurance company.

COVERAGE'S /COMPENSATION

a) Death: If a person dies due to an accident the risk is covered under the personal accident policy. His legal heirs are entitled to get the sum insured. e.g. If the sum insured is Rs 1.00 lakhs and in case of death his legal heirs will get Rs 1.00 lakhs as compensation.

b) Disability: Disability can be classified further as follows:

- Permanent Total Disability (PTD)
- Permanent Partial Disability (PPD)

- Temporary Total Disability (TTD)

Permanent Total Disability: As the name indicates the disablement is of permanent and irrecoverable nature and is absolutely total and the insured is unable to engage in the gainful employment. Under this disability the compensation is equal to the sum insured. Example of PTD:

- Loss of sight of both eyes
- Loss by physical separation of two entire hands or entire feet
- Loss of one hand and one foot.
- Person in comma for longer period will also be treated as PTD

Permanent Partial Disability: The disability is not total but partial. e.g. Loss of toe or a finger. The compensation will be based on the percentage of the disability and it will defined in the policy and if it not defined then as per doctor certificate the compensation is paid.

Temporary total disablement: As the name implies this is a disablement which is total but for a temporary period only. The temporary may be days, weeks, months or even years. The payment is on weekly basis.

c) Carriage of dead body: The expenses incurred for a carriage of dead body of insured due to accident to place of residence are reimbursed. The reimbursement is some percentage of the sum insured say 2% of sum insured but maximum Rs 2500/-. This amount will be over &above the sum insured.

d) Education amount for children: Incase of death or permanent disablement of the insured person the insurance company also pays the education for two children if the age is below 25 years of those children.

e) Modification of the house: In case of the permanent disablement of a insured person, he has to modify his house for his free movement the expenditure of such modification will be reimbursed by the insurance company up to certain limit of the sum insured.

EXCLUSIONS (NOT COVERED UNDER PERSONALACCIDENT NSURANCE POLICY)

No compensation is payable in respect of death, injury or disablement of the insured

(i) From intentional self-injury, suicide or attempted suicide.

(ii) Whilst under the influence of intoxicating liquor or drug

(iii) Whilst engaging in Aviation or Ballooning whilst mounting into, dismounting from or traveling in any balloon or aircraft other than as passenger (fare paying or otherwise) in any duly licensed standard type of aircraft anywhere in the world

(iv) Directly or indirectly caused by venereal diseases or insanity

(v) Arising or resulting from the insured committing any breach of law with criminal intent.

(vi)From service in the armed forces

(vii) Resulting directly or indirectly from child birth or pregnancy.

PROCEDURE FOR INSURING UNDER PERSONALACCIDENT NSURANCE CONTRACT POLICY:

a) Submission of proposal form

b) Assessment of the proposal form and premium rate to be quoted

c) Payment of the premium

d) Issue of policy document

a) **Submission of proposal form-**. The person who is interested to insure himself under this policy will submit the information in the prescribed proposal form as follows:

i. Personal details i.e., age, height and weight, full description of occupation and average monthly income.

ii. Physical condition

iii. Habits and pastimes

iv. Other or previous insurances

v. Previous accidents or illness

vi. Selection of benefits and sum insured

vii. Declaration

b) Assessment of the proposal form and premium rate tobe quoted

While the assessing the proposal form the sum insured is selected by the insured but insurers exercise some control. The sum insured is compared with the average monthly income of the insured. The age of a person should be between 5ear to 70 years.

Rating In personal accident insurance, the rating factor used is the occupation. Generally speaking exposure to personal accidents at home, on the street etc. is the same for all persons, But the risks associated with occupation vary according to the nature of work performed. Forexample, an office manager is less exposed to risk at work than a civil engineer working at a site where a building is constructed. It is not practicable to fix a rate for each profession or occupation. Hence, occupations are classified into groups, each group reflecting, more or less, similar risk exposure.

Risk Group I: (Lowest Premium rate)

Accountants, Doctors, Lawyers, Architects, Consulting Engineers, Teachers, Bankers, Persons engaged in administration functions. Persons primarily engaged inoccupations of similar hazards.

Risk Group II: (Higher Premium rate)

Builders, Contractors and Engineers engaged in superintending functions only, Veterinary Doctors, paid drivers of motor cars and light motor vehicles and persons engaged in occupation of similar hazards and not engaged in manual labour. All persons engaged in manual labour (Except those falling under Group III), Cash Carrying Employees, Garage and

Motor Mechanics, Machine Operators, Drivers of trucks or Lorries and other heavy vehicles. Professional Athletes, and Sportsmen, Woodworking Machinists and Persons engaged in occupations of similar hazards.

Risk Group III: (Highest Premium Rate)

Persons working in underground mines, explosives, magazines, workers involved in electrical installation with high tension supply. Jockeys, Circus Personnel, Persons engaged in activities like racing on wheels or horseback, big game hunting, mountaineering, winter sports, skiing, ice hockey, ballooning, hang gliding, river rafting, polo and persons engaged in occupations/activities of similar hazard.

c) Payment of the premium: Based on the above risk category the person will pay the premium to insurance company to insure himself.

d) Issue of Policy Document: Based on the proposal form and the premium amount is received the policy document is issued which contains the following information

i) Name of the person and address

ii) Age

iii) Occupation

iv) Sum insured

v) Nominee

vi) Policy Conditions

a) Written notice of claims with full particulars. In case of death written notice must, unless reasonable cause is shown, be so given before internment or cremation, and in any case, within one calendar month after the death

b) In the event of loss of sight or amputation of limbs, written notice thereof must be given within one calendar month after such loss of sight or amputation.

c) Proof of claim satisfactory to the Company shall be furnished.

d) Any doctor on behalf of the company shall be allowed to examine the person of the Insured on the occasion of any alleged injury or disablement and as may reasonably be required.

e) A post mortem examination report, if necessary, be furnished within the space of fourteen days after demand in writing.

f) In the event of loss of sight the Insured shall undergo at the Insured's expense such operation or treatment as the company may reasonably deem desirable.

g) No sum payable under this policy shall carry interest.

h) No claim is payable if the claim is fraudulent or supported by fraudulent statement.

i) The insured shall give immediate notice to the company of any change in his business or occupation. The insured shall on tendering any premium of the renewal of this policy give notice in writing to the company of any disease, physical defect or infirmity with which he has become affected since the payment of last preceding premium.

j) The policy is cancellable by either party. Pro-rata refund of premium is made if cancelled by insurers and short period refund of premium, subject to no claim under the policy, if cancelled by the insured.

k) The Company shall not be bound to take notice or be affected by any notice of any trust, charge, lien, assignment or other dealing with or relating to this policy but the receipt of the Insured or his legal personal representatives shall in all cases be an effective discharge to the Company.

l) The Company treats the insured as the absolute owner of the policy. Receipt of the insured or his legal personal representatives that is, those with a Succession Certificate etc. granted by a court of law will be an effective discharge to the Company.

m) Differences regarding amount of loss (not question of liability) are to be referred to arbitration. The award of arbitration is a precedent to suit in Court of Law.

n) If the insurers disclaim liability the insured has to file a suit in a Court of Law within 12 months from the date of such disclaimer.

o) The insurer is not liable for

(a) Compensation under more than one of causes (death or disability)

(b) Once a claim is settled under one of the causes the policy becomes inoperative. No further claim can be admitted under the policy.

(c) Payment of weekly compensation (until the total amount shall have been ascertained andagreed).Although, the benefit is known as weekly compensation the payment is generally made in one lump sum after the quantum of liability is agreed. It is felt that periodical part payments may encourage a claimant to deliberately prolong the disablement. In genuine hardship cases however 'on account' payment is made which is then adjusted against the final payment due.

Conclusion

Overall we see that domestic insurance companies have a huge edge over foreign insurance companies, be it, their revenue,no.of policies ,market shares but foreign insurance companies are catching up with their number of branches and they are very serious about their grievance handling as suggested by the data. Therefore, we conclude that though domestic companies have an edge over foreign companies but foreign companies are fighting tooth and nails to make their place in the market and to provide customer with the best services possible.

They need to increase their no. of policies so as to increase their revenue and market position.
They need to be more adaptable to the Indian market and should make policies keeping in mind the need of all the citizens.

Opening of 100% FDI is going to be one major cause driving the Indian Insurance Spearhead as some major investments will be done by the foreign companies. They would most definitely increase their stakes as well as shares and Indian markets show a very promising future and CAGR.

New Distribution channels have widened the reach and reduced the costs also firms have tied up with NGOs to widen their reach.

The number of premiums in both Life Insurance and Non-Life Insurance are increasing day by day al thanks to consumers being more aware and buying more policies and products.

Recently the Life Insurance sectors have launched innovative plans like ULIPs for expanding their business.

Despite its inherent advantages and growing market potential, its share in the GDP and world insurance market has been negligible. Issues like under market penetration, inaccessible rural areas, over concentration in urban areas, inadequate insurance cover, lack of clarity in claim settlement policies, etc. still beset the sector. Further, miss-selling of products, lack of customer's knowledge about the product, agent's commission and regulatory hurdles are still a cause of concern, which has kept the majority of people away from the insurance. Contrary to popular belief that the private and foreign players have brought in new technology, professionalism and augmented the sector, it is believed that the entry of these players has only increased the distrust among the general public and the gap has become more glaring after the global financial crisis of 2008-09.

Various studies show that no significant change has occurred as far as mobilizing the national savings by the insurance sector is concerned. According to RBI data, there is upward trend in the business but no structural change in the trend of the savings in life insurance by the households to GDP ratio. This can be interpreted that the inflow of foreign capital has not been accompanied by any technological innovation in the insurance business, which would have created greater dynamism in savings mobilization. Further, far from expanding the market for the insurance sector in rural and semi-urban areas, private companies is more concentrated in urban areas where good market network, created by public sector companies, and already existed. This is corroborated by the public sector company's agent's ratio of 100:76 in urban and rural India as compared to the private insurance company's ratio of 100:1.4 respectively (IRDA Annual Report, 2002-03 and 2013- 14). So, the liberalization has not contributed to the expansion of the insurance base of the economy. So far as the innovative products and the induction of new technology is concerned, private players have offered nothing as the mortality rates and other principles of insurance are based on the Indian conditions for Indian policyholders and, in most cases, renamed LIC products are sold by the private insurance companies as their own products. What they have really succeeded in selling is the ULIPs that have not really resulted in improving the social and physical infrastructure of the country.

Because of the increase in FDI cap, there will be lot of opportunities for present insurers, existing Joint Venture (JV) partners in India as they can increase their stake. Apart from it, it will be attractive for those new entrants interested in entering the Indian market

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