INSURANCE MANAGEMENT

PART – A - 2 MARK QUESTIONS

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1. What is meant by Insurance?

In Legal sense, Insurance is "a contract under which the insurer, in consideration of a sum of money paid by the insured, **agrees to make good the loss** suffered by the insured against a specified risk for which insurance is effected, or to pay a preferred sum to the insured or to his beneficiaries on happening of a specified event'.
The primary motive of insurance is to create a hedge against the risks associated with financial losses. An insurance policy helps to maintain economic sustainability. That is, it tries to bring a person back to the same position, financially, as he/she /they were before the loss.

2. Define Insurance.

   According to Justice Tindal, "Insurance is a contract in which a sum of money is paid by the insured in consideration of the insurer's incurring the risk of paying a large sum upon a given contingency".

3. Meaning of Life Assurance or Life Insurance.

   Life Assurance or Life Insurance is a contract by which the assurer or insurer, in return for a consideration, called the premium, agrees to pay to the assured or insured or his dependents a certain sum of money either on death of the assured or on expiry of a certain period whichever is earlier.

4. Whole Life Policy or Ordinary Life Policy.
   - This is a policy under which the sum assured will be paid only after the death of the assured/insured.
   - The sum assured will be paid to the dependents of the assured.
   - The assured is required to pay premium till his death.
   - Generally, the premium for Whole Life Policy is lower than that of an Endowment policy.

5. Endowment Policy.

- This is a policy under which the sum assured becomes payable either on expiry of a fixed period or after the death of the assured/insured whichever is earlier.
- The sum assured will be paid to the assured, if he survives after the fixed period or to his dependents, if his death occurs earlier.
- An endowment policy may be
  (a) with profit policy or participating policy or
  (b) without profit policy or non-participating policy

6. Joint Life policy.

   This is a type of policy taken upon joint lives of two or more persons. The amount of this policy can be claimed by the survivor, whenever one of them dies.

7. Group insurance Policy.

- This is a type of policy taken on lives a group of persons, say, the members of a family or on lives of employees of a business.

Group insurance is **a type of insurance plan that covers a number of people in the same contract**. Such a plan provides the same level of insurance coverage to all members of a group irrespective of their age, gender, occupation or socio-economic status.

8. Surrender Value :

- It refers to the amount of money which the insurer agrees to pay, in case the assured decides to surrender his policy before its maturity. Surrender of a policy indicates termination of the contract of Insurance. The amount of surrender value is calculated on the basis of actual premium paid and number of years the policy has been alive. Surrender Value increases with each payment of premium.
- The terms and conditions for surrendering a policy differ with different insurers.
- According to LIC of India, a policy acquires surrender value only after payment of two or three year’s premium.

9. Paid Up Value :
    - If a policy holder discontinues payment of premium **after at least two years premiums have been paid** and subsequent premium is not paid,
    - the policy does not become void, but
    - continues as a paid up policy.
    - The Policy with this reduced amount is called “Paid up Policy”.

10. **ACTUARY :**
    A qualified statistician and mathematician who carry out research in order to effectively calculate risks and premiums related to insurance and are also involved in the preparation of regulatory documentation required to be furnished to IRDA.

11. **ASSIGNMENT :**
    - Transfer of a person's interest in an insurance policy to another person in the legal sense, is called assignment.
    - **Interest in a life insurance policy can be transferred from the policyholder to a lender or relative by assignment of policy**. Here the policyholder is known as the assignor and the person in whose favour the policy has been assigned is called assignee.

12. Nomination :
    - Nomination is **the process of determining one person or persons who will receive the benefits from the life insurance policies in the event of death of the insured before the maturity period**.
    - The nominee in life insurance can be anyone, per the policyholder's choice.
    - In general, the nominee in insurance is a close relative of the insured.

13. What is General insurance?

Insurance contracts that do not come under the ambit of life insurance are called general insurance. The different forms of general insurance are fire, marine, motor, accident and other miscellaneous non-life insurance.

14. Marine Insurance.
    Marine Insurance is a contract of insurance under which the insurer undertakes to indemnify the insured against losses incidental to marine

adventure. It may cover loss or damage to the ship, cargo, freight, vessels or any other subject of a marine adventure.

15. Fire Insurance.
   Fire Insurance is a contract of agreement between the insurer and the insured whereby the insurer undertakes to indemnify the insured for destruction or damage to property caused by fire, during an agreed period of time, in return for payment of a premium in lump sum or by instalments.

16. Motor Vehicle Insurance.
   In Motor Insurance, the owner’s liability to compensate the people who were killed or injured through the negligence of the motorists or drivers is passed on to the insurance company. The motorists also had to bear the loss of damage to their vehicles.

   - The motor insurance covers accidental loss of or damages to any motorised vehicle used on public roads. There are **two types of covers** available :

   a) **Compulsory Insurance** for liability to third parties because of using vehicle and
   b) A package that covers damage to the vehicle itself in addition to the third party liability.

   - The Motor Insurance also **covers the under mentioned risks by collecting extra premium** from the insured :
     a) Fire b) Theft and burglary c) Strike, Riots and civil commotions

   c) Legal liability towards persons employed for operation, maintenance, loading and unloading of vehicles and e) death or injury to any members of family who travelled.

17. Crop Insurance :
   - Crop Insurance is a contract to provide measure of financial support to farmers in the event of crop failure due to drought or flood or other natural calamities.
   - This insurance covers all risks of loss or damage relating to production of Rice, wheat, Millets, Oil Seeds and pulses etc.
   - Seven commercial/horticultural crops namely sugarcane, potato, cotton, ginger, onion, turmeric and chillies can also be covered by crop insurance.

- Crop insurance was introduced in India during 1985-86.
- The GIC (General Insurance Corporation) has been entrusted with the task of administering this scheme on behalf of the Government.
- The scheme is carried out in areas as defined through a notification by the Union Ministry of Agriculture.

18. Burglary Insurance :

- A burglary insurance policy is **a type of crime insurance that covers losses resulting from burglary**.
- Burglary refers to when someone uses force to unlawfully enter someone else's property - even if they did not steal anything in the end.
- A Burglary policy provides protection against loss or damage caused by theft, larceny, burglary, housebreaking and acts of such nature.

19. Difference between Theft insurance and Burglary insurance.

Theft insurance is an insurance policy that protects against burglary, robbery and other. This insurance compensates the insured from loss incurred due to theft. **While theft includes all acts of stealing, burglary refers to illegally taking someone else's property by forcibly entering a closed premise**.

20. Health Insurance

- Purpose: To meet both expected and unexpected health care expenses, including routine visits, medications, emergency stays, and serious surgeries — can add up quickly and cause a lot of debt for those who can't afford the out-of-pocket costs.

- Everyone needs it.

- **What it is**: Health insurance is a contract between a health insurer and a policy holder that requires the health insurer to pay for all or at least a portion of medical costs.

21. An insurance premium is **the amount of money an individual or business pays for an insurance policy**. Insurance premiums are paid for policies that cover healthcare, auto, home, and life insurance.
   - Failure to pay the premium on the part of the individual or the business may result in the cancellation of the policy and a loss of coverage.
   - Some premiums are paid quarterly, monthly, or semi-annually depending on the policy.

22. Insurable Interest :

- Insurable interest means that the person opting for insurance must have pecuniary interest in the property he is going to get insured and will suffer financial loss on occurrence of the insured event.
- It is the interest of the insured in the subject matter of insurance.
- The subject matter of insurance may be a property or life or legal liability.

23. Principle of utmost good faith or uberrimae fidei :

- It means that the parties to the contract must make a full disclosure of all the material facts and information relating to the contract.
- Material fact is a fact which would influence the mind of a prudent underwriter in deciding whether to accept a risk for insurance and on what terms.

24. Principle of Indemnity.

- The term “Indemnity” means “making up the loss” or “security against damage or loss or compensation for loss”.
- All contracts of insurance **except life, personal accident insurance and sickness insurance** are contracts of indemnity.

- According to this principle, the **insured should be placed in the same financial position,** as for as possible, after a loss as he occupied immediately before its occurrence.
- The insured will be neither gain nor lose.

25. Principle of Contribution.

- This principle applies where there is **more than one policy covering the same subject matter** against the **same peril** for the **same period** and for the **same insured.**
- In such cases, the insured can make claims under all policies with different insurers and recover pro-rata from each.
- Contribution is the right of an insurer who has paid a loss under a policy to recover a proportionate amount from other insurers who are liable for the same loss.

26. Principle of Subrogation.

- This principle is supplement to the principle of indemnity.
- Subrogation means inheriting the rights available to an individual.
- **The insurer** (after making good the loss to the insured) **is entitled to all the rights of the insured against third party** as regards the subject matter of the insurance.
- The "Doctrine of Subrogation" works when the right of the insured over the subject matter of the insurance is transferred to the insurer, by way of this inheritance.

27. Principle of "Causa Proxima".

- "Causa Proxima" means that proximate (nearest) cause and not the remote one is to be considered at the time of determining the liability of the insurer.

- The Insurer is not liable for a remote cause even if it is one of the insured perils.
- If the immediate cause is an insured risk for the occurrence of which the insured is to be paid, the insurer is liable to make the payment of loss under the policy or otherwise.

28. When were IRDA created and what is its purpose?

- IRDA (**I**nsurance **R**egulatory and **D**evelopment **A**uthority of India) was created in 1999 by passing an act called IRDA act, 1999.
- IRDA is the apex authority created through law to regulate the insurance business in India.
- **It is a tool to check the accounting and reporting system of insurers.**
- The act has made it mandatory to present systematic formats for submitting the accounts of insurance companies.

29. Composition of IRDA.

IRDA shall have

(a) a Chairman

(b) Not more than five whole-time members and

(c) Not more than four part-time members, appointed by the Government of India.

30. Who is an Insurance Agent?

The Insurance Act, 1938 defines “Insurance Agent” as insurance agent licensed under Section 42 being an individual who receives or agrees to receive payment by way of commission or other remuneration in consideration of his soliciting or procuring insurance business including business relating to the continuance, renewal or revival of policies of Insurance.