Biyani's Think Tank

Concept based notes

Risk and Insurance

(B.B.A. Part-III)

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Preface

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concepts of the topics. The book is self-explanatory and adopts the "Teach Yourself" style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the readers for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chairman* & Dr. Sanjay Biyani, *Director* (*Acad.*) Biyani Group of Colleges, who are the backbones and main concept provider and also have been constant source of motivation throughout this Endeavour. They played an active role in coordinating the various stages of this Endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

Syllabus

Code 402 : Practical Aspects of Risk & Insurance Management

Unit I **Principles of Insurance :** Insurable Interest, Utmost good faith, Warranties, Causa Proxima, Subrogation.

Unit II **Types of Insurance Contract :** Essential Elements of Insurance Contract. Difference between general Contract and Contract of Insurance, Life Insurance contract, Insurance policy : under insurance, over insurance and reinsurance.

Unit III **Life Insurance Agents :** Meaning of an Agent, Appointment of an Agent, Essential Qualities of an Ideal insurance agent, Pre-requisites of a Successful Agent.

Unit IV **Calculation of Premium and Settlement of Claims in Life Insurance :** Basis of Premium, Calculation. Settlement of Claims by death, by maturity and other Claims.

Unit V **Insurance Act, 1938 (Main Provisions only) :** IRDA Act, 1999.

Unit-1

Principles of Insurance Contract

Q.1 What do you mean by Insurance?

Ans. Insurance means a social device to reduce or eliminate risk of loss to life and property. It is a provision which a prudent man makes against inevitable contingencies, loss or misfortunes.

Q.2 Define policy?

Ans. The document which contains the terms and conditions of the insurance control and issued by the insurer is known as insurance policy.

Q.3 What are the tax benefits available under insurance policies.

Ans. According to section 88 of the Income tax act, tax rebate is available on the insurance premium amount given to life insurance Corporation for the life insurance cover.

Q.4 Define Assurance?

Ans. Assurance is an earlier term and was used till the end of the sixteenth century in connection with all for most insurances either marine, fire and other miscellaneous risk. But from the year 1826 the term assurance was properly applied to life insurance business only.

Q.5 What are the characteristics of Insurance?

Ans. These are the characteristics of Insurance :

1. There must be two parties in an Insurance.
2. Insurance is an arrangement of compensation.

3. It Provides security against uncertain losses.
4. Monetary measurement of risk .
5. Based on premium.
6. Insured person transfers his probable risk to the insurer.
7. Insurance is based on co-operation.
8. Insurance is based on mutual good faith.
9. Insurance is different from gambling.
10. Success of insurance depends upon the large number of assured person.

Q.6 What are the social and economic advantages of insurance.

Ans.

1. It provides stable standard of living.
2. It prevents disintegration of family units.
3. Optimum allocation of factors of production.
4. Creation of challenge seekers society.
5. Insurance is the basis of credit.
6. It is a method of saving.
7. Rationalization of expenditures.
8. Rebate in taxes.
9. Helpful in the creation of prosperous society.
10. Extension of social amenities.
11. More opportunities can be available.

Q7 .Why insurance is not a gambling?

Ans-Gambling is illegal which gives gain to one party and losses to other while insurance is a valid contract to indemnity against losses so insurance is not a gambling.

Q8-.Why in Assurance there exist element of investment?

Ans-The element of investment is present in assurance since there is certainity of receiving payment either on death or on maturity of the policy.

Q9.what is gambling?

Ans-Gambling is an agreement under which both parties mutually agree to pay money or money's worth to another on happening or non happening of some uncertain specified event.

Q10.insurance is an co-operative device.Explain

Ans- In insurance,there is a common fund which is created by the contributions of a large number of people. When the loss event happen with any one ,he is compensated from the fund.So Insurance is an co-operative devie.

Q11-Write the primary objectives of insurane?

Ans-Primary objective of insurance are following-

- The primary objective of insurance is to provide protection against future risk,accidents and uncertainity.
- Insurance is collective bearing of risk.
- Insurance determine the probable volume of risk by evaluating factors that gives rise to risk.
- Insurance distribute the risk.

Q12- Insurance is an investment comment.
Ans-In insurance specially in life insurance there is certainty of receiving payment either on death or on maturity of the policy and there is option for the investment of that money.

Q.14 What are morale Hazards?

Ans. Moral hazards are the outcome of nature and behavior of a person. Carelessness, dishonesty, negligence or insanity, lack of proper education social and economic structure of the society etc. are the moral hazards. It becomes difficult to identify these factors in a person since these are of changing nature. Morality is the basis of moral hazards when a person behaves below the level of ethical standards, moral hazards take place.

Q.15 What are the requirements of an insurable risk.

Ans. The requirements of insurable risks are:

1. There must be a large no of exposure units.
2. The loss must be accidental and unintentional.
3. The loss must be determinable and measurable.
4. The change of loss must be calculable.
5. The premium must be economically feasible.

Q.16 What are the basic principles of Insurance?

Ans. The basic principles of insurance are:

1. Principle of cooperation
2. Principle of probability
3. Principle of utmost good faith
4. Principle of warranties
5. Principle of insurable interest
6. Principle of Indemnity
7. Principle of subrogation
8. Principle of contribution
9. Principle of mitigation of losses
10. Principle of proximate cause /causa proxima

Q.17 Write down the need of insurable interest.

Ans. The need of insurable interest is:

1. **Basis of legality of Insurance:** Insurable interest is the basis of legality of Insurance contracts, in the absence of insurance interest the insurance contract becomes void and such void contracts are considered as contract against public interest/policy.

2. **Prevention of speculation:** In the absence of insurable interest, and property or individual is insured, Insurance business becomes a speculative activity when the principle of Insurance Interest is made essential no one can be insured without presence of insurable interest.

3. **Security to the property and life of other:** If the principle of insurable interest is not made essential for any insurance contract, any one can insure the life or property of anyone this way the risk is increased against the property as well as life.

Q.18 What are the types of principal of warranties?

Ans. They can be classified in the following parts:-

1. Promissory warranties
2. Affirmative warranties
3. expressed warranties
4. Implied warranties

Q.19 Why insurance come in the category of contracts?

Ans Insurance come in the category of contract because it is an agreement between the two parties which has legal enforceability.

Q20-Define the principle of utmost good faith.

Ans The principle of utmost good faith means to disclose all the important facts and information by the person getting insured and insurer to each other.

Q21-Define the principle of the Doctrine of cause proxima.

Ans The principle of the Doctrine of cause proxima says that if there are many reasons to cause damage to the insured subject then,the closest cause is to be considered rather than those cause which are remote, immaterial or secondary than primary.

Q22-What are the essential elements under the Indian Contract Act,1872?

Ans-

1) Proposal and acceptance
2) Competence to make contract
3) Free consent
4) Lawful objectives
5) Lawful consideration

Q23- What is the cooperative principle of insurance?

Ans-One for all and all for one.

Q24-**What are the methods of ascertaing the probability of any future event?**

Ans- The two methods are following-

1. **Analysis of past data**- The data relating the past event are collected and analysed to find the probability of future event.
2. **Statistical method**-Data is converted in tabular form and formulas of statistics are applied to find the probability of future event.

Q25-Explain the presence of Insurable interest in fire insurance.

Ans-In fire insurance the insurable interest must be present at both the times when the policy is taken and also at the time of happening of the event to claim the loss from the insurer.

Q26-Explain the principle of contribution.

Ans- Principle of contribution ensures equitable distribution of losses between different insurers.A policyholder is not entitled to claim from each insurer more than rateable proportion of the loss to which one is liable.

Q27-Explain the principle of mitigation of loss.

Ans-This principle says that the insured be more careful to protect the subject matter from any possible loss.If he fails to act in such a manner , the insurer can avoid claim of the insured, on the ground negligenence on the part of insured.

Key words-

Insured: The party or the individual who seeks protection against a specific risk and entitled to receive payment from the insurer in the event of happening of stated event,is known as insured.

Insurere:The party which promises to pay indemnity the insured on the happening of any contingency is known as insurer.

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.

Insured sum: The sum for which the risk is insured is called the insured sum.

Chances of loss: It is the probable number of times in any given number of exposures that loss will occur.

Policies-policies are those in which insurer promises to reimburse the insured for losses suffered during the term of the agreement.

Beneficiary-The one who receives the insurance proceeds when death occurs.

Objective risk- Objective risk is the relative variation of actual loss from expected loss.

Subjective risk-Subjective risk is uncertainty based on a person's mental condition or state of mind.

Hazard-Hazard is a condition that increases the chance of loss to the subject of insurance,or increases the uncertainty of losses.

Agreement - When two parties are mutually agreed on a particular subject it is called an agreement.

Insurance – Insurance is a tool to spread the loss caused by a particular risk over a number of person who are exposed to and who agree to ensure themselves against the risk.

Risk – Risk is uncertainty of financial loss.

Warranty - The insured's guarantee that the facts are as stated in reference to an insurance risk or that specified conditions will be fulfilled to keep the contract effective.

Proximate cause-The direct cause of loss; exist if there is an unbroken chain of events leading from one act to a resulting injury or loss.

Remote cause-The cause that put no effect on the happening of losses, known as remote cause.

Subrogation – Subrogation means to take place of another.

Multiple Choice Question

Q1-The oldest form of insurance is

a)Marine insurance   b)Fire insurance

c)Life insurance   d)Unemployment insurance

Q2-Fire insurance has its origin in

a)India   b)Japan

c)Germany   d)Australiya

Q3-Life insurance act came in

a)1987   b)1967

c)1956   d)1950

Q4-The first Marine insurance company in India

a)ICICI   b)LIC

c)ING VYASA   d)Sun insurance office LTD.

Q5-.Moyto Tobacco Company is concerned that the company may be held liable in a court of law and forced to pay a large damage award. The characteristics of the judicial system that increase the frequency and severity of losses is known as

(a) moral hazard.
(b) particular risk
(c) speculative risk
(d) legal hazard.

Q6- .Priya was just named Risk Manager of XYZ Company. She has decided to create a risk management program which considers all of the risks faced by XYZ—pure, speculative, operational, and strategic—in a single risk management program. Such a program is called a(n)

A)financial risk management program.
B)enterprise risk management program.
C)fundamental risk management program.
D)consequential risk management program.

Q7-Which of the following statements about speculative risks is true?

a)They are almost always insurable by private insurers.
b)They are more easily predictable than pure risks.
c)Their occurrence may benefit society.
d)They involve only a chance of loss.

Q8)Which of the following types of risks best meets the requirements for being insurable by private insurers?

(a) market risks
(b) property risks
(c) financial risks
(d) political risks

Q9)All of the following are social costs associated with insurance EXCEPT

(a) the expense of doing business.
(b) fraudulent claims.
(c) inflated claims.
(d) increased cost of capital

Q10-Warranties which have been expressed clearly by the assured regarding the insurance subject in the insurance proposal form -

A)Promissory Warranties B)Affirmative Warranties

C)Expressed Warranti D)Implied Warranties

Q11-Warranties which are not essential to be disclosed in the documents relating to insurance –

A)Promissory Warranties B)Affirmative Warranties

C)Expressed Warranties D)Implied Warranties

Q12-A truck hits A's scooter,then insurance company willcompensate the owner of the scooter,but afterwords,the company will have the right to get the amount of compensation from truck owner.This comes under the principle of-

A)Principle of cooperation B) Principle of probability

C) Principle of indemnity D) Principle of subrogation

Q13-According to which principle the insured may not collect more than the actual loss in the event of damage caused by an insured peril-

A)Principle of cooperation B) Principle of probability

C) Principle of indemnity D) Principle of subrogation

Q14-The insured may warrant that the ship will continue to sail convoy comes under

A)Promissory Warranties B)Affirmative Warranties

C)Expressed Warranties D)Implied Warranties

Case study

CASE -1

Arun and Ashok, two universtiy friends, have just purchased a small pie manufacutring business. The business currently employs one full -time pastry chef, one kitchen hand, one part-time driver and two shop assistants. Arun will assist in the manufacuring side of the business while Ashok will act as manager. They are planning to employ an apprentice chef. They have each borrowd Rs2,00,000 to purchase the business.

In addition, they have borrowed Rs 1,00,000 to help them with cash flow until the business is able to generate enough income to cover all its expenses.

They are leasing the premises, but eventually want to purchase some premises and their delivery vans. As the business graows they would like to increase this to four or more vans.

Both Arun and Ashok have sufficient personal life insurance. However, they are concerned that they may not have adequate insurance to cover their exposure to the business in the event that either of them is no longer be able to participate in the business.
They have come to you for advice

a) Suggest the type of life insurance they should take out to cover the business in the event that either or both were unable to participate in the business. Give an explanation of each product you recommend and justifications for your recommendations.where appropriate.

b) Suggest the types of general insurance they should take out to cover their new business. provide an explanation of each product you recommend and the reason for your recommendations.

Case-2

Anuradha is 35 years old, married, and lives with her husband Ashok and one year-old child Piyush in their three bedroom inner-city unit. There is no mortgage on the unit; it is fully paid off. Her husband is studying part-time, and when not studying he looks after their child.

Anuradha's 65 year-old mother looks after the child when the husband is busy in the study.Anuradha is employed as a senior accountant earning Rs 5,00,000p.a. plus an annual bonus, which is dependant on the revenue she brings into her firm.Last year she was offered a 10% equity stake in the business for Rs2,00,000; she borrowed the full amount to buy the shares.
Her employer provides her with basic term life and TPD cover at 1.5 times her base salary. This is provided through the employer-funded superannuation fund.

Anuradha gives her mother an allowance of Rs 6,000 per month and plans to continue to assist her mother in this way until she passes away.Her other main expenses are commitments on a two-bedroom unit in the inner city and household expenses of Rs 20,000 per month. Her annual household expenses are Rs4,00,000. Simone has no other debts.

a)Being adviser of Anuradha, outline the recommendations you would make to her regarding life insurance and general insurance needs. Provide a brief explanation of each insurance you recommend, the amount of cover and your reasons for these recommendations.

Types of Insurance Contracts

Q.1 What is underwriting in insurance?

Ans. Underwriting includes, the total no. of insurance proposals issued by an insurance company but right from the origin of Insurance, Underwriting includes the working through adoption of total Burdon by underwriters after analyzing the risk of insurance.

Q.2. What are the various types of Insurance contracts on the basis of risk

Ans. Insurance can be classified into four categories on the basis of risk.

1. Personal Insurance
2. Property Insurance
3. Liability Insurance
4. Fidelity guarantee insurance

Q.3 What are the legal requirement of an insurance contract?

Ans. The legal requirement of an insurance contract is same as the contract under contract act.

1. Offer and acceptance
2. Consideration

3. Competent parties
4. Legal purpose
5. Certainty of contract
6. Legel binding force

Q.4 What is unilateral contract?

Ans. A unilateral contract means that only one party makes a legally enforceable promise in this case only the insurer makes a legally enforceable promise to pay a claim or provide other services to the insured.

Q.5 What is reinsurance?

Ans. Reinsurance is such an arrangement under which insurer transfers one part of incurred or probable risks mentioned in insurance contract to another insurance company.

Q.6 What is over insurance?

Ans. Over insurance means to insure excess amount for the insurance subject than its insurable interest or actual value or to get insurance of the subject more than its actual value is called over insurance .

Q.7 State the types of insurance contracts.

Ans. Types of insurance contracts are:

1. **Life Contracts**
    (i) Life Insurance
    (ii) Personal Accident Insurance
2. **Indemnity contracts**
    (i) Marine insurance
    (ii) Fire Insurance
    (iii) Accident insurance
    (iv) Liability insurance

(v) Property insurance
(vi) Crop insurance

Q.8 What is under insurance?

Ans. It means to have insurance by the assured less than the actual value of the insured subject or under insurance is the adverse arrangement of over insurance.

Q. 9 What is double insurance?

Ans. Double insurance means to get insurance of the prospective subject twice its actual value by the assured or when the assured takes more than one insurance policy for the same subject then , it is called double insurance.

Q.10 What are the methods of reinsurance?

Ans. There are two kinds of reinsurance companies first type of companies are mixed companies which do insurance as well as reinsurance and the second type of companies do only reinsurance work. These reinsurance companies normally do the reinsurance business on the basis of the following methods:

1. Facultative methods: In this method the insurer sends a brief information of risk to the reinsurer against which he wants to get reinsured.
2. Treaty methods: In this method, reinsurance is automatically done on the basis of contract between the original insurer and reinsurer.

Types of Treaties

1. **Proportional Treaties**
   (i) Quota share treaty

(ii) Surplus treaties

2. Non Proportional Treaties

(i) Excess of loss treaty

(ii) Excess of loss ration treaty

3. Pooling system

1. **Proportional treaties:** There is a contract between the original insurer and various reinsurance companies that they will manage compulsory reinsurance of the total amount of insurance collectively on the basis of predicated proportion.

(i) **Quota share treaty -** In this method on the basis of contract it is decided between the insurer and reinsurer that up to the amount original insurer will do the insurance business. It will have to get reinsured at least one decided part of it with the reinsurer.

(ii) **Surplus treaty**: The original insurer and reinsurer decide minimum limit of the reinsurer decide minimum limit of the insured sum for which reinsurance will not be effective.

2 Non proportional treaties:

(i) Excess of loss treaty: There is a contract between insurer and reinsurer that excess amount of compensation borne by the insurer within a specific time period, reinsurer will bear the liability of excess amount of compensation.

(ii) **Excess of loss ration treaty:** The reinsurer bears the responsibility regarding excess losses of the original insurer within a certain time period.

3. **Pooling system:** There is an agreement among different insurers that they will surrender all their insurance business to a pool thus pooling system is an ideal arrangement of pre-organised reinsurance among different insurers.

Q.12 What is reinsurance?

Ans. Re-insurance in a contract between two or more insurance companies by which a portion of risk or loss is transferred to another insurance company thus insurance companies adopt reinsurance as their safety measure.

Q.13 What do you understand by treaty methods.

Ans. It is an informal agreement between two insurer under which the insurer agrees to reinsure risk written by the other insurance company subject to the terms and conditions of the treaty and within the prescribed time limit.

Q.14 What do you mean by assignment?

Ans. Assignment means to delegate the rights of the assured to any other person whose name is included in the insurance policy. Once the insurance policy has been assigned ,assignee gets all the rights of the assured.

Q.**15 What is nomination??**

Ans. Nomination is made in the life contracts in making a nomination the assured nominates any person and the nominate person has the right to get the amount of life insurance policy after the death of the assured person. Itis important here that nominated person neither gets the insured sum during life time of assured person nor any other benefits from the insurance policy.

Q.16 What is group insurance?

Ans. Group insurance is an insurance which is meant for a group of persons without medical checkup through the master insurance policy.

Q.17 What are the methods of indemnity?

Ans. The methods of indemnities are as follows:-

(i) **Cash payment** - This is the most popular method of setting claims.

(ii) **Replacement:** In case the insurance company prefers to replace the article itself rather than make cash payment of claims when the insured also so prefers.

(iii) **Repairing :** Repairing of the articles to the satisfaction of the insured who constitutes an indemnity.

(iv) **Re-installment:** This practice is following in fire insurance terms or insurance contract. The premise of the building lost fire is reconstructed.

Q.18 Write down the merits of facultative method?

Ans. Merits of facultative methods:

1. There is no restriction on reinsurance.
2. This method is flexible the facility to make reinsurance is based on the circumstance of case.
3. This method can be adopted even in emergency situation.
4. This makes the original insured vigilant and makes an arrangement for reinsurance before the insurance is made. In case no insurance is available, he may refuse to accept any proposal involving heavy risks.

Q.19 What is miscellaneous insurance business.

Ans. Miscellaneous insurance business is further divide into following parts:

1. Cattle insurance
2. Motor insurance
3. workmen's compensation insurance
4. Burglary insurance
5. Group/Personal accidents and sickness insurance
6. Motor cycle/scooter insurance
7. Machinery insurance
8. Fidelity guarantee insurance
9. Money in transit insurance
10. Satellite insurance

Q.20 Write down the characteristics of Reinsurance?

Ans. Characteristics of reinsurance are:

1. Reinsurance is possible in all types of insurance.
2. The original insurer can not do reinsurance more than the insurance sum.
3. Reinsurance is a contract of indemnity.
4. Reinsurance does not affect the right of insured.
5. It is insurance contract between two insurance companies.

Q.21 What are the importance of life insurance corporation?

Ans. The importance of life Insurance may be divided into four parts :-

1. Advantages to insured :
   - A. Family protection
   - B. Provision for education , marriage , housing etc.
   - C. Provision for old age
   - D. Encourage to thrift
   - E. Combination of protection and investment element
   - F. Increase in credit
   - G. Tax relief
   - H. Cash estate
   - I. Protection against creditors

2. Advantages to industry and trade :
   - A. Provision for loan
   - B. Facility to capital
   - C. Insurance by partners
   - D. Group insurance
   - E. Security of loans
   - F. Insurance of key personnel

3. Advantages to society and government :
   - A. Industrial development
   - B. Provision of providing resources to the govt. for economic development
   - C. Self dependence
   - D. Reduction in unemployment problems
   - E. Social satisfaction

4. Other advantages :
   - A. Peace of mind
   - B. Efficiency
   - C. Defeat of time

Q.22 **What is group life Insurance** ?

Ans. Group life insurance is an insurance which is meant for a group of persons without medical check up through the master insurance policy. The main characteristics of group life insurance are as follows:-

1. for group life insurance only one insurance policy is issued as a symbol of contract
2. Group insurance is similar to social security and provides many facilities and tax reduction
3. A minimum number is required for group life insurance
4. The rate of premium of group life insurance are changed from time to time
5. This type of insurance is done with the organization unit
6. No need of individual contribution

Q.23 **What is Endowment life policy** ?

Ans. The payment of insurance amount in endowment life policy is made after a certain time period for which insurance has been made or to the dependents , if assured dies within this certain time duration. The decided period is known as endowment period and payment eligible for claim is known as maturity amount.

Q.24 **What are the causes of nationalization of life insurance?**

Ans. At the time of nationalization Finance minister of the govt. of India Shri C.D.Deshmukh had presented following arguments in favors of nationalization of life insurance:

1. Means of collection of saving
2. Wind up of insurance companies due to mismanagement
3. Fraud in investment
4. Safety of interest of insurance policy holder

Q.25 **What is the annual report of insurance corporation** ?

Ans. Life Insurance corporation will communicate a report to the central govt. at the end of every financial year. This report will be in the prescribed format and this will also include the description of different activities to be done in the next year.

Q.26 What do you understand by treaty method ?

Ans. It is an informal agreement between two investment under which the reinsurer

Agrees to reinsure's risks written by the other insurance company subject to the terms and conditions of the treaty and within the prescribed time limit.

Q27-What do you mean by contract of indemnity?

Ans - A contract by which one party promises to save the other from loss caused to him by the conduct of the promisor himself or by any other person, is called a contract of indemnity.

Q28-What are the essential conditions for Indemnification?

Ans-The conditions are following-

- All risks incurred in all insurance policies must be the same regarding the related subject.
- All insurance policies must be taken by a single assured person.If due to any reason,more than one persons have economic interest in the specific property,then double insurance wil not be considered up to their limits of interests.
- The time duration opted for all insurance policies must be the same for the same subject of insurance.

Q29- Why there no legal relationship between the assured and reinsurer ?

Ans-Reinsurance contract is made between the original insurer and reinsurer. That is why there is no legal relationship between the assured and reinsurer.

Q30-What is auto-facultative method?

Ans-In auto-facultative method reinsurer is bound to accept the proposalsenr by the original insurer.

Q31-When does the insurance company cancels the insurance policy?

Ans- The insurance company cancels the insurance policy if, in the contracts, assured surrenders his insurance policy or does not get his lapsed insurance policy renewed or commits suicide within a year of buying insurance or does not fulfil utmost good faith.

Q.32 What do you understand by life insurance?

Ans. Life insurance refers to the contract of insurance on human life under which if any individuals death other than accident or happening of any event concerning to human life, a certain amount is guaranteed to be paid to assured or his/her legal representative thus Life insurance is a corporate effort to provide security against economic hazards of man.

Q.33 What are the essential elements of life insurance contract.

Ans. The essential elements in life insurance contract are:

- General elements as proposal, acceptance, free consent etc.
- Special elements as insurable interest, utmost good faith etc.

Q34 What is net premium?

Ans. Net premium refers to the premium which is sufficient to discharge the payment of insurance claim, but no provision of other expenses are included in interest.

Q.35 What is combined life insurance policy.

Ans. The combination of more than one policy as whole life insurance, endowment insurance and term insurance etc.

Q.36 What is bonus in life insurance policy.

Ans. Bonus is a means profit sharing in case of life insurance policies bonus may be given as a return of the investment made by the policy holders. Bonus may be given by the authority if they earned profit after investing the amount of insurance premium on the different types of securities.

Q.37 Write the characteristics of life Insurance?

Ans. The main characteristics of life insurance are as follows :-

1. The policy is signed by the insurer only.
2. It is a promise to pay the money insured in considered to a premium '
3. Insurance of human hazards is covered by life insurance policy.
4. Life contract is a contract between the insurer and insured.
5. The proposal for affecting an insurance policy is executed in the prescribed form.
6. The insurance premium is sometimes paid at a lump sum together or periodically.

Q.38 What are the Basic types of life insurance policy?

Ans. Under broad classification of life insurance, various types of insurance policies are issued by the insurers. There are so many types of life insurance policies that it is impossible to discuss them all. Some important types of life insurance policies are shown below through the chart:

Q39-What is Double insurance?

Ans-Double insurance refers to the method of getting insurance of same subject matter with more than one insurer or with same insurer under different policies.

Q40-What is Reinsurance?

Ans-Reinsurance is a contract between two or more insurance companies by which a portion of risk or loss is transferred to another insurance company.

Key Terms

Propsal- The act of offering or suggesting something for acceptance, adoption, or performance.

Cover Note-Document evidencing issuance of an insurance policy and gives a summary of the given in a certificate of insurance.

Original insurer-The insurer who insures the assured is called original insurer.

Reinsurer-The insurer who accepts the part of any risk is called reinsurer.

Nominated person-The person who has the right to get the amount of life insurance policy after the death of the assured person.

Assignment-Assignment means to delegate the rights of the assured to any other person whose name is included in the insurance policy.

Renewal-The continuation of in-force status that is caused by the payment of a premium

Grace period-Extra time allowed for the payment of premium.

Bonus- A payment or gift added to what is usual or expected, in particular.
Authority- The power or right to give orders, make decisions, and enforce obedience.
Convertible- Able to be changed in form, function, or character.

MCQ

Q1-Insuring excess amount for the insurance subject than its insurable interest is:

A)Under insurance B)Over insurance

C)Insurance premium D)Insurance Risk

Q2-Reinsurance contract is made between the_____and ________

a)Reinsurer and Insurer b)Insurer and insured

c)Insured and Reinsured d)Reinsurer and reinsured

Q-3The Indian Reinsurance Corporation Limited was established-

A)1956 B1964

C)1973 D)1984

Q5-In 1974 The Indian Reinsurance Corporation Limited was merged with______

A)LIC B)GIC

C)National insurance company D)ICICI

Q6-Foundation day of LIC-

A)Sep1,1956 B)Sep11,1956

C)Oct17,1990 D)oct30,1990

Q7- According to Section-4(1) of life insurance Corporation Act,Maximum how many members should be in Board of directors Corporation-

A)16 B)14

C)15 D)11

Q8-The right of appointment of members of LIC lies with-

A) Central government B)State Government

C)Both of the above D)none of the above

Q9-The post of chairman in LIC is for

A)Full time B)Part time

C)Some time full and some time part D)Not fixed

Q10-The Chairman of LIC is also-

A)Chief executive officer B)Director

C)Company head D)None of the above

Q11-The meeting of the board of LIC is conducted-

A)Once in a month B)Once in a year

C)Once in a half year

Case-1

In vijawari there are two factories named A and B.Factory A has purchased an insurance policy to protect its building from ABG ltd. Insurance company.Factory The factory A was polluted due to Chemicals of factory B.

- Being the manager of factory A,how will you claim for polluted building.
- Should you Case a file against companyA?

Case-2

You are a manger of the company ALDRA Ltd.You have purchased an injsurance policy from ABG LTd. An insurance company against the fire.On Sep 11,2011 there was an accident and your building was burnt.Now How will you claim .Define the steps.

Unit-3

Life Insurance Agents

Q.1 What do you mean by insurance agent?

Ans. An agent in the sales person of the insurer by way of commission in consideration of his soliciting insurance business thus insurance agent means a person having licence under the provision of the act , who works to get insurance business from the insured .

Q.2 What are disqualification for appointment of insurance agent.

Ans. The following persons can not be appointed of insurance agent.

1. A person who is not a license holder under the provision of section 42 of insurance act.
2. A person who is already employed in any govt. or public enterprise.
3. A person who has not passed high school education or any other examination approved by the corporation.
4. A person disqualified on the ground of fraud misrepresentation or deceived others while dealing with insurance policies.

Q.3. When can an agency be terminated?

Ans. Following are the situations when an agency can be terminated :-

1. Failure in securing minimum business
2. Termination of agency on cancellation of or failure to renew license
3. Termination of agency on account of certain disqualification as if agent is found to be an unsound mind, if he is found guilty of criminal offence etc.
4. Termination of agency for certain lapses as if he acts adversely against the interest of the corp. or policy holder, if he fails to perform his work according to the satisfaction of competent authorities.
5. Termination of agency by notice.

Q.4. What is minimum amount of business for a agent.

Ans It is essential for the agent of life insurance corporation ,according to section(9) of the agents regulation1972, thus he must secure minimum business every year as laid down by the corporation from time to time, otherwise his agency can be terminated.

Q5-What are the qualities of An Ideal insurance Agent?

Ans-The qualities of an Ideal Insurance agent are following-

1) To motivate the policyholders ton pay the premiums in time.
2) To assist in the process of nomination or assignment.
3) To prevent the policy lapsing

4) Not to interfere in the matters of other agents
5) To assist in getting the payment of claims by the assureds.
6) Rendering prompt and efficient services.
7) To follow all the rules and regulations.
8) To be loyal to the LIC.
9) To follow the directions of the Corporation.
10) To Update themselves in the basic technique of profession.
11) To strive for self development.

Q6-Describe the qualification for issuing Insurance Agents' Licence to an individual.

Ans-The qualifications necessary before a license can be given are that the person

- be at least 18 years old.
- have passed at least the 12th standard or equivalent examination, if he is to be appointed in a place with a population of 5000 or more, or 10th standard otherwise
- have undergone practical training for at least 100 hours in life or general insurance business, as the case may be, from an institution, approved and notified by the IRDA. In the case of a person wanting to become composite insurance agent, the applicant should have completed at least 150 hours practical training in life and general insurance business, which may be spread over six to eight weeks.
- have passed the pre-recruitment examination conducted by the Insurance Institute of India or any other examination body recognized by the IRDA.

Q1-What is the minimum age for an agent?

A)18 yr B)16 yr

C)15yr D)25yr

Q2-What is the age for Rural career agent?

A)Between 21 to 35 B)Between 18 to 24

C)Between 24 to 30 D)Between 20 to 25

Q3-Insurance proposal form is accepted or rejected by-

A)LIC B)Insurance agent

C)Both of the above D)None of the above

Q4-A person who represents the other person with the third party in commercial transaction is-

A)Insured B)Commercial agent

C)Insurer D)None of the above

Q5- A person who takes up agency from the insurance company to sell its policies on a commercial is-

A)Insured B)Commercial agent

C)Insurer D)Insurance agant

Q6-Kinds of insurance agents

A)Direct agent B)Career agent

C)None of these d)Both A and B

Key Words

NASSCOM-The **National Association of Software and Services Companies** (*NASSCOM*) is a trade association trade association of Indian Information Technology and Business Process Outsourcing industry.

Reinstatement-The act of an insurer putting an insurance policy back into effect after it has lapsed because of missed premium payments.

IRDA-Insurance regulatory and development author.

Case -1

The District Consumer Forum of Yamunanagar on July 11 ordered Oriental Insurance Company to pay Rs. 75574.62 and Rs 2513.05 with 12 per cent interest and Rs 5000 as compensation for harassment and litigation charges to Mr. G.D. Gupta of Mangat Pura, Jagadhri. **M**r.Verma had purchased a Mediclaim policy from the ALPHA Insurance company on November 2000. He fell ill in January 2001 and was admitted in Sabu Hospital, Ajmer for Angiography on January 29th 2001, while purchasing the policy, Mr. Verma had submitted his E.C.G report and blood test report. The Insurance Company repudiated his claim by alleging that Mr. Gupta was a heart patient before the insurance of the policy as is apparent from the E.C.G report submitted by him while purchasing the policy.

- Being a friend of Mr. Verma what will yiu suggest him to get insurance claim.

Case-2

Mr. Ram Prakash Verma had purchased a bus by taking a loan from Mittal Financers. The bus was being used as a private service vehicle, and not as a public transport one. It was insured under a comprehensive insurance policy issued by Swami Insurance Co. Ltd.. The bus met with an accident.Mr. Ram Prakash Verma Claim for the losses.

- Being the manager of Mittal Financer to whom eill you pay either Financer or Mr. Prakash and why?

Unit 4

Calculation of Premium and settlement of claims in life insurance

Q.1 What is premium?

Ans. Premium is the monetary consideration for promise bought from insurer in the form of on insurance policy.

Q.2 What is gross premium?

Ans. This is the total premium that on assured has to remit with the insurer.

Gross premium = Net premium + Insurance exp.

Q.3 What are the types of premium?

Ans. The premium is of four types:

1. **Net premium-** Means the premium for which the totals present value is equal to the present value of insurance policy. There are two types of net premium are there:
   - **(a) Net single premium-** net single premium is that premium which is received by the insurer in a lump sum and is exactly adequate.
   - **(b) Net level premium:** The net level premium is collected periodically while the net single premium is charged only once in the beginning of the contract.

2. **Gross Premium:** The gross premium is that premium which is charged by the insurer to meet the amount of claims and expenses gross premium is make up with the composition of the following elements:

   Mortality, Estimated interest , Operating expenditure, Contingencies, etc.

2. **Extra Premium:** An extra premium is additional top of the normal premium that insured pays. This reflects the increased risk that the insurer is taking by insuring the life. Extra premium may be charged in any of the following manner:

   (a) **Rating up of age**: In this methods the life assured is assumed to be a number of years older than his real age.

   (b) **Flat extra premium:** Under this method, a flat annual extra premium of so many rupees per thousand sum assured per year is charged.

4. **Under Premium**: Is charged on the group life insurance policies under this plan a large number of person are insured by a single policy without medical examination at a low cost or premium.

Q.4 Write short note on Net premium

Ans. Net premium is a part of total premium which is essential for dis- charging the death or maturity claims. It is calculated on the basis of mortality rate on certain age is calculated with the help of mortality table. The mortality rate is multiplied by total sum insured. Then the interest to be occurred on this amount deducted from the total amount. It itself has 2 types:

1. **Net single premium:** This is the money deposited with the insurer for insuring the life and it is deposited on a lump sum.
2. **Net installment premium:** The money to be deposited by the assured as premium by installment after certain time interval. The net installment premium shall always be more than the net single premium.

Q.5 Write down the process of loading?

Ans. Loading process includes the following steps:

1. Identify the expenses in detail such as preliminary expenses, advertisement repeating expenses, final expenses etc.
2. Provide for any expected emergency.
3. Divide or distribute total expenses among all the assureds of uniform term and aged groups.

Q.6 Write short notes on value at Risk Analysis?

Ans. VAL is the worst probable loss likely to occur in a given time period under regular market conditions at some level of confidence of assets such as mutual funds or a pension fund & is similar to the concepts of maximum probable loss in traditional property and liability risk management.

For example: A mutual fund may have the following VAR characteristics : There is a 5% probability that the value of the portfolio may decline by Rs. 50,000 in a single trailing day. In this case the most probable loss in Rs. 50,000 the time period is one trading day, and the level of confidence is 95% based on a VAR estimate the risk level could be increased or decreased, depending on risk tolerance.

Q7-What is Loading?

Ans-Loading refers to the process of including the expenses of operative costs and other kinds of expenses to net premium.

Q.8 Write down the essential conditions of assignment

Ans.

1. Assignment should not be opposed to any law for the time being in force.
2. The assignor must be a person competent to contract.
3. The assignment should not be subject to any legal disqualification.
4. Assignment must be in writing and it must be very clear in the operative part of the endorsement that interest in the policy has been transferred and has become vested in the assignee.
5. It should be supported by consideration, either valuable or normal/meritorious.
6. The assigner must affix his signature to the assignment.

Q.9 What are the conditions when life insurance claim can be arised?

Ans. The life insurance claim can arrive either –

1. On the death of the policy holder. [death claim]
2. On the maturity of the policy. [maturity claim]
3. Survival up to a specified period during the term [survival benefit]

Q.10 What are the conditions of settlement of insurance claims?

Ans. There are two conditions of settlement of insurance claims-

I. **Death claims :-** The process of settlement of claims in case of death is as under :
   1. Intimation of death to office of the insurance company.
   2. Proof of death

3. Proof of age
4. Proof of title
5. Death claim investigation
6. Payment and discharge

II. **Survival/maturity claims**- Normally assured himself receives the insurance amount in to claims by maturity and there is no need of specific formalities in the settlement of such claims.

Q.11 What happens if the nominee is minor?

Ans. If Nominee or assignee of life insurance policy is a minor then a guardian can be appointed by the father of the minor for the assets including the insurance amount.

Q.12 Who is insolvent assured?

Ans. If assured has been declared insolvent by any court before the maturity of insurance, and this information is sent to the assured by the official receiver appointed by the court with a certified copy of the court regarding the appointment of an official receiver on his estate, then company will have to give the information to the official receiver regarding the maturity date of insurance policy and amount of insurance.

Q13 What is an insurance claim?

Ans-An insurance claim is the demand for performance of the promise made by the insurer at the time of making the contract.

Q14 -Write the procedure of of claim settlement on the death of the assured life.

Ans-The procedure to be followed in the settlement of death claim ia-

1.Notice of the death to the insurer

2.Submissin of claim

3.Submission of essential document

4.Proving the right of claim

5.Making Enquiries by the insurance company

6.Calculation of claim money

7.Payment of claim

8.Attestation of signature

MCQ

Q1-The sources from where prospective buyers of insurance can be prepared-

A)Friends and relative B)Telephone directories

C)Existing customers D)All of the above

Q2-A prospect may be converted into a customer by-

A)Effective closing of sale deal B)Giving information to customers

C)Both of the above D)None of the above

Q3-The price charged by a life insurance company for an insurance contract is called

A)Premium B)Interest

C)Amount D)None of the above

Q4-Net premium is calculated on the basis of

A)Mortality rate B)Interest Rate

C)Both of the above D)None of the above

Q5-NSP is-

A)Non single premium B)Net single premium

C)Net service premium D)Non service premium

Q6-NIP is-

A)Net instalment premium B)New instalment premium

C)Net income premium D)New income premium

Q7-Gross premium is-

A)Net premium+gross premium B)Net premium-Gross premium

C)Gross premium-Net premium D)None of the above

Key Terms

Attestation- To certify by signature

certified copy- A **certified copy** is a copy (often a photocopy) of a primary document, that has on it anendorsement or certificate that it is a true copy of the primary document.

Mortality- *Mortality* is the condition of being mortal, or susceptible to death.

Estimated interest- To calculate approximately (the amount, extent, magnitude, position, or value of something.

Operating expenditure- A company's expenses related to the production of its goods and services.

Contingencies- A negative situation that may occur and for which one ought to prepare.

Prospect-A person who wants to buy insurance.

NAIC-NATIONAL Association of Insurance Commissioners

Case -1

Kunal Sharma had met the accident in Jaipur in 20011. The mishap had resulted in injuries to him, besides damages to the car. Kunal had the vehicle insurance plan of Icici Lombard.already purcha. He Gave a application for the claim of Rs.3 lakh.The company workshop had estimated a loss of over Rs 4 lakh as damages.The company mentioned that he was drunk so the company will not pay for the claim while this was not the fact.infact company could not show any proof that hw was drunk while driving.

A)Suggest kunal how to claim.

Case-2

Mr.Naveen Shah a resident of Vidhyadhar Nagar, had taken a Mediclaim policy from the company Narayani Insurance Ltd. for his 10-year-old son Guddu. He was insured for Rs 20,000 for the period from October 11, 1999 to October 10, 2000. The complainant stated before the forum that in the first week of November, 1999, his son, felt severe pain in his abdomen. After the medical examination, a stone was found in his kidney. Thereafter, Raja was taken to the Garg Hospital for the treatment and there he underwent treatment in November 1999. The complainant stated that he had spent huge amount on his treatment but could not preserve the bills and submitted the bills for Rs 16,000. The company Narayan Insurance Ltd. pleaded that the said policy was obtained after concealment of the precious disease as the disease was pre-existing at the time of taking the policy .

- Being the manager of NarayaniLtd. Whay will you do?

Unit-5

The Insurance Act, 1938

Q.1. What are the main objectives of the insurance Act. 1938 ?

Ans. The main objectives of the insurance Act. 1938 are as follows :-

1. To provide strict state control over insurance business.
2. To prevent the growth of mushroom companies
3. To enforce working on sound principles
4. To prevent misappropriation of funds and to protect the assets.

Q.2. What are the main provisions of the Act.?

Ans. The main provisions of the Act 1938 have been discussed under the following headings :-

1. Wide scope
2. Requirements as to capital
3. Deposits
4. Registrations
5. Submission of returns
6. Prohibition of rebates, restriction of commission
7. Licensing of Insurance agents
8. Investment
9. Prohibition of loan
10. Investigation
11. Duties and powers of the controller of Insurance
12. Penalties

Key Terms-

Aviation- The operation of aircraft

Subsidaries- Serving to assist or supplement

Attestation- To certify by signature
certified copy A **certified copy** is a copy (often a photocopy) of a primary document, that has on it an endorsement or certificate that it is a true copy of the primary document

Nominee- Nominee is the person whose name is registered by insured for the recovery of claim in the particular situation.

AIDAS-(Attention,Interest,Desire,Action,Satisfaction) An approach used by insurance agents.

Praposal form-It is a form which is given by an insurance company to the person during issuing the procedure of issuing insurance policy.

Case -1

Mr. Ram Prakash Verma had purchased a bus by taking a loan from Mittal Financers. The bus was being used as a private service vehicle, and not as a public transport one. It was insured under a comprehensive insurance policy issued by Swami Insurance Co. Ltd.. The bus met with an accident.Mr. Ram Prakash Verma Claim for the losses.

- Being the manager of Mittal Financer to whom eill you pay either Financer or Mr. Prakash and why?

Case-2

In 2005, Mrs. Ayushi sharma's had carcinoma of left breast and she got treated. In 2008 both husband and wife took a Mediclaim policy with ZENOY Ltd.. The policy excluded carcinoma of left breast because it was pre- existing. Later, she was diagnosed with carcinoma of right breast, which was not a recurrence, according to the doctor of Omega Hospital, Jhalavad, but a new case of carcinoma, so she had a full treatment at Omega Hospital. He has submitted his claim of Rs. 80,000 to the Third Party Administrator of ZENOY. Ltd., i.e.,SEVA TPA Private Ltd. but they rejected the claim on the grounds thats he had claimed for the left breast, which was an exclusion in the Policy.

.As a friend of Ayushi Suggest her what to do for receiving the amount of the claim.

Differences Between Various Terms

1. Distinctions between Insurance and Gambling:

There is a basic and original difference between insurance and gambling, which can be understood with the help of the following table:

S.No.	Basis of Difference	Insurance	Gambling
1.	Objective	Insurance is done to have security from the probable risks relating to any subject or person and object.	Gambling may be effected from many objectives, for example, to earn profits, to become millionaire quickly for the purpose of entertainment, etc
2.	Types of risks	Insurance can be done only for pure risks under which there may be any loss to any insurable subject or object.	Gambling is related with probable risks in which there may be possibility of both profit and loss.
3.	Security from risks	The objective of insurance is get safety from the losses.	Whereas in gambling, gambler intentionally takes the risks.
4.	Time element in the existence of risks	Insured person takes the decision to be insured due to existence of risks. Hence, risk exists even before the insurance.	Risk starts when person starts to gamble, not before that.
5.	Principles based arrangements	Insurance is operated by certain basic principles, such as, principle of utmost good faith, principle of cooperation, principle of probability, principle of the law of large numbers, etc.	Gambling is based on non-ethical foundation. It is operated with an intention of deceit without any principles.
6.	Role of luck	In insurance, luck has no significant role.	In gambling, a person gives more importance to luck.
7.	Insurable	Insurance is impossible if	In gambling, there is no insurable

	interest	insured person has no insurable interest in the subject of object.	interest.
8.	Legal enforce ability	Insurance contracts have legal recognition. Related parties may enforce contracts with the help of law.	Gambling agreements are declared as void under section 30 of the Indian Contract Act.
9.	Legality	Insurance has full legality due to its recognition under the provisions of the Act.	To gamble and to render any help for it is legal crime. That is why gambling is a crime with the view of legality.
10.	To receive payment	Insured person gets compensation if insurable subject or object gets damaged during the contract.	In gambling one party may receive the payment if it wins or has to pay if loses.
11.	Receiving double amount	Insurance contract is basically in indemnification arrangement, hence, there will be no chance to get amount more than the insured sum or actual losses.	But in gambling, winning party not only gets the winning amount be also receives the amount it used for the gambling purpose.
12.	Social status	Insured person has the social status of being a reliable person in the society.	Whereas gambler is seen as neglected person in the society.
13.	Promotion of national interests	Insurance companies basically invest the amount received from the insured persons as premiums in the areas on priority basis. Hence, national interests get promoted.	Through gambling there is no promotion of the national interests.

2. Difference between General Contacts and Insurance Contracts:

The difference between general contract and insurance contract may be explained as under:

S.No.	Basis of	General Contract	Insurance Contract

	Difference		
1.	Enforcement of the Act	General contracts are governed through the provisions of the Indian Contract Act, 1872	In insurance contracts it is essential to include the provisions of the related insurance acts in addition to the provisions of contract act.
2.	The Doctrine of Caveat Emptor	The doctrine of caveat emptor applies in which one party of a contract is not bound to explain the other party each and every aspect relating to the subject matter of the contract,	Insurance contracts are the contracts based on utmost good faith. In which, insured person and insurance company both are bound to explain all important facts relating to the subject matter of the contract and conditions contained in the insurance proposals.
3.	Breach of Warranty	In general contracts, if one party breaches the warranty, then other party has the right to get compensation, but he cannot void the contract	In insurance contracts, warranties are like conditions. If insured breaches the warranty then insurer can claim for voiding the contract.
4.	Objectives	General contracts are made generally for mutual profits. It is a separate issue that afterwards, profits are generated or not.	There is no question of profits in the insurance contracts. The objective is to get security for the probable risks in the future. Insurance contracts are based on the principle of compensation that is why there will be no question to get excess amount as compensation than for actual losses or insured value.

3. Difference between an Indemnity Contract and a Life Contract:

The difference may be expressed in an effective manner with the help of the table shown below:

S.No.	Basis of Difference	Indemnity Contract	Life Contract
1.	Insurable	In indemnity contracts, insurable	In life insurance contracts,

	Interest	interest is essential at the time of insurance as well as at the time of damages as in the fire insurance. In marine insurance, insurance interest is not there at the time of insurance, but its existence is compulsory at the time of losses to subject of interest. But, once, the losses occur, insurable interest becomes a necessity even before the losses actually occur.	insurable interest is essential at the time of insurance and not essential afterwards.
2.	Duration of Insurance Contract	These contracts are normally effective for one-year duration.	In life contract if it is an endowment or duration, then it may be effective for 10, 15 or 20 years. In lifetime insurance contract, its duration may be up to the death of assured person. Thus, the duration of life contracts is much more than the indemnity contacts.
3.	Nature of Risk	In indemnity contracts, the probability of losses due to risk relating to insurance subject is uncertain. It means that losses may or may not happen to the insured subject during the insurance period.	In life contract if it is certain for the probabilities to happen. If life is insured for 15 years, it may be possible that either the assured may be alive or may be dead during this period.
4.	Classification	In indemnity contracts, there are different elements influencing the risks to the insurance subjects of different nature on different scales. There are wide diversities in the nature of insured subjects that is why the classification of risks is very difficult for the insurance company.	There are no such diversities in life insurance as in the insured units in indemnity contacts. Although, there are so many diversities found among human beings in the world, but all are same with a view of their structure. The classification of risks is easier in the life contracts due to the common factor effecting the existing human beings i.e. death.
5.	Calculation of	Separate calculations of risks are	In life contacts, risks may be

	Risks	done in indemnity contacts due to different risks affecting different units.	calculated on the basis of classification of groups as the age group, health, diseases, etc.
6.	Premium Determination	As risks are calculated in the indemnity contracts for different units, thus, rates of premium are also different for different subjects of insurance.	Rates of premium are not different on the personal basis in the life contracts. They are determined separately on the basis of different age groups and insurance duration.
7.	Insured Sum	The contracts are based on the principle of indemnity. According to this, actual losses or the value of insured subject is indemnified in case of any losses or damages. That is why neither under-insurance nor over-insurance is rational.	The principle of indemnity does not apply in life contracts. Hence, every person can determine the insured sum on the basis of economic condition or needs.
8.	Double Insurance	Double insurance is impractical because in case of any damages or losses to the insurance subject, only actual losses are indemnified in indemnity contracts.	In life contracts, double insurance is practical because every person has the right to determine his insured sum and hence he can take more than one insurance policy.
9.	Origin of Liability	In indemnity contracts, insurance company is bound only when there is any loss or damages to the subjects of the insurance within the duration of the contract due to certain reasons. If there have been no losses to the insured subject during this period, then, insurance company is not responsible.	There is a reverse situation in life contracts. The insurance company is responsible, either after death expiry of certain time period, whatever is mentioned in the insurance proposal form. Thus, the origin of liability is certain in life contract.
10.	Surrender Value	Surrender means to surrender the insurance policies by the assured insurer. As these contracts are of very short term period, thus, there is no question about their surrender.	Normally, these contracts are of long-term period. It might be possible that the economic condition was good at the time of taking insurance then; insurance might be of a higher premium. But, if it is not

			possible now to continue it, then policy may be surrendered to life insurance corporation and the value according to the rules may be received.
11.	The Doctrine of Subrogation	The doctrine of subrogation is applied in indemnity contracts if insurance company indemnities for the losses occurred to the insured subject due to some reasons in certain time duration. Hence, insurance company has the right to get the amount of damages by the third party.	Life contracts are not based on the principle of indemnity. Thus, the doctrine of subrogation has no significance in life insurance.
12.	Safety and Investment	There is only the safety element in indemnity contracts. The project is to get indemnification in case of losses due to certain causes to the insured subject in a particular time period	In life contracts, insurance company pays the amount case of death of assured person or expiry of the term of insurance policy. Thus, it provides safety to the assured. The assured also gets bonus declared by the company every year. Hence, it also encourages the investment elements in the assured.
13.	Nomination and Endorsement	Nomination is not possible in the indemnity contracts because nomination is done only in life contracts where it decides that after the death of the assured person, nominated person can avail the insured sum. Endorsement may be done in indemnity contracts but prior permission is essential from the assured person. The reason is that in indemnity contacts, existence of insurable interest is essential at the time of insurance.	In life insurance, insurable interest is essential at the time of insurance and not afterwards. Hence, assured has both, nomination and endorsement facilities in life contracts. In nomination, nominated person may get the insured amount in case of death of assured person. The life assured can change the nomination during his life time. In endorsement, endorsee may get the benefits of insurance policy even if the

			assured person is alive. In endorsement, ownership of insurance policy is transferred immediately and the assured cannot change it.

4 DIFFERENCE BETWEEN LIFE INSURANCE AND FIRE INSURANCE

There are various differences between life insurance and fire insurance which are shown as under:

S.No.	Basis of Difference	Life Insurance	Fire Insurance
1.	Subject Difference	The subject matter of insurance is human life.	The subject matter is any physical property or assets.
2.	Object	The object of life insurance is to secure human life against future uncertainties.	The object of fire insurance is to secure the assets or property against fire.
3.	Element	Life insurance has the elements of protection or security and both investment.	Fire insurance has only the element of protection or security and not the element of investment.
4.	Insurable Interest	Insurable interest must be present at the time of effecting the policy but not necessary when the claim falls due.	Insurance interest for the related subject must be present both at the time of effecting policy as well as when the claim falls due.
5.	Duration	The duration of life insurance policy usually exceeds a year.	The duration of the fire insurance policy usually does not exceed a year.
6.	Indemnity	Life insurance is not indemnity insurance. The sum assured is paid either on the happening penning of certain event or on maturity of the policy.	Fire insurance is indemnity insurance. The loss due to fire is an indemnified subject to the maximum limit of the policy amount.

7.	Classification of risk	Classification of risk in life insurance is much easier.	Classification of risk in fire insurance is very lllll.
8.	Surrender Value	Life insurance policy has a surrender value	Fire insurance policy does not have any surrender value.
9.	Policy Amount	One can insure for any amount in life insurance.	In fire insurance, the amount of the policy cannot be more than the value of the subject of insurance.
10.	Payment of Premium	Payment of premium is made in installments.	Lump sum payment of premium is made.
11.	Moral Hazard	Life insurance lacks moral hazard.	In fire insurance, moral hazard is more influential.

5. Group Insurance Versus Social Insurance:

S.No.	**Basis of Difference**	**Group Insurance**	**Social Insurance**
1.	Base	Group insurance is based on the contract.	Social insurance related system is according to the Act.
2.	Contribution	Premium is determined through risk and insurance characteristics.	Under this, the rate of contribution is not determined, but is pre-determined by the government.
3.	Facilities	Subject matter of group insurance is managed by the contract.	There is no question as to determination of subject matter. What facilities will be available to the contributor, this is managed by the Act.
4.	Relation of Contribution and Facilities	There is a direct relationship of insurance premium with facilities.	There is no direct relationship of contribution with facilities availed.
5.	Operation	Group insurance is operated with business point of view.	There are social interest and welfare objects in social insurance.

6. Distinction between Whole Life Policy and Endowment Life Policy:

S.No.	Basis of Difference	Whole Life Policy	Endowment Life Policy
1.	Object	Its object is to manage the money for dependents after death.	It has an object to make arrangement of a fixed amount after certain duration.
2.	Duration of Insurance	Insurance is done for whole life.	Insurance is done for certain time duration.
3.	Payment of Insurance Amount	Payment is made only after the death of assured.	It is made after completion of certain time duration.
4.	Double Benefits	Right to get payment is available only after death.	There is an arrangement that dependents of assured can have the insured sum if assured is dead during the insurance period.
5.	Rate of Premium	Rate of premium remains comparatively low.	Rate of premium is comparatively higher.
6.	System	It is a compulsory social need and this system is adopted keeping in view the direct and remote consequences of untimely demise.	The system of endowment policy is adopted to encourage savings.

B.B.A (Part III) EXAMINATION, 2011

(Faculty of Commerce)

(10+2+3 Pattern)

Second Paper

RISK AND INSURANCE MANAGEMENT

Time: Three Hours

Maximum Marks: 100

Question Nos. **1** and **2** are compulsory.

Attempt three questions from Part III

Note: (i) No supplementary answer-book will be given to any candidate. Hence the candidates should write the answer precisely in the main answer-book only.

(ii) All the parts of one question should be answered at one place in the answer-book. One complete question should not be answered at different places in the answer-book.

Part-I

1. **Answer the following questions in 50 words each:**
   - (i) "Insurance is co-operative device." Comment.
   - (ii) What is a "Pure risk"?
   - (iii) What do you mean by 'Fidelity Guarantee Insurance'?
   - (iv) What are 'Under-Insurance' and 'Over-Insurance'?
   - (v) Describe Endowment Life Policy.
   - (vi) Distinguish between Nomination and Assignment of Policy.
   - (vii) Write the definition of an Insurance Agent mentioned in Insurance Act, 1938.
   - (viii) What is 'Net Premium' in Life Insurance?
   - (ix) What ARE 'Marine Losses'?

(x) What is IRDA?

Part-II

2. **Answer the following questions in 100 words each:**

   (i) Write down the primary objectives of Insurance.

   (ii) Write a note on cancellation of insurance agent's license.

   (iii) What is the difference between Fire Insurance and Marine Insurance?

   (iv) What are the qualities of an ideal Insurance Agent?

   (v) Write a note on 'Settlement of Claim in General Insurance'.

Part-III

Answer any three questions:

3. Write in detail the social and economic significance of Insurance.
4. Discuss in brief the main principles of Insurance.
5. What is meant by Individual Insurance Agent? Describe the procedure for issuing Insurance Agents' Licence to an individual.
6. What do you mean by 'Fire Insurance Contract'?
7. Write an essay on ''Economic Liberatlisation and Insurance'.

Risk and Insurance Management

Unsolved Paper – 2010

Time Allowed : 3 Hours ***M.M. – 100***

Attempt the five question in all.

Question Nos. I and 2 are compulsory.

Part-I

Q.1 Answer all ten question. All question carry equal marks. (Answer limit upto 50 words each)

2 x 10 = 20

(i) Insurance provides 'Mental Peace' Comment.

(ii) What is speculative risk?

(iii) Explain mortality Table.

(iv) Write four objective of IRDA.

(v) Describe the meaning of 'Hazards'

(vi) What is 'Jettison'.

(vii) Name the principles applicable in the fire insurance contract.

(viii) Name of subsidiary companies of GIC.

(ix) Differentiate Insurance and Assurance.

(x) What is "Tariff Rates".

Q.2 Answer all five question. All question carry equal marks (Answer limit upto 100 words each)

5 X 4=20

(i) Write down the difference between General Contract and Contract of Insurance.

(ii) 'Insurance is an investment' Comment.

(iii) Classify the 'Insurance Risk'

(iv) Write down four prominent challenges and four opportunities in Indian Insurance Industry.

(v) Discuss the qualities of an Insurance agent.

Part-II

Attempt any three question. Each question carries 20 marks.

Q.3 Define Insurance. Describe the social and economic significance of Insurance in Indian context.

Q.4 What is Reinsurance? Explain the methods of Reinsurance.

Q.5 What factors are considered in calculating premium rate in Life Insurance? How premium is determined ? Explain ?

Q.6 Explain the different policies taken under the insurance in details.

Q.7 Write an essay on IRDA.

Q.8 How many types of marine loses are there? Explain with suitable examples.

Q.9 Write down the impact of opening up of Insurance Sector for private and foreign companies in India.

Unsolved Paper – 2009

Time Allowed : 3 Hours ***M.M. – 100***

Attempt the five question in all.

Question Nos. I and 2 are compulsory.

Part I

Q.1 Answer all ten question. All question carry equal marks. (Answer limit upto 50 words each)

2 x 10 = 20

(i) Define 'Pure Risk'.

(ii) Define 'Assurance.'

(iii) Explain 'ex-gratia calims' .

(iv) Explain 'Nomination'.

(v) Name 5 marine losses.

(vi) Foundation day of LIC.

(vii) Corporate Motto of LIC.

(viii) Full form of IRDA.

(ix) Define 'Fire Insurance'

(x) Who is an insurance agent ?

Q.2 Answer all five question. All question carry equal marks (Answer limit upto 100 words each)

5 x 4 = 20

(i) Distinguish between surrender value and paid up value.

(ii) Distinguish between 'Reinsurance and Double insurance'.

(iii) Explain death claims.

(iv) Write a note on "Loss prevention Association of India.

(v) Write the names of "Public Sector General Insurance Companies".

Part-II

Attempt any three question. All question carries 20 marks.

Q.3 Explain the various types of risks. Also explain the management of risks.

Q.4 Critically examine the main principles of Life Insurance.

Q.5 Discuss the essentials of Insurance Contract.

Q.6 Explain the qualities of an Ideal Insurances Agent.

Q.7 Discuss the meaning and scope of fire insurance.

Q.8 Discuss the organization and working of general insurance companies in India with special references to Public Sector Companies.

Q.9 Write an essay on emerging challenging prospects of insurance in India after privatization of Insurance Industries.

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