

CHAPTER 2

INSURANCE

We learn the following in this chapter :

- *Meaning of Insurance*
- *Principles of Insurance*
- *Need for Insurance*
- *Life Insurance and General Insurance*
- *Insurance Proposal*
- *Insurance Policy*
- *Premium*
- *Claim*

In this world every thing that exists is constantly exposed to danger of some kind or the other. It may be a human being, animal, building, machinery, furniture or any other material. A person or an animal might suddenly die or get injured in an accident. A large number of dangers which can harm human beings, animals or non-living things can result in losses. These losses are called “risks”. Insurance is concerned with risk. The primary purpose of insurance is to eliminate or to reduce the harmful effects of risks. Insurance is one of the devices by which risks may be reduced or eliminated and exchanged for a premium.

What is Insurance ?

Insurance is an agreement, where for a stipulated payment called premium, one party (The insurer) agrees to pay to the other (Insured or the policy holder or his designated beneficiary) a defined amount (the claim payment or benefit) upon the occurrence of a specific loss. Insurance is a safeguard against uncertainties. It provides financial compensation for losses suffered due to incidents of unanticipated events, insured within the policy of Insurance. Life Insurance is a financial cover for a contingency linked with human life like death, disability, accident, retirement etc., In short Insurance is an agreement or a contract between the Insured and Insurer (Insurance company).

IMPORTANCE OF INSURANCE

- It covers the risk of death, disability or loss.
- It encourages compulsory savings.

- It achieves the purpose of the life assured.
- It gives peace of mind of getting coverage for life and property.
- It helps when loss of life occurs.
- It helps for social benefits.
- It promotes investment of funds.
- It facilitates for the payment or debits (to liquidate debts)
- It provides loan facility and tax relief.

Need for Life Insurance

- To ensure the financial support to the family of a person in the event of unexpected death or disability of a person.
- To provide finance for children's educational and other needs.
- To have a savings plan for the future, so that a person can have a constant source of income after his retirement.
- To ensure a person to have monetary help when the earnings are reduced or stopped due to accident or serious disease.
- To provide financial contingencies when life styles are changed or in the event of any unexpected happenings.

Some Terms used in Insurance :

Policy : It is the written contract between the insurer and insured. In this contract all clauses such as the claim term, nomination, the policy amount, amount to be paid after the term is over, the premium amount to be paid etc., are shown. It is called Insurance Bond.

Claims: It is a request for payment by the beneficiary or nominee or legal heir of the insured to the insurer as per the terms and conditions of the policy.

Premium: It is the consideration the insured pays to the insurer periodically for undertaking the risk. The policy holder (insured) pays it to the insurer in exchange for the insurers obligation to pay benefit upon the occurrence of the contractually specified contingencies.

Difference between Life Insurance and General Insurance

Life Insurance

- Life insurance is an insurance of a person's life.
- Life insurance is the insurance coverage that pays certain amount to the insured or his specified beneficiaries upon a certain event such as death of the insured.
- The main products of life insurance include whole life annuity plan, medical and health plan.
- Risk is certain, though time of death is uncertain in life insurance contracts.
- Life Insurance is generally for a long period.
- In Life Insurance contracts and insurable interest must exist at the time of taking the policy.
- In Life Insurance, payment of premium is monthly, half yearly, quarterly or yearly.
- The law of indemnity does not apply in Life Insurance.

General Insurance

- General insurance is a non life insurance.
- Life insurance is an insurance of a person's life. General insurance is basically an insurance policy that protects against the losses or damages that are covered in the policy.
- The products of general insurance include motor insurance, fire insurance, medical, health and travel insurance, house insurance etc.,
- The occurrence of event is uncertain.
- General Insurance is for a short period.
- In General Insurance it may exist at the time of taking the policy and at the time of loss.
- In General insurance the premium is paid in lump sum at the time of taking the policy.
- The law of indemnity applies in general insurance.

Principles of Insurance

The main objective of every insurance contract is to give financial security and protection to the insured for any future uncertainties. Insured must never ever try to misuse this safe financial cover, hence principle of insurance has to be considered to achieve the following principles :

There are seven principles which need to be taken note of :

- Principle of utmost good faith
- Insurance interest.
- Principle of indemnity.
- Principle of contribution.
- Principle of subrogation. (extension of the principle of indemnity)
- Principle of loss minimization.
- Principle of Proximate cause.

Principle of utmost good faith is a very basic and first primary principle of insurance. According to this principle the insurance contract must be signed by both parties that is the insurer and insured in an absolute good faith or belief or trust.

Principle of Insurance interest : it states that the person getting insured must have insurable interest in the object of insurance.

Principle of indemnity : Indemnity means security protection and compensation given against damage, loss or injury. According to this principle the insurance contract is signed only for getting protection against unpredicted financial losses arising due to future uncertainties. (applies in General insurance)

Principles of contributions : According to this principle, which is applicable in case of general insurance, the insured does not get more than the loss incurred and the insurer has to make good the loss.

Principles of subrogation : According to this principle when the insured is compensated for the loss occurred due to damage to his insured property, the ownership right of such property shifts to the insurer.

Principle of Minimization : According to this principle insured must always to his level best minimize the loss of his insured property, in case of uncertain events like outbreak of fire or blast etc.,

Principle of Proximate cause : According to this principle the insurer is liable only for those losses which have been caused by the risks against which insured.

Kind of Life Insurance Policies

- Term Insurance
- Whole life Insurance Endowment policy.
- Money back or cash back plans.
- Children's Policies.
- Annuity (Pension) plans.
- Unit linked insurance policy.

Advantages of Insurance

- Provides reasonable profit to many.
- Provides a sense of security.
- Creates employment opportunities to many people.
- Provides protection to property.
- Solves the social problems.
- Equitable premium to rich and poor.
- Helps for research facilities.
- Removes the risk of loss.
- Encourages economic growth.
- Gives a sense of security.
- Encourages business competition.
- Promotes International Trade.

Activity : Invite an insurance agent to your school and get more information about insurance policies.

Procedure for obtaining insurance policy

- Short list the insurance company from which you wish to buy the insurance policy.
- Enquire about the insurance cost and premium to be paid (based on the age).
- Obtain the application form. It is called proposal form.
- Complete the proposal form in all respects. The proposal form asks for basic information such as your name, address, employer, personal information such as height, weight, date of birth, life styles, financial information, family particulars etc.,
- Take the help of the agent to fill the proposal form.
- Submit the proposal form directly or through the agent.
- The proposal form will be thoroughly scrutinised by the officer of the insurance company and you will be asked to pay the first premium amount.

- The insurance company will issue a bond within few days.
- After receiving the bond, it is confirmed that your policy is accepted. Preserve the bond safely.

EXERCISES

I Fill in the blanks with suitable words in the following incomplete sentences.

1. The person who has accepted to pay the loss is called _____ in insurance.
2. The person who receives the benefit is called _____ in insurance.
3. The insurance that covers the life is called _____ .
4. Vehicle insurance is an _____ Insurance.

II Answer the following questions after a brief discussion with your friends.

1. What is insurance ?
2. Explain the importance of insurance.
3. List out the points included in insurance policy.
4. Explain the importance of life insurance.
5. Make a List of the differences between Life Insurance and General Insurance.
6. What are the principle to be followed by the insured?
7. What are the advantages of insurance companies?
8. What are the steps to be taken at the time of taking an insurance policy?

III Activity :

1. Visit an insurance company office and collect information about taking a policy.
2. Name the different types of policies in Life Insurance.

IV Project :

Meet an agent of any insurance company and collect information regarding the premium to be paid and the final amount that will be received for a particular type of policy.