

Diploma in Insurance Services

Module 1 Skill India and BFSI : Introduction to Insurance



Open Vocational Educational Programme

Diploma in Insurance Services

1



NATIONAL INSTITUTE OF OPEN SCHOOLING

(An autonomous institution under Ministry of Education, Govt. of India)

A-24/25, Institutional Area, Sector -62, NOIDA -201309 (U.P.)

Website: www.nios.ac.in, Toll Free No.: 18001809393

ISO 9001:2008 CERTIFIED

2023 (Copies)

Published by:

Secretary, National Institute of Open Schooling

A 24-25, Institutional Area, Sector-62, Noida-201309 (U.P.)

ADVISORY COMMITTEE

Chairperson

National Institute for Open
Schooling (NIOS),
Noida (India)

Director (Vocational)

National Institute for Open
Schooling (NIOS),
Noida (India)

Deputy Director (Vocational)

National Institute for Open
Schooling (NIOS),
Noida (India)

CURRICULUM COMMITTEE MEMBERS

Dr. Kamal Prakash Kaushik

Professor
National Institute of Financial
Management, Faridabad.

Dr. Manish Sharma

Assistant Professor
Maharaja Agrasen Institute of
Management Studies, Sector 22,
Rohini, Delhi, 110086

Dr. Sunil Kadyan

Associate Professor
Finance, Insurance & Risk Management
Birla Institute of Management
Technology (BIMTECH)
Greater Noida, Uttar Pradesh

Mr. Ishwar Dutt Sharma National
Head Niva Bupa Health Insurance,
New Delhi

Dr. Amitabh Gupta

Associate Professor
Department of Financial Studies,
University of Delhi, New Delhi.

LESSON WRITERS

Dr. Amit Kumar Singh

Professor
Department of Commerce, Faculty of
Commerce and Business, Delhi School
of Economics, University of Delhi,
New Delhi.

Dr. Aanchal Aggarwal

Assistant Professor Vivekananda
Institute of Professional Studies,
Guru Gobind Singh Indraprastha
University, New Delhi.

Dr. Ritu Sapra

Professor
Department of Commerce, Delhi School
of Economics, University of Delhi, New
Delhi.

Dr. Manish Sharma

Assistant Professor
Maharaja Agrasen Institute of
Management Studies,
Sector 22, Rohini,
Delhi, 110086

Dr. Sunil Kadyan

Associate Professor
Finance, Insurance & Risk Management
Birla Institute of Management
Technology (BIMTECH)
Greater Noida, Uttar Pradesh

EDITORS

Dr. Sunil Kadyan

Associate Professor
Finance, Insurance & Risk Management
Birla Institute of Management
Technology (BIMTECH)
Greater Noida, Uttar Pradesh

Dr. Aanchal Aggarwal

Assistant Professor
Vivekananda Institute of Professional
Studies, Guru Gobind Singh Indraprastha
University, New Delhi.

Dr. Manish Sharma

Assistant Professor
Maharaja Agrasen Institute of
Management Studies,
Sector 22, Rohini,
Delhi, 110086

COURSE COORDINATORS

Ms. Anitha Nair

Deputy Director (Vocational)
National Institute of
Open Schooling
Noida, UP

Ms. Barkha Goel

Senior Executive Officer
(Business & Commerce)
National Institute of
Open Schooling, Noida, UP

GRAPHIC DESIGNING and DTP

M/s Multigraphics,
Karol Bagh, New Delhi

A Word with You

Dear Learner,

Welcome to the course "Diploma in Insurance Services".

I am glad that you have chosen this vocational course.

Many young people are choosing Insurance as a career with well-paying jobs. In this context, our goal is to give learners a fundamental understanding of the Insurance Sector. Additionally, this course shall make you aware of the employment and business opportunities available in this sector, allowing you to focus your time and energy on activities that will produce results.

This one year programme provides individuals with specialized knowledge and skills related to the insurance industry. This course provides basic knowledge of Life, General and Health insurance that enable learners to understand and appreciate their professional career in the right perspective. Inputs that you receive in this course will assist you in comprehending how and why you could decide to pursue it as a career since Insurance Sector is one of the most demanding careers in today's market.

This course has five modules, namely Skill India and BFSI Introduction to Insurance, Life Insurance, Non-Life Insurance, Health Insurance and Regulatory Aspects in Insurance. Each module has been designed keeping in view the requirements of self-motivated learners like you. The texts are written in simple language, supplemented by pictures and figures to lend clarity to the content. You will find the lessons interesting and will be able to apply your knowledge in real-life situations. So, read all these lessons carefully and prepare well for the examinations. You ultimately have to enter the competitive world and your success at the place of work will depend on how skillfully you have performed your assigned job.

As this is a vocational course which is skill based so master your skills, practical training is must. So, we request you to kindly attend the Personal Contact Programme (PCP) at your allotted Accredited Vocational Institutes (AVIs).

I hope this study material will be very helpful to the learners who have registered for this course. Our sincere thanks go to the experts of the course writing and editing team (list given elsewhere in this booklet) who worked very hard in revising this self instructional material, particularly to Dr. Sunil Kadyan and his team, who had excellently revised the Qualification Packs (QPs) as per the BFSI Sector Skill Council.

In case you have any difficulty in your studies, do not hesitate to write to us at dirvoc@nios.ac.in

Wishing you good luck and success!

Ms. Anitha Nair

Deputy Director

National Institute of Open Schooling (NIOS)

How to use the Learning Material

Congratulations! You have accepted the challenge to be a self-learner. It means, you have to organize your study, learn regularly, keep up your motivation and achieve your goal. Here it is solely you, who is responsible for your learning. NIOS is with you at every step. It has developed the material in Diploma in Insurance Services keeping only you in mind. A format supporting independent learning has been followed. You can take the best out of this material if you follow the instructions given below.



Title: will give a clear indication of the contents within. Do read it.



Introduction: This will introduce you to the lesson linking it to the previous one.



Objectives: These are statements that explain what you are expected to learn from the lesson. The objectives will also help you to check what you have learnt after you have gone through the lesson. Do read them.



Notes: Each page carries empty space in the side margins, for you to write important points or make notes.



Intext Questions: Very short answer self check questions are asked after every section, the answers to which are given at the end of the lesson. These will help you to check your progress. Do solve them. Successful completion will allow you to decide whether to proceed further or go back and learn again.



What You Have Learnt: This is the summary of the main points of the lesson. It will help in recapitulation and revision. You are welcome to add your own points to it also.



Terminal Questions: These are long and short questions that provide an opportunity to practice for a clear understanding of the whole topic.

Answers To Intext Questions : These will help you to know how correctly you have answered the questions.



Learning Outcomes: This box provides additional information. The text in boxes is important and must be given attention. It is not meant for evaluation, but only to improve your general knowledge.



Activities: Certain activities have been suggested for better understanding of the concept.

www Web site: These websites provide extended learning. Necessary information has been included in the content and you may refer to these for more information.

COURSE OVERVIEW

MODULE-1 456

Skill India and BFSI : Introduction to Insurance

MODULE-2 457

Life Insurance

MODULE-3 458

Non-Life Insurance

MODULE-4 459

Health Insurance

MODULE-5 460

Regulatory Aspects in Insurance

CAREER OPPORTUNITIES



CONTENTS

MODULE	LESSON	PAGE NO.
1. Skill India and BFSI : Introduction to Insurance		
	1. Skill India Mission and Banking Industry	1-12
	2. Introduction to Insurance	13-28
	3. Classification of Insurance	29-46
	4. Insurance Business Environment	47-58
	5. Customer Services in Insurance Sector	59-76
	6. Communication and Marketing of Insurance Products and Services	77-96
	7. Digitalization in Insurance	97-124
	8. Elements of a Contract	125-144
	9. Principles of Insurance- Part-I	145-156
	10. Principles of Insurance Part-II	157-176
	11. Risk Management	177-195



1

SKILL INDIA MISSION AND BANKING INDUSTRY

1.0 INTRODUCTION

The Indian government introduced the Skill India Program on July 15, 2015, following the launch of its "Digital India" and "Make in India" campaigns. The Indian National Skills Development Mission is another name for this initiative. The major goal of the Skill India Program is to give over 40 crore youth adequate training in skills that are relevant to the market by 2022. Additionally, it aspires to increase the total scope and space for neglected sectors as well as possibilities for talent development in the nation. Additionally, the banking industry offers a wide range of employment and career prospects, which will be covered in detail in this chapter.



1.1 OBJECTIVES

After reading this lesson, you will be able to:

- Outline the overview of Skill India Mission
- Discuss about the Banking Industry and its sub-sectors
- Define the role and responsibilities of an Insurance Agent

1.2 SKILL INDIA MISSION

Following are the purposes of the said scheme for the development of the workforce in India

- The Skill India Mission aims to offer market-oriented skills training to nearly 40 crore Indians by 2022.

Chapter - 1

Skill India and BFSI Introduction to Insurance



Notes

SKILL INDIA MISSION AND BANKING INDUSTRY

- It works to create a space for promoting the talents of youths and creating job opportunities for them.
- Skill India Mission funds sectors that are searching for options to recognise areas for skill development.
- It removes the gap between talented youth and enterprises.
- Lowering the poverty graph in the country.
- Boosting healthy competition in Indian businesses.
- Support Indian workforce and local production in the Indian and global markets.
- Diversifying skill development schemes to meet crucial challenges.
- Enhancing engagement of social partners and improving the relationship between public and private partnerships.
- Seek investors to finance sustainable skills development.

1.2.1 Benefits

The Skill India Mission offers beneficiaries the following benefits.

- With appropriate skill development, one can get better job positions and appropriate salaries.
- They can improve their standard of living and support their family.
- The development at the grass-root level will help boost the economy and attract foreign investments.
- Individuals receive a National Skill India Mission certificate which substantiates their skill training.
- Skilled employees would offer better outcomes and more productivity.
- An individual can develop his/her skills and set up a business. This again increases the scope for employment in India.
- Salaried beneficiaries can avail loans of up to 1 crore and 3.5 crores as self-employed against this scheme. With a stable income, they can easily repay the outstanding balance within the tenure of 20 years.



1.3 BANKING INDUSTRY

Banking sector is regarded as an essential part of the economy of every country. It is always been one of the most vital sector for the economy to function as there is a significant increase in the volume of financial transactions. Some of the factors that contributed to it include economic growth, an increase in money supply, growth of banking habits, an increase in trade and commerce etc. In short, scope of banking sector has been increased with time in India.

Till 2015, rural India was somewhat an untapped part of the banking industry. Under the leadership of PM Sh. Narendra Modi, RBI and Government of India came out with the proposal of Financial Inclusion and implemented it successfully and judiciously.

Private sector banks in India represent part of the Indian banking sector. Private sector banks are those banks where large part of equity is held by private shareholder and not by Govt. of India. Banking in India has been dominated by public sector banks since 1969, as all major banks were nationalized by Govt. of India. Post liberalization in banking policy in 1990, private sector banks re-emerged as they have grown faster using the latest technology providing exceptional customer services.

At present, the Indian banking system consists of 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks and 96,000 rural cooperative banks.

1.3.1 Scope of Banking Sector in India

The banking industry is regarded as the backbone foundation of the Indian economy and provides a wide range of job options to students in all academic disciplines, including science, business, and the humanities. It is one of the more rewarding professions, particularly for those seeking employment in the public and private sector.

Due to the Government of India's efforts to expand banking into rural areas by constructing new branches, the sector is in desperate need of manpower. It is also seen as a stable and reputable employment in society. IBPS, State Bank of India, and Reserve Bank of India all conduct exams for bank positions in India (twice in a year). You must be an expert in the fields of reasoning, aptitude, general knowledge, general english, and arithmetic in order to pass these bank examinations.

Some prospective careers in banking are

- Bank Probationary Officer (PO)
- Financial Analyst

Chapter - 1

Skill India and BFSI
Introduction to
Insurance



Notes

SKILL INDIA MISSION AND BANKING INDUSTRY

- Account Manager
- Specialist IT Officer
- Marketing Officer
- Law Officer
- Rajbhasha Adhikari
- Agricultural Field Officer

1.3.2 Classification of Banking Industry

Banks can be classified into various types. Given below are the bank types in India:-

- Central Bank
- Cooperative Banks
- Commercial Banks
- Regional Rural Banks (RRB)
- Local Area Banks (LAB)
- Specialized Banks
- Small Finance Banks
- Payments Banks

1.4 FUNCTIONS OF BANKS

The major functions of banks are almost the same but the set of people each sector or type deals with may differ. Given below the functions of the banks in India:

- Acceptance of deposits from the public
- Provide demand withdrawal facility
- Lending facility
- Transfer of funds
- Issue of drafts
- Provide customers with locker facilities
- Dealing with foreign exchange



Notes

- Apart from the above-mentioned list, various utility functions also need to be performed by the various banks.

1.4.1 Central Bank

The central bank of our nation is the Reserve Bank of India. Every nation has a central bank that oversees all of the other banks in that nation. The central bank's primary duties include serving as the government's bank and directing and supervising all other banking institutions in the nation. The duties of a nation's central bank are listed below:

- Guiding other banks
- Issuing currency
- Implementing the monetary policies
- Supervisor of the financial system

In other words, the central bank of the country may also be known as the banker's bank as it provides assistance to the other banks of the country and manages the financial system of the country, under the supervision of the Government.

1.4.2 Cooperative Banks

The state government's act governs the organisation of these banks. The agricultural industry and other related businesses receive short-term loans from them. Cooperative banks' primary objective is to advance social welfare by offering low-interest loans. They are set up in a three-tiered structure:

Tier 1 (State Level) - State Cooperative Banks (regulated by RBI, State Govt, NABARD)

- Funded by RBI, government, NABARD.
- Money is then distributed to the public.
- Concessional Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR) applies to these banks. (CRR- 4.5%, SLR- 18%, as on 2022-20223).
- Owned by the state government and top management is elected by members.

Tier 2 (District Level) - Central/District Cooperative Banks.

Tier 3 (Village Level) - Primary Agriculture Cooperative Banks.

Chapter - 1

Skill India and BFSI
Introduction to
Insurance



Notes

SKILL INDIA MISSION AND BANKING INDUSTRY

1.4.3 Commercial Banks

- Organized under the Banking Companies Act, 1956
- They operate on a commercial basis and its main objective is profit.
- They have a unified structure and are owned by the government, state, or any private entity.
- They tend to all sectors ranging from rural to urban
- These banks do not charge concessional interest rates unless instructed by the RBI
- Public deposits are the main source of funds for these banks
- The commercial banks can be further divided into three categories:
 - ◆ Public Sector Banks - A bank where the majority stakes are owned by the Government or the central bank of the country.
 - ◆ Private Sector Banks - A bank where the majority stakes are owned by a private organization or an individual or a group of people.
 - ◆ Foreign Banks - The banks with their headquarters in foreign countries and branches in our country, fall under this type of bank.

1.4.4 Regional Rural Banks (RRB)

These are special types of Commercial Banks that provide concessional credit to agriculture and rural sector. RRBs were established in 1975 and are registered under a Regional Rural Bank Act, 1976. RRBs are joint ventures between the Central government (50%), State government (15%), and a Commercial Bank (35%). 196 RRBs have been established from 1987 to 2005. From 2005 onwards government started merger of RRBs thus reducing the number of RRBs to 82. One RRB cannot open its branches in more than 3 geographically connected districts.

1.4.5 Specialized Banks

Certain banks are introduced for specific purposes only. Such banks are called Specialized Banks. These include:

- a) Small Industries Development Bank of India (SIDBI) - Loan for a small scale industry or business can be taken from SIDBI. Financing small industries with modern technology and equipments is done with the help of this bank.



- b) EXIM Bank - EXIM Bank stands for Export and Import Bank. To get loans or other financial assistance with exporting or importing goods by foreign countries can be done through this type of bank.
- c) National Bank for Agricultural & Rural Development (NABARD) - To get any kind of financial assistance for rural, handicraft, village, and agricultural development, people can turn to NABARD.

There are various other Specialized Banks and each possesses a different role in helping develop the country financially.

1.4.6 Small Finance Banks

As the name implies, this category of bank offers loans and other forms of financial support to small farmers, unorganized businesses, and other societal segments. The nation's central bank is in charge of these banks. Some of the examples of small Finance Banks are provided below:

- AU Small Finance Bank
- Equitas Small Finance Bank
- Jana Small Finance Bank
- Northeast Small Finance Bank
- Capital Small Finance Bank
- Fincare Small Finance Bank
- Suryoday Small Finance Bank
- Ujjivan Small Finance Bank
- Esaf Small Finance Bank

1.5 BASIC TERMINOLOGIES USED IN BANKING INDUSTRY:

1. **Repo Rate:** In India, it is the rate at which the Reserve Bank of India lends money to commercial banks in need, with collateral. This situation usually arrives at the time of inflation. 6.5% is the current repo rate in India. Bank rate is similar to this but doesn't require collateral to provide loans. The current bank rate is 6.75%. (The current year refers to 2022-23).

Chapter - 1

Skill India and BFSI
Introduction to
Insurance



Notes

SKILL INDIA MISSION AND BANKING INDUSTRY

2. **Fixed Reverse Repo Rate:** In India, it is the rate at which the reserve bank of India borrows funds from commercial banks. It is usually done to control the money supply in the market. The fixed reverse repo rate is 3.35%.
3. **Statutory Liquidity Ratio:** The Banks of India have to maintain a minimum percentage of cash, gold, and other securities, before lending loans to customers. This is called the Statutory Liquidity Ratio. This exists to control credit expansion in the country. The SLR rate is 18.00% as on 2022-2023.
4. **Cash Reserve Ratio:** In India, all the banks have to maintain a certain amount of funds with the Reserve Bank of India. This is called the Cash Reserve Ratio. It is usually increased when the RBI wants to control liquidity in the market. The current CRR rate is 4.5% as on 2022-2023.
5. **Retail Banking:** It is a service offered by many banks across the country. This allows every consumer to manage their accounts, enjoy access to their credits, and secure their money conveniently. This is also called consumer banking.
6. **Non Performing Assets:** For banks in India, it is any loan that is overdue for more than 90 - 180 days. The interest or payment is missed and the loan becomes the default. The asset kept with the bank is not producing income anymore making it a non-performing asset.
7. **Money Inflation:** It refers to an increase in the money supply in the market reducing the purchasing power of the consumer. In easy words, the value of money drops, and fewer goods are consumed per unit currency. Deflation on the other hand refers to a decrease in the money supply that increases the purchasing power of the consumer.
8. **Green Banking :** It is an idea to promote environmentally friendly practices to reduce carbon footprint by banking activities. It aims to achieve banking and environmental sustainability.
9. **Money Laundering:** It is an illegal financial process that includes criminals concealing the origin of money. It is usually to cover up the black money generated by illegal activities.
10. **Cheque :** It is a paper that instructs the bank to pay a specific amount from one account to another account to whom the cheque is issued.
11. **Direct Credit:** It is an electronic transfer of funds from the payer's account to the payee's account. Direct Debit, on the other hand, is an instruction to your bank that allows a third party to make a transaction from your account. It is usually for paying bills.



Notes

12. **Cash Credit:** It is a type of loan which is short term in nature and fixed in the limit. It is usually extended by a bank to a company to meet its working capital requirements. Overdraft, on the other hand, allows extension of loans for personal use as well even with the low account balance.
13. **Bill of Exchange:** It is a financial instrument that instructs the person to make a payment of a specified amount to the signatory of the note. They are usually a part of international trade.
14. **Letter of Credit :** It is a document by the bank that guarantees full payment by the buyer to the seller on time. In case the buyer fails, the bank covers the payment. It is an undertaking by the bank to the seller.
15. **Bancassurance:** It is an agreement between banks and insurance companies. In this, the bank offers insurance benefits to its customers.
16. **Banking Ombudsman:** It is a judicial authority that allows customers to file complaints if they are not happy with banking services.



INTEXT QUESTIONS

1. Which of the following is not an objective of Skill India Mission?
 - a) The Skill India Mission aims to offer market-oriented skills training to nearly 40 Crore Indians by 2022.
 - b) It works to create a space for promoting the talents of youths and creating job opportunities for them.
 - c) Encourage imports from global markets.
 - d) It removes the gap between talented youth and enterprises.
2. Which of the following is not a career associated to banking industry?
 - a) Bank Probationary Officer (PO)
 - b) FinancialAnalyst
 - c) Account Manager
 - d) Insurance Agent
3. The central bank of our nation is the _____.
 - a) Commercial Bank

Chapter - 1

Skill India and BFSI
Introduction to
Insurance



Notes

SKILL INDIA MISSION AND BANKING INDUSTRY

- b) State bank of India
 - c) Reserve Bank of India
 - d) NABARD
4. The duties of a nation's central bank are:
- a) Guiding other banks
 - b) Issuing currency
 - c) Implementing the monetary policies
 - d) All of the above
5. SIDBI is known as:
- a) Small Industries Development Bank of India
 - b) Small India Development Bank of India
 - c) Special Industries Development Bank of India
 - d) South India Development Bank of India
6. The rate at which the Reserve Bank of India lends money to commercial banks in need, with collateral is known as:
- a) Repo Rate
 - b) Reverse Repo Rate
 - c) SLR
 - d) None of the above
7. The Banks of India have to maintain a minimum percentage of cash, gold, and other securities, before lending loans to customers. This is called the
- a) Repo Rate
 - b) Reverse Repo Rate
 - c) SLR
 - d) CRR



8. In India, all the banks have to maintain a certain amount of funds with the Reserve Bank of India. This is called the
- Repo Rate
 - Reverse Repo Rate
 - SLR
 - CRR

1.6 JOB ROLE AND OPPORTUNITIES FOR AN INSURANCE AGENT

- Offering sound financial advising services and client support;
- Assisting in the promotion and sale of insurance products and services to its clients.
- Must deal not just with people but also with their families and large businesses.
- Requires a positive working relationship with both current and potential clients.
- Market awareness on a global scale.
- Marketing of insurance brands requires a well-planned road map.
- It is necessary to periodically revise marketing plans in light of changing consumer preferences.
- Well-thought-out strategies and plans must be drafted.
- Exercises to create public relations (PR) should be given a high priority.
- Business development strategies must be actively explored.



WHAT YOU HAVE LEARNT

The Skill India Mission aims to offer market-oriented skills training to nearly 40 crore Indians by 2022. It works to create a space for promoting the talents of youths and creating job opportunities for them. With appropriate skill development, one can get better job positions and appropriate salaries. They can improve their standard of living and support their family.

Banking sector is regarded as an essential part of the economy of every country. It is always been one of the most vital sector for the economy to function as there is a significant increase in the volume of financial transactions. Some of the factors that contributed to it include economic growth, an increase in money supply, growth of

Chapter - 1

Skill India and BFSI Introduction to Insurance



Notes

SKILL INDIA MISSION AND BANKING INDUSTRY

banking habits, an increase in trade and commerce etc. In short, scope of banking sector has been increased with time in India. The banking industry is regarded as the backbone foundation of the Indian economy and provides a wide range of job options to students in all academic disciplines, including science, business, and the humanities. Some prospective careers in banking are- Bank Probationary Officer (PO), Financial Analyst, Account Manager, Specialist IT Officer. The functions of the banks in India- acceptance of deposits from the public, provide demand withdrawal facility, lending facility, transfer of funds, issue of drafts etc.



TERMINAL QUESTIONS

1. List the objectives of Skill India Mission.
2. List the benefits offered by Skill India mission.
3. Discuss about the classification of Banking Industry.
4. Explain the role of an Insurance Agent.



ANSWERS TO INTEXT QUESTIONS

1.1

1. (c) Encourage imports from global markets.
2. (d) Insurance Agent
3. (c) Reserve Bank of India
4. (d) All of the above
5. (a) Small Industries Development Bank of India
6. (a) Repo Rate
7. (c) SLR
8. (d) CRR



LEARNING OUTCOMES

After studying this chapter, you are able :

- To explain the Importance and Benefits of the Skill India Mission.
- To identify the scope of Banking Industry and its Sub-Sectors and also familiar with the basic terminologies used in the banking service.

**2**

INTRODUCTION TO INSURANCE

2.0 INTRODUCTION

Insurance is a vast domain consisting of two broad categories- Life and General Insurance. In today's scenario Insurance has become like any other basic need of human being. All of us are exposed to some or other kind of risk, be it business loss, health expenses, or death, all these risks results in financial losses which can be covered by taking an insurance cover. This chapter aims to introduce the basics of insurance and trace its evolution. The chapter focusses upon the historical perspective of the insurance also. This chapter also explains the need of insurance in the current scenario. In order to have a better understanding of the concept of insurance this chapter also explains its working in detail along with the risk management techniques. At the end of this chapter you will be able to learn the difference between insurance and assurance.



2.1 OBJECTIVES

After reading this lesson, you will be able to:

- Explain how insurance evolved and history of life and non-life insurance.
- Appreciate the need for insurance.
- Explain how insurance works.
- Explain the concept of insurance and risk management.
- Differentiate between Insurance and Assurance.



Notes

2.2 HISTORY OF INSURANCE

Insurance has been prevailing and existing since 3000 BC some form or the other. The concept of pooling and sharing of the losses has been practiced over the years by various civilizations amongst themselves.

2.3 HISTORY AND EVOLUTION OF LIFE INSURANCE IN INDIA

In the year 1818, life insurance as we know it now was introduced to India from England. The first life insurance firm founded in India by Europeans was Oriental Life Insurance Company in Calcutta. Indians were not covered by any of the insurance firms that were founded during this time because they were all purchased to serve exclusively the European society. Later on, nevertheless, thanks to the efforts of notable individuals like Babu Muttylal Seal, foreign life insurance companies began covering Indian lives. Nonetheless, Indian lives were classified as second-class lives and were subject to significant premium increases. The first life insurance firm in India was founded in 1870, according to the Bombay Mutual Life Assurance Society, and it covered Indian lives at that time. The Provident Fund Act and the Life Insurance Companies Act were both passed in 1912. The Indian Insurance Companies Act was passed in 1928 to allow the government to compile statistics on both life and non-life insurance companies. The central government nationalised 245 Indian and international insurers and provident societies in 1956, and LIC was established by an Act of Parliament, the LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of India.

Oriental Life Insurance Company was the first life insurance company on Indian Soil that was started by Europeans in Calcutta in 1818

Bombay Mutual Life Assurance Society indicated the birth of first Indian Life Insurance Company in the year 1870,

In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed.

In 1928, the Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

LIC was formed by an Act of Parliament, viz. LIC Act, 1956,

Fig. 2.1: History and Evolution of Life Insurance in India

**INTEXT QUESTIONS 2.1**

1. Life Insurance in its modern form came to India from England in the year____
 - a) 1819
 - b) 1817
 - c) 1919
 - d) 1818
2. _____was the first life insurance company on Indian Soil started by Europeans in Calcutta.
 - a) Oriental Life Insurance Company
 - b) Bombay Mutual Life Assurance Society
 - c) Life Insurance Corporation
 - d) None of the above
3. _____was the first life insurance company started by Indians in India.
 - a) Oriental Life Insurance Company
 - b) Bombay Mutual Life Assurance Society
 - c) Life Insurance Corporation
 - d) None of the above
4. When was LIC Act passed?
 - a) 1912
 - b) 1870
 - c) 1956
 - d) None of the above
5. When was the first life insurance company started by Indians in India?
 - a) 1912
 - b) 1870
 - c) 1956
 - d) None of the above

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes



Notes

2.4 HISTORY AND EVOLUTION OF GENERAL INSURANCE IN INDIA

General insurance has roots in the western industrial revolution and the ensuing expansion of maritime trade and industry in the 17th century. It was left behind by the British occupation in India. Indian general insurance dates back to the British creation of Triton Insurance Company Ltd. in Calcutta in 1850. The Indian Mercantile Insurance Ltd. was founded in 1907. This business handled all general insurance business classes for the first time.

The General Insurance Council, a division of the Insurance Association of India, was established in 1957. For the purpose of assuring ethical behavior and sound business procedures, the General Insurance Council drafted a code of conduct.

The Insurance Act was modified in 1968 to create minimum solvency buffers and restrict investments. At that time, the Tariff Advisory Committee was also created. The general insurance business was nationalized on January 1st, 1973 as a result of the General Insurance Business (Nationalization) Act being passed in 1972. Four companies-National Insurance Company Ltd., New India Assurance Company Ltd., Oriental Insurance Company Ltd., and United India Insurance Company Ltd.-were formed after the merger of 107 insurance providers. A corporation called the General Insurance Corporation of India was established in 1971 and it commence business on January 1st 1973.

Triton Insurance Company Ltd., established in the year 1850 in Calcutta by the British

The Indian Mercantile Insurance Ltd. was set up in 1907

Formation of the General Insurance Council in 1957

The Insurance Act Amendment in 1968

In 1972 with the passing of the General Insurance Business (Nationalization) Act

Fig 2.2 History & Evolution of General Insurance in India



INTEXT QUESTIONS 2.2

1. Which was the first company to transact all classes of general insurance business?
 - a) The Indian Mercantile Insurance Ltd.
 - b) Triton Insurance Company Ltd
 - c) General Insurance Company ltd.
 - d) None of the above
2. When was the General Insurance Business (Nationalization) Act passed?
 - a) 1870
 - b) 1956
 - c) 1972
 - d) None of the above
3. After nationalization into how many companies were all the insurers grouped into?
 - a) 5
 - b) 4
 - c) 6
 - d) 7

2.5 NEED FOR INSURANCE

- **Provides Financial Protection-** Insurance provides financial protection against unpredicted losses in respect of a nominal amount called premium. In case of premature death of the insured, it provides financial protection to the nominee.
- **Shares Risk-** People are exposed to various kinds of risks and uncertainties which may cause larger losses, but it can be reduced if shared. Therefore, an insurance company reduces the risk of the insured in exchange for small premium.
- **Maintain Standard of Living-** Insurance provides financial protection against unexpected losses due to which people can maintain their standard of living.
- **Encourages Saving-** Insurance acts as means to encourage savings by reducing unnecessary expenses.

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

INTRODUCTION TO INSURANCE

- **Eliminates Dependency-** Financial protection is also provided by insurance by supporting the dependent or nominee in case of death of the insured or policyholder.
- **Grants Loan-** An insured can get the facility of loan from any bank or financial institution by keeping the insurance policy as security.

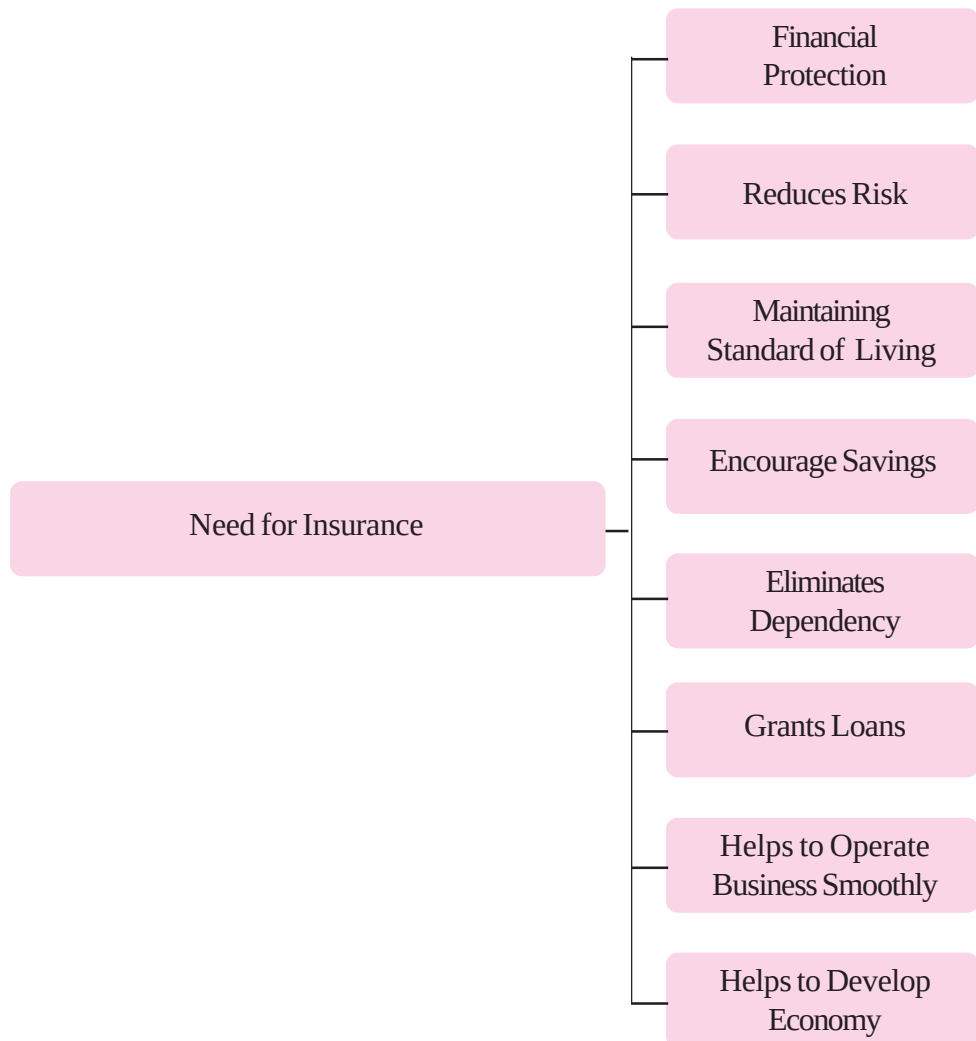


Figure 2.3 Need for Insurance

- **Smooth Business Operations-** If a business suffers loss or damage to its properties, it can get compensation for the same through insurance.
- **Helps to Develop Economy-** The premium collected by insurance companies is invested in various development areas like trade and industry which helps in economic development of the country.



INTEXT QUESTIONS 2.3

1. Which of the following is a need for insurance?
 - a) Provides Financial Protection
 - b) Maintain Standard of Living
 - c) Eliminates Dependency
 - d) All of the above

Skill India and BFSI
Introduction to
Insurance



Notes

2.6 HOW INSURANCE WORKS?

The idea of property ownership led to the development of contemporary trade. The owner of the property or asset will incur a financial or economic loss if the asset is lost or destroyed as a result of a specific incident. The same sum, however, might be used to compensate the unhappy owners for their losses if a common fund is established, which can be produced by small donations from the owners of comparable assets or properties. Simply said, through the mechanism of insurance, the possibility of experiencing a certain economic loss and its consequences could be distributed among several people.

Definition

"Insurance may thus be considered as a process by which the losses of a few, who are unfortunate to suffer such losses, are shared amongst those exposed to similar uncertain events / situations."

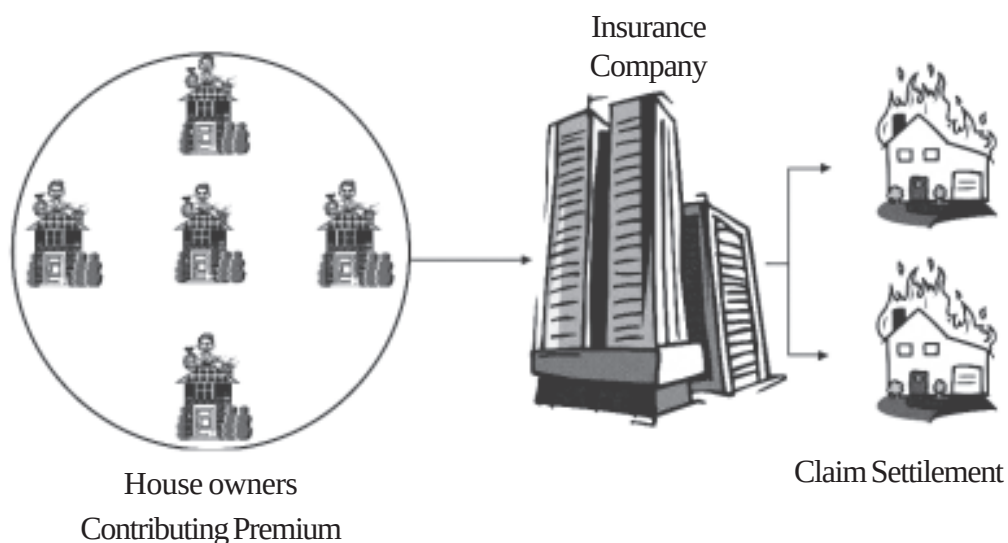


Figure 2.4: How insurance works



Notes

But the question arises:

- i. If the people would agree to contribute a portion of their hard earned money to create this common fund?
- ii. How to make them trust that the fund created will actually be used for the specific purpose?
- iii. How will they get to know that the contribution made by them is appropriate i.e. neither too high nor too low.

It goes without saying that someone needs to start the process, coordinate it, and bring the community's members together for it. The person in question is referred to as an insurer, and they decide how much money each member of the group must contribute to the pool and make arrangements to compensate individuals who experience losses.

The insurer must also win the trust of the individuals and the community.

1. How insurance works

- a) Firstly, there must be an asset which has an economic value. The asset:
 - i. May be physical (like a car or a building) or
 - ii. May be non-physical (like name and goodwill) or
 - iii. May be personal (like one's eyes, limbs and other aspects of one's body)
- b) The asset may lose its value if a certain event happens. This chance of loss is called as risk. The cause of the risk event is known as peril.
- c) There is a principle known as pooling. This consists of collecting numerous individual contributions (known as premiums) from various persons. These persons have similar assets which are exposed to similar risks.
- d) This pool of funds is used to compensate the few who might suffer the losses as caused by a peril.
- e) This process of pooling funds and compensating the unlucky few is carried out through an institution known as the insurer.
- f) The insurer enters into an insurance contract with each person who seeks to participate in the scheme. Such a participant is known as insured.

2.7 INSURANCE REDUCES BURDENS

Burden of risk refers to the costs, losses and disabilities one has to bear as a result of being exposed to a given loss situation/event.

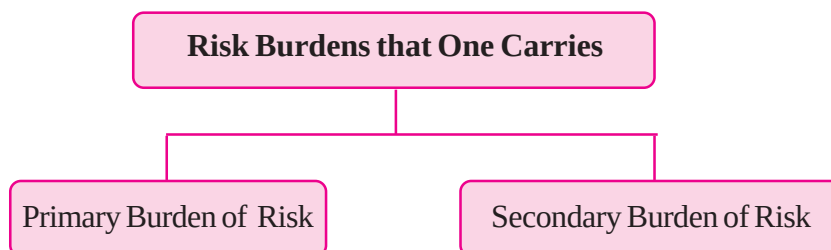


Figure 2.5: Risk burdens that one carries

There are two types of risk burdens that one carries - primary and secondary.

a) Primary Burden of Risk

The primary burden of risk refers to the damages incurred by individuals and business entities as a result of pure risk events.

Example

When a warehouse is destroyed by fire, the true value of the products that were damaged or destroyed can be evaluated, and the person who suffers the loss might receive compensation.

The medical costs associated with having heart surgery will be known and can be covered by the insurance provider.

There can also be some indirect losses.

Example

Business operations can be interrupted by a fire which can lead to loss of profits which can be determined and can be compensated to the one who suffers that loss.

b) Secondary Burden of Risk

- i. Let's assume there is no loss and no such occurrence. Does this imply that people who are at risk have no responsibility? The answer is that, in addition to the main cost, there is also a secondary risk burden.
- ii. The costs and pressures that one must endure just because they are exposed to a loss circumstance make up the secondary burden of risk. These duties must be carried even if the aforementioned occurrence does not take place.





Notes

Let's examine a few of these responsibilities:

- Fear and worry, to start, put physical and mental strain on people. Although anxiety can differ from person to person, it is always there, can lead to stress, and can have an impact on a person's welfare.
- Second, it is sensible to set aside a reserve fund to cover such an occurrence when it is unclear whether a loss would materialize or not. The cost of maintaining such a fund is involved. For instance, these funds can have poor returns and be stored in a liquid form.

By handing over the risk to an insurer (insurance firm), one is able to invest money that would have otherwise been set aside as a reserve and better organize their business. Insurance is required for the very reasons listed above.



INTEXT QUESTIONS 2.4

1. Which of the following is not a type of burden of risk?
 - a) Primary Burden of Risk
 - b) Secondary Burden of Risk
 - c) Tertiary Burden of Risk
 - d) None of the above
2. The asset may be:
 - a) Physical
 - b) Non-physical
 - c) Personal
 - d) All of the above

2.8 POOLING OF RISK

Risk pooling is essential to the concept of insurance. The earliest known insurance policies were written some 5,000 years ago, to protect shippers against the loss of their cargo and crews at sea. Any one of them would be devastated by the loss of a ship. But by pooling their resources, these ancient businessmen were able to spread the risks more evenly among their numbers, so each paid a relatively small amount.



The insurance industry grew enormously, as individuals and businesses sought to protect themselves from economic catastrophe by transferring their risks to an insurance pool.

Example, In a village there are 1000 houses each house costing Rs. 1,00,000 and every year there is a possibility that 10 houses will be burnt by fire which will be a huge financial loss to the people living in those houses resulting into total financial loss of Rs. 10,00,000 ($1,00,000 \times 10$). Therefore, in order to reduce the loss, a pool of funds is created by the village panchayat in which every household has to contribute Rs. 100 ($1,00,000/1000$) every year resulting into total amount of Rs. 10,00,000 which is the estimated total financial loss if 10 houses are burnt in a year. Therefore, at the time of fire the funds can be used from the pool which will result into no financial losses to the households. This is called pooling of risk.



INTEXT QUESTIONS 2.5

1. From where did the concept of insurance started first?
 - a) Sea
 - b) Air
 - c) Land
 - d) None of the above
2. If there are 1000 households in a village and there is a possibility that 50 houses will be damaged due to flood every year where cost of each house is Rs. 10,000. What will be the contribution of each household in the pool of funds?
 - a) 50
 - b) 500
 - c) 5000
 - d) 100

2.9 INSURANCE AS A RISK MANAGEMENT TOOL

Risk management is an emerging concept in modern business. "Risk management can be defined as the process that identifies loss exposures faced by the organization and selects the most appropriate techniques for treating such exposures. In the past, risk management was limited which includes property risk, liability risk, and personal risk. Now, risk management has greater scope in modern business."



Notes

In the world of finance, risk management is the practice of identifying potential risks in advance, analysing them and taking precautionary steps. "Risk management is the process of analysing exposure to risk and determining how to handle such exposure. Risk management process is the best practices approach. It focuses on understanding the key risks and managing them within acceptable levels. Risk management is a discipline for identifying risks and determining the ways to address the future goal or minimizing harm and financial losses". A risk manager implements risk management programs to minimize the chances of losses.

Insurance can be defined as "the act of providing indemnity or coverage against harm, as per the contract. Insurance coverage refers to the legal and financial protection against potential future harm. It protects from the risk of person and business. Insurance has become an essential tool to manage the risks of an individual and corporations. Insurance is an economic institution that allows the transfer of financial risk from an individual to a group by the means of a two-party contract. Insurance is a legal contract that protects people from financial losses". It is a contract between the insurer and insured in which the insurer promises to pay the financial loss to the insured.

Likewise, Insurance is a legal contract in which an individual receives financial protection against losses from an insurance company. In the modern age, insurance has become an essential tool to manage the risks of an individual and corporations.

Human beings, his family, and the properties are always exposed to different kinds of risks. Risk involves losses. Insurance provides a safeguard against uncertainties and risk. It has become the most risk handling method.

2.10 INSURANCE VS ASSURANCE

The terms insurance and assurance are used frequently in the financial industry. Insurance provides financial coverage for unforeseen circumstances surrounding an event, such as fire, theft, or flooding. Assurance provides coverage for events that will occur, such as death.

A life insurance policy, for example, provides coverage to an individual for a specified period of time. If the individual dies during that specific period, the insurance company will pay the amount of money agreed upon in the insurance policy contract. If the insured individual lives past the specified time period, the insurance policy becomes void (invalid), and the provider (insurance company) is not obligated to make any payment.

A life assurance policy will always result in a payment being made because the investment is combined with the sum insured. The value of the policy also increases with time



because the investment bonus is added to the policy. Therefore, in the event of the insured dying, the policy would pay out the agreed upon amount plus any bonuses that have accumulated since the policy came into effect. If the policy is cancelled before the end of the specified period, the policy will retain some cash value, which relates to the investment portion bonuses. Most companies will issue penalties for cashing out on the policy before the specified time has ended.

Insurance companies usually offer both insurance and assurance policies, which tends to confuse most. Many life insurance companies offer a wide range of insurance and investment policies. These include investment funds, car insurance, pensions, investment bonds, life assurance, home insurance, and loans. Sometimes a life insurance company will brand itself a life 'assurance' company, but in this case, the two terms are used interchangeably.

Most companies in the financial service industry are aware of the confusion these two words are causing their customers. To counter this, companies now offer detailed guides to their customers containing information that satisfies customer needs and answers frequently asked questions. This has also led to an increase in the number of online guides and glossaries that offer specific information and comparisons between financial products. This information helps customers make more informed decisions when it comes to purchasing such financial products.

Insurance	Assurance
Cover for an event that could happen for example -a flood, theft , fire or accidents	Cover for an event that is certainly going to happen for example death of the insured.
The underlying principle is indemnity	The underlying principle is certainty
Annual Commitment-renewable	Long term commitment
General Insurance policy	Life insurance policy
Indemnify insured person with a financial risk protection	Assured payment on the happening of an event defined in the policy
Undertaken to reinstate the insured to his former position after an accident or loss	Undertaken to pay a lump sum when the event takes place as a result of the investment

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

INTRODUCTION TO INSURANCE

The insured party agrees to pay a premium regularly in exchange for adequate indemnity agreed in the policy document

The insured agrees to pay a premium regularly in exchange for benefit of lump sum of money paid at the time of a particular event.



INTEXT QUESTIONS 2.6

1. The principle of assurance is based upon
 - a) Uncertainty
 - b) Ascertainity
 - c) Certainty
 - d) Indemnity
2. The principle of insurance is based upon
 - a) Uncertainty
 - b) Ascertainity
 - c) Certainty
 - d) Indemnity



WHAT YOU HAVE LEARNT

Life Insurance in its modern form came to India from England in the year 1818. Oriental Life Insurance Company was the first life insurance company on Indian Soil started by Europeans in Calcutta. Bombay Mutual Life Assurance Society was the first life insurance company started by Indians in India. LIC Act was passed in 1956. The Indian Mercantile Insurance Ltd. was the first company to transact all classes of general insurance business.

Loss Prevention refers to the actions taken to lower the likelihood of an incident. Loss reduction refers to the strategies used to lessen the severity of a loss. One of the most common methods of risk transfer is insurance, which enables certainty to replace uncertainty through insurance indemnity. The primary burden of risk refers to the damages incurred by individuals and business entities as a result of pure risk events. The costs and pressures that one must endure just because they are exposed to a loss circumstance make up the secondary burden of risk. Risk financing, risk retention, risk avoidance, and risk transfer are the four methods of risk management. Insurance

offers financial protection in case unanticipated events like fire, theft, or flooding occur. Assurance offers protection against potential occurrences.



TERMINAL QUESTIONS

1. Give a brief overview of history of Life Insurance in India.
2. Give a brief overview of history of General (non-life) Insurance in India.
3. Explain the concept of insurance as a tool for risk management in detail.
4. Explain the types of risks burden that one carries.
5. Discuss how insurance works.
6. Differentiate between Insurance and Assurance.



ANSWERS TO INTEXT QUESTIONS

2.1

1. (d) 1818
2. (a) Oriental Life Insurance Company
3. (b) Bombay Mutual Life Assurance Society
4. (c) 1956
5. (b) 1870

2.2

1. (a) The Indian Mercantile Insurance Ltd.
2. (c) 1972
3. (b) 4

2.3

1. (d) All of the above

2.4

1. (c) Tertiary burden of risk
2. (d) All of the above

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

INTRODUCTION TO INSURANCE

2.5

1. (a) Sea
2. (b) 500

2.6

1. (c) Certainty
2. (d) Indemnity



LEARNING OUTCOMES

After studying this chapter, you are able :

- To explain thoroughly the evolution of insurance and origination of life and non-life insurance and illustrate the process of working of insurance and concept of risk management in insurance.

**3**

CLASSIFICATION OF INSURANCE

3.0 INTRODUCTION

In the previous chapter you have understood about evolution of insurance, its need and how does it work. This chapter aims to explain the classification of insurance in various categories. The chapter will also discuss about the recent trends in insurance sector like artificial intelligence, block chain, personalized insurance products, and explains the importance of insurance in the current scenario. The chapter also discuss in brief the intermediaries involved in insurance business like agents, brokers, insurance marketing firms, web aggregators etc.



3.1 OBJECTIVES

After reading this lesson, you will be able to:

- Explain the classification of Insurance
- Explain the recent trends in Insurance Sector
- Explain the concept of Insurance Intermediaries
- Appreciate importance of Insurance Industry

3.2 CLASSIFICATION OF INSURANCE

Insurance is a vast domain consisting of two broad categories- Life and General Insurance. Under a life insurance contract, financial compensation is offered in case of death or disability. There are certain life insurance plans that offer financial compensation even after retirement or a certain period of time. Thus opting for a life insurance policy



Notes

will help in securing your family's financial security even in your absence. A lump-sum amount is paid at the time of purchasing life insurance policy or payments are made periodically to the insurance company. These payments are known as premiums. The insurer guarantees to pay the policyholder's family or its nominee at the time of premium payment in the case of death, disability, or at a specific time.

General Insurance is also known as Non-life Insurance. It offers a range of insurance covers against uncertainties such as illness, property damage, motor accidents, etc. Assets have a value of their own and are vulnerable to damages and compensation. The specific general insurance cover can protect the economic value of the asset and prevent huge financial losses. For example, a motor insurance policy can protect one's vehicle and the valuables inside from calamities and theft.



Figure 3.1: Types of Insurance

At the end of March 2022, there were total 67 insurers in India. There were 24 life insurance companies, out of which 1 was public sector insurer and remaining 23 were from private sector. In general Insurance category, there were 26 companies, out of which 6 were public sector and 20 were from private sector. There were 5 standalone health insurance companies, all from private sector. In Re-insurance, 12 insurers were there in which one was public sector and remaining 7 were from private sector which includes the branches of foreign reinsurers.



Notes

REGISTERED INSURERS IN INDIA

Type of Insurer	Public Sector	Private Sector	Total
Life	1	23	24
General	6	20	26
Standalone Health	0	5	5
Re-insurers (including Foreign Reinsurers Branches/ Lloyd's India)	1	11	12
Total	8	59	67

Source: IRDAI Annual Report 2021-22

Table 3.1: Insurers in India

There are different types of Life Insurance Policies as mentioned in Fig 3.2. These plans can be opted by people as per their needs and requirements. For example- Term Life and Endowment plans can be purchased for financial security of the family of policyholder after his/her death. Also, Endowment, Unit Linked Insurance Plan can be purchased for investment purpose and Pension Plans can be purchased for financial security after retirement. Money Back and Children Policies can be bought for specific needs of the family whereas Annuity or Pension Plans are specifically meant for retirement needs.

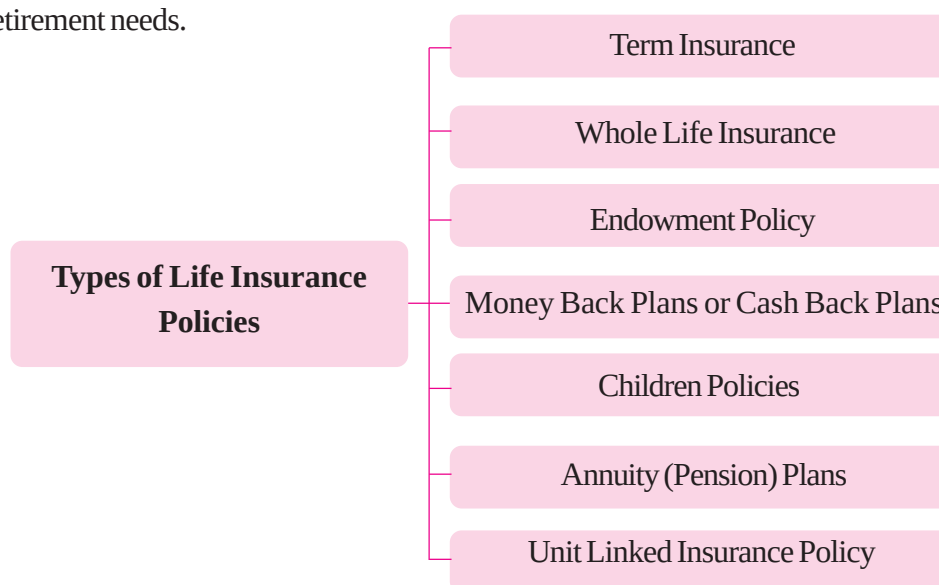


Figure 3.2: Types of Life Insurance



General Insurance classification is more comprehensive as compared to life insurance. General insurance also known as non-life insurance. It is classified into various categories like motor insurance, fire insurance, marine insurance, health insurance, liability and miscellaneous insurance etc. You will study about more comprehensive classification of general insurance in the coming chapters.

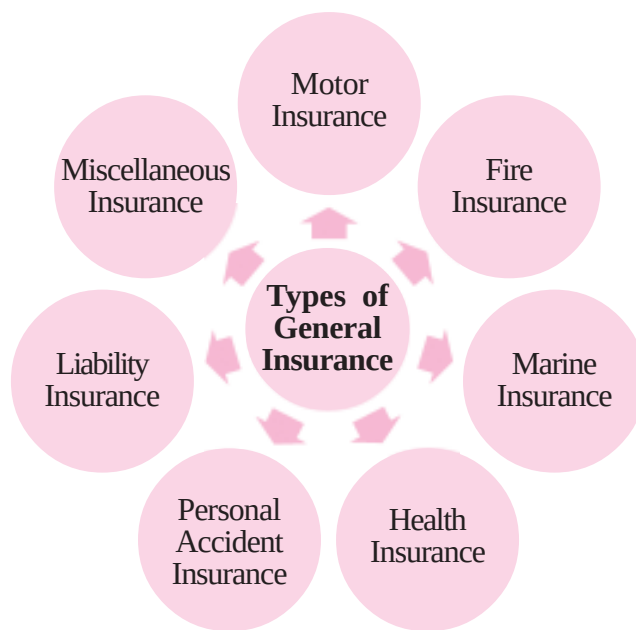


Figure 3.3: Types of General Insurance

Why you need: Life or General Insurance?

Scenario 1	Scenario 2	Scenario 3	Scenario 4
Mr. Gupta met with a major car accident. Mr. Gupta dies in that accident leaving behind a family including wife, two young children and his mother.	Samaira works in a MNC. She catches severe cold but is unable to visit doctor as her work keeps her very busy. Due to worsening of cold, she catches Pneumonia and is admitted in the ICU for five days.	Shyam is travelling to Portugal with layover at Paris. His first flight gets delayed due to which he misses the second flight and get stuck.	Mr. X is driving to work like every other day. The road has oil spill and another car spins out of control and hits Mr. X's car. His bumper and headlights get damaged.

CLASSIFICATION OF INSURANCE

Mr. Gupta had very less savings barely enough to cover even two months' expenses.	She spends Rs. 70000 on hospital expenditures for her entire course including her stay.	It costs Rs.57,000 to fly to London. Rs. 45,000 to return to India. Plus, the loss from hotel booking cancellations.	The car bumper costs Rs. 11,000 to repair. The headlights costs Rs. 10,000 to get repaired.
If Mr. Gupta had purchased a life insurance policy with Rs. 7,500 premium, the insurer would have ensured that the family of Mr. Gupta get a sum assured of Rs. 1 Crore.	If Samaira, has purchased a health insurance plan with Rs 4500 as premium the insurance company would have ensured that she need not pay from her pocket.	A travel insurance worth Rs. 5000 could have helped him pay the hotel bills.	Rs. 8,500 Motor insurance policy if purchased by Mr.X could have paid for the damages.

3.3 RECENT TRENDS IN INSURANCE SECTOR

The insurance industry stands on the cliff of profound change. And this disruption is not just digital. Demanding customers, new competitors and a changing set of challenges are transforming the insurance industry. The customers these days prefer for personalized products rather than the standardized ones. Advanced technologies like Artificial Intelligence and Automation is used in improving the efficiencies. Insuretechs apps, Drones, and Advanced analytics are helping the insurers to improve their customer experiences. Insurers are able to reduce their operational costs because of the use of Block chains in different operations. Let us discuss these trends which is changing the insurance industry at a fast rate.

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes



Notes

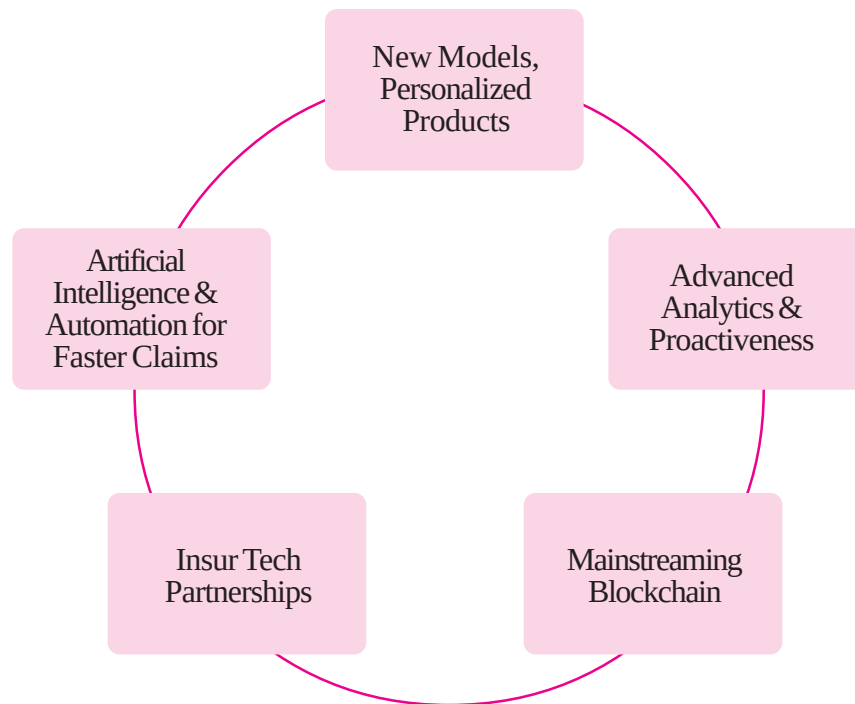


Figure 3.4: Recent trends in insurance sector

a) New Models, Personalized Products

The current era of digital economy will focus upon customized and comprehensive-all in one insurance products that are more relevant in the current scenario instead of individual covers for all risk types. Customers prefer personalized insurance covers instead of a standard one-size-fits-all kind of products that are currently available.

Flexible coverage options, micro insurance and peer-to-peer insurance (a risk sharing network among individuals that will pool their premiums together to get insured against a particular risk referred to as social insurance) will become feasible options in the long run. Deeper understanding of behaviors of customers will lead to better risk assessments, personalized premiums and sustainable value for better customer experience and brand loyalty, plus reduced false claims.

b) Artificial Intelligence & Automation for Faster Claims

The concept of Artificial Intelligence (AI) has recently grabbed the spotlight in the insurance industry. It is driven by new channel of data communication, better data processing capabilities. Artificial Intelligence eliminates the distribution channels like agents, brokers along with reduction in paper work, time and efforts.



The capabilities of AI to analyse the behavior of the customers will lead to reduction in moral hazards and fraud also. The newly introduced claims processing system with the help of AI in underwriting will help in accurately determining and analyzing the risk leading to higher profitability. The trend of Artificial Intelligence has brought the robots in the mainstream for both front and back office for automation of policy servicing and claims management facilitating faster and personalized customer service. For example, IFFCO Tokio General Insurance a leading insurer in India from past 19 years has adopted Artificial Intelligence to reach different customer segments as per their convenience. The company use AI for image processing to analyse the extent of the damaged vehicle (personal cars), which helps to generate a list of repairable and replaceable parts that were damaged in the accident. Within a few minutes, the assessment and the cost are given to the customer, which they can either accept or reject. If the assessment gets accepted, the payment is made within fifteen minutes directly to the customer's bank account.

In the absence of AI, these photographs were assessed by claim officers, and it was tedious and manual jobs, as they took a few hours to assess the damage. With the AI-based app, the list of damaged parts is generated within minutes along with a cost. It is now much more convenient for claim officers, as they are now in a better position to justify the assessment to the claimant.

Take another example of Kotak Life Insurance that uses AI to determine whether the person is alive or not. Earlier to submit the certificate of existence, a user had to visit the branch. It was a time consuming process for both customers and the company. With the help of Artificial Intelligence, the user can simply submit a photograph through application and the intelligent algorithms verify whether the person is alive or not.”

c) **Advanced Analytics & Pro-activeness**

With the help of technology enable devices such as Internet of Things, InsurTech apps and wearables, market is estimated to grow at a high rate in the coming years. Insurers dealing into Property and Casualty (P&C) will be able to extract real-time and accurate data on the loss exposure of individual consumers. Let's take an example of a Europe-based insurance company's partnership with Panasonic. Panasonic's sensors provide mobile alerts to both the insurer and its customers for quick and informed mitigation of loss exposures.

Also, Drone and imaging technology will enable insurers to obtain high-definition images for remote areas and analyse accurate property estimations. A few leading



U.S. auto insurers deployed drones to assess Hurricane Harvey's damages. An Australian insurance company was able to settle 90 percent of big loss claims within 90 days by deploying drones.

Advanced analytics will be deployed to dynamically user segments users and their needs, adjust policy prices, optimization of business strategies, and identify new growth opportunities. Artificial Intelligence and machine learning will help in transformation of insurers into active risk managers.

d) InsurTech Partnerships

InsurTech refers to the use of technology innovations designed to squeeze out savings and efficiency from the current insurance industry model. InsurTech is a combination of the words "insurance" and "technology," inspired by the term Fintech. The concept of InsurTech has shown significant growth in the areas of home ownership, automobile and cyber insurance. This tremendous growth of InsurTech has put a pressure on the traditional insurers to either become equipped with new technologies or do collaboration with InsurTech firms. The demand for innovative products and services from millennials has led to collaboration with InsurTech firms. With this collaboration the traditional insurers will be benefiting from speedy results by establishing a tech culture and InsurTech firms will get access to larger customer base, funding and domain expertise. This will give rise to newer models leading to higher profitability and reduced operational costs. Customer experiences will be enhanced with value-added offerings. Some of the InsurTech firms operating in India are Acko, Artivatic, Mantra Labs, Pentation Analytics, PolicyBazaar, Toffee Insurance, etc.

e) Mainstreaming Block chain

The need for huge volumes of customer data to be processed in real time by different insurance functions calls for easy and secure transfer of data across organizations. Blockchain technology provides the advantage of secure data management across multiple interfaces and stakeholders without loss of integrity. From identity management and underwriting to claims processing, fraud management and reliable data availability, the technology offers reduced operational costs.

The above trends indicate that new value worth billions of dollars can be created for the insurance industry. The key is to understand how and when to tap into this potential leveraging existing and new technologies.

**INTEXT QUESTIONS 3.1**

1. Which of the following insurance will be required to cover hospitalisation expenses?
 - a) Life Insurance
 - b) Health Insurance
 - c) Motor Insurance
 - d) None of the above
2. Which of the following is not a classification of Life insurance?
 - a) Term Insurance
 - b) Pension Plans
 - c) Fire Insurance
 - d) Endowment Plans
3. Which of the following firm make use of technology to innovate designs to squeeze out savings and efficiency from the current insurance industry model?
 - a) Fintech
 - b) Insurtech
 - c) Artificial Intelligence
 - d) None of the above
4. Which technology provides the advantage of secure data management across multiple interfaces and stakeholders without loss of integrity?
 - a) Blockchain
 - b) Insurtech
 - c) Fintech
 - d) None of the above
5. _____ eliminates brokers and paperwork, its behavioural economics capabilities minimize fraud - leading to reduced time, effort and costs.
 - a) Blockchain
 - b) Artificial Intelligence

Skill India and BFSI
Introduction to
Insurance



Notes



Notes

- c) Insurtech
- d) Fintech

3.4 INTERMEDIARIES

There are many organisations which are working along the Insurance Companies in providing insurance products and services. For example, there are Third Party Administrators (TPA) in the general insurance sector which provide bulk of the health insurance services. These are known as 'Intermediaries'. All such intermediaries are governed by Insurance Regulatory and Development Authority of India (IRDAI). These include:

1. **Insurance Brokers:** are individuals or corporates who work independently of insurance companies. They represent those who want to get insurance and connect them with insurers so they can get the finest insurance coverage at the lowest premium costs. They also help their clients file insurance claims and during times of loss. Any insurance company handling such business may accept insurance business from brokers. Insurance commissions are the means through which insurance firms pay them.

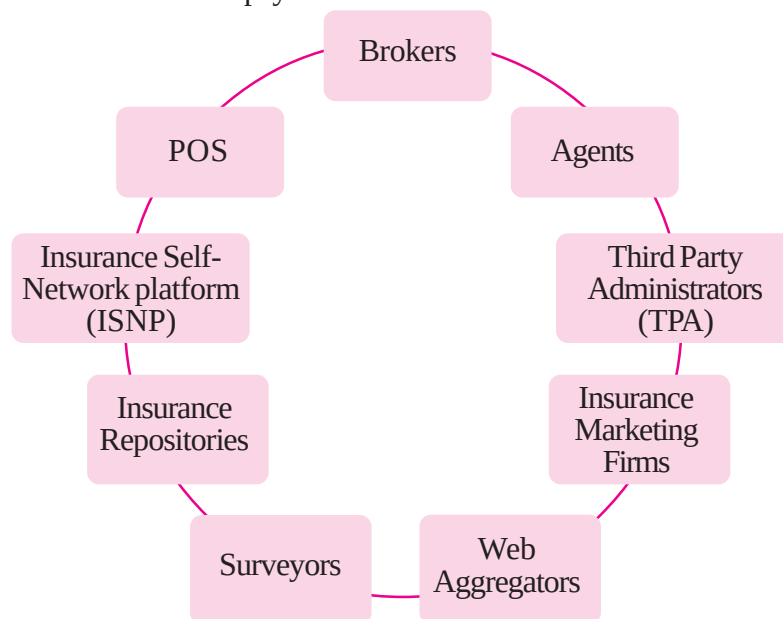


Figure 3.5: Insurance Intermediaries

2. **Insurance Agents:** are usually individuals but some can be corporate agents too. Agents, as opposed to brokers, are only permitted to place insurance with insurance companies for which they have been granted an agency licence.



According to current laws, an agent is only permitted to represent a maximum of one general insurance company, one life insurance company, one health insurance company, and one mono line insurer. Mono line insurers are insurance companies that only conduct one specific, specialised line of business, such as export credit guarantee or crop insurance. Insurance commissions are the means by which insurance companies pay their agents.

3. **Third Party Administrators (TPA) :** are a new type of service providers who came into business in 2001. They offer administrative support to insurance companies but are not permitted to sell insurance. A designated TPA is given the insured's information after the sale of a health insurance policy, and they use it to build a database and deliver the insured health cards. These health cards provide the insured person access to care that does not need upfront payment or cashless medical services. The insured individual can still pay his bills and request reimbursement from the designated TPA even if he does not use a cashless facility. TPAs receive funding from the insurance companies for their specific claims, and they are paid by them in the form of fees that represent a portion of the premium.
4. **Insurance Web Aggregators** are the service providers governed by IRDAI regulations. Through their website and/or telemarketing, they can produce leads of interested prospects to insurers with whom they have an agreement and solicit insurance business through distance marketing without meeting the prospect in person. Additionally, they showcase these insurance firms' offerings for comparison. Additionally, they may apply for IRDAI approval to carry out telemarketing and outsourcing tasks for the insurance companies, such as sending premium reminders and collecting premiums via an internet portal. Insurance firms pay them depending on the leads they turn into sales, the display of insurance products, and the outsourcing services they provide.
5. **Insurance Marketing Firms:** are the most recent categories of intermediaries subject to IRDAI regulation. By using people who have the necessary licences to sell, distribute, and support such products, they can carry out the following tasks:
 - a) **Insurance Selling Activities:** Selling insurance products from two life insurance companies, two general insurance companies, and two health insurance companies through the use of Insurance Sales Persons (ISP) at any time after notifying the IRDAI. Regarding general insurance, the Insurance Marketing Firm (IMF) is only permitted to solicit or obtain the retail insurance



lines listed in the file & use guidelines, namely motor, health, personal accident, householders, shopkeepers, and other insurance products as may be occasionally approved by the IRDAI. Only with the IRDAI's previous approval and with the appropriate provisions for providing service to current policyholders may any change in the engagement with the insurance firms be made.

- b) **Insurance Servicing Activities:** Only the insurance firms with which they have a contract for soliciting or purchasing insurance products and activities, as listed below, are eligible for these service operations:
 - a) engaging in back-office activities of insurers as permitted in the IRDAI's Guidelines on Outsourcing Activities by Insurance Companies.
 - b) obtaining approval from insurance repositories.
 - c) carrying out survey and loss assessment work by putting licenced surveyors and loss assessors on their payroll.
 - d) engaging in any other insurance-related activity that the Authority may from time-to-time permit.
- c) **Financial Products Distribution:** Financial Service Executives (FSE) who are licenced to market, distribute, and service such other financial products as:
 - a) mutual funds of mutual fund companies regulated by SEBI.
 - b) pension products regulated by PFRDA.
 - c) other financial products distributed by SEBI licensed Investment Advisors.
 - d) banking/ financial products of banks/ NBFC regulated by RBI.
 - e) non-insurance products offered by Department of Posts, Government of India.
 - f) any other financial product or activity permitted by the IRDAI from time to time.

6. **Surveyors** are the Independent qualified professionals from the field of engineering, medicine and finance who provide valuable service to the Insurance companies who do not wish to employ surveyors/ loss assessors directly and



prefer to have independent people who will work for them on case to case basis for a percentage of the claim amount. In America, they are called Claim Adjusters and often they are authorized by the companies to settle the claims up to a certain amount and even make the payment to the insured, so that small claims are settled early and the insured's satisfaction level is kept high.

7. **Insurance Repositories** are intermediaries which has been granted a certificate of registration by IRDAI for maintaining data of insurance policies in electronic form on behalf of Insurers. "A policy holder can buy and keep all the policies under an Electronic Insurance Account (EIA) with any one of the Insurance Repository of his/ her choice. The existing policies in physical mode too can be dematerialized and held in the eIA. The Insurance Repository System not only gives policyholders the option of storing insurance policies electronically, but it also gives them the ability to quickly and accurately make updates, alterations, and revisions to their insurance policies. In addition, the Repository acts as a 'single stop shop' for policy servicing."

The IRDAI has allowed five different entities to act as Insurance Intermediaries which are NSDL Database Management Limited, Central Insurance Repository Limited, SHCIL Projects Limited, Karvy Insurance Repository Limited, and CAMS Repository Services Limited.

8. **Insurance Self-Network Platform (ISNP)** means an electronic platform set-up by an insurer or an insurance intermediary for undertaking insurance e-commerce activities in India. Permission of IRDAI is required for setting up an Insurance Self-Network Platform. As per the regulations of IRDAI, an insurance agent is not permitted to set up a separate insurance self-network platform and instead can use respective insurer's self-network platform. The purpose of setting up an ISNP is to promote e-commerce in insurance space which is expected to lower the cost of transacting insurance business and bring higher efficiencies and greater reach. E-commerce in insurance could become an effective medium to increase insurance penetration and enhance financial inclusion in a cost efficient manner.
9. **POS:** An insurance company or an insurance intermediary can engage a "Point of Sales Person" who can solicit and market only certain pre-underwritten products approved by the IRDAI, apart from the insurance agent or specified persons of corporate agent or broker. These POS are identified by their Aadhaar Card Number or PAN Card. They should be at least 18 years of age with at least 10th pass as educational qualification. These POS are appointed in general



insurance for soliciting and marketing largely pre-underwritten products wherein based on the information provided by the prospect, the insurance policy is automatically generated by the system. In case of life insurance also, POS are engaged for simple plain vanilla type of products if each and every benefit of such product are fixed or predefined and are simple to understand.

3.5 IMPORTANCE OF INSURANCE INDUSTRY

Insurance contributes a lot to the general economic growth of the society by provides stability to the functioning of process. The insurance industries develop financial institutions and reduce uncertainties by improving financial resources.

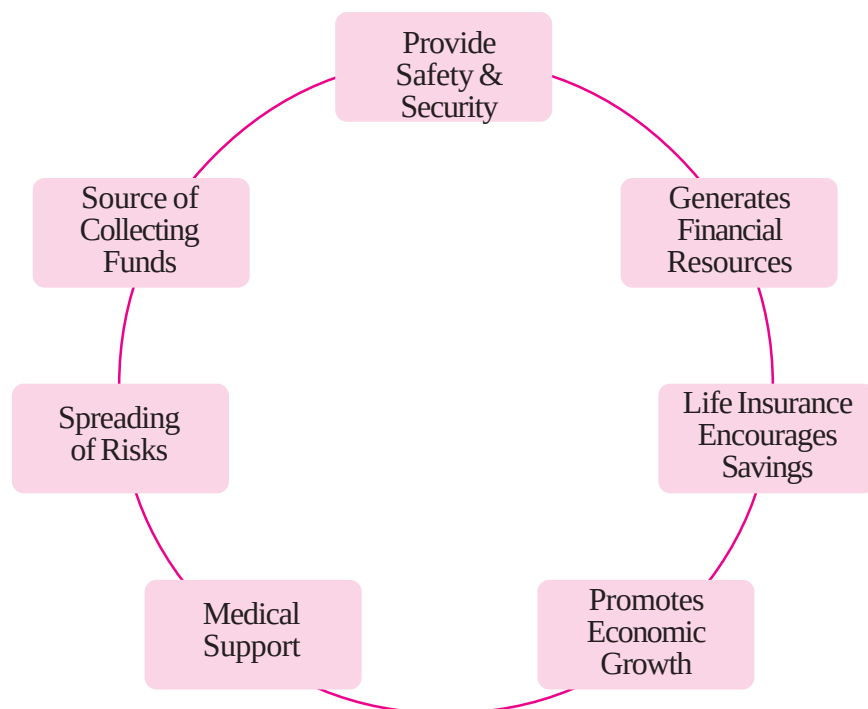


Fig 3.6: Importance of Insurance Industry

1. Provide Safety and Security:

Insurance provides protection against any particular event and sudden loss. For example, a life insurance plan provides financial assistance to the family of insured in event of death.

2. Generates Financial Resources:

Premium collection facilitates generation of funds which are further invested in stock and securities for industrial and economic development of the country.

**3. Life Insurance Encourages Savings:**

Life insurance facilitates savings by paying regular premium. It also returns a lumpsum amount after maturity of contract and helps in tax savings.

4. Promotes Economic Growth:

Insurance facilitates investments, savings and financial stability which in turn promotes trade and commerce activities leading to economic development of the country.

5. Medical Support:

Any individual can suffer through critical illness unexpectedly. Mediclaim insurance helps the insured mitigate hospital expenses and other health related expenses.

6. Spreading of Risk:

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

7. Source of Collecting Funds:

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

**INTEXT QUESTIONS 3.2**

1. Which among the following is not an insurance intermediary?
 - a) Agent
 - b) Broker
 - c) TPA
 - d) IRDAI Secretary

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

CLASSIFICATION OF INSURANCE

2. Which of the following cannot carry business for more than one insurance company?
 - a) Broker
 - b) TPA
 - c) Agent
 - d) All of the above
3. Which among the following is the latest type of intermediaries in insurance sector?
 - a) Agents & Brokers
 - b) Insurance Web Aggregators & Insurance Marketing Firms
 - c) Agents & Insurance Marketing Firms
 - d) Brokers & InsuranceWebAggregators
4. Which of the following will be considered as an important factor for insurance industry?
 - a) Generates financial resources
 - b) Life insurance encourages savings
 - c) Promotes economic growth
 - d) None of the above



WHAT YOU HAVE LEARNT

When acquiring a life insurance policy, you can choose to pay the insurer in one single sum or over time. They are referred to as premiums. General insurance, also referred to as non-life insurance, provides a variety of insurance protections against unforeseen events including illness, property damage, motor vehicle accidents, etc. New models and personalised products, automation and artificial intelligence for faster claims processing, advanced analytics and proactiveness, insurtech partnerships, and mainstreaming of blockchain are some recent trends in the insurance industry. Insurance brokers who operate independently of insurance firms and can be either people or corporations. They speak on behalf of those looking for insurance and connect them with insurers to get the finest insurance coverage at the lowest premium costs. There are two major forms of insurance: life insurance and general insurance. Although most

agents are people, some might also be business agents. Agents, unlike brokers, are only permitted to place insurance with the insurance companies for which they have been granted an agency. Third Party Administrators offer administrative services to insurance companies but are not permitted to sell insurance. Insurance WebAggregators can generate leads of interested prospects to insurers with whom they have an agreement by using their web site and/or telemarketing to seek insurance business without having to meet the prospect in person. Additionally, they showcase these insurance firms' offerings for comparison. The Insurance companies like to have independent specialists who would work for them on a case-by-case basis and for a percentage of the claim amount. Surveyors are the qualified independent professionals who offer this valuable service. Intermediaries known as "insurance repositories" have been given a certificate of registration by the IRDAI to store insurance policy data in electronic form on behalf of insurers. An electronic platform created by an insurer or an insurance intermediary for the purpose of conducting insurance e-commerce activities in India is known as an Insurance Self-Network Platform (ISNP). In addition to the insurance agent or other designated individuals of the corporate agent, an insurance company or an insurance intermediary may employ a "Point of Sales Person" who may only solicit and promote specific pre-underwritten products recognised by the IRDAI. The insurance sector is crucial because it offers safety and security, encourages saving, offers medical assistance, serves as a source of funding, assists in distributing risk, fosters economic progress, and creates financial resources.



TERMINAL QUESTIONS

1. Explain the classification of Insurance in detail.
2. What are the recent trends in insurance sector?
3. Describe the insurance intermediaries in detail.
4. Explain with the help of an example the importance of artificial intelligence and how it has helped in the growth of the insurance sector.



ANSWERS TO INTEXT QUESTIONS

3.1

1. (b) Health Insurance
2. (c) Fire Insurance

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

CLASSIFICATION OF INSURANCE

3. (b) Insurtech
4. (a) Blockchain
5. (b) Artificial Intelligence

3.2

1. (d) IRDAI Secretary
2. (c) Agent
3. (d) Brokers & Insurance Web Aggregators
4. (b) Life insurance encourages savings



LEARNING OUTCOMES

After studying this chapter, you are able :

- To explain the categories and recent trends of insurance sector and the role of intermediaries in insurance sector.

**4**

INSURANCE BUSINESS ENVIRONMENT

4.0 INTRODUCTION

While buying insurance, a client generally interacts with the agent or is aware about the insurance company from which he/she is buying an insurance policy. But in reality, there are many intermediaries involved in the insurance sector like insurance brokers, Third Party Administrators (TPAs), web aggregators, insurance marketing firms, surveyors, investigators, etc. There is a lot of scope for business in the form of these intermediaries. You will study about these intermediaries and how insurance sector is contributing to the economic development of the country. You will also learn about the social security schemes implemented by government of India. A brief overview about the functions of the regulatory body of insurance i.e. IRDAI is also given in this chapter.



4.1 OBJECTIVES

After reading this lesson, you will be able to:

- Appreciate various business opportunities in insurance sector
- Explain the role of insurance in economic development
- Explain the social security schemes implemented by government of India
- Explain the role and functions of The Insurance Regulatory and Development Authority of India (IRDAI)

4.2 BUSINESS OPPORTUNITIES IN INSURANCE SECTOR

Selling of Insurance is generally done by the branch offices of the companies or the Agents who are paid a healthy commission as a percentage of the business they bring to the company. But, today various distribution channels are available from which you can buy an insurance policy or which helps you in buying an insurance policy. Large



Notes

amount of business and job opportunities are available in these channels where an individual can start his/her career in Insurance sector. Some of these intermediaries or distribution channels are discussed below:



Figure 4.1: Business opportunities in Insurance Sector

- 1. Insurance Brokers:** Individuals or businesses that act independently of insurance firms are known as insurance brokers. They speak for those who want to get insurance and connect them with insurers so they can get the finest insurance coverage at the lowest premium costs. They also help their clients file insurance claims and during times of loss. Any insurance company handling such business may accept insurance business from brokers. Insurance commissions are the means through which insurance firms pay them.
- 2. Insurance Agents:** Although most agents are people, some might also be business agents. Agents, as opposed to brokers, are only permitted to place insurance with insurance companies for which they have been granted an agency licence. According to current laws, an agent is only permitted to represent a maximum of one general insurance company, one life insurance company, one health insurance company, and one mono line insurer. Mono line insurers are insurance companies that only conduct one specific, specialised line of business, such as export credit guarantee or crop insurance. Insurance commissions are the means by which insurance companies pay their agents.



3. **The Corporate Agent:** is a corporate entity wherein two or more Agents join hands and form legal entity wherein minimum two directors/ partners of a Corporate Agents or the firm should have the qualifications required of an Individual Agent. The minimum equity share capital requirement is Rs 50 lakhs for a corporate agent. With this concept many bankers have become Corporate Agents.
4. **Third Party Administrators:** A new class of service providers called third party administrators started operating in 2001. They offer administrative support to insurance companies but are not permitted to sell insurance. Following the sale of a health insurance policy, the information regarding the insured is given to a designated TPA, who creates the database and provides health cards to the insured. These health cards give the insured person access to cashless medical services, or care when payment is not required up front. The insured individual can still pay his bills and request reimbursement from the designated TPA even if he does not use a cashless facility.
5. **Insurance Web Aggregators:** IRDAI laws apply to service providers known as insurance web aggregators. Through their website and/or telemarketing, they can produce leads of interested prospects to insurers with whom they have an agreement and solicit insurance business through distance marketing without meeting the prospect in person. Additionally, they showcase these insurance firms' offerings for comparison. Additionally, they may apply for IRDAI approval to carry out telemarketing and outsourcing tasks for the insurance companies, such as sending premium reminders and collecting premiums via an internet portal. Insurance firms pay them depending on the leads they turn into sales, the display of insurance products, and the outsourcing services they provide.
6. **Insurance Marketing Firms:** The most recent intermediary kinds to be subject to IRDAI regulation are insurance marketing firms. By using people who have the necessary licences to sell, distribute, and support such products, they can carry out the following tasks:

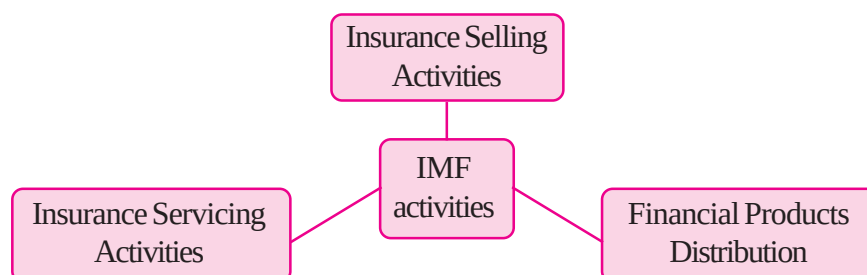


Figure 4.2: Activities performed by Insurance Marketing firms



Notes

a) Insurance Selling Activities

Selling insurance products from two life insurance companies, two general insurance companies, and two health insurance companies through the use of Insurance Sales Persons (ISP) at any time after notifying the IRDAI. Regarding general insurance, the Insurance Marketing Firm (IMF) is only permitted to solicit or obtain the retail insurance lines listed in the file & use guidelines, namely motor, health, personal accident, householders, shopkeepers, and other insurance products as may be occasionally approved by the IRDAI. Any modification to the insurance companies' engagement can only be made with the IRDAI's prior approval and appropriate plans for taking care of current policyholders.

b) Insurance Servicing Activities

Only the insurance firms with which they have a contract for soliciting or purchasing insurance products and activities, as listed below, are eligible for these service operations:

- a) engaging in back-office activities of insurers as permitted in the IRDAI's Guidelines on Outsourcing Activities by Insurance Companies.
- b) obtaining approval from insurance repositories.
- c) carrying out survey and loss assessment work by putting licenced surveyors and loss assessors on their payroll.
- d) engaging in any other insurance-related activity that the Authority may from time to time permit.

c) Financial Products Distribution

Financial Service Executives (FSE) who are licenced to market, distribute, and service such other financial products as:

- a) mutual funds of mutual fund companies regulated by SEBI.
- b) pension products regulated by PFRDA.
- c) other financial products distributed by SEBI licenced Investment Advisors.
- d) banking/financial products of banks/NBFC regulated by RBI.
- e) non-insurance products offered by Department of Posts, are engaged in the distribution of financial products.



7. **Surveyors** are the Independent qualified professionals from the field of Engineering, medicine and finance who provide valuable service to the Insurance companies who do not wish to employ surveyors/ loss assessors directly and prefer to have independent people who will work for them on case to case basis for a percentage of the claim amount. In America, they are called Claim Adjusters and often they are authorized by the companies to settle the claims upto a certain amount and even make the payment to the insured, so that small claims are settled early and the insured's satisfaction level is kept high.
8. **Risk Managers** is a highly specialized field. While some big Industrial houses are directly appointing Risk Managers on their pay rolls, others are seeking the services of independent specialist firms/ individuals to advise them in this very important aspect. Risk Managers are mainly engineers, who have in-depth knowledge of safety, hazards, claim minimization and perception of magnitude of risk, which can possibly arise. Technocrats with experience have great opportunities in this specialized field.
9. **Legal Consultants:** The services of legal consultants are availed by both the Insurer and the Insured. Their services are mostly required at the time of claim disputes, during arbitration, Third party claims, Liability claims or when the subject matter has been referred to the courts. It is predicted that growth of legal disputes out of insurance related matters is going to increase exponentially with over 20 new players entering the fray.
10. **Investigators** are the independent individuals or a firm whose services are used on case-to-case basis by the Insurance companies to investigate the genuineness /quantum of claims especially early claims and theft claims. They are specialised people and need to be experts in their field as well as in Insurance. Insurance claim detection agencies, fraud control organisations, and statistical/ grading agencies run by entrepreneurs will take a start in coming times.
11. **Recovery Agents** services are used by the Insurance Companies to settle third party claims. Wherein there is a chance of recovery from the third party, the insurers send the recovery agents to talk to the third party and arrive at a justified settlement thus savings on legal costs, which otherwise would have been incurred if the matter had gone to court. At times, the settlements made by the recovery agents are quite favourable.
12. **Actuary** is the most remunerative profession in Insurance sector. In life insurance companies, the appointment of Actuary is a statutory requirement. Basically he is a Production Manager of an insurance company especially of a Life insurer

Skill India and BFSI
Introduction to
Insurance



Notes

because he designs the product and its price so that the product is easily saleable in the market. To become an Actuary one has to become a member of Actuarial Society of India who has prescribed the qualification and examination to be passed by an individual. The minimum qualification is 1st class graduation and who studied Mathematics and Statistics at graduation level. It generally takes minimum 5-6 years to complete the course.



INTEXT QUESTIONS 4.1

1. Which of the following can procure business for only one insurance company?
 - a) Broker
 - b) Agent
 - c) TPA
 - d) Surveyor
2. Which is the most remunerative profession in the insurance sector?
 - a) Actuary
 - b) Surveyor
 - c) Agent
 - d) TPA
3. Which of the following activities are performed by the Insurance Marketing firms
 - a) Insurance Selling Activities
 - b) Insurance Servicing Activities
 - c) Financial Products Distribution
 - d) All of the above
4. Which of the following is not an independent qualified professional for any insurance company?
 - a) Surveyors
 - b) Legal consultants

- c) Agents
 - d) Investigators
5. What is the minimum capital required for becoming a corporate agent?
- a) 10 lakhs
 - b) 20 lakhs
 - c) 40 lakhs
 - d) 50 lakhs
6. Which of the following provide insurance services through their web site and/or telemarketing and can solicit insurance business through distance marketing without coming face to face with the prospect?
- a) Web Aggregators
 - b) IMF
 - c) Agent
 - d) None of the above

4.3 ROLE OF INSURANCE IN ECONOMIC DEVELOPMENT AND SOCIAL SECURITY

The social and economic development of a country is significantly influenced by insurance businesses. They are making a vital contribution to preserving and safeguarding the nation's wealth. Below are some of their contributions:

4.3.1 Role of Insurance in Economic Development

- a) Insurance companies' investments benefit society as a whole. The strength of an insurance firm comes from the massive sums that are gathered and accumulated in the form of premiums. The funds obtained from the insured are subsequently invested in a variety of strategies to maximise returns.
- b) The policyholders' interests are served by the collection and preservation of these money. Insurance providers must consider this factor when handling these monies, and must always choose options that will benefit the community.
- c) Insurance provides various advantages to individual, families, business firms and country as whole. As a result of being shielded from the effects of any losses that may result from an accident or unlucky event, the insured-individuals

Module - 1

**Skill India and BFSI
Introduction to
Insurance**



Notes



Notes

and businesses-directly gain. As a result, insurance serves to protect industry capital while freeing it up for future commercial and industrial growth.

- d) Insurance eliminates one's future-related dread, worry, and anxiety, which supports free capital investment in commercial ventures and encourages effective use of available resources. Thus insurance facilitates employment opportunities, industrial development leading to increase in national productivity.
- e) Unless the property is covered by insurance against loss or damage from insurable dangers, no bank or financial institution may advance loans secured by real estate. The majority of them are adamant about using the policy as collateral security. You may use your life insurance policy as security for a loan from a financial institution.
- f) Before accepting a risk, insurers arrange for certified engineers and other professionals to examine and assess the property to be insured. They evaluate the risk for rating purposes, but they also offer and advise the insured to make changes to the risk that will result in lower premium rates.
- g) In terms of contributing to the country's foreign exchange earnings, insurance ranks with export commerce, shipping, and banking services. Over 30 different countries are served by Indian insurers. These activities provide revenue in the form of invisible exports.
- h) Insurers have tight ties to a number of institutions and agencies involved in road, cargo, and industrial safety as well as fire loss prevention.

4.3.2 Insurance and Social Security

- a) It is now acknowledged that the State is required to provide social security. Numerous legislation adopted by the State for this aim use insurance as a social security measure, either mandatory or optional. Under some social security programmes, the federal and state governments pay premiums, fulfilling their social obligations. Employees State Insurance Corporation is authorised by the Employees State Insurance Act of 1948 to cover the costs of sickness, disability, maternity, and death for the benefit of industrial employees and their covered families. The government has designated specific industrial locations where the scheme is in operation.
- b) Insurers play an important role in social security schemes sponsored by the Government such as:
 - 1. RKBY - Rashtriya Krishi Bima Yojana

2. RSBY - Rashtriya Swasthya Bima Yojana
 3. PMJBY - Pradhan Mantri Jeevan Jyoti Bima Yojana
 4. PMSBY - Pradhan Mantri Suraksha Bima Yojana
 5. APY - Atal Pension Yojana
- c) All commercially run rural insurance programmes are created with the ultimate goal of giving rural families social security.
- d) In addition to providing assistance for government initiatives, the insurance sector itself provides commercial insurance coverage with the ultimate goal of social security. Janata Personal Accident, Jan Arogya, etc. are a few examples.

4.4 ROLE AND FUNCTIONS OF THE INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA (IRDAI)

The insurance business is deep rooted in India. It was started in 1818 with establishment of Oriental Insurance Company in Calcutta. To promote transparency, regulation and orderly conduct of insurance business in the country, the Insurance Regulatory and Development Authority of India (IRDAI) was established as statutory body in year 2000 under the IRDA Act, 1999. It came into existence after the recommendation of Malhotra Committee report. The functions of IRDAI include regulation, development and research related to insurance industry.

The functions of IRDAI includes:

- To set, promote, monitor, and enforce high standards of integrity, financial soundness, fair dealing, and competence of those it regulates;
- To protect the interests of and ensure fair treatment to policyholders; To promote speedy and orderly growth of the insurance industry (including annuity and superannuation payments), for the benefit of the general public, and to provide long-term funds for accelerating growth of the economy;
- To set, promote, monitor, and enforce high standards of compliance with applicable laws;
- To promote fairness, transparency, and orderly conduct in financial markets dealing with insurance and construct a reliable management information system to enforce high standards of financial soundness among market players;
- To ensure prompt settlement of genuine claims, prevent insurance frauds and other malpractices, and put in place effective grievance redressal mechanisms;

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

INSURANCE BUSINESS ENVIRONMENT

to act if such standards are not sufficient or are not properly enforced;

- To ensure that the industry operates with the appropriate level of self-regulation in accordance with prudential regulation standards.
- To register businesses that operate insurance businesses.



WHAT YOU HAVE LEARNT

There are many business opportunities in the insurance sector which includes agents, brokers, TPA's, insurance marketing firms, surveyors, etc. There are many intermediaries involved in insurance industry like Insurance Brokers, Insurance Agents, Corporate Agent, Third Party Administrators, Insurance Web Aggregators, Insurance Marketing Firms, Surveyors and Loss Assessors, Risk Managers, Legal Consultants, Investigators, Recovery Agents, and an Actuary. Insurance companies play an important role in a country's social and economic development. They are contributing in a significant sense to ensuring that the wealth of the country is protected and preserved. To promote transparency, regulation and orderly conduct of insurance business in the country, the Insurance Regulatory and Development Authority of India (IRDAI) was established as statutory body in year 2000 under the IRDA Act' 1999. Insurance Regulatory and Development Authority of India came into existence after the recommendation of Malhotra Committee report.



INTEXT QUESTIONS 4.2

1. How has insurance contributed in the economic development of the country?
 - a) Export trade
 - b) Investment of premiums
 - c) Free investment of capital in business enterprises
 - d) All of the above
2. Which of the following is a social security schemes sponsored by the Government?
 - a) RKBY – Rashtriya Krishi Bima Yojana
 - b) RSBY – Rashtriya Swasthya Bima Yojana
 - c) PMJBY – Pradhan Mantri Jeevan Jyoti Bima Yojana



- d) All of the above
3. When was IRDAI established?
- a) 1998
 - b) 2000
 - c) 2001
 - d) 1990
4. Which of the following is not the function of IRDAI?
- a) To protect the interest of policyholders
 - b) To bring about speedy and orderly growth of the insurance industry
 - c) To promote fairness, transparency and orderly conduct in financial markets dealing with insurance
 - d) All of the above
5. _____ Act, 1948 provides for Employees State Insurance Corporation to pay for the expenses of sickness, disablement, maternity and death for the benefit of industrial employees and their families, who are insured persons.
- a) The Employees State Insurance
 - b) Workmen Compensation
 - c) Public Liability
 - d) None of the above



TERMINAL QUESTIONS

1. Discuss in brief various business opportunities in the insurance sector.
2. Explain the role of insurance in economic development of the country.
3. Explain the role of insurance in social security of the country.
4. Discuss the functions of IRDAI in detail.



Notes



ANSWERS TO INTEXT QUESTIONS

4.1

1. (b) Agent
2. (a) Actuary
3. (d) All of the above
4. (c) Agents
5. (d) 50 lakhs
6. (a) Web Aggregators

4.2

1. (d) All of the above
2. (d) All of the above
3. (b) 2000
4. (d) All of the above
5. (a) The Employees State Insurance



LEARNING OUTCOMES

After studying this chapter, you are able :

- To explain various business opportunities available in Insurance Sector and the role of Insurance in economic development of the country
- To explain the role and functions of The Insurance Regulatory and Development Authority of India (IRDAI).

**5**

CUSTOMER SERVICES IN INSURANCE SECTOR

5.0 INTRODUCTION

Any product or service when purchased from an individual or a company carries with it the customer expectations associated with that product or service. The customer expects hassle free delivery with clear communication about the details of the product or service when purchased from a company. For example: a fully automatic washing machine if not working properly after purchase from an electronic showroom needs to be fixed by the company free of cost and the communication for service should be done by the showroom dealer of that appliance. Similarly at the time of purchasing an insurance policy the policyholder expects support and help from the company at each stage starting from proposal form filling to claim management. The agent /insurance company should guide the policyholder at every stage by clarifying their doubts. If these services are delivered efficiently, this will lead to customer loyalty and growth in the business of the company. Therefore, in this chapter you will learn about the concept of service, services in insurance and role of agent in providing customer service.



5.1 OBJECTIVES

After reading this lesson, you will be able to:

- Explain the need for Customer Service
- Describe Quality of Service
- Explain customer service and insurance
- Elaborate Insurance agent's role in providing great customer service

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

CUSTOMER SERVICES IN INSURANCE SECTOR

- i. The Point of Sale - Best advice
- ii. The proposal stage
- iii. Acceptance stage
- iv. The claim stage

5.2 CUSTOMER SERVICE

“Customer is the King”- This actually stands true in case of companies offering products and services as the customers are regarded as the bread and butter of the company. The role of services in insurance sector is much more crucial than the services provided in case of a product. Customer service can be defined as “the assistance and advice provided by a company to those people who buy or use its products or services.” When the company is able to provide customer with these services it will be able to maintain a good reputation among the prospected customers and current customers as well. Also, it is six times more expensive to acquire a new customer than to retain an existing customer.

Insurance is a service and there is a difference in purchasing insurance and other product. You can understand this with the help of following differentiation.

Buying a Car	Buying a Car Insurance
A car is tangible in nature which can be seen, touched or test driven.	Car insurance is a contract in which the insurance company promises the policyholder to compensate against the losses in case of damage or loss to the car due to any unforeseen accident or incident. A car insurance is an intangible product and cannot be touched or seen
When a person buys a car he or she experiences happiness and pleasure at the time of buying.	When a person buys a car insurance, he or she buys it out of fear and anxiety due to any unforeseen accident.
A car is produced after getting assembles in a factory, then it is sold in showroom and then used on the road. All these takes place at different phases of time and not simultaneously.	In case of insurance the process of production and consumption takes place simultaneously.



Customer service is important because it can help you to:

- Increase customer loyalty
- Increase sales
- Increase consumer purchasing frequency from the company
- Generate positive word-of-mouth about the company

Apart from the factors mentioned above there are many other reasons also that contributes to the importance and benefits of customer service which results in customer delight and satisfaction.

Strategies can include:

- Understanding your customers' needs and wants
- Acting on promises made to your customer
- Handling complaints effectively and gracefully
- Exceeding customer expectations
- Going out of your way to help your customer.

5.2.1 Characteristics of Good Customer Service

Customer service is the act of taking care of the customer's needs by providing and delivering professional, helpful, high quality service and assistance before, during, and after the customer's requirements are met. Customer service is meeting the needs and desires of any customer. Some characteristics of good customer service include:

Promptness: Promises for delivery of products must be on time. Delays and cancellations of products should be avoided.

Politeness: Politeness is almost a lost art. Saying 'hello,' 'good afternoon,' 'sir,' and 'thank you very much' are a part of good customer service. For any business, using good manners is appropriate whether the customer makes a purchase or not.

Professionalism: All customers should be treated professionally, which means the use of competence or skill expected of the professional. Professionalism shows the customer they're cared for.

Personalization: Using the customer's name is very effective in producing loyalty. Customers like the idea that whom they do business with knows them on a personal level.

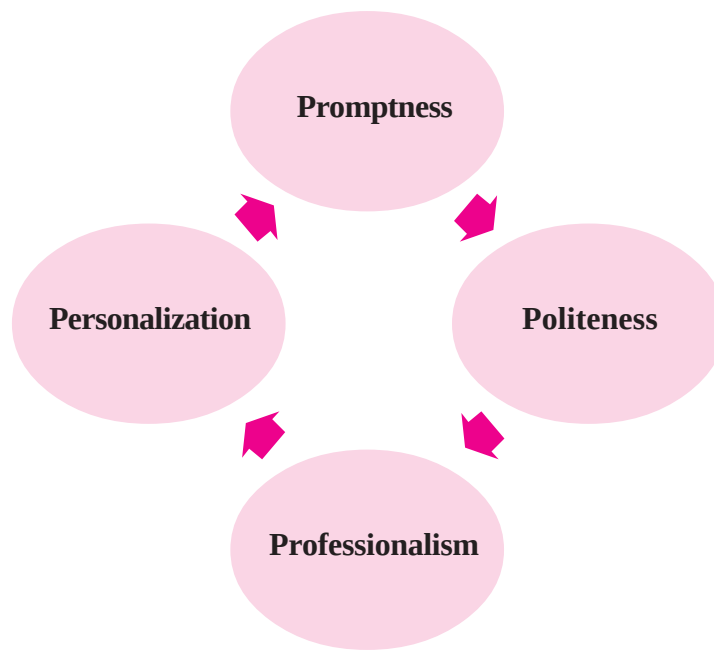


Fig. 5.1: Characteristics of Good Customer Service

5.3 QUALITY OF SERVICE

In order to delight and satisfy the customer, the insurance companies and their representative like agents, executives etc. should deliver high quality services.

5.3.1 High Quality Service and its Attributes

A well-known model on service quality (named “SERVQUAL”) would give us some insights. The SERVQUAL Model is an empiric model developed by Zeithml, Parasuraman and Berry to compare the service quality performance with customer service quality needs. It is used to do a gap analysis of an organisation’s service quality performance against the service quality needs of its customers. That’s why it is also known as GAP model. It takes into account the perceptions of customers of the relative importance of service attributes.

It highlights five major indicators of service quality: (RATER)

- a) **Reliability:** The ability to consistently and accurately provide the promised or guaranteed service. It is regarded as the most significant of the five service quality dimensions. It serves as the basis upon which trust is constructed.
- b) **Assurance:** It is the ability of service providers to inspire confidence and trust via their knowledge, competence, and kindness.



- c) Tangibles represents the tangible elements of the environment that a client can touch, hear, and see. When a consumer visits the office of an insurance firm, for instance, the location, the design, the cleanliness, the sense of order and professionalism can leave a lasting impression. The physical environment becomes crucial since it influences people's perceptions both before and after they receive the service.
- d) Empathy is described as the human touch. It is reflected in the caring attitude and individualised attention provided to customers.
- e) Responsiveness refers to a service representative's readiness and capacity to assist consumers and give a timely answer to their requests. Indicators like speed and attitude when providing the service might be used to gauge it.

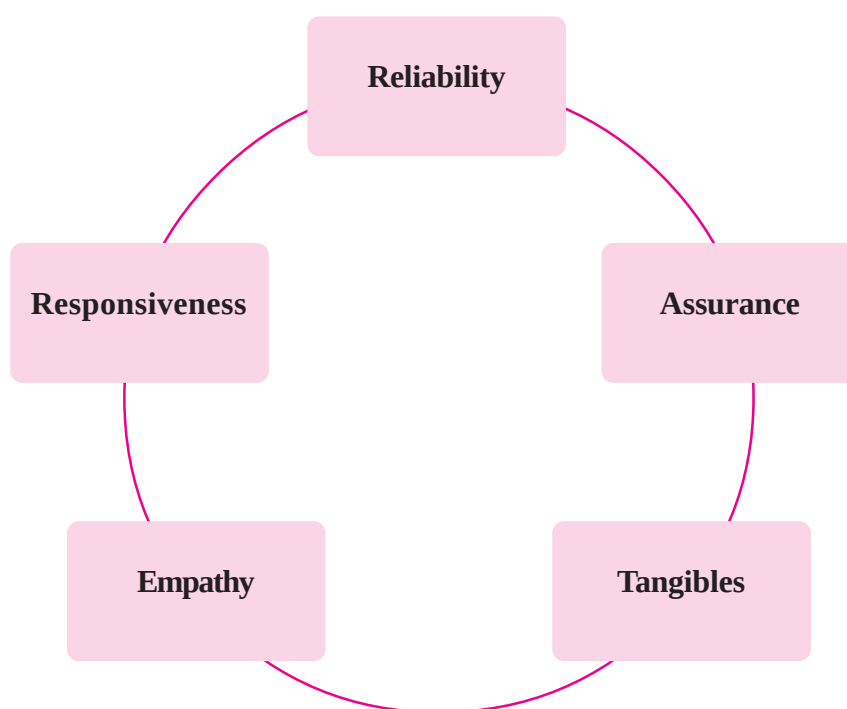


Fig 5.2: Major Indicators of Service Quality

5.4 GAP MODEL OF SERVICE QUALITY

Gap 1: Knowledge Gap

The knowledge gap is the difference between the customer's expectations of the service and the company's perception of that service.

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

CUSTOMER SERVICES IN INSURANCE SECTOR

Essentially, this gap arises because management doesn't know exactly what customers expect. There are a number of reasons this could happen, including:

- Lack of management and customer interaction.
- Lack of communication between service employees and management.
- Insufficient market research.
- Insufficient relationship focus.
- Failure to listen to customer complaints.

Example:

If Amazon Prime suffer from Gap1 the reason could be because they don't offer the right amount of new web series to their customers. If dominos suffers from this gap then the reason could be because they don't offer salads. In both cases, customers expect these things but they are not offered.

Gap 2: The Policy Gap

The policy gap is the difference between management's understanding of the customer needs and the translation of that understanding into service delivery policies and standards.

There are a number of reasons why this gap can occur:

- Lack of customer service standards.
- Poorly defined service levels.
- Failure to regularly update service level standards.

Example:

If Amazon Prime were to suffer from this gap then it could be that they offer all the right shows but the streaming quality level isn't high enough. If dominos where to suffer from this gap then it could be they offer salads but the quality isn't as good as people expect.

This gap causes customers to seek a similar service elsewhere but with better service.

Gap 3: The Delivery Gap

The delivery gap is the difference between service delivery policies and standards and the actual delivery of the service.



This gap can occur for a number of reasons:

- Deficiencies in human resources policies.
- Failure to match supply to demand.
- Employee lack of knowledge of the product.
- Lack of cohesive teamwork to deliver the product or service.

Example:

If Amazon Prime is suffering from this gap the reason could be because when the customer selects the show they want to watch it takes five minutes before it starts to play. In this case, the product isn't performing as it should.

If dominos suffers from this gap then it could be that when the customer orders the salads they are informed that the kitchen has run out. In this case, supply hasn't been adequately matched to demand.

Gap 4: The Communication Gap

The communication gap is the gap between what gets promised to customers through advertising or external communication and what gets delivered.

Again. There are a number of reasons why this can happen:

- Overpromising.
- Viewing external communications as separate to what's going on internally.
- Insufficient communications between the operations and advertising teams.

Communication gaps lead to customer dissatisfaction. This happens because what they receive isn't what they were promised. In the worst case, it may cause them to turn to an alternative supplier.

Example:

If Amazon prime were to experience this gap then it could be because that although the service is good it isn't as good or as easy to use as depicted in the advertisements. If dominos were to suffer from this gap then it could be because the salad was good but it wasn't as large or delicious as it looked in the advertisements.

Gap 5: The Customer Gap

The customer gap is the difference between customer expectations and customer perceptions. This gap occurs because customers do not always understand what the

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

CUSTOMER SERVICES IN INSURANCE SECTOR

service has done for them or they misinterpret the service quality.

Many organizations can be completely blind to this gap. This gap can happen because of one of the other four gaps, or simply because the customer perceives the quality of the service incorrectly. In a worst-case scenario, it could lead to a business losing a large proportion of their customers overnight. Although the company thought there was no gap, the reality was that their customers were just waiting for someone to fill their perceived gap.

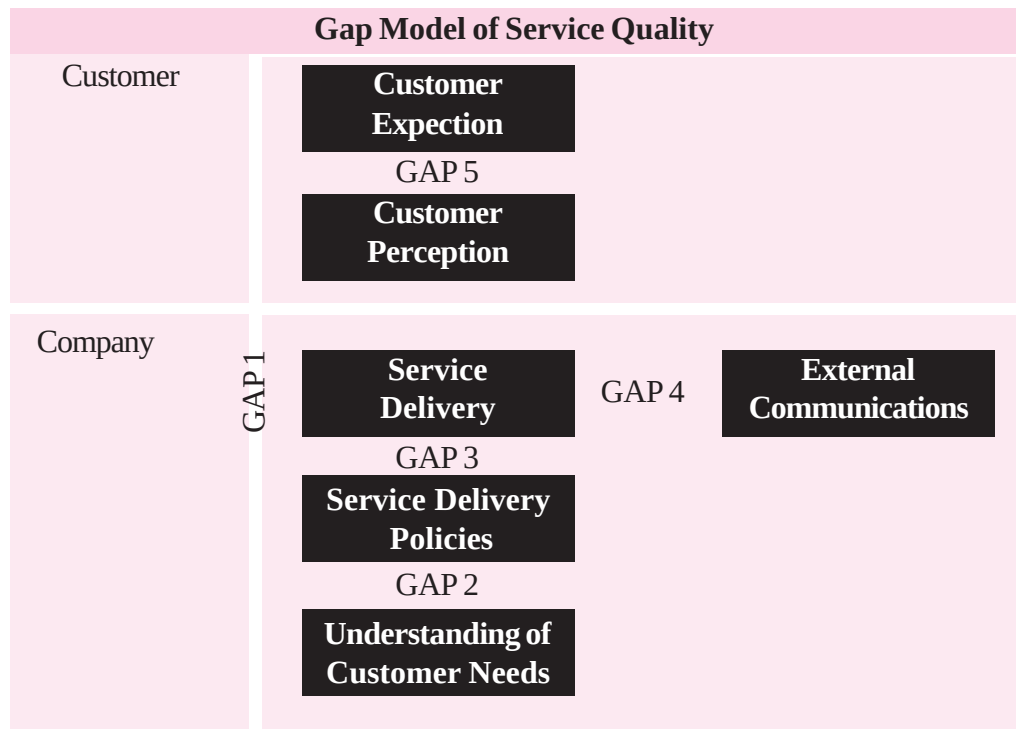


Fig 5.3: GAP Model of Service Quality (SERVQUAL MODEL)



INTEXT QUESTIONS 5.1

1. Which of the following is an important aspect of customer service?
 - a) Increase customer loyalty
 - b) Increase sales
 - c) Generate positive word-of-mouth about the company
 - d) All of the above



2. Which of the following is not a characteristic of customer service?
 - a) Promptness
 - b) Customization
 - c) Professionalism
 - d) Politeness
3. Who developed the SERVQUAL model of service quality?
 - a) Zeithml, Parasuraman and Berry
 - b) Zeithml, Parasuraman and Robert
 - c) Zeithml, Parasuram and Berry
 - d) Zeithml, Parasuraman and Ferry
4. The five major indicators of service quality (RATER) are:
 - a) Readability, Assurance, Tangibles, Empathy, Responsibility
 - b) Responsibility, Advancement, Tangibles, Empathy, Responsiveness
 - c) Reliability, Assurance, Tangibles, Empathy, Responsiveness
 - d) Reliability, Advancement, Tangibles, Empathy, Readily
5. Which of the following is not a gap under GAP model of service quality?
 - a) Knowledge Gap
 - b) Policy Gap
 - c) The Delivery Gap
 - d) The Company Gap
6. How many gaps are in the Gap model of Service quality?
 - a) 5
 - b) 4
 - c) 3
 - d) 6

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

CUSTOMER SERVICES IN INSURANCE SECTOR

7. Knowledge gap is the gap between
 - a) Customer expectations and customer perceptions.
 - b) Service delivery policies and standards and the actual delivery of the service.
 - c) The customer's expectations of the service and the company's perception of that service.
 - d) What gets promised to customers through advertising and what gets delivered.
8. Delivery gap is the gap between:
 - a) Customer expectations and customer perceptions.
 - b) Service delivery policies and standards and the actual delivery of the service.
 - c) The customer's expectations of the service and the company's perception of that service.
 - d) What gets promised to customers through advertising and what gets delivered.
9. Communication gap is the gap between:
 - a) Customer expectations and customer perceptions.
 - b) Service delivery policies and standards and the actual delivery of the service.
 - c) The customer's expectations of the service and the company's perception of that service.
 - d) What gets promised to customers through advertising and what gets delivered.
10. Customer gap is the gap between:
 - a) Customer expectations and customer perceptions.
 - b) Service delivery policies and standards and the actual delivery of the service.
 - c) The customer's expectations of the service and the company's perception of that service.
 - d) What gets promised to customers through advertising and what gets delivered.



Notes

5.5 CUSTOMER SERVICE AND INSURANCE

Any insurance company that is having a good name in the market has managed to do so by providing essential services to its customers. The existing clients help the insurance companies to build their business. With the help of the existing clients the insurers are able to acquire new customers.

The commitment of insurance businesses to providing excellent customer service is the key to their success. Customers who are pleased with the company's services will be profitable for both the agent and the business. Let's examine the idea of customer lifetime value to better comprehend this. The total of the financial gains that can be realised through establishing a solid relationship with a customer over an extended period of time is known as "customer lifetime value."

It consists of three parts

Historical Value

Premiums and other revenues that have been received in the past from customer

Present Value

Future premiums that may be expected to be received if existing business is retained

Potential Value

The value of premiums that could be derived by persuading the customer to buy additional products

Fig 5.4: Customer Lifetime Value

An agent who renders service and builds close relationships with its customers, builds goodwill and brand value, which helps in expanding the business.

5.6 INSURANCE AGENT'S ROLE IN PROVIDING GREAT CUSTOMER SERVICE

Let us now consider how an agent can render great service to the customer. The role begins at the stage of sale and continues throughout the duration of the contract, and includes the following stages

5.6.1 The Point of Sale - Best advice

Point of Sale is the first point of service between the insurance company and the client. Determining the amount of sum insured under a non-life insurance policy is the most crucial issue.

Skill India and BFSI
Introduction to
Insurance



Notes

The agent should not suggest over-insuring risks that the insured can handle on their own when determining the appropriate amount of coverage to be provided to the policyholder. The risk does not need to be insured under the policy and it is preferable for the insured to bear the risk if the loss attributable to the risk is less than the premium amount.

In another situation, it is advisable to get insurance against a contingency if its occurrence will result in financial stress. Depending on the situation, insurance may or may not be necessary. The insured can choose to assume the risk without insurance if the likelihood of a loss or harm resulting from a threat is minimal or nonexistent.

Purchasing earthquake insurance would be beneficial if you own a home in an earthquake-prone area. On the other hand, it is not required to purchase insurance coverage if a home's owner lives in an area with low earthquake risk.

Motor Insurance against third parties is required by law in India. The debate about whether to purchase insurance in that situation is unnecessary.

The Third Party Insurance cover is mandatory if anyone owns a vehicle and wants to drive it on a road. Also, the owner of the vehicle should take a cover of own damage as there is a possibility of loss or damage to the vehicle, but this is not mandatory.

Most non-life insurance policies broadly fall in two categories:

- Named peril policies
- All risk policies

Since they include any risk covers that might be excluded from named perils policies, all risk plans are more expensive than named perils policies. Named perils policies can therefore be advantageous because they allow the individual to select certain risk covers to which they are exposed, which results in lower premiums.

The agent needs to see insurance from the insured's point of view because the insured uses insurance as a risk management tool. The agent should explain to the insured the different methods for lowering insurance costs that are available, such as risk retention or loss avoidance. Therefore, the agent has to perform multiple roles of risk counsellor, underwriter, risk assessor and a relationship builder apart from just selling the policy.



5.6.2 The Proposal Stage

The customer requires guidance and assistance from the agent while they complete the insurance proposal form. All of the information in the proposal form should be explained to the proposer by the agent. Because failure to provide accurate and comprehensive information can put the customer's claim at risk, the insured is accountable for all representations made in the proposal form.

The insurance company may occasionally demand more details in order to finish the policy form. In these situations, the business may inform the client directly or via the agent or advisor. In either scenario, it becomes vital for the agent to assist the client in finishing the necessary paperwork and even to explain to them why they are required.

Here, the Agent can help the Customer to open an e-Insurance Account (e-I-A), if required, through the Registered Insurance Repository.

5.6.3 Acceptance Stage

- a) The agent now has the duty to see that the insurance company issues the cover letter to the insured in a timely manner. The client's faith and trust in the business will be ensured by this level of promptness.
- b) Delivery of the policy is another important role of the agent. The policy can be delivered in person or through mail. It is better to deliver the policy in person as it becomes a meeting opportunity for the agent and the insured for clarifying all the doubts under the policy if any. In case of delivery by mail, a phone call by the agent will be a good gesture to clarify all the doubts that the insured might have under the policy terms and conditions.

Additionally, this aids in the customer's understanding of the many types of policy provisions as well as the rights and benefits that the policy holder is entitled to. This action shows a readiness to offer a degree of service above and beyond the transaction.

Here, the Agent can help the Customer to open an e-Insurance Account (e-I-A), through the Registered Insurance Repository.

5.6.4 Policy Renewal

Non-life insurance policies are renewed every 12 months. It is the decision of the policyholder to continue the policy or not.



Notes

Although insurers are not required by law to notify an insured that his policy will expire on a specific date, they do so out of politeness and because it is a sound business practise to do so. Insurers send out a “Renewal Notice” one month before the policy expires, inviting renewal of the coverage. To remind the client about renewal so that he can make arrangements for it, the agent must contact the customer well in advance of the renewal due date. By staying in touch with the client sometimes and extending a greeting to him on special occasions like holidays or family gatherings, the relationship is strengthened.

5.6.5 The Claim Stage

When it comes to settling claims, the agent is essential. The agent must make sure that the loss-causing occurrence that gave rise to the claim is reported to the insurer right away and that the customer diligently observes all formalities and aids in any investigations that may be required to determine the extent of the damage.

5.7 SIGNIFICANCE OF BUILDING AND MAINTAINING LONG-TERM RELATIONSHIPS WITH THE CUSTOMERS

The long-term success of a firm depends on developing a working connection with its clients. Customers feel safer and connected with brands when there is a strong relationship built on trust and open communication. This connection can also increase customer retention and your rate of repeat business. Getting new clients is more expensive than keeping the existing ones as “retaining a current customer costs anywhere from 5 to 25 times less than obtaining a new one.” In general, keeping customers is much more advantageous for businesses and continues to be the top source of revenue, surpassing paid advertising, product innovation, and customer acquisition.

5.8 TECHNIQUES TO HANDLE CUSTOMER OBJECTIONS

Having a systematic process for handling objections can make the difference in whether you can move the sale to a close. If you follow this process you will have better results:

Listen: Listen carefully to the objection.

Ask: Confirm your understanding of the objection by asking a qualifying question.

Solve: Answer objections with the appropriate solution.

Confirm: Confirm that your solution covers their objection.

Move on: If the customer is open to the solution, move on to the next step in the sales process



INTEXT QUESTIONS 5.2

1. “_____ may be defined as the sum of economic benefits that can be derived from building a sound relationship with a customer over a long period of time.”
 - a) Customer lifetime value
 - b) Customer economic value
 - c) Customer financial value
 - d) Customer monetary value
2. Which of the following is not a component of Customer Lifetime Value?
 - a) Historical Value
 - b) Past Value
 - c) Present Value
 - d) Potential Value
3. Which of the following is the correct sequence of stages in roles of agent under customer service?
 - a) The Point of Sale, the proposal stage, the acceptance stage, the claim stage
 - b) The Point of Sale, the claim stage, the proposal stage, the acceptance stage
 - c) The Point of Sale, the acceptance stage, the claim stage, the proposal stage
 - d) The Point of Sale, the proposal stage, the claim stage, the acceptance stage
4. If the probability of loss or damage due to a peril is less or negligible,
 - a) The risk need not be insured under the policy
 - b) The risk needs to be insured under the policy
 - c) Insured should pay extra premium go cover that risk
 - d) None of the above

Skill India and BFSI
Introduction to
Insurance



Notes

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

CUSTOMER SERVICES IN INSURANCE SECTOR

5. If the occurrence of any contingency would lead to financial burden it is advised to:
- a) Insure against such risk
 - b) Not insure against the risk
 - c) Pay extra premium to cover that risk
 - d) None of the above



WHAT YOU HAVE LEARNT

“The assistance and advice provided by a company to those people who buy or use its products or services.” It is six times more expensive to acquire a new customer than to retain an existing customer. Customer service is important because it can help you to: increase customer loyalty, increase sales, increase consumer purchasing frequency from the company, and generate positive word-of-mouth about the company. Characteristics of good customer service are promptness, politeness, professionalism, personalization. The SERVQUAL Model is an empiric model developed by Zeithml, Parasuraman and Berry to compare the service quality performance with customer service quality needs. It is used to do a gap analysis of an organisation’s service quality performance against the service quality needs of its customers. It highlights five major indicators of service quality reliability, assurance, tangibles, empathy, and responsiveness. The GAP model of service quality has 5 gaps namely Knowledge Gap, policy Gap. The Delivery Gap, the Communication Gap, the Customer Gap. “Customer lifetime value may be defined as the sum of economic benefits that can be derived from building a sound relationship with a customer over a long period of time.” The agent’s role in providing great customer service is divided into four stages- The Point of Sale - Best advice, the proposal stage, the acceptance stage, and the claim stage.



TERMINAL QUESTIONS

1. Explain the need for customer service along with its benefits.
2. What are the characteristics of a good customer service?
3. Explain the SERVQUAL model (GAP model) in detail with the help of a diagram.
4. Explain the indicators of service quality in detail
5. Explain the concept of Customer lifetime value.



6. Explain the role of agent in providing customer services in all the stages:

- a) The Point of Sale - Best advice
- b) The proposal stage
- c) Acceptance stage
- d) The claim stage



ANSWERS TO INTEXT QUESTIONS

5.1

- 1. (a) All of the above
- 2. (b) Customization
- 3. (a) Zeithml, Parasuraman and Berry
- 4. (c) Reliability, Assurance, Tangibles, Empathy, Responsiveness
- 5. (d) The Company Gap
- 6. (a) 5
- 7. (c) The customer's expectations of the service and the company's perception of that service.
- 8. (b) Service delivery policies and standards and the actual delivery of the service.
- 9. (d) What gets promised to customers through advertising and what gets delivered
- 10. (a) Customer expectations and customer perceptions.

5.2

- 1. (a) Customer lifetime value
- 2. (b) Past Value
- 3. (a) The Point of Sale, the proposal stage, the acceptance stage, the claim stage
- 4. (a) The risk need not be insured under the policy
- 5. (a) Insure against such risk

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

CUSTOMER SERVICES IN INSURANCE SECTOR



LEARNING OUTCOMES

After studying this chapter, you are able :

- To understand the need and importance of customer service in insurance sector.
- To explain the quality indicators of a service and also you have understood the importance of role of an agent at different stages of an insurance policy.



ACTIVITY

Dramatize a situation to assist customers with the process of change of address, nominee, frequency of premium payments, etc. and handle and resolve customer queries and complaints

**6**

COMMUNICATION AND MARKETING OF INSURANCE PRODUCTS AND SERVICES

6.0 INTRODUCTION

Communication is the process of sharing of information, facts, opinions, ideas and understanding. Communication is important in every phase of your life. We communicate on daily basis using many verbal and non-verbal tools of communication. As an insurance professional, you have to make sure that your communication is effective when you are dealing with your clients. Effective communication combined with good product knowledge and selling skills can help you generate business. It is equally important for you to understand the importance of non-verbal communication while interacting with your clients. You must take ethical decisions while providing services to the client. These topics will be discussed in this chapter. You will also understand how an Insurer formulates their marketing mix strategies, i.e. Product/ Service Package, Price, Place/ Physical distribution, Promotion, People, Process and Physical evidence for customizing their product and brand offerings.



6.1 OBJECTIVES

After reading this lesson, you will be able to:

- Explain the importance of non-verbal communication
- Explain the importance of ethical behaviour in Insurance industry
- Create a healthy team climate while working in teams and demonstrate skills for creating effective teams.
- State the Companies policies on HR and Personnel Management

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

COMMUNICATION AND MARKETING OF INSURANCE PRODUCTS AND SERVICES

- Explain how the marketing of Insurance Products and Services is done using marketing mix strategies
- Recognise the strategies for creating long term relationships with clients

6.2 COMMUNICATION PROCESS

It is important for the insurance agents to effectively communicate with their clients. As an agent, you may have multiple interactions with your client. These interactions may happen at the time of meeting the client for the first time or explaining the product features to the client. Agents have to make sure that insurance policies are well understood for the benefit of both the insurers and the clients. For this communication should be effective.

Business managers with good communication skills can effectively share information within a company and between a company and its different publics. Let us understand the meaning and process of communication to make sure your communication is effective when you are communication with your client, superior or subordinate.

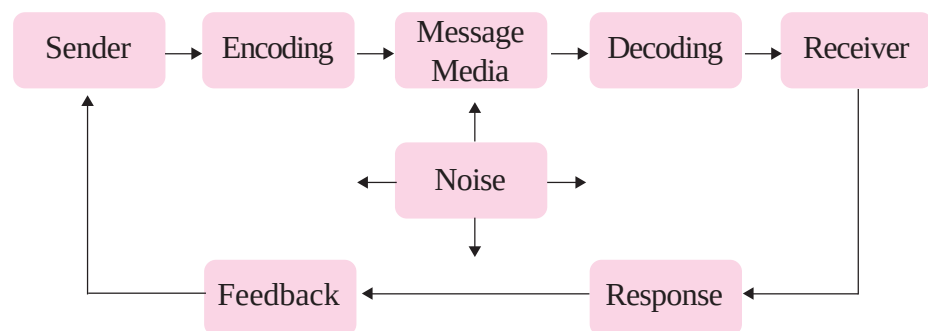


Figure 6.1: Communication Process

Communication is the process of sharing of information, facts, opinions, ideas and understanding. In simple words, communication is the process of passing information or understanding from one person to another. In any communication process, at least three important elements are involved. These are Sender, Receiver and a Message or information that is passed from the sender to receiver. Sender passes the information to the receiver and returns a feedback from the receiver whether he/she has understood it. Let us understand the elements of the communication process:

Sender- Sender is the person who wants to share the information, ideas, facts, opinions.

Message- It is the information, ideas, facts, views, topics, idea, feelings, sensitivity etc. that is produced by the sender and is then planned to be communicated to another person or a group.



Encoding- It is the process of transforming the thoughts, ideas, opinions, facts, or information into a form that can be sent, such as words, pictures or gestures, etc.

Media or Channel- It is the medium that is used to convey the message. For example: Internet, Phone, E-mail, post, fax etc.

Decoding- It is the process of adapting or understanding the symbols that were encoded by the sender. The receiver receives or understands the message after successfully decoding it. If the receiver can't decode the message, the message fails. For Example: A message sent in a foreign language that is not understood by the receiver, the communication is not complete or successful.

Receiver- Receiver is the person who receives the message. The purpose of communication will be successful when the message is received by the receiver and interpreted in the same sense which a sender wanted to convey.

Feedback- After receiving the message, receiver gives a response to a sender in a form of feedback whether he/she has received the message and understood it.

Noise- It refers to any obstacle or hindrance that is caused by the elements of the communication process like sender, message or receiver during the process of communication.

For Example- Noise in a telephonic call, faulty encoding by the sender, faulty decoding by the receiver, inattentive receiver, poor understanding of message due to prejudgment or inappropriate gestures, etc. The presence of noise can distract the message.

6.3 NON-VERBAL COMMUNICATION

When you send and receive message without using the words, both spoken and written, it is known as Nonverbal communication. Non-verbal communications includes using your facial expressions, gestures, eye contact, touch, body language and posture, etc. for communicating with others. Non verbal communication is helpful when the verbal messages are unclear or sometimes confusing. For example, if you visit any foreign country and is not able to speak their language, you can still communicate with them using certain signs, symbols and facial expressions. Let us discuss how these help you in communicate.

Facial expressions are among the important ways while communication both information and emotions. You may use your eyebrows, mouth, eyes movement, facial muscles to convey important messages. For example using a smiling face to show happiness and frown face to show displeasure, sadness or worry, etc.

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

COMMUNICATION AND MARKETING OF INSURANCE PRODUCTS AND SERVICES

Your body language and posture also convey a great information to others. For example, You may cross your arms if feeling angry or nervous. Touch is another element which can convey meaningful messages to the receiver. For example: different messages are conveyed by a weak handshake, a warm hug, pat on your shoulder, etc. Similarly, Eye contact could be used to communicate many things, including your interest, affection, aggression, or attraction. Eye contact is also important in maintaining the flow of conversation and for gauging the other person's interest and response. Physical space between two persons is also used to communicate signals of intimacy, affection, aggression or dominance. Common gestures used in non-verbal communication includes waving, pointing, and using fingers to indicate numeric amounts.

As an insurance professional, it is important for you to understand the meaning of these non-verbal communications as it conveys a lot about you and sends important signals to the receiver of the message. You can read people easily by understanding these signals while having interaction with them.

6.4 ETHICAL BEHAVIOR

Ethics are the moral principles that govern a person's behavior while conducting an activity. Ethics are concerned with what is morally good and bad and morally right and wrong. It is crucial that your insurance agents, brokers, Surveyors and Loss Assessors, Web Aggregators, Third Part Administrators and other intermediaries and business organisations associated with insurance business understand their professional, legal, and ethical responsibilities in dealing with customers.

You should always place the interest of your client first. You should be honest and sincere in all your professional conduct and while dealing with client. You should maintain the abilities, skills, and sound knowledge for providing services to your client. The information of the client should be kept confidential and shall not be shared with any other person. These are some important ethical concerns which you shall follow while dealing with your clients.

IRDAI has prescribed the code of conduct for the intermediaries and other organisations associated with Insurance business. These regulations and guidelines suggests the dos and don'ts that shall be followed by the respective person while dealing with client and other important parties. Some of the examples are mentioned below:



Code of Conduct for:	Regulations / Guidelines
Insurance Agents	IRDAI (Appointment of Insurance agents) regulations, 2016.
Corporate Agents	IRDAI (Registration of Corporate Agents) Regulations, 2015
Insurance Brokers	IRDAI (Insurance Brokers) Regulations, 2018
Insurance Web Aggregator	IRDAI (Insurance Web Aggregators) Regulations, 2017
TPAs	IRDAI (Third Party Administrators - Health Services) Regulations, 2016
Surveyors and Loss Assessors	IRDAI (Insurance Surveyors and Loss Assessors) Regulations, 2015
IRDAI Staff (Officers and other Employees)	IRDAI Staff (Officers and Other Employees) Regulations, 2016



INTEXT QUESTIONS 6.1

- As an agent, you interaction with your client at the time of
 - Before selling an Insurance policy
 - After Selling an Insurance policy
 - Both before and after Selling an Insurance policy
 - None of the above
- Communication is the process of sharing of
 - Information
 - Facts
 - Ideas and opinions
 - All of the above
- Three major elements in the process of communication are:
 - Sender, Receiver and a Message
 - Sender, Response and Media
 - Feedback, Response and Medium
 - None of the above

Module - 1

Skill India and BFSI
Introduction to
Insurance



COMMUNICATION AND MARKETING OF INSURANCE PRODUCTS AND SERVICES

4. Which of the following is the process of transforming the thoughts, ideas, opinions, facts, or information into a form that can be sent, such as words, pictures or gestures, etc.
 - a) Encoding
 - b) Feedback
 - c) Response
 - d) Decoding
5. Which of the following is not an example of Non Verbal communication?
 - a) Facial Expressions
 - b) E-mail
 - c) Body Language
 - d) Eye Contact

6.5 HEALTHY TEAM CLIMATE

Team Climate refers to how the team members feel about the functioning of the team and their level of comfort with team norms of behavior. A healthy team climate is one in which team members can freely share their ideas, ask questions, trust each other and where the members feel valued and respected.

The team climate is affected by the actions of each team member. It is not only the responsibility of the leader but everyone's responsibility to create a healthy team climate. When you work in teams, it is important to have a healthy team climate as it leads to higher job engagement and satisfaction. A healthier workforce both physically and mentally would result in lower absenteeism and lower turnover for an organisation. A healthier team can only make your customer happy and can help in increasing the customer satisfaction.

There are few important things, which you have to keep in mind while creating a healthy team climate. First, you have to create a culture in which it is safe to share learning within your team. It is important that your team members share their experiences and learning with each other on a regular basis. This will create trust and improve the performance of the team. The role of leader is very important in bringing healthy climate to its team. You must recognize your teammates and celebrate their accomplishments. This will bring happiness, motivation, and a sense of value and belonging. Create an environment of recognition and value in your team.

Ask for solutions from your team rather than providing them with a solution every time. This will give them the chance to grow and express their knowledge and experience. This would increase their level of engagement and may result in bringing a healthier team climate. High performance requires that your team members listen openly to ideas shared by others, actively search for ideas or better way of doing things, challenge each other's thinking and find solutions to the problems.



You must develop clear roles and responsibilities within your team to bring clarity about the functioning and expectations from each team member for achievement of a common goal.

As the responsibility of the reliable atmosphere lies on the leader, you have to ensure that people work for you and get a timely training for themselves development. Linking organizational goals with that of individual goals is important. It is important that the individuals also grow with the growth of the team. You have to ensure that your team members are self-motivated and aware about their roles and responsibilities and what is expected from them in terms of performance. This would help your employees to effectively service your customers that will result in your business growth.

6.6 BUILDING EFFECTIVE TEAM

Building a successful team is about more than finding a group of people with the right mix of professional skills. Lot of efforts on the part of a leader is required for creating an effective team. Let us discuss few important steps that can help you in creating an effective team.

1. Hire in a consistent way. Trust yourself and hire on the basis of their intelligence, work ethics, previous success, abilities and potential to perform
2. Provide sufficient training to your recruits by developing a comprehensive induction cum training programme to ensure that every member in your team has the right information and clarity about the job.
3. Establish yourself as a leader by demonstrating the fair practices. Set examples for your team in building a healthy team climate, culture of trust and respect for all members.
4. Set goals for your team and align them with their individual goals. Fix individual targets and benchmark it for the achievement of the individual as well as team/organisational goals. If every individual in your team is having clarity about his/her goals, their performance would increase.
5. Improve communication in your team with the help of meetings, events and informal discussions.
6. Help them organise, prioritize their activities by imparting training and assist them whenever help is required. You should be aware about the strengths and weaknesses of your team members. Play a role of a mentor and place each member of your team in a right position where he/she would be more effective.

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

COMMUNICATION AND MARKETING OF INSURANCE PRODUCTS AND SERVICES

7. Give proper incentives to your team if they succeed. You can create incentive programs and different contests to encourage friendly competition in your team. Recognising the performance of the team helps them to feel motivated. Employee of the month or week could be an example how different organisations recognise the performance of their employees.
8. Allow your team members to work from remote locations. Don't let the growth of your team be confined by your available office space. With mobile applications, you can give your team the ability to work remotely so that you can expand your salesforce without any extra space.
9. Make efforts to retain talented employees in your teams by resolving conflicts and providing right motivation to them to work. Make sure that you don't lose your star performers.
10. Encourage idea sharing and collaborative work between peers. This will encourage a collaborative atmosphere within your team.
11. Know when to lead and when to step back. Do not provide solutions every time when a team member approaches you with a problem. Give them chance to find solutions and express themselves in finding solutions using their knowledge and experience.
12. Celebrate individual as well as team's achievements. This will help in improving the relationship in the team and will improve the team climate.

6.7 COMPANIES POLICIES ON HR AND PERSONNEL MANAGEMENT

Every business, be it a start-up, a small company, or a multi-national enterprise, requires a well-drafted policies on HR and personnel management. These policies defines the rules, policies, procedures and code of conduct in the company that every employee has to observe. These policies also elaborates the work culture of a company. The major components of these policies are as follows:

Working Hours - HR policies state the work timings of the company. Details related to working days, timings, overtime and additional hours, etc. are mentioned which are generally in accordance with the working hours prescribed in the labor laws of the country.

Code of Conduct -These policies explains the code of conduct that the employees have to abide by and the business environment that has to be maintained while working



with each other. It must also mention the procedure to report a breach of this code of conduct.

Leave Policy - The leave policy of a company explain the leaves that are allowed on annual or monthly basis. It also includes provisions relating to maternity and paternity leaves. Holidays on account of national holidays, sick leaves, and paid leaves granted to the employees are also mentioned. The stipulation related to non-paid leaves taken by employees and the percentage of salary deducted for such leaves is also mentioned.

Interpersonal Relationships - HR policy of a company should also state the company's view on interpersonal relationships and business interactions between employers and employees. The policy must define the role and responsibility of employees in supervisory positions, and their ability to influence other employees during and after office hours.

Performance Management & Appraisal - Performance improvement and appraisal policy of the company is an important element of the HR policies. It should clearly state the method used for performance appraisals, employee's training, counseling, provisions related to verbal and written warning, etc.

Probation - HR policies also states probation period and assessment procedure after which an employee may be hired as a permanent employee of the company.

Grievance Redressal - The HR policy manual in India must also mention the grievance redressal procedure that is to be followed by the company upon receiving a complaint from an employee. It must also include the details of a Grievance Redressal Committee that addresses any complaints from employees regarding job harassment, employee discourse or other issues faced by an employee during his course of employment and Sexual Harassment Committee to deal with any sexual harassment complaints.

Intellectual Property - Policy about non-disclosure of a company's confidential information and Intellectual Property that the employees get access to, must be a part of the HR policies for employees.

Any other information may be added to these policies as per the requirement of the company.

6.8 MARKETING OF INSURANCE PRODUCTS AND SERVICES

Marketing is the process of promoting and selling products or services, including market research, advertising and many more activities on the part of a marketer. It includes various decisions for a marketer like market research for identifying the product and

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

COMMUNICATION AND MARKETING OF INSURANCE PRODUCTS AND SERVICES

its features, new product development, distribution, advertising, pricing, promotion, product improvement and so on. More efforts from a marketer is required for marketing services as here we don't have a physical product which we can touch, feel, try or taste before actually buying it. Services are intangible and are difficult to be marketed. Same is the case with Insurance. There are some factors which make insurance marketing a difficult task for the marketers:

- The benefits of the insurance products are not immediately available like in case of physical goods, benefits of the product or insurance policy comes later and at times after a considerable time, at the time of making a claim.
- Insurance does not have inbuilt demand unlike consumer products. Demand of insurance shall be created by increasing the awareness of the client towards insurance and then only the product would be sold.
- Among the financial services, there are many investment avenues, which may provide immediate returns, insurance products, and services gets the least priority among these investments avenues.
- In case of life insurance the case is further complicated as countries like India, people have belief, traditional culture and religious background and tendency to leave everything to fate especially in rural areas.
- The rural market is yet to be exploited by the Insurance industry as it is still untapped.
- The financial literacy and awareness about financial products is still low.
- Small and medium business enterprises are yet to obtain the benefits of general insurance.
- Misselling and malpractices in the industry has also shaken the trust of the public towards insurance.

Insurers must develop strategies to tackle these challenges and offer the important elements of marketing mix in such a manner that the sales and image of the Insurer improves in the market. The term 'Marketing Mix' refers to a business model, historically centered on product, price, place, and promotion. Booms & Bitner in 1981 added three more components, i.e. People, Processes and Physical evidences for the marketing of services. Let us discuss how an insurer can use these 7 P's to determine their product or brands offering in a market:



6.8.1 Product / Service Package

The product in case of insurance can be categorized into three major segments, i.e. Life Insurance, Non-life Insurance and Health Insurance. Life insurance is bought to cover the risk of losing the income streams after one's death. A designated sum of money is given to the family member in case of the death of the insured.

General Insurance is also known as Non-life Insurance. It offers a range of insurance covers against uncertainties such as illness, property damage, motor accidents, etc. Non life Insurance or General Insurance is insurance other than life including fire, marine, or miscellaneous insurance whether carried separately or in combination.

Health Insurance is an insurance which you may take to cover medical and surgical expenses in future. Expenses incurred due to illness or injury or are reimbursed or paid directly to the hospital in case of cashless claim.

The insurers shall create products which can fulfill the requirements of the client in accordance with the file and use guidelines issued by IRDAI for product development.

6.8.2 Price

Pricing is an important element used to influence the target market or prospects. A product is only worth if the customers are prepared and willing to pay for it. The price in the insurance industry is in the form of premium or premium rates. The three major factors are used for determining the premium rates under a life insurance plan. These are mortality, expense and interest. The premium rates for an insurance policy are revised if there are any significant changes in any of these factors.

For general insurance, Many factors like asset value, risk, location, etc. are important in determining the price. For health insurance, age of the prospect, medical conditions, past history, occupation are important in calculating premium. Every insurance company has an Underwriter who decided the premium for the insurance policy.

The insurer has to make sure that the price is competitive but need not to be the cheapest. The price must also provide a profit because it is the only element of the marketing mix that generates revenue.

6.8.3 Place/Physical Distribution

This element is primarily important for two important decisions, i.e. managing the insurance personnel, and locating a branch. There are many intermediaries involved in the selling of insurance products and services. These can be agents, brokers, web

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

COMMUNICATION AND MARKETING OF INSURANCE PRODUCTS AND SERVICES

aggregators, insurance marketing firms, Insurance Self-Network Platform (ISNP) and Point of Sales (POS) persons. The insurer has to manage these distribution channels in such a way that business is generated from all these channels and the uniformity is maintained in the services which can help an insurer in improving its product offerings and brand image.

Another important decision of the Place Mix is related to the location of the insurance branches. Though the majority of the business is sourced through intermediaries, branches are used for payment collection, operations, claims and notifications etc. There are important factors which need to be considered for the branch location. These factors are smooth accessibility to the branch, availability of infrastructural facilities, Safety measures and factors like office furnishing, civic amenities and facilities, parking facilities etc.

6.8.4 Promotion

Promotion is about making your product, organization, or venture popular in the market so as to increase the sales or public awareness. It is important for the Insurers to use this tool for promoting their products and for creating a strong brand image. This would help all intermediaries in selling the insurance policies. It is essential to have both personal as well as impersonal promotion strategies. It includes activities such as advertising, branding, public relations, corporate social responsibility, special offers and exhibitions. You must have seen advertisements of insurance companies on TV Channels, newspapers or billboards outside the shopping mall or on a roadside corner.



Figure 5.2: Promotional tools in Insurance

6.8.5 People

In the marketing of insurance services, role of people is important. The front-line staffs, branch manager, agents, intermediary staff and other customers are people who play an important role in the service delivery.

Insurance being a service industry that involves a high level of people interaction, it is very important to use this resource efficiently in order to satisfy the needs of the customers. Training and development of agents and other intermediaries are important. At the same time, strong relationships with intermediaries are the key areas to be kept under consideration. Training the employees of the insurance company, both at the staff and agent level, is one of the important areas for increasing their efficiency.

6.8.6 Process

The actual procedures, mechanisms, and flow of activities by which the service is delivered, service delivery and operating systems constitutes the process element of the marketing mix.

The process in the insurance industry should be customer friendly. Every customer wants a simple and quick process. The insurance company has to ensure that their processes are quick and less time consuming. The process should be convenient to the customers and shall be designed in such a way that it caters the requirement of the customers.

IT technologies have the potential to improve the process in insurance from policy issuance to policy servicing. You will learn about this in the coming chapter that how technology will prove to be a game changes in improving the process of insurance company through digitalization.

6.8.7 Physical Evidence

Physical evidence is the environment in which the service is delivered, and where the firm and customer interact, and any tangible components that facilitate performance or communication of the service. Customers rarely visits the branches of the insurance company, but they come in contact with the slogans, signs, logos, staff of the company which proves to the customers that there is an existence of the company.

Skill India and BFSI
Introduction to
Insurance



Notes

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

COMMUNICATION AND MARKETING OF INSURANCE PRODUCTS AND SERVICES



Figure 5.3: Physical Evidence in Insurance Industry

The physical evidences that can be used in the insurance industry are:

- Color Combinations
- Dress of Staff
- Building/Infrastructure
- Signage and Logos
- Slogans
- Cartoon Characters
- Past Success Stories (Non-life)
- Achievements and Market Position



INTEXT QUESTIONS 6.2

1. Which of the following is not a part of Companies policies on HR and Personnel Management?
 - a) Code of Conduct for employees
 - b) Leave Policy
 - c) Policy on Intellectual Property
 - d) None of the above



2. Which of the following is not a challenge for a market in Insurance?
 - a) Demand of Insurance is not inbuilt unlike consumer products
 - b) Explaining the Insurance product to client
 - c) There is a tendency among people to leave everything to fate especially in rural areas
 - d) Misselling and malpractices in the industry
3. Which of the following is not the part of marketing strategies for an Insurer?
 - a) Deciding the Product
 - b) Pricing the Product
 - c) Following the regulations of IRDAI
 - d) Deciding the Process
4. Which of the following is an important factor that is used for determining the premium rates under a life insurance plan?
 - a) Mortality
 - b) Expense
 - c) Interest
 - d) All of the above
5. Which of the following intermediary is not involved in the selling of insurance products and services?
 - a) Web Aggregators
 - b) Insurance Marketing Firms
 - c) Insurance Self-Network Platform (ISNP)
 - d) Insurance Repository
6. Which of the following factors needs to be considered for the deciding the branch location of an insurance company?
 - a) Smooth accessibility to the branch
 - b) Availability of infrastructural facilities
 - c) Safety measures and factors like office furnishing
 - d) All of the above



6.9 LONG-TERM CLIENT SERVICING

The relationship with the customer does not end on selling the insurance policy, rather it has just started. You should provide long term service to the client. Service is equally important at the time of renewal of policy, informing the insurer about the changes in the employment in case of life insurance or notifying for the claim. Continuous service to the customer can help in retaining the customers.

The treasure of any businesses is not the products or services but the loyal consumers who love their products and/or services. This is especially true when it comes to the insurance industry as Insurance industry is grounded on their clients. Customer is the most important asset for an Insurer. If the insurance company is not able to attract new customers and retain the existing ones, the business will go bankrupt. To prevent this, customer service for the insurance industry should be delivered with utmost excellence.

6.9.1 Why is long-term customer relationship important?

Satisfied customers are the pillar of any insurance companies. A happy and loyal customer may help in generating new business opportunities for an Insurer through referrals. Long-term clients are the best ambassadors for an insurance company. They will help in spreading positive word of mouth communication and spreads a positive information about the insurance company. It is also important from a viewpoint that people tend to believe in testimonials of someone they know personally. Through these positive communications the image or reputation of the company is also strengthened. Let us explore few ways by which you can ensure that the client stays with you for a longer duration:

1. **Look to customer service models from other industries:** Rather than only looking within your insurance industry for benchmarks, take lessons from those industries that rate high in term of customer satisfaction and performance like hospitality industry. Learn from their models how they are treating their customers and what lies in their services, which can be adopted for your insurance company.
2. **Emphasize on talent management within your organisation:** It is the people, who interacts most often with the customers. Whether it is at the time of explaining the product, providing solutions through a call centre or providing ongoing services to the client. You have to make sure you are hiring right people for the right job at the right time. Make efforts in retaining the employees who are talented and are the asset to the organisation. This will ensure better execution of processes and better services to the client.



3. **Invest in customer and employee supporting technology:** Today, there are many technologies which are disrupting the way businesses are being run. Technologies like Artificial Intelligence, Machine Learning, Robotic Process Automation, Virtual and Augmented Reality, Big Data are few to name. You can use Automated Voice Response System to answer the calls of your customers. Virtual Reality and Augmented Reality could be used to explain the products. AI enabled chatbots can be used to resolve queries of clients related with product features, pricing, claims, etc. Mobile apps could be used for providing immediate details of policy and contact route to the client. Sensory devices could be used for allowing discounts to the customers who are fit. There are many ways these technologies could be utilized for enriching the experience of the client.
4. **Facilitate Integrated and Consistent Cross-Channel Interactions:** Insurer may use various distribution channels and touch points for reaching the customer. All your communications should have consistency and shall be used in combination to provide best services to the client. You have to ensure that all channels speak the same language when it comes to process and guidelines, any channel could be utilised for making payments, any channel could be used to connect with the insurer. This would bring consistency and ensure long term satisfaction for the client.
5. **Give Agents the Information they need to do their jobs:** Agents are still the first choice of customers when it comes to receiving information about the product and it is one channel, which is still generating maximum business for the insurer. Insurer shall invest in technologies, which can provide immediate information to the client about their customers, their contact details, their policies, due date of the policies, important dates like birthday and anniversary of the client. The agents in many ways could utilize this information.

For example, an agent can keep a track of the important dates like birth date or anniversary of the customer and may send them a card or give them a call to wish them on these special days. It is important to do a little extra for your customers if you want to succeed in the insurance business.
6. **Effective use of Customer Data and Segmentation:** Every insurer has huge customer data available with them that is generated from different sources. Technologies like Big Data, Machine Learning, Predictive Analysis could be used to effectively extract important information from the huge data, which can help in effective segmentation. The company for getting business could utilize leads generated through social media platforms.

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

COMMUNICATION AND MARKETING OF INSURANCE PRODUCTS AND SERVICES

7. **Set Realistic Expectations for your Customers:** While dealing with customers, it is important that you don't over promise to your client. It is important that you set realistic expectation for your customers in terms of return potential for investment related products in life insurance, For other category of insurance, realistic expectations in terms of policy issuance, servicing and claims is important.
8. **Prompt Response is of utmost Importance in the Business of Insurance:** Customers expect the response from the insurance company to be quick. Delayed responses from the insurer or No response may make your customer feel neglected or unimportant. This may create dissatisfaction among the customers and may affect your relationships with the customers. They may even stop contacting you.



WHAT YOU HAVE LEARNT

As an insurance professional, you have to make sure that your communication is effective when you are dealing with your clients. Effective communication combined with good product knowledge and selling skills can help you generate business. Nonverbal communications includes using your facial expressions, gestures, eye contact, touch, body language and posture, etc. for communicating with others.

You should always place the interest of your client first. You should be honest and sincere in all your professional conduct and while dealing with client. You should maintain the abilities, skills, and sound knowledge for providing services to your client. The information of the client should be kept confidential and shall not be shared with any other person. These are some important ethical concerns which you shall follow while dealing with your clients.

A healthy team climate is one in which team members can freely share their ideas, ask questions, trust each other and where the members feel valued and respected. Lot of efforts on the part of a leader is required for creating an effective team. You need to hire your team members in a consistent manner and should provide sufficient training to the team members.

Every business requires a well drafted policies on HR and Personnel Management which contains information related to working hours, code of conduct, leave policy, policy on interpersonal relationships, Performance management and appraisal, Probation policy, Grievance redressal system and policy on intellectual property.

Marketing includes various decisions for a marketer like market research for identifying the product and its features, new product development, distribution, advertising, pricing,

promotion, product improvement and so on. The term 'marketing mix' refers to a business model, historically centered around product, price, place, and promotion with three additional components, i.e. People, Processes and Physical evidences for the marketing of services which an Insurer may use to determine their product and brand offerings.

The treasure of any businesses is not the products or services but the loyal consumers who love their products and/or services. Customer is the most important asset for an Insurer. If the insurance company is not able to attract new customers and retain the existing ones the business will go bankrupt. To prevent this, customer service for the insurance industry should be delivered with utmost excellence.



TERMINAL QUESTIONS

1. What do you mean by 'Communication'? Explain the process of communication using examples.
2. What it is important for insurance professionals to have good communication skills? Give answers to support your answer.
3. Write notes on:
 - a) Use of Non-Verbal Communication in Insurance
 - b) Ethical Behaviour in Insurance
4. What is 'healthy team climate'? How can you create a healthy team climate in your team?
5. How can you create an effective team within your organisation?
6. What are the major components of the company's policies on HR and personnel management?
7. Write a detailed note on Marketing of Insurance Products and Services using marketing mix strategies.
8. Why there is a need of long-term client servicing in an Insurance company? Suggest the strategies for developing long-term relationships with your clients.

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

COMMUNICATION AND MARKETING OF INSURANCE PRODUCTS AND SERVICES



ANSWERS TO INTEXT QUESTIONS

6.1

1. (c) Both before and after Selling an Insurance policy
2. (d) All of the above
3. (a) Sender, Receiver and a Message
4. (a) Encoding
5. (b) E-mail

6.2

1. (d) None of the above
2. (b) Explaining the Insurance product to client
3. (c) Following the regulations of IRDAI
4. (d) All of the above
5. (d) Insurance Repository
6. (d) All of the above



LEARNING OUTCOMES

After studying this chapter, you are able :

- To design the strategies for creating a healthy team climate and effective teams and to formulate the strategies for marketing of Insurance Products and Services using the concept of marketing mix.
- To describe the components of company's policies on HR and Personnel Management

**7**

DIGITALIZATION IN INSURANCE

7.0 INTRODUCTION

Today every business and industry is talking about one hot topic and that is Digitalization. But what exactly does it mean? Digitalization is about the use of digital technologies for changing the business model that may provide new revenue and value-producing opportunities for your business. Digitalizing your organization can give you a competitive advantage by doing things better, faster, and cheaper than your competition. All industries including insurance business need to leverage the benefit of digital technologies. In this chapter, you will learn about digitalization and its benefits for the Insurance industry.



7.1 OBJECTIVES

After reading this lesson, you will be able to:

- Define digitization, digitalization and digital transformation
- Explain the Disruptive Technologies and Digital Touchpoints used in Insurance
- Describe the digitalization in insurance from policy issuance to policy servicing
- Explain the importance of maintaining integrity of transactions and ensuring data security in Insurance

7.2 MEANING OF DIGITALIZATION

The terms 'Digitization' and 'Digitalization' may sound similar, but has different meanings. Digital transformation is another word that looks similar to digitization and digitalization. Before coming to Digitalization in Insurance, let us first understand the difference between Digitization, Digitalization and Digital Transformation.



Notes

7.2.1 Digitization

Digitization refers to the process of converting information like alphabets, pictures, sounds or any other document from its physical form into a digital form (0 and 1) that can be stored, processed, and transmitted by computers. In simple words, Digitization is the process of converting the information from its physical format to a digital format.

In our daily routine, almost everyone digitizes something, from scanning a hard copy or a physical document into a PDF format to encoding handwritten notes into Microsoft Word.

For example: If you scan a document and save it after converting it into 'PDF' or 'jpeg' file. Here you have converted a physical document into a digital document.

It is important for you to remember that it is the information you are digitizing, not the process. It is where the digitalization will come in.

7.2.2 Digitalization

Digitalization is the process of taking the advantage of digitization in improving the business processes. As defined by Gartner IT Glossary, "Digitalization is the use of digital technologies to change a business model and provide new revenue and value-producing opportunities; it is the process of moving to a digital business."

For example: If you scan a document and save it after converting it into 'PDF' or 'jpeg' file. You then upload this file to the cloud so that the same can be accessed from anywhere and at any time. The same file could be accessed in the future and would not be lost like the physical files or the ones, which are stored in a particular computer. Here, you are leveraging digitization to improve your processes.

In both the above examples of digitization and digitalization, you have digitized a part of your business process, but in the later part in digitalization, you are leveraging digitization to improve your business processes to a greater degree. Digitalization carries a positive connotation and is always enabled by digitization.

Thus, we can say the major difference between these two is that, digitization deals with the information, whereas digitalization deals with the process.

7.2.3 Digital Transformation

Digital transformation is another word that looks similar to digitization and digitalization. Digital transformation is the result of digitalization. It deals with the business strategy and focuses on improving process by using digital technologies.

The idea here is to use the technology not only to replicate an existing service in a digital form, but also to transform that service into something significantly better.

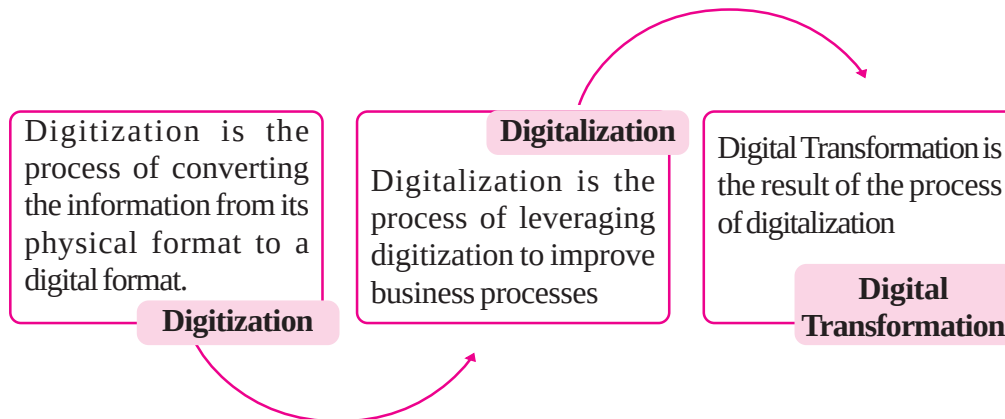


Figure 7.1: Digitization, Digitalization and Digital Transformation

7.3 DIGITALIZATION IN INSURANCE

Today, there is a need for using digital technologies for improving various processes of the organizations. All industries including insurance business need to leverage the benefit of digital technologies. Your business could be digitally transformed only when you digitalized all your major business processes. The business need to look for the processes which they can digitalized which can actually improve the efficiency of the organisation and that can actually help in solving the problems or streamlining the processes.

One way of digitalizing your processes is with the help of a custom software development. You can create your own IT infrastructure, as you know better which process is to be digitalized and how it is to be done. Building a new proprietary platform typically involves building a system architecture that perfectly fits the unique requirements of the insurer and then seamlessly integrating it into the remaining landscape.

The major drawbacks of building your own customized platform is the higher costs, longer timelines, and additional risks as compared with buying a readymade standard software package.



Figure 7.2: Approaches for Digitalization



Notes



Notes

Another way of adopting the process of digitalization is to buy a standard software package. It has become increasingly appealing to many insurers as the Standard software packages are much more streamlined. It includes ready-made functionality for pricing, underwriting, customer self-service, automation, and claims processing. As a result, it can improve the efficiency across the major processes of the organisations. Insurers also get an access to a pool of skilled resources from outside the insurance company for a necessary IT support and updates.

Many InsurTech startups are increasing the speed of digitalization in the insurance industry. Some of the startups are using drones to capture social images that are used to identify the risk in property and agriculture insurance. Social media platforms and wearable like fitness bands are being used to collect the important information about the customers. You can get your property like car, jewellery, etc. insured just on a click of a picture with the help of the company's website or a mobile app. Insurers are using Artificial intelligence and advanced analytics for ensuring compliance with the Insurance regulations. Artificial Intelligence (AI) enabled chat bots are employed by the insurers for leveraging the benefits of AI and machine learning to offer insurance policies, and providing personalized experiences to the customers 24x7. These chat bots can interact with you just like a human and can solve major of the queries related to the features of the insurance product, pricing, and claims. Telematics technology is used for offering discounts on premium to the safe drivers. These technologies are enabling Insurers to enrich the experience of the customers. These are also helping the Insurers throughout the value chain of the insurance starting from the pre sales to customer servicing and claims management. You are just exposed to some examples where the Insurers are using Artificial Intelligence, sensory devices, machine learning, advanced analytics, chatbots etc. in digitalizing their business processes. Let us explore now explore how these technologies are disrupting the business processes.

7.4 DISRUPTIVE TECHNOLOGIES

There are certain technologies that are disrupting the value chain of insurance or may disrupt in the coming few years. Emerging technologies like Artificial Intelligence (AI), Machine Learning (ML), Internet of Things (IoT), Virtual Reality (VR), Robotic Process Automation (RPA) and Block Chain powered by analytics and the cloud can enable insurers to develop human-centric propositions and finding solutions that can actually transform the processes of the Insurers. Let us understand these technologies.

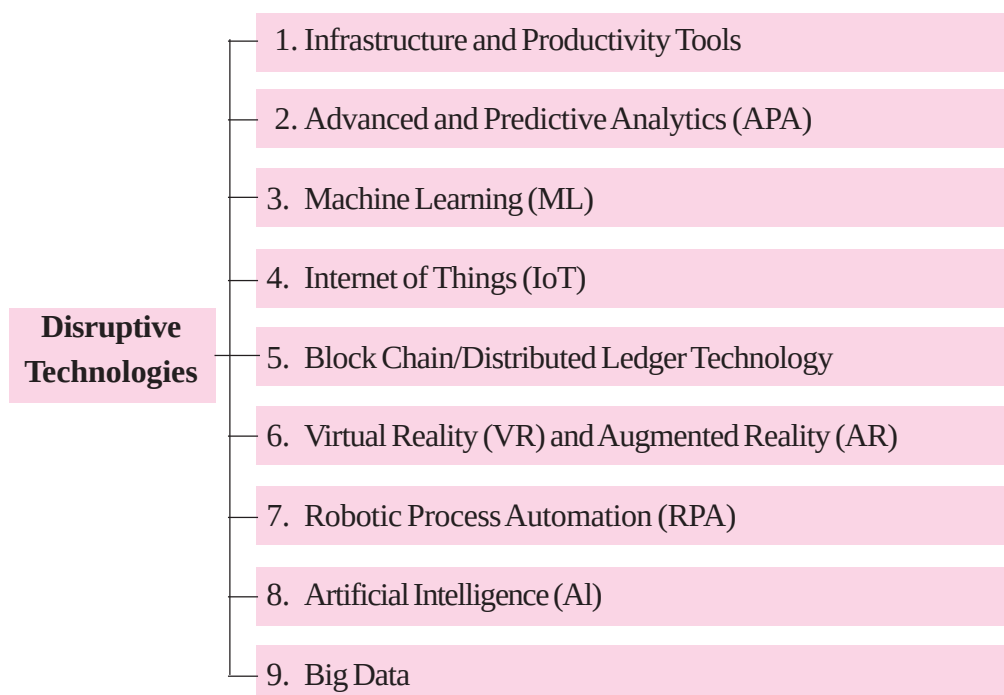


Figure 7.3: Disruptive Technologies

1. **Infrastructure and Productivity Tools:** A modern IT architecture is required for digital innovations in an organisation. For managing the information, many insurers are considering the cloud infrastructure for processing, computation and storage of information. In a cloud storage, your data is stored on the Internet through a cloud computing provider/service provider. This service provider manages and operates data storage as a service and the data is available on demand with “anytime, anywhere” data access. You need not create an IT infrastructure for managing your data or processes.

The agents, brokers, and other intermediaries to connect with their customers can use productivity tools like co-authoring and video calling. Co-authoring means when multiple users are working at the same time on a single document like Word document, Excel spreadsheet, or PowerPoint presentation and is making changes simultaneously. You will be able to see the presence of other users and what changes they are making. We can call this co-authoring, or real-time collaboration among the users.

2. **Advanced and Predictive Analytics (APA):** Insurers have large amount of data with respect to their past customers, preferred mode of paying premium, complaints and grievances. Advanced Analytics can be used by the insurers to get insights into the customer needs and preferences. Data analytics can help



insurers move from traditional handling of claims to the virtual handling or touchless handling of claims. For example, some device could be installed in a car, which can send information to the insurer about the accident and the location of accident with the help of GPS. It would be easier for the insurer to process the claim and at the same time, you can have a check on frauds as an Insurer.

Predictive analytics is a sub-set of advanced analytics and focuses on the identification of future events. In simple words, it can help you in predicting the future events. Predictive analysis or predictive models can help you in claim management, fraud detection, identification of unusual claims, maintaining necessary reserves, etc.

3. **Machine Learning:** Machine learning is an application of Artificial Intelligence (AI) that allows software applications to automatically learn and improve from experience without being explicitly programmed to do so. It focuses on the development of computer programs that can access historical data as input and use it learn for predicting new output values. Insurers are leveraging machine learning to increase their operational efficiency, improve their underwriting practices, pricing products, boosting customer service, manage claims and even in detecting fraud. With machine learning, the information system of the insurer can quickly adapt to new data, without the need for re-programming the system. It can be used for improving various process of the organisation. For example: there are companies that have developed algorithms to read the handwritten or typed information and can convert it into a digital form with 99.9% accuracy. This can help insurers to reduce cycle times of different processes. Another example would be a mobile app or a digital device that can be used for monitoring the behaviour of drivers to potentially offer discounts on car insurance premium to safe drivers.

Insurers use machine learning in detecting risks early in the process of underwriting. This can save the time of underwriters enabling insurers to make better use of underwriters' time. Machine learning could also be used in reviewing the profile of the customers that can help insurers in offering tailor-made personalised solutions.

4. **The Internet of Things (IoT):** The Internet of Things (IoT) is a system of interrelated computing devices, mechanical and digital machines that are connected through internet. These devices are provided with Unique Identifiers (UIDs) and the ability to transfer data over a network without requiring human-to-human or human-to-computer interaction.



With the adoption of technology by insurers and customers, it is easier to generate the behavioural data of customers from millions of devices connected to the internet that is increasing the role of IoT. This data then can be utilised for improving the customers' experience and in lot other ways like new product development, pricing, understanding consumer behaviour, etc.

Networked devices in cars can give you signals and can protect you from meeting with an accident. Network devices in buildings can protect people and property by providing alerts for proactive and preventive maintenance, thus reducing accidents—and claims. By analyzing data from sensors installed in the vehicles, insurers can gain insights into the driving behaviour.

For example: Some insurers are using telematics for monitoring driver performance and rewarding the safe drivers with reduced premiums. Such models helps in linking risk and pricing.

In the area of health insurance, an insurer may provide you with a mobile app or a health-monitoring device that allow you to track your health parameters and well being. You will get incentives to stay fit, as a result, the chances of claim filing will also be reduced.

5. **Block Chain/Distributed Ledger Technology:** In the simplest terms, a blockchain is a digital, public ledger that records online transactions while ensuring security, transparency, and decentralization. It is a chain or records stored in the forms of blocks that are controlled by no single authority. No participant can change or tamper with a transaction after it has been recorded to the shared ledger.

In Insurance, Blockchain can improve Underwriting by providing speed, transparency and innovation to underwriting while at the same time providing a smarter way to process and manage claims. By arranging and documenting claims on distributed ledgers, insurers can greatly reduce processing time.

A whole new field is opening up for smart contracts, that is, policies that are fully automated and updated based on a blockchain's entire database. For Blockchain to succeed, there is a need of a community whose members can collaborate and learn from each other. Realizing this importance, some Indian insurers have taken the lead and formed an informal community on Blockchain. This informal consortium is exploring use cases such as checks for agent recruitment, detecting Anti Money Laundering (AML) violations, improving customer outreach for unclaimed amounts, managing cost of medicals, and curtailing claims fraud.



Notes

6. **Virtual Reality (VR) and Augmented Reality (AR):** Virtual reality uses the digital technology to provide a three-dimensional image that surrounds the user and appears to be real, sometimes in combination with audio through a headset or smart glasses.

For example: flight stimulators are used to train the pilots. In insurance, an insurer could use virtual reality to create a 3D image of a room or a property that can be used for underwriting purposes. Similarly, virtual reality could be used to reconstruct an accident with minute details.

Augmented Reality (AR) superimposes a digital display over a real world view using a headset, glasses or a mobile phone. Customer Service executives can interact with virtual policyholders to sharpen their communication skills. Claim investigators can investigate post disaster damage using 3D footage or virtual exploration of the area. Underwriters can explore the entire building using a simulation derived from the onsite images for identifying the safety hazards. Augmented Reality enabled games can be utilised to explain the benefits of the insurance products and for increasing the brand awareness. Augmented Reality can also be used for training purposes.

7. **Robotic Process Automation (RPA):** RPA involves applications or a software that can configure robots that have capabilities to handle high volume, rule-based, manual and repeatable tasks that a human performs. Insurers can use RPA in automating the routine tasks in policy administration, underwriting and claims potentially saving on thousands of people hours. RPA solutions use virtual bots to copy and replicate the way individuals interact with applications. These virtual bots follow simple rules to make decisions and automate routine business processes. RPA can help in saving costs, process optimization, operations effectiveness, improved compliance and control, and enhanced customer experience.

Processes that can be automated are policy endorsements and renewals, insurance contract management, underwriting, generation of premium invoices, record payments, policy renewals, application capture, and claims management. RPA, when combined with emerging technologies such as AI, machine learning and chat bots, can help insurers create smarter solutions, which will help them position themselves as being more customer centric. This will also help insurers drive market innovation and continuously bring out new and innovative products.



8. **Artificial Intelligence (AI):** Artificial Intelligence (AI) is a branch of computer science concerned with building smart machines capable of performing tasks that typically require human intelligence. Most examples of AI that you hear today are from chess-playing computers to self-driving cars. AI helps the insurance industry in recognizing patterns from the huge data which is available with an Insurer. Insurers are using artificial intelligence to craft individualized policies, automate underwriting processes, improving customer service, claims, marketing -and fraud detection.

For example: to improve customer experience, many insurers are investing in AI enabled chatbots which can interact with the customers like agents.

These chatbots are available 24x7 and can be utilized for answering simple queries and questions of the customers. These can also be used to give basic advice, check billing information, and address common inquiries and transactions. Insurers are admitting touchless claims that uses a combination of AI and other technology to report the claim, capture damage, audit the system and communicate with the customer. AI can identify patterns and recognize fraudulent claims better than humans.

9. **Big Data:** Big data is a term that describes the large volume of data, both structured and unstructured that is created in a business on a day-to-day basis. Insurers use big data analytics for analyzing, systematically extracting information from the data sets that are too large or complex to be handled by a traditional data processing software. An Insurer may collect large amount of data from publicly shared comments on social networks and websites, sensory devices and mobile apps, through questionnaires, product purchases, virtual chatbots, and electronic check-ins. The presence of sensors and other inputs in smart devices allows for data to be gathered across a broad spectrum of situations and circumstances.

Insurers can obtain holistic customer segmentation by marrying demographic data from legacy databases to big data sources such as data from a social media activity. Techniques such as text analytics can be used on customer email data to identify common pain point themes so that they can be addressed proactively.

Big data infrastructure can also help in improving the productivity of the employees by providing them the right data at the right time. For e.g., if an agent has the details of all previous interactions between the prospect and the firm, he will be better equipped to convert the prospect.



Notes

Big Data infrastructure also helps insurers in customer retention. Predictive models can be used to predict customers who are likely to surrender their policies in near future. With such insights, the marketing team can prioritise their interactions. Predictive models can also be created to identify fraudulent customers, agents, employees, hospitals, doctors, drug stores, etc.

Advanced analytics techniques can predict and recommend the most likely product the customer will be willing to buy based on the past digital interactions of the customer. Also, with big data capabilities, based on customer behaviour, the website can be customised in realtime, leading to enhanced customer experience.

With big data techniques of storing unstructured data, social media data and possibly the data from the IoT network can be stored and analysed to derive insights about customer behaviour which will provide valuable inputs for product underwriting.

With the availability of social media data, advanced analytics techniques such as link analysis and social eminence scoring, likely individuals who can affect others decisions can be shortlisted. Converting such individuals can lead to higher sales.

We have just discussed various technologies which can help an Insurer in completely transform its traditional process into a digitalized process. Let us now understand various digital ways by which an insurer connects with its public, customers or prospects.



INTEXT QUESTIONS 7.1

1. _____ is the process of converting the information from its physical format to a digital format.
 - a) Digitization
 - b) Digitalization
 - c) Disruptive Technology
 - d) Digital Transformation
2. _____ is the use of digital technologies to change a business model and provide new revenue and value-producing opportunities.
 - a) Digitization
 - b) Digitalization

**Notes**

- c) Disruptive Technology
 - d) Digital Transformation
3. _____ typically involves building a system architecture that perfectly fits the unique requirements of the insurer and then seamlessly integrating it into the remaining landscape.
- a) Custom Software Development
 - b) Buying a Standard Software Package
 - c) Both of the above
 - d) None of the above
4. Which of the following is an example of a disruptive technology?
- a) Machine Learning (ML)
 - b) Block Chain
 - c) Robotic Process Automation (RPA)
 - d) All of the above
5. _____ is a sub-set of advanced analytics and focuses on the identification of future events.
- a) Artificial Intelligence
 - b) Block Chain
 - c) Robotic Process Automation (RPA)
 - d) Predictive Analytics
6. Which of the following allows software applications to automatically learn and improve from experience without being explicitly programmed to do so.
- a) Machine Learning (ML)
 - b) Block Chain
 - c) Big Data
 - d) Augmented Reality (AR)
7. Which of the following defines a system of interrelated computing devices, mechanical and digital machines that are connected through internet?
- a) Big Data
 - b) Augmented Reality (AR)



Notes

- c) The Internet of Things (IoT)
 - d) Robotic Process Automation (RPA)
8. Which of the following is an example of Distributed ledger technology?
- a) Big Data
 - b) Augmented Reality (AR)
 - c) Block Chain
 - d) Robotic Process Automation (RPA)
9. Which of the following can automate the routine tasks saving on thousands of people hours of an organisation?
- a) Big Data
 - b) Augmented Reality (AR)
 - c) The Internet of Things (IoT)
 - d) Robotic Process Automation (RPA)
10. Which of the following technology is used in chess-playing computers or self-driving cars?
- a) Big Data
 - b) Artificial Intelligence
 - c) Block Chain
 - d) Internet of Things (IoT)

7.5 DIGITAL TOUCHPOINTS

If you ask your parents, from where they had bought insurance or from where we can buy an insurance policy, the most common answer you will get is through an agent. From so long, the most common channel for buying an insurance policy is through some agent who might be your friend or a member from a family or some relative. But now the time is changing, as insurers are going digital with their services, new channels are helping customers in selecting the insurance products as per their convenience. There are multiple channels available today from where you can buy an insurance policy. Many digital touchpoints are used by Insurers to connect with its prospects or customers. These touchpoints are used for sharing information about the offerings of the insurer and at the same time could be utilized for collecting important information of its prospects or customers.

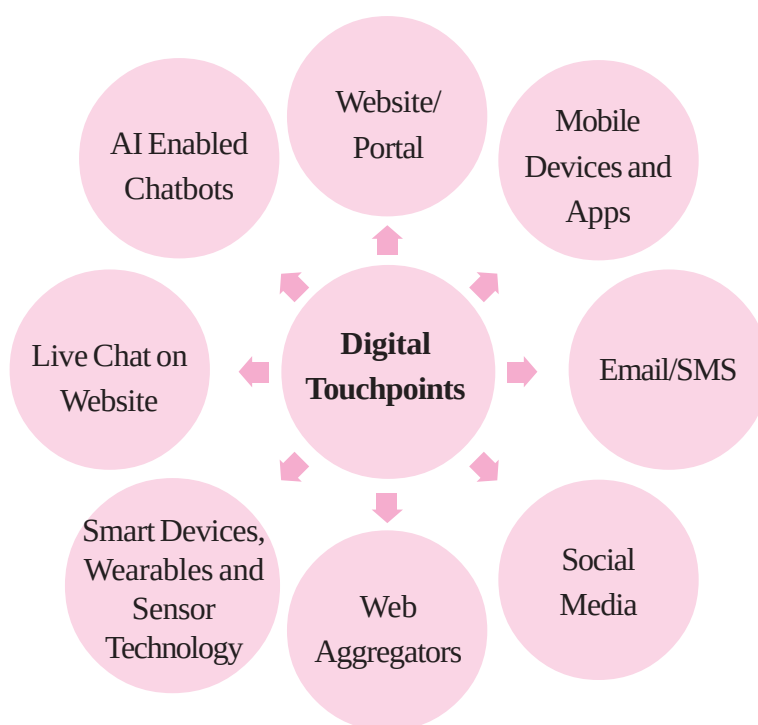


Figure 7.4: Digital Touchpoints in Insurance

1. **Website/Portal:** Insurers have their own websites that they utilize for connecting with the customers. With the increase use of technology, customers prefer visiting the website of the insurance company for getting details about the insurance products, raising queries, paying premium, etc. Contact details of the company are available on the website of the insurer. You may get the details of your policy by creating an account on the website with login id and password. The websites may help you compare different policies highlighting its coverage, features, premium, risks, terms etc. Some of the insurers use chatbots on their websites to provide instant information to its customers regarding the pricing, coverage and claim settlement processes.
2. **Mobile Devices and Apps:** Insurers have introduced mobile apps that can be used for getting details about the policy, paying premiums. It is like keeping a policy in your pocket where the details of the policy and all relevant information is available every time. These mobile apps are an instant way of approaching the insurer in case of emergencies or at the time of putting in a claim after an accident. The customer can directly inform the insurer about an incident that warrants a claim with the help of these apps. This helps the insurer in getting



Notes

quick information thus reducing Turn Around Time (TAT) for servicing claims. The mobile apps also provide valuable information to the insurer.

For example: Mobile apps could be used that allow to track the health parameters by counting the number of steps in a day and well being of the insured. Insurer may give incentives to the customers who stay fit. This also reduces the chances of claim filing for an insurer.

3. **Email/SMS:** Emails and SMS are used by the insurers for sharing information with the customers. Emails may be used to share the e-policy document with the customers and at the same time, SMS could be shared on the registered mobile number of the client about the dispatch of the policy from the head office. Emails and SMS are also used for sending the reminders or renewal notice to the customer about the due date of the premium payment of an insurance policy. Customers also uses emails to notify the claims to the insurer or for getting any information about the insurance policy. In case of any grievance or complaint, the insured can use the email for sending notice to the insurer.
4. **Insurance Company's Social Media Pages:** Customers are increasingly using the platform of social media for finding the information about the insurance company and how others rate the services of an insurer. Social media also provides a public platform to express any dissatisfaction. If you are not satisfied with the services of the company, you may express your dissatisfaction on these platforms. The companies do appoint their staff for observing these posts by any client as it may lead to negative word of mouth communication that can spread at a very fast speed. It is important for the insurer to be aware of what is being said about the company and intervene when required. Social media also provides an insurer a valuable data about the customer sentiments. Customers who are posting queries on the social media platform provides valuable data as a sales lead which can be converted into business.
5. **Web Aggregators (e-market place):** Web Aggregators are essentially insurance portals that help you compare products, and enable purchase by directing you to the insurer or the insurer to you. Web Aggregators compile and provide information about insurance policies of various companies on a website. Today, many web aggregators can help you in making a best choice as you can compare the policies of different insurers on a single platform. You need not visit the website of different insurers as the details of insurance plans of different insurers can be compared on the website of a web aggregator. If you want to buy a specific plan of an insurance company, all you need to do is to fill an online



proposal form and pay the applicable premium. The information is directly entered in the database of the insurer with no intermediary involved. The insurer saves on agent commission, the benefit of which is passed to you in the form of lower premiums. All the information related to the product features, benefits, coverage, price and claim settlement ratio is available on the website of web aggregators along with a comparison of insurance products.

6. **Smart Devices, Wearables and Sensor Technology:** Insurers are offering smart devices having sensors that can record your daily routine activities like number of steps taken in a day or amount of calories burnt. These wearable devices are in trend from the past few years, providing consumers the chance to get feedback on their routine activities and an opportunity to improve their lifestyle. In a variable premium product, some insurers have launched a pay-as-you-workout concept, where they are offering discounts on next year premiums if the insured manage to burn out more calories. One of the non-life insurer had also launched a variable premium product with its pay-as-you-drive motor insurance policy, enabled by telematics technology. Telematics technology can be used for offering discounts on premium to the safe drivers. The telematics box that is fitted to your car then measures various aspects of how, when and where you drive.

With the help of the data generated through these smart devices and wearables, a more accurate risk prediction can be made which can benefit both the insurers and insured. Insurer may reward users who live healthier lifestyles with lower insurances costs and premiums.

Insurers can get the real time data from these devices that monitor vital signs, activity, nutrient consumption and sleep patterns for more precise underwriting and pricing while also offering value added fitness and lifestyle feedback.

7. **Online Live Chat on Insurance Company Website:** Insurers uses their staff and executives for providing instant support for the queries of the customers. You as a prospect or a customer can directly ask your queries to the insurance companies and the executive will provide the response on the live chat option available on their websites. Live chat representatives are less expensive when compared to the phone calls or call centres. The conversation with the customer gets recorded on a cloud or the physical server of the company, which can be utilized for future records and improving the customer experiences. Any information related to the policy, product features, premium payment, payment receipts can be gathered using these live chats.



Notes

8. **AI Enabled Chatbots:** These Chatbots are similar to that of the live chatbots but the major difference is that the response is given by the machines not humans. These chatbots combine Artificial Intelligence (AI) with Machine Learning and Analytics for communicating with the customers. These are available 24x7 and help you understand a wide range of products. These chatbots will prove to be cheaper in the long run when compared with the live executives replying to the customer. However, chatbots don't add a human touch to the conversation.

These chatbots not only answer specific questions but can also suggest products based on your need and requirements. Improvements in speech and language processing technologies are making chatbots more capable, expanding their potential applications across the organisation. Some of the Indian Financial Services aggregators are also finding these chat-bots in reaching out to thousands of customers and increase their conversion rates.

Surprisingly, these AI-enabled chatbots are able to resolve the majority of customer inquiries. Both live chat agents and chatbots increase the chances of getting customers to convert. Ultimately, live chat and chatbots work best when they're implemented together.

7.6 DIGITALIZATION IN INSURANCE FROM POLICY ISSUANCE TO POLICY SERVICING

Insurance companies are disrupted as well as disrupting the insurance businesses. Insurers are adopting digitalization for digitally transforming their processes with an aim of achieving efficiencies and optimizing the end-to-end customer experience. The modern insurance customer prefers simple, customised and intuitive policies, an easy process and a simple and tangible cost breakup. Customers who are not happy with the services may silently leave the organization, but those who are dissatisfied may use social media and other platforms to tell the world. Thus, it becomes important for an Insurer to provide a better customer experience.

The power that technology has given the modern-day customer has enabled them to ask the insurance industry for more: more service, more channels, more responsiveness, more integration and more importantly less hassle.

It is important for an insurer to provide adequate, timely and consistent service to their customers during each stage of the insurance product lifecycle. The value chain in the insurance starts from the pre sale stage to buying a policy to making a claim and getting a coverage. One thing is common in the entire value chain, that is, the manual efforts in each stage which an insurer is putting in which involves a huge cost for an Insurer.



Notes

Insurers can take the advantage of digitalization in these stages. Let us explore these stages and tries to understand how digitalization may help an Insurers in transforming its processes during each stage.

Value Chain of Insurance

Stage	Major Issues/Process	Scope for Digitalization/ Technology Required
Pre-Sale	The customer may face difficulties in understanding the insurance products, its features and benefits. Moreover, malpractices like mis-selling and frauds may affect the trust. There is a need to explain the product features and other related aspects in a clear language to the client.	Simplified videos and documents in local language may be prepared for sharing it with customers, which may be uploaded on different platforms like website and mobile apps for a unified experience and building trust. Multilingual Website and Mobile Apps will help in reaching more customers. Leads may be generated from the websites, social media. Analytics Software and Big Data could be utilized for identifying patterns and getting insights about the customers. Chatbots can handle the queries on the websites 24x7
Market Segmentation	Insurance companies may have large amount of customer data related to their habits, buying patterns, family background and location, etc. This data should be analysed for better segmentation of markets and deciding the customer acquisition strategy.	AI and advanced analytics could be used for personalised product offering based on customer needs and preferences from behavioural data. Big Data could be used for getting insights about the customer for dividing the customers which have similar needs.
Product Design	Designing the products as per the changing needs of the customers is	Blockchain: Smart contracts and better data allow the insurer to

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

DIGITALIZATION IN INSURANCE

Stage	Major Issues/Process	Scope for Digitalization/ Technology Required
and Pricing	a challenging task for the marketers. With increasing digitization, customers are becoming more demanding. They expect insurers to understand them and come up with personalised tailor made plans that cater to their specific needs.	reorganize the risk pools and apply more risk appropriate pricing. Internet of things can help in identifying the product which can be offered to the customers For example: prevention or situational insurance like Travel insurance may be sold at hotel check-in, or at the time of buying an airticket.
Product Distribution and Marketing	Customers use different digital modes for getting the information about the product, features, pricing, claim ratio of the company and sometimes comparing it with competitors. These digital channels include company's websites, online web aggregators, financial blogs/portals. In order to sell an insurance product, insurers may collaborate with marketing agencies, advertisement firms, sales agents, brokers etc.	Mobile Apps for market place platform to quickly get a price quote for insurance coverage. Advanced analytics could be used for analyzing the effectiveness to different campaigns and generate insights to maximise return on investments. Different digital channels may be utilized for connecting with the customer and promoting the products.
Sales	For converting the lead into sales, different strategies to be adopted. The company uses different platforms for selling insurance products to its customers ranging from the traditional channels like agents and brokers to new innovative digital touchpoints like chatbots, web aggregators or the company's website. At the time of Product Sale, different documents are to be	Blockchain: The CRM system can automatically be enriched with data from different data sources such as websites, chatbots, leads generated from social media, etc. Cloud Computing: Contact information may be stored digitally which can be accessed by the staff or sales team of the insurer 24x7.



Stage	Major Issues/Process	Scope for Digitalization/ Technology Required
	filled and different terms are to be explained to the customers. After Sale is equally important which includes providing services to the client once premium is paid by the client.	Artificial Intelligence: Product Sale can be automatically conducted using AI enabled chatbots Social networks: It includes new acquisition channels like messenger, social media Video calls and mobile devices that can be utilized for taking leads and converting into sales Use of tablets and video calls to explain the product while dealing with the customers. Website and Apps can be directly used to eliminate the middlemen. Virtual reality (VR) and Augmented Reality (AR) can be used to explain the features of the product or for calculating risk in case of non life insurance.
Product Under-writing	The important task here is to handle the applications, calculating and analyzing risk, and Assessment of the final contract details. Different documents are utilised for the process of risk assessment.	RPA could be used for automation of underwriting rules and issuance of policies Big Data Analytics: Reducing cycles through predictive analysis (of loss, rate manipulation, future risk of policies, outlier analysis, etc.) Machine learning and advanced softwares could be used for extracting important information from the documents submitted at the time of proposal form Sensory analytics could be used

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

DIGITALIZATION IN INSURANCE

Stage	Major Issues/Process	Scope for Digitalization/ Technology Required
		to assess the physical age and detect chronic disease, alcohol usage and evidence of smoking Artificial Intelligence could be used for risk assessment through image and language processing softwares. Blockchain: All information could be stored for automated underwriting. Internet of Things: Telematics devices are used to get customers' data for risk and pricing calculation in case of motor information. Drones and Virtual Reality could be used to access the risk in case of property and agriculture insurance.
Payment of Premium	Customers are looking for convenience when it comes to the payment of premium and getting the premium receipts.	Different digital channels could be utilized for paying the premium. The payment could be done using internet banking or with the help of the mobile apps. Receipt of the payment is immediately received through these platforms.
Customer on boardings	It is important to collect information at the time of onboarding the customers. KYC documents need to be verified.	Voice & Video recording while on boarding the customer could be used and these recordings could be stored on a cloud AI-based optical character recognition could be used for automation in data capturing from non-standard documents



Stage	Major Issues/Process	Scope for Digitalization/ Technology Required
		and imagese KYC: Aadhaar- based verification of Customer Identity could be done
Service Period/ Customer Expe- rience	The process for queries and complaints are generally lengthy and complex, whereas the customer is looking for immediate response. Insurer has to ensure the timely renewal of policy. Irrelevant communication and communication gap should be minimised	Interactive voice response system could be used to improve complaint-handling process with minimal steps and waiting period. Email/SMS reminders with embedded payment link for policy renewal could be shared. RPA could be used for the automation of policy administration and servicing. Mobile Apps for providing a consolidated view of all policies and assets and enables premium payments. AI enabled chatbots could be utilized for query handling and sharing relevant information. Artificial intelligence for automated personalised email and SMS communication
Customer Retention	Customers may like to discontinue in case of service delays or in case some competitor is offering a similar insurance products at a better price. The available digitised data should be leveraged by the Insurer to service customers better and provide a smooth user experience, thus improving customer retention and new customer acquisition.	Mobile apps and sensory devices could be used to offer discounts to healthy customers. Loyalty programs could be run for retaining the customers. Analytics could be used to provide a 360° view of customers to the agents and other staff to offer more personalised services

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

DIGITALIZATION IN INSURANCE

Stage	Major Issues/Process	Scope for Digitalization/ Technology Required
		Renewal notices or information may be shared on emails, through SMS or on mobile apps with apayment link.
Fraud Detection	There are large number and variety of frauds that are deeply prevalent in the insurance industry. Insurance frauds cost companies billions of dollars per year across the globe. It is important for the insurers to implement a proactive approach against frauds by adopting a technology framework and use advanced automation and analytics, and take appropriate steps to prevent it.	AI and big data analytics could be used for automation in claim verification and processing and fraud detection Predictive modelling can be applied to identify fraudulent customers, agents, employees, hospitals, doctors, drug stores, etc. OTP based authentication on mobile phones of customers for avoiding frauds Advanced Analytics could be used for analyzing the trends in data for identifying frauds by identifying the unusual claim which may trigger to fraud. Machine learning could also be used in detecting frauds. The Blockchain Technology also offers potential use cases for insurers which can help increasing the effectiveness in fraud detection.
Claims management	Insurers may employ huge workforce to furnish large number of claims received on a daily basis. Sufficient time and efforts are spent on segregating valid and fraudulent claims. Claims data should be further analysed to	Online self-service facility for claim filing should be provided using emails, call centres and mobile apps Integrated ecosystem for minimal data entry and processing shall be used RPA could be used for doing the



Notes

Stage	Major Issues/Process	Scope for Digitalization/ Technology Required
	ensure process efficiency and build inbuilt system checks to accurately identify valid claims. Claim Management process is generally a lengthy process with long waiting period. Large number of documents are required at the time of handling claims. Customers expect transparency and speed in the claim procedures.	repetitive tasks in order to reduce the claim processing time. Artificial Intelligence could be used for prevention of fraud through data analytics. Automated calculation and payout of the amount of damage can be calculated using artificial intelligence. Block chain for the Storage of information for the automated payout could be utilized.
Policy Closure	There are long waiting period and issues related to the transparency of charges which may affect the relationship with the customers and may lead to negative publicity by the unsatisfied customer.	360° view of the customer may be provided to the executives to know the customer history and past issues/resolutions. Workflow-based online self-service tools shall be used. Customer account management for a unified view of customer history communication and transactions by using clouds, blockchain and other techniques. Policy closure process should be streamlined and simplified with defined timeline.
Lapsed	After the lapse of the policy, the major challenge is to have the updated information of the client with insurer, which will include the address, contact details and email IDs. Most of the insurers struggle in keeping the updated	Data warehousing could be used to store the information of the client either on the physical infrastructure or on cloud.

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

DIGITALIZATION IN INSURANCE

Stage	Major Issues/Process	Scope for Digitalization/ Technology Required
	information with them including policy-related information of lapsed customers	

7.7 MAINTAINING INTEGRITY OF TRANSACTIONS AND ENSURING DATA SECURITY

In the era of digitalization where the insurers are dealing with huge amount of data of the customers, which may be shared, with the intermediaries or regulators, it is very important on the side of the insurer to maintain the integrity and ensure the safety of data. Increasing regulations related to customer personal data around the globe and in India will continue to pose additional challenges to the insurers especially when different digital channels are involved in the entire value chain of the insurance, starting from the pre sales to customer service and claims management. Companies are working hard in creating a defense mechanisms against data breaches and cyber attacks as they are taking full advantage of digitization and cloud applications for their rapid growth. Still despite of these securities, organizations are being victim of data breaches, email scams, and other cyber attacks frequently.

Insurers have always held responsibility for the appropriate use of policyholders' personal data. In the context of a digitalized society, huge amount of data is available to the insurers and is expanding exponentially from a broad range of sources. In order to preserve customers' trust and to ensure compliance with data protection requirements, it is essential for insurers to ensure transparency in their use of (big) data, and to process personal data responsibly, in ways strictly compatible with the specific purpose(s) for which it was collected.

The IRDAI prescribed the guidelines on information and cyber security for insurers in 2017 with the aim of ensuring that organisations define and implement procedures to ensure the confidentiality, integrity, availability and consistency of all data in a more robust manner.

These guidelines are applicable to all insurers. If the policyholders' information is shared with intermediaries and other regulated entities, it imposes an obligation on the insurer to ensure that adequate mechanisms are put in place to address issues related to information and cyber security.

“As per the guidelines on information and cyber security for insurers, the IRDAI has mandated implementation of the following measures, in relation to



- (i) Appointment of a chief information security officer and formation of the information security committee;
- (ii) Preparation of a gap analysis report;
- (iii) Formulation of cyber crisis management plan;
- (iv) Formulation of a board approved policy on information and cyber security policy;
- (v) Formulation of an information and cyber security assurance programme; and
- (vi) Completion of the first comprehensive information and cyber security assurance audit in a phased manner.”

Identifying that maintenance of data security is essential through all five phases of the data lifecycle (i.e., data at source, in motion, in use, at rest and at destruction), the IRDAI has prescribed a detailed framework for data protection on the insurer, which includes the following obligations:

- To classify data as ‘critical’ and ‘non-critical’ (based on the organisation classification standards) and establish security processes to secure critical data including by maintaining an audit trail of critical data access.
- To provide access to data only on a ‘need to know basis’ and periodically review such access rights.
- To obtain confidentiality undertakings from users having access to data.
- To obtain the approval of the information or business owner in the event sensitive data is required to be sent to outsourced services providers, third parties, etc. for business purposes.
- To design controls to ensure that data is not misused by the third party by way of executing non-disclosure agreements, right protected emails, etc.
- To have in place effective mechanisms for data destruction.



INTEXT QUESTIONS 7.2

1. Which of the following compile and provide information about insurance policies of various companies on a website?
 - a) Social Media Pages
 - b) Web Aggregators



Notes

- c) Sensor Technology
 - d) Chatbots used by an Insurance Company
2. Which of the following technology enables the Chatbots to work efficiently?
- a) Sensor Technology
 - b) Artificial Intelligence
 - c) Big Data
 - d) Block Chain
3. Which of the following technology can help improve the processes in the entire value chain of insurance?
- a) Artificial Intelligence
 - b) Big Data
 - c) Machine Learning
 - d) All of the above
4. Which of the following measure is to be implemented as per the IRDAI guidelines on information and cyber security for insurers?
- a) Appointment of a chief information security officer
 - b) Preparation of a gap analysis report
 - c) Formulation of a board approved policy on information and cyber security policy
 - d) All of the above



WHAT YOU HAVE LEARNT

Digitalization is about the use of digital technologies for changing the business model that may provide new revenue and value-producing opportunities for your business. Digitization is the process of converting the information from its physical format to a digital format. Digitalization is the process of leveraging digitization to improve business processes. Digital Transformation is the result of the process of Digitalization.

All industries including insurance business need to leverage the benefit of digital technologies for improving their processes and customer experiences. You can customised your software or can buy a standard software package for digitally



transformation of your business processes. There are certain technologies that are disrupting the value chain of insurance or may disrupt in the coming few years. These technologies are Infrastructure like cloud computing, productivity tools like co-authoring and video calling, Advanced and Predictive Analytics (APA), Machine Learning (ML), Internet of Things (IoT), Block Chain/ Distributed Ledger Technology, Virtual Reality (VR) and Augmented Reality (AR), Robotic Process Automation (RPA), Artificial Intelligence (AI) and Big Data.

Many digital touchpoints are used by insurers to connect with its prospects or customers. These touchpoints are used for sharing information about the offerings of the insurer and at the same time could be utilized for collecting important information of its prospects or customers. These digital touchpoints are Website/ Portal, Mobile Devices and Apps, Email/SMS, Social media, Web Aggregators, Smart Devices, Wearables and Sensor Technology, Live Chat on website, and AI enabled Chatbots.

Insurers are adopting digitalization for digitally transforming their processes with an aim of achieving efficiencies and optimizing the end-to-end customer experience. Insurers can take the advantage of digitalization in each stage of the value chain of insurance by implementing digital technologies.

In the era of digitalization where the insurers are dealing with huge amount of data of the customers, which may be shared, with the intermediaries or regulators, it is very important on the side of the insurer to maintain the integrity and ensure the safety of data. The IRDAI has prescribed the guidelines on information and cyber security for insurers with the aim of ensuring that organisations define and implement procedures to ensure the confidentiality, integrity, availability and consistency of all data in a more robust manner.



TERMINAL QUESTIONS

1. Explain the differences between digitization, digitalization and digital transformation.
2. Why there is a need for using digital technologies for an Insurer?
3. Explain the approaches that are used for Digitalization in Insurance? Which approach is better? Give examples in support of your answer.
4. There are certain technologies that are disrupting the value chain of insurance. Explain those technologies in detail using examples.
5. Write a detailed note on the digital touchpoints by which an Insurer connects with its prospects or customers.

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

DIGITALIZATION IN INSURANCE

6. Explain how digitalization is helping an insurer throughout the value chain of insurance, i.e from policy issuance to policy servicing.
7. Why it is important for an Insurer to maintain the integrity of transactions and ensure data security? Also, highlight the IRDAI guidelines on information and cyber security for insurers.



ANSWERS TO INTEXT QUESTIONS

7.1

1. (a) Digitization
2. (b) Digitalization
3. (a) Custom Software Development
4. (d) All of the above
5. (d) Predictive Analytics
6. (a) Machine Learning (ML)
7. (c) The Internet of Things (IoT)
8. (c) Block Chain
9. (d) Robotic Process Automation (RPA)
10. (b) Artificial Intelligence

7.2

1. (b) Web Aggregators
2. (b) Artificial Intelligence
3. (d) All of the above
4. (d) All of the above



LEARNING OUTCOMES

After studying this chapter, you are able :

- To recognise the disruptive technologies used in Insurance industry and examine the role of digital technologies in digitally transforming the business model of an Insurer.

**8**

ELEMENTS OF A CONTRACT

8.0 INTRODUCTION

All of us have insurance policy either a life insurance policy or motor insurance policy or any other. Whenever your insurer gives you the policy document, generally, all you do is glance over the decorated words in the policy and pile it up with the other bunch of financial papers, right? If you spend thousands of rupees each year on insurance, don't you think that you should know all about it? Your insurance advisor is always there for you to help you understand the tricky terms in the insurance forms, but you should also know for yourself what your contract says. This chapter focuses upon the essential elements of a contract and their application in insurance contract.



8.1 OBJECTIVES

After reading this lesson, you will be able to:

- Explain the meaning of contract
- Explain in detail the following elements of a valid contract:-
 - ❖ Offer and acceptance
 - ❖ Consideration
 - ❖ Agreement between the parties
 - ❖ Free consent
 - ❖ Capacity of the parties
 - ❖ Legality
- Appreciate the rules for valid offer, acceptance and consideration
- Explain the elements of an insurance contract



Notes

8.2 CONTRACT

A contract is an agreement between parties, enforceable at law. This definition is provided under Section 2(h) of the Indian Contract Act, 1872. Mere agreement to do or abstain from doing something is not a contract. It must be legally binding on the parties to become a contract. An agreement is defined as “every promise and every set of promises, forming the consideration for each other. In other words, an agreement must be socially acceptable. It may or may not be enforceable by the law. A contract has to create some legal obligation, whereas an agreement may not. Thus, all contracts are agreements but all agreements are not contracts.

Thus, it can be said that-

Contract= Agreement + Enforceability

The provisions of the Indian Contract Act, 1872 govern all contracts in India, including insurance contracts.

The elements of a valid contract are:

- | | |
|----------------------------------|------------------|
| a) Offer and Acceptance | b) Consideration |
| c) Agreement between the parties | d) Free consent |
| e) Capacities of the party | f) Legality |

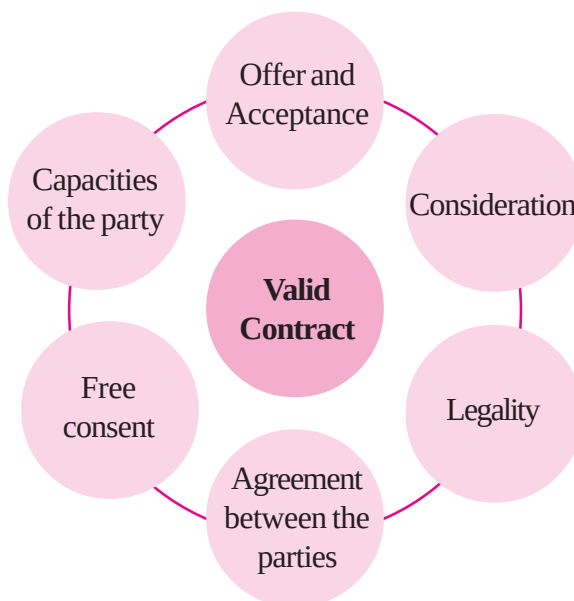


Fig 8.1: Elements of a valid contract



8.3 OFFER AND ACCEPTANCE

8.3.1 Offer

A person is said to make an offer or a proposal when he expresses to another person his desire to do or refrain from doing anything in order to get the other person's approval for that action. The person making the offer is referred to as the promisor or offeror, while the individual receiving the offer is referred to as the promisee or offeree.

8.3.2 Rules of a Valid Offer

1. **The offer must disclose an intention to create legal relations:** If the offer does not contemplate to give rise to legal relationship, it is no offer in the eyes of law, e.g. A invites B to a dinner to his house. This has no intention to create legal relationship and B cannot sue A for travel expenses if A refuses to entertain him in his house.
2. **The terms of offer must be clear and certain and not indefinite, loose or ambiguous:** The offer must not be based on a condition which is uncertain or incapable of performance. Though the proposer is free to lay down any terms and conditions in his offer, but they should be certain and legal, otherwise its acceptance will amount to a vague agreement which the courts will not enforce.

Examples :

- (a) A says to B "I will sell you my car. A owns six different cars. The offer is not valid because it is not definite.
 - (b) A made a contact with B and promised that if he was satisfied with him as a customer he would favourably consider his application for the renewal of the contract. The promise is too vague to create any legal relationship.
3. **Offer may be general or specific:** An offer may be made to definite person or persons or to the world at large. When it is made to some specific person or persons it is called a specific offer. When it is made to the world at large it is called a General offer. A specific offer can be accepted only by the person to whom the offer has been made and in the manner, if any specified in the terms of the offer.

But a general offer can be accepted by any persons having notice of the offer by doing what is required under the offer. The most obvious example of such an offer is where a reward is publicity offered to any about that object, who will



Notes

recover a lost object or will give some information, there the party claiming the reward has not to prove anything more than that he has performed the conditions on which the reward was offered. The time table of railways is a general proposal to run trains according to the table, which is accepted by an intending passenger tendering the price of the ticket.

Carlill V. Carbolic Smoke Ball Co. (1893). In this case, the Company advertised that a reward of £ 100 would be given to any person who contracted influenza after having used the smoke-balls of the Company as directed. Mrs. Carlill used the smoke-balls according to the directions of the company. but contracted influenza. It was held, that the offer was a general one, and Mrs. Carlill had accepted it by acting in accordance with the advertisement, and therefore, the company could not get away from its responsibility by saying that they had not meant it seriously. She was entitled to the reward.

In India, the principle was applied in the case of Harbhajan Lal V Hancharan Lal. In this case offer of reward was made to any one tracing a lost boy and bringing him home. Harbhajan Lal who knew of the reward found out the boy and took him to the Police Station. It was held that he was entitled to the reward.

4. **Offer may be express or implied:** An offer made by words, spoken or written is termed as an 'express offer'.

Example: If A says to B that he is willing to sell him his Maruti Suzuki car for a sum of Rs. 50,000 it is an express offer.

'Implied offer' means an offer made by conduct, an offer may also be implied from the conduct of the parties or the circumstances of the case. This is known as an implied offer. When one person allows the other to perform certain acts under such circumstances that nobody would accept them without consideration it will amount to an offer by conduct and the permission of the party, who is benefitted by such performances, will amount to his acceptance.

Example : A bus company runs a bus on a particular route. This is an implied offer by the bus company to take any person on the route who is prepared to pay the prescribed fare. The acceptance of the offer is complete as soon as a passenger gets into the bus.

5. **Offer must be communicated:** The offer, to be valid must be communicated to the offeree. An offer becomes effective only when it has been communicated to the offeree so as to give him an opportunity to accept or reject. An acceptance of the offer, in ignorance of the offer, is no acceptance and, therefore, no valid contract can arise.



Notes

Leading case: Lalman Shukla V. Gauri Dut (1913)

In this case, G's nephew has absconded. He sent his munim L in search of the missing boy. In his absence, G issued hand bills offering a reward of Rs, 501/- to anyone who might find out the boy. L found out the boy before seeing the hand bills. Later on, he came to know of the reward and sued G for the reward. Here he could not claim the reward as he did not know about the offer.

6. **Offer must be made with a view to obtain the consent:** The offer must be made with a view to obtain the consent of the other party and not merely with a view to disclosing the intention of making an offer. A proposer cannot also dictate terms under which the offer can be refused. At best, he can lay down the mode of acceptance.
7. **Offer should not contain a term the non-compliance of which would amount to acceptance:** The offer should not contain a term the non-compliance of which would amount to acceptance for example a person cannot make such an offer that if the acceptance of the offer is not received upto Sunday, the offer would be presumed to have been accepted.
8. **Special conditions attached to an offer must also be communicated:** Though an offeror is free to lay down any terms and conditions in his offer, but it is the responsibility of the offeror to bring all the terms of the offer to the notice of the other party, the acceptor is bound only for those conditions which (i) have expressly communicated to him or (ii) have so clearly been written that he ought to have known them or (iii) have reasonable notice of the existence of those terms. He will also be bound by the conditions if he knew of their existence, though they are in a language unknown to him. It is his duty to get them explained.

Examples: A passenger had purchased a ticket for a journey. On the back of the ticket, there were certain terms and conditions. One of the terms was that the carrying company was not liable for losses of any kind. But there was nothing on the face of the ticket to draw the attention of the passenger to the terms and conditions on the back of ticket. Held, the passenger was not bound by the terms and conditions on the back side of the ticket. (Henderson V. Stevenson) (1875).



Notes

The offer must disclose an intention to create legal relations

The terms of offer must be clear and certain, and not indefinite, loose or ambiguous

Offer may be general or specific

Offer may be expressed or implied

Offer must be communicated

Offer must be made with a view to obtain the consent

Offer should not contain a term the non-compliance of which would amount to acceptance

Special conditions attached to an offer must also be communicated

Fig 8.2: Rules of a valid offer

8.4 ACCEPTANCE

A person is considered to have accepted an offer when they express their agreement with it. Thus, a proposal becomes a promise when it is accepted. It is necessary to inform the proposer of the acceptance before a contract may be formed.

For a valid acceptance, it is necessary that it should be accepted by the person to whom the specific offer is made except for general offer where anyone with the knowledge of the offer can accept it.

8.5 ESSENTIALS OF A VALID ACCEPTANCE

1. **Acceptance must be absolute and unqualified:** Section 7 of the Indian Contract Act requires that the acceptance must be absolute and unqualified. It must correspond with all the terms of the offer. Conditional acceptance is no acceptance. If there is a variation in the terms of the acceptance, it is not an acceptance, but a counter-offer, which the proposer may or may not accept. A counter-offer destroys the original offer. Thereafter the offeree cannot revert to



Notes

the original offer and purport to accept it. (Erollope & Colls Ltd. V. Atomic Power Construction Ltd. (1963))

Example: A offers to sell his gold bracelet for a sum of Rs. 80,000. B sends his acceptance to purchase it for a sum of Rs. 79,000. There is no acceptance. It will be taken as a new offer from B, which may not be accepted by A.

2. **Acceptance must be in the mode prescribed:** A proposal must be accepted according to its terms. If the proposal lays down a mode of acceptance, the acceptance must be according to the mode prescribed. Therefore, if the proposer chooses to require that the goods shall be delivered at a particular place, he is not bound to accept delivery at any other place. It is not for the acceptor to say that some other mode of acceptance which is not according to the terms of the proposal will do as well. If the acceptance is not given in the mode prescribed, the proposer may reject the acceptance and intimate the offeree within a reasonable time. But if he does not inform the offeree, he is deemed to have accepted the acceptance.

If the proposer has not prescribed any mode of acceptance, it must be given and communicated in some usual and reasonable manner.

Example: An offer is made to take shares indicating that the acceptance is to come by a telegram. If the acceptance is sent by ordinary post then it is not an acceptance according to the mode prescribed and the offer will be deemed to be not accepted. The offeror need not inform the offeree that the acceptance is not according to the mode prescribed.

3. **Acceptance must be communicated to the offeror:** Acceptance must be communicated to the offeror to create a binding contract. Mental acceptance is no acceptance in the eyes of law. But where the offer is to be accepted by being acted upon, no communication to the offer will be necessary.

Example: The manager of a railway company received a draft agreement. The manager wrote the word “approved” and put the draft in the drawer of his table. By some oversight the document remained in the drawer and was never communicated. It was held that there was no contract as the acceptance had not been communicated. (Brogden V. Metropolitan Rly.Co.) (1877).

4. **Silence cannot be prescribed as mode of acceptance:** The offer cannot frame his offer in such a way as to make the silence or inaction of the offeree to operate as an acceptance. In other words, the offeror can prescribe the mode of acceptance but not the mode of rejection.



Notes

Leading case: Felthouse V. Bindley (1863). F offered by letter to buy his nephew's horse for £30 adding, "If I hear no more about it, I shall consider the horse as mine for £30. Nephew did not give any reply, but he told an auctioneer who was selling his horses not to sell that particular horse because it was sold to his uncle. By mistake auctioneer sold the horse. Held: F had no claim against the auctioneer because the horse had not been sold to him and the horse did not belong to F. Silence cannot be prescribed as a mode of acceptance because if that was so the offeree will be put to a great deal of inconvenience because he shall have to unnecessarily write in clear terms that he is not accepting the offer.

5. **Acceptance must be given within the time stipulated or within a reasonable time if time is not mentioned.** Further, acceptance must be given before the offer lapses or before it is withdrawn.
6. **There can be no acceptance before the communication of the offer.** There can be no acceptance of an uncommunicated offer. Acceptance cannot precede an offer. A person who has no knowledge of an offer cannot be said to have accepted it merely because he happened to act just by chance in the manner prescribed by the offer. (Lalman V. Gauri Dutt).
7. **Acceptor must indicate intention to fulfil the promise.** Acceptance, in order to be valid, must be made under circumstances which would show that the acceptor is able and willing to fulfil the promise. Acceptance must show an intention on the part of the acceptor to fulfil the promise. If no such intention is present, the acceptance is not valid.
8. **If the proposal is made through an agent, it is sufficient if the acceptance is communicated to him:** If X sends the offer to Y through an agent Z, and Y give his acceptance to Z, the acceptance is complete resulting into a valid contract. It is immaterial whether Z communicates the acceptance of Y to his principal X or not.



Acceptance must be absolute and unqualified.

Acceptance must be in the mode prescribed

Acceptance must be communicated to the offeror

Silence cannot be prescribed as mode of acceptance

Acceptance must be given within the time stipulated or within a reasonable time if time is not mentioned.

There can be no acceptance before the communication of the offer.

Acceptor must indicate intention to fulfil the promise

If the proposal is made through an agent, it is sufficient if the acceptance is communicated to him

Fig 8.3: Essentials of a valid acceptance



INTEXT QUESTIONS

1. Contract is Agreement plus
 - a) Acceptance
 - b) Enforceability
 - c) Promise
 - d) Consideration
2. Which of the following is a rules for a valid offer?
 - a) The offer must disclose an intention to create legal relations
 - b) Offer may be general or specific
 - c) Offer may be express or implied
 - d) All of the above



Notes

3. Which of the following is not an essential of a valid acceptance?
 - a) Acceptance must be absolute and unqualified
 - b) Acceptance must be in the mode prescribed
 - c) Non communication to the offeror
 - d) Acceptor must indicate intention to fulfil the promise
4. Which of the following is not an essential of a valid contract?
 - a) Offer and Acceptance
 - b) Verbal Communication
 - c) Agreement between the parties
 - d) Free Consent
5. Which of the following governs all contracts in India, including insurance contracts?
 - a) The Indian Contract Act, 1872
 - b) The Indian Contract Act, 1972
 - c) The Indian Contract Act, 1877
 - d) The Indian Contract Act, 1922

8.6 CONSIDERATION

This indicates that there must be a benefit to both parties that can be found in the contract. Consideration is the cost incurred by one party in exchange for an agreement made by the other. The consideration shouldn't be unethical or against public policy, and it should be of a legal character.

8.6.1 Essential Elements of Consideration

1. Consideration must proceed at the desire of the Promisor. The act constituting the consideration must have been at the desire or request of the promisor. An act done at the desire of a third party is not a consideration. Voluntary acts also would not constitute good consideration in the eyes of law. If X rushes to Y's help whose house is on fire, there is no consideration here. It is a voluntary act of X. But if X goes to Y's help at the latter's request who promises, to give a reward for the help then there is consideration. It is not necessary that the promisor himself should be benefited by consideration. It is sufficient if the act or forbearance constituting consideration was done or given at the promisor's request.

The promise to pay subscription to a charitable trust of religious organisation would have been without consideration if no liability had been incurred and nothing substantial had been done by the trust or the organisation on the faith of the subscriber's promise.

**Example:**

- (a) X promised to subscribe Rs. 500/- to a fund to rebuild a mosque and no steps were taken to rebuild the mosque, it was held that the promise was without consideration and that the subscriber was not liable (Abdul Aziz V. Masum Ali) (1914).
- (b) In another case of similar nature, where the Secretary had acted on the faith of the promise and incurred a liability, the court enforced the claim for the recovery of the amount to the extent of the liability incurred by the promise. (KedarNath V. Gauri Mohamed) (1886).

2. **Consideration may move from the promisee or any other person:** Under the Indian Contract Act, consideration may proceed from the promisee or any person. Thus, consideration furnished by a third party will also be valid if it has been done at the desire of the promisor. But it does not follow that the third party can sue on the agreement.

Leading case: Chinaya V. Ramayya (1881)

In this case, A, by a deed of gift, made over certain property to her daughter, with a direction that the daughter should pay an annuity to A's brother, as had been done by A. On the same day the daughter executed a writing in favour of the brother agreeing to pay the annuity. The daughter declined to fulfil her promise and the brother sued to recover the amount. The defendant (sister) contended that no consideration from the brother, and that he being the stranger to the consideration had no right to sue. Held, it is not necessary that consideration must move from the promised himself. A contract can be supported can be supported even by a consideration from a person other than the promised. Therefore, the brother was entitled to maintain the suit.

3. **Privity of Contract:** The general rule is that only the person entitled to the benefits or bound by the obligations of a contract are entitled to sue or be sued upon it. Thus, a stranger to contract, cannot file a suit to enforce any of the rights arising out of the contract.

Example:

- (a) *Tweddle V. Atkinson* (1861): In this case, the father of a boy and the father of the girl who was to be married to the boy, agreed that each of them shall pay a sum of money to the boy, and after marriage the husband should have full power to sue for such sums. After the death of both the



Notes

contracting parties the husband sued the executors of the wife's father upon the above agreement, but the action was held not to be maintainable because the husband was not a party to the contract.

- (b) *Dunlop Tyre Co. V. Selfridge Ltd.* (1915): In this case, D supplied tyres to a wholesaler X, on the condition that any retailer to whom X resupplied the tyre should promise X, not to sell to the public below D's list price. X supplied the tyres to S, a sub-dealer, S sold two tyres at less than the list price, and thereupon, the Dunlop Co., sued him for breach of the contract. Held, Dunlop Co., could not claim the benefit of the contract as against S, a sub-dealer, There was no privity of contract between the two.

Exceptions to the Doctrine of Privity of Contract

- (a) **Beneficiaries in the case of trust:** A beneficiary under an agreement to create a trust can sue upon the agreement, though he was not a party to the contract between the settler and the trustees.

Example: A creates a trust for the benefit of B, and appoints X, Y and Z as trustees. B can sue for benefits available to him under the trust though he is not a party to the contract.

- (b) **In case of provision in marriage settlement of minors:** A child in a contract of marriage is treated as a party who has given consideration, and he is entitled to enforce any contract to settle property, which a marriage settlement may contain.

In *Khwaja Muhammad V. Hussaini Begum* (1910), it was held that where a lady sued her father-in-law to recover the arrears of allowance payable to her by him under an agreement between his and his father in consideration of her marriage, she could enforce the promise in her favour though she was a stranger to the contract. The Privy Council observed that it might occasion serious injustice to apply the common law doctrine of privity of contract in a country like India where marriages are contracted for minors by parents or guardians.

- (c) **In case provision is made for the marriage or maintenance of a female member of the family on the partition of Hindu Undivided family:** The female members though not parties to the contract, possess an actual beneficial right which places them in the position of beneficiaries under the contract, and can, therefore, enforce the promise.



(d) **Assignee of a contract:** An assignee under an assignment made by the parties, or by the operation of law, e.g., in case of death or insolvency, can sue upon the contract for the enforcement of his rights and interests. A debt can be assigned by a creditor to a third person without the consent of the debtor. But a mere nominee cannot sue e.g. the person for whose benefit another has insured his own life cannot sue.

(e) **Where a charge is created on certain specific immovable property in favour of certain person:** Such charge is enforceable at the instance of the beneficiary entitled, though he may be a stranger to the document creating the charge.

(f) **Estoppel:** Where one party has by his words or conduct made to the other a promise or assurance which was intended to affect the legal relations between them, then once the other party has taken him on his words and acted upon them, the party who gave the promise shall be estopped from denying his liability arising from the promise.

(g) **Contracts:** which are entered into through an agent can be enforced by the principal.

4. **Consideration may be a promise to do something or abstain from doing something:**

Example: A is indebted to B to the extent of Rs. 1000. The debt falls due and A fails to pay. C promises to stand surety to the debt if B does not file a suit against A, to which B agrees. B's promise regarding forbearance to sue A is a good consideration for C's standing as a surety. Mutual agreements to avoid further litigations are held to be supported by valid consideration. Consideration, therefore may be an act or an abstinence.

5. **Consideration may be past, present or future Past consideration:** Where the promisor had received the consideration before the date of the promise, the consideration is termed as "Past consideration."

Example: A teaches the child of B at B's request. After six months B agrees to pay A a sum of Rs.600/- for his teaching. For B's promise the services of A will be taken as past consideration.

Present consideration: When the promisor receives consideration simultaneously with his promise, the consideration is termed as Present Consideration.

Example: A purchased goods from a shopkeeper of the worth of Rs.100/- A pays money to the shopkeeper. Consideration will be taken as "Present".



Notes

Future consideration: Where the promisor has receive consideration in future for promise, the consideration is said to be “future”.

Example: A promises to sell his house to B for a sum of Rs. 15,000/- after a week. B also promises to pay A Rs. 15,000/- after a week on Tuesday. Consideration is future for both the parties.

6. **There must be independent consideration to support each independent promise:** There must be as many consideration as the number of contracts. A single consideration cannot support two agreements between the same parties.
7. **Consideration must have some value in the eyes of Law though it need not be adequate:** Inadequacy of consideration will not invalidate a contract. It is open to the parties to fix their own price. For example, if A voluntarily agreed to sell his car for Rs. 500/- to B, it will be a valid contract despite the inadequacy of the consideration. It is to be noted here that though inadequacy of consideration will not invalidate a contract but may be taken into account by the court in determining the question whether the consent of the promisor was freely given.
8. **Consideration must be real and not illusory, impossible uncertain, ambiguous, fraudulent, immoral or opposed to public policy.** Consideration is always given in exchange of some benefit accruing or to make good injury caused to the other party. Consideration should not be fraudulent, forbidden by law or immoral or opposed to public policy. It should not cause injury to any person or property if allowed to be exchanged.

1. *Consideration must proceed at the desire of the Promisor*
2. *Consideration may move from the promisee or any other person:*
3. *Privity of Contract:*
4. *Consideration may be a promise to do something or abstain from doing something:*
5. *Consideration may be past, present or future*
6. *There must be independent consideration to support each independent promise*
7. *Consideration must have some value in the eyes of Law though it need not be adequate*
8. *Consideration must be real and not illusory, impossible uncertain, ambiguous, fraudulent, immoral or opposed to public policy.*

Fig 8.4: Essentials of a valid consideration



8.7 AGREEMENT BETWEEN THE PARTIES

Both the parties should agree to the same thing in the same sense. In other words, there should be “consensus ad-idem” between both parties. For example: A offers to sell his car to B. A is the owner of two cars and wants to sell his Honda Civic. B accepts the offer thinking that he is buying A’s other car which is Toyota Altis. In this case, there is absence of ‘consensus ad-idem’ and therefore no binding contract arises.

8.8 FREE CONSENT

There should be free consent while entering into a contract. Consent is said to be free when it is not caused by:

1. **Coercion:** Involves pressure applied through criminal means to force a person to enter into a contract. For example: A threatens to kill B if B does not sell his house to A at a price less than market value. Here, B’s consent has been obtained by coercion.
2. **Undue influence:** When a person who is able to dominate the will of another, uses his/her position to obtain an undue advantage over the other.
3. **Fraud:** When a person induces another to act on a false belief that is caused by a representation he or she does not believe to be true. It can arise either from deliberate concealment of facts or through misrepresenting them.
4. **Misrepresentation:** Representation which is incorrect, false or inaccurate. The person making the false representation believes it to be true. Hence, misrepresentation is innocent without an intent to deceive.
5. **Mistake:** Error in one’s knowledge or belief or interpretation of a thing or event. This can lead to an error in understanding and agreement about the subject matter of contract.

When consent to an agreement is caused by coercion, fraud or misrepresentation, the agreement is voidable at the option of the aggrieved party.

8.9 CAPACITY OF THE PARTIES

All the parties to the contract must be legally competent to enter into the contract. The parties should have attained the age of majority, should be of sound mind and should not be disqualified from contracting by any law to which they are subject. Thus, it can be said that minors, lunatics, persons of unsound mind and those disqualified under the law are incompetent to enter into a contract.



Notes

8.10 LEGALITY

The object of the contract must be legal, for example, A and B enter into a contract for the purpose of murdering C. This is not a lawful object. Every agreement of which the object or consideration is unlawful is void.



INTEXT QUESTIONS 8.2

1. The phrase “consensus ad-idem” means that
 - a) Both the parties should agree to the same thing in the same sense.
 - b) Both the parties should disagree to the same thing.
 - c) One party should agree and the other disagree.
 - d) None of the above
2. When a person who is able to dominate the will of another, uses his/her position to obtain an undue advantage over the other, it is known as
 - a) Coercion
 - b) Misrepresentation
 - c) Fraud
 - d) Undue influence
3. X threatens to harm Y’s mother if Y does not marry X’s daughter. This is a case of _____.
 - a) Undue influence
 - b) Fraud
 - c) Coercion
 - d) Misrepresentation
4. Every agreement of which the object or consideration is unlawful is
 - a) Voidable
 - b) Illegal
 - c) Void
 - d) Valid

ELEMENTS OF A CONTRACT

5. When consent to an agreement is caused by coercion, fraud or misrepresentation, the agreement becomes .
 - a) Voidable
 - b) Void
 - c) Illegal
 - d) Unenforceable
6. _____ is a general rule that only the person entitled to the benefits or bound by the obligations of a contract are entitled to sue or be sued upon it.
 - a) Estoppel
 - b) Privity of contract
 - c) Caveat Emptor
 - d) Restitution

8.11 THE INSURANCE CONTRACT

Definition: In an insurance contract, the insurer agrees to offer financial protection against a list of predetermined risks in exchange for payment of a premium. The contract is structured like an insurance policy.

Legal aspects of an insurance contract

Some features of the insurance contract are discussed below:

An insurance policy is a contract entered into between two parties, viz., the company, called the insurer, and the policy holder, called the insured and fulfils the requirements enshrined in the Indian Contract Act, 1872.

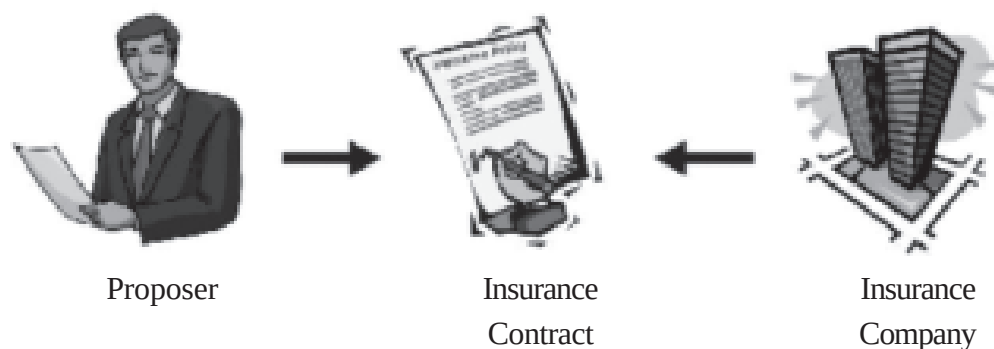


Figure 8.5: Insurance contract

8.11.1 Elements of an Insurance Contract

The elements of a valid insurance contract are:

- a) **Offer and Acceptance:** The proposal turns into a policy when a proposer agrees to the conditions of the insurance plan and expresses his agreement by

Module - 1

Skill India and BFSI Introduction to Insurance



Notes



Notes

paying the deposit amount, which, upon acceptance of the proposal, gets converted to the first premium. It turns becomes a counter offer if any conditions are added. The policy paper serves as the contract's proof.

- b) **Consideration:** The premium is the insured's consideration, while the insurers' consideration is their promise to indemnify.
- c) **Agreement between the parties:** The policyholder and the insurance provider must concur on the same matter in the same way.
- d) **Free consent:** The parties to an insurance contract should give their assent freely; this means that it shouldn't be obtained through pressure, undue influence, fraud, deception, or error.
- e) **Capacity of the parties:** The policyholder must be of sound mind and be of legal age to sign the proposal. They also must not be legally barred. For instance, minors are not permitted to sign insurance contracts.
- f) **Legality:** The contract's purpose must be legal; for instance, insurance cannot be obtained for unlawful conduct. Any agreement that has an illegal purpose or value is void. An insurance contract's object is one that is permitted by law.



INTEXT QUESTIONS 8.3

1. Insurance involves a contractual agreement in which the insurer agrees to provide financial protection against certain specified risks for a price or consideration known as the .
 - a) Remuneration
 - b) Commission
 - c) Premium
 - d) None of the above
2. The two parties between an insurance contract are:
 - a) Insurer & Insured
 - b) Insurer & Govt. offices
 - c) Insured & individual
 - d) Govt. offices & Financial institutions

3. Which of the following is the evidence of a contract under insurance?
- | | |
|--------------------|------------------------------|
| a) Policy document | b) Premium receipt |
| c) Proposal form | d) Age proof of the proposer |
4. “The policyholder must have attained the age of majority at the time of signing the proposal and should be of sound mind and not disqualified under law.” Which of the following essentials of a valid contract fulfils the statement given?
- | | |
|----------------------------|-----------------|
| a) Acceptance | b) Legality |
| c) Capacity of the parties | d) Free consent |



WHAT YOU HAVE LEARNT

A contract is an agreement between parties, enforceable at law. An agreement is defined as “every promise and every set of promises, forming the consideration for each other. Thus, it can be said that a contract is an agreement enforceable by law. The elements of a valid contract are: Offer and acceptance, Consideration, Agreement between the parties, Free consent, Capacities of the party, Legality. A person is said to make an offer or a proposal when he expresses to another person his desire to do or refrain from doing anything in order to get the other person’s approval for that action. An offer is declared accepted when the recipient of the offer indicates his agreement with it. Consideration is the cost incurred by one party in exchange for an agreement made by the other. When engaging into a contract, there should be free consent. When consent is not obtained through coercion, undue influence, fraud, misrepresentation, or error, it is said to be free. The term “capacity of the parties” refers to the requirement that all parties to a contract be of full age and capacity. Every agreement whose purpose or consideration is illegal is null and void. The intention of the contract must be legitimate. In an insurance contract, the insurer agrees to offer financial protection against a list of predetermined risks in exchange for payment of a premium. The contract is structured like an insurance policy. An insurance policy is a contract made between the policyholder and the insurance firm, also known as the insurer, and it complies with the provisions of the Indian Contract Act, 1872.



TERMINAL QUESTIONS

1. Explain the essentials of a contract in detail with examples.
2. Explain the rules under a valid offer and acceptance.

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

ELEMENTS OF A CONTRACT

3. Explain essential elements of a valid insurance contract.
4. Describe the exceptions to the doctrine of privity of contract.
5. Explain the essential elements of consideration in detail.



ANSWERS TO INTEXT QUESTIONS

8.1

1. (b) Enforceability
2. (d) All of the above
3. (c) Non communication to the offeror
4. (b) Verbal communication
5. (a) The Indian Contract Act, 1872

8.2

1. (a) Both the parties should agree to the same thing in the same sense
2. (d) Undue Influence
3. (c) Coercion
4. (c) Void
5. (a) Voidable
6. (b) Privity of Contract

8.3

1. (c) Premium
2. (a) Insurer & Insured
3. (a) Policy document
4. (c) Capacity of the parties



LEARNING OUTCOMES

After studying this chapter, you are able :

- To clearly define meaning of contract and its essential elements.
- To apply same elements in an insurance contract to understand it in detail.

**9**

PRINCIPLES OF INSURANCE (PART-I)

9.0 INTRODUCTION

This chapter focuses on the various principles of an insurance contract. These principles are nothing but certain rules of conduct or action which every insurance business is required to adhere to. There are two key principles of utmost good faith and insurable interest. According to principle of utmost good faith, both the insurance company and the insured should display good faith towards each other under the insurance contract. Principle of insurable interest requires that the insured must have insurable interest in the life or property insured. Insurable interest refers to that interest which considerably alters the position of the insured in the event of mishap or loss taking place and if the event does not take place, he/she remains in the same old position. Insurable interest is essential to make an insurance contract valid and enforceable under law.



9.1 OBJECTIVES

After reading this lesson, you will be able to:

- Explain key principles of insurance
- Explain consequences and reasons of breach of utmost good faith
- State what is a material fact.
- Explain principle of insurable interest through brief cases.

All the stakeholders involved in the insurance business are required to adhere to certain rules of conduct or action. These rules are known as principles of insurance. The principles which are of utmost significance to a valid insurance contract are as follows:



Notes

9.2 UBERRIMAE FIDEI OR UTMOST GOOD FAITH

An insurance contract is a contract of utmost good faith i.e., a contract of uberrimae fidei. The Latin phrase ‘uberrimae fidei’ refers to “a positive duty to voluntarily disclose, accurately and fully, all facts material to the risk being proposed, whether requested or not”. It is one of the fundamental principles governing insurance contracts. Both the insurance company and the insured should display good faith towards each other under the insurance contract.

Unlike other commercial contracts which follow the principle of Caveat Emptor which means buyer beware, insurance contracts generally involve the insurer relying on the insured for information. This is because the facts related to the subject matter of insurance contracts may be known only to the insured. Thus, it becomes the legal duty of the insured to voluntarily, fully and accurately disclose all material facts related to the subject matter of insurance and essential to the risk being transferred to the insurer. At the same time, it is the duty of the insurer to ensure that the potential insurance contract fits the specific requirements of the insured and also, clearly reveal all the terms and conditions in the insurance contract.

What is a material fact?

Any fact which is likely to influence the mind of a prudent insurer in deciding:

- Whether they will accept the proposal of insurance and risk involved?
- If so, at what rate of premium and subject to what terms and conditions?

The following are some examples of material facts which the insured should disclose while entering into the insurance contract:

- **Life insurance:** Age, occupation, previous medical history, smoking/drinking habits, family history of hereditary illnesses etc.
- **Fire insurance:** The construction and nature of use of building, age of building, nature of goods in premises, fire detection and fire fighting equipment
- **Motor insurance:** Description of the vehicle including year of manufacture, type, model, engine power, date of purchase, details of regular drivers, previous claim etc.
- **Marine insurance:** Nature of goods shipped, packing methods used etc.
- **Theft insurance:** Description of stock and its value, nature of security precautions taken



Life insurance	Fire insurance	Motor insurance	Marine insurance	Theft insurance
• Age, occupation, previous medical history, • smoking/drinking habits, • family history of hereditary illnesses etc.	• The construction and nature of use of building, • age of building, • nature of goods in premises, • Fire detection and fire fighting equipment	• Description of the vehicle including year of manufacture, type, model, engine power, • date of purchase, • details of regular drivers, previous claim etc.	• Nature of goods shipped, • packing methods used etc	• Description of stock and its value, • nature of security precautions taken

Figure 9.1: Material facts to be disclosed in various types of insurance

9.2.1 BREACH OF UTMOST GOOD FAITH

If the principle of utmost good faith is violated by either party, the contract of insurance stands voidable at the option of the aggrieved party. Neither should the insured conceal any information which is material to the contract nor should he/she misrepresent any material facts. The insurer should also clearly outline the terms and conditions of the insurance contract without suppressing any information which is important for the insured to know.

For example:

1. A person purchases a medical insurance policy without mentioning the fact that he is currently suffering from elevated blood sugar. This is a case of concealment of material facts by the insured.
2. A person has a skin disease which he reveals in the insurance policy form. The same is accepted by the insurance company. However, the insurance company does not inform him that pre-existing diseases are not covered in the policy for at least 3 years. This is a case of misleading of facts by the insurer/ insurance company.

Let us now look into situations which would involve a breach of uberrimae fidei. Such breach can arise either due to non-disclosure or misrepresentation.

Non-Disclosure: may arise when the insured is silent in general about material facts because the insurer has not raised any specific enquiry. It may also arise through evasive answers to queries raised by the insurer. Often disclosure may be inadvertent



Notes

(meaning it may be made without one's knowledge or intention) or because the proposer thought that a fact was not material.

In such a case it is innocent. When a fact is intentionally suppressed it is treated as concealment. In the latter case there is intent to deceive.

Misrepresentation: Any statement made during negotiation of a contract of insurance is called representation. A representation may be a definite statement of fact or a statement of belief, intention or expectation. With regard to a fact it is expected that the statement must be substantially correct. When it comes to representations that concern matters of belief or expectation, it is held that these must be made in good faith.

Misrepresentation is of two kinds

- i. Innocent Misrepresentation relates to inaccurate statements, which are made without any fraudulent intention.
- ii. Fraudulent Misrepresentation on the other hand refers to false statements that are made with deliberate intent to deceive the insurer or are made recklessly without due regard for truth.

An insurance contract generally becomes void when there is a clear case of concealment with intent to deceive, or when there is fraudulent misrepresentation.

Recent amendments (March, 2015) to Insurance Act, 1938 have provided certain guidelines about the conditions under which a policy can be called into question for fraud. The new provisions are as follows

Fraud

A policy of insurance may be called in question at any time within three years from the date of issuance of the policy or the date of commencement of risk or the date of revival, of the policy or the date of the rider to the policy, whichever is later, on the ground of fraud:

The insurer shall have to communicate in writing to the insured or the legal representatives or nominees or assignees of the insured the grounds and materials on which such decision is based.

The term "Fraud" has been defined and specified as follows:

The expression "fraud" means any of the following acts committed by the insured or by his agent, with the intent to deceive the insurer or to induce the insurer to issue a insurance policy:



- (a) The suggestion, as a fact of that which is not true and which the insured does not believe to be true;
- (b) the active concealment of a fact by the insured having knowledge or belief of the fact;
- (c) any other act fitted to deceive; and
- (d) any such act or omission as the law specially declares to be fraudulent.

Mere silence as to facts likely to affect the assessment of the risk by the insurer is not fraud, unless the circumstances of the case are such that regard being had to them, it is the duty of the insured or his agent, keeping silence to speak, or unless his silence is, in itself, equivalent to speak.

No insurer shall repudiate a insurance policy on the ground of fraud if the insured can prove that the mis-statement of or suppression of a material fact was true to the best of his knowledge and belief or that there was no deliberate intention to suppress the fact or that such mis-statement of or suppression of a material fact are within the knowledge of the insurer:

It is also provided that in case of fraud, the onus of disproving lies upon the beneficiaries, in case the policyholder is not alive.

A person who solicits and negotiates a contract of insurance shall be deemed for the purpose of the formation of the contract, to be the agent of the insurer.

9.3 MEASURES IMPLEMENTED TO REDUCE THE RISK

A warranty is a promise by the insurance applicant to do certain things or to satisfy certain requirements, or, it is a statement of fact that is attested by the insurance applicant. The warranty becomes part of the insurance contract. If the insured breaches the warranty, the insurer can void the contract and deny payment of a claim. An affirmative warranty is a statement of fact, which is basically the same as a representation, while a promissory warranty is a promise to do something or that something will be done in a specific way. An express warranty is specifically stated in the contract, while an implied warranty is one that is presumed.

Years ago, if a warranty was breached even a little, it allowed the insurer to void the contract and deny coverage, which lessened the value of insurance, and led to great financial losses by the insured for a slight breach of the warranty, many times due to facts that were not material. The states and courts have since lessened the harshness of the doctrine: application statements are considered representations and not warranties;



Notes

a warranty is not breached if the increase in risk is temporary or minor; in some states, there is no breach of warranty unless it increases the hazard of an insurable loss, and some states require that the breach in warranty actually contributed to the loss.



INTEXT QUESTIONS 9.1

1. 'Uberrimae fidei' means _____
 - a) Moderate faith
 - b) Utmost good faith
 - c) Faith always
 - d) Absence of faith
2. _____ may arise when the insured is silent in general about material facts because the insurer has not raised any specific enquiry.
 - a) Mis-representation
 - b) Fraud
 - c) Non-disclosure
 - d) Coercion
3. Age, occupation, previous medical history, smoking/drinking habits, family history of hereditary illnesses are material facts in case of _____.
 - a) Life insurance
 - b) Theft insurance
 - c) Motor insurance
 - d) House insurance
4. A person purchases a medical insurance policy without mentioning the fact that he is currently suffering from heart disease. This is a case of breach of the principle of _____.
 - a) Insurable interest
 - b) Subrogation
 - c) Indemnity
 - d) Utmost good faith



5. Unlike other commercial contracts which follow the principle of _____ which means buyer beware, insurance contracts generally involve the insurer relying on the insured for information.
- a) Caveat Emptor
 - b) Caveat Vendor
 - c) Quid Pro Quo
 - d) Quantum Meruit
6. _____ relates to inaccurate statements, which are made without any fraudulent intention.
- a) Fraudulent misrepresentation
 - b) Undue influence
 - c) Coercion
 - d) Innocent misrepresentation
7. If the principle of utmost good faith is violated by either party, the contract of insurance stands _____.
- a) Illegal
 - b) Void
 - c) Valid
 - d) Voidable at the option of the aggrieved

9.4 INSURABLE INTEREST

The existence of insurable interest is essential to make an insurance contract valid and enforceable under law. The insured must have insurable interest in the life or property insured. Insurable interest refers to that interest which considerably alters the position of the insured in the event of mishap or loss taking place and if the event does not take place, he/she remains in the same old position. One who has to lose as a result of loss is said to have insurable interest in the life or property insured. One fundamental fact of this principle is that 'it is not the house, ship, machinery, potential liability of life that is insured, but it is the pecuniary interest of the insured in them, which is insured.' It is taken as given that an individual has insurable interest in his/her own life or property. Cases where no proof of insurable interest is required are that of a husband's interest



Notes

in his wife's life and wife's interest in her husband's life. In cases of business and family relationships, proof of insurable interest is required.

Consider the following cases:

- ❖ Amit owns a white Toyota Fortuner car which he purchased for Rs. 28 lacs. If the car is stolen, Amit would suffer a loss. He has insurable interest in the car.
- ❖ Rakesh is the owner of a house for which he has taken a mortgage loan of Rs. 35 lakhs from a bank. If the house is destroyed by fire, he would suffer a loss. Thus, he has an insurable interest in the house.
- ❖ Neeraj has a family consisting of his wife and two children. If either Neeraj or his family members suffer from some illness or hospitalisation, he is likely to suffer financially. Thus, there is presence of insurable interest.

If the principle of insurable interest is absent, the insurance contract degenerates into a wagering agreement. It is this principle which differentiates insurance from gambling or a wager agreement. For instance, suppose a person enters a bet wherein he wins Rs. 50,000 if India wins the World Cup final match and loses if India loses. The loss or gain to the person happens only because the person enters the bet. The person who plays the game has no further interest or relationship with the game other than that he might win the game. Betting or wagering is not legally enforceable in a court of law and thus any contract in pursuance of it will be held to be illegal. In case someone pledges his house if he happens to lose a gamble or a bet, the other party cannot approach the court to ensure its fulfilment.

On the other hand, a person who insures his house has a legal relationship with the subject matter of insurance i.e., the house. He owns it and is likely to suffer financially, if it is destroyed or damaged. This relationship of ownership exists independent of whether the fire happens or does not happen, and it is the relationship that leads to the loss. The event (fire or theft) will lead to a loss regardless of whether one takes insurance or not. Unlike a betting game, where one could win or lose, a fire can have only one consequence – loss to the owner of the house. The owner takes insurance to ensure that the loss suffered is compensated for in some way. The interest that the insured has in his house or his money is termed as insurable interest.

In an insurance contract, insurable interest should be present at the time of taking the policy. In general insurance, insurable interest of the insured in the subject matter should be present both at the time of taking the policy and at the time of claim/happening of the event with some exceptions like marine policies. In order to name insurable interest however, it is not necessary that one should be the owner of the property. For

**Notes**

example, a trustee holding property on behalf of others has an insurable interest in the property.

9.5 INSURANCE AND GAMBLING

The key points of difference between insurance and wagering are as follows:

- ❖ Insurance contracts are legally valid contracts, whereas, gaming and wagering contracts are void.
- ❖ Utmost good faith is required to be exercised in insurance contracts, whereas, it is not applicable to gaming or wagering.
- ❖ In insurance, the insured event may take place or may not, or may take place more than once (except life), but in gaming or wagering the event will definitely take place and it will take place only once.
- ❖ The principle of insurable interest applies to insurance contracts but not to wagering.
- ❖ Indemnity applies to insurance, but in case of gaming or wagering the person winning gets back his stake and also a windfall gain.
- ❖ In insurance, it is known as to which party is immune from loss, but in gaming or wagering it is not known which party is going to win or lose.
- ❖ An insurance event is never desired by either of the parties, but parties to gaming and wagering would always like to win at the cost of the other.

Hence, clearly insurance is not gambling.



INTEXT QUESTIONS 9.2

1. If the principle of insurable interest is absent, the insurance contract degenerates into a _____.
 - a) Wagering agreement
 - b) Co-operative agreement
 - c) Executory contract
 - d) Quasi contract

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

PRINCIPLES OF INSURANCE (PART-I)

2. Insurable interest refers to _____
 - a) A situation in which a person or organization is involved in multiple interests, financial or otherwise, and serving one interest could involve working against another.
 - b) Involvement of an individual or their family members in any trade or profession, along with any direct interest they may have in any company providing goods or services to the school.
 - c) Interest which considerably alters the position of the insured in the event of mishap or loss taking place and if the event does not take place, he/she remains in the same old position.
 - d) None of the above
3. Out of the following cases, which one lacks insurable interest?
 - a) Mr. X takes medical insurance policy for his wife Mrs. X.
 - b) Mr. X takes fire insurance for his neighbour's house.
 - c) Mr. X takes a comprehensive motor insurance for his Volkswagen Polo car.
 - d) Mr. X takes life insurance for himself to meet his family's financial needs after his death.
4. In general insurance like property insurance, insurable interest of the insured in the subject matter should be present at the time of _____
 - a) Taking the policy and happening of the event
 - b) Taking the policy
 - c) Happening of the event
 - d) Sale of property



WHAT YOU HAVE LEARNT

An insurance contract is a contract of utmost good faith. Unlike other commercial contracts which follow the principle of Caveat Emptor which means buyer beware, insurance contracts generally involve the insurer relying on the insured for information. If the principle of utmost good faith is violated by either party, the contract of insurance stands voidable at the option of the aggrieved party. Non-Disclosure may arise when



the insured is silent in general about material facts because the insurer has not raised any specific enquiry. Misrepresentation is of two kinds, innocent Misrepresentation or fraudulent Misrepresentation. The existence of insurable interest is essential to make an insurance contract valid and enforceable under law. The insured must have insurable interest in the life or property insured. Cases where no proof of insurable interest is required are that of a husband's interest in his wife's life and wife's interest in her husband's life. In cases of business and family relationships, proof of insurable interest is required. If the principle of insurable interest is absent, the insurance contract degenerates into a wagering agreement. In an insurance contract, insurable interest should be present at the time of taking the policy. In general insurance, insurable interest of the insured in the subject matter should be present both at the time of taking the policy and at the time of claim/happening of the event with some exceptions like marine policies. In order to name insurable interest however, it is not necessary that one should be the owner of the property.

**TERMINAL QUESTIONS**

1. Explain two key principles of insurance contract?
2. What do you understand by insurable interest? Discuss with examples.
3. Elaborate Uberrimae Fidei? What are the various reasons of breach of Uberrimae Fidei?
4. What do understand by term 'fraud'? Discuss with the help of examples.
5. Discuss some examples of material facts which the insured should disclose while entering into the insurance contract.

**ANSWERS TO INTEXT QUESTIONS****9.1**

1. (b) Utmost good faith
2. (c) Non-Disclosure
3. (a) Life Insurance
4. (d) Utmost good faith
5. (a) Caveat Emptor

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

PRINCIPLES OF INSURANCE (PART-I)

6. (d) Innocent misrepresentation
7. (d) Voidable at the option of the aggrieved

9.2

1. (a) Wagering agreement
2. (c) Interest which considerably alters the position of Taking the policy and happening of the event the insured in the event of mishap or loss taking place and if the event does not take place, he/she remains in the same old position.
3. (b) Mr. X takes fire insurance for his neighbour's house
4. (a) Taking the policy and happening of the event



LEARNING OUTCOMES

After studying this chapter, you are able :

- To understand key principles of insurance (utmost good faith, insurable interest) along with other important concepts associated with it like material facts, breach of utmost good faith.

**10**

PRINCIPLES OF INSURANCE (PART-II)

10.0 INTRODUCTION

You have studied about two important principles of Insurance, i.e. 'Utmost Good Faith' and 'Insurable interest' in the previous chapter. This chapter will help you understand other principles of Insurance like Indemnity, Subrogation, Contribution, Proximate Cause and Contract of Adhesion. The chapter will also explain the special policy provisions of nomination and assignment along with the difference between nomination and assignment.



10.1 OBJECTIVES

After reading this lesson, you will be able to:

- Explain the principles of Indemnity, Subrogation, Contribution, and Proximate Cause
- Explain the special policy provisions of nomination and assignment
- Differentiate between 'Nomination' and 'Assignment'

10.2 INDEMNITY

The principle of indemnity is applicable to Non-life insurance policies like fire, marine, motor or other type of general insurance policies. It means putting the policyholder or insured in the same financial position in which he was immediately before the occurrence of the loss event. The insurance contract guarantees that the policyholder or insured would be indemnified or compensated up to the extent of loss and no more. So in



Notes

In simple words, we can say Insurer agrees to compensate the insured for the actual amount of loss suffered by the insured. The purpose of Insurance is for giving protection against losses or risk and not for making profit.

The philosophy here is that the person buying insurance should not make a profit by insuring its assets and recovering more than the loss from the insurance company. The insurance company would estimate the value of the actual loss suffered by you and will accordingly compensate.

Let us understand it with the help of an example:

You have insured your house by buying an insurance policy. You have taken an insurance for Rs. 10 lakhs which is the actual value of the house. If you suffer a loss because of fire at your home and the loss is estimated at say, Rs. 70000. Now, the insurance company would pay you an actual amount of loss, i.e. Rs. 70000 and not more than that.

Consider a situation, where you have not taken insurance for the full value of the house but for a lesser amount. Suppose for same house having a worth of Rs. 10 Lakhs, you have taken an insurance policy for a sum of Rs. 5 lakh. Now, you will not be able to claim the entire amount of Rs. 70000 from the insurance company. As you have bought insurance for half of the value of property, your claim will accordingly be adjusted and you will only get Rs. 35000, which is half of the amount of loss. Your loss would be indemnified in the same proportion of your insurance. This case is an example of underinsurance.

In most of the non-life insurance policies in case of property insurance and liability insurance, the insured is compensated for the amount of actual loss. The amount of loss is calculated by considering the amount of money needed to replace the lost or damaged property at current market prices less depreciation. The amount of normal 'wear and tear' or depreciation is generally reduced from the total amount as you have used the asset for some time and may be the value of that asset may have come down. The value of car decreases with its usage in terms of number of years. A car used for 4 years will not have the same value when compared to a new car. Let us take an **Example:** You have bought a car for Rs. 10 Lakh and after one year your car is stolen. Then the you would not get the entire amount of Rs 10 Lakh but a depreciation of one year would be deducted.

The following modes of settlement would be used in indemnity:

- ◆ Cash payment

- ❖ Repair of a damaged item
- ❖ Replacement of the lost or damaged item
- ❖ Restoration, (Re-establishment) for example, rebuilding a house destroyed by fire

Modes of Settlement in Indemnity

Cash Payment

Repair

Replacement

Restoration or
Reestablishment

Figure 10.1 Modes of Settlement in Indemnity

In cases where it is difficult to estimate or ascertain the value of a subject or an asset at the time of loss, a principle known as the 'Agreed Value' is adopted. Examples could be the rare artefacts or antiques etc. In these cases, both the parties, i.e. Insured and Insurer agree on the value of asset before entering into an insurance contract at the beginning. Insurer agrees to pay the agreed value of an asset to the insured in case of any loss. This kind of insurance policy is known as 'Agreed Value Policy'.

INTEXT QUESTIONS 10.1

Choose the correct option:

1. _____ means putting the policyholder or insured in the same financial position in which he was immediately before the occurrence of the loss event.
 - a) Principle of Indemnity
 - b) Principle of Subrogation
 - c) Principle of Contribution
 - d) Principle of Proximate Cause
2. The purpose of Insurance is
 - a) To make profit
 - b) To enjoy a luxurious life
 - c) Protection against losses or risk
 - d) None of the above

**Notes**



Notes

3. You have taken an insurance policy for a sum of Rs. 10 lakh for a house property having a worth of Rs. 20 Lakh. In case there is a damage of Rs. 1 Lakh to your house property because of fire, insurance company will pay you
 - a) Rs. 1 Lakh
 - b) Rs. 2 Lakh
 - c) Rs. 50,000
 - d) Rs. 20,000
4. Which of the following could be a mode of settlement indemnity?
 - a) Cash payment
 - b) Repair of a damaged item
 - c) Replacement of the lost or damaged item
 - d) All of the above
5. In cases like artefacts or antiques, where it is difficult to estimate or ascertain the value of a subject or an asset at the time of loss, the claim is paid as per the
 - a) Wish of Insurer
 - b) Wish of Insured
 - c) Directions of IRDAI
 - d) Agreed Value between Insurer and Insured

10.3 SUBROGATION

Subrogation follows the principle of indemnity. Subrogation means “the transfer of all legal rights and remedies, with respect to the subject matter of insurance, from the insured to the insurer”. Or in other words, we can say that subrogation means that the insurer (insurance company) holds the legal right (claim) of the insured property after the loss of the property was indemnified or compensated by the insurer.

For example: if you have suffered from a loss of property caused due to the negligence of a third party and the loss has been paid or indemnified by the insurer, then the insurer will have the right to collect damages from the negligent party. It is important to note that the amount of damage that can be collected from the third party should not be more than the actual amount of loss or what is paid to you by the insurer.



In most of the cases, an insurance company pays the claim amount directly to its policyholders and then seeks the reimbursement from the third party, or his insurance company. This will ensure that the policyholder is receiving the payment for a loss quickly and then the insurance company may pursue a subrogation claim against the third party at fault for the loss.

Subrogation can also be defined as a surrender or transfer of rights by the insured/policyholder to an insurance company that has paid a claim against the loss or damage done by the third party.

Example:

You have hired the services of ABC Transport Services for carrying your household goods from one place to another. The goods worth Rs. 50000 got damaged due to the negligence of driver during the transfer. If the insurance company paid an amount of Rs 40000 to you then the insurance company stands subrogated to the extent of only Rs 40000 and can collect that amount from ABC Transport Services

Suppose, the insurance company is able to recover Rs.50,000 from the third Party under subrogation, then the balance amount of Rs.10000 will have to be given to you.

This prevents the insured (or yourself in this case) from making any profit by collecting twice for the loss, i.e. once from the insurance company and then again from the third party. Subrogation arises only in case of contracts of indemnity.

However, the right of subrogation is not part of life insurance policies or health insurance policies, because both of these policies are not based on indemnity. For example “if a person dies in an air crash. His/her family is entitled to collect the full sum assured from the insurer who have issued a Personal Accident Policy as well as the compensation paid by the airline”. Similarly, in case of health insurance, if you are seriously injured because of a negligent driver, and you have also taken a disability cover, you can collect the disability insurance from the insurance company and can still sue the negligent driver.

10.4 CONTRIBUTION

The principle of Contribution is applicable only to non-life Insurance. The principle of Contribution implies that “if the same property is insured with more than one insurance company, the compensation paid by all the insurers together cannot exceed the actual loss suffered”.



Notes

If insured or a policyholder collects the amount of the loss from each insurer fully then he/she would make a profit from the event of loss which violates the principle of indemnity. Thus, according to the principle of contribution, one cannot gain more from insurance than one has lost through the peril.

For example: If you have taken a fire insurance policy for your house valued at Rs. 40 Lakh from two different insurance companies with a coverage of Rs. 20 Lakh each. If your house is partially damaged because of the fire and the estimated loss is Rs. 10 Lakh. Then as per the principle of contribution, you cannot claim Rs. 10 Lakh each from both the companies as it will result in making profits. Since both the insurance companies are deemed to have shared in the insurance to the extent of 50%, each would pay 50% of the loss, viz., Rs. 5 lakhs each, thus ensuring that the insured (you in this case) gets no more than the value of the actual loss.

Another example would be where you have taken two Mediclaim insurance policies for self with a coverage of Rs 3 Lakhs from company A, and for Rs 2 Lakhs from company B. You have incurred an expense of Rs 4 Lakhs on hospitalisation following an ailment. This compensation of Rs 4 Lakhs will be shared and paid by both the companies on rateable proportion basis. The share of each company will be

Company A: $4,00,000 \times 3,00,000 / (3,00,000 + 2,00,000) = \text{Rs. } 2,40,000$

Company B: $4,00,000 \times 2,00,000 / (3,00,000 + 2,00,000) = \text{Rs } 1,60,000$

10.5 PROXIMATE CAUSE

The Principle of Proximate Cause is the last but one of the important legal principles. It is partially applicable in life insurance and fully applicable in non-life insurance policies.

Proximate Cause is an important principle of insurance which is concerned with identifying the actual reason of the loss or damage and whether it is indeed as a result of an insured peril. If the loss has been caused by the insured peril covered under the policy, the insurer is liable, otherwise not.

Now let us first understand how the Principle of Proximate Cause is applied to life insurance contracts. Life insurance policies provide financial coverage for your life in a form of giving death benefit to your family in case you lose your life. Regardless of the cause or reason of the death, Principle of Proximate Cause would not apply. The party is eligible to claim the cover in case of life insurance except in the cases of suicides. However, many life insurance contracts also have an additional rider of accident benefit. If you have purchased this rider along with your insurance policy, an additional sum assured would be payable in the event of death if it is caused by an accident. In



such situation, it becomes important for an insurance company to find out the actual cause - whether the death has occurred due to an accident or because of any other reason. The Principle of Proximate Cause would be applicable in such cases.

In Non-life Insurance also, losses will only be indemnified or compensated if the losses are caused by the insured perils which are covered under the policy. The important step in the consideration of any claim is the determination of the actual cause or reason of damage or loss. Proximate Cause is a key principle of insurance which is concerned with how the actual loss or damage happened to the insured party and whether it is a result of an insured peril covered under the policy.

Unfortunately, when a loss occurs there may be a series of events which are involved in an incident. Sometimes it is very difficult to identify the nearest or the Proximate Cause. Insurer looks for the predominant cause which resulted in the chain of events resulting in loss. This predominant cause may not necessarily be the last event that immediately preceded the loss. Proximate cause is an event which is closest to, or immediately responsible for causing the loss.

For example a fire in an office might result in a water pipe to burst which results in a loss to property. Here the fire would still be considered the proximate cause of the incident.

Let us take more examples to understand the Proximate Cause. “Assume your car was stolen. Four days later, the police found the car in a damaged condition. Investigation revealed that the car was banged into a tree by the thief. You filed a claim with insurance company for the damages to the car and to your surprise the insurance company rejected the claim. The reason given by the insurance company was that “theft” was the proximate cause for the damage to the car and theft was an excluded peril in the insurance policy that you had taken for your car and hence insurance company is not liable to pay the claim”.

Let us take another example, “Mr. Pinto, while riding a horse, fell on the ground and had his leg broken, he was lying on the wet ground for a long time before he was taken to hospital. Because of lying on the wet ground, he had fever that developed into pneumonia, finally dying of this cause. Though pneumonia might seem to be the immediate cause, in fact it was the accidental fall that emerged as the proximate cause and the claim was admitted under personal accident insurance”.

There are certain losses which are suffered by the insured as a result of fire but which cannot be said to be proximately caused by fire. In practice, some of these losses are customarily paid by business under fire insurance policies.



Notes

Example of such losses can be –

- ❖ Damage to property caused by water used to extinguish fire
- ❖ Damage to property caused by fire brigade in execution of their duty
- ❖ Damage to property during its removal from a burning building to a safe place
- ❖ Damage to goods which are thrown out of the window for the purpose of preventing the spreading of the flames

10.6 CONTRACT OF ADHESION

A contract of adhesion which is also known as an adhesion contract is a contract between two parties where the terms and conditions of the contract is drafted by one party having greater bargaining power (generally the insurance company). The other party has little or no ability to negotiate the favourable terms and thus is placed in a position of “take it or leave it”. The other party only has the opportunity to adhere to i.e., to accept the contract or reject it.

An insurance contract is an example of adhesion contract where the insurer creates a contract with standard terms and conditions with no opportunity to the customer to change the terms and conditions. Customer either can accept the contract or reject it but cannot modify it.

To neutralise this, a free-look period has been introduced whereby policyholder has the option to cancel the policy in case of any disagreement, within 15 days of receiving the policy document. The company has to be intimated in writing and premium will be refunded after deducting some charges and expenses.



INTEXT QUESTIONS 10.2

1. _____ means that the insurer holds the legal right of the insured property after the loss of the property was indemnified or compensated by the insurer.
 - a) Principle of Indemnity
 - b) Principle of Subrogation
 - c) Principle of Contribution
 - d) Principle of Proximate Cause



2. _____ implies that if the same property is insured with more than one insurance company, the compensation paid by all the insurers together cannot exceed the actual loss suffered.
 - a) Principle of Indemnity
 - b) Principle of Subrogation
 - c) Principle of Contribution
 - d) Principle of Proximate Cause
3. _____ is an important principle of insurance which is concerned with identifying the actual reason of the loss or damage and whether it is indeed as a result of an insured peril.
 - a) Principle of Indemnity
 - b) Principle of Subrogation
 - c) Principle of Contribution
 - d) Principle of Proximate Cause
4. In which of the following cases, principle of proximate cause would not apply?
 - a) Personal Accident Insurance
 - b) Life Insurance
 - c) Fire Insurance
 - d) Marine Insurance
5. Free-look period where a policyholder has the option to cancel the policy in case of any disagreement is
 - a) Within 15 days of filing the proposal form
 - b) Within 15 days of paying the premium
 - c) Within 15 days of receiving the policy document
 - d) within 15 days of meeting an insurance agent



Notes

10.7 ASSIGNMENT AND NOMINATION

10.7.1 Nomination

Nomination is where the policyholder or an insured proposes the name of the person or persons to whom the sum assured should be paid by the insurance company after their death. This process is similar to the nomination in the bank accounts where you have to propose a nominee to whom the amount will be given after the death of a person or an account holder.

The person whose life is assured can nominate one or more than one person as nominees at the time of buying the policy or at a later stage. There is a general practice of appointing spouse, children and parents as the nominee.

Every proposal form of a life insurance policy does ask for the details of Nominee and Appointee if the Nominee is minor.

Nomination Details:

Nominee's Full Name

Age

Relationship

Appointee's Name
(if Nominee is minor)

Appointee's
Signature

Appointee's address

Figure 10.2: Extract of Proposal Form for Nomination Details

You can change the nominees of the policy if you wish to, by making another endorsement in the policy during the tenure of the policy. Nomination only gives the nominee the right to receive the policy benefit in the event of the death of the life assured. A nominee does not have any right to the whole or part of the claim.

The policy holder needs to appoint an appointee in case the nominee is a minor. The consent of the appointee is to be taken by taking his signature on the policy. As soon as the minor nominee reaches the age of 18, the appointee loses their status. The appointee can also be changed at any time by the insured. Death claim is paid to the legal heirs of the policyholder if the nominee is minor and appointee was not assigned in the policy.



It is important to note that, “where more than one nominee is appointed, the death claim will be payable to them jointly, or to the survivor or survivors. No specific share for each nominee can be made. Nominations made after the commencement of the policy have to be intimated to the insurers to be effective”.

As per the amendment in the Insurance Act, “an insurer can accept any change in the nomination or cancellation of a nomination. Insurer may charge a fee from the policyholder, as specified by the regulations for affecting such changes”.

10.7.2 ASSIGNMENT

Assignment is the transfer of the benefits or proceeds of the policy by the holder of a life insurance policy (Assignor) to a lender (Assignee), as a collateral for a loan. In the event of the death of the assignor or insured, the assignee is paid first and the balance if left is paid to the beneficiaries of the policy.

On assignment, nomination is cancelled, except when assignment is made to insurance company for a policy loan. This simply means that when the benefits or proceeds of the policy are transferred to the insurance company for taking a policy loan, then nomination will not be cancelled.

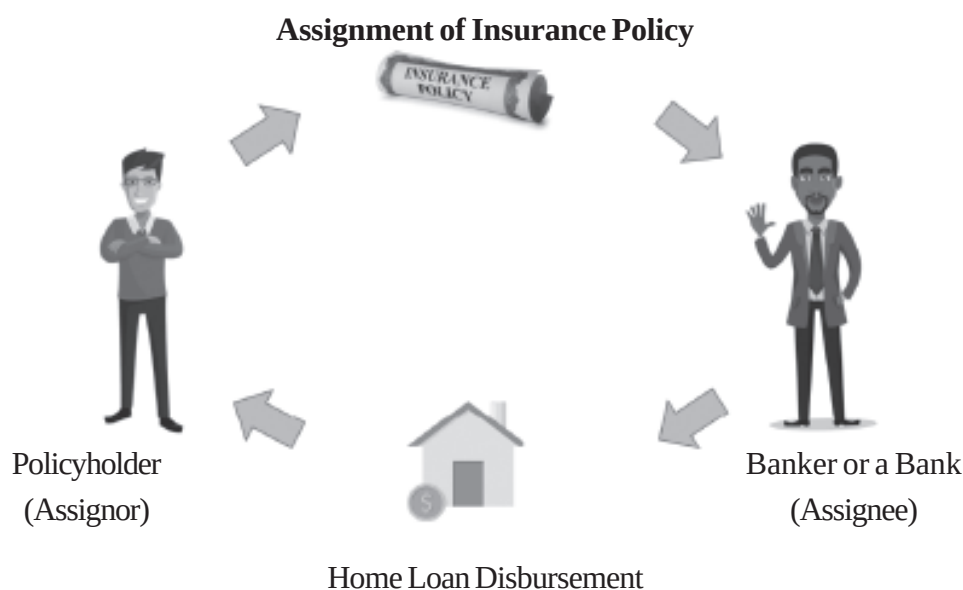


Figure 10.3: Assignment of Insurance Policy

“The assignment of a life insurance policy implies the act of transferring the rights, title and interest of the policy from one person to another”. The person who transfers the rights of the policy are called assignor and the person to whom rights of the policy is transferred is called assignee.

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

PRINCIPLES OF INSURANCE (PART-II)

In India, assignment is governed by the Section 38 of Insurance Act. On execution of the assignment, the assignee gets all rights, title and interest in respect of the policy and becomes the owner of the policy, subject to the provision that the assignee cannot have a better title than the assignor.

As per the Insurance Laws Amendments Act 2005, “An insurer may, accept the transfer or assignment, or decline to act upon any endorsement, where it has sufficient reason to believe that such transfer or assignment is not bonafide or is not in the interest of the policyholder or in public interest or is for the purpose of trading of insurance policy.”

Assignment requires that the parties be competent to contract and is not subject to legal disqualifications.

There are two types of assignments:

1. Conditional Assignment and
2. Absolute Assignment

Conditional Assignment	Absolute Assignment
Conditional assignment provides that the policy shall return back to the life assured on his or her surviving the date of maturity of the conditional assignment or on the death of assignee.	Absolute assignment provides that all rights, title and interest which the assignor has in the policy are transferred to the assignee without reversion to the former or his/her estate in any event. The policy thus vests absolutely with the assignee. The assignee can deal with the policy in whatever manner he or she likes without the consent of the assignor.
This is done when the insured wishes to pass benefits of the policy to a relative in case of early death or certain conditions. The rights of the policyholder are restored once the conditions are fulfilled.	This is done as a part of consideration for a loan in favour of the lender/bank/lending institution. In such an assignment, the insured loses his rights in the policy and the absolute assignee can deal with it independently.
Example: You own a life insurance policy of Rs. 20 lakhs and wants to take a loan of Rs 20 lakh from the bank. So, can go for a conditional	Example: You own a life insurance policy of Rs. 20 lakhs and wants to gift your life insurance policy to your mother. So you will have to go for an absolute assignment

assignment of the policy. You (Assigner) will assign the policy to the bank with a condition that all the rights, benefits of the policy will stay with the bank (assignee) till the time you have an outstanding loan amount. In case you fail to pay the loan, the bank can recover the outstanding amount by surrendering the life insurance policy. If You are able to pay back the loan amount to the bank, then the bank will reassign the life insurance policy back to you. In case if you die before paying the loan to the bank, then the bank will get the death benefit and no family member will have any right over the policy. In case benefit received under the policy is Rs 20 lakh and outstanding loan is for Rs 10 lakh, the insurance company will give Rs 10 lakh to the Bank and the remaining amount to the your legal heirs.

of the policy. After the assignment, rights, title and interest of the policy will be transferred to your mother. After the assignment of the policy, your mother will have a full control on the policy. She can gift it to some other person if she wishes to, subject to the clauses and acceptance of assignment request by the insurance company.

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

10.7.3 Conditions for Valid Assignment

As per the IC-38: Insurance Agents, the conditions that are necessary for a valid assignment are:

- i. First of all, the person executing it (the assignor) must have absolute right and title or assignable interest to the policy being assigned.
- ii. Secondly it is necessary that the assignment be supported by valuable consideration, which may include love and affection.
- iii. Thirdly it is imperative that the assignment is not opposed to any law in force. For example, the assignment of a policy to a foreign national residing in another country may contravene exchange control regulations.
- iv. Assignee can do another assignment, but cannot do nomination because assignee is not the life assured.



Notes

The assignment has to be in writing and must be signed and attested by atleast one witness. The fact of transfer of title has to be specifically set forth in the form of an endorsement on the policy. It is also necessary that the policyholder must give notice of the assignment to the insurer. Unless such notice in writing is received by the insurer, the assignee would not have any right of title to the policy.

On receipt of the policy document for endorsement and notice the life insurance may affect and register the assignment. It must be noted that while registering the assignment the company does not take any responsibility or express any opinion about its validity or legal effect. The date of the assignment as recorded in the books of the life insurance company would be the date on which the assignment and notice thereof has been received by its concerned office. If the notice and the assignment were to be received on separate dates, the date of the one received later will be deemed as the date of registration.

An assignee may reassign interest in the policy to the policyholder /life assured during the currency of the policy. On such reassignment the latter may be advised to execute a fresh nomination or assignment for expeditious settlement of the claim. Again, in the case of conditional assignment the title to the policy would revert to the life assured in the event of death of the assignee. On the other hand, if the assignment were absolute, the title would pass to the estate of the deceased assignee.

As per the amendment in the Insurance Act, a life insurance policy can be assigned wholly or partially. In case of a partial assignment, liability of an insurer shall be limited to the amount secured by partial assignment. The policy holder cannot further assign the residual amount under the policy.

An insurer may accept or refuse the assignment and communicate the reasons for refusal within 30 days from the date of notice of assignment by the policy holder. Any person aggrieved by the decision of the insurer may appeal to the Authority. The rights of an assignee existing prior to the current amendment shall not be affected by the current provision under section 38.”

10.7.4 Nomination vs. Assignment

Skill India and BFSI
Introduction to
Insurance



Notes

Basis of Difference	Nomination	Assignment
Meaning	Nomination is the process where the policyholder proposes the name of the person(s) to whom the sum assured should be paid by the insurance company after his/her death.	Assignment is the process of transferring the title of the insurance policy to another person or institution.
When can the nomination or assignment be done?	Nomination can be done either at the time of proposal or after the commencement of the policy.	Assignment can be done only after commencement of the policy.
Who can make the nomination or assignment?	Nomination can be made only by the life assured on the policy of his own life.	Assignment can be done by owner of the policy either by the life assured if he is the policyholder.
Where is it applicable?	It is applicable only where the Insurance Act, 1938 is inapplicable.	It is applicable all over the world, according to the law of the respective country relating to transfer of property.
Does the policyholder retain control over the policy?	The policyholder retains title and control over the policy.	The policyholder loses the right, title and interest under the policy until a re-assignment is executed.
Is a witness required?	Witness is not required.	Witness is required.

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

PRINCIPLES OF INSURANCE (PART-II)

Do the Nominee or Assignee get any rights?	Nominee has no rights over the policy.	Assignee gets full right over the policy, and can even sue under the policy.
Can it be revoked?	Nomination can be revoked or cancelled at any time during the term of the policy.	The assignment once done cannot be cancelled, but can be re-assigned.
In case of minor	In case the nominee is a minor, appointee has to be appointed.	In case the assignee is a minor, a guardian has to be appointed.
What happens in case of the nominee's or Assignee's death?	In case of nominee's death, the rights of the policy revert to the policy holder or to his legal heirs.	In case of conditional assignee's death, the rights on the policy revert back to the life assured, based on the terms of assignment. In case of the absolute assignee's death, his legal heirs are entitled to the policy.
What happens in case of death of the nominee or assignee after the death of the life assured and before the payment of the death claim	In case the nominee dies before the settlement of death claim, the death claim will be payable to the legal heirs of the life assured.	In case the assignee dies before the settlement, the policy money is payable to the legal heirs of the assignee and not the life-assured who is the assignor.
Can creditors attach the policy?	Creditors can attach the insurance policy which has a nomination in it.	Creditors cannot attach the policy unless the assignment is shown to have been made to defraud the creditors.



INTEXT QUESTIONS 10.3

1. _____ is where the policyholder or an insured proposes the name of the person or persons to whom the sum assured should be paid by the insurance company after their death.
 - a) Contract of Adhesion
 - b) Nomination
 - c) Assignment
 - d) Indemnity
2. The policy holder needs to appoint _____ in case the nominee is a minor.
 - a) An Assignor
 - b) An Assignee
 - c) An Appointee
 - d) None of the above
3. If the nominee is minor and appointee was not assigned in the policy, then the Death claim is paid to the
 - a) An Assignor
 - b) An Assignee
 - c) Legal heirs of the policyholder
 - d) An Agent
4. _____ implies the act of transferring the rights, title and interest of the policy from one person to another
 - a) Contract of Adhesion
 - b) Nomination
 - c) Assignment
 - d) Indemnity

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

PRINCIPLES OF INSURANCE (PART-II)

5. On assignment, nomination is not cancelled, when assignment is made to a _____
- a) Bank for a loan
 - b) NBFC for a loan
 - c) Insurance company for a policy loan
 - d) All of the above



WHAT YOU HAVE LEARNT

There are different principles of Insurance like Utmost Good Faith and Insurable Interest, Indemnity, Subrogation, Contribution, Proximate Cause. The principle of indemnity means putting the policyholder or insured in the same financial position in which he was immediately before the occurrence of the loss event. There are different modes of settlement that would be used in indemnity. These are Cash payment, Repair of a damaged item, Replacement of the lost or damaged item and Restoration, (Re-establishment) for example, rebuilding a house destroyed by fire.

Subrogation follows the principle of indemnity. Subrogation means “the transfer of all legal rights and remedies, with respect to the subject matter of insurance, from the insured to the insurer”. The principle of Contribution is applicable only to non-life Insurance. The principle of Contribution implies that “if the same property is insured with more than one insurance company, the compensation paid by all the insurers together cannot exceed the actual loss suffered”.

The Principle of Proximate Cause is the last but one of the important legal principles. It is partially applicable in life insurance and fully applicable in non-life insurance policies, which is concerned with identifying the actual reason of the loss or damage and whether it is indeed as a result of an insured peril. If the loss has been caused by the insured peril covered under the policy, the insurer is liable, otherwise not. An insurance contract is an example of adhesion contract where the insurer creates a contract with standard terms and conditions with no opportunity to the customer to change the terms and conditions. Customer either can accept the contract or reject it but cannot modify it.

Nomination is where the policyholder or an insured proposes the name of the person or persons to whom the sum assured should be paid by the insurance company after their death. Assignment is the transfer of the benefits or proceeds of the policy by the holder of a life insurance policy (Assignor) to a lender (Assignee), as collateral for a loan. In the event of the death of the assignor or insured, the assignee is paid first and

the balance if left is paid to the beneficiaries of the policy. On assignment, nomination is cancelled, except when assignment is made to insurance company for a policy loan. There are two types of Assignment: Conditional Assignment and Absolute Assignment.



TERMINAL QUESTIONS

1. Explain the Principle of Indemnity. What are the different modes of settlement in Indemnity?
2. Explain how the Principle of Subrogation is different from Principle of Contribution. Give examples to support your answer.
3. Explain the Principle of Proximate Cause using different examples.
4. Write short notes on:
 - a. Contract of Adhesion
 - b. Free Look Period
5. What is nomination? At what time nomination is done?
6. What is Assignment? What are its types?
7. Differentiate between Nomination and Assignment.



ANSWERS TO INTEXT QUESTIONS

10.1

1. (a) Principle of Indemnity
2. (c) Protection against losses or risk
3. (c) Rs. 50,000
4. (d) All of the above
5. (d) Agreed Value between Insurer and Insured

10.2

1. (b) Principle of Subrogation
2. (c) Principle of Contribution
3. (d) Principle of Proximate cause
4. (b) Life Insurance

Skill India and BFSI
Introduction to
Insurance



Notes



Notes

5. (c) Within 15 days of receiving the policy document

10.3

1. (b) Nomination
2. (c) An Appointee
3. (c) Legal heirs of the policyholder
4. (c) Assignment
5. (c) Insurance company for a policy loan



LEARNING OUTCOMES

After studying this chapter, you are able :

- To apply the principles of Indemnity, Subrogation, Contribution, and Proximate Cause in Insurance and explain the special provisions of Nomination and Assignment.

**11****RISK MANAGEMENT**

11.0 INTRODUCTION

No body can foresee what will happen in the future since it is unpredictable and uncertain. We are limited to forecasting what will occur tomorrow. This may bring variations in the outcome, which anyone would have planned due to changes in many factors like economic conditions, natural disasters and many other factors. Every individual or organization faces risk, which may affect their operations and future outcomes. Different people define risk in different sense. There are several hazards, some of which are connected to a person's illness or poor health and others of which are related to property, such as fire or theft. It may also be related with the activities related to speculation. Risk can affect the whole society and economy or may be specific for an individual or organization. The important thing is to manage these risks by avoiding, reducing or transferring the same on some other party. Risk and management of risks will be the focal point of discussion of this chapter. You will learn about different types of risk and strategies to tackle the risk.



11.1 OBJECTIVES

After reading this lesson, you will be able to:

- Explain the meaning of Risk Management
- Explain different Classification of risk
- Explain the meaning and types of Hazards
- Describe the process of Risk Management



Notes

11.2 MEANING OF RISK MANAGEMENT

Risk Management is “the process of measuring, or assessing, risk and developing strategies to manage it. Strategies include avoiding the risk, reducing the negative effect of the risk, transferring the risk to another party and accepting some or all of its consequences”.

When a risk is identified, it is analyzed and then either accepted or mitigated. The process, which goes through these stages of identifying, analyzing and accepting / mitigating the future potential losses / uncertainties, is known as Risk Management. In other words, the quantification of future potential losses and then taking remedial/preventive measures to mitigate the loss is known as Risk Management. Sometimes the participation in the particular activity involving risk is not done and sometimes participation into various other activities takes place to compensate the losses from one of the activities.

Before understanding the concept further, let us focus upon the concept of risk and its various types.

11.2.1 Risk

There are many definitions, which you will find for the term Risk. Let us explore these and try to understand this term in a better way.

- **ISO 31000** : standard prescribed by The International Organisation for Standardization - defines ‘Risk as the effect of uncertainty on objectives, whether positive or negative’.
- **In accordance with the concise Oxford dictionary:** risk is defined as “hazard, chance of bad consequences, loss etc.; exposure to mischance”.
- **The American Risk Insurance Management Association:** defines risk as “uncertainty or lack of knowledge concerning the outcome of events”.
- **Term risk may be defined as:** “future uncertainty as regards financial loss”. Risk is defined as “the variation in the outcome that occurs over a specified period in a given situation”.

Insurance companies generally use the word ‘Risk’ in two distinctive meanings

- a) As the subject-matter of insurance or
- b) Different types of perils such as fire, flood etc.



Notes

11.2.2 Classification of Risks

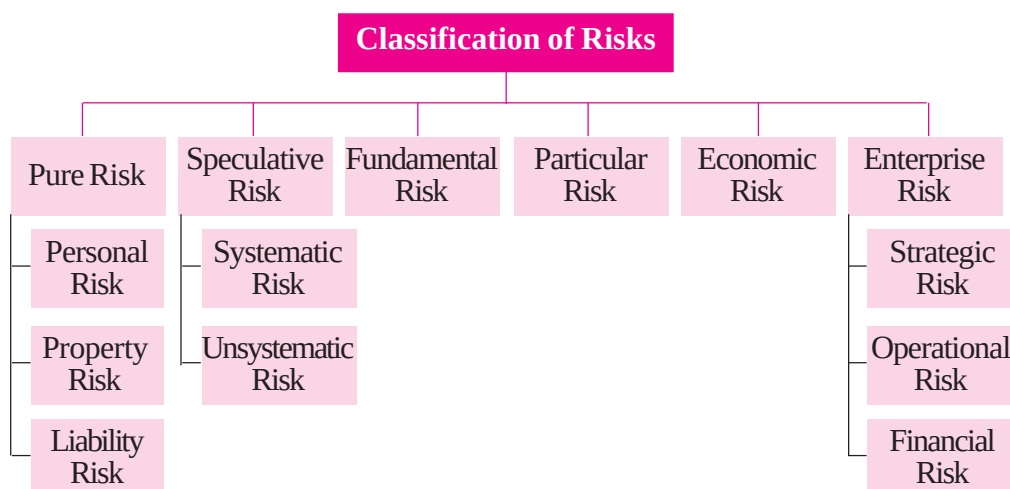


Figure 11.1: Broad classification of Risk

1. Pure Risk

It means “either there is possibility of loss or no loss”. This is a type of risk where the possibility of loss is either present or absent, however there is no possibility of gain. Pure risk can be measured also and the value of premium to be charged can be calculated by the insurance companies based on the probability of loss in the future. There are three types of pure risks:



Figure 11.2: Types of Pure Risk

a) Personal Risk

By the name itself, personal risk implies that it is a risk on the person, be it in the form of illness, disability, poor health or even death. Such a risk is a type of a direct risk and may involve injury as well caused due to accident, unforeseen circumstances or any other mishappening. It might also involve old age or the possibility of having insufficient money for retirement.

b) Property Risk

This risk is on the property whether the property is personal or real. For example: If a house catches fire, or a car is damaged because of a collision, or there is robbery in the house, etc, such losses are categorized under property risk.



Notes

Property risk can be direct loss (physical loss) and consequential loss (indirect loss) also. For example: If a part of your property, say, your motorbike catches fire, then this forms part of direct loss and is often termed as direct property risk. However, if let us suppose somebody steals your car and because of which you have to book a cab for yourself, then the money you may pay for the cab is a financial loss, which has occurred due to the direct loss of robbery of the car. As a result, the cost of the taxi or cab is a financial loss that results from the robbery's direct loss.

c) Liability Risk

Liability risk is a kind of personal risk, which can arise on the person if he is found guilty or liable. This risk arises if any harm or damage is done to someone's property or any injury is caused to someone else. Legal risk takes place in the form of financial loss in terms of either compensating the other person as per the court orders or in defending your own case in the court (in the form of legal charges).

2. Speculative Risk

Unlike pure risk where there is either a possibility of loss or no loss, a speculative risk is the one where either there is a possibility of profit or a loss. Speculative risk arises when people indulge themselves into speculative activities such as investing in stock market with an expectation to make a good profit. These risks can't be insured as people deliberately enter into these activities. In order to protect one from such risks, the only way out is to avoid such activities.

Speculative risk can be categorized into two types:



Figure 11.3: Types of Speculative Risk

a) Systematic Risk

Systematic Risk by the term itself denotes 'system'. It is that type of risk which impacts the entire system as a whole. It arises due to external macroeconomic factors and affects all the stocks together. In addition, it is very difficult to prevent it as it is not specific. Hence, it is also called non-diversifiable risk.

**b) Unsystematic Risk**

Unlike systematic risk, it is a specific risk which impacts a particular industry/ stock/ sector, etc. In order to prevent this risk, investment must be made in different sectors or industries so that if one industry is impacted, the loss can be compensated through gains from other industry. Since this risk can be diversified, it is also called diversifiable risk.

S. No	Pure Risk	Speculative Risk
1.	A type of a risk where there is a chance of either loss or no loss but no chance of gain.	A type of a risk where there is a chance of either financial loss or financial gain.
2	It is insurable risk	It is uninsurable risk
3	For Example- Damage to property from fire, lightning, flood or earthquake etc	For Example- investment in shares, betting etc.

3. Fundamental Risk

This type of risk can affect the whole society or economy. It arises from natural disasters or changes in the political or economic system. Its origin and effects affect large number of people. For example tsunami, flood earthquake etc In other words, it affects millions of individuals together. For example, if a hurricane comes then it has the potential to sweep away hundreds of houses and families. Similarly an earthquake can affect many people at the same time. Such disasters fall under the category of fundamental risks as they have the potential to affect a lot of lives together. Some fundamental risks are insured by the insurance companies such as wind damage, etc however the responsibility of most of these risks lies with the government to make good the loss. This type of risk is generally not insurable.

4. Particular Risk

Unlike fundamental risk, this risk is specific and does not affect the entire community at the same time, hence the name particular risk. For example, if robbery took place in somebody's house, then that will affect only a particular individual or a particular family. It won't affect many people at the same time. Hence, particular risk is the risk, which affects individuals and is generally insurable. For example- burning of house, car accident etc.



Notes

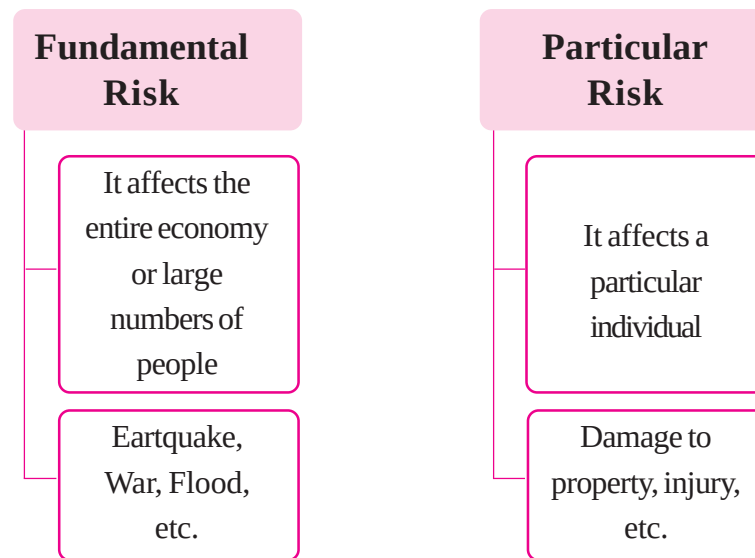


Figure 11.4: Fundamental and Particular Risks

5. Economic Risk

Economic risks are also a type of fundamental risks and impact many people at the same time. One of the economic risks is unemployment which affects large number of people but if the government takes appropriate measures such as through its monetary policy, etc, then this risk can be controlled and prevented to some extent.

6. Enterprise Risk

Sometimes there are certain risks which affect an organization or an enterprise as a whole. Such risks fall under the category of enterprise risks. Now enterprise risks can also be of three types:



Figure 11.5: Types of Enterprise Risk

a) Strategic Risk

Those risks which may end up an enterprise into more losses instead of gains because of the goal oriented behaviour are termed as strategic risk. For example, if an enterprise has thought of taking an extra advantage in the market and for which it has bought a new equipment or entered into a new technology, then it may add on to the losses for that enterprise instead of increasing their gains.

**b) Operational Risk**

All those risks or losses which an enterprise can incur due to its day to day operations are classified as operational risks. Suppose the labour working in the factory gets injured due to some mishandling of machinery etc or when some important confidential information of the enterprise gets leaked to public, then such risks are categorized as operational risks.

c) Financial Risk

Financial risk occurs when an investment meant to give positive returns, results in losses. Such enterprise risks can add on to the financial burden of the organization instead of reducing it.

**INTEXT QUESTIONS 11.1**

1. Which types of risks are considered in the context of the existence of a chance of loss only, but not the chance of gain at all?
 - a) Pure risks
 - b) Speculative risks
 - c) Inflation risk
 - d) None of the above
2. In accordance with the concise oxford dictionary, risk is defined as .
 - a) Chance of loss or injury
 - b) The degree of probability of loss
 - c) The effect of uncertainty on objectives
 - d) Exposure to mischance
3. Insurers generally use the word 'risk' in two distinctive meanings viz. as a subject matter of insurance and different types of:
 - a) Hazards
 - b) Uncertainties
 - c) Perils
 - d) Losses

Module - 1

Skill India and BFSI
Introduction to
Insurance



Notes

RISK MANAGEMENT

4. What is defined as variation in the outcome that occurs over a specified period in a given situation?
 - a) Risk
 - b) Uncertainty
 - c) Probability
 - d) Expected value
5. Those risks which may end up an enterprise into more losses instead of gains because of the goal oriented behavior are termed as
 - a) Strategic Risk
 - b) Operational Risk
 - c) Financial Risk
 - d) None of the above
6. _____ risk occurs when an investment meant to give positive returns, results in losses.
 - a) Strategic Risk
 - b) Financial Risk
 - c) Operational Risk
 - d) Fundamental Risk
7. Unlike pure risk where there is either a possibility of loss or no loss, a risk is the one where either there is a possibility of profit or a loss.
 - a) Pure risks
 - b) Speculative risks
 - c) Both pure risk and speculative risk
 - d) Neither pure risk nor speculative risk



11.3 DEGREE OF RISK EXPOSURE

Risk Exposure = Probability of an incident occurring * Potential Losses

Or

Risk Exposure = Quantified Loss Potential

There are three basic ways to calculate risk exposure or to measure the degree of risk exposure:

1. SINGLE VALUE

In this method, two things are estimated. One is the probability of loss or risk and the impact value of the same. Once the two are calculated, they are multiplied with each other to calculate the risk exposure.

Risk Exposure = Probability * Impact

Example: The probability that a particular product would fail in the market is 30% and the impact would cost the company Rs. 10 lakhs. According to this data, the risk exposure comes out to be $0.30 * 10 \text{ lakhs} = \text{Rs. } 3 \text{ lakhs}$. This is the probable cost and not the maximum cost.

2. DISCRETE

When the risk is comparatively more complicated and can't be calculated with a single value of impact cost and probability but with discrete probabilities, then it falls under this category. In case of this method, the probabilities are multiplied with their respective discrete values of impact costs and the exposure is calculated through the sum of the probable values.

Example: Suppose a product 'X' has three possible levels of failure: Low failure, medium failure, high failure with 5%, 7% and 8% as their respective probabilities and impact costs being Rs10 lakhs, Rs 5 lakhs and Rs 1 lakh. Then the respective risk exposures will be Rs 50000, Rs 35000 and Rs 8000, the total being Rs 93000.

3. CONTINUOUS

When the risk exposure is measured as a continuous curve, then it falls under the category of continuous risk exposure. This happens when the measurement of probability of loss can be easily done for every increase in INR.

For Example: When the probability of INR 1000 loss is 2.40% and that of INR 1001 is 2.41% then this falls under the category of continuous risk exposure.



Notes

11.4 HAZARD

11.4.1 Meaning of Hazard

Hazard is a condition that creates or increase a chance of loss or, it can be defined as the underlying factors, which increase the probability of occurrence of loss.

A hazard is that condition of an insured risk, which needs to be carefully analysed by the insurer so that the possibility of losses is reduced. Hazards are nothing, but the sources of risk which may lead to losses, if not treated or taken care of.

Certain types of hazards can be treated and prevented through common diligence but some hazards cannot be measured. If the risk is tangible and can be observed through common sense, then the insurer can prevent it before hand but an insurer cannot measure how careful the insured person will be with respect to the property that he has got insured for himself. Such hazards cannot be prevented by mere observation because the intent of the insured person is not known.

11.4.2 Types of Hazard

Hazards can be classified into three categories:

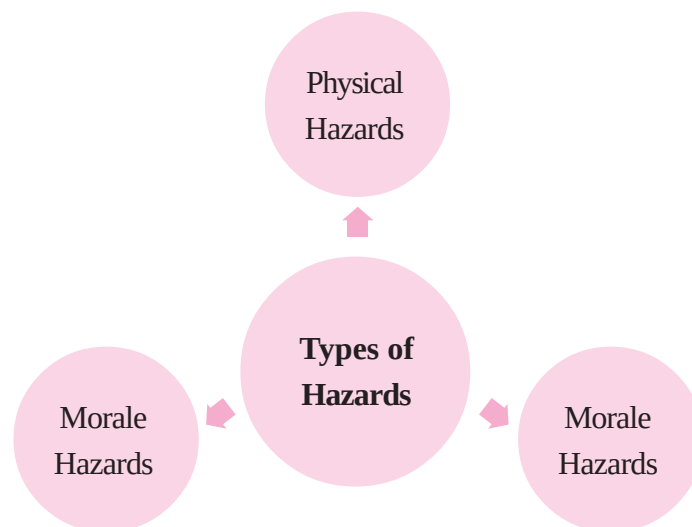


Figure 11.6: Types of Hazards

1. Physical Hazards

Physical hazards are “the physical conditions that increases the chance or severity of loss.”



A hazard is a source of risk or a condition which can lead to a possible loss/injury or damage. If such hazard is observable and can be treated with mere diligence then such hazards fall under the first category of 'physical hazards'. Hence, physical hazards are tangible conditions of losses which are measurable and can be prevented through a little dose of education and common sense.

For example:

- ❖ A greasy floor can lead to more injuries than a normal clean floor.
- ❖ Also, a house constructed at the beach has more chances of getting affected through a water wave or flood than that constructed near roads, in colonies etc.
- ❖ A person who consumes alcohol or smokes on a regular basis has more chances of developing health problems than a person with no such habits.
- ❖ Ice-covered roads that raise the risk of a car accident
- ❖ Faulty wiring in a structure that raises the risk of fire.

Thus physical hazards are identifiable by mere inspection and are apparent in the subject matter itself.

2. Moral Hazards

“Moral hazards arises due to dishonesty or character defects in an individual that increase the frequency or severity of loss”

Moral Hazard is the change in the behavior of the person such that he/she is benefited by the occurrence of an event. And this change in behavior is deliberate. A person consciously tries to benefit from an event especially because he knows that he has an insurance cover for any mishappening. There are two types of moral hazards:

a) Ex-ante Moral Hazard

In this case, the change in behaviour of the person takes place before the occurrence of the event.

For example: Amit is a scuba diver and earns his livelihood through showcasing deep dives to public. But he has not got any insurance cover for his health as yet. So he remains very careful while diving and prefers to dive in shallow water so that he does not get any type of injuries. Once he falls sick or gets any injury, he will have to pay the entire bill himself to the



hospital because he does not possess any health cover as yet. But once he takes health insurance for himself, he starts to take deep dives and tries to get into deep and riskier waters because he knows that if something happens tomorrow, he would be getting fully reimbursed by the insurance companies for any hospital expenses or treatment of any injuries. This is a type of ex-ante moral hazard which takes place before the occurrence of any event and is consciously undergone.

b) Ex-post Moral Hazard

This type of moral hazard is the one where a conscious or deliberate change in the behaviour of the person comes once the event has already taken place, hence the name 'ex-post'. For example: Suppose a person needed a loan to start off his business start up. He applies for the loan which gets sanctioned. But once he receives the money, he deliberately shows negative accounts and tells the bank that his business failed, although it was going good. He does this just to get a bailout or a write-off of the tax amount. This kind of deliberate change in behaviour which occurs after the event has taken place is known as ex-post moral hazard.

Other instances of moral hazard-

- inflating the amount of a claim intentionally,
- filing a fraudulent claim,
- Deliberately burning insured inventory that is unsold.

3. Morale Hazards

“The moral hazards arise due to carelessness or attitude to the loss because of the existence of the insurance.”

There is very thin line of difference between moral and morale hazards and that difference is in the 'intention of the person'. If a person consciously takes the risk to enhance his personal benefit, then that type of conscious risk taking is moral hazard. But when a person becomes indifferent to the loss, or unconsciously changes his behavior towards a particular item just because it is insured, then that type of behavior falls under the category of morale hazard. Here, the risk is not taken deliberately but there is an unconscious change in attitude. For example; Kapil owns a cell phone and has got an insurance done for it. After some time, when his phone gets outdated, he stops taking care of it because he knows he has insurance for his phone. In other words, he becomes indifferent to his phone because if it gets damaged, he would get a new phone because of the insurance



that he possesses. Hence, this is a case of morale hazard where the change in behavior is not conscious.

Other examples

- Leaving the car keys in the vehicle while it is unlocked, which increases the risk of theft (motor insurance)
- Leaving a door unlocked, which makes it simple for a burglar to break in (burglary insurance).

The simplest definition of Risk Management can be: 'The identification, evaluation, control and prevention, and transfer of risk'

11.5 RISK MANAGEMENT PROCESS

To manage the risk is very important in every field of life, be it professional, personal or social. For any organization to flourish, it requires that it implements a proper mechanism to manage the potential threats and risks to it by which it can get adversely affected. Hence, the role of a risk management process is very important. Although putting such a mechanism in place requires a lot of time and work, but due to its inevitability, it becomes both necessary as well as rewarding, if properly applied. There are five major steps in the process of Risk Management. These steps include Identifying the Risk, Analyse or Measuring the Risk, Examining Solutions, Implementing Solutions and Monitoring the Results.

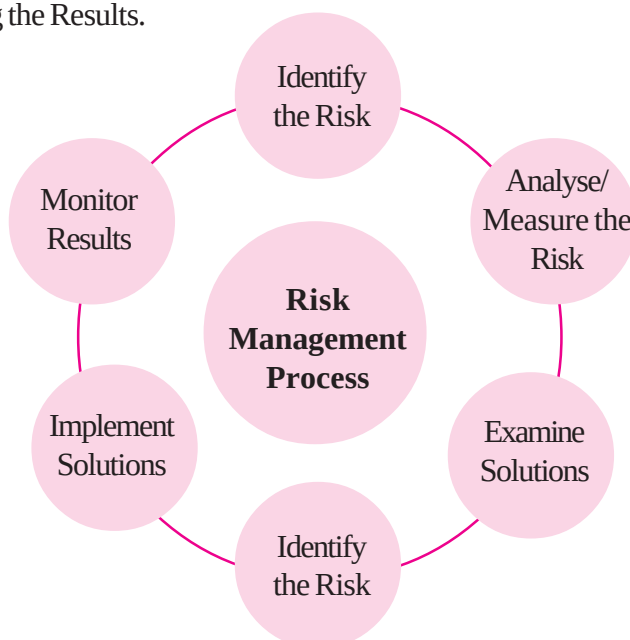


Figure 11.7: Risk Management Process



Notes

Step 1: Identify the Risk

The first step involves “the recognition / anticipation of risks that threaten the assets and earnings of a business enterprises.”

This step is the basic part of risk management process which includes identification of the type as well as nature of risk present. In other words, the first step is to identify all those things that can go wrong and hence cause harm to the society/ organization/ human etc. Risks can only be assessed / evaluated, controlled and financed once they have been identified. The process of risk identification, therefore, assumes great importance. It can be considered as the hardest of all the tasks involved since it requires a great deal of foresight. Now let's take an example of an organization M/s Vibhuti Ltd. In this organization the manager has asked to identify the different categories of risks in the organization. Now, he checks whether or not there is presence of any hazardous risk or not such as fire, injuries, etc that can cause harm to the employees working there. Secondly he tries to find out if there is any operational risk such as stoppage in machinery, or failure of supplier, etc in consultation with the workers of the factory. Next he moves to the broader category of risk such as economic risk which forms part of the external risk category. This may include recession, inflation or downturn in the economy. Further, he also makes sure that there is no strategic risk such as competition, threat to brand reputation, etc. If he is able to identify any of these risks, then they are immediately reported to the higher authorities and risk management process takes off once all the risks are identified.

Step 2: Analyze/ Measure the Risk

This step caters to the measurement of frequency as well as severity of the present and potential risks. Such measurement helps in evaluating as to how much money and resources should be spent on the rescue process such that harmful effects can be prevented. In other words, once the risks are identified, it is important to see which of these risks are more frequent as compared to others and how severely can they impact the organization. If any of these risks are more frequent as well as more harmful as compared to others, then they need to be the special focus and high preventive measures need to be immediately taken against them. Hence measurement of the frequency as well as severity of the risks decides onto the allocation of funds to prevent them.

Step 3: Examine solutions

Once the risks are identified and they have been measured on the basis of their frequency and severity, solutions need to be examined. And that solution has to be finalized which is the most effective as well as affordable to the organization.

There are many ways of solving a risk problem or preventing a risk. Let us discuss the four broad ways:

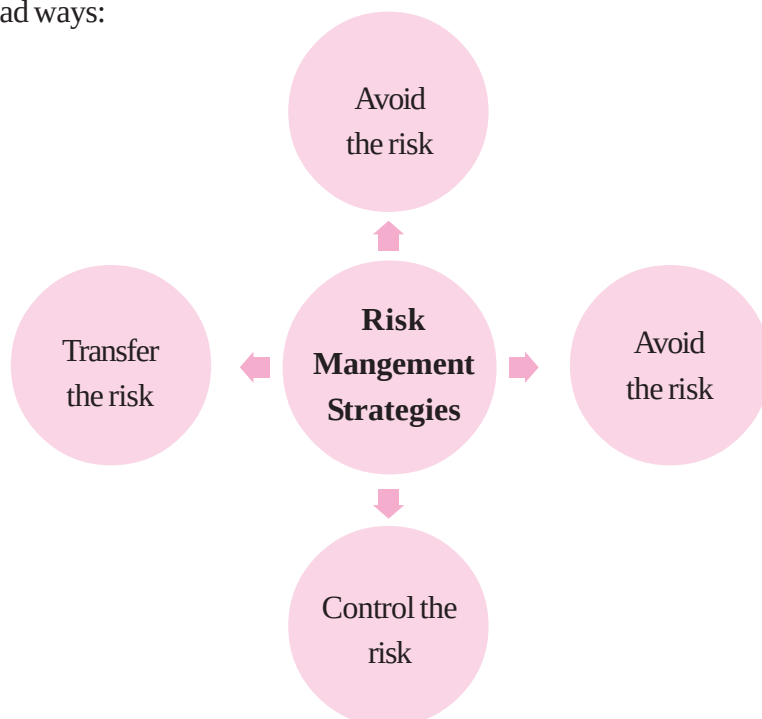


Figure 11.8: Risk Management Strategies

a) To Accept the Risk (risk retention)

Sometimes when the risk is unavoidable and it is known beforehand that such types of risks would definitely arise in the process but the benefits of the process are more than the risks attached to it, then those risks are accepted by the organization.

b) To Avoid the Risk

The next option is to not participate in a particular activity or process and simply avoid the activity to avoid the risk. This step is usually taken when the benefits of that activity do not outweigh the loss due to risk attached with it. And it does not seem affordable to get into the activity. For example, If a factory is about to be built by a river that frequently floods, it can be chosen to move the factory to a safer area.

c) To Control the Risk (Loss Prevention and Reduction)

Another option is to control the risk in the sense that the likelihood of its occurrence is reduced. This is also called risk mitigation through control or prevention. It also involves reducing its negative impact. Loss Prevention and Reduction strategies can prevent or lessen potential losses resulting from hazards.



Notes



Notes

For instance, strictly enforcing “No Smoking” laws may result in an end to fire losses, yet actions like the construction of sprinkler systems and other appliances may lessen the severity of fire losses.

d) To Transfer the Risk

This indicates that the burden of assuming the risk and its negative consequences is passed to another party. For example: When we purchase insurance, we transfer the negative effects of risk to the insurance company such that if tomorrow, something wrong happens, they should either take the onus or compensate us.

Step 4: Implement Solution: The fourth step is to implement that solution which is most desirable with respect to need and affordability. After doing a proper analysis of all the options available, the solution that can provide the best results should then be implemented. For implementation of the solution, both funds as well as personnel need to be taken care of. The top management first approves of the solution and then it is further proceeded with. Once it is decided as to which solution to go for, it is important that the solution is implemented throughout the organization on a consistent basis and the employees are trained as well as motivated to work on the implementation of the same.

Step 5: Monitor Results: The final stage of the risk management process is the most significant one, because it is not a one-time project meant for short run but a long-term process which involves constant review and monitoring. It needs to be checked whether the solutions are effective or not, whether there is a need of any change in the solution implemented or not, etc. Sometimes, it is necessary that the entire process is revisited because effective results are not being achieved. Hence monitoring the solutions implemented and their effectiveness is very important for an informed and effective decision making.



INTEXT QUESTIONS 11.2

1. The simplest definition of risk management can be the identification, evaluation, control and prevention and _____ of risk.
 - a) Transfer
 - b) Expectation
 - c) Protection
 - d) Retention



2. The ways of solving a risk problem or preventing a risk is/are-
 - a) To Accept the Risk
 - b) To Avoid the Risk
 - c) To transfer the Risk
 - d) All of the above
3. The example of Physical hazard is-
 - a) Faulty wiring in a structure that raises the risk of fire.
 - b) Inflating the amount of a claim intentionally,
 - c) Filing a fraudulent claim,
 - d) Deliberately burning insured inventory that is unsold.



WHAT YOU HAVE LEARNT

Risk Management is the process of measuring, or assessing, risk and developing strategies to manage it. There are many definitions, which you will find for the term Risk. Few defines it as the effect of uncertainty on objectives, whereas few other may define it as the variation in the outcome that occurs over a specified period in a given situation. There are different types of risk, which one needs to understand. The risk can be broadly categorised into Pure Risk, Speculative Risk, Fundamental Risk, Particular Risk, Economic Risk, and Enterprise Risk

Risk Exposure is calculated by multiplying the Probability of an incident occurring with the potential losses. Hazard is a condition that creates or increase a chance of loss or, it can be defined as the underlying factors, which increase the probability of occurrence of loss. Hazards can be classified into three categories: Physical Hazards, Moral Hazards and Morale Hazards. Physical hazards are the physical conditions that increases the chance or severity of loss. Moral hazards arises due to dishonesty or character defects in an individual that increase the frequency or severity of loss. The moral hazards arise due to carelessness or attitude to the loss because of the existence of the insurance.

There are five major steps in the process of Risk Management. These steps include Identifying the Risk, Analyze or Measuring the Risk, Examining Solutions, Implementing Solutions and Monitoring the Results. There are four broad ways of solving a risk problem or preventing a risk. These are to accept the risk (risk retention), to avoid the risk, to control the risk (loss prevention and reduction), and to transfer the risk.



Notes



TERMINAL QUESTIONS

1. Define the following:
 - a) Strategic Risk
 - b) Property Risk
 - c) Financial Risk
 - d) Pure Risk
 - e) Speculative Risk
 - f) Liability Risk
2. Differentiate between:
 - a) Systematic and Unsystematic Risk with example
 - b) Pure and speculative Risk with example
 - c) Fundamental and particular Risk with example
3. Define the following:
 - a) Economic Risk
 - b) Operational Risk
4. Explain the process of Risk Management in detail. Explain the process with an example.
5. Discuss various types of hazards with examples?
6. Define the following briefly with an example:
 - a) Moral Hazard
 - b) Morale Hazard
 - c) Physical Hazard
7. What are the different types of Hazards? Explain these with the help of examples.

**ANSWERS TO INTEXT QUESTIONS****11.1**

1. (a) Pure risks
2. (d) Exposure to mischance
3. (c) Perils
4. (a) Risk
5. (a) Strategic Risk
6. (b) Financial Risk
7. (b) Speculative Risks

11.2

1. (a) Transfer
2. (d) All of the above
3. (a) Faulty wiring in a structure that raises the risk of fire.

**LEARNING OUTCOMES**

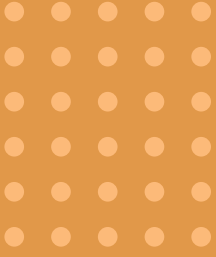
After studying this chapter, you are able :

- To explain the process of risk management and Classify the risk and hazards into different categories.

Skill India and BFSI
Introduction to
Insurance



Notes



विद्याधनम् सर्वधनं प्रधानम्

NATIONAL INSTITUTE OF OPEN SCHOOLING

(An Autonomous Organisation under Ministry of Education, Govt. of India)

A-24/25, Institutional Area, Sector -62, Noida -201309

Website: www.nios.ac.in Toll free no. 18001809393