Skill Based Elective -111: ELEMENTS OF ACTUARIAL STATISTICS v Subject code : 18BST55S

Objective: To understand and analyze future financial events.

UNIT-I

Principles Of Life Assurance: Nature Of Insurance— Classification Of Insurance — History Of Life Insurance in India.

UNIT -11

Basic Concepts of Mathematics of Finance — Elements of Simple Interest — Elements of Compound Interest — Effective and Nominal Rates of Interest — Depreciation.

UNIT -111

Annuities — Present Value of Immediate Annuity- Present value of Immediate Annuity Certain — Accumulated value of Annuity- Present Value of Deferred Annuity Certain-Accumulated value Of a Deferred Annuity Certain.

UNIT -IV

Premiums: General Principles — Natural Premiums — Level Premiums — Office Premiums with Profit and Without Profit Premiums — Adequacy of Premiums.

UNIT -v

Legal Environment — Motor Vehicles Act- Hit & Run Accidents Act- Public Liability Insurance Act- Marine Insurance ACT- Carriage of Goods by Sea Act- Merchant Shipping Act- Indian
Railway Act- Indian Post Office Act- Carriage by Air Act- Consumer Production Act- Indian Information Technology Act

Text Books:

l. Insurance Institute of India - Mathematical Basis of Life Assurance Jan 2015.

2. Insurance Institute Of India - Insurance Business Environment. IC-12, May — 2017.

Reference Books:

l. PA. Navaneetham - Business Mathematics and Statistics, Jai Publishers, Trichy, May 2014.

2. CT-5 General Insurance, Life and Health Contingencies — Institute of Actuaries of India 2016.

INTRODUCTION TO LIFE INSURANCE

1.1 DEFINITION OF LIFE INSURANCE

In the first of an excellent series of textbooks produced by the U.S. Life Office Management Association Inc. (**LOMA**), life insurance is defined as follows:

"Life insurance provides a sum of money if the person who is insured dies whilst the policy is in effect."

Anybody who has some knowledge about life insurance will be tempted to say "Yes, **BUT**.....". In other words, surely this is too brief an explanation for a financial service that provides a very sophisticated range of savings and investment products, as well as mere compensation for death. "Yes, **but** ....." let us remember the objectives of these Study Notes, and this Quality Assurance Scheme. The more we think about this, the more appropriate the above definition becomes, as a starting point.

The definition captures the original, basic, intention of life insurance: i.e. to provide for one's family and perhaps others in the event of death, especially premature death. Originally, policies were for short periods of time, covering temporary risk situations, such as sea voyages. As life insurance became more established, it was realized what a useful tool it was for a number of situations, which would include:

(a) *Temporary needs/threats*: the original purpose of life insurance remains an important element in life insurance and estate planning, as things like children's education etc. occupy responsible people's thoughts.

(b) *Savings*: providing for one's family and oneself, as a long-term exercise, becomes more and more relevant as society evolves from a tribal, clan, family orientated community to relatively affluent individual independence.

(c) *Investment*: the accumulation of wealth and safeguarding it from the ravages of inflation become realistic goals as living standards rise.

(d) *Retirement*: provision for one's own later years becomes increasingly necessary, especially in a changing cultural and social environment.

So our purpose, as we begin this study, is not so much to remember certain facts, but rather to *understand* something of the fundamentals of long term (life) insurance, and to appreciate its role in a modern society.

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1.1.1 Needs for Life Insurance

Whilst **1.1** above outlines the developing appreciation of the many uses of life insurance, the modern scene tends to look upon available life insurance products from the perspective of meeting various needs. These we may think of as:

(a) *Personal needs:*

(i) dependants living expenses;
(ii) final (end of life) expenses;
(iii) educational funds;
(iv) retirement income;
(v) mortgage repayment fund;
(vi) emergencies fund;
(vii) disability income.

(b) *Business needs:*

(i) key persons;
(ii) business owners;
(iii) partnerships;
(iv) employee benefits.

1.2 PRINCIPLES OF LIFE INSURANCE

In the Core Subject for this Quality Assurance Scheme **"Principles and Practice of Insurance"**, the principles of insurance were studied in detail. By way of reminder, but not detailed comment at this stage, these principles are:

(a) *Insurable Interest:* the legal right to insure;
(b) *Utmost Good Faith:* the requirement to reveal material information;
(1/2)

(c) *Proximate Cause:* determining the effective reason for a loss;
(d) *Indemnity:* providing an exact financial compensation;
(e) *Contribution:* insurers sharing an indemnity payment;
(f) *Subrogation:* the insurer taking over rights against third parties.

1.2.1 Insurable Interest

In simple terms, insurable interest is that relationship with the subject matter (a person, in the case of life insurance) which is recognized at law and gives rise to a legal right to insure that person. This is a general law concept that has applied for centuries and is obviously based on common sense. If you have no relationship with a given person, why should you have the right to insure him and thus profit from his death? Some particular points to be noted with this principle are:

(a) **Insurable interest in oneself**: we all have an insurable interest in our own lives. From the law concept that husband and wife are one person, it follows that there is also an insurable interest in one's spouse.

(b) **Insurable interest in others**: to have an insurable interest in other people, the law requires some financial involvement which could be at risk by the other person dying. Some examples which may be reasonably common are:

(i) *debtors*: if a person owes you money, you may insure him for the amount of the loan, plus reasonable interest;

(ii) *business partners*: especially where personal services are involved, such as musicians, lawyers, medical practitioners etc;

(iii) *contract relationships*: if another person's services have been engaged under contract (booking a singer for a concert, professional sportsperson etc.), that person's death may cause the other contract party to suffer financially. That potential loss is insurable.

Note: This heading would include a common life insurance product known as *Key Person Insurance*, where an employer insures an important employee, in case of loss to the company from the employee's death.

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(c) A parent or guardian of a minor (person aged under 18) is given an insurable interest in that young person. Apart from one's spouse, only the relationships mentioned (parent/guardian of a minor) constitute insurable interest arising from blood or family connection.

(d) **When is the interest needed?** : this is a key question, and very important consequences flow from its answer. The answer is that insurable interest is **only** needed when the contract **begins**, and becomes irrelevant thereafter. What could be the (quite legal) consequences of this? Some examples are:

(i) *Divorce*: a spouse, who insures his/her spouse and then becomes divorced, can keep the policy in force and be perfectly entitled to collect the benefit in due time.

(ii) *Debts*: it is legally possible to insure your debtor, have the debt repaid, keep the policy in force, and be "paid again" in due time.

(iii) *Assignment*: it is quite legal to transfer a properly arranged life insurance to a third party, provided this was not intended at the outset.

1.2.1a Beneficiary Designation

This will be discussed in rather more detail in **4.4**, but in the context of insurable interest we may say that:

(a) in most cases the beneficiary, as one nominated by the policyowner to receive the benefit under the policy, does **not** need an insurable interest;

(b) the **exception** is where the insurance is being arranged on the life of someone other than the applicant. This relates to what becomes known as a *third party policy*. In such cases the beneficiary **does** need insurable interest.

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1.2.2 Duty of Disclosure

This concerns another important insurance principle, that of **utmost good faith**. Simply expressed, utmost good faith requires the disclosure of all *material facts*, whether they are requested by the insurer or not. A **material fact** is one that would influence the judgement of a prudent underwriter in deciding whether to insure a particular risk, or the terms on which to insure it. Some points to note:

(a) **What to disclose**: clearly, the insurer wishes to know all important facts, but you **cannot** be expected to disclose what you reasonably cannot be expected to know. Some medical conditions, for example, may be easily recognizable to qualified doctors, but the average layman cannot be expected to self-diagnose and reveal such things.

(b) **Non-medical application**: if the insurance is arranged without a physical examination of the applicant, the insurer will normally have great difficulty in alleging that anything not covered by questions on the application or personal physician's form is material.

(c) **Medical application**: if the insurance is arranged with a physical examination of the applicant, the insurer cannot hold against the applicant any omissions or mis-diagnosing by the medically qualified person concerned.

(d) **Medical tests**: the insurer is entitled to supplement information supplied verbally with reasonable medical examinations or tests.

(e) **Breach of the duty**: technically, this constitutes a breach of utmost good faith, which normally renders the contract voidable by the insurer. If fraud is involved, this situation remains true in Macau and the insurer might well void the contract. But with most policies in Macau regard has to be taken of the **Incontestability Clause** (see **4.2**), which means that the policy cannot be contested after it has been in force for a specified period (unless there is proof of fraud).

Classification of Insurance

The two types of insurance. The types are: 1. Life Insurance 2. General Insurance.

Type 1. Life Insurance:

There is a life insurance council that decides entire norms relating to life insurance in India; In fact life insurance plays different type of roles. As conceived by the Life Insurance council the Life Insurance is the key to good financial planning. On one hand, it safeguards money and on the other, ensures its growth, thus providing with complete financial well being.

Life Insurance can be termed as an agreement between the policy owner and the insurer, where the insurer for a consideration agrees to pay a sum of money upon the occurrence of the insured individual’s death or other event, such as terminal illness, critical illness or maturity of the policy.

Life Insurance plans, unlike mutual funds, are beneficial when this is looked upon as a long term avenue of investment which also offers protection through life cover. Life insurance policies are broadly categorized into two types one a Traditional Plan and second Unit linked insurance plan (popularly known as ULIPs).

Traditional Polices:

The traditional policies offer in-built guarantees and define maturity benefits through variety of products such as guaranteed maturity value. The investment risk in traditional life insurance policies is borne by the life insurance companies.

Additionally, the investment decisions are regulated to a large extent by IRDA rules and regulations, ensuring stable returns with minimal risk. Investment income is distributed amongst the policy holders through annual bonus. These policies are ideal for policy holders who are not market savvy and do not wish to take investments risks.

ULIPS:

ULIPs, on the other hand provide a combination of risk cover and investment. More importantly they offer a flexibility to decide about risk taking profile.

Type of Insurance Plans:

Insurance companies provide different type of investment plans like:

1. Term Plan by insurance council:

Term Insurance helps the customers in safeguarding their families from financial worries that arise due to unfortunate circumstances. Term plans are pure risk cover plans with or without maturity benefits.

These pure risk plans cover life at a nominal cost Term plans also let avail the benefit to cover outstanding debts like mortgage, home loan etc. In case of something happens the financial burden is borne by the insurance company and not the loved ones.

The benefits of Term Plan:

1. High insurance cover at lower costs,

2. Financial security against loans and mortgages,

3. Single premium payment option available, and

4. Available with host of additional rider benefits.

2. Health Insurance:

The purpose of health insurance is to help overcome unforeseen emergencies without compromising on any other financial goal. Health insurance helps pay for all medical expenses. A health insurance policy also gives the benefit of covering loved ones under one plan to avoid any financial constraints arising on account of a medical emergency.

Benefits:

1. Cashless hospitalization in all major hospitals pan India.

2. Coverage of pre and post hospitalization expense.

3. Coverage of all major day care treatments.

3. Endowment Plans:

Endowment Plans are an ideal choice for the risk -averse customers. Endowments are long- term, regular saving plans with a built-in life cover.

Subject to condition that all the premiums stand paid, at the end of the term the policy holder receives the sum assured plus accrued/guaranteed bonuses that have been declared over the years, as a lump sum. In case of the unfortunate death during the term of the plan, the sum assured, will be paid out as a lump sum with the bonuses that the policy is entitled to.

The benefits of Endowment Plans are:

1. It is available as money-back plans also.

2. Option to avail a host of additional rider benefits.

3. Covers life for a longer period of time.

4. Whole Life Insurance Plans:

When it is said as whole life plan it means the whole life insurance plans that provide cover throughout the life time. The premium could be paid for as long as a lifetime or for a limited period. These type of plans do not have any maturity period or maturity value. The sum assured under such plans are not paid during the life time of an insured person.

Such assured sum is paid in case of unfortunate death of the insured person, to the family of the policyholder. A whole Life Insurance plan assumes that the family of the insured person remains protected against financial losses that could occur on his death.

5. Group Insurance:

The Group Insurance covers a group of people, usually members of societies, employees of a common employer, or professionals. All employees or members are included under one "Master Policy" owned by the employer/nodal agency. Group insurance covers both life and savings products along with options like Superannuation and health.

6. Retirement Plans:

Retirement plans are meant to provide social security to those who are likely to retire from the jobs that provided employment to them. After retirement most of the people are not able to re-join any other employment because of the old age or for any other reason. The life expectancy is increasing day by day.

Gone are the days when people were not able to get timely medical aid and the death rate was very high. Keeping in view the life expectancy it has become more important and that is why retirement policies are becoming more and more popular. It serves twin purposes saving as well as support in the case of need in old age.

Retirement plans are of two types:

1) Immediate Annuity Plans:

Such type of plans contain provisions for converting a sum of money into a guaranteed series of payments for definite period or for life.

2) Deferred:

This type of plan allows to save regular amounts of money for a peaceful retirement. This type of annuity has two main phases, the accumulation phase which permits to invest and save money through the account and on the other hand there is pay out plan which is converted into regular annuity installments and payments are received.

Benefits of Retirement Plans:

1. It provides an alternative to normal retirement known as superannuation.

2. Compulsory Saving and Saving of Tax.

3. Choice of open market option i.e., an option to purchase an immediate annuity from the existing insurance company or any other life insurance company that is recognized by IRDA.

7. Children Plan:

Insurance today offers a very simple assurance in terms of monetary and a child and family in case of death or disability of parent and helps ensure that the shortage of funds never hamper dreams or aspirations of children. Children’s Plan ensure a secured financial future for children.

Factors to be kept in mind while purchasing children policy:

1. The child must remain covered throughout even if something happens to parents.

2. The payout should be at an age when the child requires it the most, i.e., when he/she wants to enter his/her dream college or needs to start his/her career.

3. The plan should provide a regular source of income so that child does not have to compromise on his/her dreams and aspirations.

4. Ensure that the child himself/herself is not forced to pay the premiums of the policy.

8. Wealth Plans:

Under these type of plans the premium paid by subscribers are invested in to the equity, debt, and cash markets by allocating units, which like any other mutual funds have a NAV.

This type of plan allows to switch between one fund to another depending on the risk factor one is ready to bear. Such plans offer better returns than traditional endowment plans and offer a great deal of flexibility along with great returns making them finest product offerings.

Benefits:

1. There is option of paying single premium or regular premiums.

2. Wealth plans are always looked as investment plans. Such plans include investment funds ranging from index funds to mid-cap funds and debt market linked funds.

3. These type of plans also offer additional rider benefits. And also tax benefits as per existing laws.

The simplest life insurance business cycle looks like this:

Anyone willing to take a life insurance policy does not know how to avail the facility. He tries round about and comes across an agent who is authorised by the insurance company and has also qualified a test arranged under the law of IRDA to functions as an agent.

This agent prepares a proposal which contain the details of the proposed policy holder like his income, medical history, products (the products are explained by the agent to the proposed policy holders in detail so as to make him able to select a policy of his choice). It is necessary because the features of every policy vary from product to product.

Next comes the matter of sum for which a policy is required. The amount of sum selected by the customer is the highest amount of the policy cover. Next comes the number of years for which policy cover is required in other word what shall be term of the policy in question.

Depending upon the term of policy the amount of premium (The money required to be paid to the insurance company by the insured person an terms of frequency like monthly, quarterly, or yearly. This agent who procures the proposal remains abase/service agent for the proposal.

Proposal made or obtained by any authorized agent is subject to approval by the insurance company. Every insurance company has its own way of evaluating risk methods which are usually done by the central processing centre of the company. Once a proposal is approved by the company it enters into a legal agreement (popularly known as Insurance Policy) between the insurer company and the client.

Such an agreement or Policy the insurer companies agrees to cover the client for the sum assured. It depends on the nature of the policy of insurance if some additional covers are also included in the agreement of policy. The base agent gets commission for the policy.

During the term of the policy, the client can submit claims. The insurer makes payment against the claim after verification. Depending on the type of claim the policy is either terminated or is kept in force.

At the end of the term of the policy, the client gets the sum assured as part of the maturity benefit under life insurance policies. In addition to this the client will get the maturity bonus and any other benefits depending on the product feature.

Type # 2. General Insurance:

When we talk about general insurance it is meant insurance other than life insurance. In popular terms a dialect it is famous as non-life insurance. But when life insurance is not the subject matter of such type of insurance it should not be called non-life insurance. The word General Insurance appears to be a right term to understand the concept of such type of insurance activities.

Non-Life insurance products include property or casualty, health insurance or house, fire, marine insurance etc. This insurance class deals with all the non-life aspects of an insured like his/her house, health, land, office, cargo, etc., which might bring financial loss.

This sector covers almost everything related to property, vehicle, cash, household goods, health and also one's liability towards others.

The major segments covered under general Insurance Policy India are:

a. Home Insurance:

(it is like property insurance which may include with other things).

This type of insurance can be further classified into specialized forms as follows:

a. Fire insurances.

b. Earthquake insurances.

c. Flood insurance.

d. Home insurance.

e. Boiler insurance.

Most of the General Insurance Companies provide a wide range of insurance products and services.

Some of these can be classified as follows:

a. Car Insurance.

b. Home Insurance.

c. Travel Insurance.

d. Private Medical Insurance.

e. Illness Insurance.

f. Long-term care Insurance.

g. Accident Insurance.

All above different type of names given to particular type of general insurance. These names may differ from company to company but the basics of all types of insurances remains the same to cover the losses, damages occurred due to natural calamity, accident, human error or otherwise.

However in case of general Insurance it should be understood that it is not only confined to cars only but all type of general insurances.

Such Insurance can be of two types:

1. Comprehensive Insurance.

2. Third party Insurance.

1. Comprehensive insurance:

This type of insurance covers all the risks in case of motor insurance as contained in the Motor Vehicle Act, plus loss or damage caused to the vehicle due to any reason as explained in the policy. The term of policy depend upon the type of vehicles like Private Car, Taxi, Two wheeler, Commercial vehicle.

2. Third Party Insurance:

Third Party Insurance includes:

What is third party? The person who is driving the insured vehicle with valid driving license without the influence of intoxication is known as first party. While driving a vehicle by such a person if due some accident any other person either a pedestrians or occupant of other vehicles, and outsiders other than passengers of the vehicle in question are injured or died, these are known as third persons. The third party insurance covers such type of risks for unlimited amounts.

In such cases the passengers of the vehicle and pillion riders are also deemed covered. In case the vehicle is not self-driven and is being driven by an employee say driver or other persons the injury to these persons including death is also covered.

General Insurance is looked after by General Insurance Council of India (popularly known as GIC).

Both life insurance (including Health insurance) and general insurance are main types of insurance but different companies come out with different insurance products and provide different type of nomenclature to such products to show that there are various types of insurances. It should be kept in mind that all these different types of polices constitute the basic functions of insurance only whether life insurance or be it general insurance.

History of insurance in India

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Date: 12-07-2007

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business.

An Ordinance was issued on 19th January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance

Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business.

1957 saw the formation of the General Insurance Council, a wing of the Insurance Associaton of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.

In 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1sst 1973.

This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector.The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein , among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

Today there are 31 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 24 life insurance companies operating in the country.

The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long- term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

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Factors to be kept in mind while purchasing children policy:
1. The child must remain covered throughout even if something happens to parents.

2. The payout should be at an age when the child requires it the most, i.e., when he/she wants to enter his/her dream college or needs to start his/her career.

3. The plan should provide a regular source of income so that child does not have to compromise on his/her dreams and aspirations.

4. Ensure that the child himself/herself is not forced to pay the premiums of the policy.

8. Wealth Plans:
Under these type of plans the premium paid by subscribers are invested in to the equity, debt, and cash markets by allocating units, which like any other mutual funds have a NAV.

This type of plan allows to switch between one fund to another depending on the risk factor one is ready to bear. Such plans offer better returns than traditional endowment plans and offer a great deal of flexibility along with great returns making them finest product offerings.

Benefits:
1. There is option of paying single premium or regular premiums.

2. Wealth plans are always looked as investment plans. Such plans include investment funds ranging from index funds to mid-cap funds and debt market linked funds.

3. These type of plans also offer additional rider benefits. And also tax benefits as per existing laws.

The simplest life insurance business cycle looks like this:
Anyone willing to take a life insurance policy does not know how to avail the facility. He tries round about and comes across an agent who is authorised by the insurance company and has also qualified a test arranged under the law of IRDA to functions as an agent.

This agent prepares a proposal which contain the details of the proposed policy holder like his income, medical history, products (the products are explained by the agent to the proposed policy holders in detail so as to make him able to select a policy of his choice). It is necessary because the features of every policy vary from product to product.

Next comes the matter of sum for which a policy is required. The amount of sum selected by the customer is the highest amount of the policy cover. Next comes the number of years for which policy cover is required in other word what shall be term of the policy in question.

Depending upon the term of policy the amount of premium (The money required to be paid to the insurance company by the insured person an terms of frequency like monthly, quarterly, or yearly. This agent who procures the proposal remains abase/service agent for the proposal.

Proposal made or obtained by any authorized agent is subject to approval by the insurance company. Every insurance company has its own way of evaluating risk methods which are usually done by the central processing centre of the company. Once a proposal is approved by the company it enters into a legal agreement (popularly known as Insurance Policy) between the insurer company and the client.

Such an agreement or Policy the insurer companies agrees to cover the client for the sum assured. It depends on the nature of the policy of insurance if some additional covers are also included in the agreement of policy. The base agent gets commission for the policy.

During the term of the policy, the client can submit claims. The insurer makes payment against the claim after verification. Depending on the type of claim the policy is either terminated or is kept in force.

At the end of the term of the policy, the client gets the sum assured as part of the maturity benefit under life insurance policies. In addition to this the client will get the maturity bonus and any other benefits depending on the product feature.

Type # 2. General Insurance:

When we talk about general insurance it is meant insurance other than life insurance. In popular terms a dialect it is famous as non-life insurance. But when life insurance is not the subject matter of such type of insurance it should not be called non-life insurance. The word General Insurance appears to be a right term to understand the concept of such type of insurance activities.

Non-Life insurance products include property or casualty, health insurance or house, fire, marine insurance etc. This insurance class deals with all the non-life aspects of an insured like his/her house, health, land, office, cargo, etc., which might bring financial loss.

This sector covers almost everything related to property, vehicle, cash, household goods, health and also one’s liability towards others.

The major segments covered under general Insurance Policy India are:
a. Home Insurance:
(it is like property insurance which may include with other things).

This type of insurance can be further classified into specialized forms as follows:
a. Fire insurances.

b. Earthquake insurances.

c. Flood insurance.

d. Home insurance.

e. Boiler insurance.

Most of the General Insurance Companies provide a wide range of insurance products and services.

Some of these can be classified as follows:
a. Car Insurance.

b. Home Insurance.

c. Travel Insurance.

d. Private Medical Insurance.

e. Illness Insurance.

f. Long-term care Insurance.

g. Accident Insurance.

All above different type of names given to particular type of general insurance. These names may differ from company to company but the basics of all types of insurances remains the same to cover the losses, damages occurred due to natural calamity, accident, human error or otherwise. However in case of general Insurance it should be understood that it is not only confined to cars only but all type of general insurances.

Such Insurance can be of two types:

1. Comprehensive Insurance.

2. Third party Insurance.

1. Comprehensive insurance:
This type of insurance covers all the risks in case of motor insurance as contained in the Motor Vehicle Act, plus loss or damage caused to the vehicle due to any reason as explained in the policy. The term of policy depend upon the type of vehicles like Private Car, Taxi, Two wheeler, Commercial vehicle.

2. Third Party Insurance:
Third Party Insurance includes:
What is third party? The person who is driving the insured vehicle with valid driving license without the influence of intoxication is known as first party. While driving a vehicle by such a person if due some accident any other person either a pedestrians or occupant of other vehicles, and outsiders other than passengers of the vehicle in question are injured or died, these are known as third persons. The third party insurance covers such type of risks for unlimited amounts.

In such cases the passengers of the vehicle and pillion riders are also deemed covered. In case the vehicle is not self-driven and is being driven by an employee say driver or other persons the injury to these persons including death is also covered.

General Insurance is looked after by General Insurance Council of India (popularly known as GIC).

Both life insurance (including Health insurance) and general insurance are main types of insurance but different companies come out with different insurance products and provide different type of nomenclature to such products to show that there are various types of insurances. It should be kept in mind that all these different types of polices constitute the basic functions of insurance only whether life insurance or be it general insurance.

History of insurance in India

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In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (*Manusmrithi*), Yagnavalkya (*Dharmasastra*) and Kautilya (*Arthasastra*). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

1818 saw the **advent of life insurance business in India** with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business.

An Ordinance was issued on 19th January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

The **history of general insurance dates** back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business. 1957 saw the formation of the General Insurance Council, a wing of the Insurance Associaton of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.

In 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1sst 1973.

This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of **re-opening of the sector** had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector.The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein , among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

Today there are 31 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 24 life insurance companies operating in the country.

The **insurance sector is a colossal one** and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country’s GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long- term funds for infrastructure development at the same time strengthening the risk taking ability of the country.