INSURANCE EXAM · IC-02

IC-02 Practice of Life Insurance

Revision book

11	2	122
chapters	master tables	numbered sections

FREE SAMPLE: Chapter 1 of 11

CHAPTER 1

Organisational Structure Of A Life Insurance Company

1.1	History	1.2	Reopening and FDI
1.3	Market snapshot (2001-02 vs 2020-21)	1.4	PLI and RPLI
1.5	Legal meaning (s.2(11))	1.6	IRDAI and the IRDA Act 1999
1.7	Activities of an insurer	1.8	Organisation and structure
1.9	Appointing agents	1.10	Code of conduct
1.11	Pay and continuation	1.12	Other channels

MUST KNOW

1. LIC formed **1 Sep 1956** (Ordinance **19 Jan 1956**); took over 245 insurers = 154 Indian + 16 foreign + 75 provident societies.
2. **Malhotra Committee:** set up Apr 1993, report **7 Jan 1994**; IRDA Act **1999**; regulator incorporated **19 Apr 2000**; private entry **2000**.
3. **Foreign investment:** **26%** (**2000**), **49%** (**2015**), **74%** (**2021**), now up to **100%** (s.3AA, in force **5 Feb 2026**).
4. Section 2(11) defines life insurance business; unit linked policies are included; death by accident only is not.
5. **Two core functions:** collect premium and pay claims. Underwriting = selection and classification of risk.
6. Actuarial valuation, investment and ERM sit at the head office.
7. Agents are appointed by the insurer (Agents Regulations **2016**), not licensed. Rebates are banned (s.41).
8. **Corporate agent:** up to 9 insurers per category. IMF: up to 6 per category.

1.1 History

Year	Event
1818	Oriental Life, Calcutta; failed **1834**
1870	Bombay Mutual: first Indian life insurer
5 Dec 1906	National Insurance: oldest existing insurer (non-life)
1912	Indian Life Assurance Companies Act; Provident Insurance Societies Act: earliest regulation
1928	Indian Insurance Companies Act: statistics
1938	Insurance Act
19 Jan 1956	Ordinance takes over managements
1 Sep 1956	LIC set up (LIC Act **1956**)

- **1912 Act:** periodic actuarial valuation, annual accounts, audit.

- PLI and State insurance departments were not merged into LIC.

1.2 Reopening and FDI

- **Malhotra Committee (former RBI Governor chaired):** Apr **1993**; report **7 Jan 1994**.
- IRDA Act **1999**; Authority incorporated **19 Apr 2000**; applications invited Aug **2000**.
- Name IRDAI from **26 Dec 2014** (**2015** Act dated **20 Apr 2015**).

> **TODAY'S RULE**
> FDI now up to **100%** of paid-up equity (s.3AA; **2025** Act; from **5 Feb 2026**). **26%**, **49%**, **74%** are history.

- **Merger example:** Exide Life into HDFC Life, **14 Oct 2022**.
- Share-transfer approval threshold **5%** (earlier **1%**).
- 25 life insurers on **31 Mar 2023** (24 on **31 Mar 2022**); Acko Life and Credit Access Life registered **31 Mar 2023**.
- **Listing:** ICICI Pru (FY **2016**-17); SBI Life, HDFC Life (FY **2017**-18); LIC IPO May **2022** (Govt **96.5%**, **3.5%** OFS).
- **Paid-up capital for a life insurer:** **Rs 100 crore** (**2024** regs).

1.3 Market snapshot (2001-02 vs 2020-21)

Item	2001-02	2020-21
Companies	12	24
Offices	2,306	11,060
Individual agents	**4.77 lakh**	**24.55 lakh**
Penetration	**2.15%**	**3.20%**
Density (US$)	9.10	59

- Premium **Rs 50,094 cr** to **Rs 6,28,731 cr**; AUM **Rs 2,46,868 cr** to **Rs 44,79,973 cr**.
- Penetration = premium / economy; density = premium per head.

1.4 PLI and RPLI

- **PLI:** **1 Feb 1884**, Postal Department staff; **1888** Telegraph; **1894** women; oldest life insurer.
- Covers Government, PSU, universities, aided schools, banks, local bodies, defence; JV with **10%**+ Govt/PSU stake.
- Gramin Dak Sevak group scheme.
- **RPLI:** **24 Mar 1995**; rural public, weaker sections, women workers.
- **Head:** CGM (PLI); Member (PLI) is Chairman of Investment Board; Postal Services Board; DPHO in district; accounts at Director of Accounts, Kolkata.
- 1,50,000+ offices; **78 lakh** PLI and **270.95 lakh** RPLI policies (**31 Dec 2020**).

1.5 Legal meaning (s.2(11))

- Contracts on human life; death payment (not accident only); events depending on human life.
- **Deemed to include:** disability and double/triple indemnity accident benefits; annuities; superannuation allowances.
- **Unit linked policy:** included. Insurer defined in s.2(9).

TRAP

Death by accident only is excluded, but accident benefit riders on a life policy are included.

1.6 IRDAI and the IRDA Act 1999

Section	Content
3	Authority established
4	Chairperson + up to 5 whole-time + up to 4 part-time members; Central Government appoints
14	Duties, powers, functions
14(1)	Regulate, promote, orderly growth of insurance and reinsurance
26	Power to make regulations
27	Rules and regulations laid before Parliament

- **Preamble:** protect policyholders; regulate, promote, orderly growth; amends Insurance Act 1938, LIC Act 1956, GIC Nationalisation Act **1972**.
- **S.14(2) samples:** registration (issue, renew, suspend, cancel); efficiency; inspection and audit; books of account; investments; solvency margins; rural and social sector.
- **First Schedule:** amends Insurance Act (powers of Controller of Insurance pass to IRDAI; s.114A).
- **Second and Third Schedules:** end exclusive privilege of LIC and GIC.
- **Mission:** protect policyholders; speedy orderly growth; high standards; speedy settlement of genuine claims; transparency; act where standards weak; optimum self-regulation.

1.7 Activities of an insurer

Activity	Meaning
Receive proposals	Applications from prospects
Underwriting	Select and classify risk (age, build, history, health, social and economic state)
Issue policy	Policy document is evidence of the contract
Honour contract	Premium by policyholder; survival, maturity, death claims by insurer
Servicing	Nomination, assignment, address change, surrender quotes
Other	HR, products, valuation, investment, cash flow, accounts, compliance

- **Underwriter decides:** standard rate, changed terms, or decline.

1.8 Organisation and structure

- Organisation = legal entity for a goal; LIC is a Corporation (**1956** Act); others are companies (Companies Act **2013**).
- Company = legal person, public company limited by shares; board-run.
- **Structure:** hierarchy, levels of decision-making, departments, duties.

Feature	Tall	Flat
Levels	Many	Few
Executive authority	Less	More; high morale

- **Offices:** head office, regional (zonal), operating or branch.
- **Departments:** Business Development/Agency/Marketing; New Business/Underwriting; Customer Relationship/Policy Servicing; Claims; Finance and Accounts.
- **Head office:** statutory accounts; ERM; actuarial valuation and bonus; mortality study; new products; investment; HR; PR; compliance with IRDAI, SEBI, RBI; learning and development.

> **TODAY'S RULE**
> Outsourcing rules (**2017** regs) now sit in the Protection of Policyholders' Interests, Operations and Allied Matters of Insurers Regs **2024**.

1.9 Appointing agents

- Life insurance is a push product. Agent acts for the principal (the insurer).
- 24,42,607 agents on **31 Mar 2022**.
- Agents Regulations **2016** (dated **15 Apr 2016**, effective **1 Apr 2016**); s.42 Insurance Act.
- **Insurance agent:** reg. 2(4). Composite agent: reg. 2(6), one life, one general, one health, one mono-line insurer; reg. 5.

> **TODAY'S RULE**
> Agents are appointed by the insurer. No IRDAI licence.

- Pre-recruitment Insurance Agency Examination (reg. 2(10), reg. 6).
- **Board-approved agency policy:** reg. 17(1), Annexure 1. Not a minor; 10th pass suggested; at least **25 hours** of training; Performance Review Policy.
- **S.42(3):** disqualifications. Designated Official: reg. 2(9). Form I-A.
- **Code of conduct:** reg. 8.

1.10 Code of conduct

- **Do:** identify self and insurer; show identity card and appointment letter; assess needs; disclose commission scales on request; explain proposal form and material facts; advise nomination; Agent's Confidential Report; inform acceptance or rejection; help with claims; arrange medical (TPAs in cities); ensure policy document received.
- **Don't:** act discourteously; interfere with another agent's proposal; induce wrong or hidden information; force a policyholder to drop an existing policy.
- **Supervisors:** Office-in-charge, Development Officers, Business Development Managers.

1.11 Pay and continuation

- Commission = percentage of premium; limited to what the filed product allows.

> **TODAY'S RULE**
> **Commission sits inside one overall limit:** Expenses of Management, including Commission, of Insurers Regs **2024** (in force **1 Apr 2024**). No product-wise caps.

- Board-approved commission policy (reg. 4).
- **Termination criteria:** permanent incapacity, rude behaviour, rebates, missing minimum business.
- Minimum business norms per agency year; re-appointment criteria.

TRAP

S.41 bans rebates at sale and at revival of a lapsed policy; the agent loses the agency.

1.12 Other channels

Channel	Key points
Corporate agent	**2015** regs (**20 Aug 2015**); up to 9 insurers per category (Composite: total 27); life, health, general or composite; banks use specified persons
IMF	**2015** regs (**21 Jan 2015**); company, LLP or co-op; ISP and FSE; up to 6 insurers per category
Web aggregator	**2017** regs (**13 Apr 2017**); company or LLP; Authorised Verifier
Broker	**2018** regs (**12 Jan 2018**); direct, composite, reinsurance; **1.1%** of new business premium (**2019**-20)
Other	RAP (CSC regs **2015**); micro insurance agent; POSP; direct sales

TODAY'S RULE

Registration of corporate agents, IMFs, brokers and web aggregators no longer expires every **3 years** (**30 Jul 2026** amendments); re-apply by **31 Jan 2027** (**31 Mar 2027** with **Rs 750** fee). Annual fee: higher of **Rs 10,000** or **0.04%** of last year's commission. Specified persons get a Letter of Enrolment.

- **Corporate agent forms:** company, LLP, co-operative society, bank, RRB, NGO, NBFC.
- **FSE:** licensed by another regulator (SEBI, PFRDA, RBI, Department of Posts).
- Bancassurance = bank sells insurance to its customers.