INSURANCE EXAM · IC-39

IC-39 Fraud Risk Management

Revision book

15	2	117
chapters	master tables	numbered sections

FREE SAMPLE: Chapter 1 of 15

CHAPTER 1

Indian Insurance Industry - Overview

1.1 History
1.2 Need and benefits
1.3 Industry
1.4 Principles
1.5 Quick points

MUST KNOW

1. Insurance pools money from many; the few who lose are paid; each member pays a premium.
2. Insurance does not prevent loss; it gives financial security after it.
3. **Dates:** Insurance Act **1938**; LIC Act **1956** (245 life companies); GIBNA **1972** (107 non-life companies, 4 PSICs); IRDA Act **1999**.
4. **PSICs:** National, New India, Oriental, United India. GIC became the Indian Reinsurer after **1999**.
5. **FDI cap:** **26%** (**2000**), **49%** (**2015**), **74%** (**2021**), now up to **100%** (**2025** Act).
6. **Non-life classes:** fire, marine, miscellaneous (everything else, including motor, health, rural, liability).
7. **Councils:** Life and General Insurance Councils, Section 64C.
8. **Principles:** indemnity, insurable interest, utmost good faith, proximate cause, contribution and subrogation.

1.1 History

- **Insurance in India:** more than **200 years** old in present form.
- Insurance Act **1938** regulates; Controller of Insurance did the administration.
- **1956:** LIC Act; 245 Indian and foreign life companies merged into LIC.
- **1972:** GIBNA; 107 non-life companies merged into 4 PSICs; GIC formed as holding company; PSICs its subsidiaries.
- **1999:** IRDA Act; private players allowed; GIC re-designated Indian Reinsurer (reinsurance only); PSICs became independent boards owned by Government.
- **Agricultural Insurance Company of India:** formed by NABARD, GIC and PSICs.
- **Councils:** Life Insurance Council, General Insurance Council (Sec 64C, Act **1938**).

Year	Event
1938	Insurance Act
1956	LIC Act; LIC formed
1972	GIBNA; GIC formed
1999	IRDA Act; private entry

TRAP

245 = life companies into LIC. 107 = non-life companies into four PSICs.

TODAY'S RULE

FDI: Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act 2025, new s.3AA: up to **100%** (in force **5 Feb 2026**). Old: **26%** (**2000**), **49%** (**2015**), **74%** (**2021**).

1.2 Need and benefits

- Progress brings more risk; risk brings uncertainty and big money loss; one person cannot recover alone and fast.
- **Benefits:** pools community risk; indemnifies; financial security for the asset; money to repair or replace; support for the family of a dead earner.

TRAP

Insurance does not prevent loss.

- **Definition:** pooling of money from people seeking protection; fund pays those who lose.
- Run by a company = transfer of risk; what each member pays = premium.

1.3 Industry

- **Parts:** life, general (non-life), reinsurance.
- **Life:** India 10th in world (**2021** figures); 24 life insurers (**2021**-23 count); about **36 crore** policies; LIC the only state-owned life insurer.
- **Non-life:** India 15th (**2021** figures); 34 players (**2021**-23 count), incl. 6 standalone health insurers, AIC and ECGC.
- **Classes under the 1938 Act:** fire, marine, miscellaneous.
- Motor about **40%**, health about **30%** of non-life premium (**2021**-23 figures).
- **Fast-growing:** liability and rural (incl. livestock), both miscellaneous.
- **Others in the market:** agents (individual, corporate), brokers, surveyors, TPAs.

TODAY'S RULE

Agents are appointed by insurers, not licensed. Surveyors: certificate of registration from **5 Feb 2026**, not a 3-year licence.

- **Reinsurance:** GIC; branches of foreign reinsurers; Lloyd's of London.
- **Regulator:** IRDAI, set up by IRDA Act **1999**; makes regulations and guidelines; policyholder protection rules; grievance redressal in every insurer.
- **Insurance Ombudsman:** Government scheme; individuals; out of court, cheap, quick.

TODAY'S RULE

Ombudsman Rules **2017**; award limit **Rs 50 lakh** since **9 Nov 2023** (G.S.R. 828(E)) (was **Rs 30 lakh**); individuals, sole proprietors, micro enterprises; insurer first, Ombudsman after **1 month** or a rejection; file within **1 year**.

Name is IRDAI since **2015** amendment (from **26 Dec 2014**).

TRAP

- **Correct name:** Insurance Regulatory and Development Authority of India.
- Rural insurance sits under miscellaneous.

1.4 Principles

Principle	Key points
Indemnity	Neither more nor less; pre-loss position; depreciation on replacement value
Insurable interest	Legal right + money loss; from statute, contract, common law; at purchase and at loss; marine cargo at loss only
Utmost good faith	Insured: disclose material facts, before and during contract. Insurer: suitable product, fair terms, fair treatment, information, advice, quick redress
Proximate cause	Active efficient cause, no new independent force; dominant cause decides liability
Contribution	Insurers share loss rateably when same subject is in many policies
Subrogation	Insured's right to recover from the person responsible; recovery cut from claim, or rights go to insurer (up to amount paid); extra stays with insured

- Contribution and subrogation are corollaries of indemnity.
- **Not on indemnity basis:** life, personal accident. Agreed value: antiques, works of art, marine cargo. No depreciation: reinstatement policies.
- **Material fact:** would make the insurer refuse the risk or add terms.

TRAP

Insurance needs utmost good faith because the two sides do not hold equal information.

FORMULA AND WORKED SUM

- **Example:** Ram insures the whole house, owns half. Claim = half only.
- **Example:** truck owner pays 20% of food court damage. Claim 80% from insurer; or full claim and rights to the 20% pass to insurer.
- **Example:** tree falls after bus swerves; proximate cause of injury = falling of the tree.
- **Example:** Mahesh sells crackers on festivals: must disclose (material fact).

1.5 Quick points

- **Not a benefit:** preventing loss. GIC = Indian Reinsurer. Rural = miscellaneous. Recovery cuts claim = subrogation. LIC = only state-owned life insurer. Indemnity = pre-loss position.
- Insurers invest pooled funds to earn income and keep premium rates stable.