INSURANCE EXAM · IC-88

IC-88 Marketing and Public Relations

Revision book

9	2	220
chapters	master tables	numbered sections

FREE SAMPLE: Chapter 1 of 9

CHAPTER 1

Introduction to Insurance

1.1	Concept	1.2	Only uncertainty
1.3	Life insurance	1.4	What insurance does not do
1.5	Extended use	1.6	How it works
1.7	Classification	1.8	Indemnity
1.9	Importance of insurance	1.10	Benefits (12)

MUST KNOW

1. Insurance protects the money value of assets; it does not stop the loss or the peril.
2. Peril = possible event (fire, flood). Risk = the damage it may cause.
3. Only uncertain events are insured; the loss is insured, not the event. Arson is not uncertain.
4. Death is certain; its timing is uncertain. Living too long is also a peril.
5. Premium is paid in advance into a fund; claims are paid from it; sum assured = maximum expected loss.
6. **Two groups:** life and non-life (property and casualty). In India health and accident are non-life.
7. Non-life policies mostly run one year; a long tail means liability shows up long after (Manville, about **30 years**).
8. Indemnity = no gain from loss, limited to cost or market value. Not applicable to life insurance.
9. Insurers held about **Rs 26 lakh** crore at end March 2016, over half in Government bonds.
10. Reinsurance shares huge risks worldwide and makes insurance international.

1.1 Concept

- Insurance protects the economic value of assets; asset = economic resource.
- **Assets with income:** factory, cow. Without income: motor car (comfort).
- Asset has a limited working life; early loss hurts owner and dependants.

Word	Meaning
Peril	Possible event: fire, floods, breakdown, lightning, earthquake
Risk	Damage the peril may cause to the asset

TRAP

Do not mix peril and risk. Fire = peril; damage = risk.

1.2 Only uncertainty

- Uncertainty about both peril and risk; certain event cannot be insured.
- Rain too heavy or too poor = peril for farmers; paid only if crop is lost; no standing crop = no loss, no payment.
- Godown fire = paid. Deliberate fire (arson) = not uncertain, not paid.

1.3 Life insurance

- Human life = income-generating asset; lost by early death, sickness or accident disability.
- **Death is certain, timing is uncertain:** that is insurable.
- Death near retirement is not a big peril; death much earlier is.
- Living too long = peril as much as dying too young (plans based on "15 more years" or "children will look after me" fail).

TRAP

"Death is an uncertain event" is wrong; the timing is uncertain.

1.4 What insurance does not do

- Does not protect the asset or avoid the peril (only safety and damage control can).
- Reduces the effect on owner and dependants; compensates, maybe not fully.
- Only money losses are paid; love and care cannot be valued.

TRAP

"Insured assets are never lost" is false.

1.5 Extended use

- **Exporters:** buyer defaults or refuses goods; exchange rate change; policy change; political disturbance abroad.
- **Doctors:** negligence and damages claims.
- **Deliberate acts now perils:** employee fraud, robbery, burglary.
- Singer's voice or dancer's legs insured in some countries.

1.6 How it works

- **Same-risk people form a group (ship cargo:** water damage, sinking, piracy; factory: fire, hail, earthquake, lightning, burglary).
- Members share a loss; bigger group = easier sharing.
- **Share fixed beforehand:** equal, or in proportion to likely loss.

FORMULA AND WORKED SUM

- **Goods Rs 10,000 and Rs 20,000 on one ship:** shares in a loss are 1 : 2.

- Insurers collect in advance and build a fund. Paid losses = claims. Advance share = premium.
- Sum assured = maximum loss the person expects to receive.

FORMULA AND WORKED SUM

- Goods Rs 2 lakh; sum assured chosen Rs 1 lakh; loss Rs 50,000 => claim Rs 50,000.

- Premium = percentage of sum assured; inflammable goods pay more than vegetables.

1.7 Classification

- Life = human lives. Non-life = animals, crops, goods, factories, cars (property and casualty abroad).
- **India:** sickness and accident are non-life; abroad often life. Life policy may add them as riders.

- Non-life also covers fraud, burglary, loan non-repayment, doctor's negligence.
- Non-life mostly one year. Long tail = liability known long after term.
- **Manville Corporation (USA, asbestos):** disease after about **30 years**; claims could not be denied.

1.8 Indemnity

- Limit = cost price or market value; cannot be higher; no profit from loss.
- **Car repaint:** deduction if old paint was not as good as new.
- Insurance only compensates; replacement basis exists in some cases.
- **Not applicable to life:** human life has no limit; person grows in worth, does not depreciate.

Point	Property	Life
Indemnity	Applies	Does not apply
Limit	Value of asset	Any amount
Over time	Depreciates	May appreciate

TRAP

Life insurer still checks ability to pay and purpose.

1.9 Importance of insurance

- Large funds, cash-rich; capital market and Government depend on them.
- Assets about **Rs 26 lakh** crore at end March 2016, over half in Government bonds; housing, infrastructure support.
- Big buyers of shares and debentures; mobilise savings; long-term capital.
- **Infrastructure:** housing, drinking water, drainage, road transport, electricity.
- **Without life cover:** lower living standard, children leave school, burden on society; some socialist countries tried passing the load to insurers.
- **Non-life:** steadier trade and industry (ship sinking, factory fire examples).
- **International:** links with trade; associates abroad for inspection, salvage, documentation.
- **Political risk:** new policies, money transfer, blocked funds, exchange rates. Insurers give country credit rating data, help with receivables and bad debts.
- **Reinsurance:** share risk with other insurers worldwide. Examples: Jamnagar complex (about **Rs 30,000 crore**), aircraft of 400+ passengers, Bhopal gas leak **1984**.

TRAP

Reinsurance is for big risks of any class, not for life only, marine only or aviation only.

1.10 Benefits (12)

- Security; business efficiency (less risk, lower price); fair spread of loss; credit-worthiness; capitalises earning power; savings; investment; thrift; long-term view; less destitution; better health care; trade.

CHAPTER 1 (CONTD.)

Introduction to Insurance

1.1 History
1.2 Life insurance
1.3 Non-life insurance
1.4 Growth (premium as % of GDP)
1.5 Regulation
1.6 Pools
1.7 Summary

MUST KNOW

1. Insurance began with marine cover; first life policy 1583 (England); Bombay Mutual **1870**.
2. Life nationalised **1956** (245 companies); non-life **1973** (107 companies into 4 under GIC); private entry **2000**.
3. **31 Mar 2015:** 23 private life insurers; 28 non-life insurers (4 public + 2 specialised + 22 others, 5 health-only).
4. **2014-15 non-life premium:** motor 37,379; health 22,636; fire 8,057; marine 3,020 (Rs crore).
5. **Before 2000:** Controller of Insurance under the Insurance Act **1938**; then IRDAI.
6. **Terrorism Pool:** April 2002, GIC manages. DR Pool: **1 Apr 2012**, ratio 20:5:75.
7. Moral hazard matters for the amount of life cover; no fixed multiple of income.

1.1 History

- Marine first (piracy, storms). Lloyd's coffee house, London.
- First life policy 1583, England.
- **1870:** European and Albert (British) tried Indian lives; Bombay Mutual Assurance Society (first Indian) formed.

1.2 Life insurance

- **1956:** nationalised; 245 companies; assets about **Rs 400 cr**.
- **31 Mar 2000:** LIC assets over **Rs 1,60,000 cr**; **6.3 cr** individual + about **5 cr** group lives.
- **2000:** opened to private insurers.

31 Mar 2015	Figure
Private life insurers	23
Offices (LIC + private)	11,033 (7,461 rural)
LIC offices in 2000	about 2,500
Premium 2014-15	**Rs 3,28,101 cr**
Policies in force	over 360 million
Sum assured	over **Rs 75 lakh** cr

Life assets, Mar 2015	Rs crore
LIC	17,86,312
Others	4,61,210
Total	22,47,522

- **Life investments:** over **50%** Government and approved securities; over **28%** approved (incl. equities); over **9%** housing and infrastructure.

1.3 Non-life insurance

- **1973:** 107 companies joined into 4, subsidiaries of GIC.
- Premium **Rs 200 cr** (**1973**) to **Rs 9,982 cr** (**1999**-**2000**); assets of GIC + 4 about **Rs 25,000 cr**.
- **31 Mar 2015:** 28 insurers; 4 public taken over by Government; GIC = national reinsurer; 2 specialised (agriculture; export-import); of other 22, 5 health-only.
- Offices 10,407 (over 4,000 in **2000**).

Gross direct premium 2014-15	Rs crore
Motor	37,379
Health	22,636
Fire	8,057
Marine	3,020
All other classes	10,592

FORMULA AND WORKED SUM

- **GIC premium 2014-15:** Rs 13,857 cr as national reinsurer.

Non-life assets, Mar 2015	Rs crore
Public sector	1,03,561
Private sector	57,153
Total	1,60,714

- **Non-life investments:** about **37%** Government and approved; over **26%** housing and infrastructure; over **33%** approved investments.

TRAP

Life nationalised **1956** (245 cos); non-life **1973** (107 cos). Do not swap.

1.4 Growth (premium as % of GDP)

Class	2000	2012	2014
Life	about **1.4%**	nearly **4%**	**2.6%**
Non-life	about **0.55%**	**0.78%**	about same

2014 life	2014 non-life
South Africa 11.4%	USA **4.3%**
Japan 8.4%	Switzerland **4.1%**
UK 8%	Germany **3.4%**
France 5.9%	Japan **2.4%**
Switzerland 5.1%	

- **World 2014:** life **3.4%**, non-life **2.7%**.

1.5 Regulation

- **Before 2000:** Controller of Insurance (Government appointee), Insurance Act **1938**. After: IRDAI.
- **2015:** 244 foreign reinsurers and 90 Lloyd's syndicates held Unique Identification Numbers; no physical presence needed.
- **Regulatory environment (9):** Insurance Act **1938** + rules; IRDA Act **1999**; regulations; tax laws; inheritance laws; Consumer Protection Act; foreign exchange rules; Ombudsmen; mercantile laws.

TODAY'S RULE

IRDAI is the name today. FDI up to **100%** (**2025** Act).

Consumer Protection Act 2019 (from 20 Jul 2020): District up to **Rs 50 lakh**; State **Rs 50 lakh** to **Rs 2 cr**; National above **Rs 2 cr**.

Insurance Ombudsman Rules 2017: up to **Rs 50 lakh** since **10 Nov 2023**.

Income-tax Act **2025** from **1 Apr 2026**.

1.6 Pools

Pool	Key facts
Terrorism Risk Insurance Pool	Formed Apr **2002**; managed by GIC; limit per location **Rs 750 cr**, raised to **Rs 1,500 cr** Apr **2014**; premium **2014**-15 **Rs 472.33 cr**; fund **Rs 4,500 cr**
DR Pool (motor third party declined risk)	From **1 Apr 2012**; commercial vehicles, liability-only cover declined by an insurer; shared ceding insurer : GIC : Pool = 20 : 5 : 75; premium **2014**-15 **Rs 317 cr**

FORMULA AND WORKED SUM

- **Rs 100 claim under DR Pool:** insurer 20, GIC 5, Pool 75.

1.7 Summary

- Perils and risks must both be uncertain.
- Life is an income-earning asset; perils: death, sickness, disability, living too long.
- Premium paid in advance into a fund; claims paid from it; premium goes with the maximum loss = sum assured.
- **Indemnity:** no profit, but no limit on value of a human life.
- Moral hazard is a consideration for the amount of life cover.