INSURANCE EXAM · IC-92

IC-92 Actuarial Aspects of Product Development

Revision book

14	2	214
chapters	master tables	numbered sections

FREE SAMPLE: Chapter 1 of 14

CHAPTER 1

Insurance Product

1.1 History
1.2 Laws and nationalisation
1.3 Definition and categories
1.4 Attributes
1.5 Events and problems
1.6 Five utilities
1.7 Legal aspects

MUST KNOW

1. **Dates:** **1818** Oriental Life (first on Indian soil); **1870** Bombay Mutual (first Indian); **1912** first law; **1938** Insurance Act; **1956** LIC; **2000** market opened.
2. **1956:** nationalised 19 Jan; LIC Act passed 19 Jun; LIC created 1 Sep; capital **Rs 5 crore**.
3. **Product = a promise:** terms for specified benefits on specified events.
4. **Three attributes:** shape, term, utility. Five utilities: political, economic, social, philosophical, aesthetic.
5. **Life product:** premium starts long before benefit; immediate annuity is the exception.
6. **General product:** mostly **1 year**; benefit only on a claim event.
7. Contract is concluded only when the first premium is realised in cash.

1.1 History

- **Risk spread:** Chinese traders used many ships. First written policy: Babylonian obelisk (loan waived after personal disaster). Roots about **6000 years**.
- **1818:** life insurance came from England; Oriental Life (Europeans, Calcutta); for Europeans only.
- Indians charged heavy extra premiums as sub-standard lives.
- **1870:** Bombay Mutual Life Assurance Society, normal rates for Indians.
- **1896** Bharat Insurance Co (nationalism). Swadeshi movement **1905**-**1907**.
- **1906:** United India (Madras); National Indian, National Insurance (Calcutta); Co-operative Assurance (Lahore).
- **1907:** Hindustan Co-operative Insurance Co (Calcutta, a poet's house at Jorasanko).
- **Also:** Indian Mercantile, General Assurance, Swadeshi Life (later Bombay Life).

1.2 Laws and nationalisation

Year	Event
1912	Life Insurance Companies Act + Provident Fund Act; first regulation; rate tables and valuations certified by actuary
1928	Indian Insurance Companies Act: government collects statistics (life and non-life)
1938	Insurance Act: first law for life and non-life; strict state control
1944	Bill to amend the **1938** Act; demand to nationalise grows
1956	Nationalised; LIC Act; LIC with **Rs 5 crore** from Government
2000	Private players and banks enter; **26%** foreign stake then

- **1938:** 176 companies, **Rs 298 crore** in force (from 44 companies, **Rs 22.44 crore**).
- **At nationalisation:** 154 Indian + 16 non-Indian companies + 75 provident societies (milestone line: 245 taken over).
- **Two stages:** management by Ordinance, then ownership by bill.
- **LIC aims:** rural reach, all insurable persons, adequate cover at reasonable cost.
- **2024:** nearly 25 life insurers; LIC largest.

TRAP

- **1912** Act treated foreign and Indian companies unequally (Indian at disadvantage).
- **Three 1956 dates:** 19 Jan, 19 Jun, 1 Sep.

TODAY'S RULE

FDI in Indian insurers: up to **100%** of paid-up equity (Insurance Laws amendment Act **2025**). **26%** was the **2000** limit. Regulator is IRDAI.

1.3 Definition and categories

- Insurance product = promise sold by insurer to policyholder (via agent, broker or direct sales force); terms for specified benefits on specified events (e.g. death).
- A finished good or service to meet a customer's need.
- **Categories:** day-to-day (soap, food); utility-producing (security, travel); temporary and perishable (banana, petrol, kerosene).
- **Cement:** man-made product from raw materials (water, stone).

1.4 Attributes

Attribute	Insurance point
Shape	Only a legal paper like a train or plane ticket; duplicate if lost, on conditions
Term (life)	Premium long before benefit; benefit date unknown; very long-term contract
Term (general)	Mostly **1 year**; **3 to 5 years** growing; benefit only on a claim event
Utility	Financial security of family or self in old age; money compensation

- **Immediate annuity:** benefit starts at once after single premium.
- Economic value = usefulness in terms of money.
- **Examples of claim events:** motor = accident; health = hospitalisation.

TRAP

Immediate annuity is the only life exception to "benefit comes late".

1.5 Events and problems

Event	Problem
Death	Funeral costs; income stops; loans repaid
Accident, injury	Hospital costs; income stops temporarily
Accident, death	As death + legal costs
Old age	Income stops; funeral; more illness
Sickness	As accident injury

- **Other needs (education, marriage, capital items):** met by survival benefits and partial withdrawals / surrenders (liquidity).

1.6 Five utilities

Utility	Meaning	Example
Political	Social power	Costly car
Economic	Financial power	Gold, diamonds
Social	Social benefit	Solar panel for a village
Philosophical	Social morality	Religious book over wine
Aesthetic	Sensory appeal	Colourful shaped vase

1.7 Legal aspects

- Contract = agreement enforceable by law. Policy bond = insurance contract = insurance policy.
- **Document:** hard language (non-forfeiture, definition of accident); small print; courts interpret in disputes.
- Standard wording in some countries; elsewhere insurer writes it, rarely vetted by regulators.
- **Complaints:** insurer's grievance cell, regulator, ombudsman, consumer forums; courts very rare.
- Proposal form is part of the contract (most countries); medical examiner's and medical reports go with it.
- Concluded contract = first premium realised into cash; cheque contracts valid only if realised.

TRAP

Cheque bounces after policy date but before death = contract in dispute; "unconcluded" contracts.

FORMULA AND WORKED SUM

- **Cheque bounce:** paid 1 Jun by cheque, death 10 Jun, cheque bounces 12 Jun -> premium not realised, no concluded contract.

CHAPTER 1 (CONTD.)

Insurance product: persons, parties, insurable interest, buyers

1.1	Persons competent to contract	1.2	Parties
1.3	Insurable interest	1.4	Utmost good faith
1.5	Nominee, assignor, legal heir	1.6	Why insurance is sold, not bought
1.7	Who buys what	1.8	Summary points

MUST KNOW

1. **Proposer = legal person:** adult 18+ on date of proposal and mentally sound, or a corporate entity.
2. **Minor:** cannot be proposer; can be life assured; beneficiary only with a legal guardian.
3. **Insurable interest:** spouse, employer in employees, lender in borrower (outstanding loan), self. Never a friend.
4. **Utmost good faith = uberrimae fidei:** duty on BOTH sides; hidden material fact can cancel the policy.
5. Assignor's right works only if the assignment is registered as an endorsement.
6. **Insurance is sold, not bought:** 8 reasons (awareness, priorities, complexity, service, product, trust, alternatives, facilities).
7. Children/students deferred assurance; retired immediate annuity; borrowers decreasing term.

1.1 Persons competent to contract

Person	Position
Adult 18+, sound mind	Can be proposer
Corporate entity	Can be proposer (Contract Act)
Minor	Not proposer; can be life assured; beneficiary with legal guardian
Illiterate legal person	Can contract; declaration from a known person that he understood
Mentally unstable	Cannot contract; beneficiary with legal guardian
Cannot sign (physical deformity)	Can contract with power of attorney granted by a court

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Senior citizen, unmarried woman, any adult: allowed. Only below 18 is barred.

1.2 Parties

- Proposer (policyholder, policy-owner), insurer, life assured.
- Proposer and life assured may be two persons or the same person.
- **Life assured:** one person or a group (couple, family, employees of an employer).
- Insurer checks insurable interest to avoid financial frauds and disputes.

1.3 Insurable interest

- **Meaning:** proposer or family (beneficiaries) face money loss if the life assured dies; they depend on his earnings.
- **Valid:** wife and husband (both ways), employer in employees, lender in borrower up to outstanding loan, self (family support, own old age).
- **Based on earned income (wages, salary:** can stop); not on certain unearned income (rent, interest).
- **Two properties:** definite relationship; money commitment if earnings cease.
- **Contracts:** individual (one life) or group (more than one life).
- **Purpose:** no undue financial gain for the proposer.

FORMULA AND WORKED SUM

- **Loan Rs 25 lakh, repaid Rs 9 lakh:** interest = 25 - 9 = Rs 16 lakh (interest ignored).
- **Example:** Mr George, 40, Rs 10 lakh p.a., wife and two children: death pays wife; maturity pays him.

TRAP

No insurable interest in a friend; lender's interest falls with repayment.

1.4 Utmost good faith

- **Latin name:** uberrimae fidei.
- **Policyholder:** must not hide facts that affect the policy; material non-disclosure allows cancellation.
- **Insurer:** must disclose all features of the policy.
- A legal duty of honesty and fair treatment.

TRAP

Not "share what you feel relevant"; binds both sides.

1.5 Nominee, assignor, legal heir

- **Policyholder = life assured:** maturity to policyholder; death to nominee or legal heir.
- **Nominee:** payment to a nominee discharges the insurer. Since the **2015** amendment, a parent, spouse or child nominee is a beneficial nominee (entitled to the money); any other nominee receives it for the legal heirs.
- **Legal heirs:** right over the estate of the policyholder.
- **Assignor:** right to the extent of his interest; banks, housing loan companies, insurers, lenders.
- Assignor's right only if assignment is registered as an endorsement.

1.6 Why insurance is sold, not bought

- **Sold through distributors:** agents, brokers, insurer's sales staff; explain protection and saving.
- Unlike daily needs (tooth-paste, soap, cloth, milk): life insurance is not a priority.

Reason	Point
Lack of awareness	Do not know the products or the need
Priorities	Limited savings
Complexity	Technical jargon, not explained
Service	Poor after-sale service and claims
Right product	Not available
Trust	Not trusted
Alternatives	Mutual funds (return), fixed deposits (liquidity), bonds and PPF (security)
Facilities	No counters or agents; minor issue now (internet)

1.7 Who buys what

Person	Product
Children	Deferred assurances
Students	Deferred assurances, money back
Fixed-income employees, regular self-employed	Endowment, money back, unit linked, deferred annuity
Retired (retiring)	Immediate annuity
Casual, unorganised workers	Term with accident benefit
Single persons	Deferred and immediate annuity
Borrowers	Term / decreasing term (mortgage insurance)

TRAP

Retired = immediate annuity; children = deferred; borrowers = decreasing term.

1.8 Summary points

- Bought for financial security (not a bet, not mainly tax).
- **Employer for employees:** true. Husband for wife: true. Friend: false.
- Minimum age 18; no education or language test.