Dr.Babasaheb Ambedkar Open University

DIN
DIPLOMA IN INSURANCE

Block

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General Insurance -2

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PUBLISHER :
Shri S. H. Barot
(I/C. Director & Registrar.)
Dr.Babasaheb Ambedkar Open University, Dafnala, Ahmedabad.
August, 2004 (Print)

Further information on the Dr.Babasaheb Ambedkar Open University courses may be obtained from the University's office at Govt. Bunglows, No-9. Dafnala, Shahibaug, Ahmedabad – 380003. Ph : (o) : 22869690, Fax : 22869691

Printed by : Shree Neminath Printers, Shahibaug, Ahmedabad. Mobil : 9825042651

Unit : 7 : Misc. Insurances

Motor insurance:

Introduction:

Misc. Insurances covers all other insurances other than Fire insurance and marine insurance. It mainly covers motor insurances, personal insurances, burglary insurance, engineering insurances etc. Motor insurance comes within the definition of misc. insurance. This is one of the most important head under misc. insurances. Motor insurances cover the damage to vehicles as well as to the third party due to accident. The chapter deals with the various inclusion and exclusions, perils, claim procedure, different types of policies etc. for various types of insurances.

Structure of the Chapter:

7.1 Objectives

7.2 Basic Understanding of Motor Insurance

7.3 Motor Vehicles Act, 1988

7.4 Inclusions and Exclusions

7.5 Towing Charges

7.6 Repairs

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7.17 Total Loss Claims

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7.19 Third Party Claims

7.20 Compromise Settlements

7.21 Lok Adalats

7.22 Basic Understanding of Personal Accident Insurance

7.1 Objectiv

By the end of this chapter the student will learn about

- Basic understanding of motor insurance
- Provisions of Motor Insurance Act, 1988
- Majoı inclusions and exclusions of perils in insurance business
- Lıability in case of own damage and third party insurance
- Rules regarding tariffs and claims as well as the procedure aspects
- Rules regarding personal insurance
- Rules regarding mediclaim policy
- Different types of public liability policy
- Different other types of policy

7.2 Motor Insurance:

Motor insurance may be considered as the biggest head under misc. insurances. Motor insurance accounts for a major portion of the miscellaneous premium income of insurance companies.

Motor insurances cover wide variety of vehicles. For purpose of insurance, motor vehicles are classified into three board categories.

1. Private cars
2. Motor cycles and motor scooters
3. Commercial vehicles, further classified into
4. Goods carrying vehicles.
5. Passenger carrying vehicles e.g.
6. Motorized rickshaws.
7. Taxis.
8. Buses

9. Miscellaneous Vehicles, e.g.
10. Hearses
11. Ambulances
12. Cinema Film Recording & Publicity vans.
13. Mobile dispensaries etc. etc.

Two types of losses arise in respect of motor vehicles: Loss of damage to the vehicles and third party liability.

7.3 Motor Vehicles Act, 1988

For better understanding of the motor insurance, it is necessary to have some knowledge of Motor Vehicles Act passed in 1939 and amended in 1988. The insurance of motor vehicles against damage is not made compulsory, but the insurance of third party liability arising out of the use of motor vehicles in public places is made compulsory. No motor vehicles can ply in a public place without such insurance.

The liabilities which require compulsory insurance are as follows:

1. any liability incurred by the insured in respect of death or bodily injury of any person including owner of the goods or his authorized representative carried in the carriage.
2. Liability incurred in respect of damage to any property of a third party;
3. Liability incurred in respect of death or bodily injury of any passenger of a public service vehicle;
4. Liability arising under Workmen's Compensation Act, 1923 in respect of death or bodily injury of:
5. Paid driver of the vehicle;
6. Conductor, or ticket examiner (Public Service vehicles);
7. Workers, carried in a goods vehicle;
8. Liability in respect of death or bodily injury of passengers who are carried for hire or reward or by reason of or in pursuance of contract of employment.

The act provides that the policy of insurance should cover the liability incurred in respect of any one accident as follows:

1. In respect of death of or bodily injury to any person: The amount of liability incurred. (Without limit).
2. In respect of damage to any property of third party: A limit of Rs. 6,000/-

Section 140 of the Motor Vehicles Act 1988, provides for liability of the owner of the Motor Vehicle to pay compensation in certain cases, on the principle of no fault. The amount of compensation, so payable, is Rs. 50,000/- for death, and Rs.

25,000/- for permanent disablement of any person resulting form an accident arising out of the use of the motor vehicle.

Note: The principle of "no fault" means the claimant need not prove negligence on the part of the motorist. Liability is automatic.

7.4 Inclusions and Exclusions:

Loss or Damage to motor vehicle

Following risks are covered: coverage area

- Fire, explosion, self-ignition or lightning.
- Burglary, house breaking or theft.
- Riot and strike.
- Earthquake (fire and shock damage)
- Flood, typhoon, hurricane, storm, tempest, inundation, cyclone, hailstorm, frost.
- Accidental external means.
- Malicious act.
- Terrorist activity.
- Transit by road, rail, inland waterway, lift, elevator or air.
- Landslide / rockslide.

Exclusions

Following given perils will not be covered under motor insurance:

1. consequential loss;
2. preciation;
3. wear and tear; and
4. Mechanical or electrical breakdowns, failures or breakages.
5. Damage to tyres unless the vehicle is damaged at the same time.
6. Loss when the vehicle is driven under the influence of intoxicating liquor or drugs.

In case of the motor cycle and commercial vehicle policy there are additional exclusion:

- Loss of or damage to accessories by burglary, housebreaking or theft unless is stolen at the same time.
- In commercial vehicle policy, there is a further exclusion:

- Damage caused by overloading or strain of the vehicle.

7.5 Towing Charges:

As the vehicle get damaged it is to be taken to the workshop to get it repaired. The policy provides the additional facility to the insurer for which the insurer will charge some additional premium from the insured. If the motor car is disabled as a result of damage covered by the policy, the insurers bear a reasonable covered by the policy, the insurers bear a reasonable cost of protecting the car and removing it to the nearest repairers, as also the reasonable cost of the re-delivery to the insured. The amount so borne by the insurers is limited to Rs. 2,500/ for motor vehicles and Rs. 300 for motor cycles, in respect of any one accident.

7.6 Repairs:

Ordinarily repairs arising out of damage covered by the policy can be carried out after they are authorized by the insurers. In respect of repairs the authorized surveyor will prepare the estimate of the repairing required. The same will be passed and can be claimed by the insured from the insurer.

7.7 Compulsory Excess:

This is the amount which an insured will have to bear. In case of commercial vehicals a compulsory amount is required to be paid by the insured in case of each accident. This applies to commercial vehicles. The insured has to bear Rs. 1500/- in respect of each accident. Further loss / damage to lamps, tyres, mudguards, and / or bonnet side parts, bumpers and/ or paintwork is not payable except in the case of total loss of vehicle.

7.8 Third Parties:

When any person is driving the vehicle it is possible that accident may happen. Due to that accident the other person may have to suffer injury or will lose the life. The person who had crash the vehicle may or may not have the enough sum to compensate the person who is injured or died. So, It is compulsory to take third party insurance in case of motor vehicles. As per the motor vehicle act, the related provisions are, the insurers indemnify the insured against all sums which he may become legally liable to any person including occupants carried in the motor car provided that they are not carried for hire or reward by reason of death or bodily injuries caused to such third parties or by reason of damage to the property of third parties caused by or arising out of the use of motor car. The insured's liability for damage to property of third parties is limited to Rs. 6000/-; whilst liability for death of or bodily injury to third party is unlimited. The legal costs and expenses incurred by the insured are also reimbursed provided that they were incurred with the insurer's written consent.

7.9 General Exclusions:

These provide that the insurer shall not be liable in respect of:

1. Any accident outside the geographical area specified in the policy, that is, India.
2. Contractual liability.
3. Any accident when the vehicle is used not in accordance with the Limitation as to Use clause.
4. Any accident when the vehicle is driven without an effective driving licence (Driver's Clause).
5. War, etc. and nuclear risks.

7.10 Conditions:

Apart from the usual conditions such as notice of loss, cancellation of policy, arbitration, etc. there are two conditions which are specific to motor policies.

- The insured is required to safeguard the vehicle form loss or damage and maintain it in efficient condition. In the event of an accident, the insured shall take precautions to prevent further damage. If the vehicle is driven before repairs any further damage is at insured's risk.

- The insurer has the option to repair or replace the vehicle or parts or pay in cash the amount of damage insured's estimated value of the vehicle or the value of the vehicle at the time of loss whichever is less.

7.11 Benefits:

Sometimes over and above the normal coverage additional coverage or additional benefits given under the motor insurance are:

Which covers all type of vehicles :-

- Increased third party property damage limits i.e. over Rs. 6,000/- may be given.
- Wider legal liability to persons e.g. paid drivers etc. employed in operation and/ or maintenance of the vehicle i.e. under Workman Compensation Act and common law may be given.

Which covers private cars :-

- Extra fittings like radios, tape-recorders, air conditioners, etc. may also be given.
- Reliability Trials and Rallies in India may also be covered. (Also applicable to motor cycles).

Discounts are also given in certain case, some of the examples are given below)

- Voluntary excess under Own Damage Section – (Application to all vehicles).
- Membership of recognized Automobiles Association (Private cars & motor cycles).

When Bonus is given ?

The discount in the premium is allowed at renewal if there is no claim during the policy year or a loading in the premium is charge of there is a claim. Such discount given is known as bonus.

7.12 Underwriting:

There are several factors which are important for making decision regarding underwriting of motor vehicle through insurance cover such as type of vehicles e.g. imported cars, sports cars, use of the vehicle, geographical area etc. But the most important is the age of the vehicle.

7.13 Rules:

Some important rules prescribed by the Tariff are as follows:

- "Agreed Value' policies are not allowed except for vintage cars.
- Policies have to be issued in the name of the registered owner only. In the case of hire purchase agreements, policies must be issued in the name of the hirer and the owner's interest protected by attaching to the policy the prescribed endorsement.
- The prescribed cover note should be used when full details e.g. vehicle registration number etc. are not available. The cover note incorporates a certificate of insurance. The cover note is valid for 15 days and can be extended upto a maximum period of two months.
- Duplicate certificate will be issued as per the procedure prescribed in the tariff Such duplicate certificate will be only issued only when the original is lost, torn, defaced, etc.
- The Tariff provides concessions e.g. return of premium, restricted cover, etc. when the vehicle is laid up in garage and not in use for a period of two consecutive months or more.

7.14 Claim:

Insurer will follow the procedure for generating claims :-

- On receipt of notice of loss, the policy records are checked to see that the policy is in force and that it covers the vehicle involved. The loss is entered in the Claims Registered and a claim form is issued to the insured for completion and return.

- The insured is required to submit a detailed estimate of rapiers from any repairer of his choice. Generally, these repairs are acceptable to the insurers but they at times ask the insured to obtain repair estimate from another repairer, if they have reason to believe that the competence, moral hazard or business integrity of the repairer first chosen in not satisfactory.

- Independent automobiles surveyors are assigned the task of assessing the cause and extent of loss. They are supplied with a copy of the policy, the claim form and the repairer's estimate. They inspect the damaged vehicle, discuss the cost of repair or replacement with the repairer and submit their survey report.

- In respect of minor damage claims, independent surveyors are not always appointed. The insurers own officials or their own automobile engineers inspect the vehicle and submit a report.

7.15 Settlement:

The following settlement procedure will be initiated after generation of claim :-

- The survey report is examined and settlement is effected in accordance with the recommendations contained therein. The usual practice is to authorize the repairs directly with the repairer to whom a letter is issued to that effect.

- In this letter the repairers are also instructed to collect direct from the insured the amount of the Excess, if applicable to the claim, before delivering the repaired vehicle to him. The repairers are also instructed to keep aside the salvage of damaged parts, if there are any, for being collected by the salvage buyer nominated by the Insurers or else, if the repairers are willing to retain the salvage, its value, as indicted by the surveyor, is deducted from the claim bill.

- On receipt of their final bill of repairs after completion of repairs and a satisfaction note or voucher from the insured that the vehicle has been repaired to his satisfaction, the payment to the repairer is effected.

- Sometimes, the repairer is paid directly by the insured in which case the latter is reimbursed on submission of a receipted bill from the repairers.

- In either case, discharge voucher or receipt is obtained. The Claims Register and the policy and renewal records are marked that the claim is paid indicating the amount of claim and the amount of salvage, if any.

7.16 Documents:

Apart from claim form and Survey report the other documents required for processing the claim are:

1. Driving Licence
2. Registration Certificate Book
3. Fitness Certificate (Commercial Vehicles)
4. Permit (Commercial Vehicles)
5. Police Report
6. Final Bill from repairers
7. Satisfaction Note from the insured
8. Receipted bill from the repairer, if paid by insured.

7.17 Loss Claims:

Total loss means loss beyond recovery of anything and which is un-repairable. The total loss claims may also be made when the cost of repair is higher than the value of vehicles immediate prior to the loss. Whenever a surveyor finds that a vehicle is either beyond repairs or the repairs are not an economic proposition, he negotiates with the insured to assess the loss on a Total Loss basis – for a reasonable sum representing the market value of the vehicle immediately prior to the loss.

If the market value is more than the insured value, the settlement will be brought about for the insured value, otherwise the market value of the vehicle. The Insured will be paid in cash and the Insurance will take over the salvage of the damaged vehicle which will there after be disposed of for their own benefit calling tenders through advertisements in newspapers.

7.18 Theft Claims:

Here, the vehicle is not affected by the accident but in fact it is stolen. Here, now we shall discuss about the procedure to be followed in case of theft of vehical. Total losses can also arise due to the theft of the vehicle and its remaining untraced by the police authorities for certain period of time. These losses will have to be supported by a copy of the First Information Report (FIR) lodged with the Police authorities immediately after the theft has been detected.

The police keep the investigation going until the vehicle is traced and deliver to its owner, if traced. However, if they do not succeed in recovering the vehicle after a period of, say 3-4 months, they file away the case certifying that the case is classified as true but undetected. This certificate is essential before a total loss following theft is settled by the insurances.

The document to be submitted by the Insured will be the same as those described above. If the R.C. Book and Taxation Certificate are also stolen along with the vehicle, it will be necessary for the insured to obtain duplicate ones from the Registering Authority and thereafter deposit them with the Insurers.

Some insurers also obtain from the insured a special type of a discharge on a stamped paper whereby the Insured undertakes to refund the claim amount, if the vehicle is subsequently traced and delivered to him by the police. He also undertakes in the Discharge Form to pay any taxes, which may be outstanding against the stolen vehicle. The ignition keys. R.C. Books etc. is preserved by the Insurer in their custody so that these are made readily available if the vehicle is traced at a later date.

It is always prudent to inform the concerned Registering Authority by a registered A/D letter that a total loss claim is being processed for payment in respect of the particular stolen vehicle and to request them not to transfer the ownership of the vehicle to any other person. This will prevent the thief from disposing of the stolen vehicle.

7.19 Third Party Claims:

Up to now, we discussed about the administrative aspects of motor insurance but here now we shall discuss about the judicial aspect of motor insurance. Section 165 of the Motor Vehicles Act 1988, empowers the State Governments to set up Motor Accident Claims Tribunals for adjudicating upon third party claims. No civil court have any jurisdiction to entertain any claims falling under the tribunal's jurisdiction. The aggrieved party has to move the tribunal within a period of six month from the date of accident. After hearing from both the parties to the case the tribunal will decide whether any payment is to be made to the injured person or not. If the injured party is to be awarded then the tribunal will specify the amount payable by the insurer.

The procedure for third party claims is briefly described as follows :

- On receipt of notice of claim from the insured, or the third party, the matter is entrusted to an advocate.
- Full information relating to the accident is obtained from the insured.
- The various documents are collected and these include

  1. Driving Licence,
  2. Police report
  3. Details of driver's prosecution, if any
  4. Death certificate, coroner's report, if any (fatal claims).
  5. Medical Certificate (bodily injury claims)

6. Details of age, income and number of dependants etc.

- A written statement is then filed on the facts of the case with the Tribunal by the advocate. Eventually, if the award is made by the Tribunal, the amount is paid to the third party against proper receipt.

7.20 Settlements:

The word compromise itself suggest the whole intend of the settlement. Instead of running a case, for long period, for the purpose of early settlement it is settled by compromise. Where there is clear liability under the policy, claims are negotiated with the third party to accept a compromise settlement. If third party accept the compromise than the same will be registered with the Tribunal and the consent of the tribunal will be obtained on such compromise. The cheque, of the amount compromised will be deposited with Tribunal for disbursement to the rightful beneficiaries.

7.21 Lok Adalats:

This type of remedy is used for the purpose of fast disposal of the cases. Pending cases with the Tribunal where the liability under the policy is not in doubt are placed before the Lok Adalat or Lok Nyayalaya, for a voluntary and amicable settlement between the parties. A copy of decision in the prescribed memo and the cheques is deposited with MACT. Lok Adalat sessions are organized regularly by the four companies in liaison with the Legal Aid Board of each State and Tribunal to effect amicable settlement of third party claims.

PERSONAL ACCIDENT INSURANCE

7.22 Personal Accident Insurance:

This type of insurance policy deals with the injury of the person or the death of the person who may be insured. As we know that the future of the person is not predictable. Due to any accident or any other reason it may be possible that the person may die or he may become permanently disabled. The purpose of personal accident insurance is to pay fixed compensation for death or disablement resulting from accidental bodily injury. The policy provides that, if at any time during the currency of this policy, the insured shall sustain any bodily injury resulting solely and directly from accident caused by external violent and visible means, then the company shall pay to the insured or his legal personal representative(s), as the case may be, the sum or sums set, forth, in the policy, if resulting in specified contingencies such as death, permanent disablement etc.

7.23 Types of Disablement

7.23.1 Permanent Total:

Here, disablement is such that the person will not be able to work in future. Here, disablement is of permanent and irrecoverable nature and is absolutely total, in the sense that the insured person is prevented from engaging in gainful employment of any kind. It must be noted that loss of sight of both eyes or the actual loss by physical separation of the two entire hands or two entire feet or one entire hand and one entire foot or loss of sight of one eye and such loss of one entire hand/ foot are deemed as equivalent to permanent total disablement.

7.23.2 Permanent Partial:

Here, only a part of a body is disable for permanently. This is similar to permanent total disablement with the difference that, the disablement is not total but is only partial. An example is the loss of a toe or a finger. The person can be employed in gainful employment but may not do certain work because of disabilities.

7.23.3 Temporary Total:

Here, disablement is total but for temporary period. This is a disablement which is total (i.e. the insured person is prevented form engaging in any occupation or business) but for a temporary period only. This temporary period may be days, weeks or months.

Exclusions

No compensation is payable in respect of death, injury or disablement of the insured for following categories:

- From intentional self-injury, suicide or attempted suicide.
- Whilst under the influence of intoxicating liquor or drugs
- Whilst engaging in Aviation or Ballooning whilst mounting into, dismounting from or traveling in any balloon or aircraft other than as passenger (fare paying or otherwise) in any duly licensed standard type of aircraft any where in the world
- Directly or indirectly caused by venereal diseases or insanity
- Arising or resulting from the insured committing any breach of law with criminal intent.
- From service in the armed forces
- Resulting directly or indirectly from childbirth or pregnancy.

7.24 Conditions:

The following conditions are applicable in case of personal accident policy:

The first condition is related with the notice of the actual condition. Written notice of condition with full particulars is required to be given. In case of death written notice must, unless reasonable cause is shown, be so given before intendment or cremation, and in any case, within one calendar month after the death. In the event of loss of sight or amputation of limbs, written notice thereof must be given within one calendar month after such loss of sight or amputation. Any doctor on behalf of the company shall be allowed to examine the person of the Insured on the occasion of any alleged injury or disablement and as may reasonably be required. A post mortem examination report, if necessary, be furnished within the space of fourteen days after demand in writing. In the event of a loss of sight the insured shall undergo at the Insured's expense such operation or treatment as the company may reasonably deem desirable. No sum payable under this policy shall carry interest. No claim is payable if the claim is fraudulent or supported by fraudulent statement.

The second condition is related with the change in business or occupation. The insured shall give immediate notice to the company of any change in his business or occupation. Moreover, The insured shall be tendering any premium of the renewal of this policy give notice in writing to the company of any disease, physical defect or infirmity with which he has become affected since the payment of last preceding premium.

The third condition is related with the cancellation of the policy. The policy is cancelable by either party. Pro-rata refund of premium is made if cancelled by insurers; short period refund of premium, subject to no claim under the policy, if cancelled by the insured.

The forth conditions deals with the assignment of the policy. The Company shall not be bound to take notice or be affected by any notice of any trust, charge, lien, assignment or other dealing with or relating to this policy but the receipt of the Insured or his legal personal representatives shall in all cases be an effective discharge to the Company. The Company treats the insured as the absolute owner of the policy. Receipt of the insured or his legal personal representatives that is, those with a Succession Certificate, etc granted by a court of law will be an effective discharge to the Company. Although the assignment of the policy is not permissible under the Insurance Act, these policies can be assigned under the Transfer of Property Act.

This condition is related with the disputes in between insurer and insured. Differences regarding amount of loss (not question of liability) are to be referred to arbitration. The award of arbitration is a precedent to suit in Court of Law.

This condition deal with the judicial matter. If the insurers disclaim liability the insured has to file a suit in a Court of Law within 12 months from the date of such disclaimer.

Rating:

Rating is the assignment of rates to the person considering various factors upon which the premium of the person will be decided. The rating under this policy is done on the basis of the occupation of the person. In personal accident insurance, the rating factor used is the occupation. Generally speaking, exposure to personal accident at home, on the street etc. is the same for all persons. But the risks associated with occupation vary according to the nature of work performed. For example, an office manager is less exposed to risk at work than a civil engineer working at a site where a building is constructed. It is not practicable to fix a rate for each profession or occupation. Hence, occupations are classified into groups, each group reflecting, more or less, similar risk exposure. This group can be classified as follows:

Risk Group I :

Accountants, Doctors, Lawyers, Architects, Consulting Engineers, Teachers, Bankers, Persons engaged in administration function, Persons primarily engaged in occupations of similar activities.

Risk Group II :

Builders, Contractors and Engineers engaged in superintending functions only,
All persons engaged in manual labour (Except those falling under Group III), Cash Carrying Employees, Garage and Motor Mechanics, Machine Operators, Drivers of trucks or lorries and other heavy vehicles, Professional Athletes, and Sportsmen, Woodworking Machinists and Persons engaged in occupations of similarly hazards.

Risk Group III :

Persons working in underground mines, explosives, magazines, workers involved in electrical installation with high tension supply, Jockeys, Circus Personnel, Persons engaged in activities like racing on wheels or horseback, big game hunting, mountaineering, winter sports, skiing, ice hockey, ballooning, hang gliding, river rafting, polo and persons engaged in occupations/ activities of similar hazard.

Age Limits

This section deals with the age limits of the persons during which he/she can take insurance. The minimum age limit is 5 years and maximum 70. In case of the person whose age is more than 70 years cannot take the insurance, but if he already have a cover, policies may be renewed after they complete 70 years but upto the age of 80 subject to a loading of the renewal premium. In case of fresh proposals from persons above 70 years but below 80 years cover may be granted at normal rates plus loading of 10%. No medical examination is required for renewal of fresh cover.

7.26 Form:

The proposal form mainly includes the following information :

- Personal details i.e., age, height and weight, full description of occupation and average monthly income.
- Physical condition
- habits and pastimes
- Other or previous insurances
- Previous accidents or illness
- Selection of benefits and sum insured
- Declaration
- Sum Insured

The determination of the insurance amount is based on the income of the insured person. This section deals with the determination of the amount that can be insured. This amount is usually decided by the insured but subject to certain criteria decided by the insurer. Sum insured mainly depends upon the earning of the person. The sum insured is selected by the insured but insurer exercise some control on the sum insured as compared with the average monthly income of the insured. A policy for Rs. 1 Lac may not be granted to a person earning Rs. 1000/- per month, because in the event of temporary disablement, his benefit per week is Rs. 1000/- (Rs. 4000/) per month) which is disproportionate to his monthly salary.

7.27 Groups Personal Accident Policy:

We have discussed till now about the accident policy of an individual but now we will discuss about the accident policy of group of individuals. Group policies are less costly than the individual policies and also covers the same risk. But, group policies can be issued only where there is some relationship among the persons to be insured and a central point for the administration of the insurance scheme. Accordingly, these policies can be granted only to groups clearly falling under any one of the following categories.

- Employer – employee relationship including dependants of the employee.
- Pre identified segments / groups where the premium is to be paid by the State / Central Government
- Members of a registered co-operative society.
- Member of Registered Service Clubs.
- Holders of credit card of Banks / Dinners / Master/ Visa
- Holder of Deposit Certificates issued by Banks / NBFC's
- Shareholders of Banks / Public Limited Companies.

Claims

The claim forms mainly includes information on the following issues.

Personal details such as age, occupation, etc.

- Details of accident, nature of injuries, etc.
- Name and address of the attending doctor.
- Medical certificate of the attending doctor
- Details of other insurance to apply contribution, it applicable
- And to check whether they had been disclosed in the proposal form.
- Documents

The following documents are necessary in addition to the claim form :

- Medical Certificate: to obtain medical opinion on the cause or extent of incapacity or progress towards recovery.
- Medical examiner's Report – To corroborate medical certificate in doubtful cases, or if other causes are in operation.
- Receipt / Discharge form :- to acknowledge the money and to confirm the finality of the settlement.
- Death Certificate :- To give the date and cause of death. Post mortem reports where a post-mortem ahs been done.
- Probate or letters of administration :- the legal documents to prove the title of an executor or an administration

For disablement claims the documents, interlay, required:

- Medical Certificate, diagnostic reports etc.
- Prescription, bill and receipts.
- Leave of absence certificate from the employer.
- Medical fitness certificate.

7.28 Mediclaim Policy:

The concept of the Mediclaim policy was to share the burden of the person from the unexpected medical expenditure on account of some mishaps or incidents. This policy does not deal with the death or the permanent incapacity but it deals with the reimbursement of expenses needed to cure the diseases. The Policy provides for reimbursement of Hospitalization / Domiciliary hospitalization expenses for illness / disease suffered or accidental injury sustained during the policy period.

The policy pays for expenses incurred under the following heads:

- Room, Boarding Expenses in the Hospital / Nursing Home
- Nursing Expenses
- Surgeon, Anaesthetist, Medical Practitioner, Consultants, Specialist fees
- Anaesthesia, Blood, Oxygen, Operation Theatre Charges, Surgical Applications, Medicines and Drugs, Diagnostic Materials, and X-Ray, Dialysis, Chemotherapy, Radiotherapy, Cost of Pacemaker, Artificial Limbs and Cost of organs and similar expenses.

The liability of respect of all claims admitted during the period of insurance shall not exceed the Sum Insured for the person as mentioned in the schedule. Reimbursement is allowed only when treatment is taken in a hospital or nursing home, which satisfies the criteria specified in the policy. Expenses on Hospitalization for minimum period of 24 hours are admissible. However, this time limit is not applied to specific treatment i.e. Dialysis, Chemotherapy, Radiotherapy, Eye Surgery, Dental Surgery, Lithotripsy (Kidney stone removal), D&C, Tonsilectomy taken in the Hospital/ Nursing Home and the Insured is discharged on the same day; the treatment will be considered to be taken under Hospitalization Benefit. Relevant medical expenses incurred during period upto 30 days prior to and period of 60 days after hospitalization are treated a part of the claim.

In policy, any one illness means continuous period of illness and it replace within 45 days from the day of last consultation with the Hospital/ Nursing Home where treatment may have been taken. Occurrence of same illness after a lapse of 45 days will be considered as fresh illness for the purpose of this policy. Eg. If person has consulted the doctor for one type of specific illness on 1-10-2003 and if he again consults the doctor for the same illness on 12-11-2003 than the illness for which the doctor was consulted on 1-10-2003 will continue and if the same person has consulted the doctor for same illness on 20-11-2003 than it will be considered as the fresh illness.

No claim is payable in respect of the following:

- All diseases / injuries which are pre-existing when the cover incepts for the first time.
- Any disease contracted by the Insured Person during the first 30 days from the commencement date of the policy. This exclusion shall not however, apply if in the opinion of Panel of Medical Practitioners constituted by the company of the purpose, the Insured person could not have known of the existence of the disease or any symptoms or complaint there of the time of making the proposal for insurance to the company.
- During the first year of the operation of the policy the expenses on treatment of diseases such as Cataract, Benign Prostatic Hyperthorphy, Hysterectomy for Menorrhagia or Fibromyoma, Herinia, Hydrocele, Congenital Internal

Disease, Fistula in anus, Piles, Sinusitis and related disorders. If these diseases are pre-existing at the time of proposal they will not be covered even during subsequent period of renewal.

- Cost of spectacles and contact lenses, hearing aids. (These may be termed as normal maintenance expenses.)

- Dental treatment or surgery of any kind unless requiring hospitalization.

- Convalescence, general debility, run down condition or rest cure, congenital external disease, or defects or anomalies, sterility, venereal disease, intentional self injury and use of intoxication drugs/ alcohol.

- Various conditions commonly referred to as AIDS.

- Expenses on vitamins and tonics unless forming part of treatment.

- Treatment arising from childbirth including Caesarena section (can be deleted, if Maternity Benefit is covered.)

Age Limit: a bar

This paragraph deals with the age limit between which an insurance for mediclaim can be taken. This insurance is available to persons between age of 5 years 80 years Children between the age of 3 months and 5 years of age can be covered provided one or both parents are covered concurrently.

Family Discount: a facility

Family discount is the arrangement made by the insurance company if the person takes the mediclaim insurance of whole the family. The discount available if the policy is taken for each and every member of the family. This discount of 10% in the total premium is allowed to a family comprising the insured and any one or more of the following

- Spouse
- Dependent Children (i.e. legitimate or legally adopted)
- Dependent parents

Family discount is the concept to encourage the person to take the mediclaim of all the members of the family. This facility is available only in respect of the continuous insurance without break.

Cost of Health Checkup

This is the additional facility provided by the insurer to the policy holder. The insured shall be entitled to reimbursement of medical check up once in every four underwriting years, subject to no claim preferred during this period. The cost shall not exceed 1% of the average sum insured during the block of four years. The above benefits is available in respect of continuous insurance without break.

Submission of Claim

This paragraph explain the conditions applicable under mediclaim insurance. The important conditions are narrated below :

- Preliminary notice of claim with particulars relating to policy number, Name of Insured person in respect of whom claims is made, Nature of illness / injury and Name and Address of the attending Medical Practitioner/ Hospital / Nursing Home should be given by the insured Person to the Company within seven days from the date of Hospitalization, Domiciliary Hospitalization.

- Final claim with original receipted Bills, Cash Memos, Claim form and list of documents as listed in the claim from etc. should be submitted to the company within 30 days from the date of completion of treatment.

Proposal Form

This section explains the contents of the proposal form. The proposal form incorporates of prospectus, which gives details of the cover, such as coverage, exclusions, provisions etc. The proposer has to sign it as having noted its contents.

The special features of the declaration to be signed by the proposer are as follows.

- The insured person consents and authorizes the insurer to seek medical information from any Hospital / Medical practitioner who has at any time attended or may attend concerning any illness which affect his physical or mental health.

- The insured person confirms that he has read the prospectus forming part of the form and is willing to accept the terms and conditions.

- The declaration includes the usual warranty regarding the truth of the statements and the proposal form as the basis of the contract.

7.29 Domiciliary Hospitalization Benefit:

The benefits of the mediclaim is extended to the person even if he does not hospitalized but take services at home under certain circumstances. Thus any person getting treatment at home will also be eligible for the mediclaim reimbursement if the conditions prescribed are satisfied. This means medical treatment for a period exceeding three days for such illness / injury which in the normal course would require treatment at the hospital/ nursing home but actually taken whilst confined at home in India under any of the following circumstances namely:-

- The condition of the patient is such that he / she cannot be removed to the hospital / nursing home or

- The patient cannot be removed to hospital / nursing home for lack of accommodation therein

However this benefit does not cover:-

1. Expenses incurred for pre and post hospital treatment and
2. Expenses incurred for treatment for any of the following diseases
3. Asthma
4. Bronchitis
5. Chronic Nephritis
6. Diarrhoea and all type of Dysenteries including Gastroenteritis
7. Diabetes Mellitus and Insidious
8. Epilepsy
9. Hypertension
10. Influenza, Cough and cold
11. All psychiatric or Psychosomatic Disorders
12. Pyrexia of unknown origin for less than 10 days
13. Tonsillitis and upper respiratory Tract infection including Laryngitis and Pharyngitis
14. Arthritis, Gout and Rheumatism

7.30 Group Mediclaim:

Up to now, we discussed about the mediclaim policy taken by an individual but now, we will discuss about the mediclaim taken by a group. The Group Mediclaim is available to any Group / Association / institution / Corporate body provided it has a central administration point and subject to a minimum number of persons to be covered. The Group should fall clearly under the same categories as specified for group personal accident policy.

The Group policy is issued in the name of the Group / Association / Institution / Corporate Body (called Insured) with a schedule of names of the members including his / her eligible family members (called Insured Persons) forming part of the policy.

The coverage under the policy is the same as under Individual Mediclaim Policy with the following differences: -

- Cumulative bonus and Health Check up expense are not payable.

- Group discount in the premium is available

- Renewal premium is subject to Bonus clause.

- Maternity benefit extension is available at extra premium.

7.31 Maternity Expenses:

In normal mediclaim policy the maternity benefits is excluded. It is the additional benefit given under the policy subject to certain conditions. The maternal benefit can be extended to the policy on payment of excess premium of 10% of total basic premium. Option for Maternity Benefits has to be exercised at the inception of the policy period and no refund is allowable in case of Insured's cancellation of this option during currency of the policy. The maximum benefit allowable is up to Rs. 50000/- or the Sum Insured opted by the member of the group, whichever is lower.

Details of Insured Person: details

At the time of taking policy, individuals are required to submit necessary information. The insured is required to furnish a complete list of insured persons in the prescribed format according to sum insured. Any additional and deletions during the currency of the policy should be intimated to the company in the same format. However such additions and deletes will be incorporated in the policy from the first day of the following month subject to pro-rata premium adjustment. No change of sum insured for any Insured Person will be permitted during the currency of the policy. No refund of Premium is allowed for deletion of insured person if he or she has recovered a claim under the policy.

7.32 Overseas Medical Policy:

This is a special type of medical policy available to Indian resident living abroad. This policy was originally introduced in 1984 to provide for payment of medical expenses in respect of illness suffered or accident sustained by Indian residents during their overseas trips for official or holiday purpose.

The insurance scheme, since 1984 has been modified from time to time to provide for additional benefits such as in-flight personal accident, loss of passport etc. In 1991, Employment and Study Policy was introduced. This policy is meant for Indian citizens temporarily working or studying abroad.

Eligibility: criteria

Indian residents undertaking bonafide trips abroad for :

- Business and Official purposes

- Holiday purpose.

Accompanying spouse and children of the person who is going abroad will be treated as going under holiday travel.

Age Limit:

The age limits for the policy for adult is up to 70 years and cover beyond 70 years is permissible at extra premium.

The age limits for children above 6 months to 5 years are covered, excluding certain specific children diseases.

Exclusions:

No Claim will be entertained if,

Medical condition that was known by the insured person to exist and/or he had been treated for the condition in the one year immediately preceding the effective date of the policy

Where the insured person :

- Is traveling against the advice of a physician; or
- Is on waiting list for specified medical treatment; or
- Is traveling for the purpose of obtaining medical treatment; or
- Has received a terminal prognosis for a medical condition.
- Suicide, attempted suicide, venereal disease or abuse of drugs or alcoholic drinks.

In respect of medical services obtained within India.

- Arising from the insured taking part in Naval, Military or Airforce operations.
- Arising from aviation except where the insured flies as a passenger in an aircraft properly licensed to carry passengers.
- Arising from participation in professional sports events or other hazardous sports .

The Proposal Form

In addition to the usual details, the proposal form elicits the following information.

- Age – Type of Plan – Passport number,
- Name, address, registration number of the usual physician
- Countries to be visited, purpose of trip, proposed date of departure, number of days of stay abroad

The declaration in the form includes consent to the insurer, Mercury and / or their program Medical Advisor to seek medical information from any doctor who has attended on the proposer.

The propser will have to further declares :

- I will not be traveling against the advice of physician
- I am not on waiting list for any medical treatment
- I will not be traveling for the purpose of obtaining medical treatment
- I have not received a terminal prognosis for a medical condition before this day.

Premium:

The premium depends upon age, duration of stay and the type of plan selected.

LIABILITY INSURANCE

7.33 Public Liability Policy:

Insurance under this head covers the liability of a person towards others due to death or injury to other person or damage to the property of other person. The public Liability Insurance Act, 1991 imposes liability to pay relief in the event of (a) death of or injury to any person (other than a workman within the meaning of Workmen's Compensation Act); or (b) damage to property of any person arising out of an accident while handling any hazardous substance. The liability may arise due to disability of any of the following nature.

- Permanent Partial disability : The amount of relief on the basis of percentage of disablement as certified by an authorized physician i.e., a registered medical practitioner.
- Temporary partial disablement which reduces the earning capacity of the victim.

Actual Medical Expenses

The person handling the hazardous substances has to insure its liability compulsorily. This liability is to be insured and the insurance policy has to be taken for an amount not less than the amount of the paid up capital of the undertaking handling any hazardous substance. If the person is not a company, paid up capital means the market value of all assets and stocks of the undertaking on the date of contract of insurance. The policy provides for indemnity to the insured owner against the statutory liability arising out of accidents occurring during the currency of the policy due to handling hazardous substances as provided for in the Act. The rates of premium are based on limit of indemnity (any one accident) and the turnover, as per the schedule.

Public Liability Policy (Industrial / Non-Industrial Risks)

In case of industries there are numerous risks of the accident in case of the machinery intensive units. The risk depends upon the type of the unit which is operating. Industrial Risks occur within manufacturing premises including godowns, warehouses etc., forming part thereof.

Non-Industrial Risks are :

1. Risk of accident may arise even in non industrial areas described below, which must be insured.

2. Hotels, Motels, Club houses, Restaurants, Boarding and Lodging houses, Flight kitchens.

3. Cinema Halls, Auditoriums, Theatres, Public Halls, Pandals, Open air theatres.

Residential premises.

1. Office / Administrative Premises, Medical establishments, Airport premises (other than aviation liabilities). Research Institutes and laboratories.

2. Schools, Educational Institutions, Public libraries.

3. Exhibitions, fairs and fetes, stadium.

4. Permanent amusements parks.

5. Film studios – indoor and outdoor, Circus, Zoos.

6. Depots, Warehouses, Godowns, Shops, Tank farms and similar other non – industrial risks.

Coverage:

The policy indemnifies the insured against the following:

- against their legal liability
- liability under the Public Liability Insurance Act, 1991, or any other statute that may come into force after the issue of the Policy.
- To pay compensation including claimant's costs, fees and expense.
- Anywhere in India in accordance with Indian Law and
- In respect of accidents which cause death or injury or damage to property of third parties.

The indemnity clause excludes liability in respect of

- Products
- Pollution
- transportation of hazardous substances
- injuries to employees

7.34 Products Liability:

Many times it may happens that the products which are purchased form the market starts malfunctioning. Due to such malfunctioning the someone may get some hurt or disabilities. This sort of policy indemnify the insured against any harm to the customers on sale of the defective products. The demand for products liability insurance has arisen because of the wide variety of products (e.g. canned food stuff, aerated waters, medicines and injections, animal and poultry feeding stuff, electric appliances, mechanical equipment, acids & chemicals, gas cylinders, etc.) manufactured and sold to the public in the modern industrial society which products, if defective, may cause death, bodily injury or illness or even damage to property. A part from the goods the containers too can cause injury or damage. An increasing consciousness on the part of the public of their legal rights and remedies and the emergence of consumer protection movement in the country have further contributed to the demand for this class of insurance.

The structure of the policy is more or less the same, the differences relating only to the coverage and some exclusion.

The policy does not cover liability for claims.

- for costs incurred in the repair, reconditioning, modification or replacement of any part of any product which is or is alleged to be defective.
- Arising out of any product guarantee.
- Arising out of failure of the goods or products to fulfill the purpose for which they were intended.
- For costs arising out of the recall of any product or part thereof.

Under such policy sale of following goods will be covered.

- o Carpets, clocks and watches
- o Alcholic beverages, fans (domestic), kitchenware
- o Bread, cakes and biscuits, fork lift trucks, milk products, soft drinks
- o Agricultural implements and farm machinery, motor vehicles, toys
- o Air conditioning units and ducts, chemical products, cosmetics, pharmaceutical products
- o Cast iron products, motor vehicle tyres and tubes, wire products (mesh and chain)

- Explosives and fireworks, ladders, scaffolding (metal).

7.35 Lift Insurance:

During the present time the high rise and multi storage building are increasing. The use of lifts are also increasing. In such circumstances the lifts accidents are bound to occur. This type of policy is helpful to the owners of the building from any accident occur during the use of the lift in the building to any person. The policy provides indemnity to owners of buildings in respect of liabilities arising out of the use and operation of lifts. The legal liabilities covered are in respect of :

- Death / bodily injury of any person (excluding employees of the insured).
- Damage to property (excluding insured's own or employee's property)

7.36 Professional Indemnities:

During the age of competition the professional persons are required to keep the utmost care in delivering there services to the clients. This policy protects only professional against the claims arising out of the negligence in their professional duties. Professional indemnities are designed to provide insurance protection to professional people such as doctors, solicitors, chartered accountants, architects etc. against their legal liability to pay damages arising out of negligence in the performance of their professional duties.

The applies to :

- doctors / medical practitioners;
- medical establishments;
- engineers, architects and interiors decorators;
- chartered accountants, financial consultants, management consultants, and
- lawyers, advocates, solicitors and counsel.

7.37 Directors' and Officers' Liability Policy:

Bay by day the companies act is becoming stringent and more and more duties and responsibilities are casted on directors and other officers of the companies. There may be the case when the directors or officers may become liable for the act of the other persons and will become the target of the law. In such cases this policy extends help to the directors and officers of a company. This is a highly specialized type of insurance newly introduced in India. Directors and Officers of a company hold positions of trust and responsibility. They may become liable to pay damages to shareholders, employees, creditors, etc. of the company, for wrongful acts committed by them in the supervision and management of the affairs of the company, The policy is designed to provide protection to Directors and Officers against their personal civil liability against the case arises from the responsibility casted on them.

7.38 Employer's Liability Policy:

In general case the employer are liable for compensation for the injures or death cause to the employees during the employment. This policy protects the employers against the liability arises towards the employees due to any accident. This is also known as workmen's compensation insurance. The compensation is provided by the insurer to the insured. The policy protects the employers against their legal liability for payment of compensation arising as a result of death or disablement of the employees arising out of and in the course of employment.

7.39 Employees State Insurance Act, 1948:

This type of insurance indicate the social benefit of the insurance. The objects of the Act are "to provide certain benefits to employees in cases of sickness, maternity, employment injury and to make provision for certain other matters in relation thereof". The scheme is applicable to industrial employees as defined in the Act. The Act operates in certain industrial areas as notified by the government from time to time.

- Under the scheme a fund is maintained consisting of contributions from the employees, employers and the Government. From this fund the following expenses are met:

- Sickness benefit, maternity benefit, disablement benefit, dependence benefit (death) and medical treatment.

- Establishment and maintenance of hospitals, dispensaries, etc. for the benefit of the insured persons and their families.

Administration of the Scheme.

ENGINNEERING INSURANCE

7.40 Contractors all Risks Policy:

The contractors are engaged in the construction work. The site is prone to numerous accident in which some time the laborers may become the target of accident. This is a special type of the policy available to the contractors for their construction work. This policy is designed to protect the interests of contractors and principals in respect of civil engineering projects, like buildings, bridges, tunnels, etc.

As the name itself suggest the policy covers all types of risks. The policy provides an "All Risk" cover. Every risk is covered which is not specifically excluded. This means that almost any sudden and unforeseen loss or damage occurring during the period of insurance to the property insured on the construction site is indemnified. The more important causes of losses which can be indemnify under C.A.R. Insurance are :

1. Fire, lightning, explosion
2. Flood Inundation
3. Windstorm of any kind
4. Earthquake, Landslide, Subsidence, etc.
5. Theft & Burglary
6. Accidental damage, bad workmanship, lack of skill, negligence, malicious Acts or human error.
7. Collapse, impact etc.
8. Act of terrorism etc.

The policy will also be extended to cover third party liability and other exposures :

Cover shall commence from the commencement of work or after the unloading of the property insured at the site, whichever is earlier. The cover expire when the completed part thereof is taken over or put into service or the date specified in the policy, whichever is earlier.

7.41 Deterioration of Stock Policy:

The goods are stored for the future sales. During such storage the goods may deteriorate. Certain goods are such that it may deteriorate under certain conditions. This policy protects the insured against the loss incurred due to deterioration. The policy known as Deterioration of Stock Insurance or Stock spoilage insurance is a form of consequential loss cover granted in the Engineering Department for stocks contained in large cold stores. The cover is against the risk of deterioration or lost due to failure of the refrigeration plant and machinery.

7.42 Burglary Insurance:

This insurance protects the insured against the loss arised due to burglary. Burglary insurance is a major business in the miscellaneous class of insurance. The policy is available to commercial establishments, factories, godowns, shops etc. Property in any form, including cash, in the business premises can be covered. The risks covered are :

Theft of property after actual forcible and violent entry into the premises or theft following actual, forcible and violent exit from the premises.

Damage to insured property or premises by burglars

Cash is the most liquid assets. The insurer will look for, proper arrangement for the safeguarding of the Cash. Cash cover operates only when the cash is secured in a safe and is granted only if the safe is burglar proof and is of an approved make and design. The insurance cover is granted only if the following to conditions are satisfied:-

- The loss of cash abstracted from the safe following the use of the key to the said safe or any duplicate thereof belonging to the insured is not covered unless such key has been obtained by violence or threats of violence or through means of force.
- A complete list of the amounts of cash in safe should be kept secure in some place other than the safe, and the liability of the insurer is limited to the amount actually shown by such records.

The policy can be extended to cover riot, strikes and terrorism risks at extra premium.

Burglary policies can be issued on a declaration basis or floating basis, according to the practice in fire insurance. Rates of premium depend upon the nature of insured property, construction and location of premises, safety measures (e.g. watchmen, burglar alarm) etc. Apart from the proposal form, a security survey is arranged, especially where valuable property with high values is involved.

In the event of a loss, the insured is required to file FIR to the police and give notice to the insurers. Most claims are settled only after a thorough investigation by a professional claims investigator. The investigation in such case is quit intense because the cash is very liquid and no evidence of the loss can be obtain other than the declaration by the insured. Since claims investigation under a burglary insurance policy requires a detailed examination of the books of accounts, purchases and sales ledgers, invoicing, vouchers and the like, a chartered accountant is usually appointed as a loss surveyor to investigate the loss.

Loss surveyors as well as insurers maintain close liaison with the police. The report obtained from the police will provide corroborative evidence about the event giving rise to the claim. The list of the stolen property and the values thereof submitted to the police will have to be compared with the claim form for cross-checking purposes. Various other records kept by the insurer are also verified for corroborative evidence. If stolen property is likely to be recovered, close co-operation with the police at all stages will ensure that the insurers interest and rights in the recovered property are recognized and protected.

7.43 All Risks Insurance Policy:

As the name itself suggest, this is a special type of insurance policy available to special type of goods. The policy is specially suitable for covering jewellery, valuables, curios, antiques and other works of art, paintings, watches, cameras, and other similar articles. Although these policies are known as all risks insurance policies, there are several exclusions like, loss arising from wear and tear, repairing, breakage of glass of watches, breakage of lens in cameras etc.

The main problem generally met with in granting all risks cover in respect of works of art, paintings, pictures, curios and antiques is the fixing of insurable value.

The insurable value in these cases is decided on agreed value basis after obtaining, if required, reports of professional valuers.

7.44 Baggage Insurance:

The policy protects the insured against the loss incurred to theft or damage of baggage during a journey. The policy is intended to cover accompanied baggage during specified journey, which includes air, sea, rail or road travel undertaken by the insured. The risk's covered are burglary, theft or damage by accidental means.

The cover is also operative whilst the insured temporarily resides in any hotel or rest house during the specified journey.

Proposal form should be fully completed as regards description, contents and value of each package. Further, if jewellery, valuables and items listed in the exclusions clause are to be covered, 'then full description and individual values should be noted.

7.45 Money Insurance:

The policy covers the cash in transit. The policy protects the insured against the loss incurred due lost of money in transit by theft or robbery. The cash / money covered under this policy is

- The amount of wages to be paid to the employees withdrawn from bank is in transit from the bank to the insured premises.

- Money other than under (a) above, in transit to and from insured premises / bank / post office / any other specified premises.

- Money other than under (a) and (b) above, collected by the insured's employees and in transit to the premises or bank.

The risks covered are theft, robbery and accident.

Many times the employees act dishonestly and mis-appropriate the cash. On payment of additional premium the policy may be extended to cover dishonesty of persons carrying the cash, riot, strike and terrorism risks, disbursement risk, that is loss during payment of wages to employees, etc.

7.46 Fidelity Guarantees:

Employees may sometime acts dishonestly and due to this the employer may have to suffer the loss. This policy protects the insured against the loss incurred due to dishonesty of the employees. Briefly fidelity guarantee insurance indemnifies the employers against the financial loss suffered by them due to the specified dishonest acts of their employees.

Various risks are covered as specified by insurers :

- the cover granted is against a direct pecuniary loss and not a consequential one;

- the loss should be in respect of moneys or goods of the insured.

- The act should be committed in the course of the duties specified;

- If the employee guaranteed under the policy had left the services of the employer and was re-engaged by him, no liability attaches to the policy, unless the consent of the insurers was obtained;

Claims in fidelity guarantee policy

Following paragraphs will explains the procedure to recover claim amounts. The investigation of fidelity guarantee claims is entrusted to independent surveyors preferably with accountancy qualifications. E.g. Chartered Accountants. The surveyor would conduct a detailed investigation into the circumstances of the loss which would involve mainly the examination of the books of accounts of the insured employer.

The policy provides that the amount payable by the insurer in respect of the defaulting employee shall not exceed the amount of indemnity stated in the schedule of the policy in respect of such employee. Any money which, but for fraud or dishonesty of an employee, would become payable to him, shall be deducted from the amount of the loss before a claim is made under the policy. Thus, any salary or commission or any other money due to the employee from the employer has to be deducted from the amount of the loss under the policy. This arrangement is for indemnifying the insurer from the amount which they have to pay for insurance.

7.47 Television Insurance:

The policy covers television apparatus and antenna against loss of or damage by accidental external means such as ;

1. Fire, lightning;
2. Short-circuiting;
3. Flood and storm;
4. Bursting and overflowing of water tanks;
5. Theft;
6. Riot and strikes; and
7. Earthquake fire and shock.

The policy indemnifies the insured :

1. against loss of or damage to the television apparatus;

2. against all sums which he may become legally liable to pay for accidents caused by or through the television apparatus. (third party liability)

The important exclusions are (i) damage to cathode ray tubes, (ii) burning out of valves or coils, and (iii) theft of parts, unless the apparatus is also stolen at the same time.

7.48 Neon Sign Insurance:

The neon sign boards are displayed on road. Such sign boards are venerable to various external hazardous. This insurance provides cover in respect of loss of or damage to the neon sign installation by (a) accidental external means or (b) fire, lightning, external explosion or theft.

Some exclusion are :

- The fusing or burning out of any bulbs and / or tubes arising from short-circuiting or arcing or any other mechanical or electrical defect or breakdown;
- Repair, cleaning, removal or erections, wear and tear, depreciation or deterioration;
- Damage to tubes unless the glass is fractured;
- Over-running, over-heating or strain;
- Atmospheric conditions;
- Strikes, riot, civil commotion. (Riot and strikes may be covered on payment of additional premium);
- Natural calamities;

7.49 Householders Insurance:

Instead of taking individual policy, this policy provide for the combine policy. This is a package insurance scheme designed to meet the requirements of a householder by combining under a single policy a number of contingencies which are otherwise covered under separate policies.

This policy covers, Loss of or damage to the buildings and contents (excluding money and valuables) whilst contained in the insured premises by :

1. Fire, Lightning, explosion.
2. Bursting and Overflowing of water tanks.

3. Aircraft or articles dropped therefrom.

4. Riot, Strike and Malicious Act.

5. Earthquake, Subsidence, Landslide.

6. Flood, Storm, Tempest.

7. Impact damage.

7.50 Shopkeeper's Insurance:

As the name itself suggest the type of policy. The policy is for the shopkeeper to protect the shop and the stock from various type of unforeseen events. This policy is similar to Householders Insurance but that was available for the household contents whereas this policy is available to the shopkeeper's contents. The policy is designed for small shopkeepers whose property value is less than Rs.10 lacs.

Loss or damage to (A) building / (B) contents (excluding money and valuables) whilst contained in insured premises by

- Fire, lightning, explosion of gas in domestic appliances.
- Bursting the overflowing of water tanks.
- Aircraft or articles dropped therefrom.
- Riot, Strike and Malicious act.
- Earthquake, Subsidence, landslide
- Flood, Storm, Tempest (Subject to excess of Rs.2,500/- or 2½% of Sum Insured whichever is less)
- Impact damage.

7.51 Banker's Blanket Policies:

The policy is available to the banks. Banker's Indemnity Insurance is combination of several specific covers, such as fire, burglary, money-in-transit, fidelity guarantee and even Marine (inland transit). The policy provides indemnity for direct loss of money and / or securities sustained by the insured and discovered during the period specified in the policy. Thus this policy covers each and every type of insurance.

The term 'money' is deemed to mean bank notes (signed and unsigned), coins, jewelry, ornaments pledged with the insured, etc. The term 'securities' is deemed to mean, air consignment notes, bank money orders, bills of exchange, bills of lading, certificates of deposit, certificates of shares / stocks, etc.

The policy provides indemnity against the following contingencies:

- Money and / or securities, being lost or destroyed by fire, riot and strikes, burglary, house breaking, theft, robbery or hold up.
- Money and / or securities being lost, stolen, misappropriated, while they are in transit in the hands of employees. The cover is operative even in the loss is cause by the negligence or fraud of the insured's employees.
- The payment of bogus, fictitious, forged or raised cheques or drafts.
- The dishonest or criminal act of any employee of the insured, with respect to the loss of money and / or securities.
- Fraud and / or dishonesty of the insured's employees in respect of any goods and / or commodities pledged or hypothecated to the insured.
- Loss by robbery, theft or by other causes not excluded whilst in direct transit registered insured post.
- Loss due to infidelity or criminal acts on the part of appraisers.

Some important exclusions are:

- As we have noticed that the insurance covers the above things however there are certain losses which are omitted from the policy such as,
- Trading losses, whether or not within the knowledge of the insured notwithstanding any act or omission on the part of the employee whether within the scope of authority or not.
- Losses attributable to faulty computer programming or fraudulent use of computer programmed or any other EDP System.
- Losses caused by negligent act or omission of the insured employees.

In respect of loss arise in the bank the claims assessment is generally entrusted to surveyor with Chartered Accountancy qualifications, because of the financial nature of the business carried on by the bank. The person with the proper financial and accounting background can assess the loss correctly.

7.52 Jewelers' Policies:

The jewelers having the costly items in there showrooms the insurances become must for such type of business. This is also a special type of policy which insures jewellery. In recent years India has become a leading centre in the world trade of jewellery and is a major exporter of processed gold jewellery and precious stones. Jewellers Block Policy is a package scheme covering several types of losses in only one policy. Jewellery, gold and silver ornaments of plate, pearls and precious stones, cash and currency notes and / or merchandise and materials usual to the conduct of the insured's business, is covered.

7.53 Blood Stock Insurance:

The horses are the means of earning for many people. The requirement of the insurance of the animals is also felt and so the concept of the horse insurance came into being. This insurance is a very new concept in insurance world. The insurance is for the horses used for racing, on stud farms, etc.

The policy provides indemnity against the loss sustained as a result of death of the animal occurring during the period of insurance, from accident, illness or disease sustained or contracted within the specified geographical area (including transit therein) during the period of insurance.

7.54 Pet Dog Insurance:

The dogs are becoming the means of earning for the people and so the insurance of dog also comes into being. This is another insurance related with the animals. Insurance is granted for pure or cross-bred pedigree dogs, watch dogs and sheep dogs, within the age limit of 2 months to 8 years. Cover is against death by disease or accident. Total or partial disability is not covered. The diseases such as Rabies, Canine distemper, Canine virus etc., are covered only when necessary vaccination certificate is submitted.

The following extensions on payment of additional premium are available:

1. Death by accident in transit by air, rail, road, water and dog show risk
2. Death by accidental poisoning.
3. Breeding risk
4. Theft
5. Loss of show entry fee
6. When the dog registered with the Kennel Club is unable to attend the show because of accident or disease covered by the policy
7. Loss of value resultant upon an accident which does not result in death but affects its show career.
8. Liability for third party personal injury and damage to property (including animals, poultry, etc.)
9. World wide transport.

7.55 Sportsmen Insurance:

This insurance cover is available to the sports persons and not to the professional sportsmen. This is a comprehensive cover available to sportsmen and not professionals.

The cover is in respect of any one or more of the following sports:-

(i) Angling,

(ii) Badminton,

(iii) Cricket,

(iv) Golf,

(v) Lawn tennis,

(vi) Squash,

(vii) Use of sporting guns.

The indemnity is in respect of the following:-

1. Loss of or damage to sporting equipment, accessories and sporting apparel other than Loss of or damage to cricket, golf, squash and tennis balls, shuttlecocks and breakage of racquet strings, cricket bats and angling lines.

2. Loss of or damage to personal effects and clothing (whilst contained in any clubhouse, hut or sports pavilion), caused by fire, burglary, housebreaking or theft. The property covered excludes watches, jewellery, money, securities, documents and any article insured.

3. Legal liability of the insured and named members of the insured's family, to the public, whilst engaged in or practicing the sport.

4. Accidental bodily injury to the insured and to the named members of the insured's family whilst engaged in or practicing the sport.

7.56 Special Contingency Policy:

We may think that there are numerous policy and which covers only few specific things. Thus if , someone wants to take the insurance of fire, theft , third party etc. then he will have to take the various policy and mange them all. However the special contingent policy is solution to the above problem. This is a special type of policy which covers the effects of more than one type of insurance policy. Ordinarily, fire and allied risks are covered under a fire policy, transit risks under a marine policy and risk of burglary, accidental damage, etc. under a miscellaneous policy. There may be situations where an insured may require all these risks to be covered. In such case he will not have to take the separate policies for each and every risk but can get it insured under a single policy, for example, in respect of machinery, equipment etc.

This is a tailor-made policy, specially designed to cater to such specific requirements of the insured.

I. The rate of premium depends upon the merits of each case.

II. The policy offers coverage's as follows:

- Building (if owned) – fire and allied perils
- Contents – Fire and allied perils, burglary
- Tenant's liability
- Money on premises and in transit
- Fixed glass
- Fidelity guarantee
- Electronic equipment and portable computer
- Rent for alternative accommodation
- Breakdown of office appliances
- Baggage
- Personal accident
- Mediclaim
- Public and Employer's liability

7.57 Specialized Insurances:

Following described are the specialized type of insurance polices which can not be treated as the common insurances.

Marine Hull Insurance

Marin hull is very costly asset and it requires huge amount of investments for acquiring the marine hull. It amounts to huge loss if the same is lost due to any reason. Marine hull insurance covers the various types of vessels., and they are enumerated below :

- Ocean-going vessels.
- Coastal vessels.

- Fishing vessels (mechanized or non-mechanized)
- Sailing vessels (mechanized or non-mechanised)
- Dredgers (mechanised or non-mechanized)
- Inland vessels e.g. barges, lunches, passenger vessels etc.
- Jetties and Wharves. Etc.

The marine hull insurance is not only for the fully constructed vessels but it can also be taken for the vessels which are under construction.

Oil and Energy Risk Insurance (This is also known as off-shore insurance).

Insurance are granted for ;

- mobile off-shore drilling units (drill ship and rigs)
- off-shore platforms for production and processing.
- Associated pipelines, cables etc.

Aviation insurance

The insurance is also provided to the aviation industries. It covers the insurance of the air crafts as well as the insurance of the employees and other insurance. Following types of cover are available under the aviation insurance :-

- Insurance of aircraft against loss or damage.
- Insurance of legal liability to third parties and passengers.
- Insurance of legal liability for freight, mail, etc. carried.
- Insurance of pilots, crew and ground staff against personal accident risk.
- Insurance of pilots and other crew against loss of professional license.

Satellite Insurance

Satellite are covered during various phases – manufacturing, transit to the launch site, pre-launch, launch, and in-orbit. Risks covered are physical damage, third party liability and consequential losses.

7.58 Exercise:

1. What are the major inclusions and exclusions under the motor insurance.
2. Explain liability for compulsory insurance under Motor Insurance Act, 1988.
3. Explain the liability to third party under Motor Insurance?
4. Explain rules of Tariff for Motor Insurance?
5. Explain the procedure of claims under Motor Insurance?
6. Explain the procedure of Settlement under Motor Insurance?
7. Explain the procedure of Theft Claim under Motor Insurance?
8. Explain Personal Insurance policy?
9. Explain about the types of disablement under personal insurance policy?
10. Explain conditions of policy under personal insurance policy?
11. Explain basis of ratings under personal insurance policy?
12. Explain group personal accident policy?
13. Explain mediclaim policy?
14. Explain the concept of group mediclaim policy?
15. Explain the concept of overseas medical policy?
16. Explain the concept of compulsory public liability policy?
17. Explain the concept of public liability policy?
18. Explain contractor all risk policy?
19. Explain burglary insurance policy?
20. Explain baggage insurance?
21. Explain fieldility guarantee insurance policy?
22. Explain neon sign insurance policy?
23. Explain banker's blanket policy?
24. Explain different types of specialized insurance?

Unit : 8 : Claims

Introduction

Settlement of the claims is somewhat legal matters which needs atmost care on the part of insurer. Because the settlement of the claim relates mainly with the outflow of the cash. The processing and settlement of claims constitute one of the most important factions in an insurance organization. Indeed, the payment of claim may be regarded as the primary service of insurance to the public. The prompt and fair settlement of claims is the hallmark of goods service to the insuring public. The proper settlement of claim requires a sound knowledge of the law, principles and practices governing insurance contracts and in particular, a thorough knowledge of the terms and conditions of the standard policies and various extensions and modifications. It is equally important that claims negotiations should be on basis of patience. Tact and understanding of the situation of the insured.

Structure of the chapter:

8.1 Objectives:

By the end of this chapter the student will learn about

- Legal aspects related with the claims
- Procedure related with the claims

8.2 Legal Aspects:

In this paragraph we will study the legal aspects and legal effects of the policy. The settlement of claims involves examinations of the loss in relation to the coverage under the policy and compliance with policy condition and warranties. Ther , the first aspect to be decided is whether the loss is within the scope of the ie legal doctrine of proximate cause provides guidelines to decide whether ss is caused by an insured peril or an excepted peril. The burden of proof, or to use the legal expression, the onus of proof that the loss is within the scope of the policy is upon the insured. Thus in short the first thing to be found out is that if the loss is suffered than whether such loss is covered by the insurance policy or not. If loss is expressly stated in the policy than the same is considered to be covered otherwise the insured have to prove that such loss is covered under the policy. If the loss is caused by an expected peril the onus of proof is on the insurer. The contract of insurance is such a contract that the condition mentioned in the policy is to be complied with for enforcement of the policy. Thus second aspect to be decided is whether the insured has complied with policy conditions, especially conditions which are precedent to 'liability'. These conditions relate to immediate notifications of loss to the insurers, submission of proof of cause and extent of loss. The third aspect is in respect of compliance with warranties. The survey report would indicate whether or not warranties have been complied with. The fourth aspect relates to the observance of utmost good faith by the propose before the conclusion of the contract, and if provided by policy conditions, during the currency of the policy. Especially on the occurrence of a loss the insured is expected to act as if he is uninsured. In other words, he has a duty to take measures to minimize the loss. The fifth aspect concerns the determinations of the amount payable. The amount of loss payable is subject to the sum insured. However, the amount payable will also depend upon the following:

- The extent of the insured's insurable interest in the property affected.
- The value of salvage.
- Application of pro-rata average.
- Application of contribution and subrogation conditions.

Thus while claiming the insured must comply the conditions of the policy and the timely notice of the loss is to be given to the insurance company so that the claims can be processed early and the insured do not have to face any technical hazards.

The claims which are dealt with under insurance policies fall into the following categories:

- Standard Claims: These are claims which are clearly within the terms and conditions of the policy and settlement of these claims presents no difficulty.
- Non-Standard Claims: These are claims where the insured has committed a breach of condition or warranty. The settlement of these claims is considered subject to certain rules and regulations farmed by the insurance companies.

- Ex-gratia payments: These are losses which fall outside the scope of cover under the policy and hence are not payable, however, in very special cases, to avoid hardship to the insured, settlement of these losses is considered as a matter of grace.

8.3 Procedure

In event of the loss the insured has to follow the certain procedure so that the payment can be timely recovered from the insurance company. In the following paragraph we will understand in what manner a claim is created and settled.

8.3.1 Notice of Loss:

The most important thing is that the insurer must be informed of the loss occurred to the insured. The first part of the procedure indicate that a notice of loss is given by the insured to the insurer as soon as the loss is incurred. Policy conditions usually provide that the loss be intimated to the insure immediately. The purpose of an immediate notice is to allow the insurer to investigate a loss at its early stages. Delays may result in loss of valuable information relating to the loss. It would also enable the insurer to suggest measures to minimize the loss and to take steps to protect salvage. Under certain types of policies (e.g. Burglary) police complains is also to be lodged. Under Rail transit cargo policies, notice has to be served on the Railways also. On receipt of intimation of loss damage insurers verifies that:

- the policy is in force on the date of occurrence of the loss or damage;
- the loss or damage is by a peril insured by the policy;
- the subject matter affected by the loss is the same as is insured under the policy, and
- Notice of loss has been received without undue delay.

After this check up the loss is allotted a number and entered in the Claims Register. A separate file is opened for the claim and claim form is issued to the insured. The claim is now ready to be processed.

8.3.2 Investigation and Assessment:

After the receipt of notice of loss, it is investigated and assessed by the insurer, which is the second phase of claim settlement procedure. On receipt of the claim form duly completed from the insured, the insurers decide about investigation and assessment of the loss. The investigation and assessment may be done by the employees of the insurer or by some independent party depending upon the loss suffered. If the loss is small, the investigation to determine the cause and extent of loss is done by an Officer of the insurers. The investigation of other claims is entrusted to independent licensed professional surveyors who are specialist in their line. The practice of assessment of loss by independent surveyors is based on the principle that since both the insurers and insured are interested parties, the opinion of an independent professional person should be acceptable to both the parties as well as to a court of law in the event of any dispute. In respect of personal accident claims, the insured is required to submit a report from the attending doctor specifying the cause of accident or the nature of illness as the case may be and the duration of disablement. The investigation is must because many people tries to gain the undue advantage out of their insurance policy by defrauding the insurers that they have suffered loss, while in real it is not so. Thus the insurer, as policy conditions, the reserves the right to arrange an independent medical examination. Medical evidence is also required in support or Workmen's Compensation claims. Livestock and Cattle claims are assessed on the basis of the report of a veterinary doctor. Third Party Claims involving personal injuries are assessed on the basis of medical opinion; those involving property damage are assessed on the basis of a survey report. In either case legal opinion is sought to decide whether any liability at law attaches to the insured. Investigation is different from the assessment of loss. Investigation is done to ensure that there are no circumstance that could vitiate the legitimacy of the policy or the claim, like insurable interest, suppression or misrepresentation of material facts; deliberately creating the loss etc. the surveyor is expected to do the investigation as well. It helps if he gets on to the job as early as possible. Therefore, the practice is to appoint the surveyor, as soon as possible after the intimation of the claim is received.

8.3.3 Surveyors and Loss Assessors:

The loss in insurance business is assessed by the surveyors or the loss assessors. The requirements and need and qualification of surveyors and loss assessors are given in the following paragraph. The Surveyors are paid fees for professional work. Although, in theory, a surveyor can conduct a survey in any class of business, in practice, insurers consider the technical qualifications, special expertise and past experience of a surveyor before entrusting him with survey work. Thus, motor vehicle own damage claims are assessed by surveyor with automobiles engineering qualifications. Loss of profits claims (both fire and machinery breakdown), fidelity guarantee claims and bankers blanket claims etc are entrusted to surveyors with accountancy qualification. Machinery breakdown claims, boiler explosion claims, etc. are entrusted to surveyors with mechanical engineering qualification and so on. Claims made payable outside the country are assessed by the Claims Settling Agents named in the policy. These Agents may assess the loss and also make payment which is reimbursed by the insurers.

8.3.4 Claims Documents:

Once the notice of the claim is submitted and the insurer is satisfied that the claim is the genuine then the claim will be submitted in the claim form along with the supporting documents. The claim form is a very basic document in claim settlement. This provide the information regarding the loss. The contents of the claim from vary with each class of insurance. In general the claim form is designed to elicit full information regarding the circumstances the loss, such as date of loss, time, cause of loss, extent of loss, etc. the other questions vary from one class of insurance to another. Claim form are invariably used in fire and miscellaneous insurance. Claim form when submitted must be supported by the proper documents of the loss incurred or the expenses incurred after the loss can be proved. The issue of claim form does not mean that liability for the claim is admitted by insurers. In addition to the claim form, independent survey report etc. certain documents are required to be submitted by the claimant or secured by the insurer to substantiate the claim. For example for fire claims, a report from the Fire Brigade would be necessary. In burglary claims, a report from the Police may be necessary. For motor claims, the insurer may like to examine driving license, registration book, police report etc. In marine cargo claims, the nature of documents varies according to the type of loss i.e. total loss, particular average inland transit claims etc. These documents have been identified earlier in the chapter on Marine Insurance. The documents which are to be submitted differs for various types of claim but the intend of the document is to satisfy the insurer that the claim is genuine and insured do not want to enrich himself at the cost of the insurer.

8.3.5 Arbitration:

In stead of going to litigation, arbitration is somewhat simple and easier method for settling disputes. Arbitration is a method of settling disputes arising out of contracts. Arbitration is done in accordance with the previsions of the Arbitrations and Conciliation Act, 1996. The insured if not satisfied with the amount of claim or the insurer is making delay in the payment the insured has right to move to court of law for the settlement of the claim. The normal method of enforcing a contract or settling a dispute there under would be to go to the court of law. Such litigation, however, involves considerable delay and expense. The Arbitration Act allows the parties to submit dispute under a contract to the more informal, less costly and private process of arbitration. Arbitration may be done by a single arbitrator or by more than one, chosen by the parties to the dispute themselves. Arbitrator hears the dispute between the insurer and insured and try to bring about the amicable solution to the problem presented before him. In the event of single arbitrator, the parties have to agree about that person. Fire and most miscellaneous policies contain an arbitration clause which provide that if the liability under the policy is admitted by the company, and there is a difference concerning the quantum to be paid, such a difference must be referred to arbitration. Normally the arbitrator's decision is considered final and binding on both the parties, however sometime the party may move to court of law if they are not satisfied from the judgment given by the arbitrator.

8.3.6 Limitation:

This paragraph shows the time limit for which the insurer can be held liable for the loss occurred to the insured. There is a condition in fire and most miscellaneous polices which provides that in no case shall the insurer, be liable for any loss or damage after the expiration of 12 months from the happening of the loss or damage unless the claim is subject of pending action or arbitration. It is also a condition that if the insurer shall disclaim liability for any claim, and if a suit has not been filed by the claimant within 12 calendar months from the date of the disclaimer, in a court of law, then the claim shall for all purposes be deemed to have been abandoned and shall not thereafter be recoverable. In the absence of this condition, it would be possible for the insured to re-open claims after a considerable of time. It would not be practicable for insurers to keep their accounts and records open for an indefinite period.

8.3.7 Settlement:

After completion of the above procedure of the notice to the insurer, claim form, survey and investigation and after submission of all the documents and survey report from the surveyor the loss is assessed and claim of loss is then finally settled. The claim is processed on the basis of:

- the claim form;
- independent report from surveyors, legal opinion, medical opinion, etc. as the case may be;
- various documents furnished by the insured; and
- Any other evidence secured by the insurers.

If the claim is found to be in order, payment is made to the claimant and entries made in the records. The insured is under liability towards the insurer in respect if the amount of the loss is to be recovered form the third party. The insured is to surrender such amount received from the third party to the insurer. Appropriate recoveries are made from the co-insures and reinsures, if any. The insured may not be the person to whom the money is to be paid. For example, if the property insured under a fire policy is mortgaged to a bank, then according to bank, Agreed Bank Clause, claim monies are to be paid to the bank, whose receipt will be a complete discharge to the insures.

8.3.8 Loss Minimisation:

Loss once occurred cannot be reverted but further loss can be avoided by taken some corrective steps. The responsibility to indemnify the loss is on the insurer but at the same time the insured must take all steps to stop the loss. At common law, there is a duty on the part of the insured to observe good faith during the currency of the policy, especially when a loss occurs. This duty of good faith means that, at all times, the insured has to act and take all the care as required if the is not insured. When a loss occurs, it is the legal duty of the insured to do his utmost to minimize the loss. Conditions are incorporated in policies to place on the insured, the duty to take steps to protect the property from further damage and to minimize the loss. For example, the private car comprehensive policy provides, among other things, that the Insured shall take all reasonable steps to safeguard the motor car form the motor car from loss or damage and to maintain it in efficient condition. In the event of any accident or breakdown the motor car shall not be left untended without proper precautions being taken to prevent further damage or loss. The primary duty of surveyor is to determine the cause and extent of loss, to examine compliance with terms and conditions and warranties and to give a report on the basis of which insurers may take decision regarding settlement. But surveyors also have a role in loss minimization and protection of salvage. In fire losses, for example, surveyors may recommend measures such as removal of clogged material from machinery so that production process is not interrupted, prevention of rust damage to machinery, removal of undamaged property to place of safety, etc. Surveyors also contribute to loss minimization in other areas. For example, surveyors are appointed for supervision of discharge of cargo from steamers arriving at an Indian Port. This is done in respect of cargoes of high value, special cargoes vulnerable to theft and pilferage, bulk shipments etc. Similar supervision is also arranged during loading of cargo operations.

8.3.9 Salvage:

Salvage stands for the result of the accident or partially damaged property. On payment of loss, the salvage belongs to insurers. For example, when motor claims are settled on total loss basis, the damaged vehicle is taken over by insurers. Salvage can also arise in fire claims, marine cargo claims etc. Salvage is disposed off according to the procedure laid down by the companies for the purpose. Surveyors, who have assessed the loss, will also recommend methods of disposal.

8.4 Exercise:

1. Write a short note on investigation and assessment procedure under the claims
2. Explain activities of surveyors and loss assessors.
3. Explain the procedure of arbitation.
4. Explain the procedure of settlement under the claims.

Unit : 9 : Contributions Of Insurance And Risk Management In Insurance

Introduction:

During this chapter we will study about the contribution made by insurance sector in social and rural development. There are various provisions in the insurance act and other acts which make it compulsion on the part of insurance company to work in rural as well as social sector. Moreover, this chapter deals with the risk management aspect, insurance is needed if there is any risk, without any risk there is no need for the insurance. Through this chapter the student will learn about the management and minimization of risk.

Structure of the Chapter:

9.1 Objectives:

By the end of this chapter the student will learn about:

- o Insurance and rural sector
- o Insurance and social sector
- o Risk management in insurance business

9.2 Insurance and Rural Sector:

Insurance sector serves several responsibility towards rural sector. Though Insurance Companies voluntary provide its services in rural sector but moreover, there are legal responsibilities levied by IRDA, to perform some part of its business in rural sector. Under the provision of section 32B and 32C of the insurance Acct, 1938, insurers are obliged to provide such percentages of business as may be specified by the IRDA, for persons in the rural sector or social sector, workers in the unorganised or informal sector, for economically vulnerable or backward classes of the society and other categories of persons, as may be specified by the IRDA. The IRDA has, in pursuance of the provisions of the above two sections of the Insurance Act, issued the (Obligations of Insurers to Rural or Social Sectors) Regulations, 2000, which lays down that every insurer transacting general insurance business, shall underwrite business in the rural sector, to the extent of at least 2% of total gross premium in the first financial year, at leaast 3% of gross premium in the third and further financial years. The obligations include insurance for crops. The Rural sector has been defined as any place which, as per the last census, has a population of not more than 5000, density of population of not more than 400 per square kilometer, and it least 75% of the male working population engaged in agriculture. Insurers will evolve appropriate strategies and plans to meet these obligations.

Rural insurances comprise mainly the insurances of :

1. Various livestock e.g., cattle, sheep, goat, etc.
2. sub-animals e.g., silkworm and honeybee.
3. Plantation and horticultural crops e.g. rubber, grapes, etc.
4. Property e.g. agricultural pumpsets, etc.
5. Person e.g., gramin accident.

9.3 Insurance and Social Sector:

Now, It has become legal responsibility on the part of Insurance Companies to provide specific social services. The social sector has been defined to include the unorganized sector, informal sector, economically vulnerable or backward classes and other categories, both in the urban and rural areas. Each one of these categories have been further defined. Unorganized sector includes self-employed workers such as agricultural laborers, bidi workers, carpenters, cobblers, construction workers, fishermen, handicraft artisans, handloom and khadi workers, lady leather and tannery workers, papad makes, powerloom workers, physically handicapped self-employed persons, primary milk producers, rickshaw pullers, salt growers, sericulture workers, sugarcane cutter, vegetable vendors, washerwomen, working women in hills, or such other categories of persons. Economically vulnerable or backward classes means people who are below the poverty line. Reference has been made in Chapter 16, to the obligations of insurers to persons in the social sector, under section 32 B 32 C of the Insurance Act 1938 and the IRDA (Obligations of Insurance to Rural or Social sectors) Regulation, 2000. According to these regulations, insurers are obliged to provide insurance to at lest 5000 lives in the social sector in the first financial year, 7500 lives in the second financial year, 10000 lives in the third financial year, 15000 in the fourth financial year and 20000 in the subsequent financial years. If the period of operation in the first financial year is less than 12 months, the obligation will be the proportional percentage.

9.4 Risk Management:

Insurance is the inseparable part of the risk management. The concept of the risk management is to manage and reduce the risk as far as possible. The need of insurance arises when there is fear of loss. But certain losses are of such nature which can be controlled by risk management. Insurance do not avoid the loss arising from the risk but it seeks to indemnify the insured from the loss arise out of risk. The risk management and insurance go hand by hand. Insurance is not able to protect the insured against the occurrence of loss it only indemnify the losses incurred. Where as through risk management the chances of occurrence of losses can be minimized, however there are certain risks which cannot be reduced nor can be eliminated. Loss arising from such risk is sure but such loss can be indemnified by taking the proper insurance cover for such risk. Risk management is a new managerial discipline which has become a part of business management in many corporate firms. Risk management may be defined as managerial function concerned with the protection of the firm's assets, earnings or profits, legal liabilities and personnel against financial losses that may result from fortuitous events i.e. accidental happenings. Risk management follows a systematic process which involves following steps.

- Risk identification : Risk identification means identification of loss producing events e.g. fire, flood, burglary, etc. A detailed checklist of various perils and physical inspection of premises, processes, products, etc. are some of the methods used for risk identification.

- Risk evaluation : Risk evaluation means determination of whether losses occur regularly i.e. 'frequency of losses' and the size of the losses- small, medium or large – that may occur i.e. severity of losses. For example, minor losses in goods in transit occur frequently. Thus, these losses are of 'high frequency' and 'low severity'. On the other hand, explosions, floods, earthquakes etc., do not occur frequently, but when they do, losses are large and serve. This exercise serves two purposes : to fix the sum insured under the policy and to decide on whether to insure or not, For example, it is not economic to insure 'high frequency and low severity' losses, whereas insurance is necessary for low frequency and high severity losses.

- Managing risk : To select appropriate techniques or methods to manage the risks. There are Risk Avoidance, Loss Prevention and Reduction, Risk Retention and Risk Transfer,

9.4.1 Risk Avoidance:

Avoiding the risk is the best way to manage the risk. The simplest way to deal with a risk is to avoid it altogether. It is not always possible. If a factory is to be located on the banks of a river which is prone to serious floods every year then the firm may decide to shift the site to a safer location to avoid the major risk or flood damage. This technique is not always possible nor is it practical in all cases.

9.4.2 Loss Prevention:

The business is exposed to numerous risks and the loss prevention and reduction is the best method for managing the risk. Financial consequences of risks may be eliminated or minimized through various loss prevention and loss reduction measures. Losses may be prevented by taking the steps which can reduce the chances of occurrence of the loss. Some of these measures may prevent the loss from occurring; other may reduce the extent of loss, if it does occur. For examples, strict enforcement of 'no smoking' regulations may prevent fire losses; installation of fire extinguishing appliances and automatic sprinklers are not designed to prevent fire losses but to reduce the extent of damage when a loss occurs. Appointment of watchmen and installation of burglar alarm system are measures for prevention of burglary losses

9.4.3 Risk Retention:

The decision in respect of whether to avoid the risk or to take the preventive steps to reduce the risk or to retain the risk. This technique may take different forms. In respect of small losses which occur frequently and which may be absorbed by the firms as normal operating expenses of the business. The risk may be retained if the cost of preventing or avoiding the risk is more than the loss occurred due to the risk itself. For example, minor damage losses of goods in transit may be treated this way and not insured. A large and financially strong firm may create a self-insurance fund to which periodic payments are credited and from which losses as and when they occur are paid. For example, domiciliary medical expenses of a large group of employees may be dealt with by this method any hospitalization expenses may be insured under a group medical policy.

9.4.4 Risk Transfer:

This is the last step. The transfer of risk occurs when the activity that creates the risk is transferred. The insurance is considered as risk transferring activity. If a particular process of manufacturer is too hazardous the firm may send the materials to a specialist sub-contractor for processing, thereby transferring the risks associated with that work to the sub-contractor. Risk may also be transferred by contract. For example, when a contractor hires plant and equipment the owner may insert a condition in the contract that damage to the plant and third party liability must be insured by the contractor. Finally, the risk may be transferred to insurers. This is the insurance method of risk transfer. The insurer will compensate the insured to the extend of loss and thus the loss is transferred to the insurer and not the risk itself. However as the impact of the loss will be reduced due to insurance the risk seems to have been transferred.

The last step in the process is review of the results produced by implementing the various techniques selected. Loss prevention measures have to be evaluated. The pattern of loss experience has to be analyzed to decide whether losses have to be absorbed or insured or whether the amount of 'deductible' reduce or increased etc. Insurance programmed has also to be reviewed. Such evaluation exercise may be done at annual intervals.

The results of evaluation may suggest a revised approach and the process of risk management starts all over again. Many professionally managed firms do not buy insurance without proper analysis of their risk exposures. They will consider various options such as prevention, retention, etc. They can also consider a combination of two or more techniques.

9.5 Exercise:

1. Write a note on insurance business in rural sector?
2. Write a note on contribution of insurance business in social sector?
3. Explain the concept of risk management in insurance business?

Unit : 10 : Agent

Introduction:

From its very beginning, the insurance business is mainly dependant upon its agents for its running. It is even difficult to convince any person to take insurance without live chating with him. Only by giving advertisement in any form of media, it is difficult to get the insurance business. So, the running of insurance business is depends mainly upon agents. The chapter deals with the appointment, working and terminations of agents.

Structure of the Chapter:

10.1 Objectives:

By the end of this chapter, the student will learn about

- Law of agency and its application in insurance business
- Code of conduct for the agent
- Function of an agent
- Termination of agency
- Organization structure of insurance business

10.2 Definition:

The relationship between the principle and agent is defined in the Indian Contract Act. The agent is tied with he principle by the mode of contract. Section 182 of the Indian Contract Act defines the words 'Agents' and 'Principal'. An agent is a person employed to do any act for another or to represent another in dealing with a third person. The person for whom such act is done or who is so represented is called the 'Principal'. In insurance industry the term 'Agent' is ordinarily applied to a person engaged by the insurer to procure new business. As per the law of agency the act of the agent binds the principle provided he has acted as per the authority given. Section 183 of the Indian contract act says, any person who is of the age of majority according to the law to which he is subject and who is of sound mind can employed an agent. Sec 184 provides that as between the principal and third persons, any person may become an agent. Thus, though a minor may be employed as an agent and the principal would be bound by his act, the minor himself will not be liable to his principal. No consideration is necessary to create an agency. An agent can act only to the extent of authority granted to him by the principal. This authority may be expressed or implied.

10.3 Insurance Agent Under Insurance Act 1938:

According to the Insurance Act 1938, an Insurance Agent has to be licensed under Section 42 of that Act. License is must in insurance business to be an agent. His business would be soliciting or procuring insurance business including business relating to continuance, renewal or revival of policies of Insurance. The person must be capable of becoming the agent as per the Indian Contract act, and thus he would not be given a licence if he is (a) a minor, (b) found to be of unsound mind (c) found guilty of criminal misappropriation or criminal breach of trust or cheating or forgery or an abetment of or attempt to commit any such offence (d) found guilty of or knowingly participating in or conniving at any fraud, dishonestly or misrepresentation against an insurer or an insured. (e) not possessing the requisite qualifications and specified training including passing of examination, specified by the, Regulations. (f) found violating the code of conduct as may be specified by the Regulations made by the Authority. The firms and company can also become the agent. In such case the firm or company desirous of becoming an insurance agent, all the partners or directors must be free of the specified disqualifications. Licenses are granted on payment of a fee of Rs. 250. A licence is granted for 3 years and may be renewed after 3 years or cancelled. No person shall misrepresent himself to be the agent, unless he holds the valid license. A person canvassing insurance business or receiving commission therefore, without holding a valid licence, is liable to punishment.

Agents are working for money or commission. The insurance company is free to fix the terms and condition of the remuneration subject to compliance with the provisions of the Insurance Act and the regulation framed by the IRDA. The agent is expected to secure a minimum premium amount of Rs. 7,500 per year, if he is working in city or a town with a population of five lakhs or above and Rs. 5000, if he is working in other places as per the terms of appointment of the subsidiaries of the GIC. The agent is paid a remuneration by way of commission, which is 5% for Fire, Marine and Motor business, 10% for some classes of Miscellaneous business and 15% for majority of rural and non-traditional business.

Insurance Agent:

Insurance, though not a new concept, very few people in India understand the gains the necessity of it because of unawareness among the people. That's why insurance business mainly depend upon its agent who make the people aware about the benefits from the insurance. This topic deals with the development of an agent who is an individual, not a company or firm. Personal development would result in enhancing one's capabilities to function as an agent. This would be measured partly by the business that is done and the commission that is earned. It is also to be measured in terms of the reputation that the person enjoys in the market. Moreover, when a person works as an agent of any product he must be aware about the each and every aspect of the product. The insurance business has variety of the product. The agent must be aware of the products when he meet the people. Moreover, as a businessman, he has to have some goals with regard to revenue. The revenue, which is in the nature of commission on premium, depends on the number of sales one makes. Moreover, an agent should select his target market. The good agent must be a good marketing person. He must be clear about the market he is working on. For an insurance agent, the whole world is a potential market. But no one agent can insure the whole world. Moreover, an insurance business is a business of a trust. The customer feels that what the agent promises are the promise of the Insurance Company. A customer buys because he trusts the agent and his promises. Moreover, the agent should try to build up long term relationships with its customers. An agent's main tool at work is his communication skills which he must sharpened. Moreover, An agent must be able to analyze the various needs of the customer and find best plan to meet those needs. Moreover, Agent's behaviour with their fellow-agents is also very important to avoid misunderstanding and also avoidable interference in their business dealings.

10.4 Code of Conduct:

The (Licensing of Insurance Agents) Regulations 2000 lays down a code of conduct for agents which include

- o disclosing the licence to the prospect on demand
- o explaining all available options to the prospect
- o explaining the nature of information required in the proposal form
- o impressing upon the prospect the need to disclose all information
- o informing the insurer about any adverse habit and material facts of the person to be insured
- o revealing to the prospect the commission that he is likely to receive, if asked for
- o conveying to the prospect about the acceptance or rejection of the proposal
- o render necessary assistance to policyholders or claimants or beneficiaries in complying with requirements asked for by the insurer.
- o Advising policyholders to effect nomination,
- o Inducing prospects to submit wrong information.
- o Not interfering with the proposals introduced by other insurance agents

- Not demanding or receiving share of proceeds under an insurance contracts.

10.5 Termination:

The termination means the bring end to agency. An Agency can be terminated in the following circumstances :

- cancellation or non-renewal of the license.
- Non=fulfillment of business guarantees.
- Legal disqualifications like permanent incapacity, conviction for criminal misappropriation, criminal breach of trust, cheating or forgery etc.
- Offering rebate for whole or part of commission in violation of Sec 41 of Insurance Act.

10.6 Function:

An appointment of the agent is made for the purpose of the procurement and expansion of the insurance business. An insurance agent would be required to solicit and procure new insurance business, in a manner that is consistent with the interest of the policyholders and of the insurance company.

For this purpose, he would have to do the following :-

Contact prospects for insurance, study their insurance needs and persuade them to buy.

Complete all formalities for proposal for new insurance, including
(I) filing up proposal forms
(ii) collecting supporting documents and premium
(iii) arranging inspection if necessary, ensure that warranties and special conditions, if any, are properly explained to the insured
(iv) assist the insured in filing the proper documents and proofs for making a claim, etc.

The benefit under the various plans of insurance must be explained by the agents.

The office procedures for various matters including the forms and documents considered necessary.

The agent must also arrange for the collection of premium or reminds the insured of the premium due date and persuade them to pay the premium in timely manner.

Moreover, agents should be very careful with regard to disclosure of material information. If any material information is not revealed at the time of proposal, the claim, when it occurs, can be repudiated.

10.7 Organization:

Since nationalization of the general insurance business in India in 1973, only the General Insurance Corporation of India (GIC), and its four subsidiaries are transacting general insurance business in India till private sector were allowed in insurance business.

The General Insurance Corporation of India was formed and registered on 1st January 1973 under the Insurance Act, 1938 in accordance with the provisions of the General Insurance Business (Nationalisation) Act, 1972.

Structure of General Insurance Corporation of India

The Corporation is the holding company, separate and distinct from the subsidiary companies. The Corporation is concerned with broad policy matter affecting the entire general insurance industry. The Corporation does not write any direct insurance business except the aviation insurance business of Air India, Indian Airlines, Hindustan Aeronautics and Crop insurance. It receives by way of reinsurance 20% of all the direct business written in India by the subsidiary companies.

The Subsidiary Companies

There are four subsidiary companies for General Insurance Corporation of India namely National Insurance Co. Ltd., The New India Assurance Co. Ltd., The Oriental Insurance Co. Ltd., and United India Insurance Co. Ltd.The functions of the companies are to underwrite all types of general insurance both direct and by way of reinsurance in India. The companies also operate in overseas territories.

The companies are autonomous with their own Boards of Directors and Management. The Head Office of the four companies are located at the four metropolitan cities National Insurance Co. Ltd., Calcutta, The new India Assurance Co. Ltd. Mumbai, The Oriental Insurance Co. Ltd., New Delhi, and United India Insurance Co. Ltd., Chennai.

The Head Offices of the Companies are responsible for overall planning, direction and control of Indian and foreign business. The Head Offices are also concerned with final accounts, investments, reinsurance and other specialist functions.

The organisational structure of the Companies may be illustrated by the following chart.

1. Head Office
2. Regional Office
3. Divisional Office
4. Branch Office

All the four companies are having their Regional Offices located at Metropolitan cities and other centers in India for effective coordination, supervision and control of the Divisional and Branch offices in their jurisdiction.

The main functions of Divisional Offices relate to development of business and its administration including supervision of branches, if any, in their jurisdiction. The development function involves appointment of inspectors and agents, and marketing, planning and procurement of business. The administrative function involves issue of policies, settlement of claims, maintenance of accounts and general administration e.g. personnel, establishment etc.

The functions of branch offices are also similar except that they are not empowered to appoint inspectors and settle claims. Broadly speaking, the functions of the branches would include development of business direct and through inspectors and agents, collection of premium, issue of receipts, cover notes, policies, etc. minor payment like commissions, rent etc. and maintenance of accounts in that respect and coordination and control over inspection.

The important activities on a non-life insurance company are:

- Procuring from prospective buyers of insurance applications, also called proposals, for grant of requisite insurance cover.
- Scrutinizing the applications or proposals, arranging for inspections, wherever necessary, of the object of insurance and taking a decision on the grant of the cover applied for. This activity is called underwriting and includes deciding on the appropriate rate of premium.
- Issuing a policy document in evidence of the contract of insurance, setting out the terms and conditions of the contract, exclusions and warranties decided upon at the time of underwriting.
- Processing and paying the claims that may arise after arranging for surveys and assessments by duly competent professionals.
- Other supporting activities like investments of funds, maintenance of accounts, management of personnel,. processing of data, compliance with regulation and the laws of the country.

10.8 Exercise:

1. What is meant by agent under the insurance business and state his importance?
2. What are the major functions of an agent?
3. What is the code of conduct for the agent?
4. Write a note for the organization of an insurance business?