**PRINCIPLES OF INSURANCE**

**Unit -I**

 **Insurance:-**

Insurance is of primary importance both in the national economy and

international trade. Insurance premium cash-flows generate funds for investment

in the economy. The development of the insurance sector depends on the general

level of economic development and prospects for the immediate future.

Generally, there is a positive correlation between the economic development of a country and the amount the people spend on insurance. Hence, this chapter deals with the history and origin of insurance in India; definition of insurance as a contractual, financial and legal aspects of insurance. Being a multi-dimensional subject, it is difficult to point out the origin of insurance. In the beginning, the thinker Hardy Ivory started understanding insurance as a contractual relation between insurer and the assured through which the former undertakes to indemnify the loss caused to the latter due to an uncertain risk involved or to pay a certain sum of money in the event of an incident happening or not happening, against a consideration called as premium.

The contract of insurance thus serves two main purposes as follows:

i. There is an element of safety in insurance as there is distribution of loss

among a large number of persons through the medium of risk sharers.

ii. In the long run it leads to an economic development and industrial growth

in the country. This is due to the fact that there is a large number of people

also invest their funds in the medium of insurance which may be utilized

to start industries or even to underwrite the securities of companies which

ultimately lead to the economic development of the country.

 **CONCEPT OF INSURANCE:**

 “General Principles of insurance Law”

A contract of insurance is a contract whereby one person called the ‘insurer’, undertakesin return for the agreed consideration called the ‘premium’ to pay to another person,called the ‘insured’ a sum of money or its equivalent on the happening of a specifiedevent.

In *Prudential Insurance Company*said

There must be either some uncertainty whether the event will ever happen or not, or if theevent is one which must happen at some time or another, there must be uncertainty as tothe time at which it will happen.

Generally an insurance agreement to be a valid contract must be–

i. A contract between an ‘insurer’ and the ‘insured’;

ii. The contract is based on the loss due to happening or not happening of a

future incident;

iii. A consideration in the form of payment of an amount by the insured and

iv. The insurer promises to make good the loss in so far money can do it, in case

the loss occurs on the happening of the contingency.

 **NATURE OF INSURANCE**:

Insurance means the act of securing the payment of a sum of money in the

event of loss or damage to property, life, a person etc., by regular payment of

premiums. Insurance is a method of spreading over a large number of persons, a

possible financial risk too serious to be conveniently sustained by an individual.

The aim of all types of insurances is to protect the owner from a variety of risks

which he anticipates. The happening of the specified event must involve some loss to the insured or at least should expose him to adversity which is, in the law of insurance, called commonly the ‘risk’.The nature of insurance depends on the nature of the risk required to be

protected. An insurance contract makes available the risk coverage to the insured. The buyer of insurance pays a fixed premium in exchange for a promise of compensation in the event of some specified loss. Insurance is bought because it gives peace of mind to the holders. This comfort stage is important in personal and business life. Though the most important purpose of insurance is to provide risk coverage, when the contract period extends over a long time, as in the case of life insurance, premium payments comprise of two components – one for buying risk coverage and the other towards savings. The joining together of risk coverage and savings is peculiar with the life insurance and is more common in developing countries like India.

 **Basic Principles of Insurance:**

Though insurance has been differentiated into marine, fire, life etc., there

are certain general principles applicable to all forms of insurance. These general

principles serve as a guide to the sound interpretation of the purpose of the

insurance contracts in their diversified forms. The principles of indemnity,

insurable interest, *uberrima fides* (utmost good faith) and the existence of risk are some of the principles having common application.

Following are the some of the important principles of insurance:

***1] Utmost Good Faith***

A contract of insurance must be made based on utmost good faith. It is important that the insured disclose all relevant facts to the insurance company. Any facts that would increase his premium amount, or would cause any prudent insurer to reconsider the policy must be disclosed.

If it is later discovered that some such fact was hidden by the insured, the insurer will be within his rights to void the insurance policy.

***2] Insurable Interest***

This means that the insurer must have some pecuniary interest in the subject matter of the insurance. This means that the insurer need not necessarily be the owner of the insured property but he must have some vested interest in it. If the property is damaged the insurer must suffer from some financial losses.

***3] Indemnity***

Insurances like fire and marine insurance are contracts of indemnity. Here the insurer undertakes the responsibility of compensating the insured against any possible damage or loss that he may or may not suffer. Life insurance is not a contract of indemnity.

***4] Subrogation***

This principle says that once the compensation has been paid, the right of ownership of the property will shift from the insured to the insurer. So the insured will not be able to make a profit from the damaged property or sell it.

***5] Contribution***

This principle applies if there are more than one insurers. In such a case, the insurer can ask the other insurers to contribute their share of the compensation. If the insured claims full insurance from one insurer he losses his right to claim any amount from the other insurers.

***6] Proximate Cause***

This principle states that the property is insured only against the incidents that are mentioned in the policy. In case the loss is due to more than one such peril, the one that is most effective in causing the damage is the cause to be considered.

 **FUNCTIONS OF INSURANCE:**

This sub-chapter deals with the various functions of insurance like risk

sharing, life insurance and annuities relief for members of society, sharing burden of state to provide relief to destitute and aged citizens, making available finance for social investment etc.

The functions of Insurance can be bifurcated as below:

1. Primary Functions,

2. Secondary Functions and

3. Other Functions

The primary functions of insurance include –

**i. Provide protection** - The primary function of insurance is to offerprotectionagainst future risk, accidents and uncertainty. Insurance isactually a shield against economic loss, by sharing the risk with others.

**ii. Collective risk** - Insurance is a device to contribute to the financialloss of a few among many. Insurance is a mean by which little lossesare shared among larger number of people. All the insured share thepremiums towards a fund and out of which the persons exposed to aparticular risk are paid.

**iii. Evaluation of risk** - Insurance concludes the probable volume ofrisk by evaluating various factors that give rise to risk. Risk is theorigin for determining the premium rate also.

**iv. Provide assurance** - Insurance is a device, which helps to modify

from uncertainty to certainty. Insurance is a mechanism whereby

uncertain risks may be made more certain.

The secondary functions of insurance include–

**i. Avoidance of losses** - Insurance alarms individuals and businessmen to adopt suitable device to prevent unfortunateconsequences of risk by observing safety instructions; installation ofautomatic sparkler or alarm systems, etc. prevention of losses causessmaller payment to the assured by the insurer and this will encouragefor more savings by way of premium. The condensed rate of premiums motivate for more business and better protection to the insured.

**ii. Small capital to cover larger risks** - Insurance relieves thebusinessmen from security investments, by paying small amount ofpremium against superior risks and uncertainty.

**iii. Encourage towards the development of larger industries** -

Insurance provides development opportunity to those larger industries having additional risks in their setting up. Even the financialinstitutions may be prepared to give credit to ailing industrial unitswhich have insured their assets including plant and machinery.

**The other functions** of insurance include-

**1. Way of savings and investment** - Insurance serves as savings and

investment, insurance is a compulsory way of savings and it limits the

unnecessary expenses by the insured. For the reason of availing

income-tax exemptions also people invest in insurance.

**2. Source of earning foreign exchange -** Insurance is a worldwide

business. The country can earn foreign exchange by way of issue of

marine insurance policies and various other ways.

**3. Risk-Free trade** - Insurance promotes exports insurance, which

makes the foreign trade risk-free with the assistance of different types

of policies under marine insurance cover.

**SCOPE OF INSURANCE**:

The insurance sector has a huge potential not only because incomes are

increasing and assets are expanding but also because the increasing instability in

the system. In a sense, we are living in a extra risky world. Trade is becoming

more and more global. Technologies are changing and getting replaced at a faster

rate. In this more uncertain world, for which enough evidence is available in the

recent period, insurance have an imperative role to play in reducing the risk

burden that the individuals and businesses have to bear. The approach to

insurance should be in tune with the changing times.

The aim of the insurance sector in India is to extend the insurance

coverage over a larger section of the population and a wider segment of activities. The three guiding principles of the industry must be to charge premium not higher than what is acceptable by strict actuarial considerations, to invest the funds for obtaining maximum yield for the policy holders consistent with the safety of capital and to render efficient and prompt service to policy holders. With a creative corporate planning and an abiding commitment to improved service, the mission of widening the network of insurance can be achieved.There is a probability of a shoot in employment opportunities. A number of web-sites are coming up on insurance, a few financial magazines exclusively devoted to insurance and also a few training institutes are being set up. Many of the universities and management institutes have already started or are contemplating new courses in insurance. Life insurance has today become a

mainstream of any market economy since it offers plenty of scope for collecting

large sums of money for long periods of time. A well-regulated life insurance

industry which moves with the times by offering its customers specially made products to satisfy their financial needs is, therefore, essential to progress towards a unstressed future.

Thus, one can understand the term ‘insurance’ better from its legal nature,

principles and functions as discussed above and is the base for all the types of

insurances.

**TYPES OF INSURANCE**:

As Insurance has become one of the most socially desirable and

commercially acceptable tertiary industries in the world, the types of insurance arewide, both in private and public. The following flow chart describes the total

cover of insurance which varies from corpus and properties, living and nonliving,chattels and all belongings, movable and immovable extending to evenvarious limbs of the body:



## What is Life Insurance

Life insurance is a contract that offers financial compensation in case of death or disability. Some life insurance policies even offer financial compensation after retirement or a certain period of time. Life insurance, thus, helps you secure your family’s financial security even in your absence. You either make a lump-sum payment while purchasing a life insurance policy or make periodic payments to the insurer. These are known as premiums. In exchange, your insurer promises to pay an assured sum to your family in the event of death, disability or at a set time.

Life insurance can help you support your family even after retirement. Depending on what it covers, Life insurance can be classified into various types:





Tax Benefits

* Life insurance not only ensures the well-being of your family, it also brings tax benefits.
* The amount you pay as premium can be deducted from your total taxable income.
* However, this is subject to a maximum of Rs 1.5 lakh, under Section 80C of the Income Tax Act.
* The premium amount used for tax deduction should not exceed 10% of the sum assured.

 **Health Insurance**

This type of general insurance covers the cost of medical care. It pays for or reimburses the amount you pay towards the treatment of any injury or illness.

It usually covers:

* Hospitalisation
* The treatment of critical illnesses
* Medical bills prior to or post hospitalisation
* Day care procedures like Cataract operations

You can also opt for add-on benefits like:

* Maternity cover: Your health insurance covers you for the costs related to childbirth. This includes pre-delivery check-ups, hospitalisation during delivery, and post-natal care.
* Pre-existing diseases cover: Your health insurance takes care of the treatment of diseases you may have before buying the health insurance policy.
* Accident cover: Your health insurance can pay for the medical treatment of injuries caused due to accidents and mishaps.

## Motor Insurance

Motor insurance is for your car or bike what health insurance is for your health.

It is a general insurance cover that offers financial protection to your vehicles from loss due to accidents, damage, theft, fire or natural calamities

You can also get motor insurance for your commercial vehicles.

In India, you cannot drive or ride without motor insurance.

Let’s look at the two key types:

### 1. Car Insurance

It’s precious—your car. You paid lakhs of rupees to buy that beauty. Even a single scratch can be painful, forget about bigger damages.

Car insurance can reduce this pain for a few thousand rupees.

**How it works:**



What the insurer will pay for depends on the type of car insurance plan you purchase

### 2. Two-wheeler Insurance

This is your bike’s guardian angel. It’s similar to Car insurance.

You cannot ride a bike or scooter in India without insurance.

**How it works:**



As with car insurance, what the insurer will pay depends on the type of insurance and what it covers.

##  Industrial Insurance

Industrial insurance is a policy that covers an employee in case they suffer from a work-related injury that prevents them from working and earning income. While available in all fifty US states, the features tend to vary from one state to another.

Industrial insurance is purchased by the employer or business owner for the employees. It usually pays for work-related injuries or on-the-job accidents and does not cover an injury that has occurred outside the workplace.

Industrial insurance varies from state to state. The differences might be in the coverage or the requirements needed to avail of this insurance. In some states, the number of employees dictates whether one should get this insurance. In other states, the nature of the work (and possibly the physical hazard inherent in it) is a reason to get it.

# **What is Marine Insurance**

A simple definition of the word insurance would be “Protection against future loss.”  Marine insurance is another variant of the general term ‘insurance’ and as the name suggests is provided to ships, boats and most importantly, the cargo that is carried in them.

Marine insurance is very important because through marine insurance, ship owners and transporters can be sure of claiming damages especially considering the mode of transportation used. Of the four modes of transport – road, rail, air and water – it is the latter most which causes a lot of worry to the transporters not only because there are natural occurrences which have the potential to harm the cargo and the vessel but also other incidents and attributes which could cause a huge loss in the financial casket of the transporter and the shipping corporation.

#  **Crop Insurance**

Crop insurance is a type of protection policy that covers agricultural producers against unexpected loss of projected crop yields or profits from produce sales at market.

Crop insurance is divided into two categories: crop-yield and crop-revenue. Crop-yield insurance protects the expected revenue due to unexpected yields, which is the volume of a crop’s harvest. Crop-revenue insurance covers expected revenue from loss owing to market fluctuations of crop selling prices. Both types of insurance are a means to aid in disaster recovery for producers due to unexpected events.

Causal factors covered under crop-yield insurance could include natural disasters like fire, drought, or flooding with the intention of protecting producers against yield or entire crop loss. Crop-revenue insurance can cover a producer from unexpected fluctuations in the selling price resulting from reduced demand, bad publicity or a bumper crop resulting in a flooded market that reduces selling prices. However, technological advances in agri-tech like precision agriculture and have begun to transform the crop insurance industry as producers are able to collect data and monitor their crops better than ever before.

 **What Is Reinsurance**

It occurs when multiple insurance companies share risk by purchasing insurance policies from other insurers to limit their own total loss in case of disaster. Described as "insurance for insurance companies" by the Reinsurance Association of America, the idea is that no insurance company has too much exposure to a particularly large event or disaster.

## Underwriting Insurance

Underwriting is the process through which an individual or institution takes on financial risk for a fee. The risk most typically involves loans, insurance, or investments. The term underwriter originated from the practice of having each risk-taker write their name under the total amount of risk they were willing to accept for a specified premium. Although the mechanics have changed over time, underwriting continues today as a key function in the financial world.

Underwriting involves conducting research and assessing the degree of risk of each applicant or entity before assuming that risk. This check helps to set fair borrowing rates for loans, establishes appropriate premiums to adequately cover the true cost of insuring policyholders, and creates a market for securities by accurately pricing investment risk. If the risk is deemed too high, an underwriter may refuse coverage.

 **Factors affecting the growth of Life Insurance Industry**

The growth of Indian life insurance sector is divided into two main periods. First part of the period of study is from 2001 to 2010 and other from 2011 to 2014. The first 10 years was a period of high growth. Most of the players were in good condition due to the emergence of unit linked insurance plans. From 2010 onwards, that is after the first decade the insurance industry has undergone lot of changes as there was a stiff competition, changed IRDA guidelines with respect to sale of ULIP‟s and changes in commission structure paid to the agents which were the major reasons for the stagnant growth in this recent scenario in life insurance industry. The present research paper studies the factors affecting growth of the entire private life insurance sector in India in the light of changes mentioned above. For this purpose, various indicators like total number of policies issued, region wise distribution of offices, accumulated profit or loss, total life insurance business and premium income in Indian life insurance industry have been analyzed.

### 1. New entrants

Insurance companies have remained relatively constant. Most of them have been in business for a good hundred years. Recently, however, there has been a rise in the number of new entrants marketing, selling or servicing insurance products or providing new capital. A range of new companies is coming in, redefining how insurance is done, and reshaping the economics of the industry in the process.

Many of these new entrants are interesting organizations with great capabilities. Google, which entered the UK market in 2011 as an insurance aggregator, is perhaps the most formidable new entrant, from the perspective of a traditional insurer. The technology giant joined the emerging insurance aggregation market, significantly disrupting competitive market conditions and, by some accounts, subsequently helping lower insurance premiums by roughly 30% over the last 5 years.

### 2. Social and economic dynamics

We’ve moved into a very low interest rate period, and those low rates are putting a lot of pressure on the profitability of insurance companies. Insurance is an industry that, essentially, takes in money and invests that money before subsequently paying claims. So, with lower investment returns, there’s less profit being generated by the insurance sector.

### 3. The data revolution

Insurance companies have always made use of substantial amounts of data, but how they leverage data is changing in significant ways. It used to be that, if an insurer had an efficient operation and a large volume of risk data, it could find success by comparing, pooling and underwriting similar risks. Now, data is everywhere. It’s pervasive, and it’s immediately available. The whole concept of pooling risks may end up disappearing because, in effect, the data revolution will actually enable insurers to underwrite down to the individual level.

### 4. The digital mandate

The convenience and efficiency of online and mobile channels, coupled with the commoditization of the core insurance product, has led insurance customers to seek a new experience.

The digital insurance trend, then, is really about the way consumers will choose to interact with an insurance company, as opposed to the way today’s insurance compa- nies try to dictate interactions with consumers. Going forward, insurers will need to focus far more on the consumer as an individual. In this environment, an effective omnichannel strategy will be key, as will an insurer’s capabilities around self-service.

# **What is the Role of IRDA in Insurance**

##  Introduction of IRDA

IRDA means insurance regulatory and development authority. Insurance Regulatory and Development Authority of India (IRDA), it is the apex body overseeing the insurance business in India. IRDA set all rules and regulation of the insurance industry. Every insurance company is registered under IRDA. Role of Insurance Regulatory and Development Authority (IRDA) is to protect the rights of the policy holder. IRDA helps in the systematic growth of the insurance industry to benefit the common man and help in bringing economic growth.

### What is IRDA Act?

Insurance Regulatory and Development Authority of India Act was passed by the Parliament in the year December 1999. The Act received the President’s approval in the year January 2000. The Act intends to protect the interest of the insurance policy holders. It also inspires and secures the systematic growth of the insurance industry.

###  What is IRDA Format for Insurance Industry?

IRDA today set a standard format for all insurance sector in India. life insurance, health insurance, marine insurance, etc. Insurance regulator IRDA today set a standard format for all insurance company to improve transparency and help people make informed decisions.

## Functions of IRDA:

* To protect the interest of policy holders
* To maintain speedy growth of the insurance industry
* To provide funds for the growth of the Indian economy
* To promote, monitor and regular fair dealing with the insurance company
* To manage the claim quickly and properly
* To prevent frauds & manage the grievance system properly
* To maintain transparency & fairness of insurance products in the industry
* To register the companies who run in the insurance business

## Role of Insurance Regulatory and Development Authority (IRDA)

Role of Insurance Regulatory and Development Authority (IRDA) is to protect the interest of and ensure the treatment to insurance policy holders. To inspire the systematic growth of the insurance industry to benefit the common man and help in bringing economic growth.

##  Impact of Insurance Regulatory and Development Authority (IRDA)

* Impact over Regulation of Insurance Sector
* Impact over Policyholders Interests Protection
* Impact over Awareness to Insurance
* Impact over Insurance Market in India
* Impact over Development of Insurance Product
* Impact over Competition in the Insurance Sector
* Impact over Saving and Investment of Individual
* Impact over Government Responsibility
* Impact over Banks and Post Offices
* Impact over Individual Life’s
* Impact over Share Market
* Impact over Indian Economy

###  Effect of Insurance Regulatory and Development Authority (IRDA)

* The effect on the Regulation of Insurance Industry
* The effect over the protection of policyholders
* The effect of Awareness about Insurance policy
* The effect over Indian Insurance Market
* The effect over the Development of Insurance Product
* The effect on Competition between Private and Public sector
* The effect over Banks and Post Offices

##  Insurance Products in IRDA:

Insurance products offered by the insurers are of value to the policyholder and that their pricing is appropriate and fair between the insurer. There are various verities in Insurance according to the different needs. Now a day’s customer is analyzing and comparing the policies of various companies with one another and choosing the best among them. The insurance industry has a huge market to target. Insurance products act more as a protection tool than as a way to save tax. The main factor to compare insurance policy is Price, service, and products that differentiate one product from another. No Company can introduce a new product before taking prior approval from the Insurance Regulatory and Development Authority (IRDA).

## UNIT-II

##  What is Life Insurance

Life insurance is a contract that offers financial compensation in case of death or disability. Some life insurance policies even offer financial compensation after retirement or a certain period of time. Life insurance, thus, helps you secure your family’s financial security even in your absence. You either make a lump-sum payment while purchasing a life insurance policy or make periodic payments to the insurer. These are known as premiums. In exchange, your insurer promises to pay an assured sum to your family in the event of death, disability or at a set time.

Life insurance can help you support your family even after retirement. Depending on what it covers,

**Life insurance can be classified into various types:**





Tax Benefits

* Life insurance not only ensures the well-being of your family, it also brings tax benefits.
* The amount you pay as premium can be deducted from your total taxable income.
* However, this is subject to a maximum of Rs 1.5 lakh, under Section 80C of the Income Tax Act.
* The premium amount used for tax deduction should not exceed 10% of the sum assured.

**NEED OF LIFE INSURANCE**

**1. LOOKING AFTER YOUR LOVED ONES EVEN AFTER YOU'RE GONE:** This is the most important aspect of life insurance that one needs to factor in. Your family is dependent on you even after you're gone and you certainly don't want to let them down. Whether it's for replacing lost income, paying for your child's education or making sure your spouse get the much-needed financial security, life insurance could save the day for your surviving dependents.

**2. DEALING WITH DEBT:** You don't want your family to deal with financial liabilities during a crisis. Any outstanding debt-a home loan, auto loan, personal loan, or a loan on credit cards-will be taken care of if you happen to buy the right life insurance policy.

**3. HELPS ACHIEVE LONG-TERM GOALS:** Since it is an instrument that keeps you invested for the long term, it would help you achieve your long-term goals such as buying a home or planning your retirement. It also provides you with diverse investment options that come along with different types of policies.

Some policies are tied to certain investment products that pay dividends based on their performance. If you are opting for an investment-linked policy, be sure to read the fine print to be fully aware of the potential risks and returns.

**4. LIFE INSURANCE SUPPLEMENTS YOUR RETIREMENT GOALS:** Who wouldn't like their retirement savings to last until they do? With a life insurance plan, you can ensure you have a regular stream of income every month. Putting money in an annuity is like a pension plan- put in some money regularly in a life insurance product and enjoy a steady income every month even after retirement.

**5. BUYING INSURANCE IS CHEAPER WHEN YOU'RE YOUNGER:** Not every millennial needs a life insurance policy. If you haven't created an emergency fund or you're still living off your parents' money, insurance shouldn't be a priority.

However, if you do have dependents or you have co-signed a loan with your parents (or any other member of your family or friend), whether it be a student loan or a home loan, you need to start considering buying a life insurance policy. Besides, coverage costs are much lower when you're single. Insurance agents may try to sell you a policy that you might not need.

**6. YOUR BUSINESS IS ALSO TAKEN CARE OF:** Life insurance isn't only for yourself and your family. Some insurance policies also take care of your business. If you own a business, then your business partner can purchase your portion of the business without hassle. Your business partner( s) will enter a buy-sell agreement and the payout would go to the deceased partner's nominees, but without giving them a stake in the company. There are two types of life insurance policies-a term insurance policy and a life insurance policy.

While we are all aware of the death benefits these insurance policies provide, we know little about the various options they lay out that could help strengthen your financial position.

A term insurance provides protection for a specified period of time (10, 20 or 30 years) and pays out the benefits only if you die during the term. The policy will expire and coverage will end if you outlive your policy. An investment-cum-protection plan on the other hand offers you a lump sum amount on the completion of the term of the policy. These plans also offer you protection but the cover is usually not as high as offered with term plans.

**7. TAX-SAVING PURPOSES:** You could save taxes with insurance policies irrespective of what plan you buy. The premium you pay on an insurance policy is eligible for a maximum tax benefit of Rs 1.5 lakh under Section 80C, and for tax-free proceeds on death/maturity under Section 10 (D) of the Income Tax Act, 1961.

**8. A TOOL FOR FORCED SAVINGS:** If you choose a traditional or unit-liked policy, you pay a premium each month, which is higher than what it costs to insure you. This bit of extra money is invested and it accrues cash value. This cash can then be borrowed against the policy or you can choose to sell it or draw income from it.

**9. YOU MAY NOT BE QUALIFIED FOR IT LATER:** Life insurance policies run on uncertainties. You may be healthy now and paying a premium for life insurance may seem to be an added financial burden, but if you suddenly fall ill, you may not be allowed to but a life insurance policy. Therefore, it is imperative to buy one early on in your life because it remains in force if your health deteriorates later on. Insurance companies allow you to attach certain riders or benefits to your existing or new policy.

These riders enhance the quality of your insurance. The accelerated death benefit rider, for instance, allows the policy owner to avail all or a part of the policy's death benefit if he or she has less time to live due to a critical illness, or wants to use the money for medical treatment or related expenses.

**10. PEACE OF MIND:** Death is unavoidable. In the face of tragedy, the least you can do for your family is to secure their financial future. Even if it is a small policy, you know that you've done all you can to help them tide over difficult times.

Pandey says, "Life insurance is a great tool for both protection as well as helping a consumer save in a disciplined manner, which leads to creation of a good corpus. The need for life insurance changes at different stages of your lifecycle depending on the financial obligations and dependencies."

 **FACTORS AFFECTING THE NEED OF LIFE INSURANCE**

### Age

Your date of birth is the No. 1 factor in determining your life insurance rate. Younger policyholders pay lower premiums. As you age, the likelihood an insurer will have to pay out on your policy increases, and therefore premiums increase.

### Gender

Women tend to live longer than men. In the United States, the average life expectancy for women is 86.7 and 84.3 for men. The disparity means that women generally pay less for life insurance than men do.

### Health History

Insurers may require a medical exam and access to your health records before issuing a policy. A history of health conditions, especially serious illnesses such as heart disease or cancer, will increase your premiums. Insurers will also look at your weight, cholesterol levels, blood pressure and other metrics that could indicate future health issues.

### Family Health History

Even if you have no current health issues, a family history of illness, especially hereditary diseases, could factor into your life insurance premium and increase the cost of your coverage.

### Smoking

The health risks associated with smoking, including potentially fatal diseases like cancer, mean increased premiums. If you’ve quit smoking since purchasing life insurance (congrats, by the way!), call your provider to see if your non-smoker status will lower your rate.

### Hobbies

Do you spend weekends skydiving? Have a passion for racing cars? High-risk hobbies could lead to higher premiums, but exactly which activities fall into this category varies by insurer. It may pay to shop around for quotes.

### Occupation

Loggers and pilots are among the many professions often considered riskier than others. When you apply for life insurance, insurers will ask about your work. Your premiums could be higher if you have an occupation that exposes you to toxic chemicals or requires you to perform dangerous duties.

### The Policy

The specifics of the life insurance policy you choose will also play a role in determining your premium. Policies issued for larger benefit amounts over longer terms generally cost more than policies with smaller benefit amounts over shorter periods. Whole or permanent life insurance policies tend to be more expensive than term life insurance policies.

Understanding the cost factors that go into life insurance premiums — and making changes such as losing weight, quitting smoking or adopting a healthy lifestyle to lower your blood pressure and cholesterol — can help you make smart decisions for picking the right policy at the right price.

##  **What is ULIP**

Unit Linked Insurance Plan (ULIP) is a mix of insurance along with investment. From a ULIP, the goal is to provide wealth creation along with life cover where the insurance company puts a portion of your investment towards life insurance and rest into a fund that is based on equity or debt or both and matches with your long-term goals. These goals could be retirement planning, children’s education or another important event you may wish to save for.

## ****How does ULIP work?****

When you make an investment in ULIP, the insurance company invests part of the premium in shares/bonds etc., and the balance amount is utilized in providing an insurance cover. There are fund managers in the insurance companies who manage the investments and therefore the investor is spared the hassle of tracking the investments.

ULIPS allow you to switch your portfolio between debt and equity based on your risk appetite as well as your knowledge of the market’s performance. Benefits like these which offer investors the flexibility of switching is a huge factor contributing to the popularity of these investment instruments.

**Types of ULIPs**

 **Lock-in-period of ULIP**

One of the changes brought about by the Insurance Regulatory and Development Authority of India (IRDAI) in the year 2010 as regards ULIPs, was to increase the lock in a period from 3 years to 5 years. However, insurance being a long-term product, as an investor you may not really reap the benefits of the policy unless you hold it for the entire term of the policy which can range from 10 to 15 years.

 **Why you should invest in ULIPs?**

* **Life cover:** First and foremost, with ULIPs you get a life cover coupled with investment. It offers security that a taxpayer’s family can fall back on in case of emergencies like the untimely death of the taxpayer, etc.
* **Income tax benefits:** Not many are aware that the premium paid towards a ULIP is eligible for a tax deduction under Section 80C. Additionally, the returns out of the policy on maturity are exempt from income tax under Section 10(10D) of the Income-tax Act. This is a dual benefit that you can claim with this policy.
* **Finance Long Term Goals:** If you have long-term goals like buying a house, a new car, marriage, etc., then ULIP is a good investment option because the money gets compounded. As a result, the net returns are generally more. This stands true even if you want to exit after the 5 year lock-in period in comparison to not having invested the amount at all and retaining it in a savings account or in the form of an FD. But, under ULIP, the mantra is to always keep the policy going for a longer time horizon to reap the best out of it.
* **The flexibility of a portfolio switch:** As already mentioned, ULIPS are usually designed in a way that they allow you to switch your portfolio between debt and equity based on your risk appetite as well as your knowledge of how the market is performing. Insurance companies, on the other hand, allow a very few numbers of switches free of cost.

 **TRADITIONAL INSURANCE:**

**Definition:** Traditional insurance plans provide multiple benefits like risk cover, fixed income return, safety and tax benefit. Traditional Insurance plans are the oldest plans and cater to individuals with a low risk appetite.

**Description:** Traditional insurance policy plans provide the sum assured and a guaranteed or a vested bonus at maturity. These plans take a limited exposure in high risk equity and hence the downside probability is also low. These plans are suitable for the purpose of tax planning. Unlike ULIPs, premature withdrawal is normally not allowed in the case of traditional plans.

##  Benefits of a Life Insurance Policy

* Financial security to the family
* Income replacement in case life assured dies during the policy term
* Paying off debts
* For securing your life after retirement
* Leaving an inheritance
* To meet short-term and long-term financial goals
* Child’s Education

## How to Choose Best Life Insurance Policy

Buying a Life Insurance policy will depend on individual’s situation and condition. The policy which is suitable for your friend may not be suitable to you and your family.

Below is the list of the factors which will help you to select the best life insurance policy available.

### Basis On Which You Should Choose the Best Life Insurance Policy in India

**How Much Life Insurance Coverage Do you Need?**

How many financially dependents do you have?

Knowing the number of dependents and the extent of their financial dependency on you for their financial needs is key to start with. After all, the very purpose of life insurance is to provide financial security when you are no more.

To decide on the amount of life cover, you need to see number of people financially dependent on you.

You may also like to consider, the amount they may require to continue their lifestyle in your absence. Or if you have young ones to take care of, how much money they may need to cover their education fees and other needs in the future.

Moreover, don't forget to consider inflation while figuring out the coverage required.

**2. Your Age**

Buying an insurance policy based on your current age plays an important role in deciding the type of insurance policy you should opt for. The cost of some Life insurance policies depends on your age, the younger you are, the cheaper your life insurance policy is and vice-versa

It is suggested to buy early, when you are young and financially independent.

**3. Retirement Planning**

Are you looking for retirement planning?

If yes, retirement plans may be a good start to think as a source of cash flow post-retirement. Choosing the right retirement policy will help you to live a stress-free life after retirement.

**4. Individual Needs**

To buy the best life insurance policy one should determine the basic need for which this policy is bought. For a person who has a number of financially dependent people, buying a Life Insurance Policy is of high importance. If the financial condition of the family is likely to deteriorate in case of death of the breadwinner, life insurance policy for him/her will provide financial security to the family.

If you are a business owner or an entrepreneur, you may want to consider Keyman life insurance policy to secure your business from being collapsed. If you are unmarried and have dependent parents, you must reconsider your options.

**5. Lifestyle**

The premiums charged for a life insurance policy varies based on the lifestyle of the life assured. If the life assured is a smoker, he will be charged more as compared to the non-smokers. Taking care of your own health will provide benefits while buying a life insurance policy.

It is advisable to compare life insurance policies online before you purchase. When you compare policies, you can check which life insurance plan is pocket-friendly even for smokers.

**6. Debts**

One can make use of a Life Insurance policy to balance out their financial condition.

Life Insurance Plans such as Traditional Endowment plans or Whole Life plans allow the policyholder to borrow a loan against the policy. And taking a loan against your policy is a good option rather mortgaging your home. Choose a plan, which gives you a higher loan. It is also advisable to check the interest rate before applying for the loan against your policy.

**7. Risk Appetite**

How much is your risk appetite?

Are you comfortable with high risk and good returns on investment?

Then you can opt for a unit linked life insurance plans. If you are not comfortable with a high risk product, you can opt for a traditional endowment plan.

**8. Annual Income**

To determine the amount of life cover to be bought will depend on your current income. Decide on an amount, which, if deducted from your income, will not have a huge financial impact on your day-to-day requirements. When buying a term plan, it is suggested to buy a term plan with a life cover of 15-20 times your annual income.

**9. Riders**

Riders are add-ons, which an insurance company provides to the policyholder by paying extra premiums. Riders enhance the life insurance policy coverage.

Most common life insurance riders:

* Accidental Death Benefit Rider.
* Accidental Total and Permanent Disability Benefit Rider
* Waiver of premium
* Surgical Care
* Hospital Cash.
* Critical Illness Rider

Some life insurance companies may offer all the types of riders, while some may not. Choose the right life insurance by knowing each type of rider, and knowing which type of rider you want (if any). Also check if any life insurance company offers it as an in-built feature of a plan.

**10. Future Financial Goals**

One can buy life insurance plan for the future to meet different life stage financial goals.

These goals could be:

* Meeting your short-term or long-term financial needs
* Planning for retirement
* Child's education, marriage, etc.

##  Tips to Choose the Best Life Insurance Policy

To come up with the best life insurance plan, it is crucial to understand your financial needs and also, the main objective of buying a life insurance policy.

1. Assess your financial needs - long-term and short-term goals.
2. Depending on the number of financial dependents you have, you need to figure out the life insurance coverage.
3. If you are buying a life insurance plan only to provide financial security to your family, it is advisable to opt for a term insurance plan for a high sum assured at a low cost.
4. To buy the right type of insurance, you must compare life insurance policies online.
5. Compare insurance plans in detail, check plan's inclusions and exclusions, and premiums charged by various insurance companies.
6. Opt for a life insurance rider, only if you need it.
7. Compare plans, some insurance companies do offer riders as an in-built feature of a plan. You can save money on that by comparing life insurance policies online.
8. Seek experts’ advice if you are confused, before you buy.
9. Choose how you will pay the premium: Regular(annually, monthly, quarterly), Limited Payment Term, or Single Payment. It is suggested to pay premium annually.
10. Choose the right way of payout: Lump sum, equal installment over a period, or a combination of both. Depending on your financial needs at various life stages and also, on the financial knowledge of the nominee, you can select the payout option as suitable.

**UNIT 3**

**HEALTH INSURANCE:- NEED AND ITS TYPES**

India is undoubtedly one of the fastest growing economy in the world, but on the other side it is also a home to many diseases. Thanks to development in medical science, in India many ailments are treatable but what pinches your pocket is the cost to treat those diseases. Many get this need catered by their employer’s health cover; however that isn’t the permanent solution. The employer’s health benefits or insurance cover lasts only till the time you are working in the company once you quit you lose all the accumulated benefits and coverage too. Probably, by that time your age could be above 30 years so chances of premium hike prevails, plus your pre existing illnesses remain uncovered at the time of buying the insurance. Hence, it’s important in India that people buy a health insurance plan to secure their medical needs.

**Meaning of Health Insurance :-**It is a form of collectivism by means of which people collectively pool their risk, in this case the risk of increasing. It is a system of assurance to make contingencies of health care expenses.

**Characteristics of Health Insurance**

**Types of Health Insurance**

**Types of Health Insurance in India**

**Reasons why health insurance holds a prominent space in a country like India?**

Living in this fast paced world is becoming increasingly stressful and resulting in major health conditions especially among Indians. Millions of Indians lose their lives to heart diseases and diabetes, which, according to a report by WHO is the leading cause of death in India. Apart from that, respiratory diseases, birth complications, and infectious diseases are also rampant. An excellent way to prepare for such situations is to avail of health insurance policies.

**Low penetration**

In India, Only 1.1 billion of the Indian population which is less than 15% of the Indian population is covered through health insurance. As per WHO statistics 31% and 47% of the hospitalizations in urban and rural India are either financed by loans or through sale of assets. Additionally as per the figured, 70% of Indians spend their entire income on healthcare and 3.2% of Indians fall under the poverty line owing to high medical bills. This clearly shows India is still an untapped market for health insurance policies. People in India are not much aware about what a health insurance plan is how it works? And why should they get one for themselves? Due to which they lose on the lifetime savings and sell their precious assets to pay the medical bills some below the poverty line chose to settle with inferior medical treatment.

**Benefits of health plans**

**Financial stability**

Emergency medical expenses may result in severe financial distress. You may have to dip into your savings or sell your assets to meet such expenses. When you buy a health plan, you are assured of financial stability during an illness. You remain better planned

**Best treatment**

You may have to compromise on the treatment plan in case of a health condition due to lack of funds. With the best health insurance plan, you have the assurance of procuring the best treatment to overcome any health condition.

**Choice of insurance plans**

Different insurance companies offer various types of health policies. Opting for the best health insurance available in India may be confusing. HDFC ERGO has a variety of insurance plans. You may avail of a plan that specifically caters to your requirements.

Avail of health coverage so that you may take benefit of all the health insurance advantages because safeguarding yourself and your family against health problems is the best investment you will ever make.

**Health insurance coverage**

Insurance providers offer different types of plans to maximize coverage and benefits. Some of the coverage includes pre and post-hospitalization expenses, hospitalization costs, day care processes, and domiciliary treatment. Here are two most basic types of health insurance plans in India.

**Indemnity plans**

These policies will compensate the actual finance that has been incurred. You may avail the entire coverage amount multiple times during the policy term. Below is the list of a few expenses covered under indemnity health insurance.

* Hospital room rent
* Operation theater charges
* Doctors’ fees
* Medicine costs
* Pre and post-hospitalization expenses

**Lump-sum benefit policies**

These types of health plans pay the entire sum assured if the covered event occurs. For example, if the health plan includes critical illness coverage and you are diagnosed with the same, you will receive the benefits. The objective of such plans is to offer you financial support to meet expenses like:

* Physiotherapy or other rehabilitation procedures
* Monitoring devices needed in case of critical illnesses
* Follow-up medical tests and investigations
* Dietary supplements
* Ergonomic furniture or home modifications needed due to your illness

## Types of Health Insurance Plans in India:

Mentioned below are the different types of health insurance plans you can choose to meet your specific requirements:

* [Individual Health Insurance](https://www.bankbazaar.com/insurance/health-insurance.html#individual-health-insurance-plan)
* [Family Floater Health Insurance](https://www.bankbazaar.com/insurance/health-insurance.html#family-floater-health-insurance-plan)
* [Senior Citizen Health Insurance](https://www.bankbazaar.com/insurance/health-insurance.html#senior-citizen-health-insurance-plan)
* [Critical Illness Health Insurance](https://www.bankbazaar.com/insurance/health-insurance.html#critical-illness-health-insurance-plan)
* [Maternity Health Insurance](https://www.bankbazaar.com/insurance/health-insurance.html#maternity-insurance-plans)
* [Group Health Insurance](https://www.bankbazaar.com/insurance/health-insurance.html#group-health-insurance-plan)
* [Preventive Healthcare](https://www.bankbazaar.com/insurance/health-insurance.html#preventive-care-plans-in-india)
* [Personal Accident Insurance](https://www.bankbazaar.com/insurance/health-insurance.html#personal-accident-insurance-plan)
* **Individual Health Insurance:** As the name suggests, Individual health plans are made for individual policyholders. The premiums might be low under such plans, but there are a variety of factors that contribute to the price of a policy. Previous medical conditions, age, location, etc. are a few of the parameters that influence the premium.
* **Family Floater Health Insurance:** Instead of buying separate policies for every member, a family floater plan covers the entire family under one plan. Typically, parents and children (up to 2 children) can be covered under this plan. Some insurers even provide coverage for up to 15 family members. Under such plans, the sum insured is shared by all the included family members. Even though family floater plans have a higher premium than individual plans, the price is still cheaper when compared to the expenses involved in buying a different policy for each member.
* **Senior Citizen Health Insurance:** Designed to cater to the needs of the senior citizens, such plans are only for the ones who are 60 years old and above. Senior citizen plans usually come with discounts. Though only a few insurers provide such policies, they might ask for a medical check-up before selling the plan. Also, these policies may cost a lot higher than the health covers for younger consumers as senior citizens are more prone to diseases and illnesses.
* **Critical Illness Health Insurance:** Critical illness plans cover life-threatening illnesses. Cancer, heart attack, organ transplant, kidney failure, etc., are a few of the illnesses covered under such policies. A critical illness cover is especially useful if the insured has a history of certain critical illnesses in the family.
* **Maternity Health Insurance:** Maternity plans are designed to cover women who are expecting a child. It covers the expenses incurred in the pre-natal stage, delivery, and post-natal stage. Both the mother and the newborn are covered under such plans. Maternity plans can also be bought as a rider to an existing basic policy.
* **Group/Employee Health Insurance:** Such plans are usually offered by employers and are designed to include and exclude members as they join and leave the company. Group health policies are generally low in premiums due to the reduced risks involved. Such plans also allow leniency in terms of covering pre-existing illnesses among other things.
* **Preventive Healthcare:** A preventive healthcare policy covers the expenses incurred during treatments/measures taken to prevent a certain disease, illness, or cancer. Annual check-ups and screening tests are few of the services that are covered under preventive healthcare.
* **Personal Accident Insurance:** Personal accident plans specifically cover the expenses related to unforeseen accidents. Such policies provide compensation in cases of disablement, death, injury, or impairment caused by road, rail, water, or air accidents.

# Basic Terms to be followed in Health Insurance

# Policy

# Policyholder

# Premium

# Claim (First Party & Third Party)

# Exclusion ( specific condition, circumstances listed i policy that not covered)

# Occurrence

# Perit ( The Cause of loss or Damages)

# Risk ( Chance of Loss)

# Underwriting ( Process of selection risk for insurance)

# Explanation of benefits

# Co-Insurance

# Coverage Limit

# **Forms of Insurance**

# **Third-Party Administrator (TPA)**

A third-party administrator is a company that provides operational services such as claims processing and employee benefits management under contract to another company. Insurance companies and self-insured companies often outsource their claims processing to third parties. Thus, such companies are often called third-party claims administrators.

### KEY TAKEAWAYS

* Health insurance companies often outsource their claims operations to third-party administrators.
* Liability insurance claims are typically handled by third-party claims administrators.
* The role of third-party administrators is growing to include many other day-to-day operational services.

The use of third-party administrators is now common in many businesses, and the range of tasks they undertake is growing. They have distinct roles in the health insurance industry, commercial liability insurance, and investment company operations. Some firms are moving into new areas such as forensic accounting services, workers' compensation audits, and emergency response planning.

## Understanding Third-Party Administrators

Third-party claims administrators are commonly used by health insurance providers, who outsource many of their administrative functions. Not only claims administration but premium billing, customer enrollment, and other day-to-day operations are often handled this way.

A hospital or a health provider organization that sets up its own health plan will often outsource the administrative responsibilities to a third party. A company which opts to self-fund its employee health insurance plan typically contracts with a third-party claims administrator to run the program.

 Some third-party claims administrators are multinational giants that handle claims for large corporations.

In recent years, the types of programs outsourced to third parties have expanded and now may include the processing of employee retirement plans and flexible spending accounts.

### Commercial Liability Insurance

Third-party claims administrators for commercial liability insurance providers act much like claims adjusters and may work in conjunction with the insurance company's internal claims adjuster as well as outside claims investigators and defense counsel. The third-party claims administrator may even choose the defense counsel.

Some third-party claims administrators are large multinational non-insurance entities. Generally, these giants in their industry handle the claims of large corporations.

The largest third-party claims administrators by revenue include Sedgwick Claims Mgt., Crawford & Co./Broadspire, and UMR Inc.

### Retirement Plan Administration

Third-party claims administrators may manage employee retirement programs such as 401(k) plans. In such cases, the company is often owned or managed in part by an investment company. The investment company handles the money management and the third-party administrator handles the day-to-day account operations and customer care functions.

### TPA Jobs

As noted, some third-party administrators have grown into multinational corporations. However, there are also individual administrators who have gained TPA certification and work as independent contractors. TPAs need a deep knowledge of the rules and regulations of the services they are responsible for administering.

Each state has its own regulations regarding certification and licensing of TPAs. Some states require that TPAs file copies of their agreements to provide services to insurance companies to the state insurance department.

## Functions of Third Party Administrator:

### 1. Smooth claim settlement

TPA streamlines the whole process of claim settlement. They facilitate timely, fair, cost-effective and hassle-free claim process. It fosters standardization and better delivery of services as per the terms of the policy condition. In case of cashless hospitalization, they monitor and collects all the required documents from the hospital, all an insured has to do is inform the TPA about hospitalization within 24 hours. They will take care of the cashless hospitalization. He will collect all the bills from the hospital, examine the policy terms and will pass the claim.

In the case of non-cashless claims, they will settle the amount on a reimbursement basis. All the required documents, the original will need to be submitted to TPA within the due time. Generally, the claim will be passed within one month of document submission. Third party administrator is the support-system of the insurer. It administers all the facts of claims and with the expert knowledge, decides to either settle the claim or reject the claim.

### 2. Issues health-cards to the insured

TPA plays a pivotal role in an insurance contract. It takes care of administration work and creates a database of all the necessary documents of all the policyholders. They issue health-card to policyholders which help in availing cashless hospitalization. Third party administrator also helps in disseminating all the crucial information to policyholders. Informing customers about empanelled hospitals i.e. the list of network hospitals. They streamline health care services and cost.

### 3. 24-hour helpline

A TPA provides a toll-free helpline number to all the policyholder which works 24X7 for customer services. A policyholder can contact them using that number, sitting anywhere in India. Special consultation is also provided from their end. It adds value to the services of TPA and assures policyholder that someone is there to solve their queries.

### 4. Value-added services.

Apart from the easy and smooth claim process, they provide various value-added services to the policyholder. They arrange various medical services such as ambulance, well-being programs, customer contact centre. These health facilities aid the insured in case of medical emergencies. TPA services are free of cost and there is no hidden cost applicable in the insurance contract.

## Case Study:

Rahul, an employee of XZ Tech. Limited, faced a medical issue at 2 A.M. He was hospitalized. He was not worried about medical cost since he has a group mediclaim policy. Rahul availed medical treatment in a network hospital. Hence, the claim settled on the cashless basis.

Rahul took the following steps for smooth claim settlement:

* Rahul’s wife sent an email to TPA within 24 hours of hospitalization.
* The respective doctor of Rahul filled the authorization form. This cashless authorization form is available at the TPA’s help-desk located inside the hospital.
* He submitted the authorization form to the respective hospital’s help-desk.
* Helpdesk will coordinate with the central TPA office.
* TPA office will approve the cashless facility.

The employee should have a valid photo ID proof and TPA card for a cashless facility. An employee can get cashless claims approved to 7 days in advance before admission to prevent last minute hassles.

Third party administrator help-desk will generate an acknowledgement number which is critical at the time of claim submission.

TPA is the chief support system of insurers. It lowers down the burden of the insurer and fosters easier and smoother claim settlement. Before buying the policy, one should know the details of TPA, its claim turn-around-time and reputation in the market.ShareTwe

Typeset+1Share **Types of settlement under TPA**

**UNIT 4**

**Pricing and Distribution Channels of Insurance Plans**

**Introduction**

The aim of a distribution channel is to allow customers to access and purchase products in the most efficient way for the business. We compare the various distribution channels and consider how insurance companies may use direct or indirect channels, or combination of this.

Each distribution channel brings its own costs & benefits ad insures must analyze these when deciding which to use. The number of distribution channels available to an insurer depends on the types products, service &customer that it deals with. There are 6 steps selection process that insurers can use to help them choose between distribution channels.

1. Defining a customer segment to target
2. Identifying customers channels requirement
3. Assessing its capabilities to meet those requirement
4. Compare the channel with competitors
5. Create channel solution for customer needs
6. Evaluate & Select channel options

**Distribution Channels**

1. **Call Centers:** It provide insurance companies with a efficient method of transacting insurance with customers. Their sales activities are focused o achieving specific targets. the popularity of call centers has grown out of the competitive market as their efficiency reduced the transaction costs of policies.
2. **Insurance Agents:** An agent is an individual who acts o behalf of another person or group.
3. **Lloyd’s Agents:** These agents are appointed by Lloyd’s as marine services to supply local shipping ad casualty information. They also carry pre and post –loss marine cargo surveys
4. **Appointed representative:** A agent can be appointed to provide advice and sell insurance for a particular insurance for a company .
5. **Mutual organization:** They provide protection for the risks that companies were not willing to care. For Example: P&I Clubs, National farmers union.DG Funds etc.

**Indirect Channels:-**

1. **Insurance Brokers:** Brokers are required to have a brokers lice**n**se which typically means the broker will have more education or experience the agents. Brokers charge higher administrators fee or premium payment .
2. **IFA’s:** It provides advice to assurance , persons & Investment ad are regulated by IFA. They may belongs to an insurance broking firm.
3. **Financial Organizations:**  Such as banks & building societies, they provides insurance to their customers in various ways.

1. **Managing General Agents:** MGA’s is a agency whose primary function is focus o the provision of underwriting services. It has focus o the small medium enterprises of the market .
2. **Retail Organization:** Customers are more likely to buy products such as insurance policies from brands they trust. retailers selling insurance policies offer while label products that are administrated by an insurer through call centers.
3. **Affinity group:**  It is a group of people with similar or common interests. It may use its customer buying power to obtain insurance cover through a broker.
4. **P2P group:**  It is a recent innovation which has created interest in the USA ,UK & Germany . Its aim to save money by removing inefficiencies & the conflicts of interest that arise b/w insurer & customers at the time of claim. It is a group of peoples who share similar characteristics.
5. **Aggregators:**  they are online quotation services that can calculate premium in minutes from a number of different insurers on to one website. Customers are promoted by selected questions to enter the details of their insurance requirement & the aggregators website than calculate & display a range of premium & terms.
6. **Brokers Network:** A broker network is made up of predominantly small, independent insurance brokers who join to form a club.

 **Factors Affecting Insurance Premiums**

The effect of proposals **to** **increase coverage** would depend in part on the premiums charged and the value of the coverage provided. In particular, the costs of a subsidy that covers a specified percentage of policy premiums would be affected by the amount of those premiums, whereas the impact of a fixed-dollar subsidy on coverage rates would depend on the share of the premiums it covers. Thus, the factors that determine premiums also affect the impact that a proposal has on insurance cover­age and the federal budget.

In general, the premium charged for a private health insurance policy is equal to the sum of two components: the average amount that an insurer expects to pay for services covered under the plan; and a loading factor that reflects the insurer’s costs of operating the plan (including administrative expenses and a return on investment). An insurer’s costs for covered services in turn reflect the scope of benefits that are included, the plan’s cost-sharing requirements, and the health status of the plan’s enrollees.

**Design of Benefits and Cost Sharing**

A health insurance plan is essentially a contract between an insurer and an enrollee. In exchange for premium pay­ments, the insurer agrees to cover certain medical services that are specified in the plan. The plan also details the share of costs that both the insurer and the enrollee will bear for each of those services. Thus, two key design ele­ments of a health insurance plan are its scope of covered benefits and its cost-sharing requirements.

**Covered Benefits**

Nearly all health insurance policies cover hospitalization, physicians’ services, and prescription drugs—the three largest categories of spending on health care—but greater variation in coverage exists for dental care and more spe­cialized medical services (such as infertility treatments). Legislative proposals to increase the number of insured people could require that health insurance plans cover certain types of medical services. Under such proposals, individuals (or their employers) might not qualify for subsidies or fulfill a mandate unless they were covered by plans that included those benefits.

**Cost Sharing**

Cost-sharing requirements—the amount that consumers are required to pay out of pocket when they use health care services—can take the form of deductibles, co-insurance, or copayments. Deductibles are the amount of spending an enrollee must incur before coverage begins; coinsurance and copayments are a portion of spending an enrollee pays at the time of service. Most private insur­ance plans also limit enrollees’ financial exposure through an annual cap on out-of-pocket spending.

**Actuarially Equivalent Plans**

One useful way to compare health insurance plans with different design features is by examining their actuarial value. That summary statistic measures the share of health care spending for a given population that would be covered by each plan and thus reflects both covered services and cost-sharing requirements

What Is Actuarial Value?

The actuarial values of current insurance plans vary across employers and between the group market and the indi­vidual market. For employment-based plans, actuarial values—expressed as the share of a given population’s medical claims that would be covered by the plan—are typically between 65 percent and 95 percent, with an average value that is between 80 percent and 85 percent. Deductibles and other cost-sharing requirements are typically larger for policies purchased in the individual insurance market, where actuarial values generally range from 40 percent to 80 percent, with an average value that is between 55 percent and 60 percent.

Actuarial-value calculations could be incorporated into legislative proposals in various ways. Proposals that speci­fied a particular benefit design could allow plans to devi­ate from that design so long as they provided actuarially equivalent benefits. For example, the Medicare drug ben­efit specifies a standard benefit with a specific deductible, coinsurance rate, and catastrophic threshold (above which enrollees pay about 5 percent of their drug costs).[7](https://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/99xx/doc9924/chapter3.7.1.shtml%22%20%5Cl%20%2275) But drug plans are allowed to reduce the deductible, vary the coinsurance rate, or use tiered copayments for differ­ent types of drugs so long as the plan’s overall actuarial value remains the same and certain other actuarial tests are met. Drug plans are not, however, allowed to increase the deductible or change the catastrophic threshold.

**Update Factors**

Whether a required level of coverage was defined using the actuarial value of a benchmark plan or with reference to specific cost-sharing requirements, the way in which those values were updated over time would have impor­tant implications for a proposal’s effects on the federal budget and on coverage rates. If a requirement regarding the actuarial value of plans was fixed in nominal dollars (that is, not adjusted for inflation), plans would cover a declining share of health care costs as those costs rose. Alternatively, if plans were required to cover a specified percentage of health care costs, their actuarial value in dollar terms would rise along with those costs. Similar issues would arise if requirements were imposed on cost sharing. If deductibles or other cost-sharing requirements were fixed in nominal dollars, the share of costs covered by an insurance plan would increase over time as health care costs rose—making the coverage more valuable but also increasing its premium.

Those issues can be addressed by indexing a plan’s parameters, but the choice of index can significantly affect the cost of a new program and the scope of cover­age provided. If the required actuarial value of plans was specified in dollar terms and updated using a general inflation index (such as the consumer price index) rather than a health-specific index (such as growth in per capita health expenditures), that value would probably decline in future years relative to the cost of health care because health care spending is expected to grow more rapidly than general price levels.

**Use of Other Cost-Containment Practices**

Health plans use a variety of other practices to contain health care costs. One approach is to manage access to expensive medical benefits by requiring prior authoriza­tion before the services will be covered. A second approach is to use price signals—that is, variations in cost-sharing requirements—to encourage enrollees to use less expensive medical care. Managed care plans also may use evaluations of providers on both price and quality terms to give feedback to those providers or to structure the information and incentives given to enrollees.

**Managing Access and Use.**Controlling enrollees’ access to more specialized (and expensive) medical services can help health plans manage their costs. Many plans require prior authorization for nonemergency hospital admis­sions and other selected services. To limit access to expen­sive drugs, many plans use "step therapy"—a process in which patients are required to begin treatment with less expensive alternatives (such as generic drugs) and then switch to a more expensive drug only if necessary. Enroll­ees in some HMO and POS plans must select a primary care physician who is responsible for approving referrals to specialists, but that approach is less common than in the past. More generally, differences between HMOs and PPOs have diminished as many managed care plans elim­inated or relaxed some of their cost-control procedures in response to widespread complaints in the late 1990s from consumers and providers. However, some of those cost-containment procedures were subsequently reinstated or replaced by new procedures to limit spending

**Varying Cost Sharing:** Plans encourage enrollees to use providers within their network by requiring lower cost sharing for in-network care. In some cases, plans also use differences in cost-sharing requirements or other tech­niques to influence consumers’ choices within their approved networks or range of covered treatments and services. For example, plans generally establish a drug for­mulary or list of drugs that the plan covers (which is akin to a provider network). In addition, plans typically try to limit spending on prescription drugs by negotiating price discounts or rebates from drug manufacturers in return for giving their drugs preferred status on the formu­lary—and with it, lower copayments for enrollees. Plans also encourage enrollees to use lower-cost generic versions of drugs when they are available, by setting the lowest copayment amounts for those drugs.

**Effects of Managed Care on Premiums and Spending**

Determining the effects of the various cost-containment tools can be difficult because health plans use different combinations of them, and plans vary along a number of other dimensions.

**Regulating the Operations of Health Plans**

Proposals to change the health insurance market or to subsidize insurance purchases might include provisions affecting the management of health plans. During the past decade, for example, the Congress has considered several versions of legislative proposals—commonly referred to as a "Patients’ Bill of Rights"—that would have restricted insurers’ management of health benefits.

Types of Provisions.

Proposals like the Patients’ Bill of Rights could change how health insurers interact with enrollees, in several ways. Under some proposals, insurers would be required to cover certain types of care, such as visits to specialists, without a referral from an enrollee’s primary care physician. Past proposals also would have granted enrollees rights of redress, allowing those who had been denied coverage for a particular service to appeal the decision or pursue other remedies in civil courts. Transactions among insurers, providers, and enrollees are another area of concern, with legislative proposals addressing how information about a plan is presented to enrollees or specifying rules for the prompt payment of claims to providers.

Other provisions could also regulate insurers’ networks of providers. Any-willing-provider laws require that health plans include in their network any provider who agrees to abide by the terms and conditions of the plan’s contract. Many states enacted such laws in the 1990s, but those laws do not apply to employment-based plans that are exempt from state regulation. Network-adequacy require­ments would establish rules about the number of differ­ent types of providers that plans must have in their net­work, and restrictions on provider profiling would limit plans’ ability to use their analysis of medical claims and other factors to exclude providers from their networks or to develop tiered networks.

Effects on Health Insurance Premiums.

In its previous analyses of proposals to create a Patients’ Bill of Rights in 1999 and 2001, CBO generally determined that many of their provisions—which are similar to those described above—would increase spending on health care.[13](https://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/99xx/doc9924/chapter3.7.1.shtml%22%20%5Cl%20%2281) Since then, however, many health plans have dropped certain cost-containment procedures or replaced them with other techniques; to the extent that such changes were not anticipated, the magnitude of CBO’s estimates of the effects of new proposals that affect plans’ management techniques may differ from its previous findings.

Administrative Costs of Health Plans

Proposals to change the regulation of insurance mar­kets—as well as many other types of proposals—could affect the costs of health insurance by changing the administrative costs of health plans (sometimes referred to as "administrative load"). In this discussion, adminis­trative costs refer to any expenses insurers incur that are not payments for health care services, including the profits retained by private insurers and the taxes paid on those profits.

Types of Administrative Costs

Administrative costs can be divided into three categories:

* Marketing costs include expenses for advertising, sales, enrollment processing, customer service, billing, and actuarial and underwriting activities. (Underwrit­ing involves an assessment of an applicant’s health and expected use of health care in order to determine what premium to charge.)
* Costs associated with medical activities include expenses for claims review and processing, medical management (such as utilization review, case manage­ment, quality assurance, and regulatory compliance), and provider and network management (contracting with doctors and hospitals and maintaining relations with providers).
* General administrative costs are difficult to allocate to a specific function; they include expenses for infor­mation technology, general management overhead, profits, and taxes.

Variation of Administrative Costs

Administrative costs typically vary not only by the type of insurance plan but also by the size and nature of the group being insured. Among employment-based plans, the share of the premium that pays for administrative costs varies significantly by the size of firms, from about 7 percent for firms with at least 1,000 employees to 26 percent for firms with 25 or fewer employees.[16](https://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/99xx/doc9924/chapter3.7.1.shtml%22%20%5Cl%20%2284) The latter loading factor is comparable with the one seen in the individual insurance market, where administrative costs account for nearly 30 percent of premiums.

To a large extent, the variation in administrative costs among private plans reflects economies of scale. Some types of administrative costs, such as sales and marketing expenses, are relatively fixed for the group being insured; thus, the larger the group, the smaller the cost per enrollee. In particular, plans that are sold to individuals and small groups are more likely to incur fees for insur­ance agents and brokers to handle the responsibilities that larger firms generally delegate to their human resources departments—such as finding plans and negotiating pre­miums, providing information about the selected plans, and processing enrollees. Because large firms can spread those costs over a greater number of enrollees, their aver­age administrative costs per enrollee are lower.

Potential Effects of Proposals on Administrative Costs

Depending on their design, proposals could have a signif­icant impact on the administrative costs involved in pro­viding health insurance—which, in turn, could have a substantial effect on policy premiums. Administrative costs would probably be affected indirectly by proposals that altered the number of insurers, the size of purchasing pools, and insurers’ responsibilities. Some proposals might seek to limit the amount spent on administrative costs by specifying a minimum loss ratio, but the net effect of such proposals on insurance premiums or health care spending is uncertain.

Effects of Gaining Insurance Coverage on Health Care Use and Spending

Proposals that expand coverage to people who currently lack insurance would lead to an increase in their use of medical services, which in turn would affect the costs of those proposals and their impact on spending for health care. The extent to which the demand for care would increase depends partly on the number and characteristics of the newly enrolled individuals—including their health status and their preferences for medical care—and partly on the scope of the coverage that they obtain. Estimating that likely impact presents a number of challenges.

Estimates of Demand for Health Care by the Uninsured

How much more care the uninsured would seek and the impact that such an increase would have on premiums and spending depend in part on how much care they now receive.

Although there are substantial demographic differences between the insured and the uninsured, some of those differences have offsetting effects on their relative use of services.

**Online v/s offline term plans: Which is a better option?**

A low down on the upside to buying a term plan online

Term insurance without a doubt is one policy every family needs to have thanks to the combination of low premium outgo for a decent high value cover. Post the emergence of e-commerce, financial products too are being made available online and that too with great ease. So incase if one wants to go for a term plan, they have the option of doing it the online way.

Buying a term insurance plan online is the cheapest way to buy insurance as it not only saves your time and also money.

Following are the reasons why you should go for an online plan

**Premium Cost**

Online term plans are on an average are 40% cheaper than the offline options. This is primarily because there is no intermediary involved in the process. You are directly connected to the company via their website, hence there is no room for any commission to broker or agent.

In an offline plan for every premium paid, a certain percentage goes to the broker. However, when one buys an online plan, all these costs can be saved and the company passes on these benefits directly to the customer in the form to lower premiums.

Aegon Religare Life

|  |
| --- |
| Online Term plans |
| Insurer | Product Name | Premium (Rs) | Renewel upto (age) | Riders availble |
| Reliance Life | E-Term Plan | 7426 | 75 | 0 |
| Edelweiss Tokio | Protection Plan | 8208 | 80 | 3 |
| I-Term Plan | 8322 | 75 | 5 |  |
| Maxlife | Basic Life Cover | 8436 | 70 | 1 |
| PNB Metlife | Mera Term | 8459 | 75 | 0 |
| HDFC Standard Life | Click2Protect Plan | 8641 | 75 | 1 |
| Bajaj Allianz | iSecure | 13,634 | 70 | 0 |
| LIC | e-Term | 16,644 | 75 | 0 |

*\* Premium rates are for a 30-year old male,Duration: 30 years, Sum Assured: 1 crore*

*# Premium figures shown are inclusive of  Service Tax*

**Sum assured**

Online plans offer high sum assured for a lower premium given the low mortality risk and reduced servicing costs. The plans available range from Rs 5 lakhs to Rs 5 crores and beyond. Even though the same plans are available offline, applicants are generally seen settling for lower sum assured, solely due to the high premiums to be paid.

**Disclosures**

While applying for online term plans, one has to give detailed disclosure regarding oneself and ones health as online plans can be termed as a contract between the company and you on the basis of good faith. Details about present and past medical history, personal and family health information, lifestyle habits are all sought.

Any fraudulent details provided on these fronts may prove to costly at the time of claim settlement. During the course of filling the application online, incase any questions are left unanswered an alert is given right away, ensuring that all the required details are filled to ones satisfaction. Hence, there is no room for ambiguity from the applicant's point of view.

When it comes to offline mode, most of the time, the forms are filled by an agent/broker. There are times when certain details are not filled honestly and sometimes certain columns are left blank intentionally or unintentionally, which may all lead to claim rejection years later. Also, there have been cases when agents have misguided the applicant inorder to escape from what they term as cumbersome health checkups that are required.

**Customer Support**

Incase there are any doubts, while filling the form online, most of the companies have help lines where one can call and rectify their doubts. Even at the time of claim settlement, one can co-ordinate with a pre-designated call center and get the work done.

This is one point used by most of the brokers to dissuade people from buying online scheme. They promise that for the claim settlement they will do the running around which is required. Financial planners note that there no running around required for the initiation of claim settlement process. All these are just ploys used by the brokers to make the process look cumbersome.

**Claim Settlement**

With regards to claim settlement there are certain guidelines set by insurance regulator, Insurance Regulatory and Development Authority, (IRDA). For any claim within the first two years, insurers have a timeframe of six months to investigate and settle the claim. For policies older than two years, there is a 90-day period during which the settlement has to take place.

Hence, it doesn't matter whether you have taken the policy online or offline, the claim settlement will undergo the same scrutiny. There is no broker magic here. Also, there is no data till date that will support the often-heard broker claim the number of online policy rejected during settlement is higher than the offline ones.

In case, even after proper disclosure of all necessary information, your claim gets rejected then you have the provision to approach an insurance ombudsman for justice.

According to latest IRDA annual report, the claim settlement ratio of LIC was better than that of the private life insurers. Settlement ratio of LIC stood at 98.14% as compared to 88.31% for private insurers.

Please note: Claim settlement ratio mentioned on the insurance company website, is a combination of both online and offline plans.

Finally, the only pitfall of going online is that there will no broker calls to remind you that its time for premium renewal.

 BANKING IN INSURANCE

Banks are an important channel for distributing insurance products given their reach with retail customers. In September, the insurance regulator had notified the new framework for corporate agents, which allowed banks to tie up with up to three insurers each in life, non-life and health insurance segments to increase the penetration.

However, response for insurers have been lukewarm as many leading banks like [State Bank of India](http://www.financialexpress.com/market/stock-market/state-bank-of-india-stock-price/), [HDFC Bank](http://www.financialexpress.com/market/stock-market/hdfc-bank-ltd-stock-price/), [ICICI Bank](http://www.financialexpress.com/market/stock-market/icici-bank-ltd-stock-price/), [Bank of Baroda](http://www.financialexpress.com/market/stock-market/bank-of-baroda-stock-price/), [Punjab National Bank](http://www.financialexpress.com/market/stock-market/punjab-national-bank-stock-price/) have stakes in insurance subsidiaries and are unlikely to expand their agencies to other insurers.

 The concept of bancassurance was introduced in 2000 when insurance sector was opened for the private sector. This channel enables banks, which have trusted relationship with the customers, to provide them various financial products through a single-window service. A report by Intuit Consulting — a management consulting firm —- authored by Surabhi Jain and Ankita Trivedi shows that productivity of bancassurance channel in the private sector has grown from 21% to 44% of the total premium from 2009 to 2014 and is expected to grow at a much faster rate in the next five years.

The introduction of technology and integration of IT system between insurers and banks have led to much faster flow of data and also better control on persistency of policies. It is expected that this channel will emerge as a dominant distribution channel in next five to ten years. Rapid increase in banking network and low cost of managing this channel are likely to make bancassurance a powerful as well as popular channel,” says the report titled Bancassurance Today.

Before the September regulations of Insurance Regulatory and Development Authority of India (Irdai) came into place, banks were allowed to distribute life and non-life products of only one insurance company each. This restriction had hampered sales of policies and customers did not have much choice.

Analysts say to service the retail audience, insurance companies will not only have to put in place an efficient distribution system but also have to shift towards a variable cost distribution model. Insurance companies that have access to banks’ databases and walk-in customers will do well as it will reduce their acquisition costs.

Bancassurance can play a pivotal role in reaching out to the rural areas where a vast population remains outside the reach of insurance. It can help banks to mobilise non-volatile source of funds over a long period of time and can enable direct interface with customers and customise the product according to their needs. Moreover, banks that have higher fee income can cover more of their operating expenses through the sale of insurance products and leverage their distribution and processing capabilities.

Globally, bancassurance has emerged as an important channel for distribution of insurance products. Various international studies have shown that a bancassurance strategy has indeed saved costs of insurance companies in the long run.

A study by Swiss Re shows that for insurers, bancassurance has resulted in cost saving of around 21% and revenue gain of around 5%. Citing the US example, McKinsey estimates that bancassurance helped to boost the life insurance business by around 25% in that country.

In India there are two categories of insurers distribution life insurance products. First, companies promoted by banks such as [SBI](http://www.financialexpress.com/market/stock-market/state-bank-of-india-stock-price/) Life Insurance, ICICI Prudential Life, IndiaFirst Life, HDFC Standard Life, etc.

The other category is companies having only bancassurance tie-up with banks such as Aviva Life, Bajaj Alliaz Life, Max Life, Exide Life etc. Bank-promoted companies work through bancassurance channel as their major distribution channel.

For sales, at present the proposal forms are either filled at banks or at the residence of the proposer. The sales person of the insurance company completes the documentation, need analysis and know-your customer. The bank employee who recommends the proposer to the insurance company knows the customer personally. To make bancassurance successful, regular training is required for bank employees regarding products and some employees will be required exclusively for insurance at bank branches.

The insurance industry was virtually divided on the need for bancassurance as those promoted or dependent on banks were of the opinion that there won’t be much impact while non-bank-led insurers saw some business sense in it.

As the corporate agents regulations will be applicable from April 1, next year, bank-led insurers are not yet jumping to sell insurance polices of companies other than those promoted by them. The Intuit report underlines that insurance companies feel that lack of coordination among regional and branch level bank employees can adversely affect growth of insurance business.

Other factors that could affect bancassurance are lack of clarity on roles to be played by bankers at branch level, lack of focus on commission income as a potential source of income for the branch potential. Bankers often disown post-sales service to policy holders.