2

INTRODUCTION TO INSURANCE

2.0 INTRODUCTION

In the preceding chapter the nature and significance of risk and method of handling risks has been explained. As we have seen the possibility of loss creates uncertainty, which has undesirable economic and psychological effect. When we speak of methods of handling risks we are talking about efforts to reduce uncertainty. While no approach to risk problems is used to exclusions of all others the single most important an widely used alternatively for most families & business is insurance.

2.1 OBJECTIVES

At the end of this lesson you will be able to know

- The concept of insurance
- How insurance works
- Need of insurance
- How the insurance helps the economic development of the country

2.2 NATURE OF INSURANCE:

There are three schools of thought, which have defined the nature of Insurance as follows:

1) **Insurance in terms of the relationship between the insured & the insurer – transfer device:**

   According to this school, Insurance may be defined as the transfer of pure risk from the insured to the insurer.

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The insured is the person or firm or company confronted by risk and the insurer is a person or firm or company, which specializes in the assumption of risk. The primary business of the insurer is risk assumption for a fee.

2) Technical:

This school of thought defines Insurance in terms of techniques or mechanics it involves. According to Prof Mehr & Cammack, Insurance is a device for reducing risk by combining a sufficient number of exposure units to make their individual losses collectively predictable. The predictable loss is then shared proportionately by all units in the combination. Therefore, it implies both that uncertainty is reduced & losses are shared. Further, it is said that a device will be deemed Insurance if

(i) it implies the law of large numbers so that the requirement of future funds to cover losses are predictable with reasonable accuracy.

(ii) it provides some definite method for raising these funds by levies against the units covered by the scheme.

In short, the essential features of Insurance are the manner in which losses are predicted & shared.

3) Combination:

According to the third school of thought, Prof. Willet defines **Insurance as a social device for making accumulations to meet uncertain losses of capital, which is carried out through the transfer of risks of many individuals to one person or to a group of persons.** Wherever there is accumulation for uncertain losses, or wherever there is transfer of risk, there is one element of Insurance, only when these are joined with the combination of risk in a group is the Insurance complete. Another way to state this is to say that “Insurance is a transfer of risk with the added features of (i) combination of risks (ii) an estimate of future losses”.

Although each of the authors have defined Insurance differently but they are all thinking about virtually the same thing when they use the term Insurance. If we sum up all schools of thought then the Insurance can be well defined as follows:-

"Insurance is a social device which combines the risks of individuals into a group, using funds contributed by members of the group to pay for losses."

The essence of the Insurance scheme is that it is a

1) Social science
2) Accumulation of funds
3) It involves a group of risks
4) Transfer of risk to the whole group

2.3 BACKGROUND

Insurance as security is need of all human beings. No animal, no plant nor mountains and oceans want any security, like man does. Man is afraid of uncertainty, fears and death. Although a reality, one day each one will die; early or later, timely or untimely is the question, which has no answer. He is afraid of risk & losses in future. He is ever in search of security & certainty. In early history man lived in-groups and communities to be secure.

At the earlier stage, whenever an earning member would die due to disease or death, the other members of the social group (or family or clan) would contribute to bail the survivors in the family out of financial difficulties. This contribution was in the shape of food- clothing and shelter. Even today we donate money, food, clothing and other materials of life to rehabilitate the family whose breadwinner has left for his heavenly abode, unfortunately, suddenly, sadly. (Also people, friends, relatives even today contribute towards marriage, education, healthcare expenses or mishap).

Later, as commercial considerations grew stronger and stronger; nucleus family growth became a common practice these contributions and sharing started becoming individualistic and took the shape of 'premium'. The 'assurances' which were earlier by will and practice became a commodity (though intangible). Thus the concept of Insurance grew. Any person who would not contribute, or would contribute less according to his paying capacity was denied reciprocal help or promise of help, or was given help in proportion to his contribution which he had been contributing as a faithful obedient member of the society.

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In earlier days, in India, on an unexpected death of breadwinner in any family, the villagers or neighbourhood would collect funds to help the survive in the family and such practice continues even now. Today also, when after death – "Bhog" or "Kirya"s takes place, relatives give money to the survivors though this may not be adequate collection to meet expenses of remaining part of life when there is no breadwinner. **Insurance is on similar pattern.**

2.4 PURPOSE OF INSURANCE

Every human being has fear in his mind. The fear whether he will be able to meet the basic needs of the life i.e. Food, Clothing and Housing (Roti, Kapda and Makkan). He has fear not only for himself but also for his dependents. The source of income to meet his basic needs may be through service or business. If he is able to meet his basic needs then he acquires the assets i.e. vehicles, property or jewellery etc. Then he gets additional fear of saving the assets from destruction. (The assets may be destroyed through accident, fire or earthquake etc. and the income may be cut off due to certainty i.e. old age and death or uncertainty i.e. accident, illness or disability.)

As you know, the old age and death is certain for every human being while the accident, illness, disability and destruction of assets may be by random. The number of accidents will take place but with whom is uncertain. Therefore, to overcome this problem, **the Insurance plays a very important role.**

The principal source of income of an individual comes from the compensation for work performed by him. If this source of income gets cut off then: -

Family will make social and economic adjustments like:

- Wife may take employment at the cost of home making responsibilities
- Children may have to go for work at the cost of education.
- Family members might have to accept charity from relatives, friends etc. at the cost of their independence and self-respect.
- Family standard of living might have to be reduced to a level below the essentials for health and happiness.

The basic threats which all of us may encounter to varied extent and which result in cut off of income or sudden increase in - uncalled for expenses (beyond our means or higher than our earnings) i.e. dislocates the human life, are: -

- ILLNESS (malnutrition, environment, chronic) – uncertain
- ACCIDENT – (uncertain)
- Disability – Permanent or Temporary (uncertain)
- OLD AGE – (certain)
- DEATH – (certain)

LIFE INSURANCE is an arrangement through which a person can plan for the continuation of income when uncertainties and certainties (i.e.) illness or Accident and death or old age disrupt or destroy his ability to earn his livelihood.

Therefore the Insurance is

1. The business of insurance is related to protection of human life, human created assets, human disability and business liabilities possessed by human beings which have a definite value, and
2. Assets and human life generate benefit and income for the owner and his/her family members, and
3. Loss of assets / human life for any reason stops the benefits and income to the owner and family members respectively, and
4. Results in falling of living standards in the family, quality of life and future growth of the associated family members, and
5. Insurance is a mechanism that helps to reduce such adverse consequences through pooling, spreading and sharing of risk.

Thus life insurance business is complimentary to the Government efforts in social management.

INTEXT QUESTIONS 2.1

1. Define nature of Insurance s per third school of thought.
2. Most common example of insurance.

2.5 NEED OF INSURANCE

(a) To provide Security and Safety

The Life Insurance provides security against premature death and payment in old age to lead the comfortable life. Similarly in general Insurance, the property can be insured against any contingency i.e. fire, earthquake etc.

(b) To provide Peace of Mind

The uncertainty due to fire, accident, death, illness, disability in the human life, it is beyond the control of the human beings. By way of Insurance, he may be compensated financially but not emotionally. The financial compensation provides not only peace of mind but also motivates to work more and more.

(c) To Eliminate Dependency

On the death of the breadwinner, the consequences need not be explained. Similar to the destruction of property and goods the family would suffer a lot. It could lead to reduction in the standard of living or begging from relatives, friends or neighbours. The economic independence of the family is reduced. The Insurance is the only way to assist and provider them adequate at the time of sufferings.

(d) To Encourage Savings

Life Insurance provides protection and investment while general Insurance provides only protection to the human life and property respectively. Life Insurance provides systematic saving because once the policy is taken then the premium is to be regularly paid otherwise the amount will be forfeited.

(e) To fulfill the needs of a person

a) Family needs

b) Old age needs

c) Re-adjustment needs

d) Special needs: Education, Marriage, health

e) The clean up needs: After death, ritual ceremonies, payment of wealth tax and income taxes are certain requirements, which decreases the amount of funds of the family members.

(f) To Reduce the Business Losses:

In business the huge amount is invested in the properties i.e. Building and Plant and Machinery. These properties may be destroyed due to any negligence, if it is not insured no body would like to invest a huge amount in the business and industry. The Insurance reduced the uncertainty of business losses due to fire or accidents etc.

(g) To Identify the Key man:

Key man is a particular man whose capital, expertise, energy and dutifulness make him the most valuable asset in the business and whose absence well reduce the income of the employer tremendously and upto that time when such employee is not substituted. The death or disability of such valuable lives will prove a more serious loss than that fire or any hazard. The potential loss to be suffered and the compensation to the dependents of such employee require an adequate provision, which is met by purchasing an adequate life policies.

(h) To Enhance the Limit:

The business can obtain loan but pledging the policy as collateral for the loan. The insured persons are getting more loan due to certainty of payment at their death.

(i) Welfare of Employees:

The welfare of the employees is the responsibility of the employer. The employer is supposed to look after the welfare of the employees. The provisions are being made for death, disability and old age. Though these can be insured through individual life Insurance but an individual may not be insurable due to illness and age. But the group policy will cover his Insurance and the premium is very low in group Insurance. The expenditure paid on account of premium will be allowable expenditure.

2.6 HOW INSURANCE WORKS

Theory of probability: It says an event may happen. Say 10 % in a year. For example, in a particular city having a population of 1 lakh on an average-200 people die in accident, 800 people get injured and disabled, another 2000 die natural death, & 7000 die of disease.

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This data as per statistic is certain.

Then what is uncertain?

Uncertainty is as to who will die or get disabled during day to day high risk prone fast life.

Although, number is known, but name, age, time, place and extent is not known. If it is known that 200 persons are prone to accidental death in a year, it is not known which 200 individuals?

Due to this certainty, that 10,000 people will die in an accident, or get injured and disabled or die natural death or die of disease; All 1 lakh people will fear accident, possibility of injury or death and its consequences to varying degree as per their age, behaviour, nature of work, environment hazards and many other factors. Grown ups and breadwinners may fear more and dependents may fear less.

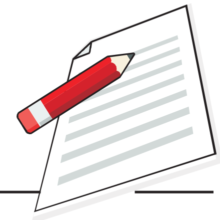
If in a city of 1 lakh houses & shops, there are about 1000 thefts every year, though some particular 1000 people are affected by the theft, all others (may be more than 90,000) will fear theft, and will like some solution to this problem.

Human life is a unique income generating asset. When other assets depreciate with age, it appreciates. Creator of all these assets is a human being, whose efforts have gone a long way in owning them.

Before Assurance or Insurance companies came, there were social arrangements in India which almost played similar role but to an limited extent as we have already given the examples in the beginning of this chapter which explains how **"Many would contribute to mitigate losses of a few".**

This method of sharing losses of a few by many is the basis or core philosophy of insurance.

Insurance companies started from individual effort i.e. an individual or group of individuals pooled funds in a partnership or company and started offering a definite payment (called claim) in every case of death or disablement of the participating individuals, against a small amount received (called premium).



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For example look at the following numerical: -

Suppose in a year,

Total **Deaths feared**	Total and **Disabilities**	Total Persons **Who wanted to insure**
200 lakh	800	Entitled for claim and agreed to contribute: -Rs.1 (say)

Death payment, say = Rs.1 lakh

Disability payment, say = Rs.50,000/-

Death claims amount for the year = Rs. 2,00,00,000/- (200 X 1 lakh) – (a)

Disability amount for the year = Rs. 4,00,00,000/- (800 X 50,000) – (b)

Total outgo (expected) (a + b) = Rs. 6,00,00,000/- (6 crores)

Therefore, minimum contribution which 1 lakh persons should have made to meet the claims 6 crores / 1 Lakh = Rs. 600 per year

Thus with a small amount of Rs. 600/- each 1 lakh people feel assured for payment of Rs. 1 lakh each in case of death, and Rs. 50,000/- in case of disablement.

And if that individual had to provide for himself, by himself then the entire Rs.1 lakh or Rs.50,000/- would have to be arranged by the unfortunate person himself-

Thus losses are spread in the insurance system.

But is this small sum of Rs-600/- really the premium?

Answer to this question is - No & Not the least.

We will have to **add all costs & expenses of management** (which go on decreasing in proportion of large-ness of the number of people contributing or buying the insurance policy). **(Let us assume it to be say Rs. X)**

Then, add provision of profit to the entrepreneur, share holders since everybody opens his shop for profits, for gains, and not as a charitable house, (or else the shop will close). **(Let it be say Rs. Y)**

Further, there has to be the provision of **a standing fund (reserve), to off-set large natural calamities** (floods, earthquakes, volcanic eruptions, or large-scale accidents like

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Concorde Aeroplane crashing or Sahara air bus going into flames or disasters like Gujarat Earthquake or loss to life, property and business in 11th Septmeber'2001 terrorist attack – Manhattan or Pentagon). **(Let it be say Rs. Z)**

Then the total premium comes to [Rs.600+X+Y+Z]

This is a very rough and crude example of arriving at cost of an Insurance product. Experts called actuaries specialize in design and right pricing of Insurance products.

2.7 INSURANCE AS A SOCIAL SECURITY TOOL

- United Nations Declaration of Human Rights 1948 provides: -" Every one has a right to adequate standard of living for health and well being of himself and his family, including food, clothing, housing, medical care, necessary social services and the right to security in the event of unemployment, sickness, disability, widowhood, or other lack of livelihood in circumstances beyond his control."
- Under a socialistic system the responsibility of full security would be placed upon the state to find resources for providing social security. In the capitalistic left to the individuals. The society provides instruments which can be used in securing this aim. Insurance is one of aim. In capitalistic society too there is a tendency to provide some social security by the state under some schemes where members are required to contribute.
- In India, Article 41 of our Constitution requires the State (with in limits of its economic capacity and development) to make effective provision for securing the right to work, to education and to provide public assistance in case of unemployment, old age, sickness and disablement.
- Part of the obligations under Article 41 are met by the State through the mechanism of Life Insurance.
- Where breadwinner of family dies, family's income stops to that extent, affecting the economic condition. Life Insurance provides such alternate arrangement as we have discussed above.Otherwise another family would have been pushed into the lower strata of society. The lower strata creates a cost on society. Poor people cost the nation by way of subsidies etc.

- Life insurance helps in restoration of the adverse economic condition so caused.
- Some of the legislation passed by the Govt. of India to protect the rights and to provide benefits to the common man as a part of its efforts to provide social security to its dominions is discussed in brief below:

(a) Workman Compensation Act 1923:

This perhaps was the earliest act to be enacted for the benefits of the workers. Before this Act was passed workers who met with accidents while performing their duty not only lost their limbs or lives but also were denied any medical aid and more often than not were simply removed from the job and lost their livelihood placing them and their families in great difficulty. By passing this act the liability of employer was fixed and he is now required by law to pay compensation to victims of accidents while on duty. The amount of compensation has been fixed in accordance with the extent of injury, disability and linked to the workers salary and age on the date of accident.

(b) Employee State Insurance Act 1948:

The purpose behind this legislation was to provide medical aid to workers and their families working in industries located in certain notified areas. Under this act a part of the salary a small amount (at present 1.75%) is deducted from the workman's salary and some part is contributed by the Employer (at present 4.75%) and the same is deposited with the Employee State Insurance corp. With the funds thus collected and with more contributions from the state and Central Govt., Dispensaries and Hospitals have been set up all over the country where the worker members and their families are provided health care free of cost. Under this scheme regular periodic payment are made to workers if they are unable to attend duty due to illness and there is provision for payment of pension in the case of permanent partial disability or death.

(c) Motor Vehicle Act 1988:

The Motor Vehicle Act was amended in 1988 to make Third Party Liability Insurance compulsory thus no uninsured vehicle is allowed to ply the roads or in any public place in India. The need of this enactment was felt due to the growing number of vehicles and the increasing number of accidents causing injury and death of the people involved in the accident and not being able to get relief from the owner/ driver of the vehicle because of long protracted legal battle involved, which many victims could not afford. The Act now provides that irrespective of the fact that the fault was of the driver/ owner or not (No-fault) the victim of an accident will be entitled to a payment of Rs. 50,000/- in case of death and Rs. 25,000/- in the case of grievous bodily injury. Motor Accident Claim Tribunals (MACT) have been set up by the State Government to provide speedy redressal of Third Party claims. Damage to property of Third party is also covered and the limit is Rs.6,000/-.

Motor Vehicle Act also provides for the creation of a "Solatium Fund" to cater to the victims of Hit and Run cases. The fund is created by the contribution from Insurance companies, state and central Government and the victims of Hit & Run cases are entitled to receive Rs.25,000/- in case of death and Rs.12,500/- in the case of grievous bodily injury.

(d) Public Liability Act 1991:

The Bhopal Gas tragedy of 1984, which resulted in many deaths and caused untold suffering to lakhs of people prompted the enactment of this legislation. To recap the incident, poisonous gas escaped from the manufacturing plant of Union Carbide leading to one of the worst industrial disasters of recent times. The victims even now; 17 years later are yet to get adequate relief and continue to suffer.

The public liability act now makes it compulsory for all individuals, companies, industries involved in handling of hazardous substances to insure against any untoward happening so that immediate succor is made available to the victims from the Insurance companies.

Other than passing legislations to improve social security the Government also initiated certain schemes under which Insurance is provided to the economically and socially backward people and workers of the unorganized sector at highly subsidized rates. Some of the schemes introduced by the Govt. of India are -

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(e) (PASSS) Personal Accident Social Security Scheme:

Introduced in 1985 for the benefit of Poor families i.e. (whose income does not exceed Rs. 7,200 per year). The scheme provided for a payment of Rs.3,000/- in the event of death due to an accident of any person in the age group of 18 to 60 who is the earning member of the poor family. The premium is borne by the Central Government and the expenses for implementation of the scheme by the state Government.

(f) (NAIS) National Agricultural Insurance Scheme or the (RKBY) Rashtriya Krishi Bima Yojna introduced in 1999 with the objective of providing Insurance coverage and financial support to farmers in the event of failure of crops as a result of calamities, pests and diseases. The premium is low and 50% subsidy in premium is allowed to small & marginal farmers which are shared by the Central and State Government.

(g) Hut Insurance Scheme:

Introduced in 1988, for the benefit of very poor families (i.e. those whose annual income does not exceed Rs.4,800/-p.a.). The scheme provides that in case of destruction of Hut due to fire, compensation of Rs.1,000/- for hut & Rs.500/- for belongings shall be paid. The premium is borne by the Central Government.

In addition, to the above schemes the Government has also introduced insurances at subsidized rates for farmers (cattle Insurance), for women (Raj Rajeshwari Mahila Kalyan Yojna), for the girl child (Bhagyashree child welfare policy) and Gramin Personal Accident policy etc. for the benefits of the common people. These shall be discussed later on in the course (under GIC Products) but all this goes to show how through legislations or through Govt. sponsored schemes the Insurance sector acts as a tool for implementation of social security measures.

2.8 ROLE OF INSURANCE IN ECONOMIC DEVELOPMENT

In addition to contributing to the economy by preserving human life values and assets and protecting loss, Insurance also aids in economic development. To grow economy, the Govt. needs capital to finance infrastructure i.e. Roads, bridges, industrial farm communication and Railways lines which requires the huge investment. Individual or Govt. is unable to provide such funds. As the life Insurance contracts are long term contacts. Therefore, insurer by investing funds that flow to them from their many policyholders have become the principal source of capital for the economy.

- Investments are essential ingredients for economic development of any nation. Investments by Insurance companies are in social sector, infrastructure development and government security, papers and bonds.
- Life insurance plays a major role in mobilization of pubic savings.(Rs. 75,000 crores/ year)
- Savings out of life insurance fund are utilized in investments for growth. (infrastructure bonds, Housing, Railway, equity market etc.)
- Looking to non-life side business, industry and trade would be seriously handicapped in the absence of insurance cover relating to losses due to fire, earthquake, flood, storm - natural calamities, act of God etc.)
- Wide-spread of Insurance brings in indirectly the following advantages
  - Better living standards
  - Higher productivity
  - Improved Law and Order
  - Higher GDP
  - Healthy Generation
  - Discourages bad habits and practices causing damage to human life
  - Higher mortality
  - Happy society
  - Enhanced self-esteem
  - Creative Minds
  - Entrepreneurship qualities
  - Social upliftment of the society as a whole

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INTEXT QUESTIONS 2.2

1. What are the components of the Premium?
2. Explain the provisions of Article of 41 of Indian Constitution.

2.9 HISTORY OF LIFE INSURANCE

Life insurance is an organised economic activity came into force in different countries at different stages of history.

Records show that first policy providing temporary life assurance cover for a period of 12 months was issued on 18th June 1583 AD in London on the life of William Gybbons and the policy was procured by Richard Martin. The policy was Underwritten by 16 individuals for £383-6s-8d with a premium of £30-13s-4d @ 8%. The insured died on 25th May 1584 i.e. within one year of taking the policy. The underwriters disputed the claim taking the plea that the party had lived for more than 12 lunar months (month of 28 days). However the claim was finally paid after the matter was taken to the court, which ruled in favour of the insured.

The “Amicable Society” started granting fluctuating sum on death since 1705 and a fixed sum since 1757.

With gathering of mortality tables (death rate per 1000 at each age up to the age of 100 years), Life Insurance activity became some what scientific. “Equitable society” was founded in 1762 and worked on a scientific basis.

Insurance In India

It is said that Insurance was practiced in India even in the vedic times and the Sanskrit term “Yogakshema” in the Rigveda is in reference to a form of Insurance practiced by the Aryans 3000 years ago. The code of Manu which prescribes the many practices to be followed by the people for social harmony and development in Ancient India had also dictated that a special charge be made on goods carried from one city to another to ensure their safe carriage to the destination.

By 1885 there were more than 50 British and other foreign agencies having their offices in India. The success of the Managing Agents encouraged the growth of many Insurance

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offices largely with foreign capital many of which were short lived.

In India Two British Companies - the European and the Albert entered in 1870 and attempted writing business on Indian lives. The first Indian Life assurance Society was formed in the same year called "Bombay Mutual Assurance Society Ltd."

It was followed by "Oriental Life Assurance Society Ltd." in 1874, "Bharat" in 1896 and "Empire of India" in 1897.

The New India, Vulcan, Jupiter, British India General and the Universal. These five were composite and dealing both in life and general Insurance.

The Swadeshi Movement of 1905 and Mahatma Gandhis' call to Indians to give their business only to Indian Companies gave a boost to these new companies and they consolidated their position. More Indian companies entered the Life Insurance sector namely Hindustan Co-operative, United India, Bombay Life, National and Laxmi. But the going was not easy as they had little experience in the field of Insurance and they had to compete with 150 foreign offices including some of the largest Insurance groups in the world.

Insurance in Modern India

Government started exercising control on Insurance business by passing "Insurance Act" in 1912. This Act was comprehensively amended and passed as New Act in 1938 for controlling Investment of funds, expenditure and Management. The Office of Controller was established. Again, this Act was amended in 1950.

By 1955, 170 Insurance offices and 80 P.F. Societies registered companies were doing Life Insurance business in India. In view of surge in malpractices in Life Insurance business, due to the illiteracy level being high and lack in will for penetration/ spread of Life Insurance business, it was nationalised by Government of India and LIC Act was passed in June'1956, and this Act came into force from 1.9.1956.

Similarly the general insurance (which deals with non-life business i.e insurance of property) also nationalized in 1972 after merging of 55 Indian and 52 non Indian companies were nationalized by forming four general insurance companies.

The Govt. Of India, while liberalizing the Indian economy, also felt the liberalization of insurance sector because of lower penetration of insurance as compared to Indian population and its size and other developing countries. Initially the Govt. formed a Malhotra committee in 1993 to study whether the insurance sector should be opened for private players. The committee recommended to Liberalized, Privatized And Globalize (LPG) the insurance sector. In 1999, the Authority known as Insurance Regulatory & Development Authority through IRDA Act 1999 was formed.

After 44 years and 27 years of monopoly of life and general insurance respectively was broken.

Liberalisation of Insurance industry will undoubtedly benefit Indian economy, the Govt., Industry, Employee, Consumer & Society in the following manner:

Benefits to Economy

- Rapid investment
- Improve Quality to Life (New risk covers)
- Competition will bring Consumer Friendly Products
- Large Scale Mobilisation of Funds
- Insurance & Reinsurance Facilities to Major Projects
- Export Projects covered at Home

Benefits to Government

- Long Term Funds for Infrastructure
- Long Term Debt Market Instruments Available
- Increased Employment Opportunities & Compensation
- Reduced Financial Burden of
- - Rural, Social & Backward Classes
- Contributions in Calamities (Sharing of Social Responsibilities)

Benefits to Industry

- Transfer of Technical Expertise
- Innovative Products and Pricing Options

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- Improved Prospects for National Cos.
- Domestic Industry will Utilize Technology and Service Customer with Loyalty
- Market Driven Economy will Benefit Customer the most.

Benefits to Consumer

- Superior Quality at Lower Prices
- Wider Choice of Products
- World Class Service to the Consumer
- Increased Penetration of Insurance

Benefits to Employee

- Human Resource Development
- Exposure to 'State of the Art Practices"
- Greater Job Opportunities
- Higher Remuneration
- Professional Management Practices

Benefits to Society

Insurance Companies Act as Guardians in number of Ways: -

- Risk cover for Large Industry, Trade & Property are offered in Compliance to Law
- Environmental Risks get Reduced
- Hit – and – Run Compensations
- Crop Insurance for Covering Risk of Nature – Poor Rainfall etc.
- Socio Responsibilities Burden shared
    - Education ● Medical ● Health ● Accident

2.11 LIFE INSURANCE INVESTMENT

In fact Life Insurance companies are getting the savings of an individual for longer period therefore, the Govt. has prescribed the norms how the Insurance companies can invest their funds. The norms are as follows:

Every insurer carrying on the business of life-insurance shall invest and at all times keep invested in the following manner:

1. 25% in Govt. securities
2. Not less than 50% in Govt. security or approved securities (including(1) above)
3. a) Not less than 15% in Infrastructure and Social Sector
   b) Not exceeding 35% in others capital market Investment in "other than approved Investments" can in no case exceed 15% of the fund

From the above, it will be observed that the Govt. has asked the Insurance to channel the funds to State and Central Govt. Infrastructure sectors social sector and rural sector and capital market. (For details refer the Investments regulations issued By the Insurance Regulatory Development Authority)

Benefits to Govt.

(a) Long term funds and debt instruments are available to develop the economy.

(b) Infrastructure funds are available to create roads, bridges, communication housing etc. It reduces the burden of the Govt.

(c) Investment in Rural and Social sector reduces the responsibility of the Govt. as a result of which the financial burden of the Govt. reduces.

(d) Capital market: If the insurer is investing the fund in the capital market then industry can enhance their production capacity which will have the multiplier effect on the growth of the economy.

2.12 SUMMARY

Insurance has become the necessity tool for our life. It not only provides security but also saving for future. At younger age the necessity may not be felt but as the man grows old it starts feeling the responsibility towards his family. The insurance also helps the economic development of the country as Government gets the huge funds at nominal rate of interest for longer period. Moreover, if the people are taking care for themselves about their present and future needs then Government will spend their funds in more productive manner.

2.13 TERMINAL QUESTIONS:

1. Insurance is a need of life. Explain
2. What is mechanism of the insurance?
3. How the insurance helps in the economic development of the country?

2.14 ANSWERS TO INTEXT QUESTIONS

2.1

1. Insurance as a social device for making accumulations to meet uncertain losses of capital which is carried out through the transfer of risks of many individuals t one person or to a group of persons.
2. Kirya ceremony in any family on death of breadwinner.

2.2

1. Claim amount plus expenses of management plus profit of company plus provisions for contingencies.
2. Govt of India (within limits of its economic capacity and development) to make effective provisions for securing the right to work, to education, to provide public assistance in case of unemployment, old age, sickness and disablement.

2.15 OBJECTIVE TYPE QUESTIONS

1. Choose the correct Option
   a. Old age is only certain in life.
   b. Old age and death are certain in life.
   c. An accident is certain in life.
   d. An Illness is certain in life.
2. Life insurance business was nationalized in India in ____(1956/1947)
3. Life insurance companies are investing funds as per norms prescribed by the IRDA (True/False)
4. Insurance is a social security tool. (True/False)

5. Insurance works on law of probability (True/False)

6. Statement A: Insurance is relevant only if there is possible economic loss

   Statement B: An event which will certainly happen cannot be insured.

   a. Only A is true b. Only B is true c. Both are true d. Neither of two

7. Statement A: Insurance provides sense of security.

   Statement B: Insurance ensures that no loss will take place.

   a. Only A is true b. Only B is true c. Both are true d. Neither of two

8. Statement A: Insurance reduces social costs.

   Statement B: Insurance is an instruments of social security.

   a. Only A is true b. Only B is true c. Both are true d. Neither of two

2.16 ANSWERS TO OBJECTIVE TYPE QUESTIONS

2.15

1. b	2. 1956
3. True	4. True
5. True	6. c
7. a	8. c