INSURANCE:

RISK & ITS TYPES
INTRODUCTION TO INSURANCE
PRINCIPLES OF INSURANCE

CONCEPT OF RISK

REFERS TO UNCERTAINTY RELATING TO OCCURRENCE OF LOSS

DEGREE OF RISK CAN NEVER BE MEASURED QUANTITATIVELY

HOWEVER, WE CAN DETERMINE THE PROBABILITY OR CHANCE OF RISK

TYPES OF RISKS

1.SUBJECTIVE RISK AND OBJECTIVE RISK

2.PURE AND SPECULATIVE RISK

3. STATIC AND DYNAMIC RISK

4.FUNDAMENTAL AND PARTICULAR RISK

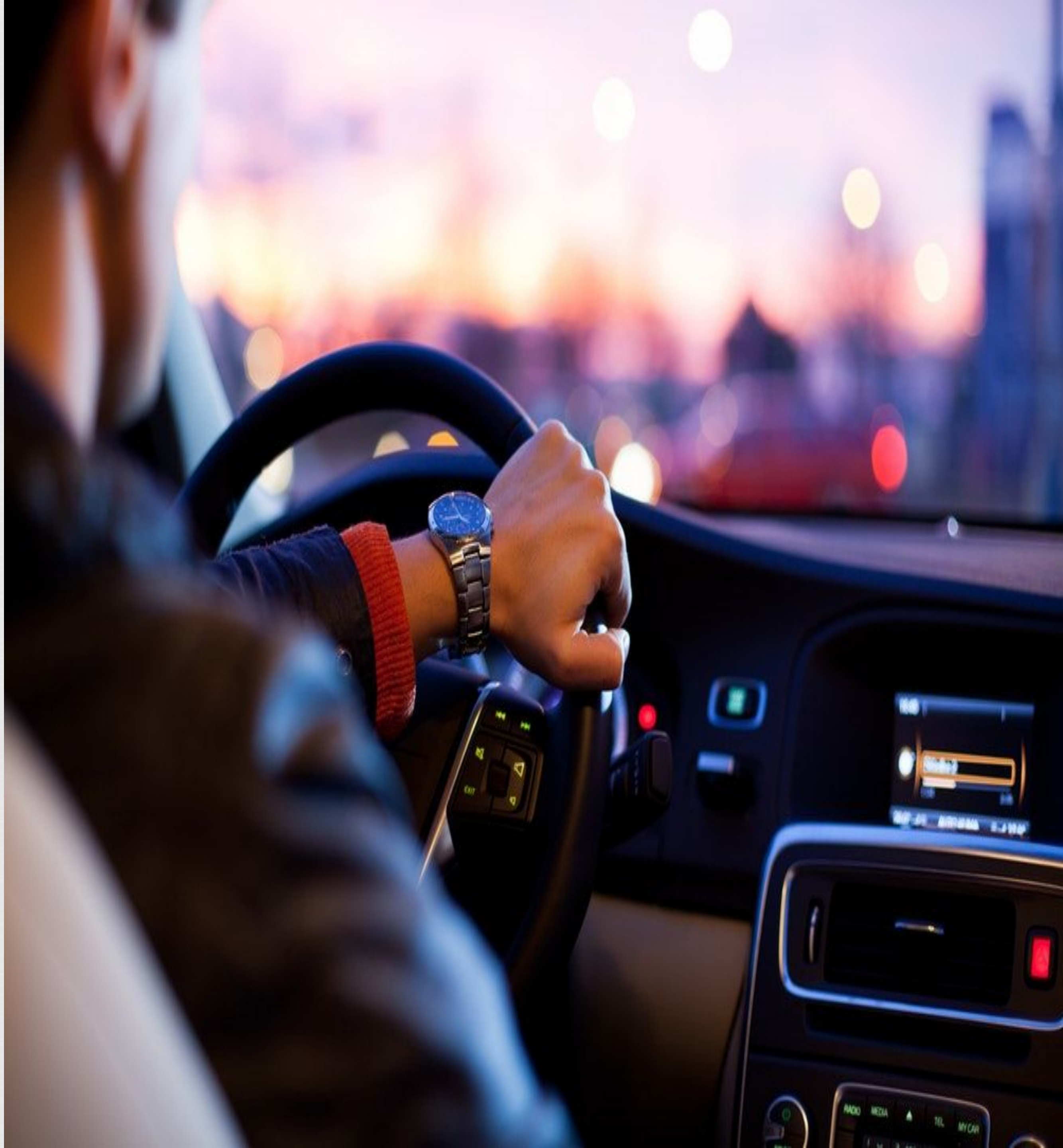
5.FINANCIAL AND NON-FINANCIAL RISK

SUBJECTIVE RISK :

UNCERTAINTY BASED ON A PERSON'S MENTAL CONDITION OR STATE OF MIND

IMPACT OF SUBJECTIVE RISK WILL VARY FROM ONE TO ANOTHER ie, 2 persons facing same situation can have different perceptions of risk

FOR EG: RISK INVOLVED IN DRIVING



OBJECTIVE RISK

CAN BE DEFINED AS THE RELATIVE VARIATION OF ACTUAL LOSS FROM EXPECTED LOSS

PERCEPTION OF OBJEECTIVE RISK WILL BE SAME FOR EVERYONE

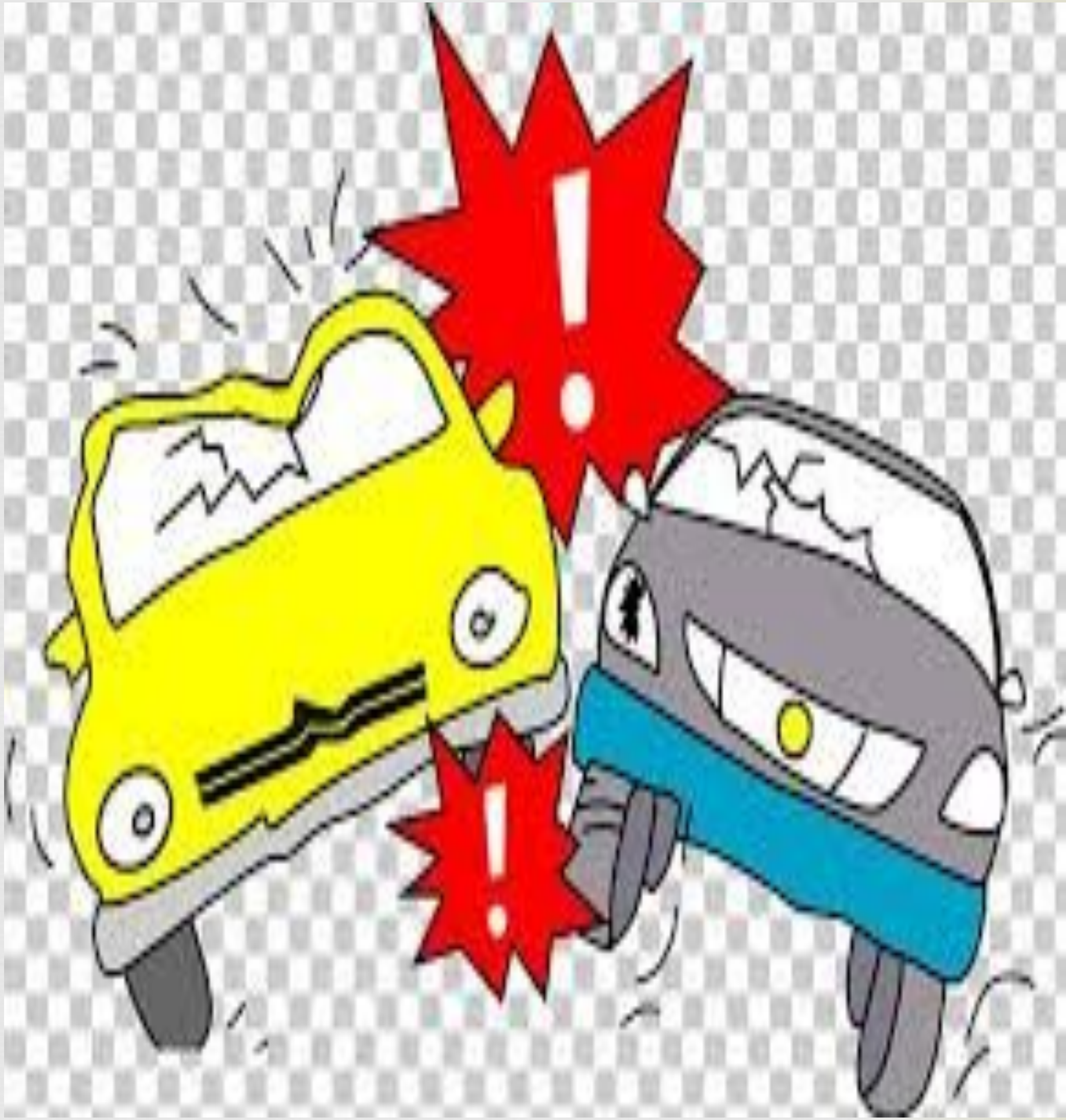
FOR EG: STUDIES REVEALING THAT CIGARETTE SMOKERS HAVE 60% MORE PROBABILITY FOR LUNG CANCER

PURE RISK

SITUATIONS WHERE THERE ARE ONLY CHANCES OF **LOSS OR NO LOSS**

INSURABLE

EG: CHANCE OF ACCIDENT WHILE DRIVING

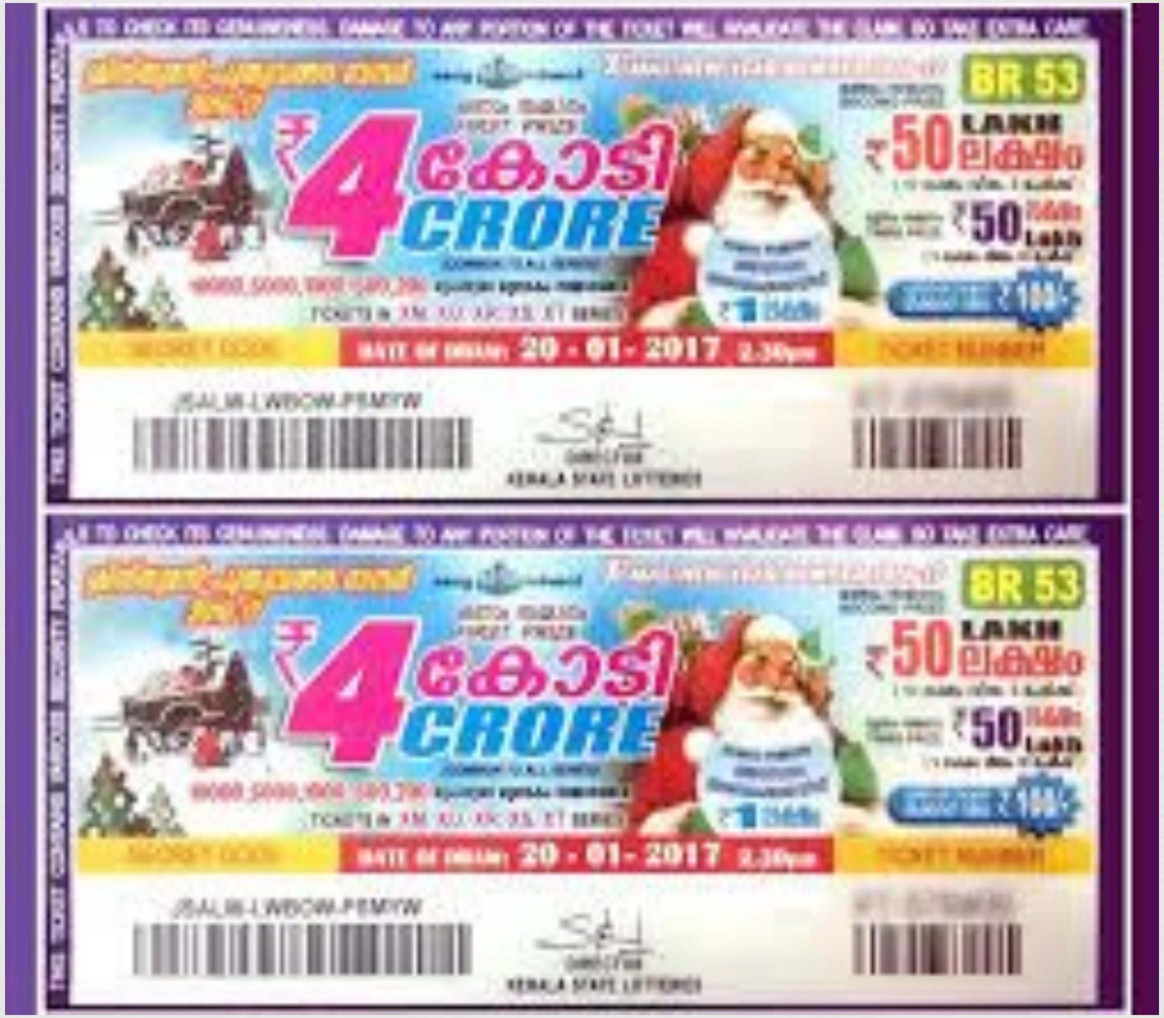


SPECULATIVE RISK

SITUATIONS RESULT EITHER IN PROFIT OR LOSS

NOT INSURABLE

EG: LOTTERIES



DYNAMIC RISK

THESE ARE RESULTANTS OF CHANGES IN ECONOMIC CONDITIONS

INCLUDES RISK FROM INFLATION, CHANGES IN CUSTOMERS TASTE AND PREFERENCES ETC.

ITS IMAPCT CAN BE EITHER GOOD OR BAD BUT WILL BE WIDER

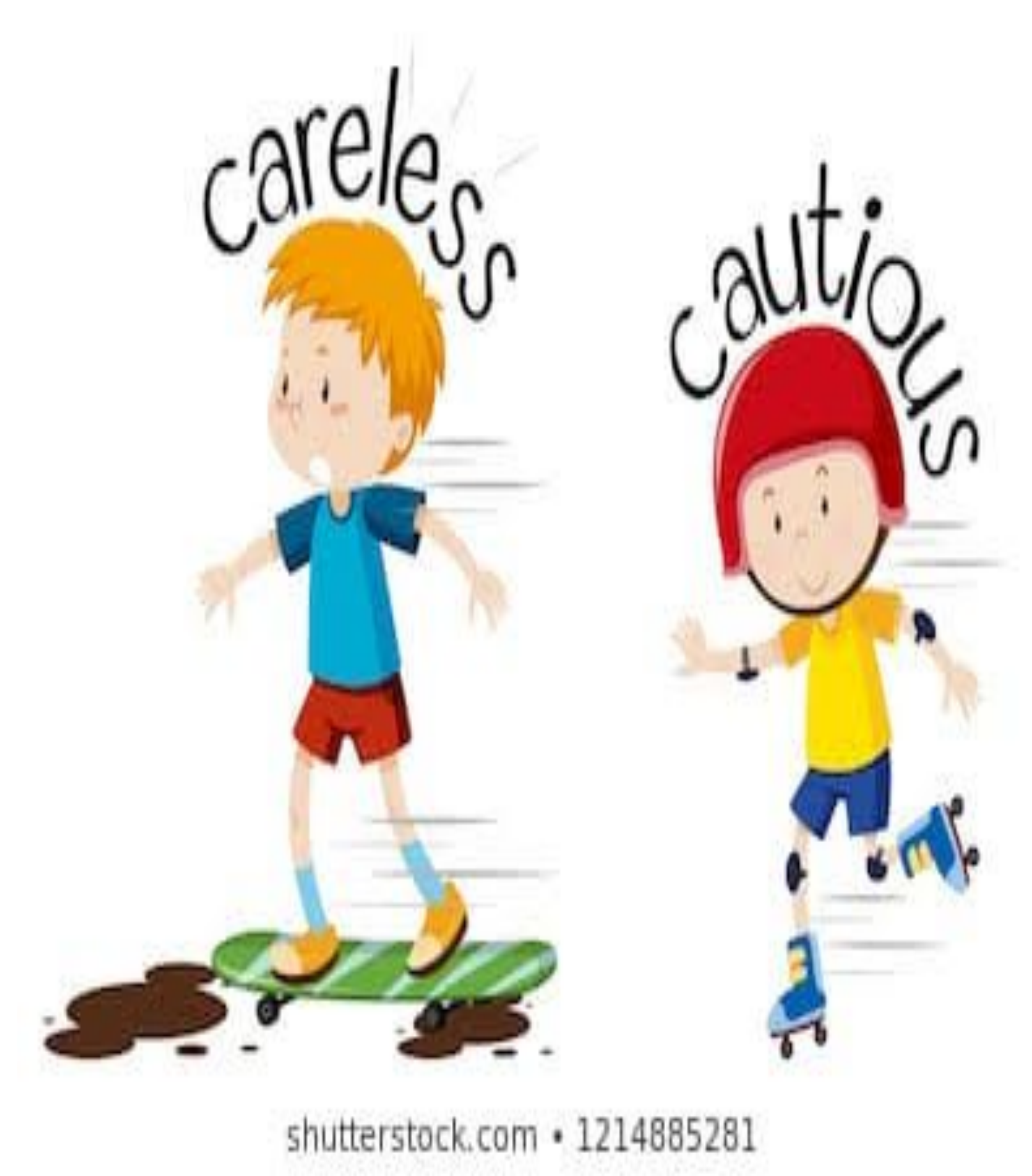
STATIC RISK

THESE ARE MORE OR LESS PREDICTABLE AND ARE NOT AFFECTED BY ECONOMIC CONDITIONS

EG: LOSS DUE TO NEGLIGENCE ETC

STATIC RISKS ARE HARMFUL IN NATURE

ITS IMPACT MAY NOT HAVE A WIDER EFFECT ON THE WHOLE SOCIETY

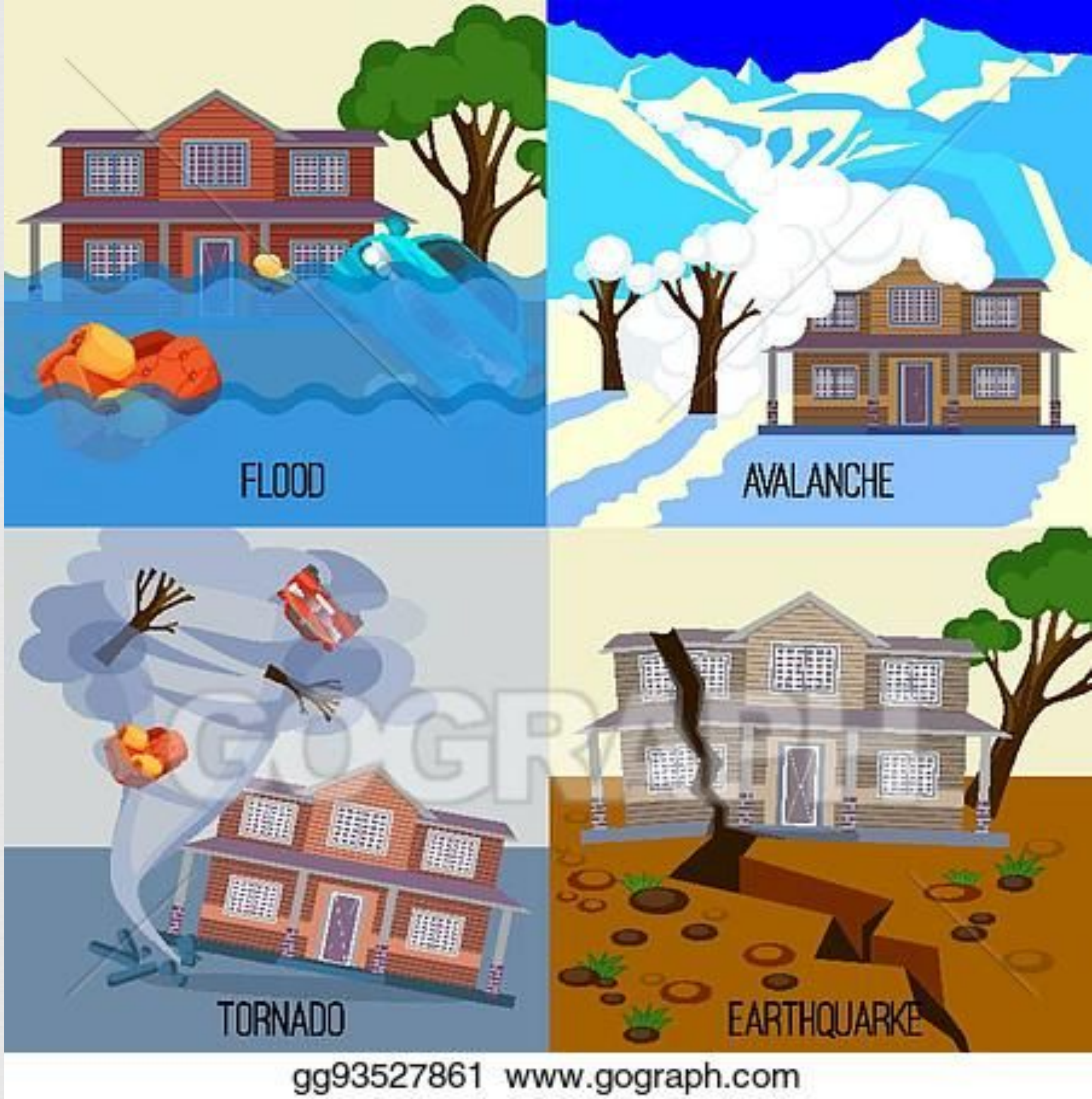


FUNDAMENTAL RISK

RISK THAT AFFECTS THE ECONOMY AS A WHOLE OR AN ENTIRE GROUP IN THE ECONOMY

EG: WAR, EARTHQUAKE, RECESSION ETC.

NOT INSURABLE

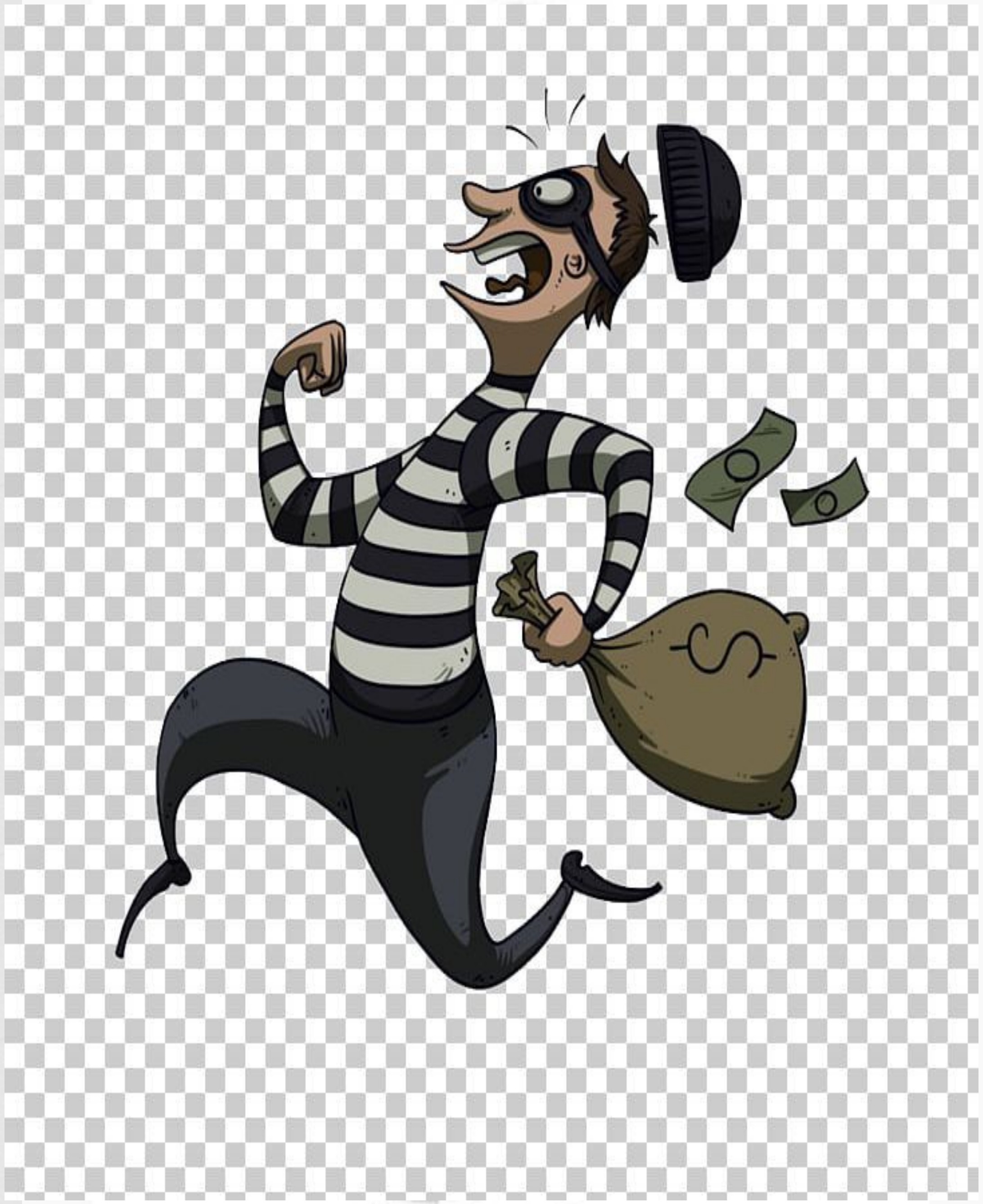


PARTICULAR RISK

RISKS AFFECT ONLY INDIVIDUALS AND NOT A COMMUNITY / ECONOMY

EG: ACCIDENT, THEFT OF VALUABLES ETC.

INSURABLE



FINANCIAL RISK

OUTCOME OF SUCH RISKS ARE MEASURABLE IN MONETARY TERMS

EG: THEFT OF VALUABLES, DESTRUCTION OF PROPERTY DUE TO NATURAL CALAMITIES ETC.

NON FINANCIAL RISK

OUTCOME OF WHICH IS NOT MEASURABLE

EG: RISK IN SELECTING COURSE OF STUDY, CAREER ETC.

CONSEQUENCES/EFFECTS OF RISK

1. LARGER EMERGENCY FUND – to mitigate losses incurred

2. SOCIETY IS DEPRIVED OF CERTAIN GOODS AND SERVICES (ie, risk of penalisation on supply of illegal drugs)

3. WORRY AND FEAR

METHODS OF HANDLING RISK

1. AVOIDANCE OF RISK – not practical always

2. LOSS CONTROL –
   minimising effect of losses by prevention and reduction techniques

3. RETENTION
   reverse of avoidance, retaining risk with the intention of making it good

4. NON-INSURANCE TRANSFERS
   transfer of risk to a party other than insurance co.s
   includes ,
   - TRANSFER BY CONTRACT – eg; Annual maintenance contracts for machineries
   - HEDGING PRICE RISK – eg; derivative agreements with speculators
   - INCORPORATION OF A BUSINESS FIRM – ie, a sole proprietor has to bear ultimate liabilities alone. Once it is incorporated as a company, his personal assets cant be attached.

5. INSURANCE

INSURANCE

AN AGREEMENT BETWEEN 2 PERSONS CALLED INSURER AND INSURED, WHEREBY THE FORMER TAKES OVER THE RISKS OF AND AGREE TO COMPENSATE THE LATTER ON OCCURRENCE OF AN EVENT FOR A CONSIDERATION CALLED PREMIUM

CHARACTERISTICS OF INSURANCE

1. POOLING OF LOSSES
2. PAYMENT OF FORTUITOUS(ACCIDENTAL/HAPPENING BY CHANCE) LOSSES IE, NO COVER FOR INTENTIONAL LOSSES
3. RISK TRANSFER
4. INDEMNIFICATION – COMPENSATING INSURED ON HAPPENING OF THE EVENT.

ADVANTAGES	DISADVANTAGES
REDUCES RISK	FRAUDULENT CLAIMS
REDUCTION IN TENSION	INFLATED CLAIMS – claiming excess amount
PREVENTING LOSS	COST OF DOING BUSINESS – consumes all factors of production, which is scarce
INVESTMENT AVENUE	
EMPLOYMENT OPPORTUNIITES	
PROMOTES PROPER ALLOCATION OF FUNDS	

NEED AND IMPORTANCE OF INSURANCE

TO INDIVIDUALS	TO BUSINESS	TO SOCIETY
REDUCTION IN RISK	TRANSFER OF UNCERTAINTY	EMPLOYMENT GENERATION
AN INVESTMENT AVENUE	MINIMISES FINANCIAL LOSS	PROPER USE OF RESOURCES
ELIMINATION OF DEPENDENCY	EMPLOYEE WELFARE	ECONOMIC GROWTH
PEACE OF MIND	KEY MAN INDEMNIFICATION	

Utmost Good Faith

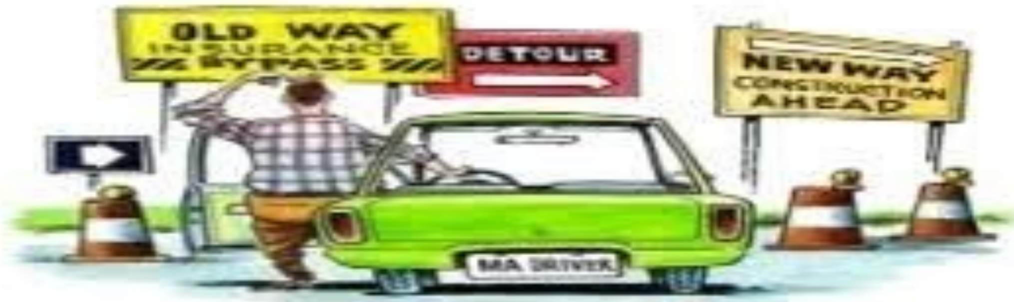
- Both the parties i.e. the insured and the insurer should a good faith towards each other.
- The insurer must provide the insured complete ,correct and clear information of subject matter.
- The insurer must provide the insured complete ,correct and clear information regarding terms and conditions of the contract.
- This principle is applicable to all contracts of insurance i.e. life, fire and marine insurance.

2. Insurable Interest

- The insured must have insurable interest in the subject matter of insurance. In the general insurance, it must be present at the time of the taking policy and also at the time of the occurance of the loss.
- The owner of the party is said to have the insurable interest as long as he is the owner of it. It is applicable to all contracts of insurance.

INSURABLE INTEREST

- In Life Insurance : It must exist at the time of taking insurance.
- In Marine Insurance: It must exist at the time of loss.
- In Fire Insurance: It must exist both at the time of effecting as well as at the time of loss.



Direct
INSURANCE NETWORK

Principle of Indemnity

- Indemnity means a guarantee or assurance to put the insured in the same position in which he was immediately prior to the happening of the uncertain event. The insurer undertakes to make good the loss.
- It is applicable to fire ,marine and other general insurance.
- Under this the insurer agrees to compensate the insured for the actual loss suffered.

Principle of Subrogation

- As per this principle after the insured is compensated for the loss due to damage to property insured , then the right of ownership of such property passes on to the insurer.

- This principle is corollary of the principle of indemnity and is applicable to all contracts of indemnity

Principle of Contribution

- The principle is a corollary of the principle of indemnity.
- It is applicable to all contracts of indemnity.
- Under this principle the insured can claim the compensation only to the extent of actual loss either from any one insurer or all the insurers.

Principle of ‘Causa Proxima’

- The loss of insured property can be caused by more than one cause in succession to another.
- The property may be insured against some causes and not against all causes.
- In such an instance, the proximate cause or nearest cause of loss is to be found out.
- If the proximate cause is the one which is insured against ,the insurance company is bound to pay the compensation and vice versa.

Principle of Mitigation/Loss

- According to this principle the insured must try his level best to safeguard his property and minimize the risk of loss even though the insurance cover exists.

INSURANCE SECTOR REFORMS

PRIVATISATION – brought down Govt. stake to 5o%

ACQUISITION OF GIC AND ITS SUBSIDIARIES

ALLOWING PRIVATE Cos. TO ENTER THE SECTOR (MCR- 1 BILLION RUPEES)

NO COMPANY SHOULD DEAL IN BOTH LIFE AND GENERAL INSURANCE

SETTING UP OF IRDAI

ISSUE OF ULIPs (UNIT LINKED INSURANCE PLANS)

FOREIGN COMPANIES CAN ENTER THE SECTOR THROUGH COLLABORATION WITH INDIAN COMPANIES

INTEREST ON DELAYED PAYMENTS BY LIC (EXCEEDS 30 DAYS)

COMPUTERISATION OF OPERATIONS

RESTRICTION ON GIC AND SUBSIDIARIES IN HOLDING MORE THAN 5% STAKE OF ANY

IRDAI

INSURANCE REGULATORY DEVELOPMENT AUTHORITY OF INDIA

HEAD QUARTERS – HYDERABAD , TELANGANA

AUTONOMOUS STATUTORY ORGANISATION FOR GOVERNING INSURANCE INDUSTRY

ESTABLISHED BY PASSING IRDA ACT,1999

10 MEMBERS – CHAIRMAN, 5 FULL TIME AND 4 PART TIME MEMBERS

OBJECTIVES OF IRDAI

- PROTECT INTEREST OF INSURANCE POLICY HOLDERS
- PROMOTE GROWTH OF INSURANCE INDUSTRY IN INDIA
- TO ALLOW ENTRY OF PRIVATE PARTIES
- TO ELIMINATE UNHEALTHY COMPETITION
- TO ENSURE SPEEDY REDRESSAL OF COMPLAINTS
- TO GRANT LICENSE TO NEW ENTITIES
- TO AMEND LIC ACT,1956 INSURANCE ACT,1938 ETC
- TO REGULALTE ACTIVITIES OF INTERMEDIARIES INCLUDING AGENTS ETC.

DUTIES, POWERS AND FUNCTIONS OF IRDAI

TO GRANT/SUSPEND/WITHDRAW /RENEW REGISTRATION OF INSURANCE COMPANIES

TO POROTECT INTEREST OF POLICY HOLDERS

TO SPECIFY QUALIFICATIONS AND ELIGIBILITY NORMS FOR INTERMEDIAIRIES

TO REGULATE INVESTMENT OF FUNDS BY INSURANCE COMPANIES

TO ADJUDICATE COMPLAINTS OF INSUREDS AND INSURERS

TO SUPERVISE **TAC** (TARIFF ADVISORY COMMITTEE)- COMMITTEE FOR DECIDING RATES, TERMS ETC OF GENERAL INSURANCE CONTRACTS

TO REGULATE MAINTENANCE OF SOLVENCY MARGIN (ASSETS OF INSURER > LIABILITIES)

BANCASSURANCE

DISTRIBUTION OF INSURANCE PRODUCTS THROUGH BANKS

IT IS A PARTNERSHIP BETWEEN A LIFE INSURANCE COMPANY AND A BANKING COMPANY

IT FOCUSES ON ENLARGENING CUSTOMER BASE OF INSURANCE SECTOR

EG; SBI LIFE INSURANCE COMPANY LTD - SBI

ADVANTAGES/IMPORTANCE OF BANCASSURANCE

TO BANKS	TO INSURERS	TO CUSTOMERS
ADDITIONAL INCOME	HUGE CUSTOMER BASE	SERVICES UNDER ONE ROOF
COMBINED SERVICES UNDER ONE ROOF	REDUCTION IN DEPENDENCE ON AGENTS	EASY SETTLEMENT OF CLAIMS
ENLARGE CUSTOMER BASE	WIDER REACH	GREATER CONVENIENCE IN PREMIUM PAYMENT
		CREDIBILITY

BANCASSURANCE MODELS

1. PURE DISTRIBUTOR – ACTS AS AGENT OF 2 OR MORE INSURERS

2. STRATEGIC ALLIANCE – SERVES ONE INSURER ONLY

3. JOINT VENTURE – AN ENTITY JOINTLY OWNED BY A BANK AND INSURER

4. FINANCIAL HOLDING COMPANY – AN ENTITY OWNS BANK AND INSURANCE COMPANY

THANK YOU