Unit 1 – Insurance – Introduction

Meaning and Nature of Insurance:

Insurance is a scheme to compensate the loss caused to the life or property of a person due to unexpected reasons or perils. It is a contract according to which one party (insurance company) agrees to compensate the loss to the life or property of other party (insured) from certain risks. The insured pays the premium to the insurance company as a consideration of such promise given by the company.

Insurance is a social fund created through contribution of many persons whose life or property is exposed to certain risks. The actual losses, if any, of such persons are compensated through such common fund. Thus it is a cooperative device to spread the loss caused by a particular risk over number of persons who are exposed to it and who agree to insure themselves against that risk.

Nature or characteristics of insurance:

The nature of insurance will be clear by studying the following characteristics of insurance:

1) **Cooperative device**: Insurance is a cooperative device that provides protection to the life and property of many persons from economic losses caused by the perils through joint efforts. It is based on the cooperative principle one for all and all for one.

2) **Sharing of Risks**: Insurance is a social scheme through which the financial losses arising to few people in the society from some unforeseen perils are shared between many people who are exposed to such perils.

3) **Contract of security**: Insurance is a contract providing the security to the life and property of a person from unforeseen losses from the perils such as accident, fire, theft, burglary, dacoits, riots, floods, rains, storms, pirates, jettisoning etc.

4) **Valuation of risk:** Insurance company makes the valuation of risk involved before entering into the contract. The premium for the insurance is charged on the basis of risk involved. Higher the risk, higher is the premium.

5) **Payment of Claim:** Incase of general insurance (such as fire, marine or accident insurance) the claim is payable only if the risk arises. But in case of life insurance the amount of policy is payable on the death of insured or on the maturity of policy.

6) **Contingent contract:** The general insurance is a contingent contract because the policy amount becomes payable only on happening of an event which is uncertain (such as fire, accident, theft etc.) But life insurance is a contract of certainty because the policy amount is payable on death of insured or on maturity of policy whichever is earlier. Thus the payment of policy amount is certain.

7) **Not a wagering contract:** Insurance is not a wagering or gambling contract. It is a contract that transfers the risk of the insured to the insurance company. The insured has insurable interest in the subject matter of insurance. He takes insurance to obtain security to his life or asset.

8) **Large number of persons involved :** The success of insurance scheme depends on the participation of large number of persons whose life or property is exposed to a common risk. Insurance involves payment of compensation to the persons who suffer from the specific loss from a common fund which is formed by collecting premium from a large number of people.

9) **Insurance is a business:** Insurance is a business in a service industry. It provides safety and security to the life and property of people from certain risks mentioned in the contract. Thus it removes a fear or insecurity in the minds of people and promotes the business and welfare of people.

10) **Provision against death**: Life insurance provides protection to the families and dependents of a person who meet with accidental or natural death.

11) **Provision for old age:** The life insurance is also helpful to retired persons during their old age when their income reduces. It makes a large fund available to a person during his old age when his income reduces substantially and his expenses may increase due to medical treatment and pending responsibilities such as marriage of sons and daughters etc.

Need and significance of insurance (Role or Importance of Insurance):

The importance of insurance can be explained from the following points:

I Economic and Commercial Significance of Insurance: The role of insurance in the economic development can be understood with the help of following points.

1. **Insurance encourages savings:** Insurance companies provide attractive insurance schemes to the people from different classes and occupations and collect huge amounts from the public in the form of insurance premiums. These savings are made available for the economic development of the nation.
2. **Insurance promotes the development of trade and industry:** The funds collected by the insurance companies are made available for the development of trade industry and commerce. Insurance companies provide capital and loans to industries and commercial enterprises. Insurance companies also minimize the risk in the business and thus help in the development of trade, industry and commerce.
3. **Increase in the efficiency of business:** As the insurance companies protect the property and assets of business from unforeseen losses and perils the owners of business are free from the worries of business losses. Hence they can concentrate well on the development of business and increase the efficiency and productivity of business. If there are losses in the business due to fire, accident, theft or perils of the sea the insurance companies compensate such losses and business is not affected.
4. **Generation of employment:** Insurance companies provide direct employment to lakhs of people in the form of development officers, insurance agents and other staff. They also promote the development of trade, industry, commerce and agriculture and help indirectly in increasing the employment opportunities in those sectors.
5. **Development of Infrastructure**: Insurance companies also provide finance for the development of roads, rails, telecommunication, power and such infrastructure industries which speedup the development of economy of nation.

6. **Development of agriculture**: Crop and cattle insurance minimize the risk in the agriculture due to the irregularity of rains and natural calamities and help in the development of agriculture.
7. **Increase in the exports**: Insurance minimizes the risk in the international trade by covering the losses due to the perils of the sea such as sinking of the ship, leakage of ship, fire, jettison, war perils, pirates of the sea etc. Thus it helps in increasing the international trade among the countries and promotes exports.
8. **Indemnification of Key Personnel**: Key-men insurance compensates the losses suffered by business enterprises due to the loss of key personnel. Key personnel are the very important employees of business on whose skill and experience the existence and profitability depends heavily.
9. **Accelerates the economic development**: From the above discussion it is clear that insurance promotes savings and investment, develop the infrastructure, generate employment, promote the development of different economic sectors such as trade, industry, commerce, exports, agriculture etc. Thus it increase the economic development of nation.

II Social significance of Insurance: The role of insurance in the social development can be understood with the help of following points.

1. **Insurance provides the satisfaction and comfort to the people**: People are busy in creating the assets like factory, business house, vehicles, houses etc. If all these assets are safe the people are happy and satisfied. If there is any damage or loss to such assets the life of the people is disturbed. Insurance covers the risks to such assets and thus help in increasing the satisfaction and wellbeing of the people.
2. **Security from unexpected death**: The life of a person is exposed to number of unexpected calamities such as partial or total disability due to accidents or disease, early death etc. Insurance covers such risks and protects his family and dependents from such events. It makes provision for dependents if such events occur.
3. **Provision for old age:** At an old age the income of a person reduces substantially and his expenses may increase due to medical treatment and pending responsibilities such as marriage of sons and daughters etc. Insurance plans help a person to make a financial provision against such problems in old age through regular savings during young age.
4. **Respectful life:** Insurance helps a person to lead a respectful and economically independent life. Life insurance plans help a person to generate large funds at the end of life through regular savings and to fulfill all the personal responsibilities through such savings rather than depending on the charity and favors of others.
5. **Provision for the personal responsibilities:** Life insurance plans also help a person to make provision of funds to meet the important responsibilities of life such as education of children, their marriages, construction of house, payment of medical expenses of members of family and so on.
6. **Increase in labor welfare:** Sometimes the employees and workers may get injured or die during the working of factories and business houses. In such cases the employers have to make the payment of large compensations to such employees under different labor laws. Insurance plans help such employers to make a provision of such compensation amounts in case of accidents. Thus insurance promotes labor welfare.

7. **Social Security tool of Government:** Life Insurance Corporation of India helps the government to promote the social welfare of masses through the various schemes mentioned below:
   - **i) Social Insurance**
   - **ii) Social Security Group Insurance Scheme**
   - **iii) Rural Group Life Insurance Scheme**
   - **iv) Jan Shree Bima Yojana**
   - **v) Swarna Jayanti Gram Swarojgar Yojana**
   - **vi) Krishi Shramik Samajik Suraksha Yojana**
   - **vii) Shiksha Sahayog Yojana**

Unit II - Insurance Contract

According to the Indian Contract Act (Section 10) *"A Contract is an agreement made by the free consent of the parties competent to contract, for a lawful consideration and with a lawful object and which are not declared to be void".* As per this definition a valid contract needs the following features: 1) An agreement 2) Proposal and acceptance 3) Free consent of parties 4) Parties competent to contract 5) Lawful consideration 6) Lawful object and 7) Not declared as void.

As per the above definition insurance is a contract as it has the following features:

1) **Written Agreement**: Insurance is an agreement in written form. Such written agreement is called insurance policy. While making this agreement the insured makes an offer on printed *proposal form* and the insurance company gives its acceptance in the form of *notice of acceptance.*
2) **Competency of parties:** The parties to the contract must be competent. It means they should be above 18 years of age and must of sound mind. In insurance contract both insured must be above 18 years of age and of sound mind. And insurance company is an artificial person competent to make contract.
3) **Consideration:** In insurance contract the insurance company covers the risk of insured for which insured pays the consideration in the form of premium. Therefore the lawful consideration in the form of premium is present in case of insurance contract.
4) **Lawful object:** As per the contract act the object of the contract must be lawful. N insurance contract the objective is to cover the risk to the life and property of insured from the specific risk which is lawful.
5) **Free Consent:** There should be free consent of the parties to the contract. It means the agreement of the parties to the contract should not be induced by coercion, fraud, influence or misrepresentation. In insurance contract also there is free consent of both the parties to the contract.
6) **Agreement not declared void:** The contract should not have been declared as void by any law enforced in the country. The contracts which are contrary to laws are declared as void contracts. The insurance is legal business that helps in the economic development of the nation. Hence insurance agreement is not declared as void.

As explained above, insurance is a written agreement between the parties competent to contract who give their free consent and a consideration for the benefit received from the contract. Insurance has lawful object and hence it cannot be a void agreement. Thus insurance agreement has all the essential features of a valid contract.

Difference between Insurance and wagering contract:

Insurance Contract	**Wagering Contract**
1.	**Meaning**
Insurance is a contract according to which	Wagering is an agreement according to which
the insurance company promises to compensate or property of insured from	one party promises to pay certain sum of the loss to the life money or money's worth on happening of a
certain risks in return of the premium paid by the	certain event in consideration of the other
the insured. Thus it is a contract providing security	party's promise to pay him if the event does
to the insured.	not happen.

2. Insurable interest

The insured has insurable interest in the subject matter of insurance.	Non of the parties has insurable interest in the event of wagering at the time of agreement.
3. Objective	
The main objective of insurance contract is to transfer the risk of the insure to the insurer.	The main objective of wagering is to make profit through wagering or gambling.
4. Enforcement by law	
Insurance contract is a valid contract hence it can be enforced at law.	Wagering is void contract hence it cannot be enforced at law.
5. **Scientific base**	
It is governed by Contract Act and Insurance Act Premium and claim amounts are calculated Scientifically by considering various factors.	It is not governed by any Act and it has no scientific base in determining the consideration and claim.
6. **Utmost good faith**	
Principle of utmost good faith is strictly observed.	Principle of utmost good faith is not used.
7. **Risk Involved**	
Risk of insured is involved in the contract.	No risk is present before making wagering .
8. Consideration	
Consideration in the form of premium is paid While making insurance contract.	Wagering agreements are made without payment of any consideration.

Types of Insurance or kinds of insurance:

Following are the different kinds of insurance;

Kinds of Insurance

I) Personal Insurance	**II) Property Insurance**	**III) Guarantee Insurance**
A) Life Insurance	**A) Fire Insurance**	**A) Fidelity Insurance**
B) Personal Accident Insurance	**B) Marine Insurance**	**B) Credit Insurance**
C) Health Insurance	**C) Miscellaneous Insurance**	

1) Personal Insurance: Personal insurance is an insurance contract that covers the risks to the life and health of insured. Insured pays premium as a consideration to the assurance given by the insurance company. The types of personal insurance are as under:

i) Life Insurance: Life insurance is a contract according to which insurance covers the risk to the life of a person in consideration of premium paid by him. There are two types of life insurance contracts namely, (a) Whole Life Insurance and (b) Endowment Insurance. In Whole Life Insurance contract the insurance company agrees to pay the sum assured to the nominees or dependents of insured on his death in consideration of premiums paid by the insured at regular intervals. Whereas in Endowment Insurance contract the insurance company agrees to pay the sum assured either on death of insured or on completion of period of policy whichever is earlier.

ii) Personal Accident Insurance: Personal Accident Insurance is a contract under which the insurance company agrees to indemnify the loss due to the death or permanent disability of insured due to accident in return of premium paid by him. Such insurance makes provision for payment of medical and hospital expenses in case of total or partial disability or death of insured in an accident. The insurance company prepares a table showing the compensation rates for partial or total disability or death due to accident according to which the claims are settled.

iii) Health Insurance: Under the health insurance or med claim policy the insurance company agrees to pay or reimburse the expenses on operations, medicines and hospitalization due to some specified diseases in return of the premium paid by the insured.

2) Property Insurance: Property insurance contracts refer to the policies that cover risk to the property of individuals or enterprises from specified perils. Property include buildings, furniture and fixtures, machinery, vehicles, goods, jewelry, and such other assets owned by the insured. The property insurance include following types:

i) Fire Insurance : Fire insurance is the contract under which insurance company covers the property of insured against the direct and incidental losses from the fire during the period of insurance in return of the premium paid by the insured.

ii) Marine Insurance: It is the contract that covers the losses to the property of insured from marine losses.

iii) Miscellaneous Insurance: It includes the various categories of insurance such as Motor Vehicles Insurance, Crop Insurance, Cattle Insurance, Theft and Burglary Insurance etc.

3) Guarantee Insurance: Guarantee insurance is a contract whereby the insurance company agrees to indemnify the insured for a fixed sum against losses arising through dishonesty, fraud or a breach of contract by a third party. This is a new type of insurance that has emerged in the modern times. Following types of policies are included under this category:

i) Fidelity Guarantee Insurance: It covers the losses suffered by the insured due to the dishonesty of his employees.

ii) Credit Insurance: It covers the suffered by the insured form the bad debts due to nonpayment of credit by the customers in return of the premium paid by the insured to the insurance company.

Principles of Insurance:

While making the insurance contract the insured and insurer are required to observe some guiding rules and conditions. These guidelines and conditions are called fundamental principles of insurance. These principles are common to all types of insurance contracts. However, only the principle of indemnity is not applicable to life insurance. These principles are as under:

Principles of Insurance

A) Primary Principles

1) Utmost good faith
2) Insurable Interest
3) Indemnity
4) Probability
5) Cooperation

B) Secondary Principles

1) Contribution
2) Subrogation
3) *Causa Proxima*
4) Mitigation of Loss

A) Primary Principles:

These are the main and important principles of insurance which were applied when the concept of insurance originated. These principles are as under:

1) **Principle of Utmost Good Faith:** Insurance contract is based on the mutual faith between insured and insurance company. Hence, according to the principle of utmost good faith both insured and insurance company should disclose all the material facts about the contract to each other while entering into contract. They should not give any wrong information or conceal any significant information related to the proposed contract that would influence the decision of the other party in entering the contract. If such important information is not disclosed the other party may waive its responsibility under the contract on the ground that there was breech of principle of utmost good faith while making contract. Thus principle of utmost good faith places the important duty on insured to provide all the vital information about himself and his property while filling up the proposal form for the insurance contract because he alone has the complete information.
2) **Principle of Insurable Interest:** According to this principle the insured must have insurable interest in the subject matter of insurance. It means the insured must be benefitted by the safety of the subject matter and he must suffer financial loss its destruction or damage. Every person has insurable interest in the assets and property owned by him. Hence he can take its insurance. He cannot take insurance on the assets belonging to the others. In life insurance and fire insurance the insurable interest must be present at the time of taking policy and at the time of occurrence of loss. Whereas in marine insurance the insured should have insurable interest at the time of actual loss only.

   In life insurance contract, the insurable interest is found between relations such as husband and wife, parents and their children, grandparents and grand children, brothers, and father in law and son in law etc.

   In general insurance the insurable interest is deemed to exist in the following relations:

Owner and his property, Employers and employees, Creditors and **debtors**, Partner and firm, Agent and Property, Trustee and Property, Deposit receiver and depositor etc.
Hence insurance can be taken in such relations.

3) **Principle of Indemnity:** Insurance is a contract of indemnity. According to this contract the insurance company agrees to indemnify the insured if there is any loss to his assets insured from specified perils. It means in the event of loss from the specific risk the insurance company promises to put the insured in the same position that he was occupying before happening of such event by reimbursing the entire loss. As per this principle, as the insurance is a contract only to indemnify the loss, insured cannot claim any amount more than the loss suffered and thus try to make profit there from. This principle is applicable to all the types of insurance except the life insurance, personal accident and sickness insurance and medical insurance. Because the loss to life and health and life of a person cannot be reimbursed completely so as to bring the insured in the original position before the death or accident or disease.
   Insurance company tries to indemnify the loss to the insured by payment of amount of loss in cash or by repairing the assets damaged or by replacing the assets lost in theft or destroyed completely.
4) **Principle of Probability:** The theory of probability in statistics is helpful in knowing the chances of losses and the amount of risk there from. This theory is used by the insurance companies to calculate the risk involved in an insurance contracts. The amount of premium is calculated on the basis of the risk in the insurance contract.
5) **Principle of Cooperation:** Principle of cooperation refers to voluntary coming together of people to solve common problems through joint efforts. In insurance scheme the people whose life and property is exposed to a common risk come together voluntarily and form a common fund by contributing premium in proportion to the risk involved. The actual loss, if any, of such members is compensated from such common fund. Thus the loss of few people contributing to such fund is shared by all. Thus the principle of cooperation, *" One for all and all for one"* is used in the insurance scheme.

B) Secondary Principles: These are the additional principles evolved out of primary principles. They are used in settlement of claims of insurance in such a manner that the insured should not take the undue advantage from the insurance contract in case of actual loss. These principles are as under:

1) Principle of contribution: The principle of contribution is applicable when insured takes out insurance policies from two or more insurance companies on the same property. In such situation, when the property is damaged or destroyed due to the risk specified in the insurance policy the loss is to be indemnified collectively by all such insurance companies. Each company should contribute to the loss in proportion to the policy amount of the insurance. This principle ensures the equitable distribution of loss between the different insurance companies. For example, if Mr. X takes insurance policy of Rs. 6 lakh from insurance company A and Rs. 4 lakh from insurance company B on his car valued at Rs.10 lakh and the car is damaged in a road accident resulting in loss of Rs. 5 lakh the insurance companies A and B will contribute the loss in the ratio of 6 : 4. Hence company A will pay Rs. 3 lakh and company B will pay Rs. 2 lakh. If company A pays Rs. 5 lakh it will have a right to recover Rs. 2 lakh from the company B. Thus this principle ensures equitable distribution of loss between different insurance in case of multiple insurance. It also ensures that the insured will not make profits through multiple insurance.

2) Principle of Subrogation: The principle of subrogation is also called *the principle of transfer of ownership rights*. This principle is applicable for marine, fire and theft insurance. According to this principle when an insurance company indemnifies the loss to the property of insured, the ownership rights in such property automatically pass on from insured to the insurance company without any legal process. The insurance company obtains the following legal ownership rights for unlimited period from the insured on indemnification of his loss.

i) Ownership rights on the remained parts of damaged property;

ii) Rights to sell out the remained parts of property;

than the value of insured property. This principle stops insured from claiming the loss from insurance company and recovering the loss once again from the party responsible for loss.

3) *Causa Proxima*: The term *causa proxima* is of Latin origin which means the *nearest or next cause*. According to insurance contract the insurance company agrees to indemnify the losses to the subject matter of insurance only from the risks specified in the contract. Hence while admitting the claim for loss to the property of insured if the real cause of the loss cannot be determined or if the actual cause of loss is not mentioned in the contract the insurance company can deny the claim. Under such situation as per the *causa proxima* principle the nearest clause of the loss is found out. If such cause is mentioned in the contract then the claim is admitted by the insurance company. For example, a marine policy is taken for the sugar against sea perils. During the transit the sugar is destroyed due to the water entering into the ship from the holes at the bottom of the ship that are drilled by the rats. In this case water is the nearest cause and rats is the remote cause. Therefore, as per the causa proxima principle the insurance company has to pay the claim because the loss by seawater is included in the peril of the sea even though the loss by rats is not specifically mentioned in the policy.

4) Mitigation of loss: Mitigation of loss means *to make the loss less severe and painful*. This principle of mitigation of loss places responsibility on insured to take necessary steps to minimize the loss to the subject matter of insurance when the mishap takes place. He has to take all efforts to reduce the damage that he would have taken if there was no insurance against that property. He should rush to the place of mishap, inform the fire brigade, try to save the goods from spreading fire and do all the efforts to minimize the loss due to fire. He should not show any negligence during the mishap because the property insured and the insurance company will bear the loss as per the insurance contract. As this principle the insurance company may reject the claim for compensation if it is found that the insured has not discharged his duty of mitigation of loss at the time of mishap.

Unit III Life Insurance

Meaning of Life Insurance:

Life insurance is insurance on human life. Life insurance is a contract according to which insurance company covers the risk to the life of a person in return of premium paid by the insured. It is one of the most popular forms of insurance. Life of a person is open to the various kinds of risks such as immature death, accidental death, disability, old age etc. In such conditions life insurance provides the financial assistance to the dependent family members of dead person and provides economic security. Life insurance also makes provision for old age of person by making the fund available out of his regular savings in the form of premium. It also provides several tax benefits to the insured.

Definition of Life Insurance:

According to J,H.Magee: *" Life Insurance Contract is an agreement in which the insurer undertakes to pay a stipulated sum of money upon the death of the insured or at some specific time to a designated beneficiary".*

In simple words *"Life Insurance is an agreement according to which the insurance company in return of premium paid regularly agrees to pay the sum assured either on death of insured or on maturity of policy whichever is earlier to the beneficiary of the policy" .*

Features of Life Insurance: Following are the important characteristics of life insurance:

1) **Contract:** Life Insurance is a contract between the insured and insurance company. Hence the provisions of Contract Act are applicable to it.
2) **Promise to pay a sum :** It is a contract to that promises to pay a certain sum on maturity of policy or on death of insured whichever is earlier.
3) **Consideration:** Insured agrees to pay consideration in the form of premium at regular interval during the period of insurance. These premiums may be paid yearly or half yearly or quarterly or monthly as per the agreement.
4) **Payment of sum assured:** The sum assured becomes payable to the nominated person on death of insured or it is payable to the insured directly if he survives during the period of insurance.
5) **Objectives:** Life insurance is taken by the insured with the two objectives: (1) Protection of dependents on accidental death of insured and (2) Provision of funds through regular savings by insured.
6) **Not a contract of indemnity:** Life insurance is not a contract of indemnity, as the loss to life of a person cannot be evaluated in money and indemnified in cash. It is a contract that promises the sum assured subject to some conditions.
7) **Life Assurance:** Life insurance is also called life assurance and insured is called assured.
8) **Principles:** The principles of utmost good faith and insurable interest are applicable to life insurance contract.
9) **Provision for old age and future responsibilities:** Life insurance contract helps the assured to make a provision of funds for old age and future responsibilities such as education and marriages of children, construction of house etc.

Importance or Significance of Life Insurance:

The importance of insurance can be explained with the help of the following points:

A) From Individual Point of View: Life insurance provides the following benefits to the individual or insured:

1. **Protection to family:** If a person dies accidentally his dependent family members may face lots of financial difficulties. To avoid such a situation the person may take a life insurance policy and make provision of fund to the dependent family members on his accidental death. Thus life insurance protects the family of insured incase of his premature accidental death.
2. **Savings for old age:** By taking a life insurance policy a person can make regular savings in the form of premiums. He can obtain a large sum assured along with bonus at an old age when the policy matures. He gets the policy amount at an old age when his income reduces and his medical expenses increase. He can lead a respectful and self reliant life at old age instead depending on the mercy of others.
3. **Encourages savings habit:** When a person takes a life insurance policy he controls his regular expenses for the payment of premiums. This encourages the savings habits of a person and helps him to create a large fund to meet future needs and develop financial position.
4. **Provision for future responsibilities:** Life insurance helps a person to make a provision of funds to meet his future responsibilities such as children education and marriages, construction of house, medical expenses etc.
5. **Provides peace of mind:** Every person is worried about the economic safety of his dependent family members on his accidental death, person financial responsibilities in future, old age financial safety etc. Life insurance takes care of all such worries and helps him to lead a peaceful life.
6. **Tax Relief**: Insured enjoys many tax benefits under income tax act for the payment of life insurance premiums.
7. **Loan facility:** If the insured is in financial difficulty he can raise loan on the security of life insurance policy**.** Thus LIC policy serves as a security for raising loan from Life Insurance Corporation or other financial institutions.
8. **Protection against creditors:** Life insurance provides protection to policyholders against creditors. Life insurance policies can be assigned to anyone. If a policy is assigned to a person the creditors of insured cannot raise their claim against the sum assured payable to such person.

B) Importance of Life Insurance to business: Life insurance is important to the business people in the following ways:

1. **Business Continuation**: Life insurance helps the continuation of business even after the death of proprietor, partner or key men. On accidental death of proprietor his legal heir can continue the business from the policy amount.
2. **Insurance of Key Men:** The existence of every business concern depends greatly on some important persons who may be technicians, executives, directors etc. Such persons are called key men. Unfortunately if such key person dies the working of firm may be disrupted or even may collapse. To avoid such risk the firm may takes key men insurance policy. The loss to the firm is compensated if such key men expire.
3. **Increase in labor welfare:** The business organizations have to pay large compensation if the employees meet with an accident while on work. By taking out the group insurance of employees the responsibility of paying such compensation, if any, can be transferred to the insurance company. If the risk to the life of employees is covered through group insurance the employees also feel secure and their commitment towards the organization increase.
4. **Increase in the business reputation:** If a business organization takes group insurance of its workers and key men insurance of its important employees its business reputation increase in the industry.

5. **Contributes the economic growth:** Life insurance companies develop savings habit among the people and invest their funds mobilized in the various productive activities such as creation of infrastructure, development of industries and agriculture, generation of employment etc. Thus they contribute to the economic growth of the nation.

Procedure for taking Life Policy

A person who wants to take life insurance policy has to follow the procedure given below:

1. **Selection of Insurance Company**
2. **Filling in Proposal Form**
3. **Proof of Age**
4. **Medical Examination**
5. **Confidential Report of Agent**
6. **Scrutiny of Proposal**
7. **Acceptance of Proposal**
8. **Payment of Premium**
9. **Issue of Policy**

Let us discuss these steps in taking life insurance policy in detail:

1. **Selection of Insurance company:** At present in India there are number of private insurance companies other than Life Insurance Corporation of India which is a Government owned concern. These companies are: HDFC standard Life, ICICI Prudential, Max New York, SBI Life, Bajaj Allianz, Birla Sun Life, Om Kotak Mahindra, ING Vaisya, Tata AIG etc. Hence first of all a person willing to take life policy should select the company. The agents of these companies contact the people and explain the insurance plans of the company suitable for the person considering his requirements.
2. **Filling a Proposal Form:** Then he has to fill the printed proposal form of the company obtained from the nearest office or agent. Some companies make these forms available on internet. Agents of the companies help the proposer in filling the form. The true and accurate information should filled in by the proposer in the form. Any wrong information or concealment of significant information may lead to the breach of faith and cancel the contract.
   The proposal form generally contains the *personal and policy information* and *the information about the health conditions* of proposer. Personal & policy information is : name of insured, his permanent address, date of birth, ,sex, nationality, age, educational qualifications, occupation, income, policy amount, period of policy, period of premium installments, name of nominee, information regarding the previous policies etc. Information about his heath and habits is family history of proposer, hereditary disease, previous diseases and hospitalizations, health conditions, addictions and habits etc.
3. **Proof of Age:** The proposer has to give proof of his age along with the proposal form. Such proof of age is necessary because the amount of premium depends on the age of proposer. Higher is the premium for the higher age. Any of the following documents is accepted as a proof of age by the companies :
   i) Birth date certificate issued by municipality or Gram panchayat ;
   ii) Birth certificate from school or college;
   iii) Certificate of Baptism or certified extract from family bible;
   iv) Original horoscope prepared at the time of birth;
   v) Certified copy of the first page of the service book of government or semi-government employees;
   vi) Any other proof.

4. **Medical Examination:** After submitting the proposal form along with the proof of age the proposer has to undergo the medical examination from an approved doctor of the insurance company. The doctor examines heart and lungs of proposer. He measures the height, weight, teeth, chest, abdomen, tongue, eyes, ears, throat, blood pressure, physical defects and overall health conditions of the proposer. He makes detail examination if he finds any defects in the general medical check-up. The doctor also verifies the information about his previous illness and accidents given by the proposer in his proposal form. In case of female proposers the doctor examines the breast cancer, uterus, pregnancy etc. After completion of medical examination of the proposer he gives the medical report to the insurance company.
5. **Confidential Report of Agent:** After medical examination is done the agent submits his confidential report to the insurance company about the proposer. In his report the agent provides the true information about the personal history, character, habits and heath of the proposer. If he does not have the first hand information he must collect it from the reliable sources and submit it to the company. He has to work as ears and eyes of the company and caution the company if there is any unfair element In the proposal. He has to give his recommendation about the proposal to the insurance company.
6. **Scrutiny of Proposal:** The insurance company scrutinizes the information given in the proposal form, medical report and the agents report and decides whether the proposal should be accepted or not. If verifies the accuracy of information about the age, health conditions, character, income level, and habits given are true and correct. If they are true and satisfactory the proposal is accepted. If there are any problems with the proposal they are solved and then the proposals are accepted at increased rates of premium. Proposals of small amount are accepted with immediately but the proposal of large amounts is accepted after a detailed enquiry.
7. **Acceptance of Proposal:** If the company accepts the proposal it informs the proposer accordingly. The proposer is given a letter of acceptance stating the conditions on which the proposal is accepted. Request is made to him to pay the premium of the policy.
8. **Payment of Premium:** After receiving the acceptance of the proposal from the insurance company the proposer pays the first premium to the company and completes the contract of insurance. After the payment of the first premium the risk is transferred to the insurance company and the proposer becomes the insured. The insured has to preserve the receipt of first premium because it serves as insurance contract till the copy of insurance contract is issued to him.
9. **Issue of Policy:** Finally the insurance company prepares a written document of the contract of insurance called insurance policy which is issued to the insured. It contains all the terms and conditions of insurance contract and is properly stamped according to the sum assured. It bears the specific number, seal of insurance company and signed by it officer.