

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:** In case 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 Swarajgar Yojana**
 - vi) **Krishi Shramik Samajik Suraksha Yojana**
 - vii) **Shiksha Sahayog Yojana**