NIOS lesson adaptation project

By EMBRACE Volunteers

(A community initiative of Harchan Foundation Trust)

Chapter 10

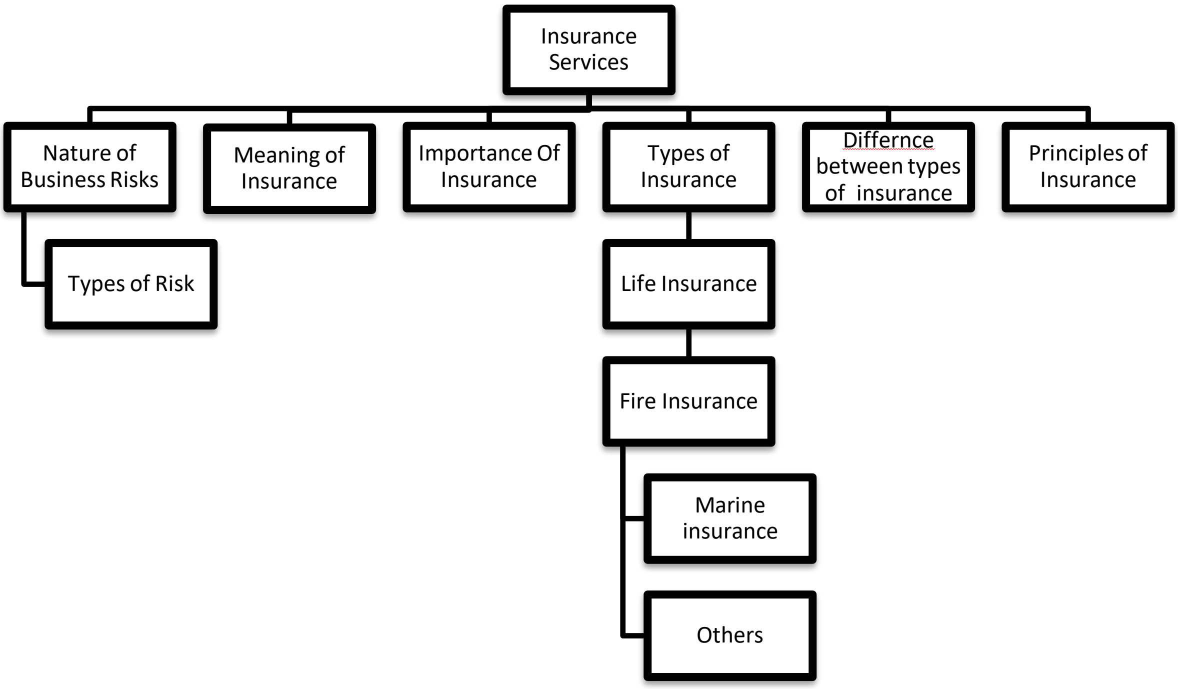
INSURANCE SERVICES

(Printable Version)

- **Simplified Lesson**
- **Previous Year Questions with Answers**
- **Terminal Questions**

This project is aimed at supporting children with different needs. Information provided is adapted to the best of knowledge by the volunteers. For complete information please refer to the NIOS resources in https://www.nios.ac.in/online-course-material/secondary-courses.aspx.

LESSON 10
INSURANCE SERVICES



Nature Of Business Risk

- Objective of any business is to earn profit
- But a businessman can loose on income or profit due to many factors on which businessman has little or no control.
- This loss can be divided into
  - Uncertainties: Events that cannot be foreseen
  - Risk: Risk can be anticipated by past experiences

Types of Risks

Speculative Risk: Risks relating to business judgment based on speculation. For example change in fashion, govt. policy etc.
Pure Risk: Risks where the chance of loss is predictable.
Property Risk: Related to Loss of property.
Personnel Risk: Related to life or health of the people.
Financial Risk: Related to financial transactions of the business.
Marketing Risk: Risk associated with marketing of goods

Meaning of Insurance:

- The person or business that gets compensated if the loss occurs is known as the Insured.
- The company that agrees to pay the compensation is known as the Insurer.
- The money that is paid by the insured to the insurer is called the Premium.

Importance Of Insurance (Advantages of Insurance)

Sense of Security: Individual who pay premium periodically from their current income can look forward to receiving a fixed amount after retirement or his family being secured in case of his death.
Safety:. It is an aid to both trading and industrial enterprises, which involve huge investments. The members of business community feel safe and secured by means of insurance as they get assurance that by contributing a token amount they will be compensated against a loss that may take place in future.
Coverage: Individuals who insure their lives to cover the risks of old age and death are induced to save a part of their current income, which is by itself of great importance.
Employment: Insurance is also a source of employment for the people
-- -----Who get employed directly in its offices of the insurance company
--Who works as an agent of the insurance companies.

Types of Insurance

1. **Life Insurance:** Life insurance is divided into

a. Whole life policy: A whole life policy runs for the whole life of the insured and premium is payable all along.

b. Endowment policy: An endowment policy on the other hand, runs for a limited period or up to a certain age of the insured.

2. **Fire Insurance:** It is an insurance where;
   a. The insurer undertakes to compensate the insured for the loss or damage suffered due to fire.
   b. In return, the insured agrees to pay an amount as a premium.

   The claim for loss by fire is payable subject to two conditions,
   - There must have been actual fire; and
   - Fire must have been accidental, not intentional; the cause of fire being immaterial.

The insured is entitled to be compensated for the amount of actual loss suffered subject to a maximum amount for which he had taken the policy.

For example
Policy taken for Rs.20,000/-
Actual damage due to fire is 15,000/-
The insured can claim the amount only till 15,000/-

3. Marine Insurance: Marine insurance is

- An agreement (contract) by which the insurance company agrees to indemnify the owner of a ship or cargo against risks.
- Marine insurance that covers the risk of loss of cargo by storm is known as cargo insurance.
- When the ship is the subject matter of insurance, it is known as hull insurance.
- The shipping company may insure the risk of loss of freight when freight is payable by the owner of the cargo on safe delivery at the port of destination. Such insurance is known as freight insurance.

Types of Marine Insurance:

1. Time policy: This policy insures the subject matter for specified period of time, usually for one year.
2. Voyage policy: This is intended for a particular voyage, without any consideration for time. It is used mostly for cargo insurance.
3. Mixed policy: Under this policy the subject matter is insured on a particular voyage for a specified period of time. For example, A ship may be insured for a voyage between Mumbai and Colombo for a period of 6 months under a mixed policy
4. Floating policy: - Under this policy, a cargo policy may be taken for a round sum and whenever some cargo is shipped the insurance company declares its value and the total value of the policy is reduced by that amount. Such shipments may continue until the total value of the policy is exhausted

4.Other types of Insurance

Motor Vehicle Insurance:: It covers the risks of damage of the vehicle by accident or loss by theft, as also risks of liability arising out of injury or death of third party involved in an accident. Third party risk insurance is compulsory under the Motor Vehicles Act.

Burglary Insurance : Under this insurance the insurance company undertakes to indemnify the insured against losses from burglary(theft)

Personal accident and sickness: These are policies which can be taken out against death or disability in special circumstances, for example by traveling through flights, etc.

Liability Insurance: This type of policy covers the risk of liability of someone else. For example

---Employer’s liability: covers the employer’s legal liability for the safety of each employee

---Public liability-covers the liability of individuals and business for members of public visiting their premises.

Property Insurance-Covers a wide variety of items from goods in transit or in store to building or contents.
Fidelity Insurance: As a protection against the risks of loss on account of misuse of cash or goods by employees, businessmen may get policies issued covering the risks of loss on account of fraud and dishonesty on the part of employees handling cash or in charge of stores. This is called fidelity insurance policy. The employees may also be required to sign a fidelity guarantee Bond.

Principles of Insurance: MIS-C-ICU(Miss-see-I see u)
There are certain principles that may apply to the contracts of insurance between insurer and insured. These principles are discussed below.
M-Mitigation: In case of a mishap the insured must take all possible steps to reduce or mitigate the loss or damage to the subject matter of insurance.. The insured is expected to act in a manner as if the subject matter has not been insured.
I-Insurable interest: Insurable interest is the reasonable concern of a person to obtain insurance for any individual or property against unforeseen events such as death, losses etc. Therefore insurable interest is always related to ownership, relationship by law or blood and possession.
S-Subrogation: In the contract of insurance subrogation means that after the insurer has compensated the insured, the insurer gets all the rights of the insured with regard to the subject matter of the insurance. Suppose goods worth Rs. 20,000/- are partially destroyed by fire and the insurance company pays the compensation to the insured, then the insurance company can take even these partially destroyed goods and sell them in the market.
C-Contribution: The same subject matter may be insured with more than one insurer. In such a case, the insurance claim to be paid to the insured must be shared or contributed by all insurers in proportion to the amount of insurance of individual insurers
I-Indemnity: The word indemnity means to restore someone to the same position that he/ she was in before the event concerned took place. This principle is applicable to the fire and marine insurance. The purpose of this principle is that the insured is not allowed to make any profit from the insurance contract. Compensation is paid on the basis of amount of actual loss or the sum insured, whichever is less.
C-Cause Proximal (nearest cause): According to this principle the insured can claim compensation for a loss only if it is caused by the risk insured against. For example a ship carrying orange was insured against losses arising from accident. The ship reached the port safely and there was a delay in unloading the oranges from the ship. As a result the oranges got

spoilt. The insurer did not pay any compensation for the loss because the proximate cause of loss was delay in unloading and not any accident during voyage.

U-Utmost good faith: Insurance contracts are the contracts of mutual trust and confidence. Both parties to the contract i.e., the insurer and the insured must disclose all relevant information to each other.

Difference between Fire, Marine and Life Insurance

Basis Of Difference	Fire Insurance	Marine Insurance	Life Insurance
Compensation	Amount insured or actual loss, whichever is less is given as compensation	Purchase price of goods and 10-15% profit is given as compensation.	No loss is compesable. Only specific amount is paid.
Insurable interest	It must exist at the time of taking the policy as well as the time of loss	It must exist at the time of loss.	It must exist at the time of taking the policy.
Assignment of policy	No assignment without permission of Insurance company	No assignment without permission of Insurance company	No assignment is done.
Nature of risk	Uncertain	Uncertain	Certain, but the time is uncertain.
Period	Normally for one year	Normally for one year	Taken for a long term
Premium	Depends on the amount insured. More the amount insured, more the premium	Depends on the nature of perils	Depends on the age of the insured and the term of the policy.
Object	To cover the risk of fire	To cover sea perils	Protection & investment
Surrender	Cannot be surrendered before expiry	Cannot be surrendered before expiry	Can be surrendered before maturity

PREVIOUS YEARS QUESTIONS

1. **Niranjan got his shop insured against fire for Rs5 lakh. One day fire took place and goods of the value of R 70,000 were destroyed but insurance company accepted claim for R 70,000 only. Under which principle of insurance, the insurance company took the decision?**
    a. Utmost good faith
    b. Insurable Interest
    c. Indemnity
    d. Contribution

2. **Explain in brief the principle of subrogation.**
   Answer: In the contract of insurance subrogation means that after the insurer has compensated the insured, the insurer gets all the rights of the insured with regard to the subject matter of the insurance. Suppose goods worth Rs. 20,000/- are partially destroyed by fire and the insurance company pays the compensation to the insured, then the insurance company can take even these partially destroyed goods and sell them in the market.

3. **Which of the following insurance principle, the insured must take all possible steps to reduce the loss or damage to the subject matter of insurance?**
    a. Contribution
    b. Subrogation
    c. Causaproxima
    d. Mitigation

4. **Distinguish between whole life policy and endowment policy**

Sr.no	Whole Life Policy	Endowment Policy
1	This policy runs for the whole life of the insured	This policy runs up to the certain age of the insured
2	The premium is payable throughout the life of the insured	The premium is payable for a specific period of time
3	The sum assured becomes due for payment to the heirs of the insured only after his death.	The sum assured becomes due for payment at the end of the specified period or on the death of the insured, if it occurs earlier.

5. Ashok got his go down insured for Rs. 2 lakhs. Goods of the value of Rs. 1, 60,000/- was destroyed due to fire. Ashok put up a claim of Rs. 2 lakhs to the insurance company, but company accepted the claim of Rs.1,60,000. Insurance company took this decision under which principle of insurance?

a. Utmost good faith
b. Insurable Interest
c. <u>Indemnity</u>
d. Contribution
e.

5. Differentiate between Fire Insurance and Life Insurance on any five basis. (Choose any 5)

Basis Of Difference	Fire Insurance	Life Insurance
Compensation	Amount insured or actual loss, whichever is less is given as compensation	No loss is compensable. Only specific amount is paid.
Insurable interest	It must exist at the time of taking the policy as well as the time of loss	It must exist at the time of taking the policy.
Assignment of policy	No assignment without permission of Insurance company	No assignment is done.
Nature of risk	Uncertain	Certain, but the time is uncertain.
Period	Normally for one year	Taken for a long term
Premium	Depends on the amount insured. More the amount insured, more the premium	Depends on the age of the insured and the term of the policy.
Object	To cover the risk of fire	Protection & investment
Surrender	Cannot be surrendered before expiry	Can be surrendered before maturity

6. Explain briefly the following principles of insurance

(a) Principle of indemnity

(b) Principle subrogation

(c) Principle of insurable interest.

<u>Principle Of Indemnity:</u> The word indemnity means to restore someone to the same position that he/ she was in before the event concerned took place. This principle is applicable to the fire and marine insurance. The purpose of this principle is that the insured is not allowed to make any profit from the insurance contract. Compensation is paid on the basis of amount of actual loss or the sum insured, whichever is less.

<u>Principle of Subrogation:</u> In the contract of insurance subrogation means that after the insurer has compensated the insured, the insurer gets all the rights of the insured with regard to the subject matter of the insurance. Suppose goods worth Rs. 20,000/- are partially destroyed by fire and the insurance company pays the compensation to the insured, then the insurance company can take even these partially destroyed goods and sell them in the market.

<u>Principle of Insurable interest</u>: Insurable interest is the reasonable concern of a person to obtain insurance for any individual or property against unforeseen events such as death, losses etc. Therefore insurable interest is always related to ownership, relationship by law or blood and possession

7. Jatin got insured his bungalow against fire for ` 20, 00,000. A portion of it was burnt due to fire. It was estimated that an expenditure of ` 15, 00,000 would restore the bungalow to its original condition. Jatin made a claim of ` 20, 00,000 stating that he was paying premium for the insurance of ` 20, 00,000. The insurance company rejected his claim and paid only ` 15, 00,000.

Name and explain the principle of insurance on which the company's decision is based.

Answer: Principle of Indemnity (explained above)

8.Explain the following principles of insurance :

(a) Utmost good faith

(b) Indemnity

(c) Subrogation

<u>Utmost good faith:</u> Insurance contracts are the contracts of mutual trust and confidence. Both parties to the contract i.e., the insurer and the insured must disclose all relevant information to each other.

Indemnity: The word indemnity means to restore someone to the same position that he/ she was in before the event concerned took place. This principle is applicable to the fire and marine insurance. The purpose of this principle is that the insured is not allowed to make any profit from the insurance contract. Compensation is paid on the basis of amount of actual loss or the sum insured, whichever is less.

Subrogation: In the contract of insurance subrogation means that after the insurer has compensated the insured, the insurer gets all the rights of the insured with regard to the subject matter of the insurance. Suppose goods worth Rs. 20,000/- are partially destroyed by fire and the insurance company pays the compensation to the insured, then the insurance company can take even these partially destroyed goods and sell them in the market.

Terminal Questions

1. What is meant by business risk?

Answer: All business activities are subject to uncertain events or happenings and may suffer loss or damage. Timely precaution can be taken to avoid some of the losses. The possibility of loss or damage can be divided into two broad categories: uncertainties and risks.
Uncertainties are the events, which cannot be foreseen.
But risks can be anticipated in the light of past experience.
For example: The chances of fire in the factory or go down depend upon precautions taken to prevent its occurrence, or having necessary preparedness to keep the resulting loss to a minimum level.

2. Define Insurance

Answer: Insurance is a contract between the insurer and insured whereby the insurer undertakes to pay the insured a fixed amount, in exchange for a fixed sum known as premium, on the happening of a certain event (like at a certain age or on death), or compensate the actual loss when it takes place, due to the causes mentioned in the contract.

- The person or business that gets compensated if the loss occurs is known as the Insured.
- The company that agrees to pay the compensation is known as the Insurer.
- The money that is paid by the insured to the insurer is called the Premium.

3. Why is insurance considered important? Give any two reasons.

Answer: To understand the importance of insurance, it is important to understand the benefits that we derive from it, which are as follows (write any 2 from below)

Sense of Security: Individual who pay premium periodically from their current income can look forward to receiving a fixed amount after retirement or his family being secured in case of his death.

Safety: . It is an aid to both trading and industrial enterprises, which involve huge investments. The members of business community feel safe and secured by means of insurance as they get assurance that by contributing a token amount they will be compensated against a loss that may take place in future.

Coverage: Individuals who insure their lives to cover the risks of old age and death are induced to save a part of their current income, which is by itself of great importance.

Employment: Insurance is also a source of employment for the people

-- -----Who get employed directly in its offices of the insurance company

--Who works as an agent of the insurance companies.

4. What does Endowment life policy mean?

Answer: An endowment policy is a policy that

- Is valid for a limited period or up to a certain age of the insured.
- The premium is payable for a specific period of time.
- The sum assured becomes due for payment at the end of the specified period or on the death of the insured, if it occurs earlier.

5. What is a voyage policy?

Answer: Voyage policy is intended for a particular voyage, without any consideration for time. It is used mostly for cargo insurance.

6. What is meant by hull insurance?

Answer: When the ship is the subject ma tter of insurance, it is known as hull insurance.

7. How insurance is important as an aid to trade and industry? Explain.

Answer: Insurance is an aid to both trading and industrial enterprises, which involve huge investments in properties and plants as well as inventories of raw materials, components and finished goods. The members of business community feel secured by means of insurance as they get assurance that by contributing a token amount they will be compensated against a loss that may take place in future.

8. How does whole life policy differ from endowment life policy? Why life insurance is also called life assurance?

Answer: A contract of life insurance is a contract whereby the insurer undertakes to pay a certain sum either on the death of the insured or on the expiry of a certain number of years. In return, the insured agrees to pay an amount as premium either in a lump sum or in periodical installments, annually, half-yearly, quarterly or monthly. The risk insured against in this case is certain to happen. Hence, life insurance is also referred to as life assurance.

Sr.no	Whole Life Policy	Endowment Policy
1	This policy runs for the whole life of the insured	This policy runs up to the certain age of the insured
2	The premium is payable throughout the life of the insured	The premium is payable for a specific period of time
3	The sum assured becomes due for payment to the heirs of the insured only after his death.	The sum assured becomes due for payment at the end of the specified period or on the death of the insured, if it occurs earlier.

9. Explain the types of risks which are covered by (i) Motor Vehicles insurance; (ii) Fidelity insurance.

Motor Vehicle Insurance:: It covers the risks of damage of the vehicle by accident or loss by theft, as also risks of liability arising out of injury or death of third party involved in an accident. Third party risk insurance is compulsory under the Motor Vehicles Act.

Fidelity Insurance: As a protection against the risks of loss on account of misuse of cash or goods by employees, businessmen may get policies issued covering the risks of loss on account of fraud and dishonesty on the part of employees handling cash or in charge of stores. This is called fidelity insurance policy. The employees may also be required to sign a fidelity guarantee Bond.

10. What purpose does Marine Insurance Policy serve? Explain the different types of marine policies, which may be of use to exporters and importers.

Answer: Marine insurance is

- It covers the risk of loss of cargo by storm and is known as cargo insurance.
- When the ship is the subject matter of insurance, it is known as hull insurance.
- The shipping company may insure the risk of loss of freight when freight is payable by the owner of the cargo on safe delivery at the port of destination. Such insurance is known as freight insurance.

Types of marine policies that may be of use to exporters and importers are as follows

Voyage policy: This is intended for a particular voyage, without any consideration for time. It is used mostly for cargo insurance. Mixed policy: Under this policy the subject matter is insured on a particular voyage for a specified period of time. For example, A ship may be insured for a voyage between Mumbai and Colombo for a period of 6 months under a mixed policy Floating policy : - Under this policy, a cargo policy may be taken for a round sum and whenever some cargo is shipped the insurance company declares its value and the total value of the policy is reduced by that amount. Such shipments may continue until the total value of the policy is exhausted.

11. A person suffering from cancer did not disclose this fact while taking a life insurance policy. Name the principle he violated and explain it in about 50 words.

Answer: He violated the principle of Utmost good faith. Insurance contracts are the contracts of mutual trust and confidence. Both parties to the contract i.e., the insurer and the insured must disclose all relevant information to each other.

12. At what time there should be insurable interest in

a. Life insurance
b. Fire insurance
c. Marine insurance

Answer: In case of life insurance, a person taking the policy must have insurable interest at the time of taking the policy. For example, a man can take life insurance policy in the name of his wife and if later they get divorced this will not affect the insurance contract because the man had insurable interest in the life of his wife at the time of entering into the contract. In case of marine insurance insurable interest must exist at the time of loss or damage to the property. In contract of fire insurance, it must exist both at the time of taking the policy as well as at the time of loss or damage to the property.