

NIOS lesson adaptation project

by  **Embrace** Volunteers
The power within you!

(A community initiative of Harchan Foundation Trust)

CHAPTER -10

INSURANCE SERVICES

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>.

KWL Chart

K- What does the child KNOW	W-What does the child WANT to know	L-What has the child LEARNT
	Explain the nature of business risk	
	Define Insurance	
	Explain the importance of insurance	
	Identify different types of insurance	
	Describe the salient features of life insurance, fire insurance, marine insurance and other types of insurance	
	State the principles applicable to a contract of insurance.	

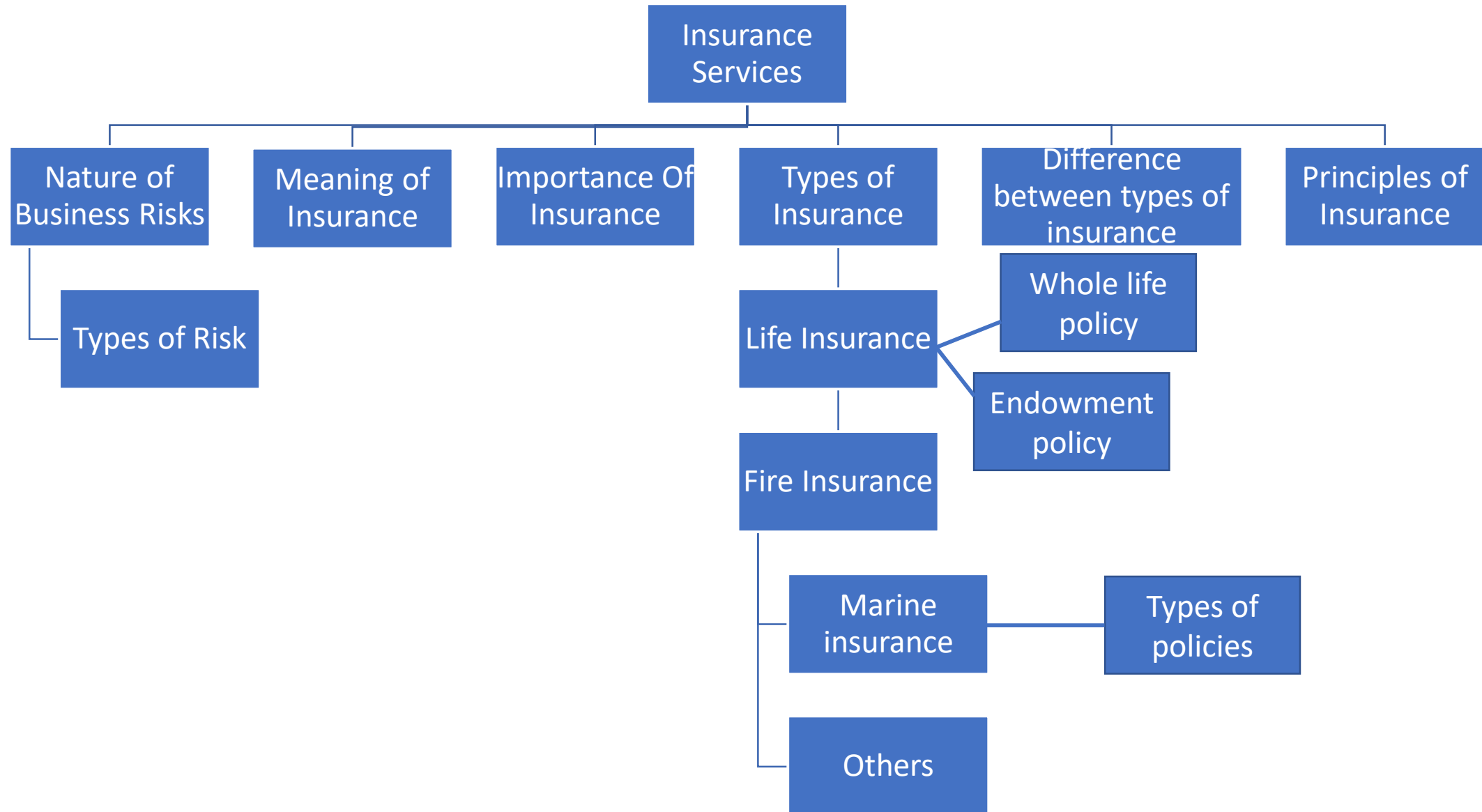
Keywords and Meanings

Keywords	Meaning
Risk	Risk is a possibility of happening of some bad event.
Foreseen	To know or guess that something is going to happen in future.
Speculative	Based on guess work . Guessing that some event would take place
Predictable	Something that could be expected to happen
Peril	Great danger
Periodically	Repeated after a particular period of time
cargo	refer to goods being transported from place to place by any ship or plane
mitigation	Trying to reduce the damage

Keywords and Meanings

Keywords	Meaning
Lump sum	An amount of money paid all at once rather than in several smaller amounts
Compensate	to pay someone money in exchange for something that has been lost or damaged or for some problem.
intentional	Done on purpose
indemnify	to promise to pay somebody an amount of money if he/she suffers any damage or loss
freight	refer to goods being transported from place to place by any means of transport
voyage	A long journey by sea

Mind Map



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

Examples of Risks



Accident of the truck
while transporting
goods



Fire in the storage
house



Workers going on
strike



Theft

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**.

In simple language, insurance is

- ❑ The means by which risks of loss or damage can be shifted by the insured
- ❑ To another party known as the insurer
- ❑ On the payment of a charge known as premium that is paid by the insured to the insurer



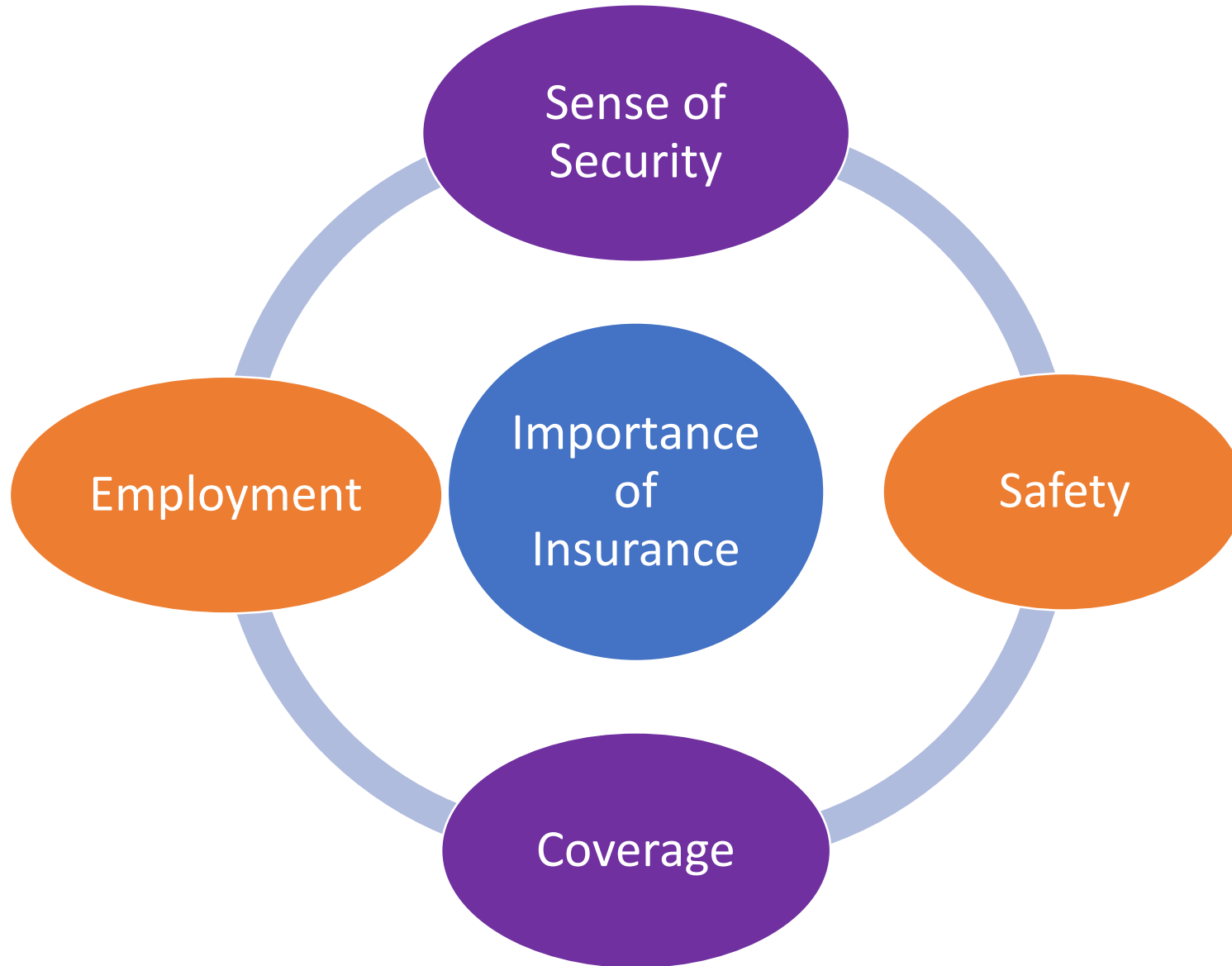
→
Insured pays
premium to the
insurance
company(Insurer)



→
Insurer pays
compensations
to the insured
for the
damages.



Importance Of Insurance(Advantages of Insurance)



Importance Of Insurance(Advantages of Insurance)

1. **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.
2. **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.

Importance Of Insurance(Advantages of Insurance)

3. **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.
4. **Employment:** Insurance is also a source of employment for the people
 - ☐ Who works as an agent of the insurance companies.
 - ☐ Who get employed directly in its offices of the insurance company.

Types Of Insurance



Other types of Insurance

Life Insurance

Life Insurance: It is an insurance where;

- ❑ 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.

Life Insurance

Life insurance is divided into

- ❑ **Whole life policy:** A whole life policy runs for the whole life of the insured and premium is payable all along.
- ❑ **Endowment policy:** An endowment policy on the other hand, runs for a limited period or up to a certain age of the insured.

Fire Insurance

Fire Insurance: It is an insurance where;

- ☐ The insurer undertakes to compensate the insured for the loss or damage suffered due to fire.
- ☐ In return, the insured agrees to pay an amount as a premium.

Fire Insurance

The claim for loss by fire is payable subject to two conditions,

- (a) There must have been actual fire; and
- (b) Fire must have been accidental, not intentional; the cause of fire being immaterial.
- (c) 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/-

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 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.

Types Of Marine 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.

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 composable. 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

Other types of Insurance

Motor Vehicle Insurance



Burglary Insurance



Personal accident and sickness



Liability Insurance



Property Insurance



Fidelity Insurance

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 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.

Other types of Insurance

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
- I**- Insurable interest
- S**- Subrogation

- C**- Contribution

- I**- Indemnity
- C**- Causa Proxima
- U**- Utmost good faith

Principles of Insurance

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.

Principles of Insurance

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.

Principles of Insurance

C-Causa Proxima(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.

List of Volunteers

Embrace-NIOS lesson adaptation project

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"volunteers don't necessarily have the time, they just have the **HEART**."

~ elizabeth andrew

Thank You
Volunteers.

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