Vocational Higher Secondary Education (VHSE)

Second Year

BANKING AND INSURANCE SERVICES

Reference Book

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Department of Education

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FOREWORD

Dear Learners,

This book is intended to serve as a ready reference for learners of vocational higher secondary schools. It offers suggested guidelines for the transaction of the concepts highlighted in the course content. It is expected that the learners achieve significant learning outcomes at the end of the course as envisaged in the curriculum if it is followed properly.

In the context of the Right- based approach, quality education has to be ensured for all learners. The learner community of Vocational Higher Secondary Education in Kerala should be empowered by providing them with the best education that strengthens their competences to become innovative entrepreneurs who contribute to the knowledge society. The change of course names, modular approach adopted for the organisation of course content, work-based pedagogy and the outcome focused assessment approach paved the way for achieving the vision of Vocational Higher Secondary Education in Kerala. The revised curriculum helps to equip the learners with multiple skills matching technological advancements and to produce skilled workforce for meeting the demands of the emerging industries and service sectors with national and global orientation. The revised curriculum attempts to enhance knowledge, skills and attitudes by giving higher priority and space for the learners to make discussions in small groups, and activities requiring hands-on experience.

The SCERT appreciates the hard work and sincere co-operation of the contributors of this book that includes subject experts, industrialists and the teachers of Vocational Higher Secondary Schools. The development of this reference book has been a joint venture of the State Council of Educational Research and Training (SCERT) and the Directorate of Vocational Higher Secondary Education.

The SCERT welcomes constructive criticism and creative suggestions for the improvement of the book.

With regards,

Dr. P. A. Fathima
Director
SCERT Kerala

CONTENTS

PART A

About the course

Banking system in India has been functioning under regulations since 1949. Before Independence, the banking system was largely in the hands of Private Banks. The SBI Act was passed in 1955 and as a result Imperial Bank of India was taken over by Reserve Bank of India. Following this, Public Sector participation was increased by taking over by seven associate/subsidiary Bank of SBI by 1959 and Nationalising of 14 private banks in 1969, and 6 private banks in 1980. Post Nationalisation, the banks were asked to open more branches in rural areas, huge number of people were recruited to these newly opened branches, the business of banking moved from class banking to mass banking. These developments gave raise to the need for a large work force of bank employees. The banking and finance sector is one of the fastest growing sector in the country. This growth brought many opportunities in the banking sector. The nationalised banks select candidates based on selection test conducted by IBPS. State Bank of India conducts its own selection test for recruitment. Private Banks, as a number of considerations, which include qualifications and past experience whatever may be the selection procedure, are required to provide training to the candidates selected for employment. In order to reduce the cost of training and also increase the productivity of employees, the banks prefer candidates who have acquired training in various aspects of banking and finance before joining the banks. A suitable qualification and acquisition of the basic skill in Banking and Finance through an appropriate training enhance the prospect of getting employment in Banking and Finance Sector.

Insurance in its current term has its history dating until 1818 when Oriental Insurance Company was started by Anita Vishwas, in Kolkota to cater to the needs of the European community. In 1829 the Madras equitable had transacting Life Insurance business in the Madras Residency. In 1870, Bombay Mutual Life Assurance Society became the first Indian insurer. The government of India nationalised life insurance sector on 19th January 1956. As a result Life Insurance Corporation came into existence. The General Insurance Business (Nationalisation) Act was passed in 1972 and as a result General Insurance business was nationalised with effect from 1st January 1973.

Due to the recommendation of "Malhotra Committee" report 1999, the IRDA was constituted as an autonomous body to regulate and develop the Insurance industry. The key objective of the authority is to promote market efficiency and ensure consumer protection. Today there are twenty-eight General Insurance Companies including the ECGC and Agricultural Insurance Corporation of India and 24 life Insurance Company's operating in the country. The opportunities in the insurance sector at the level of assistant and officer are comparable with those in the banking sector. One can become an Agent, Surveyor or Investigator by following the norms.

The insurance sector is a fastest growing one with a growth rate of 15%-20% together with banking service, the insurance add about 7% to the country's GDP

MAJOR SKILLS

Resilience skill

People skill

Accounting skill

Accuracy skill

Attention skill

Bilingual skill

Customer relations skill

Judgment skill

Goal setting skill

Communication skill

Product presentation skill

Problem solving skill

Negotiation skill

Syllabus

MODULE III : INSURANCE SERVICES

Unit 3.1: INTRODUCTION TO INSURANCE (90 Periods)

Meaning of risk

Classification of risk

Features of Insurable Risk

Meaning and Functions of Insurance

Peril and hazard

Importance of Insurance

Types of Insurance

Essentials of valid a contract

Meaning and Types of Contracts

Difference between Insurance Contract and Wagering contract

Legal Principles of Insurances

Unit 3.2: UNDERWRITING AND INSURANCE DOCUMENTS (90 Periods)

Meaning of Underwriting

Underwriting procedure of Life Insurance

Assignment, Nomination, Revival and Surrender

Underwriting of non-life Insurance

Insurance Premium

Insurance documents

Unit 3.3: INSURANCE CLAIMS (80 Periods)

Meaning , Importance and type of claims

Procedure of settlement of Life Insurance claims

Procedure of settlement of Non-life Insurance claim

Unit 3.4: IRDA REGULATIONS (80 Periods)

IRDA Regulations

Insurance operations

Final accounts of insurance companies and usage of accounting software (Tally)

MODULE IV : MARKETING OF BANKING AND INSURANCE PRODUCTS

UNIT4.1: MEANING AND IMPORTANCE OF SERVICE MARKETING (90 Periods)

Meaning and features of service

Types of Services

Meaning and Significance of Service Marketing

Difference between product marketing and service marketing

7 P's of service Marketing (Marketing mix)

Consumer behavior in service market

Role of Service Marketing in India

UNIT4.2: MARKETING OF BANKING PRODUCTS (80 Periods)

Concept of Marketing of Banking Products.

Users of Banking Products

Selling Strategy in Banking Products

Marketing of various Banking Products

UNIT4.3: MARKETING OF INSURANCE PRODUCTS (90 Periods)

Insurance marketing concept

Segments of Insurance Market

Strategies for Insurance Marketing

Qualities of a good salesman

Marketing of various life Insurance products

Marketing of major non-life Insurance products

Unit 4.4: AN INTRODUCTION TO FINANCIAL MARKET

(80 Periods)

Various investment opportunities in financial market

Types of financial securities

Securities Market

Pre requisites of investing in financial securities

Trading procedure on secondary market

Securities Market Regulator(SEBI)

PART B

An Overview of Module 3

In India insurance claims had a historical background. Manusmruthi of Manu, Dharmasastra of Yajnavalkya, and Arthasastra of Kautilya mention about existence of insurance. The writings speak in terms of pooling of resources and redistribution in times of calamities such as fire, famine, flood etc. The insurance sector is one of the fastest growing sector in India. The insurance sector is growing at a speedy rate of 15-20%. 7% of the GDP is contributed by banking and insurance sectors together. The sector generates long term funds for infrastructure development. The job opportunities in this sector are immense and lucrative. One can become an advisor, surveyor or investigator. The opportunities in the insurance sector at the levels of assistant and officers are comparable with those in the banking sector. A basic knowledge in insurance is essential to all, if he is a student, a home maker or a shopkeeper or a professional. This kind of a knowledge required to have a check on what your advisor tells you, but also to confirm that the insurance taken is the right one for you.

Unit 1: Introduction to insurance

Introduction

Insurance is a form of risk management used to primarily transfer risk. It means transferring risk from one entity to another. Insurance transfers the risk from an individual to a group. This unit shares the concept of risk, classification of risk, meaning and importance of insurance, various types of insurance and the major principles of insurance. Insurance can be used as a tool to shield an individual against potential risk like travel accidents, death, old age, health, unemployment, theft, property destruction by natural calamities, fire, mishap, etc.

Learning Outcomes

The Learner:

- *Identifies the nature and meaning of risk in insurance*
- *Categorizes and describe various types of risks*
- *Decides the feasibility of insuring a risk*
- *Describes the primary and secondary functions of Insurance*
- *Describes various perils and hazards*
- *Differentiates physical and moral hazard*
- *Analyzes the importance of insurance in different situations*
- *Identifies different types of Insurances*
- *Describes and differentiate various types of contracts*
- *Identifies the essentials of a valid contract*
- *Describes and Differentiate Insurance contract and Wagering contract*
- *Identifies and describe the legal principles of insurance*

Meaning of risk

The term risk is a psychological and relative term. It has different meaning in different circumstances. In general, risk refers to the possibility or chance of meeting danger, suffering loss or injury or exposure to adversity or danger. In a broader sense risk is uncertainty. For our insurance purpose, we define risk with reference to uncertainty of loss. Thus, risk means the possibility of loss or damage on the occurrence of an unpredictable or unfortunate event.

Man always has to encounter with risk. All his inventions and researches were to avoid pain, miseries, difficulties and hazards. Events of the risk cannot be avoided but it can be minimized.

Assessment Activity

- List out the risks you face in your life
- List out the risks faced by a motorist
- List out the risks faced by a business man

Classification of risk

Risk may be classified as follows:

1. Pure risk and speculative risk

Financial losses caused by bodily injury, theft, fire, loss of profit, legal liabilities, etc are the pure risks. Pure risk can produce only one outcome, ie, loss. There is no possibility of a gain. These risks are measurable and insured against. Pure risk may be Personal risk, Property risk, Liability risk and Other risk.

Speculative risk or Business risk is bilateral. Where uncertainties means the possibility of either a gain or a loss. Loss due to changes in fashions, taste, price changes, govt. policies, loss by competition, etc, will cause speculative risk. It cannot be predictable or measured. So, such risk is uninsurable.

Pure risk vs. Speculative risk

Pure risk	Speculative risk
1. In the case of pure risk, always result in loss. No possibility of gain.	1. In the case of speculative risk either gain or loss
2. The extent of loss can be measured in monetary terms.	2. It is not measurable. The extent of loss cannot be predicted or measured.
3. A policy of insurance can be taken to cover loss	3. Insurance is not possible as speculative risk is unpredictable.

2. Fundamental risk and Particular risk

Fundamental risk: Fundamental risk involves losses that are impersonal in origin. They are group risk. It affects the whole society. They affect large segments or events. Unemployment, inflation, earthquake, flood are examples of fundamental risk.

Particular risk: Particular risk involves losses that arises out of individual event and felt by the individual event rather than group. They may be static or dynamic. The fire in a house, robbery in an organization are examples of particular risk.

3. Financial risk and Non-financial risk:

Financial risk which results in financial loss. i.e, it can be measured in terms of money. Non- financial risk is that risk which results in non-economic loss.

Practical

Prepare a chart/ppt classifying different types of risks

Assessment Activity

- Categorise the listed risks into pure, speculative, fundamental and particular, financial and non-financial risks

  Fire, theft, burglary, accident, change in fashion, investment in stock market, price fluctuation, earthquake, flood, war, inflation, burning of house, bank robbery, theft, interest payable, debt payable,

Pure	Speculative	Fundamental	Particular	Financial & nonfinancial

Differentiate pure and speculative risk

Pure risk	Speculative
• Always produce loss only • • measurable	• • Not insurable •

Features of Insurable Risk

All risks are not insurable. To be insurable, the risk must have the following characteristics:

1. **It must be measurable**: The loss caused by the risk must be capable of mea suring in terms of money.

2. **It must be pure risk not a speculative risk**: Pure risk arising from perils like fire, burglary, riot, theft etc. can be insured. Speculative risk cannot be insured because that risk cannot be predicted or estimated.

3. **It must not be illegal in nature**: The object of contract must be lawful. Illegal subject matter are not insurable.

4. **Must be capable of being spread**: A risk must be capable of being spread in large number of persons.

5. **Must be accidental**: The event is one, the happening of which must be accidental in nature.

6. **Must not be catastrophic in nature**: Risk must not be such as would cause loss or damage to a large number at the same time. Thus war and similar other risk is not considered for insurance cover.

7. **Premium must be economically feasible**: Premium should not only be affordable but also far less than the value of the policy.

Risk Management

Risk management is the managerial technique of controlling the effects of risks. It consist of identification, assessment, analysis, and controlling of risk followed by co-ordinated and economical application of resources to minimize, monitor and control the unfortunate events. The steps to control pure risk are- risk avoidance, loss prevention and loss reduction, risk retention and risk transfer. Thus, risky situations has to be avoided is the best and simplest way for managing risk. But, it is not at all possible everywhere and hence loss prevention and loss reduction techniques can be chosen. For example, fire losses can be controlled and reduced by using non-combustible materials on building construction, installing sprinklers etc. At last, insurance can be opted to handle the consequences of pure risk.

Speculative or business risk can be controlled by adopting better management methods, conducting market research, diversification of production and proper forecasting of future trends in government policies.

Assessment Activity

- List out the features of insurable risk, and make a chart/ppt.

Complete the following

Risk prevention/reduction	Risk avoidance	....	Risk Transfer

Meaning and functions of Insurance

Insurance has developed gradually to cover the risk in life and business. Insurance is a contract of guarantee, whereby the insurance company undertakes to indemnify the insured against the loss, which he may suffer on the happening of an uncertain event.

The mechanism of insurance is very simple. People who are exposed to the same risk come together and agree, that, if any one of them suffers a loss, the others will share the loss and make good the person who lost. Pooling or sharing of loss is the heart of insurance.

In legal sense, insurance is a contract between two parties thereby, one party (insured) cover the risk by paying a specified amount (premium) to other (insurer) undertaken to indemnify the loss suffered by them in the event of accident.

Functions of Insurance

The important functions of insurance are as follows.

1. **Insurance provide security and protection**: Insurance provide financial security to an individual who is exposed to the risk of accidental death or disablement or illness. It also give protection against the risk of loss or damage to the property due to theft, fire, burglary, etc
2. **Insurance encourages the habit of savings**: Insurance create the saving habit among the insured. Once the life policy is taken, the insured is bound to pay premium regularly. So he saves a portion of income for paying the premium regularly.
3. **Provide employment opportunities**: Insurance gives employment opportunity to a large number of people as advisors, field officers, accountant, clerks, etc.
4. **Acts as a basis of credit:** If the life insurance policy is pledged, insured get loans from banks and other financial institution.

5. **Insurance distributes risk** : Insurance help to spread the risk. The loss sustained by few insured person is distributed among many others, so that the burden of financial loss is minimized .

6. **Insurance provide capital**: The funds of insurance company is invested in shares, debentures, government securities. Insurance provide not only protection but also capital to the society. Usually accumulated funds are invested in economic development programmes.

7. **Insurance increases efficiency**: The insurance eliminates worries and uncertainties of businessman. Such persons can work better for the maximization of profit. Insurance, by eliminating uncertainty, stimulates the businessman to work hard.

8.. **Insurance promotes foreign trade**: Insurance is essential for development of foreign trade. It relieves the business from uncertainty in the event of loss. Insurance provides security to the international traders and financial institutions and thereby promotes foreign trade.

9 . **Insurance solves social problems**: At present we have insurance against industrial injuries, road accidents, old age, disability, or death. Thus, insurance act as a good instrument for solving many social problems.

10. **Insurance check inflation**: It reduces the pressure of inflation by extracting money in supply, by collecting premium.

Assessment Activity

- Prepare a chart exhibiting functions of insurance

Perils, Hazards - physical hazard and moral hazard

Peril : The term perils may be defined as the cause of loss. Loss caused by various calamities are called perils. Peril means loss producing cause.

Examples of perils are explosion, flood, fire, death by accident, sickness, riots, strike etc. Fire is the cause of loss, while uncertainty about the occurrence of fire is the risk.

Hazard: The term hazard refers to something that creates or increases the chance of loss arising from any peril.

Eg. The negligence of a driver in pressing the accelerator instead of break , may cause a motor accident.

Hazards are of two types - Physical hazard and moral hazard.

Physical Hazard: It consists of those physical conditions that increases the chance of loss from any perils. Eg. Meterials used for the construction of building, height of the building, items stored inside the building etc.

Moral Hazard: Moral hazard depends up on human beings as physical hazard depends on the property. Eg. Carelessness, willful act, ignorance of law, economic and social factors.

Practical

List out the various hazards in connection with human life and in the case of motor accidents. Classify them into physical and moral hazards. Make a power point presentation on the basis of the above classification.

Steps 1 - Give an introduction about risk, peril and hazard.

2. Make a brain storming session about the various hazards faced by human beings and various hazards faced by motor vehicle riders.
3. List out all the hazards raised by the students separately (i.e. hazards faced by human beings and hazards faced by motor riders).
4. Classify the listed hazards into physical and moral.
5. Prepare a table in Excel format.
6. Make a power point presentation (Minimum 5 slides).

Assessment Activity

- List out some hazards
- Categorise the hazard into physical and moral

Importance of insurance (Benefits of insurance)

The following are the beneficiaries of insurance

A. Benefits to an individual

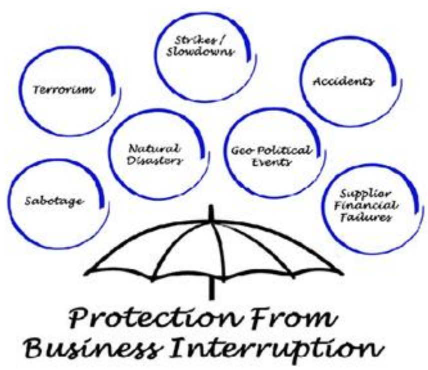
B. Benefits to business

C. Benefits to society

A. Benefit to an individual

1. **Security and safety**: In case of life insurance claim payment is made when death occurs or the term of insurance is expired whichever is earlier. In other words, insurance as security provides against the loss in a given contingency.
2. **Peace of mind** : A sense of security removes all tensions and fears. It stimulates more and better work. An insured person get rid of himself from mental worries about uncertainty.
3. **Protects mortgaged property**: The insurance provide adequate amount to the dependents in the event of early death of the property owner to pay off the unpaid loan.
4. **Eliminates dependency**: In the event of death of the bread winner of the family or destruction of property, the family suffers a lot. The insurance assists the family and provides adequate compensation.
5. **Encourages savings**: Systematic savings is possible because regular premium are required to be compulsorily paid and withdrawal of premium is not allowed.
6. **Provides profitable investment**: A life insurance contract provides not only protection but also provides investment opportunity, as it is not a contract of indemnity.
7. **Fulfils the need of a person**: Insurance helps for meeting requirement and needs of a person like family needs, old age needs, special needs like education, marriage of children etc.

B. Benefits to business



1. **Reduces uncertainty of business losses:** Uncertainties in business are eliminated by insurance. The valuable properties of business are protected by fire insurance, theft and burglary insurance etc.

2. **Increase efficiency:** Business men get free from unnecessary botherations and devotes more care and energy to maximize his profits.
3. **Key man indemnification:** Persons having expertise, experience, ability to control the business are more important for the employers. Death of such persons proves a serious loss than by fire .The compensation to the dependents of such employees require adequate provision which can be met by purchasing life policies.
4. **Addition to credit.** A business man can obtain loan by pledging the policy as collateral security for the loan.
5. **Business continuation.** The partnership business may be discontinued at the death of a partner. The insurance helps to continue the business.
6. **Employees welfare**. Provision for welfare of employees can be made by life cover, sickness benefits and pensions.

C Benefits to Society

1. **Protection of wealth of society:** Insurance provides against loss of human wealth. Loss of damage of property can also be indemnified by the insurance company .
2. **Economic growth of the country**: As insurance provides protection against loss of property, if any such damages arise , the assets can be replaced without loss of production . Thus, Economic development of the country is insured by having suitable insurance cover.
3. **Accelerating the production growth:** Adequate capital from Insurance Companies accelerate production cycle in the country. Economic growth of the country is assured and the process of growth is accelerated which is essential in a country like India where the population is increasing very fast.
4. **Reducing inflation:** In the form of premium Insurance Companies get huge volume of money supply from the public, which the insurance company put into productive activities. By promoting savings, insurance companies help in reducing consumption and thereby reduce the resultant inflation.

Assessment Activity

- Categorise the benefits into benefits to individual, to business and to society.
- Show a chart exhibiting the benefits of insurance

3.1.7 Classification of Insurance (Types of Insurances)

Insurance may be broadly classified into two

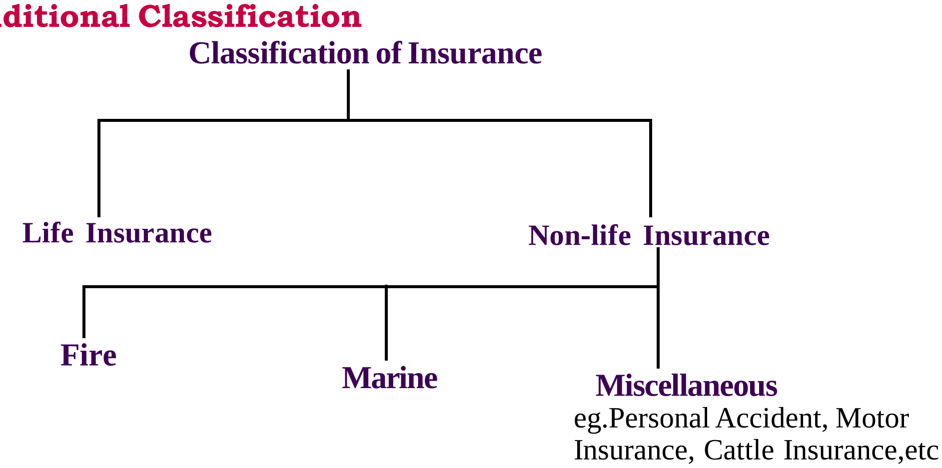
I. Life Insurance   II. Non-life insurance (General Insurance)

I. **Life insurance**: Life insurance is a financial coverage on contingency, linked with human life, like death, disability, accident, retirement etc. Life insurance or life assurance is a contracts where by the insurer, in consideration of a premium, undertakes to pay the assured or nominee or his dependent, a specified sum of money on the expiry of a certain period or on the death of the assured whichever is earlier.

Human life is the subject matter of life insurance contract. If a person dies the payment will be made to the dependent of the deceased. To effect life insurance, one must have insurable interest like other contracts of insurance. It is also based on utmost good faith but the principle of indemnity is not applicable, since the loss of human life cannot be measured in terms of money.

II. **Non- life insurance(General Insurance).** These are contracts of indemnity. The insured is eligible for compensation in the event of loss. The following are various types of non-life insurances.

Traditional Classification



Modern Classification

Insurance

- **Life Insurance**
- **Non Life Insurance**
  - **Insurance of property**
    - Fire
    - Burglary
    - Motor
    - Marine
    - Machinery
  - **Insurance of liability**
    - Public liability
    - Product liability
    - Professional indemnity
    - Legal liability
    - Third party
  - **Insurance of person**
    - Personal accident
    - Health
  - **Insurance of Interests**
    - Loss of profit
    - Fidelity guarantee.

1. **Fire Insurance:** Fire insurance is designed to provide financial protection against loss or damage by fire and other specified perils. It is a package insurance policy. There must be actual ignition which ought to be accidental. The fire insurance shifts the burden of fire losses from their actual victims to all the members of the society. It is a co-operative device to share the loss.

2. **Marine Insurance**: A contract of marine insurance is an agreement whereby the insurer undertakes to indemnify the assured, in the manner and to the extent thereby agreed, against losses incidental to marine adventure. It may cover loss or damage to vessels, cargo or freight. Marine Insurance may be Hull Insurance, Cargo Insurance and Freight Insurance

3. **Motor Insurance**: As per the provisions of Motor Vehicles Act 1939 it was made compulsory for the motorist to insure against the risk of liability to third parties. In other words, the insurance of third party liability arising out of the use of motor vehicles in public place is made compulsory. Act policy /Third party policy and Comprehensive policy(combination of Act policy and TP policy) are the important kinds of motor insurance policies.

4. **Personal Accident Insurance**: A contract of personal accident insurance is a contract whereby a sum of money is secured to the assured or his legal representative in the event of his disablement or death by accident.

5. **Health Insurance**: The term 'Health Insurance 'relates to a type of insurance that essentially covers your medical expenses. A health insurance policy like other policies is a contract between insurer and an individual /group in which the insurer agrees to provide specified health insurance cover at a particular 'premium'' subject to terms and conditions of the policy. It is popularly known as mediclaim policy.

6. **Burglary Insurance**: Burglary insurance enables the business house to recoup the losses suffered by them consequent on burglary or house breaking. In order to give covers, the insurance department has also devised other types of policies besides burglary policy. It may also be a theft by a person in the premises who subsequently breaks out by violent and forcible means.

7. **Fidelity guarantee Insurance** :Fidelity guarantee insurance indemnifies the employer against the financial loss suffered by him due to the dishonest acts of the employees. The majority of policies are issued to commercial and manufacturing firms in both in public and private sectors. The rate of premium depends up on the type of occupation, status of the employee, the systematic check and supervision.

8 . **Product liability Insurance** : The product liability insurance protects against claims of personal injury or property damage caused by the defects of products manufactured or sold or supplied through business. It is designed to help protect business by ensuring, indemnity by use of product by general public. (e.g. Producers or sellers of Canned food stuff, aerated waters, medicines and injections electrical appliances, mechanical equipments gas cylinders, etc.)

9. **Professional Indemnity Insurance**: Professional indemnities are designed to provide insurance protection to professional people against their legal liability to pay damages arising out of negligence in the performance of their professional duties. Policies are available to Doctors, Engineers, Architects, Chartered Accountant, lawyers etc.

10. **Agriculture Pump set policy**: The insurance is granted on Centrifugal Pump sets (electrical and diesel) up to 25 H P. capacity of approved makes used for agricultural purpose only. The cover is in respect of unforeseen and sudden physical damage to pump sets by fire, lightning, riot, strike, malicious damage, terrorism, mechanical, electrical breakdown, and burglary.

11. **Livestock Insurance**: It provides cover against death of animals like bulls, buffalos, cows and heifers arising as a result of accident, disease, partuariasation as the case may be.

12. **Crop Insurance** : Crop insurance is bought by agricultural producers or farmers besides others who want to protect themselves against loss of their crops due to natural disaster like hail,draught and floods or the loss of revenue due to decline in the price of agricultural commodities.

13 **Public Liability Insurance**

This insurance promises to indemnify the loss caused to third party, resulting in death or injury or loss of third party's property, due to the negligent act of employer, his employees or insured property. Legal costs are also payable under the policy.

The concept of third party includes the public at large and a large variety of risks involved in daily life. Classification of risks insured under this policy can be made as under.

a. property owner's risks

b. Building constructing contractors risks.

c. Theater's risks

d. Risk of hospitals and nursing homes.

e. Lift risks.

f. Shops, godowns, factories and departmental store risks.

14 **Engineering Insurance**

This is one of the most technical branches of accident insurance. This insurance provides very broad cover for damage to electrical and mechanical machinery. It also covers losses or damages suffered by contractors and principals with respect to civil engineering project like buildings, tunnels etc. It includes the following types.

1. Boiler explosion insurance

2. Machinery breakdown insurance

3. Machinery erection insurance

4. Marine-cum erection insurance

5. Storage-cum erection insurance

Difference between Life and Non-life Insurance

Life Insurance	Non Life Insurance
a contract of assurance	a contract of indemnity
the risk insured is definite and certain	the event insured is uncertain
insurable interest cannot be measured	insurable interest is measurable
The subject matter is human life	Subject matter may be properties, liabilities or rights etc
Insurable interest must be present at the time of effecting the insurance	Insurable interest must be present during the policy period
Long term contract	Short term contract
Premium can be payable in installments	Premium paid in lump sum
Can be surrendered	No surrender facility
Indemnity principle is not applicable	Indemnity is strictly followed

Assessment Activity

- prepare a chart displaying various types of insurance.
- Identify and explain suitable insurance policy in the following situations
  a. Mr.Arun owns a motor car
  b. Mr.Soman is a trader of cosmetic items
  c. Mr.Biju is an owner of an auditorium

Additional Information

Basic terms used in insurance

1. **Insurer:** The party who undertakes risk is called insurer or assurer or underwriter
2. **Insured**: The party for whose benefit the insurance is initiated is called insured or the person whose risk is insured is called insured or assured
3. **Premium**: The consideration for which the insurer undertakes to indemnify the insured is called premium. The consideration paid by the insured to the insurer for the risk undertaken by the latter.

4. **Policy**: The word policy has been derived from the Italian word "polizza" which means "a receipt" The document which contains the terms and conditions of the insurance contract is termed as the insurance policy. It must be stamped, signed, sealed and dated
5. **Subject matter**: Things or property insured is called subject matter of insurance.
6. **IRDA - 2000 (IRDA, Act-1999)** : The Insurance Regulatory and Development Authority is the regulator of the Insurance Sector.
7. **LIC** : Life Insurance Corporation of India. In 1956, the life insurance business was nationalized by taking over 245 companies and by forming one single corporation, named as Life Insurance Corporation of India .
8. **GIC** : General Insurance Corporation of India Act 1972.

Essential Elements of a Valid Contract.

- Law of contract.

The law of contract is the most important part of commercial law because every commercial transaction starts from an agreement between two or more persons. It deals with agreements which can be enforced through court of law. The object of the law of contract is to introduce definiteness in commercial and other transactions. In India the law relating to contract is the Indian Contract Act,1872 .

A valid contract must possess the following elements :-

1. Agreement through offer and acceptance.
2. Free consent of parties.
3. Competency or capacity of parties.
4. Lawful consideration.
5. Lawful object.

Agreement.

All contracts are made by the process of lawful offer by one party and lawful acceptance of the offer by the other party. The person making the offer or promise is called the "offerer" and the person to whom the offer is made as the "offeree". The offer may be made orally or in writing. An offer together with acceptance lead to a contract which is enforceable by the court. Acceptance is not effective until it is communicated to the party who made the offer.

Free consent.

In order to be enforceable, an agreement must be based on the free consent of all the parties. Consent means that the parties to an agreement must agree on the same thing in the same sense. This implies the principle of "consensus ad idem", which means identity of minds. Both the parties should agree to the same thing in the same sense. All the parties to the contract must express their intention to enter into a contract, independently without any fear, favour or force. In other words, a consent is said to be free when it is not caused by coersion, fraud, undue influence, misrepresentation and mistake.

Capacity of Parties.

According to the Contract Act, "every person is competent to contract ,who is of the age of majority, who is of sound mind, and is not disqualified by any law to which he is subject."The Act provides that minors,lunatics, insolvent etc.,are disqualified to enter into a contracts.

Lawful consideration.

Consideration is an essential element for the validity of a contract. Consideration is the price of a contract and it is not enforceable unless each party to the agreement gets something. This "something" is called consideration. Consideration consists of some benefit or any return to the other party. It may represent past, present or future but must be real and lawful.

In contracts of insurance the insured's promise to pay premium is the consideration for insurer's promise of protection. It may either be a single payment or periodical payments spread over a specified period of policy.

Lawful Object.

In order to make a valid contract, the object of the agreement should be lawful. An unlawful object of any contract shall make it unenforceable at law. Thus, the object of the insurance contract must be lawful. For example, stolen or smuggled goods cannot be insured. Again, the contract must not tend to be immoral or involve injury to the person or property of another. The object must not be illegal, immoral or not against public policy. For instance, insurance for payment of fines for motor traffic offences would be regarded as opposed to public policy.

The elements mentioned above must all be present. If any of them is absent, the agreement does not become a valid contract. An agreement which fulfils all the essential elements is enforceable by law is called a contract. From this it is clear that, every contract is an agreement but all agreements are not contracts.

Assessment

- Ask the students whether they are eligible to take a life or non life policy, why?
- Prepare a chart showing the elements of a valid contract

Types of Contracts

The elements mentioned above must all be present in a contract. If any of them is absent, the agreement will not become a valid contract. On the basis of the elements contained, contracts can be classified as:-

- Valid contract
- Void contract
- Voidable contract
- Illegal contract.

Valid contract

An agreement which fulfils all the essential elements is enforceable by law and is called a valid contract or legal contract. From this it follows that, a contract that possesses all these elements are legally valid.

Void contract

A void contract is not a contract at all. If either or both the parties have no competency to contract, the contract is void. Thus, a contract with a minor is not valid. Similarly, where the parties are competent to contract, but the consideration or object is not lawful, the contract is void. For example, where the proposer for insurance is a minor, the insurer cannot accept the proposal. Similarly, where the parties are competent to contract, but the consideration or object is not lawful, the contract becomes void.

Voidable contract

Where the parties are competent to contract and the consideration and object are lawful, the contract is voidable if the consent is not free but is obtained by coercion, undue influence, fraud or misrepresentation. The contract is voidable at the option of the party whose consent was so obtained.

Illegal contract

A contract which is contrary to law and against the interest of the public is an illegal contract. It has no legal effect. It cannot be enforced in a court of law and hence be called unenforceable contract. Granting insurance protection to the cargo of an enemy country when war is declared is an illegal act. Such an insurance contract will be considered illegal.

INSURANCE AND WAGER

A wager is a gambling transaction and this is different from an insurance contract in many ways :-

1. A contract of insurance is legal and enforceable by law. A wagering contract has no legality or enforceability at all.
2. In insurance contract, the legal principle of utmost good faith should be observed. This principle does not apply to wager.
3. Insurance provides protection. Wagering transaction do not provide any protection.
4. In a contract of insurance insured is protected from loss, subject to certain conditions. In a wager, either of party may win or lose.
5. The occurrence of an insured contingency is not certain. In a wager the event is sure to happen at a future date.
6. In a contract of insurance, neither of the parties desires the happening of the insured event. But, in a wager both the parties have a desire to win.

Assessment

Complete the following table

Insurance contract	Wagering contract
♦ legal	♦ illegal
♦	♦
♦	♦
♦	♦ no consideration
♦	♦

Elements of Special Contract

In addition to the above general principles, insurance contract must also confirm to the elements of special principles (legal principles) they are

1 Utmost Good Faith
2 Insurable Interest
3 Indemnity
4 Subrogation
5. Contribution
6 Proximate cause
7 Mitigation of Loss.

1.UTMOST GOOD FAITH

An insurance Contract is a contract of 'Uberrimae fidei ' ie., contracts which require absolute and utmost good faith on the part of the parties concerned (insurer and insured). In insurance contract a high degree of good faith is required because of the special nature of contract. Utmost good faith means that the insurer and the insured must act in good faith and disclose all material facts concerning the subject matter of insurance.

A material fact is one which affects the judgement or decision of both the parties in entering into the contract. Material facts are the factors that would influence the risks of the subject matter. These facts have a direct bearing on the degree of risk in relation to the subject of insurance.

All the material facts should be disclosed in true, correct and in full form. There should be no concealment, misrepresentation, mistake or fraud about the material facts. The duty to disclose the material facts lies on both the parties, the insured as well as the insurer. But in practice, the insured has to be more particular about the observance of this principle, because he is usually in full knowledge of the facts relating to the subject matter. In case the insured fails to give all the relevant information, or furnishes false information or conceals any material facts, the insurer can cancel the contract, when the insurer comes to know about it. The contract becomes void and has no legal validity.

In this respect an insurance contract differs from an ordinary commercial or business contract. Business contract is based on the rule of "Caveat emptor" i.e., let the buyer beware. In an ordinary contract of sale of goods the buyer is expected to take all reasonable care at the time of buying. In a commercial contract law requires only good faith to be observed by the parties. Insurance contracts, on the other hand, are contracts of utmost good faith.

Breach of Utmost Good Faith

The principle of utmost good faith demand that the insured has to disclose all material facts. A breach of this principle arises under any of the following circumstances:-

a). Non-disclosure.

b). Concealment.

c). Innocent misrepresentation.

d). Fraudulent misrepresentation.

Non-disclosure of material facts may be either intentional or non-intentional. Intentional or wilful non-disclosure amounts to concealment and this would make the contract void. The innocent non-disclosure and innocent misrepresentation may not affect the contract until it is treated as void by the aggrieved party. For example, if the proposer represented that the building was of first class construction whereas it was not, the insurer may avoid the contract of fire insurance. Non-disclosure or concealment of material facts will lead the contract to become voidable at the option of the insurer.

2. INSURABLE INTEREST

Insurable interest is a fundamental principle of insurance contract. It is the legal right of a person to insure. It is the interest of the insured in the subject matter of insurance. A person can enter into a valid contract of insurance only if he has an insurable interest in the subject matter. A person is said to have insurable interest in the subject matter of insurance provided he stands to benefit by the safety and stands to lose financially by loss of or damage to the subject matter. It is held that a person has insurable interest to an unlimited extent in his own life. But in actual practice , the insurer in order to avoid over insurance, usually limits the amount of insurance to a reasonable level in proportion to his need for insurance, financial status and earning capacity.

Essentials of Insurable Interest

The essentials of valid insurable interest are the following :-

1. There must be a subject matter to be insured.
2. The relationship between insured and subject matter should be recognised by law.
3. The policy holder should have monetary relationship with the subject matter.
4. The relationship between insured and subject matter should be of a pecuniary one, where the policy holder is economically benefited by the survival or existence of the subject matter and will suffer at the loss or damage of the subject matter.

In case the above legal conditions are not present, the subject matter of insurance cannot be insured as there is no insurable interest.

Importance of Insurable Interest

The principle of insurable interest is basic to the structure of insurance. It is required to make the contract of insurance enforceable by law. Absence or lack of insurable interest will render the contract void or illegal .The principle of insurable interest distinguishes insurance from a gambling transaction. Anyone then could insure any one else's property and be tempted to bring about the loss to collect the claim under the policy. This is against the public policy.

How Insurable Interest Arises.

An insured obtain insurable interest in the subject matter on account of the following relationships.

1. **Interest in one's own life**- A person possesses an insurable interest to an unlimited extent in his own life. But, in practice,, the sum insured will depend upon his capacity and willingness to pay the premium.
2. **Interest in the Life of another person** - Interest in the life of another arises out of relationship of husband and wife. A husband has insurable interest in the life of wife and vice versa. Insurable interest cannot be presumed from the existence of other relationships. Thus a father has no interest in the life of his son or a sister does not have an interest in the life of her brother and vice versa.
3. **Interest from business relationships** - Insurable interest may also arises from certain business relationships. For example:-
   - (a) A creditor has insurable interest in the life of his debtor to the extend of the debt.
   - (b) An employer has an interest in the life of the employee to the extent of the value of his/her services.
   - (c) Partners have insurable interest in the life of a co-partner.
   - (d) A company has an interest in the life of its 'key-men' i.e. valuable em ployees.
4. **Interest arising from absolute ownership** - Ownership of a property entitles the owner to insure the property. Thus the owner of a house can insure his house, the owner of a car can insure his car ,etc.
5. **Interest arising from law** - A bailee is responsible for damage to goods in his possession due to his negligence. Warehouse keepers, owner of motor garage etc. are responsible to the goods in this way.
6. **Interest arising from contract** - A tenant in terms of lease may be responsible for the safety of the property. He can insure the property even though he is not the owner.

7. **Interest arising from Legal Liability** - Employers have legal liability to pay compensation to employees for employment related accidents, motor vehicle owners are liable to third parties for the damages caused by accidents involving their vehicles. These legal liabilities create insurable interest.

8. **Interest arising from Mortgage** - A mortgagee or one who has advanced money on the security of property has an insurable interest in the property. But his interest is only partial,limited to the amount of the loan.

Time when insurable interest must exist

The time when insurable interest must exist depends upon the branch of insurance as under :

(a) In Life Insurance - insurable interest must be present at the time when insurance is effected, though interest need not exist at the time of loss. For example, a creditor can insure the debtor's life to the extent of loan. If the debtor dies after repayment of the loan, the creditor may recover the amount of policy because he had an inmsurable intertest in the life of the debtor at the time of effecting the insurance.

(b) In Fire and Accident Insurance - insurable interest must exist not only at the time of effecting the policy but also at the time of the loss. For example a person may have purchased certain property and insured it under a fire policy. Subsequently he may sell the property to another person. If there is a loss by fire after the sale, the insured cannot recover under the policy as he has no insurable interest at the time of loss.

(c) In Marine Insurance - insurable interest must be present at the time of loss and need not be present at the time of effecting the insurance . For example, a person who imports goods on C & F (Cost and Freight) terms has to arrange for their insurance during transit. At the time of effecting insurance, the interest in the property may still vesting in the exporter and may not have passed on to the exporter; nevertheless, the importer has a bonafide expectation of acquiring interest in the goods when they are shipped. The importer can therefore effect insurance legitimately and if the goods arrive damaged at destination, he can recover from the insurer as he has an insurable interest in the goods at the time of loss.

3. INDEMNITY

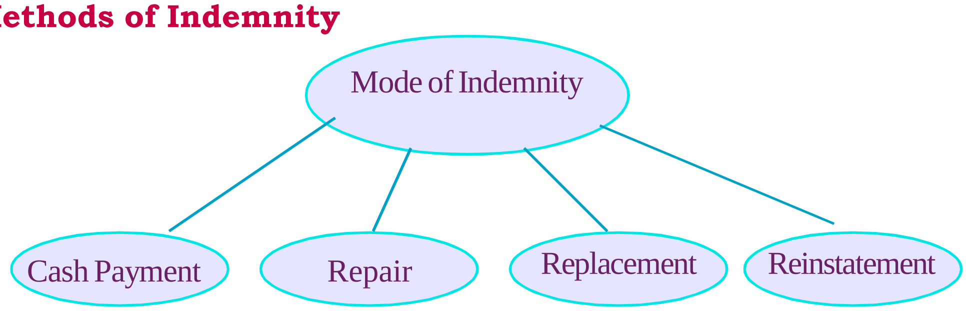
The word indemnity means 'security against loss or damage' or 'compensation for loss'. Insurance contracts promise to make good the loss or damage. This means that the assured shall be paid only the actual amount of loss, not exceeding the amount of the policy. For this the loss should be measured in money value. The amount paid by the insurance can be equal but never more than the value of subject matter. For example, if a person insure his house (valued Rs.30,000) for Rs. 30,000 against fire and if the house is completely destroyed by fire, insurance company will pay compensation of Rs.30,000. But if the house damaged valued Rs.25,000, he will be paid only Rs.25,000. It means that in no case he will be allowed to make a profit out of his misfortune.

The principle of indemnity can be applied only on general insurance, where actual loss determination is possible. i.e, indemnity does not apply in life and personal accident insurance.

Object of Indemnity

The object of indemnity is two fold. First of all, the insured is indemnified for the loss he has suffered. In other words, the insured after the loss, is placed in the same financial position, as far as possible, as he occupied immediately before the loss. Secondly, the principle of indemnity ensures that the insured does not make any profit or gain any benefit or advantage out of his loss. If a person allows making a profit in the event of loss or damage to the property, may encourage him to cause loss or damage to the property again.

Methods of Indemnity



4. SUBROGATION

The principle of subrogation is an extension and outcome of principle of indemnity. It is a form of substitution. It means that under certain circumstances, the insurer can acquire all remedies available to the insured against a third party. Subrogation means placing the insurer in the place of the insured. To be more precise, subrogation may be defined as the "transfer of rights and remedies of the insured to the insurer who has indemnified the insured in respect of the loss."In other words, subrogation is the transfer of rights and remedies of the insured in the subject matter to the insurer after the indemnification. That is, the right of ownership of the affected property passes on to the insurer.

Object - The object of subrogation is to impose a duty on the insured to pass over to the insurer may right of recovery that he may have against a third party. Having paid the claim, the insurer is allowed to step into the shoes of the insured to have the benefit of any such recovery. For example a person has insured his property against fire. Through the negligence of a third party a fire arose and the property is damaged. Insurers pay the claim for this damage and thus become entitled to recover from the third party through whose negligence the damage was caused.

Subrogation and Indemnity - The principle of subrogation arises from the principle of indemnity. The principle of indemnity prescribes that in the event of loss or damage of subject matter, the insured is compensated to the extend of actual loss, whereas the principle of subrogation prescribes that the scrap or whatever is left of the damaged subject matter of insurance is to be automatically passed into the hands of the insurer after the payment of the claim.

Essential Characteristics of Doctrine of Subrogation

1. The doctrine of subrogation applies only to contracts of indemnity, ie, contracts of fire and marine insurance or in general insurance. It does not apply to contracts of life and personal accident insurance.
2. The law of subrogation is applied to all contracts of indemnity and it arises only after the payment of the claim is made to the insured by the insurer.
3. The insured is required to provide all the necessary assistance to the insurer while enforcing the rights of subrogation against the defaulter.
4. The insurer is granted the right to sue the third party (defaulter) in the insured's name but the expenses of litigation are to be borne by the insurer.
5. The right of recovery of compensation from the third party(defaulter) by the insurer is limited to the amount of claim paid to the insured.
6. The principle of subrogation is automatically applied even without any express condition the contracts.

5. CONTRIBUTION

Principle of contribution is another outcome of the doctrine of indemnity. It applies to all contracts of indemnity. If a property is insured by several insurers against the same risk, the insurers must share the burden of payment in proportion to the amount assured by each. In this case, the total loss suffered by the insured is contributed by different insurers in the ratio of the value of policies issued by them for the same subject matter. If any of the insurers pays the whole loss, he is entitled to a contribution from the other insurers.

Need - This principle is for sharing loss between co-insurers. It prevents the insured from making profit out of his misfortune. Eg. a property is insured against fire for Rs.10, 000 with Insurer A and for Rs.20,000 with Insurer B. If the property is damaged by fire to the extend of Rs. 9,000, the insured cannot claim the amount both from insurer A and B. Here insurers A and B will proportionately contribute to the loss. Their respective share can be found out by the following formula.

Sum insured by the insurer/ Total Sum insured x actual loss

Therefore the compensation given by A =10,000/30,000 x 9,000 = 3,000

Compensation given by B = 20,000/30,000 x 9,000 = 6,000

The insured can recover the entire amount of loss from the insurer A. In that case insurer B should contribute to insurer A a sum of Rs. 6,000.

Conditions:-

(a) The subject matter of insurance must be common to all the policies.

(b) The insured must be the same person.

(c) The perils covered on all policies are of the same.

(d) All the policies must be in force at the time of loss.

(e) The policies must be legally enforceable.

6. PROXIMATE CAUSE

The phrase proximate cause is derived from the Latin phrase,'causa proxima' which means the nearest or immediate cause. Proximate cause means the direct, most dominant, most important, and the most effective cause of which the loss is occurred. It is the most closely and directly connected with the loss. It is the immediate cause of the loss and not the remote cause. When there is only one cause for a loss, the claim can be settled easily. But when there are two or more causes for a loss, then the doctrine of causa proxima applies. Then it become necessary to choose the most important, the most effective the most powerful cause which has brought about the loss. This cause is termed as "proximate cause " and all other causes, are considered as 'remote cause'.

The object of insurance is to provide indemnity against loss caused by certain specified perils. The perils insured are clearly stated in the policy and the liability of the insurer arises only if the loss is caused by the insured perils. In life insurance, the doctrine of 'causa proxima ' is not applied because the insurer is bound to pay the amount of insurance, whatever may be the reason of death. It may be natural or unnatural. Let us consider the following case to illustrate the point.

A person insured under a personal accident policy went out for hunting and met with an accident. Due to shock and weakness, he was unable to walk. While lying on the wet ground , he contracted cold which developed into pneumonia which caused his death. The court held that the proximate cause of death was the original accident and pneumonia is only a remote cause. Hence the claim was payable.

7. MITIGATION OF LOSS

Mitigation of loss means to minimise or decrease the damage of the loss. It is prescribed that whenever the event insured against occurs, it shall be the duty of the insured to take all such steps to minimise the loss as would have been taken by any person who is not insured. It places a duty on the insured to make every effort and to take active steps to minimise or reduce the loss at a peril, as would have been taken by a prudent, uninsured person. An insured cannot be a silent spectator to the loss. He must do his best to minimise the loss and save whatever is left.

Assessment Activity

- Enlist the material facts of motor insurance
- Mr.X avail loan from a bank and purchased a TV set. Now he wishes to insure it. Find the insurable interest in the case.
- A building is damaged in an earthquake, for releasing claim which mode of indemnity is suitable.
- Prepare chart showing the major special principles of insurance contract

Practical

Make a short film for giving awareness to general public about the necessity of reducing road accidents.

Hint-Explore internet and collect incidents of photographs/videos of road accidents.

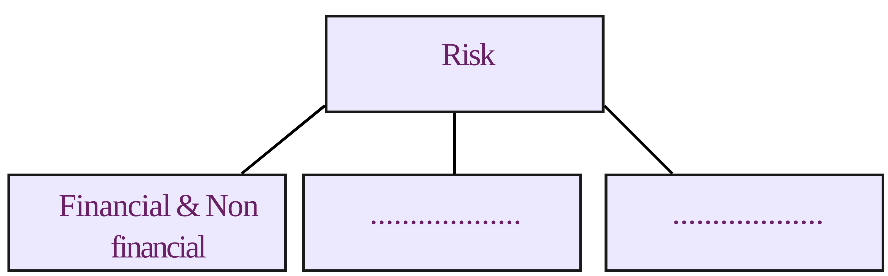
Narrate with touching words

Find out innovative and creative steps to reduce road accidents.

Give a good message

TE Questions

1. Identify the type of risk in the following situations.
   a. A fire occured to a building and loss amounted to Rs. 1,00,000
   b. Serious injury caused by an accident to Mr. Anand
   c. Change in fashion create a loss to the churidar shop owned by Mrs .Nitha
   d. Fireworks explosion at Kollam.
2. "An agreement enforceable by law is a contract". Suggest and explain the elements required to a contract to support this statement.
3. Age, occupation, physical fitness, etc are the material facts relating to a personal insurance. If so, suggest material facts relating to fire insurance taken on a building.
4. Complete the following



5. "Insurance is not wager". State two comments to support this statement.
6. To a common man 'hazard' means danger. But in insurance, it has different meaning. Explain :-
   a. the term hazard
   b. the types of hazards with examples

c. how the hazards can be assessed or known by the insurer?

7. Mr. Sunil, an IT professional approaches you to know about the importance of life insurance policies. Help him by suggesting the benefits of insurance to an individual.

8. In insurance, the loss compensation is determined through the principle of indemnity. The payment of it is made through different mode or methods. Name and explain them.

9. Name the types of insurance policies suitable in the following cases.

   a. Damage caused to paddy field by pest infection.

   b. Burglary damage caused to properties.

   c. Transport of goods from one place to another.

   d. Injury caused to an employee during his work.

   e. Loss of cash by the misdeeds of an employee.

10 Changes in fashion or demand of a product create losses to the business. Suggest the methods to minimize such risks.

Unit 2 : Underwriting and Insurance Documents

Introduction

Generally speaking the term underwriting means to undertake a responsibility is called underwriter. This term was first used in marine insurance market, where in the risks have been underwritten by the other merchants. Underwriting is similar to insurance as the insurer agrees to underwrite the liability of the insured public. The term underwriting is thus used to denote the entire insurance business and the insurance companies came to be known as underwriters. This unit deals with the practices concerned with acceptances or rejection of life and general insurance business.

Learning out comes
The Learner

- *Analyzes the possibility of accepting or rejecting of an Insurance proposal*
- *Describes the various factors considered for risk analysis and its implication*
- *Explains the need and different aspects of assignment and nomination and surrender of Insurance Policies*
- *Explains the various factors affecting a risk and identify the procedure of accepting or decline a non life insurance proposal (Motor, fire ,cattle)*
- *Describes the various factors to be considered while calculating life and non life Insurance premium*
- *Explains the importance and necessity of various documents in life and non-life Insurance*

Meaning

When a person submits a proposal for insurance, the insurer takes a decision on whether to accept it or not. The insurer takes the decision after evaluating the probable risk. Insurance underwriting is a detailed and systematic analysis by an insurance company to evaluate the risks of a potential candidate for insurance, based on a variety of actuarial factors. The object of underwriting process is to price the insurance in accordance with its associated risk.

The persons who underwrite risks or agree to compensate the probable loss are known as underwriters. The underwriters perform the following functions

1. Assess the risk proposed based on a variety of factors
2. Classify the assessed risks into different groups
3. Decide whether the risk should be accepted as proposed or on modified terms or with restrictive clauses
4. Decide the terms of acceptance

Assessment Activity

- A racing car is proposed for insurance-
    - a) Assess the risk factors
    - b) Fix the terms and conditions.

Underwriting in Life Insurance

Life insurance is a contract whereby the insurer promises to pay a certain sum of money to or to the nominee of insured up on the death of insured or on expiry of a certain period whichever is earlier. Underwriting in life insurance is a process of determining which risk class is most appropriate for the proposer based on several factors such as age, gender, current physical condition, medical history etc. Underwriting process benefits the consumers and company by classifying the proposers according to their level of risk.

Underwriting process in life insurance involves the following steps:

1. Receiving Proposal Form

Underwriting process starts with receipt of proposal form from the applicant. Proposal form is the application form for insurance which is a printed/electronic form. It contains questions which will assist the underwriter to assess the risk. Proposal form is to be filled by the proposer in such a manner to reveal all the material fact to assess the risk.

2. Assessment of Risk

After examining the data contained in the proposal form, the underwriter will make a decision about the level of risk. For this the underwriter must verify the following document also:-

a. Agent's confidential report(ACR)

The agent must disclose whatever details he knows about the proposer and confirm the contents of the proposal and add any other relevant information not mentioned in the proposal. Therefore the report is confidential and it is the property of the insurer.

b. Medical report

Insurance is given only to a person of sound health and mind. Therefore the insurer insists for a medical examination of proposer before entering into contract.(Subject to conditions) Medical report is a confidential report prepared by a qualified allopathic doctor after examining the present and past health conditions of the proposer.

c. Proof of age

It is important because the rate of premium depends on the age of insured, copy of birth certificate, school certificate, passport, identity card given by employer, driving license and PAN card are treated as standard age proofs.

d. Proof of income

Proof of income is insisted by the insurer when the proposed policy sum is too large. Salary slip, employer's certificate, income tax return are generally accepted proof of income.

e. Moral hazard report (MHR)

Moral hazard means the risk to the insurer due to the dishonesty of the proposer. MHR is prepared by the officer of the insurer which contains the details of moral hazard associated with the proposer. It is needed when it is suspected that the proposer is likely to be dishonest or proposer intends to make profit out of proposed insurance.

After analyzing the available data, the proposer is placed in the appropriate risk group and the underwriter takes the decision on the acceptance of the proposal. The decision may be any one of the following:

a. Accepts as proposed at Ordinary Rates(OR) which means that the risk is assessed as standard

b. Accept with extra premium

c. Accept with modified terms

d. Accept with specified clause

e. Postpone for a specified period

f. Decline which means that the risk is too heavy to insure

3. Receiving first premium

If the proposal is accepted, the decision must be conveyed to the proposer within

15 days. On receiving first premium the insurer will issue First Premium Receipt (FPR) which is the evidence for the beginning of insurance contract. FPR become irrelevant up on the issue of policy document.

4. Issue of Policy

Policy is the most important document in life insurance which contains the terms and conditions of insurance contract. It should be signed by a competent authority and stamped adequately according to the Indian Stamp Act.

Assessment Activity

- Collect a proposal form and fill it
- Prepare a list of documents required for insuring life.
- Prepare a model of life insurance proposal form.

Assignment and Nomination

A life insurance policy is a property, so it can be sold, mortgaged, charged, and gifted. One of the methods of transfer is the assignment. An assignment enables transfer of the rights, title and interest of the assignor to the assignee. Section 38 of the Insurance Act, 1938 states that

- The assignment can be done by an endorsement on the policy or by a separate deed.
- It must be signed by the transferor or his duly authorized agent.
- The signature must be attested by a witness
- The assignment is effective as soon as it is executed
- It must be sent to the insurer along with a notice

The person making the assignment should have the right or title to the property. The assignor must be major and competent to contract.

NOMINATION

Nomination is a simple way to ensure easy payment of policy money in the case of death claim. The holder of a policy on his own life, may nominate the person or persons to whom the money secured by the policy shall be paid in the event of his death. This can be made at the time of proposal or at any time during the currency of the policy. A person having a policy on the life of another cannot effect a nomination. A nomination can be changed by the policy holder by making another endorsement on the policy.

A nomination gives the nominee only the right to receive the policy money in the event of death of the life assured. A nominee does not have any right to the whole or part of the claim.

When a nominee is a minor, an appointee should be appointed by the policy holder. The appointee loses his status when the nominee becomes a major.

NOMINATION VS. ASSIGNMENT

Nomination	Assignment
1. Can be done before the issue of the policy or after the issue of policy	1. Can be done only after issue of the policy.
2. The holder of a policy on his own life, i.e. the life assured alone can make nomination.	2. The absolute owner of the policy can make assignment.
3. Policy holder retains full control and can deal with the policy without the consent of the nominee.	3. Policy holder loses control over the policy. Assignee is the owner of the policy and can deal with it.
4. Need not be supported by a consideration.	4. Must be supported by a consideration.
5. May be witnessed.	5. Must be witnessed.
6. Nominee has no right to sue under the policy.	6. Assignee has the right to sue under the policy.
7. It can be altered by the life assured during the currency of the policy.	7. It cannot be cancelled by the assignor.
8. Where nominee is a minor, an appointee should be appointed.	8. When the assignee is a minor, guardian is to be appointed.
9. Nominee's right is only to collect policy money on the death of the assured.	9. The assignee is entitled to deal with the policy and to receive the policy moneys.

Lapse, revival and Surrender of Life insurance policy

The policy holder is liable to pay the prescribed premium as long as the policy is in force. If he fails to pay the premium due within the stipulated date, the policy lapses. The lapsed policy may be revived within a period of five years from the due date of first unpaid premium. The revival of lapsed policy is possible within six months from the due date of first unpaid premium by paying the arrear premium with interest.

After six months, revival is possible only by producing satisfactory evidence of health and habits of insured.

Surrender of Policy

A surrender is a voluntary termination of the contract by the policy holder. A policy holder can surrender the life insurance policy before it becomes a claim. Surrenders are not allowed unless the policy has run for a minimum period of time, which may vary from three to seven years. The amount payable by the insurer to the policy holder on surrender is called the surrender value or cash value. The surrender value is usually a percentage of the premium paid or a percentage of the paid up value. The percentage increases as duration of the policy increases.

Assessment Activity.

Complete the following table

Assignment	Nomination
♦ Transfer of ownership of policy holder to receive proceeds	♦ Naming a person by the policy
♦	♦
♦	♦

- Prepare a note on the conditions of surrendering a life policy, which has completed 20 years of premium payment.

Underwriting of Non-life insurance

Non life insurance includes insurance of property, interest, liability, health, machinery etc. Its underwriting process includes the following steps

1. **Receiving of proposal form**

   Proposal form contains questions designed to get all material information about the particular risk proposed for insurance. The nature of questions varies according to the type of insurance concerned. Proposal form provides all material facts regarding the subject matter of insurance.

2. **Inspection of subject matter**

   Before accepting the proposal, an officer of the insurer must conduct a physical inspection of property proposed for insurance so as to ensure that the data contained in proposal form are true and correct.

3. Premium rating

The most important work in underwriting is the fixing of rate of premium to be charged for insurance. Value of property, degree of hazard, past experiences of loss etc. are considered for fixing rate of premium.

4. Issue of cover note

Cover note is issued by insurer on receiving first premium from the proposer.

It is a temporary evidence of insurance protection which will be suspended on issue of policy.

5. Issue of Policy/ Certificate

Policy is a stamped document which is a permanent evidence of insurance contract. In motor insurance, a certificate of insurance is required in addition to policy.

Assessment Activity

- List out the elements of a cover note
- List out the documents required for insuring non life insurance.

Insurance Premium

Meaning

Insurance is a contract between insurer and insured. To be enforceable at law every contract must have consideration. Premium is the consideration of an insurance contract. Without the payment of premium, an insurance contract will not become valid. Insurance premium is the consideration paid by the insured to the insurer for his promise. Premium should be paid in advance.

Premium in life insurance

In life insurance premium is determined on the basis of life expectancy of proposer after considering the following factors:

a. **Age**- As age increases, the probability of risk increases. Thus the amount of premium varies with age of the insured.

BMI (Body Mass Index) is the proportion between body weight and height. Its range is 18.5-24.9

b. **Physical conditions**- Height, weight, BMI, measurement of chest, pulse rates, blood pressure etc. are significant.

c. **Habits**- Bad habits like smoking, alcoholism, drugs etc. adversely affect life expectancy.

d. **Family history**- Early death of parents, genetic and hereditary illnesses, diabetes etc. can be determined from family history.

e. **Occupational hazard**- The nature of job and the place in which the job is done have effects on health and life span.

f. **Moral hazard**.

Mode of payment

The premium rate is often calculated annually but for the convenience of the insured, it can be paid half yearly, quarterly or monthly. Premium must be paid on or before due date. But an additional period called 'days of grace' is allowed for payment of premium, 30 days are allowed for yearly, half yearly and quarterly premiums and 15 days for monthly premiums.

Premium in Non- life insurance

Non life insurance is usually for a period of one year. The premium on non life insurance is ascertained on the basis of value of subject matter, degree of risk involved etc. Premium is paid once in a year at the commencement of insurance contract. No notice of renewal of policy is served by general insurance companies.

Practical

Calculate premium payable/month from the following information

Name of Policy	Endowment
Period of insurance	25 years
Age of proponent	25 years
Table premium	168.17/Millie
Sum insured	10,00,000

Assessment Activity

- Calculate insurance premium. Sum Insured- 5,00,000, rate of premium 216.23/ 1000
- Prepare chart showing mode of payment of premium in life and non life insurance.

Insurance Documents

Insurance is a contract between two parties. There may be disputes between insurer and insured or insurer and beneficiaries in the absence of adequate documentary evidences in the hands of both the parties. Therefore documentation is very important. The following are the relevant documents in insurance contracts:

1. Proposal form
2. Cover note/ FPR
3. Insurance policy
4. Certificate of Insurance
5. Renewal Premium Receipt
6. Claim form

Proposal form

Proposal form is the application for all insurances. The printed proposal form is filled in by the proposer in own handwriting and signed in the presence of witness. The proposer is expected to furnish true and fair details (principle of utmost good faith) because any misstatement will lead to make the contract voidable. The contents of proposal form vary according to the class of insurance. Proposal form always contains general information such as name, address, occupation and annual income of proposer.

Life insurance proposal form contains special information such as age and date of birth, sex, physical conditions, family history, details of nomination, details of earlier policies, preferred mode of payment of premium etc.

General insurance proposal forms must contain the complete details of the property to be insured and the information regarding physical and moral hazards.

Every proposal form contains a declaration by the proposer. All the statements therein are true and correct to the best of his knowledge.

Cover note/ FPR

Cover note is a temporary document issued by the insurer on receiving first premium. It contains the details of insured, insured property and terms and conditions of insurance contract. It will become irrelevant on the issue of policy document. Instead of cover note, First Premium Receipt (FPR) is issued by life insurance companies.

Insurance Policy

Insurance Policy is the permanent evidence of the contract of insurance. It has to be stamped according to Indian Stamp Act 1899. Policy document has the following parts;

1. Heading - Gives the name and address of the insurer.
2. Preamble- introduces the parties to the contract.
3. Operative clause- specifies the perils insured and the circumstances in which the insurer will become liable to make payment to the insured,
4. Schedule- contains all the typewritten information applicable to the contract such as date of commencement of risk and maturity, sum assured, amount of premium, period of insurance, policy number, name and relationship of nominee, etc.

Insurance Certificate

It is a document issued to motor insurance holders in addition to policy. Driving a vehicle without an insurance certificate is an offence. The important features are

1. Certificate number
2. Registration mark
3. Date of commencement of insurance cover
4. Date of expiry of insurance
5. Persons entitled to drive the vehicle
6. Limitations as to use.

Renewal Premium Receipt

It is an evidence of payment of subsequent premiums issued by life insurance companies.

Claim Form

Claim form is a document which elicits full information regarding the circumstances of loss such as date and time of loss, causes of loss, extent of loss, etc. The contents of claim form vary with each class of insurance.

Practical Activity

Prepare a life proposal form to insure the life of Smt. Suja, aged 35 years, working as teacher, prefers an endowment policy for Rs.2 lakhs.

Hint.: Name , address of insurer, proposer and other personal details..

Assessment Activity

- Draft a claim form of motor insurance
- Prepare a chart showing all insurance documents.

TE Questions

1. Prepare model of a cover note.
2. Mrs.Aruna filled up a proposal form of '*XYZ* life' to insure her life for Rs 2 lakhs. Mention the steps to be followed by '*XYZ* life' before issuing a policy to her.
3. Materials used for construction, usage of building, location etc are the factors affecting premium in fire insurance. Name such features to be considered in life insurance.
4. Differentiate the mode of premium payment in life insurance and non-life insurance.
5. How an assignment differs from a nomination.
6. A proposal is received from a house owner to your insurance company for insuring his house. He estimate a cost of Rs. 15 lakhs towards his house. What procedure you will follow to underwrite this risk ?
7. Following details are given in the proposal form issued by a life insurance company while insuring a person.

   a. Name b. Age and date of birth c. Sex

   d. Qualification

   The above details are not complete. Prepare a comprehensive proposal form.
8. It should be noted that renewal of policy is not automatic. It depends upon the consent of the insurer to renew the policy and payment of premium by the insured. Comment on the above statement and explain the method of renewal of life and general insurance policies.

Unit 3: Insurance Claims

Introduction

Claim means the amount payable by the insurance company to the insured in the event of occurrences of loss. The purpose of seeking insurance is to claim for any financial loss that may be sustained. If loss does not occur, no payment would be made to the insured in term insurance and general insurance. In life insurance, when the insured dies the legal heirs claim the insured sum from the insurers. This unit deals with the procedure of claim settlement of life and general insurance polices.

Learning Out comes

The Learner:

- *Explains what is a claim and how claims occurs and its importance in Insurance*
- *Explains the procedure of claim settlement and the need for quick settlement of claims*
- *Describes different types of claim in Non-life Insuranceurance.*

Meaning of Insurance Claims

Insurance claim is a formal request by the policy holder to an insurance company asking for payment based on the terms of insurance policy. It is the amount payable by the insurance company to the insured in the event of occurrence of loss.

Types of claims

Generally speaking, in life insurance there is death claims and maturity claims. If the insured dies before the expiry of the term of policy, it is known as death claim. The legal heirs of the insured are eligible for death claim. Maturity claims are payable as per the terms of the policy. If the assured survives to the full term, then the basic sum insured including bonus is payable to the policy holder.

In non-life insurance, as it is an indemnity contract, the claim arises only when the insured event happens. The claim will be released only when the insurer is satisfied that the insured peril is the cause of loss.

Standard Claim

These claims are settled strictly in accordance with the terms and conditions of the policy.

Non-Standard Claims

Under this claim, the insured has committed a breach of condition or warranty. The settlement of non standard claim is made in accordance with the rules and regulations formed at particular levels by the insurance company.

Ex-Gratia Claim

These claims are related with doubtful losses. The insurer is not liable to indemnify the loss. as it is not covered under the policy. But to safeguard the interest of the insurer and insured a certain percentage of loss is indemnified. In other words an ex-gratia payment is paid by accepting such claims, and no subrogation right is applicable.

The settlement of claim is considered as an important function of an insurance company. Fair and prompt settlement of claim should be made by the company. Delay in settlement of claim may affect the reputation of the insurer and create doubt in the minds of the claimant. The insurer should negotiate with clients with courtesy and patience. If claim is rejected it should be communicated to the insured with convincing evidence.

Procedure of Settlement of Life Insurance Claims.

There are two situations where Life Insurance claim arises

a) Maturity Claims

b) Death Claims

Procedure of settlement of Maturity Claims

The procedure for settlement of maturity claim is very simple. Immediately after receiving the signed, stamped, discharge form and original policy certificate from the insured, the Capital Sum Insured including bonus will be released by account payee cheque.

The following documents are needed

1. Original policy
2. Age proof
3. Assignement deed, if any
4. Discharge form duly completed and executed.

Procedure of settlement of Death Claims

Death claim arises when the assured dies before the date of maturity of the policy. The procedure of settlement of death claim is not simple as in the case of maturity claim. The following documents are required.

1. Policy document
2 Death certificate
3. Legal evidence of title
4. Claim form
5. Discharge form duly signed
6. Assignment, if any

Intimation of Death

The intimation must be given by the person who is entitled to receive the proceeds of the policy. Intimation of death should be served to the branch office from where the insurance policy was issued. It must contain the following.

a. A declaration that the life assured is died.
b. Date of death
c. Cause of death
d. Place of death
e. Policy certificate No.

Persons authorized to inform death

a) the nominee
b) the assignee
c) the legal heirs or relatives of the deceased.

Proof of death

The certificate of death issued by local self government should be submitted to the branch office of the insurance company.

Discharge form

After completion of the above formalities, the insurance company will issue a discharge form, and it should be completed and returned to the insurer. The person eligible to receive the claim should sign in the discharge form.

Assessment Activity

- List out the documents required for settlement of death claim
- List out the documents required for settlement of maturity claim.

Documents required under Death claims	*Documents required for Maturity Claims*
a) Policy document	*a) Original policy document*
b) Death certificate	*b) Age proof*
c) Assignment, if any	*c) Assignment, if any*
d) Legal evidence of title	

Procedure of settlement of Non-life insurance claim

Here are some important points, which would help you in the claims procedure.

The loss or damage should be reported to the insurer immediately.

- On receipt of claim intimation, the insurer will forward a claim form.
- Submit the completed claim form along with an estimate of the loss to the insurer. It is preferable to submit an itemized estimate with separate values.
- The insurer will arrange for inspection of the damaged items to assess the loss. In case of major losses, a specialist-licensed surveyor is deputed.
- The insured has to provide the required documents to substantiate the extent of loss.
- In case the cause of loss is not established, it is for the insured to prove that the loss or damage has occurred due to an insured peril.
- On agreement of claim amount between the insured and the insurer, the claim is settled.

Factors to be considered for claim settlement.

1. Utmost good faith

Utmost good faith must be observed by the insured at the time of entering the contract, and continues till the end of insurance contract. It must be noted as to whether or not the insured has taken all steps to minimize the loss.

2. Loss is within the scope of the policy

The insurance company has to ascertain whether or not the loss caused to the insured is within the scope of the insurance policy issued. If there is more than one cause for the loss, the proximate cause and not the remote cause is considered.

3. Warranties

These are certain conditions or promises in the contract which are to be fulfilled by the insured. If warranties are not followed, the insurer may be discharged of the liability from the date of breach of warranty. Therefore, before settlement of any claim, the surveyor's report must disclose whether the warranties have been duly complied with or not.

4. Conditions of policy

Indemnification of loss is to be in accordance with the terms and conditions of the policy.

5. Subrogation

The insured must provide all possible assistance to the insurer in recovering any amount from third parties.

6. Disagreement

If there is any dispute or disagreement regarding the fixation of the amount of loss, it is to be decided through arbitration. In case the insurer denies the liability for the claim, the same is to be settled in a court of law.

Settlement of Claim under Fire Insurance

Following procedure is adopted for the settlement of fire insurance claims

1. Notice of Fire

The insured should intimate the loss as soon as it occurs.

On receipt of the intimation of claim insurer verify the following.

a. The policy is in force

b. The loss is occurred due to perils insured

c. Insurable interest exists during the policy period

d. The property mentioned in the policy and location is the same

Claims Register-: This contains the details of the claim number, the date of fire, policy number, name of insured, sum insured, estimated loss, etc.

2. Claim Form

A claim form will be issued by the company after the claim is registered in the Register of claims. The claim form contains the following information.

a. name, policy number, and address of the insured.

b. description of loss

c. cause of loss

d. particulars of property lost

e. details of other insurances, if any

f. estimated loss.

3. Investigation and Assessment of Claims

If the amount of loss is small, the claim is investigated by an officer of the company and thereafter claim will be settled on the basis of claim form. If the claim amount is large, independent surveyors are will investigate the loss and claim will be settled on the basis of survey report.

Settlement of Motor Insturance Claim

Motor insurance claims are settled in the following stages.

1. Preliminary scrutiny
2. Assessment of loss
3. Settlement

1. Preliminary scrutiny

a. First a notice of loss is served on insurer by the insured

b. Insurer checks records to find out whether policy is in force or discontinued.

c. The loss is entered in the claims register.

d. A claim form is issued to insured for completion and return.

(The insured has to submit a detailed estimate of repairs from any repairer of his choice.)

2. Assessment

Independent surveyors are employed for assessing the cause and extent of loss. They are supplied a copy of the policy. The assessors inspect the damaged vehicle, discuss the cost of repair and submit their survey report. In case of minor damage claims, independent surveyor is not appointed. The officials of insurer inspect and finalise the claims.

3. Settlement.

The survey report is the basis of claim settlement. The report is examined and settlement is done according to the recommendations in the report.

Motor Accident Claims Tribunal.

This is a court constituted by the state government for expeditious disposal of motor claims. Section 110 of the Motor Vehicles Act 1939 give powers to state government to constitute such Tribunals. Section 166 of the Motor Vehicles Act, 1988 provides that an application for compensation arising out of an accident may be made;

a. by the person who has sustained the injury

b. by the owner of the property

c. by any agent authorized by the person injured

d. by the legal heirs of the deceased.

Additional Information

In the case of suicide of a person

1.Within one year of commencement of policy-no claim

2.After one year- claim may be paid as the case may be

MACT (Motor Accident Claims Tribunal)

This is court for settling motor accident claim

Insurance Ombudsman

Official Agency responsible for impartially investigating complaints from consumers against a public authority, institution or company.

Practical Activities

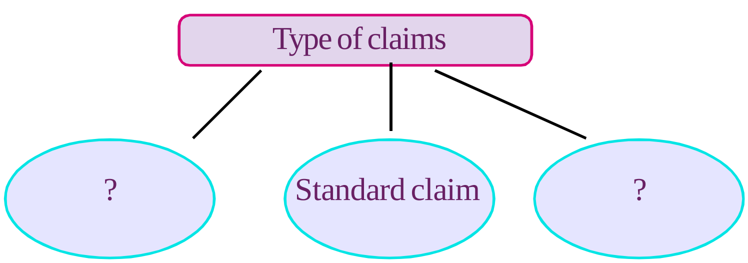
Explain the procedure of claim settlement and suggest the required claim documents in the following cases.

a. An accidental damage has occurred to the car owned by Mr. Aji. He estimates a loss of Rs.40,000. The insured value of car is Rs.5 lacs.

b. Mr. Anu died in a motor accident. He had a life insurance policy of Rs.2 lacs. His wife is alive.

TE Questions

1. Complete the following chart and explain the terms



2. Mr.Iyer, a life policy holder died in a car accident, write the claim settlement procedure and also mention the claim documents.

3. MACT stands for ------------

4. A maruti car owned by Mr. Tom hit a compound wall and cause d damage to the car and compound wall. State the factors to be considered by the insurer for settling the claim.

5. Draft a model of fire claim form.

6. Saji had a life insurance policy for Rs. 15 lakhs. The name of the nominee mentioned in the policy is Usha , his wife. To whom the claim will be paid by the insurer in the following situations (their daughter is studying in 5th standard)

   a. Insured is alive at the time of maturity.

   b. Insured died before maturity.

   c. Both Saji and Usha is not alive at the time of maturity.

   d. The policy is assigned to a bank.

7. A building was insured under a fire policy with three insurers namely A Company, B Company and C Company for Rs. 5 lakhs, 3 lakhs and 2 lakhs respectively. The loss on account of fire reported to Rs. 75,000/- .

   a. Work out the claim payable by each insurer.

   b. Also write the claim settlement procedure used here.

UNIT IV

Unit 4: IRDA Regulations and Final Accounts of Insurance Companies

Introduction

Insurance Regulatory and Development Authority(IRDA) is an autonomous body set up under the IRDA Act, 1999.

IRDA's Mission is to protect the interests of policyholders and to regulate and develop the insurance industry. It regulate the Indian insurance industry to protect the interests of the policyholders and work for the orderly growth of the industry. This unit deals with the insurance operations, such as investment of insurance funds in different securities and the preparation of final accounts of insurance companies.

Learning outcomes

The Learner:

- *Explains different regulations implemented by IRDA in this sector*
- *Explains the insurance operations*
- *Identifies and Understant the schedule format of Revenue account, profit and loss account and balance sheet*

IRDA Regulations

The Government of India set up a regulatory body known as Insurance Regulatory and Development Authority in 1999 as per the recommendations of Committee of Reforms in insurance sector under the chairmanship Shri. R.N Malhotra, former Governor of RBI.The IRDA Act was passed in Dec.1999, provided for the establishment of an authority to protect the interest of insurance policy holders, to regulate, promote and ensure orderly growth of the insurance industry. The Act was also intended to amend the insurance Act 1938, LIC Act 1956, and the General Insurance Business Nationalosation Act 1972.

The functions of IRDA include registrations, licensing and laying down regulations for the proper conduct of the business and protection of the interest of policy holders. It is an authority to protect the policy holders interest, to regulate, promote and ensure the growth of insurance industry.

The duties and powers of the IRDA are:

1. To regulate, promote and ensure orderly growth of the insurance business.
2. To issue license as per the procedure prescribed in the Insurance Agent's Regulations, 2000.
3. To exercise all powers and functions of the Controller of Insurance.
4. To protect the interest of policy holders in settlement of claims and terms and conditions of policies
5. To call for information from, undertake inspection and conduct investigations including audit of insurer, intermediaries and other connected organizations.

6 To prescribe the manner and form in which accounts will be maintained by insurers and intermediaries.

7 To regulate investment of funds and margin of solvency.

8 To adjudicate disputes between insurers and intermediaries.

9 To issue license as per the procedure prescribed in the insurance agent's regulation 2000.

10 Issue to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration.

11 Specifying requisite qualifications, code of conduct and practical training for insurance intermediaries and agents.

12 Specifying the code of conduct for surveyors and loss assessors.

13 Supervising the functioning of the Tariff Advisory committee.

14. Promoting efficiency in the conduct of insurance business.

Insurance operations

What is all about insurance?

Insurance business, both life insurance and general insurance, covers the following functional operations.

1. **Product Development**- Design of various insurance products, like marine, fire, life etc. within each such broad category specific products like Jeevan Anand, Jeevan Akshay, Asa Kiran etc. will be developed to meet specific requirements of policy holders. The premium of the individual products will be finalized by assessing the related risk with regard to the respective policy.
2. **Risk Management**- Insurance companies are supposed to monitor continuously and assess the risk factors surroundings individual policies. Suitable balancing efforts needs to be taken by the insurance companies to keep the risk - premium equations for ensuring viability of the policies.

3. **Investment of insurance fund-** Under this function premium on unexpired risk associated with policies will be invested in various financial instruments so that sufficient return can be generated for meeting claims as and when they arise and for meeting maturity commitments. In this regard the regulatory authority also provide broad guidelines.
4. **Claim management-** Another major function, insurance companies need to focus on claim management. Terms and conditions for admitting claims under different policies needs to be framed in advance. As and when a claim arises as specifically defined in the policy document, claim initiation shall be made by the company. Claim admissible will be passed by the company and will be released to the policy holder/legal heirs as the case may be.

Insurance companies are allowed to invest in four broad categories as given below and IRDA has prescribed prudential limits for each category

1. Government Securities
2. Other Approved Securities
3. Infrastructure and Social Sector
4. All other investments as per exposure and Prudential Norms specified.

Investment Limits for a Life Insurance Companies were provided for the categories above under Life Business, Pension and General Annuity Business

Investment Category	**Life Insurance Assets**	**Pension and Annuity Assets**	
(A)Govt.Securities	Not Less than 25%	Not Less than 25%	
(B) Govt. or approved securities	Not less than 50% including(a) above	Not less than 50% including(a) above	
(C) Approved securities		Not exceeding 60%	
I. Housing infrastructure bonds(approved investment	Not less than 15%		
II. Other approved investments	Not exceeding 20%		
(D) Investment in other than approved investments	Not exceeding 15%	Nil	

(The above guidelines are subject to change from time to time)

Final Accounts of Insurance companies

Financial statements

Life insurance and General insurance companies shall prepare the financial statements in the prescribed form given in IRDA Regulations. Life insurance companies should comply with the requirements of schedule A and general insurance companies should comply with the requirements of schedule B

Schedule A gives the following forms for life insurance companies.

1. Revenue Account-Form A (RA)
2. Profit and loss account. Form A (PL)
3. Balance sheet Form A (BS)

Schedule B gives the following forms for General Insurance Companies :

1. Revenue Account Form B (RA)
2. Profit and Loss Account Form B (PL)
3. Balance Sheet Form B (BS)

Terms used in Final accounts

1. Life Insurance fund

It represents the excess of revenue receipt of company over revenue expenditure in connection with life insurance business. The fund is available to meet the aggregate liability outstanding on all the policies.

2. Reserve for unexpired risk

It is a provision for claims that may arise in respect of policies in force of general insurance companies on the date of balance sheet. Every marine insurance company is required to make a provision equal to 100% of net premium for unexpired risk. Every other general insurance companies make a provision equal to 50% of net premium for unexpired risk.

Form of financial statements of insurance companies

FORM A (RA)
REVENUE ACCOUNT
For the year ended 31st March 20...
Policy holders' account (Technical Account)

Particulars	Schedule No	Current year(Rs)	Previous year(Rs)
Premiums earned -Net			
Income from investment			
a) Interest, Dividends and Rent			
b) Profit on sale of investments			
c) Loss on sale of investments			
d) Transfer/gain on revaluation			
Other Income (to be specified)			
TOTAL(A)			
Commission			
Operating expenses related to insurance			
Other Expenses(to be specified)			
Provisions(other than taxation)			
a) For devaluation of investments			
b) Others(to be specified)			
TOTAL(B)			
Benefits paid(Net)			
Interim Bonuses paid			
Change in valuation liability against policies			
a) Gross			
b) Amount ceded in reinsurance			
c) Amount accepted in reinsurance			
TOTAL©			
Surplus/deficit(D)=(A)-(B)-(C)			
Appropriations			
Transfer to shareholders' account			
Transfer to other reserves			
Transfer for future appropriations			
TOTAL(D)			

FORM A (PL)
PROFIT AND LOSS ACCOUNT
For the year ended 31 March 20...

Particulars	Schedule No	Current year(Rs)	Previous year(Rs)
Balance brought forward from			
Policy holders account(technical account)			
Income from investments			
a) Interest, dividends and rent-gross			
b) Profit on sale/redemption of investments			
c) Loss on sale/ redemption of investments			
Other income(to be specified)			
TOTAL(A)			
Expenses(other than directly related to the insurance business)			
Provisions(other than taxation)			
a) For diminution in the value of investments (net)			
b) Others(to be specified)			
TOTAL(B)			
Profit/loss before tax			
Provision for taxation			
Profit/loss after tax			
Appropriations			
a) Brought forward reserve/surplus from the balance sheet			
b) Interim dividends paid during the year			
c) Proposed final dividend			
d) Dividend distribution tax			
e) Transfer to reserve/other accounts			
Profit carried to balance sheet			

FORM A (BS)

BALANCE SHEET AS ON 31 MARCH 20...

Particulars	Schedule No	Current year(Rs)	Previous year(Rs)
Sources of funds			
Shareholders' funds			
Share capital			
Reserves and surplus			
Credit/debit fair value change account			
Sub-total			
Borrowings			
Policyholders 'funds			
Credit/debit fair value change account for			
Policy liabilities			
Insurance reserves			
Provision for linked liabilities			
Sub-total			
Funds for future appropriations			
Total			
Application of funds			
Investments: Shareholders'			
Policyholders'			
Assets held to cover linked liabilities			
Loans			
Fixed assets			
Current assets			
Cash and bank balances			
Advance and other assets			
Sub-Total-(A)			
Current liabilities			
Provisions			
Sub-Total-(B)			
Net current assets ©=(A-B)			
Miscellaneous expenditure			
Debit balance in profit and loss account			
Total			

FINAL ACCOUNTS OF GENERAL INSURANCE COMPANY

FORM B-RA

REVENUE ACCOUNT

For the year ended 31st March...........

(to be prepared separately for Fire, Marine and Miscellaneous insurances)

Particulars	Schedule	Current	Previous
Balance brought forward from			
1. Premium earned- net			
2. Others			
3. Change in provisions for unexpired risk			
4. Interest, Dividend and Rent			
Total (A)			
1. Claims incurred (net)			
2. Commission			
3. Operating expenses			
4. Others (to be specified)			
Total(B)			
Operating Profit/Loss from Fire/Marine/ Miscellaneous business (A-B)			

FORM B-PL

PROFIT AND LOSS ACCOUNT For the year ended 31st March.............

Particulars		Schedule	Current	Previous
1.	Operating Profit/Loss			
a)	Fire insurance			
b)	Marine insurance			
c)	Miscellaneous insurance			
2.	Income from Investments			
a)	Interest, Dividend and Rent			
b)	Profit from sale or redemption of investments			
c)	Loss on sale or redemption of investments			
3.	Other Income (to be specified)			
	TOTAL (A)			
4.	Provisions (other than taxation)			
a)	For diminution in the value of investments			
b)	Others (to be specified)			
5.	Other expenses			
a)	Other than directly related to the insurance business			
b)	Others			
	TOTAL(B)			
	Profit/(Loss) before tax			
	Provision for Taxation			
	Profit/(Loss) after tax			
	Less: Catastrophic Reserve			
	Profit available for appropriation			
	Appropriations:			
a)	Interim dividend paid during the year			
b)	Proposed final dividend			
c)	Dividend distribution on tax			
d)	Transfer to Reserve/other `accounts			
	Balance carried to Balance Sheet			

FORM B- BS

BALANCE SHEET AS ON 31 MARCH 20..

Particulars	Schedule	Current	Previous
Sources Of Funds			
Share Capitals	5		
Reserves and surplus	6		
Fair value change account	7		
Borrowings	8		
Total	9		
Investments:			
Loans	10		
Fixed Assets			
Current Assets			
Cash and Bank Balances	11		
Advance and Other Assets	12		
Sub-Total (A)			
Current Liabilities	13		
Provisions	14		
Sub-Total (B)			
Net Current assets (C)=(A-B)			
Miscellaneous Expenditure (not written Off)			
Debit Balance in Profit & Loss Account	15		
Total			

Additional information

Re-insurance

When the risk is considered to be too high, that is difficult for the insurer to bear the liability, in such case, the insurance company may arrange with another insurer to insure a portion of the insured risk. This arrangement is known as reinsurance. It is the insurance of insurance.

TE QUESTIONS

1. IRDA means----------
2. State and explain the important powers and duties of IRDA
3. Write a short note on
   a) Life assurance fund
   b) Reserve for unexpired risk
4. Name the securities where the insurance funds are invested
5. Prepare a revenue account of ABC Fire Insurance Company for the year ended 31.3.2015 from the following details

	(Rs in 1000)
Premium earned(net)	20000
Net claim incurred	5000
Commission	3000
Interest, dividend and rent	6000
Operating expenses	6500

Reserve for unexpired risk on 1.4.2014 was Rs.8000

Assessment activity

- List out the major items in the financial statements of insurance companies

Extended Activity

1. In certain cases there may be chances of liquidation of insurance companies or the insolvency of insurance companies, the interest of the policy holders will not be protected. In this circumstance study the role and powers of IRDA in protecting the interest of the policy holders.

2. Collect the names of insurance companies functioning in India and then classify them in to Life, Non-life, government , departmental undertaking and private companies, including their date of incorporation in India.

3. Make a short film for giving awareness to general public about the necessity of minimizing road accidents based on the data collected from various sources, for the last two weeks

   Hint- (a) Explore internet and collect incidents of photographs/videos of road accidents.

   (b) Narrate with touching words

   (c) Find out innovative and creative steps to reduce road accidents.

   (d) Give a good message

   Exhibit the above short film in the neighboring Arts and Science/ Engineering college and prepare a report including the recommendations of the viewers.

4. Write the Underwriting procedure to be adopted in the proposals given below.

Particulars	Case 1	Case 2	Case3	Case 4
Age in years	10	25	32	26
Sex	M	F	M	F
Build	30kg/130cm	45/160	70/170	55/160
Status	Student	pilot	Asst. Manager	Teacher
Annual income	Nil	Rs.15 Lacks	Rs.6 Lacks	Rs.5 Lacks
Health status	Good	Normal	Handicapped	6Months pregnant

Suggested practicals

In banking and insurance sector, various reports/letters/tables and other documents are to be prepared in English/Malayalam languages, as a part of their business. For this, a person who prepare these documents in computer should need a minimum speed of 30 words per minute in English/Malayalam computing. Hence, the learner of this course should be trained to acquire this specific speed.

1. List out the various risks in our surroundings and classify them into pure, speculative, fundamental, particular, financial and non-financial and present them in a table (IT enabled)

2. Prepare a chart showing examples of material facts and non-material facts to be disclosed in life Insurance.
4. Prepare proposal form of life insurance with the help of excel spread sheet (IT enabled).
5. Prepare certificate of Insurance with excel spread sheet (IT enabled).
6. Draft a model of cover note.
7. Design a model of Life Insurance policy.
8. Write a letter to the branch manager of life insurance company to change the nomination already given.
9. Write a request letter to the Branch manager demanding the surrender of a life Insurance policy.
10. Prepare a premium renewal advice/ notice.
11. Prepare a letter to the policy holder informing the maturity of his policy and request him to produce necessary documents for settling the claim.
12. Prepare an acceptance/rejection letter to a proposer on the basis of underwriting.
13. Ask the students to collect policy details of their family members/relatives and prepare a statement about policy types, amount, period, age, mode of payment etc.
14. Conduct a role play to draw the attention of the public about the necessity of insurance in human life.
15. Conduct a role play to analyse the need assessment of a prospective buyer on a specific insurance product.
16. Study and analyse a few life insurance plans (minimum 10 numbers) of different companies, design a new one suitable to a common man.

Hint. (a) An approximate amount of premium is only required

(b) Highlight the features of the plan

(c) Minimum and maximum sum assured should be specified

(d) Period of insurance, need of medical examination should be included

17. Draft a notice or brochure exhibiting the necessity of Life Insurance in the mind of people.

18. Calculate monthly,Yearly,and Half Yearly premium

Name of Insured	Sageer
Table of Premium	Rs. 60.50/1000
Age	35 years
Sum Insured	Rs. 500000/-
Name of policy	Endowment
Rebate	Re.1/1000 for sum insured above Rs.200000
Additional Premium (optional)	Critical illness benefit Re.1/1000
Double accident benefit	Rs.2/1000

19. Mr Sujan is a partner of a firm. As a business man and also as a human being, list the persons whom he has insurable interes and prepare a chart.

20. Mr Sunil is the owner of a building worth Rs 50 lakhs. He insured the building against fire for Rs 25 lakhs. During the policy period , a fire occurred and loss estimated is Rs. 40 lakhs. Calculate the amount of claim payable, by the company.

21. Make a short film for giving awareness to general public about the necessity of minimizing road accidents based on the data collected from various sources, for the last two weeks

Hint-

(a) Explore internet and collect incidents of photographs/videos of road accidents.

(b) Find out innovative and creative steps to reduce road accidents.

(d) Give a message

22. List out the various hazards in human life, and motor accidents, and then classify them in to physical and moral hazards. Make a power point presentation on the basis of above classification.

23. Prepare a speech to be presented in your residents association about the possibility of gas leakage and its consequences, and precaution to be taken to prevent incidents in future.

Hint- speech in English or in Malayalam.

24. According to the principles of indemnity, the selection of mode of indemnity is vested with the insurer .However, all modes of indemnity are not suitable in all cases. Draw a chart showing mode of indemnity suitable to different losses.
25. Prepare a chart/PPT showing different type of Insurance-Life and Non Life.
26. Using a suitable Insurance software prepare a policy certificate of insuring an individual, a motor vehicle and health policy.
27. Mr.Anil aged 30 years insured his life with Standard Insurance Company for a sum Rs25 lakhs on 25/02/2015.He committed suicide on 04.03.2015. His legal heirs lodged a claim. But the insurer rejected claim request. Analyze the case and a note showing the procedure of claim settlement and important claim documents (IT enabled)
28. Mr. Sunil met with an accident while driving his car and the vehicle is completely damaged. The owner of the car lodged a claim with the insurer. They refused the claim request on the ground that the driver has no driving license .Analyze the situation and decide the type of claim. Also prepare a chart/PPT/ Note on different type of non life insurance claim (IT enabled)
29. The use of motorbikes/drugs are increasing among students, and the accidents are also increasing day by day. Prepare a slide show suggesting suitable measures to control and manage these evils among students.
30. Start an underwriting department in your class

Hint:-

(1) Form an underwriting team consisting of one clerk, one officer and a manager

(2) Fix the terms and conditions of underwriting Eg. Documents required, etc.

(3) Each student brings a mock insurance proposal

(4) Underwrite the proposal

31. Record the following transaction in suitable vouchers. (using tally software)

    2016 Jan.1 Mr. Arun commenced business with cash Rs.100000

    3. Opened a bank account with SBI Rs.50000

    4. Purchased goods for Rs.10000

5. Purchased furniture for Rs. 15,000, paid by cheque.
6. Bought goods from Raj traders Rs.25,000
7. Sold goods for cash Rs. 10,000
8. Returned goods to Raj traders Rs.1,000
9. Sold goods to Varun Rs.15,000
10. Issued cheque to Raj.traders. Rs.10,000
11. Received goods returned by Varun Rs.500
12. Sold goods to Ravi Rs.10,000
13. Sold goods for cash Rs.20,000
14. Cheque for Rs.7,000 received from Varun
15. Cash sales Rs.10,000
16. Paid rent by cheque Rs.5,000
17. Paid salary by cheque Rs.8,000
18. Withdrew Rs. 10,000 by Arun for personal use

Extract Trial balance Trading, profit and loss account and balance sheet.

32. Compute taxable income from the following data

Name	Maya
Occupation	Teacher
Monthly salary	Rs. 35,000
Income from house property	Rs. 75,000

She has one life insurance policy in her name and one in the name of her husband. She remits Rs.50,000 as annual premium for her policy and Rs.4,000 as monthly premium for her husband's policy.

Guidelines for Role play

1. *Number of learners in a group- 4-6*
2. *All the learners should discuss the topic*
3. *The script should be in writing*
4. *Time for presentation should not exceed 5-10 minutes*

Judgement

The following points should be considered

Content, presentation, life skills(self awareness, empathy, critical thinking, problem solving, communication, interpersonal relationship, decision making)

An overview of Module 4

Marketing of Banking and Insurance Products

The service sector dominates the Indian economy today, contributing more than half of our national income. It is also the fastest growing sector, with an annual growth rate of 8% per year. With best job, best income and best talent, service sector is now the show case of the Indian economy.

The role of financial service in stimulating and sustaining economic growth is well known. Banking and insurance service sector has major share in the service market. The significance of bank marketing in Indian banking system is undeniable. Bank marketing is not just advertising and promotion campaign, but a managerial process by which services are matched with markets.

The term insurance marketing refers to the marketing of insurance services with the motto of customer orientation and profit generation. Insurance plays a vital role in the economic development of our nation. It act as a mobiliser of savings, financial intermediary, promoter of investment activities, stabilizer of financial market and as risk managers. India is still an under insured country in the world. It is at the 18th position among the life insurance market and 28th in non-life insurance market in the world. This indicate that there is a huge potential, yet to be explored. This module discuss how marketing relates to banking and insurance and what are the marketing techniques being used by banks and insurance.

Unit 1: Introduction to Service Marketing

Introduction

Today, the service sector contributes more than 50 percent to India's GDP. This is a far cry from the situation a few decades back, when India was basically an agricultural economy. This shift from manufacturing and agriculture to services is being witnessed in countries all over the world. With the increasing prominence of services in the global economy, Services Marketing has become a subject that needs to be studied separately. Marketing services is different from marketing goods because of the unique characteristics of services, namely intangibility, heterogeneity, perishability and inseparability. This unit covers meaning, features, types of service, meaning of service marketing, difference between service marketing and product marketing and importance of service marketing.

Learning out comes

The Learner

- *Identifes and describe the meaning and features of services*
- *Describes the role of service in an economy*
- *Describes and differentiate different types of services*
- *Describes the meaning and significance of service marketing*
- *Differentiates between product marketing and service marketing.*
- *Identifies and Describe the Service marketing mix*
- *Describes consumer behavior in service market*
- *Describes the role of service Marketing in India*

Meaning and features of service

Service denotes the action of doing something for someone or something. It is largely intangible (ie. not material). A product is tangible (ie. material) since you can touch it or own it. A Service tends to be an experience that is consumed at the point where it is purchased and cannot be owned since it quickly perishes.

Definition

The American Marketing association defines services as 'activities, benefits and satisfaction which are offered for sale or are provided in connection with sale of goods.

A service is an intangible product involving a deed performance or an effort that cannot be physically possessed and the dominant component is intangible. Service must satisfy consumers wants and needs and includes rental of goods, alteration and repair of goods owned by customers, personal services etc. Major difference between goods and services are-

Intangibility
Inventory /Perishability
Inseparability
Inconsistency/ Variability

Characteristics of Services

1. Intangibility

They cannot be seen, handled, smelt etc. There is no scope for storage. From the customers point of view, this attribute makes it difficult to evaluate or compare services prior to experiencing the same.

2. Perishability

Unsold service time is "lost" that is it cannot be regained. It is a lost economic opportunity. (For eg. a doctor who is booked for only two hours a day cannot later work those hours-Doctor has lost her economic opportunity.)

Eg: airplane seats (once the plane departs the empty seats cannot be sold)

3. Inventory

Services cannot be stockpiled. Need to avoid excess unsatisfied demand and excess capacity leading to unproductive use of resources.

4. Lack of transportability.

Services tend to be consumed at the point of production (although this does not apply to outsourced business services.)

5 Inconsistency

Each service is unique and can never be exactly repeated in the same form and content at another point of time. The performance of services of the same employee can be different at different points of time. The variation can also result from different expectations of different customers. Service providers can standardize the service offered by increased use of technology or they can device variability as a part of service delivery strategy. Eg. in a gymnasium, some customers may come to reduce weight, some may come to get their body shaped and others may want to add muscles.

6.Inseperability

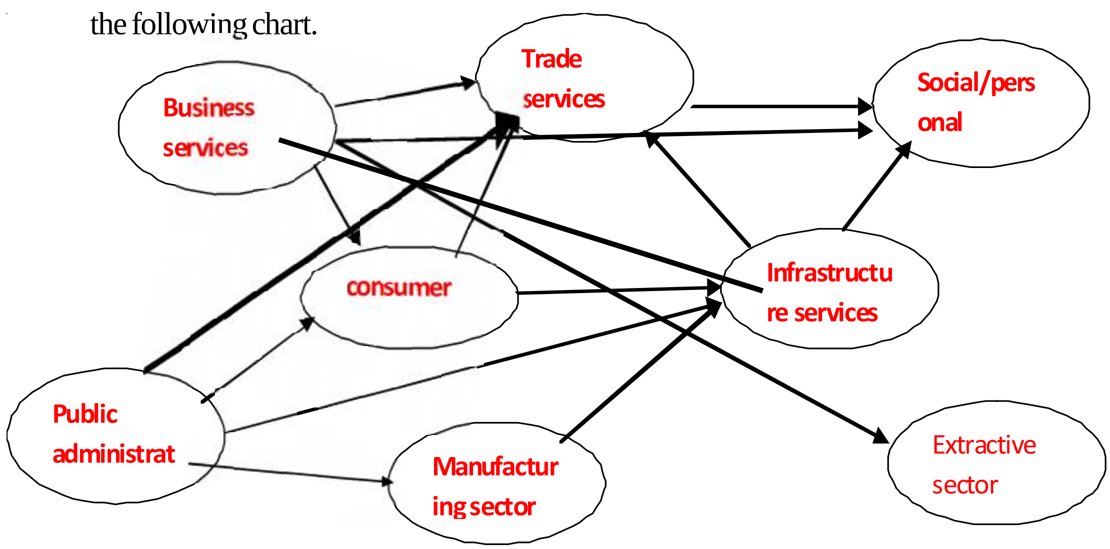
Services delivery requires direct (short) channels of distribution. In some case it is not possible to use intermediaries, e.g. travel agents, ATM etc.

7. Involvement

One of the most important characteristic of service is the participation of the customers in the service delivery process. Service should be produced and consumed simultaneously. This means that consumers must be present in the service process.

Role of services in an economy

Services lie at the very centre of economic activity in any society. Service activities are absolutely necessary for the economy to function and to enhance the quality of life. The role of service sector in shaping the global economy can be presented in the following chart.



The model of economy shows the three principal sectors of economy, extractive, manufacturing and services, which is divided into the following subgroups

Business services-consulting, finance, banking

Trade services-Retailing, maintenance and repair

Infrastructure service-Communications, transportations

Social/personal services-Restaurant, Health care

Public Administration-Education, government

In a complex economy infrastructure services and trade services function as intermediaries between the extractive and manufacturing sectors and the channels of distribution to the final consumer. In an industrialized economy, specialized firms can supply the services for themselves. Thus more often advertising, financing, consulting and other business functions being provided for the manufacturing sector by service firms. Service activities are absolutely necessary for the economy to function and enhance the quality of life. For example, the importance of banking industry to transfer funds and transportation industry to move food to areas that cannot produce them.

Public administration plays a critical role in providing a stable environment for investment and economic growth. The service sector not only facilitates but also makes possible the goods producing activities of the extractive and manufacturing sectors. Services are the crucial force for change towards a global economy

Assessment Activity

Collect data regarding contribution of service sector towards GDP of the following nations

Name of Nation	GDP for 2013-14	GDP for 2014-15
India		
USA		
England		

Types of Services

Sky is the limit for marketing services. Today we market a number of services and this has engineered a sound foundation for the development of innovative marketing strategies. The service generating organization also realize the importance of quality in managing the development process This makes it essential that almost all the service generating organizations make sincere efforts to make the services internationally competitive.

There are a number of services likely to be productive if the policies and strategies are innovated. The main types of services are-

Banking services

Insurance Services

Transportation Services

Tourism Services

Hotel Services

Consultancy Services

Information Technology services

Education services

Personal care services

Hospital services

Electricity Services etc.

Banking Services

Among the Service generating industries banking services occupies a place of outstanding significance, with the increasing level of customer's expectations. It is essential that the public sector commercial banks innovate strategies and promote technology driven, user friendly services to increase the market share to project a positive image. This makes a strong advocacy in favour of bank marketing since its application in a right fashion would answer to a number of unsolved questions. Different types of banking services includes, business loan, checking accounts, savings accounts, debit and credit card, merchant services, credit card processing, reconciliation and reporting cheque collection.

Insurance services

Wherever there is uncertainty there is risk, wherever there is business, there is risk. This risk cannot be averted. We do not have any command on uncertainties since there are a number of uncontrollable factors. Insurance is a cooperative device to accumulate funds to meet uncertain losses. Among the available insurance services are contracts to protect properties such as houses, vehicles reimbursement of health care costs, maturity or death benefit to life insurance policy holders.

Transportation services

Transportation services occupy a place of outstanding significance in national economy. It solves the problem of place difficulty in business, there is a place gap from the place of production to the place of consumption. Goods produced in one part of the country may be required for consumption in other part of the country. Thus transport services are utilized for bridging the place gap. There are several models of transport such as road, rail, water and air.

Tourism services

Tourism sector attributes to the economic growth of India. It provides employment, contributes to GDP and earns valuable foreign exchange

In tourism marketing we are marketing a destination. Once a destination is sold to a customer or a customer group, everyone who is providing some service in relation to tourism gets benefited. The hotels or the carriers or the travel agents, all benefit if tourist traffic is genernated for a destination from domestic or foreign or both sources. A destination may be visited because of its natural landscape, or resources, historical monuments, religious significance, shopping or it may be a man made tourist attraction.

Hotel Services

India is a famous holiday destination in the world and provides ample facilities for launching and boarding. It has state of art hotels to cater to its ever booming travel and tourism industry. Many hotels and resorts have copped up in India over the last few years to cater the accommodation needs of everybody.

Assessment Activity

Collect pictures of the following services mentioned below and make an album

- *Health service*
- *IT service*
- *Insurance service*
- *Banking service*
- *Transportation*
- *Communication*

Meaning and significance of Service Marketing.

Service marketing is marketing based on relationship and value. It may be used to market a service or a product.

Marketing in a service based business is different from marketing a product based business.. Marketing management covers not only the marketing of goods but also the marketing of services. Services are to be marketed in accordance with the interests of buyers. Marketing of services involves the interaction between the provider and the customer.

Service Marketing can be defined as the process of identifying, pricing, promoting and providing the right services in the right time to the customers with a view to satisfy their requirements and the objectives of the service provider.

Significance of service marketing

Proper marketing of services contributes substantially to the process of development. In future, the service sector would operate in a conducive environment offering great potential for growth. If the opportunities are properly utilized by the service sector, it will lead to an all round development of the economy. The significance of service marketing may be discussed under the following headings

1. Generation of employment opportunity
2. Optimum utilization of resourses
3. Capital formation
4. Increased standard of living
5. Use of environment friendly technology

1. **Generation of employment opportunities**: The components of service sector are wide and varied. It includes Banking services, Insurance services, Transportation services etc. The organized and systematic development of the service sector would create enormous employment opportunities. Application of marketing principles in the service sector is instrumental to the development of the economy.

2. **Optimum utilization of resources**: The labour content of most manufacturing activities is dropping steadily with the use of technology, while the labour content in service sector is comparatively high. An important agenda of the world trade organizations is the opening up of marketing for services. Service industries such as tourism services , hotel services, entertainment services etc. contribute to the growth of economy by consuming various natural resources. Thus services marketing helps to conserve the valuable resources for future generations .

3. **Capital formation**: Investment encourages capital formation. If investment is made in service sector, it will contribute to the nation building process. Performance of profitable services can absorb higher investments there by accelerating the rate of capital formation .

4. **Increasing the standard of living.** The standard of living of the people in any country would be decided on the basis of quality and standard of products or services availed. The standard of living cannot be improved by offering more opportunities for earnings. On the other hand, the standard of living is determined by the availability of goods and services and a wise spending on them.

5. **Use of environment friendly technology**: Developed countries are making full use of latest technology while rendering services. Technologies used by service organization such as banks, insurance companies, tourism, communication services, etc: are not detrimental in any way to the environment .

Assessment Activity

Make a study about the percentage increase in employment opportunities provided by the following sectors

Tourism	Communication	Insurance

Difference between product marketing and Service Marketing.

1. In product marketing, the marketer markets a tangible product. But in service marketing an intangible product is marketed.
2. In product marketing, the customer evaluates the product before it is purchased. But in service marketing it is difficult to evaluate it before buying.
3. The price of product is determined on the basis of its cost of production. The pricing of service is very difficult.
4. Service cannot be pictured in an advertisement or displayed in a store. So it is very difficult to explain a service. There is no such problem in product marketing.
5. The unused product can be stored and sold at some other time, but the unused services cannot be stored for future.
6. Standardization is possible in product marketing, while it is not possible in service marketing.
7. The marketing mix elements of product marketing include only 4 elements (product, price, place and promotion) .While service marketing , apart from these elements , there are 3 more elements namely people, process and physical evidence.

Assessment Activity

Complete the following table

Product marketing	Service marketing
• It market tangible product	•
•	• Difficult to explain the product
•	•

P's of Service Marketing Mix

The marketing mix is the consideration of element that make up the entire market process. The strategies for the marketing require some modification when approved to services due to the special features of services.

The service marketing mix includes 7 elements namely Product, Price, Place, Promotion, People, Process and Physical evidence.

1. Product (Service Package)

Product is the key element in the marketing mix. It refers to anything that can be offered to a market to satisfy a want or need. Even though intangible, they are things. A product decision is concerned with what service will be provided, when they will be produced, how they will be provided and who will provided them.

2. Price

Pricing refers to the process of setting price for the product. Pricing strategy includes the price charged and terms associated with the sale, such as list price, discounts, allowances, credit terms, payment period, coupons etc. Price is directly associated with sales and revenue. The main considerations in pricing strategy are competition, sensitivity of the customers, etc.

3. Promotion

Promotion includes communicating with key markets and facilitating the exchange process. It is a vital element in the service marketing mix as it forms a bridge between the seller and customer. Various elements on promotion mix are advertising, personal selling, public relation, sales promotion, telemarketing, word of mouth etc.

4. Place

Place element of the marketing mix refers to different channels of distribution and effective management of these channels. It includes physical location, distribution points and management of an array of process needed to provide products or services to customers. So place covers two items namely geographical coverage (location) and how it will be distributed (channels). Service marketer just like the product marketers are bound to face distribution and channel problems.

5. People

People here symbolize and refer to the employees, customers and stakeholders who take part in the service delivery. People play an important role in the service marketing mix. It is only the skills of the people that can alter the behaviour and perception of potential customers.

People mix in an organization constitute all the human actors who are concerned with the process such as employees serving the organization, customers/users who are directly concerned with the services of organization and other customers in the service environment, who sooner or later may affect the process.

6. Process

The Process refers to the actual procedures, mechanism and flow of activities by which the service is delivered; the service delivery and operating systems. The process elements of marketing mix involves developing objectives and policies for the processes, procedures, mechanisms and routines used to create and deliver services. It also involves the behavior of people providing the services and how customers are experiencing the service offer as each stage of service marketing gives some value to customers.

The effectiveness of the process is determined by whether the marketing objectives are met or not. Banks have altered the process of banking by introducing ATMs and now experiencing efficiency in operation.

7. Physical evidence.

Services are the act, performances and efforts of service providers.

There is absence of physical attribute in the service performance. Customers seek some physical element in the services so as to evaluate it against the quality and satisfaction. For this they analyze the physical surroundings of the services like building, stationary, furnishing, brochures etc.

Assessment Activity

List out the P's of product and service marketing

Product marketing	Service marketing

Consumer behaviour in Service market

All marketing activities are directed towards the consumers, as they initiate services. The ultimate success of all economic activities depends on producing what the buyer considers suitable. The buyers purchase services based on their mental and economic forces.

There are many factors that influence consumer behavior..The service sector must understand how the consumer would respond to different services, features, prices, appeals ,etc. along with the major forces on the marketing environment ie. economic, social, and cultural factors.

Human behavior has 2 components

1. Buyer's characteristics and
2. Buyer's decision making process

1. Buyers characteristics

The consumer's purchases are strongly influenced by cultural, social, personal and psychological determinants. Marketers must understand the complex buyer behavior, to activate the purchase decision.

a) **Cultural factors**: Cultural factors include culture, sub -culture and the social class. The marketing firms should consider the cultural force which are dominant in the marketing environment for making decision relating to the banking product, its promotion and its distribution.

b) **Social Factor**

The consumer behavior is also influenced by social factors such as consumer reference groups, family etc, Family is an influencing component in the decision making of the customer. Research shows that husbands dominate in decision regarding financial investment where as wives dominate in decision regarding packaged holidays.

c) **Personal factors**

Personal characteristics like buyer's age,life cycle,occupation, economic circumstances, life style, etc. influence the buyer's decision.

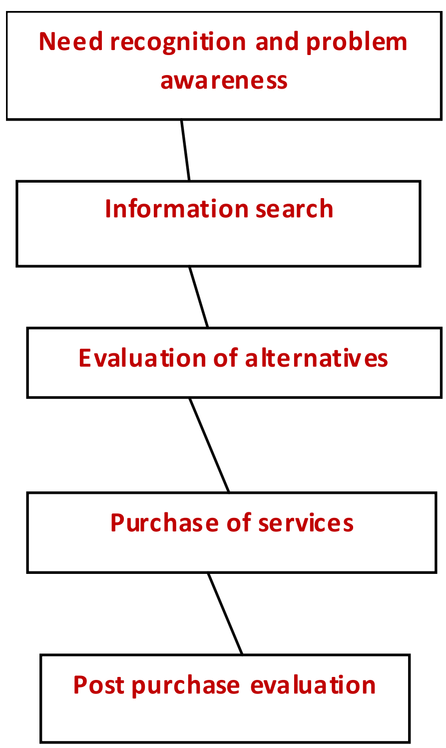
d) **Psychological factors**

The psychological determinants-motivation, perception, learning, beliefs and attitude have significant influence in understanding consumers buying behavior.

2. Buyer's decision making process

The buyer behavior is a process involving a series of related and sequential stages or activities. The intangible nature of service and the general inability of the consumer to check the quality of the service until it is used/consumed, adds to the importance of understanding the decision and evaluation process.

Chart showing Buyer decision making process



A. Need Recognition and problem awareness

The intensity of consumer need will indicate the speed with which the buyer will try to fulfill the want. The marketer must identify the stimuli, which induces interest in the service and develop marketing programmes based on the stimuli.

B. Information search

Aroused need can be satisfied promptly only when the desired service is not only known but also easily available. When the consumers are not aware of the types of service that can best satisfy the need, how and where it can be secured, they will have to search for the relevant information. They may obtain the information from the sources likes' family, friends, reference groups and also from marketers through advertising, sales promotion, etc in order to provide guidance to the consumer.

E. Evaluation of Alternatives

With the available information, the consumer evaluates the alternative services that satisfy his needs. In case of services , the alternatives available are relatively smaller than the goods because brand choice in service is limited and the quality of services can only be experienced and is difficult to compare with the other business firms.

The major challenge for the service providers is to research customer expectation and demands and offer more personalized service to the customers in order to encourage to choose the service provider.

D. Purchase of service

After evaluating the alternatives, the customer chooses that service provider who will be able to satisfy his needs. The purchase of service leads to the satisfaction of customer needs. The success of service delivery depends upon the service encounter; attempts should be made to influence the moods and emotions of the customers in a positive way. Service delivery, limited waiting time in lines, training and motivation of staff etc. can be used to influence the moods of customers

E .Post purchase evaluation

Although service is progressively evaluated, a greater portion of the evaluation of service succeeds purchase and consumption than in case of goods only after experiencing the service, the customer will be able to judge the service quality in relation to his expectation and the actual service received. It is right to mention that customer expectation embrace several elements such as desired level, adequate service, predicted service and zone of tolerance that falls between the desired and adequate service level.

Assessment Activity

Prepare a chart showing buyer decision making process

Role of Service marketing in India

The service sector plays an important role in Indian economy. It contributes to GDP, provides employment, generates foreign exchange by exports etc.

1. **Contribution to GDP-** The service sector contributes significantly to the GDP of India. In 2013-14, contribution of the service sector to Indias' GDP was 60%. The increase in the share of GDP of service due to the following reasons.
   a. Professionalism in the service sector
   b. Increase in urbanization, which gives boost to services
   c. Liberalization of the service sector since 1991
2. **Employment** - The service sector provides employment to large segment of the upcoming youth. The over all employment in the service sector is about 30% of the total work force in India in 2013-14.
3. **Contribution to export-** India ranks among the top service exporting nations. Currently India is the sixth largest exporter of services in the world. The service sector has contributed significantly to the foreign exchange earnings in India. The top service export item is software services, which accounts for about 46% of the total service export of India.
4. **Capital formation-** Service sector contributes towards capital formation in the country. This is because, the service sector facilitate savings on the part of employees and service providers. The savings facilitate investment.
5. **Support the primary and secondary sector-** The proper functioning of the economy depends upon to a good extent on the service sector. Without the support of the service sector, the primary and secondary sector would find it very difficult to function
6. **Revenue to government-** The service sector provides revenue to the government by way of service tax. In 2013-14 the service tax revenue of central government exceeds Rs. 1.5 lakhs crore, ie, 13.6% of total gross tax revenue.

7. **Improve efficiency**- The service sector facilitate improvement in efficiency of the organization. Efficiency is the ratio of return to cost. The following are the service sub sectors that help to improve efficiency
   - Research and development
   - Education
   - Training and development
   - Consultancy services
8. **Improves standard of living-** The service sector helps to improve standard of living of the people due to the availability of various types of services such as education, health, recreation and entertainment and so on.

Practical

Exploring the internet, collect data of market share of the following sectors and prepare a Bar diagram (using spread sheet)

1. Insurance Sector
2. Banking Sector
3. Hospitality
4. Information technology
5. Health service

Assessment Activity

Make a study on the role of Service Sector in the following Area

Revenue to government	Employment

TE Questions

1. Define services and state few service sectors.
2. Product, place are the first 2 P's of service marketing.State and explain the other P's of service marketing
3. " Product marketing is easier than service marketing" State your opinion.
4. Briefly explain the impact of service marketing in the development of an economy.
5. "Services lie the very centre of economic activity in any society" Explain its role in economy.

UNIT 2

Marketing of Banking Products

Introduction

Marketing is emerging as an important element in banks activities. Indian banking sector historically passed through five stages-pre independence, post independence, pre nationalization, nationalization, and post liberalization stages. Today marketing is considered to be an integral management function in the banking sector. This unit discusses how marketing techniques are being used by Indian banks. This unit covers the concept of bank product marketing, selling strategies of banking products and marketing of important banking products.

Learning out comes

The Learner:

- *Describes the concept of marketing of banking products*
- *Describes and categorize different users of banking products*
- *Describes the different selling strategies of banking products.*
- *Describes the strategies required for marketing various banking products*

Concept of marketing of banking products

Bank marketing deals with providing services to satisfy customer's financial needs and wants. Banks have to find out the financial needs of the customers and offer the services that can satisfy the needs of the customers.

Marketing helps in achieving the organizational objectives of the banks. This means that marketing is equally applicable to achieve commercial and social objectives of the banks. Indian banks have dual organizational objectives, commercial objectives to make profit and social objective of developing banking services.

Bank marketing is " the aggregate of functions, directed at providing services to satisfy customer's financial needs and wants, more effectively and efficiently than the competitors, keeping in view the organizational objectives of the banks." From this definition, we can see that bank marketing provides services:

aimed to satisfy customer needs and wants

needs and wants may be non-financial in nature

competitive element, efficiency and effectiveness organizational objectives are still the driving force

commercial objective to make profit

social objectives.

Thus, the marketing concepts that contribute towards bank's success are-:

a. The bank cannot exist without the customers.

b . The purpose of the bank is to create, win and keep a customer

c. The bank should ensure services performed and delivered to the customers in the most effective way.

d. Ultimate aim of a bank is to deliver total satisfaction to the customer.

e. Customer satisfaction is affected by the performance of all the personnel of the bank.

The growth of branches and credit disbursement on the one hand and some loss-making branches, lack of transportation and communication network as well as rising dissatisfaction of customers with the banking service on the other hand caused the banks to be aware of the marketing concept. The significance of bank marketing in Indian banking system is undeniable if they have to service in the competitive environment.

Bank marketing states that the banks should:

a. identify the most profitable market now and in future

b. assess the present and future needs of the customers .

c. set business development goals and making plans to meet them .

d. manage the various services and promoting them to achieve the goals.

e. adapt to the changing environment in the market place.

Each individual working in the bank is a marketing person who contributes to the total customer satisfaction. The marketing person exercises tact, skill and knowledge to influence the buyer of the services. The process of personnel communication is effective as immediate feedback is possible. For example, a customer seeking a housing loan does not just require finance. He also needs ancillary services like loan counseling or legal advice to ensure the title of the property is clear. He also needs technical advice to ensure that the structural aspects of the property are in order.

Users of banking products

The users/customers constitute a place of outstanding significance. The line of services, the planning and development of services, the offering of services, the pricing strategies or the interest charged for the service made available and the promotional strategies depends substantially upon the nature and type of users utilizing the services of an organization. Today, the users of banking services expect fast and efficient services.The types of customers using the services of banks are general users and industrial users.

General users

Persons having an account in the bank and using the banking facilities at the terms and conditions fixed by a bank are known as general users of the banking services. Generally they are small sized customers.

Industrial users

The industrialists or entrepreneurs having an account in the bank and using the credit facilities and other services for the establishment and expansion of their business are known as industrial users. Generally they are large-sized customers having huge volume of transanctions.

Marketing strategies for Banking Products

Strategy is a major comprehensive plan of action. In banks, managers need to think creatively and the key to creative thinking lies in strategic planning. Strategic planning is the managerial process of developing and maintaining a viable fit between the organization objectives and resources and its changing market opportunities.While planning strategies the following points are to be considered:-

a. Strength and weaknesses of the organization.

b. Banks with clientele from various segments could think of market penetration by offering the existing range of services to existing customers.

c. Banks which are not facing acute competition could think of market development by offering the existing services to new customers.

d. Design new product range for their customers of various segments .

The evolution of bank marketing in India can be classified in three phases.

A. Traditional external marketing   B. Internal marketing   C. Interactive marketing .

A. Traditional External Marketing

Consists of 4 Ps viz; of Product, Price, Place and Promotion.

a. **Product -** The products offered are the services which includes various types of bank accounts, different types of loans, investment services, credit cards, online banking , mobile banking and many more.

b. **Pricing** - It includes interest, fees or commission charged by the bank and also the interest paid by the bank.Typical for banking sector since RBI regulates the ratesof interests, organizations are supposed to sub-serve weaker sections and the rural regions of the country.

c. **Place** - It refers to the establishment and functioning of a network of branches and other offices through which banking services are delivered. Proximity may play determining role in selecting the bank.With the advent of technology other points of contacts have come up such as- ATM , Telephone banking, Online banking, Mobile banking, Video banking , etc.

d. **Promotion** - Bank professional blend different components of promotions such as - advertising, publicity, sales promotion, word of mouth promotion, personnel selling and telemarketing.

B. Internal Marketing - It includes the People (5th P) of the bank i.e.,the employees.

e. Employees should also be treated as internal customers and sort of marketing mix should be followed. Quality Human Resource can be a point of differentiation.

C Interactive Marketing - It involves Process (6th P) and Physical evidence (7th P).

f. **Process** - It refers to the systems need to assist the organization in delivering service. It aids to the promotion of customer satisfaction. It involves speedy delivery of services, reducing the paper work , standardization of procedures,customization as per individual demand , etc.

g **Physical Evidence** - It includes the signature, reports, employees dress code, other tangibles, attractive brand names, logos, symbols, etc. These evidences add to the customers perception of service quality.

Selling Strategies for Banking Products

Strategy is a major comprehensive plan of action. In banks, managers need to think creatively and the key to creative thinking lies in strategic planning. Strategic planning is the managerial process of developing and maintaining a viable fit between the organization objectives and resources and its changing market opportunities. Before exploring selling strategies, it is worthwhile reviewing the common attributes shared by all services such as –

1. Intangibility – Services are usually processes not physical things.

2. Heterogeneity – Service quality varies from provider to provider over time.
3. Simultaneity – Services are produced and consumed simultaneously, they cannot be held in stock.

   These attributes require a bank to develop a sale strategy that is unique to the banking products. The following strategies are worth noting.

   1. The offering – The service must meet the need of target customers.
   2. The funding mechanism – The bank must identify how the cost of delivering an excellent service must be covered.
   3. The employee management system –High quality service require a high quality work force for their delivery. Effective management of employee motivation is required.
   4 The customer management system – The customer is the part of the value creation process in service engagements.

Extended Activity

Prepare 25 questions each from marketing of banking products and marketing of insurance products and conduct a quiz competition in the class.

Sample Questions:

a. In India bank deposits are insured up to a certain extent, which provides pro tection in case of failure of banks.-True/False.

b. A cheque issued remain valid for ever - True/False.

c. 14 Major banks nationalised in the year 1972- True/False

d. Banking Regulation Act passed in the year 1939 - True/ False

Marketing of Various Banking Products

Deposits:

Loans and Advances

Other Services

Housing Loan

- You can avail a loan for constructing a house or buying ready house or a flat
- Legal clearance of the documents of the properties
- Necessary approval of the local authority

- Disbursement of loan in stages, if construction is in stages
- Fixed interest rate or floating interest rate
- Spouse's salary can be reckoned to arrive at the amount of eligible loan
- Tax relief on instalments as well as interest on housing loan

Vehicle Loan

- You can get a bank loan for purchase of a new vehicle
- Security being hypothecation of the vehicle
- Loan up to 80% of the road price of the vehicle
- Term up to 5 years
- Interest is generally low
- Hypothecation charges to be noted in the RC book
- Cancellation Hypothecation charge entered in the RC book, once the loan is closed

Gold loan

- Security being pledge of gold/gold ornaments
- Interest rate is generally low
- Loan eligibility up to certain percentage of the market value of the gold ornaments
- Duration of the loan generally, one year.
- Failure to repay the loan and interest would result in auctioning the gold ornaments by the bank/ Financial institution

Education Loan

- To meet education expenses
- Up to Rs 7 lacks, no collateral security(amount varies from banks to bank)
- Necessary proof of securing education at specified educational institution to be provided
- Loan disbursement against reimbursement of fees remitted, other expenses incurred etc
- Guardian to join as co-obliging
- Repayment to start after six months of getting the job or within such period as specified in the loan sanction note.

Consumer Loan

- If you want a loan for buying consumer durables, such as refrigerator, television, washing machine, etc. the loan is called consumer loan.
- The maximum repayment period is usually three to five years.
- The margin requirement is around 10 to 25 percent of the article purchased.

Personal Loan

- Based solely on the credit rating and ability to repay the loan
- Loan for short duration
- Interest rate is generally high
- Repayment through EMI
- Post dated cheques (PDCs) to be remitted

Credit card

- Free use of credit for a specific period
- Credit limit
- Monthly bill is to be settled before the due date
- Minimum balance to be remitted, the balance can be carried forward.
- Interest rate is generally high.

Overdraft against House property

- The OD limit up to 50% of the market value of the property
- Security being mortgage of the HP
- Interest on loan amount to be remitted then and there
- Client can operate the loan account like a current account, withdrawals subject to the maximum OD limit
- Loan documents to be signed by the party.

Practical

Divide the students into groups and assign the targets of deposit mobilsation from the following categories of society.

Group I-Visit a few agriculturists

Group II-Visit NRI 's

Group III Visit businessmen

Group IV Visit a few housewives

Group V-Visit government employees.

Conduct a role play showing the strategies adopted for deposit canvassing from the above categories.

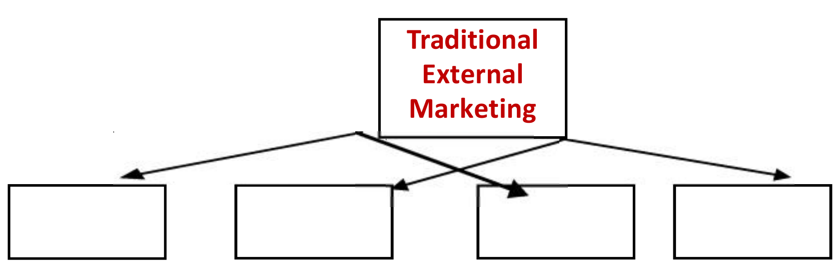
Assessment Activity

1. Prepare a notice for marketing an agricultural loan of ABC Bank Ltd.
2. Categorise the major banking products in the following heads
3 Prepare a questionnaire for collecting information regarding financial needs of the following class of people
    - Agriculturist
    - Businessman
    - House wife
    - Guardian of a student
    - Unemployed youth

Deposits	Loans and Advances

TE Questions

1. State the meaning of bank marketing concept.
2. Explain the role of marketing in banking products.
3. Prepare a brochure to canvass vehicle loan as a part of 'Loan Mela"
4. Briefly explain the strategies used for selling banking products.
5. Explain the three phases of bank marketing.
6. Explain the bank marketing mix of 'Place' .
7. Complete the flow chart



Unit 3
MARKETING OF INSURANCE PRODUCTS

Introduction

India has about three hundred million people who can afford to buy life, health and pension plan products. Out of this only 20% have insurance and that too covers only 25% of their needs and financial security. The remaining 80% have no insurance cover. The life and non-life insurance market of India, therefore, has tremendous growth potential. The IRDA bill cleared the way for private entry into insurance as government is keen to invite private sector participation into insurance. This unit covers the concept of insurance marketing, segments of insurance market, strategies for insurance marketing and marketing of various life and non-life insurance products.

Learning out comes

The Learner:

- *Describes the meaning of marketing of Insurance products*
- *Explains various segments of insurance market*
- *Identifies and Describe strategies for Insurance Marketing.*
- *Recognizes the qualities of an Insurance Salesman*
- *Explain the marketing process of various Life insurance products*
- *Describes the marketing of Major non-life products.*

Insurance marketing concept

The term insurance marketing refers to the marketing of insurance services with the aim of enhanced customer orientation and profit generation. Insurance marketing focuses on the formulation of an ideal mix for insurance business. The marketing concept enables the insurance business to expand business in the best interest of society as well as the insurance organization. The conceptualization of marketing in insurance business is for the following benefits :

1. Identify the most profitable market now and in future.
2. Assessing the present and future needs of the users.
3. Setting business development goals.
4. Formulating time honoured plans and manage various customer services.
5. It is a social process that paves avenues for social transformation.

Market Segment in the Insurance Organizations.

Insurance markets are segmented into different customer groups. Each product or service is tailored to match the needs of the customer group. The segmentation helps the insurance organization in dividing the market in to small segments, where the customer needs are more or less identical. The following are the major segments:-

1. Household sector
2. Industrial sector
3. Trade sector
4. Institutional sector
5. Region-wise sector
6. Rural sector

The household sector is again subdivided into -

a. Salaried class

b. Self employed

c. Retired employees.

Significance of segmentation to the insurance Business

1. Market segmentation enables the insurance marketer to identify the level of expectation of policy holders.
2. Market segmentation makes it possible to spread the insurance business even to the agricultural sector of the economy, which is predominantly rural based.
3. The pricing design can also be rationalized and the weaker sections of the society would get substantial benefit.

Strategies for Insurance marketing

The selling of an insurance product is a complex process, which is based on the skill and excellence of an individual. The agents and rural career agents play very important role in promoting insurance business. Selling strategy consists of the following steps-

1. **Pre-sale preparation**

   The sales persons must be properly selected, trained and motivated for the job. They must be well acquainted with the product, the market and the technique of selling.

2. **Locating the potential buyers**

   Sales persons must locate the potential buyers and collect information regarding their character, health, income, need and approachability. The sales persons should have the knowledge about the behavior of the people to whom they are going to sell their products. Sales person can examine the records of the past and the present customers to determine the characteristics of prospective buyers. He must make a need analysis whenever it is possible from the prospects.

3. **Approaching stage**

   Before approaching the prospective buyer, the sales person should prepare a powerful script which consists of open ended questions. He should be very polite while approaching the prospects and approach the customer properly to gain his attention. He should ensure the customer that he will get undivided attention from the sales person.

4. **Presentation**

   The presentation should be such that the prospect takes continuous interest in the product during presentation. The sales person should describe the features and price of the product briefly and also suggest the producer's benefits and need of customer which will be fulfilled by the particular product. The success of a sales person will depend upon the degree to which he is able to match his approach with the attitude of the customer.

5. **Handling objections**

   After explaining the product, the salesmen should entertain objections from the prospect. A good salesmen should realize that it is a golden opportunity to convince and persuade the prospect and to give additional information about the product over the competitive products in the market.

6. **Closing stage**

   A salesman has to act with patience and intelligence to close the sales. He may periodically venture a trial close in order to sense the prospect's willingness to buy. He may ask some 'either-or' questions from the prospect. The trial closes at various stages of the presentations will give the salesman an indication of how near the prospect is to a decision. After he is convinced that the customer has made up his mind to buy the product, he should close the sale in a cordial manner and the customer should be made to feel that he has made the right choice.

7. After sales service

After sales service is an important component in insurance indudstry. The marketing personnel should keep in touch with the policy holder, inspire the policy holder to pay the premium regularly, render assistance to the policy holder in securing the loan against policies, revival of the policies at default if any and also in claim settlement.

Qualities of a good Insurance salesman

Insurance is a profession of servicing. Insurance salesman is the connecting link of the seller and the prospective buyers of insurance market. The insurance agent (salesman) bring the seller(insurer) and the buyer(insured) together.

The intermediaries are the full time and part -time agents duly licensed by IRDA. Their function is to solicit, procure and service the insurance business. These intermediaries search out the prospective people to be insured and sell them insurance policies.

The services performed by the insurance agents are -

Selling the right type of policies for the right amount, suitable to the needs of the buyer.

Proper completion of all requirements at the underwriting stage.

Keeping in touch with the policy holder

Rendering assistance to the policy holder in securing policy loan , revival of default policy and in claim settlement.

Qualifications of the Insurance salesman

- Should attain the age of majority (18years).
- Have passed at least the 12th standard or equivalent examination, in urban area and 10th standard examination in rural area.
- Have undergone practical training for at least 50 hours in life or general insurance business, as the case may be , from an institution, approved and notified by the IRDA. In the case of a person wanting to become a composite insurance agent, the applicant should have completed at least 75 hours practical training in life and general insurance business.
- Have passed the pre-recruitment examination conducted by the Insurance Institute of India or an other examination body authorized by IRDA.

The fee for a license is Rs250 for individual as well as corporate agents. A license is granted for 3 years. It may be renewed after 3 years..

Qualities of a Good salesman

Basically a good salesman is one who likes to sell. He makes sales, brings in business, and builds satisfied customers. He is an ambassador of goodwill for the insurance company. Some of the common qualities which are often found among the effective salesmen are described below.

1. **Charming personality**: A good appearance is an asset for a salesman as it creates good impression on the customers. It also gives self-confidence to the salesman. Besides physical appearance, other physical attributes which matter a lot are: voice, way of speaking, posture health, habits, etc.
2. **Cheerfulness**: A cheerful salesman will win more customers.
3. **Enthusiasm**: Enthusiasm is a combination of interest and belief, of energy and activity. He should have enthusiasm. Otherwise, he will not be able to do his duties efficiently.
4. **Initiative**: He should have posses the quality of taking initiative. Then only he will be able to think and act for himself and will be busy in his work.
5. **Good memory**: He should be able to remember faces and facts. Remembering the likes and dislikes of a customer will aid in better serving the customer.
6. **Communication ability**: communication skill is an asset for the salesman. He should be able to speak freely, clearly and in a well-pitched voice. He must be a person who has a natural ability for conversation.
7. **Patience**: The salesman should not get provoked even under worst circumstances. He should have sufficient patience to listen to customers and clear their doubts.
8. **Self confidence** : He must have abundant self confidene, i.e, his ability to convince the customers and win them over.
9. **Foresightedness** : He should have keen imagination and foresightedness, so that he can develop new methods of approach to the sales problems.
10. **Shrewdness**: He should be able to read the minds of the customers quickly. In otherwords, he should be able to understand their needs, without asking too many questions.

11. **Loyalty**: He must be loyal to his firm. He must not damage the reputation of his firm.

12. **Knowledge about the product** : He should have a thorough knowledge of the products in which he deals.

MARKETING OF VARIOUS LIFE INSURANCE PRODUCTS.

In India the life insurance business was started by private companies in the early 19th century and the government took many steps to regulate the business of life insurance. In 1956, the life insurance business was nationalized and the LIC of India was formed on 1st September, 1956. The IRDA Act was passed in 1999 , to ensure proper regulation and administration of insurance affairs in the country. By the Act, foreign companies were also allowed to enter the Indian Insurance Business and now many multinational companies have insurance business in India. The following are some of the prominent companies presently doing life insurance business, other than LIC of India .

a. SBI Life

b. ING Vysya c. Bajaj Alliance d. Met Life e. Birla Sun Life

f. Reliance Life, etc.

The following are the important insurance products in the life insurance sector :

1. **Whole Life and Endowment policy :** Under Whole life policy, the insured is required to pay premium up to death and claim will be paid on the death of the insured. In the case of Endowment policies, the claim will be payable at the time of death or maturity whichever is earlier.

The whole life policy is suitable for a class of persons who think about the financial security of the family after his death. The specialty of the policy is -

- Protection of the family
- Less premium than other life policies.
- High bonus rate.
- Suitable to both the high and lower income groups.

The features of Endowment policy -

- Financial protection and investment.
- Maturity benefit along with risk cover.
- Loan facility.

- Surrender can be possible.

2. **Money-back policy :** This is a popular type of policy. Under this type of policy, after the payment of a specified number of installments of premium, 20-40 % of the assured is payable at certain intervals and the balance will be paid at the time of maturity. The features of this policy are -
   - Periodical return.
   - Suitable to business class.
   - No relevance to the return already given, if death occurs before maturity.

3. **Annuity :** Annuity schemes are those wherein policy holders regular contributions over a period of time and accumulate to form a corpus with the insurer. This is used to yield a regular income that is paid to policy holders until death , starting from the desired retirement age.

Feature of this policy are -

- Pension scheme provide old age benefit .
- Preferable to persons who have no other pension benefit.
- Provide pension to surviving spouse subject to conditions.

4. **Children's Plan :** These plans are suitable for passing on a financial asset to a child. Children's plan not only cover the life of the parent, but also ensure that in case of their death, the child gets the sum assured and the insurance company may find future premiums and the child gets the value accumulated at the end of the term. This happens usually when the child needs funds for higher education. As the plan is in the child's life, the premium is very low. In this case, wealth is created in the name of child.

5. **ULIPs - Unit Linked Insurance Plans :** ULIPS are suited to people prepared to undertake some investment risk to obtain the benefits of flexibility. Market linked plan or ULIP is a financial product that offers one life insurance cover as well as investment in the financial market.

   The major advantage of ULIP is that, they leave the asset allocation decision in the hands of investors themselves. There are charges like premium allocation charges, fund management charges, policy administration charges, marketing charges, etc.

Extended Activity

Motor vehicle owners took term insurance for their vehicles. If there is no claim, the remitted premium will be lost and if claim arises, compensation will be paid. (Generally people refuse to take a term assurance to cover his own life, though his life is more valuable than a motor vehicle. Interact about this case with experts and various groups of the community, and make a conclusion to overcome this negative attitude of people towards their own life.)

Marketing of major non - life insurance product

All types of insurances other than life insurance come under the category of general/ non-life insurance. The General Insurance Corporation of India was formed with effect from 1st January 1973 under the GIC of India Act, 1972 and all the general insurance companies were amalgamated and grouped into 4 companies under GIC ie.

1. The National Insurance Company Ltd.
2. The New India Assurance Company Ltd.
3. The Oriental Insurance Company Ltd.
4. The United India Insurance Company Ltd.

As in the case of life insurance private companies are now permitted to do general insurance business. Some of such companies are :-

1. Reliance General Insurance Company Ltd.
2. IFFCO Tokyo General Insurance Company Ltd.
3. Bajaj Allianz
4. ICICI Lombard
5. Royal Sundaram Allianz Insurance Co. Ltd.

Motor Insurance

In India MVA1939 was enacted with the objective of safeguarding the financial interest of the persons who were injured or suffered damage due to the negligence of the motorists and such other risks associated with the use of motor vehicles. The Act was amended in 1988, making it mandatory for the motorist to insure against the risk of liability to third parties. It must clearly be understood that it is the insurance of third party liability arising out of the use of

motor vehicles in public places, which is compulsory and not the insurance of motor vehicles against risk.

The Motor Vehicles Act contain the following provisions in this connection

1. Mandatory Insurance against third party risk

   Sec. 146 provides that no person shall use a motor vehicle in a public place unless effecting a third party policy .

2. Consequences of driving uninsured vehicle

   Any person, who drives a motor vehicle or causes or allows a motor vehicle to be driven in violation of the provisions, shall be punishable with imprisonment or with fine or with both.

3. Provisions for vehicles carrying hazardous goods.

A motor vehicle carrying dangerous or hazardous goods shall have adequate and appropriate insurance cover as per the provision of public liability Act, 1991.

Kinds of motor policies

Act only (Third party policy) (Form A)

The motor vehicles Act provides for compulsory insurance of motor vehicles in relation to liabilities arising out of the use of motor vehicles in a public place. No vehicle can be used without the minimum insurance cover which provides insurance against the liabilities towards third parties. Insurance of motor vehicle for third party liability is made compulsory, to cover the liabilities for-

a. Bodily injury or death of any person and of any passenger of a public service vehicle (without limit).

b. Damage to property of third party (Rs.6,000).

c. Liabilities under Workmens' Compensation Act to cover paid drivers/conductors/ticket checkers(public service vehicles) and workers carried in a goods vehicle.

Package/Comprehensive policy (Form B)

Package policies are comprehensive, optional and provide insurance protection against own damages losses and also against Act liabilities. It covers almost all the risks in connection with the vehicles.

A comprehensive policy contains the following important sections.

1. Unlimited liability towards bodily injury of passengers of the vehicle

    a) Covers damage to the vehicles against the risk like fire, explosion, self ignition, burglary, theft, etc.

    b) Liability to third parties

Thus the policy covers all the risks of the Act liability as well as the loss or damage to the insured vehicle.

Features

1. Third party insurance is mandatory to the provisions of Motor Vehicles Act.
2. Comprehensive policy protects the change of the vehicle along with third party cover.
3. No claim Bonus (NCB) is an inspiration for safe driving.

Additional Information

For the purpose of insurance motor vehicles can be classified into three as- private cars, motor cycles and scooters and commercial vehicles.

1 Private cars are the vehicles used for own pleasure purposes and not for public use.

2 Motor cycles/scooters are the vehicles of two wheelers with or without side cars.

3 Commercial vehicles can further be classified into three

1. Goods carrying vehicles.
2. Passengers carrying vehicles.
3. Miscellaneous vehicles. Example ambulance, filim record ing and publicity van, tractor, road roller etc.

"Hit and Run" Accident

Section 161 defines "hit and run motor accident" as accident arising out of the use of a motor vehicle or motor vehicles the identity where of cannot be ascertained in spite of reasonable efforts for the purpose.

This Section provides for payment of compensation (solatium) as follows:

a. In respect of the death of any person resulting from a hit and run motor accident, a fixed sum of Rs.25,000/-

b. In respect of grievous hurt to any person resulting from a hit and run motor accident, a fixed sum of Rs.12,500/-

Compensation known as Solatium is payable out of a "Solatium Fund" established by the Central Government.

No Claim Bonus

With a view to encourage safe driving and improve claims experience, it is the universal practice to grant 'No claim Bonus' at the time of renewal of the policy. A discount in 'Own Damage Premium' is granted which may range from 20% after one year of claim free insurance to 50% after five years of claim free insurance .

The entitlement of NCB shall follow the fortune of the original insured and not the vehicle under the policy.

Health Insurance

The term 'Health Insurance is commonly used to describe an insurance that pays for medical expenses. A health insurance policy is a contract between an insurer and an individual or a group, in which the insurer undertakes to provide specified health insurance benefit to the insured in consideration of a fixed price called premium.

Proposal form is the basis of the contract

- Proposal forms are duly filled and signed by the proposer
- Correct postal address and contract number of the proposer.
- Individual photograph of each person to be obtained.
- Collection of age proof documents wherever necessary(new applicants after a specified age)
- Sign/symbols like -, " / should not be entertained.
- Answer should be clear "Yes" or "No" inform.
- Proper assessment of PED risk (Pre existing disease)
- All PED mentioned in the proposal form to be referred to the concerned medical officer.
- Obtain a self declaration letter/medical report.

- Premium is the consideration paid
- Under no circumstances, cover can be granted without the receipt of full premium.
- Declined risks

  Renal (Kidney disease)

  Cancer

  Stroke

  Alzheimer's and Parkinson's etc.
- Medical check-up will be required for persons above a stipulated age
- The medical report is viewed by the medical officer's for acceptance/rejection or inclusion of PEDs
- Policy is accepted with or without exclusion
- When the proposal is accepted, it means underwrite the risk
- Policy is generated and document along with a photo copy of the proposal form is sent to the customer.
- Individual ID card is issued to the policy holders

Classes of Risk

- Preferred
- Standard
- Rated (loaded/excluded)
- Postponed (for additional information)
- Declined

Key Underwriting factors

- Age
- Gender
- Health and Health history
- Occupation and occupational history
- Financial conditions
- Personal habits (smoking/drinking/adventure sports)

- Size of the policy
- Current insurance in force.

Important health insurance plans -

a. Individual health plan

- Reimburses the actual expenses incurred up to the amount of cover.
- Cover expenses, if he is hospitalized for at least 24 Hrs
- Medicine expenses for pre hospitalization period of 30 days and post hospitalization period of 60 days.

b. Family floater Plan

- The sum insured can be availed by one or all members of a family.
- Enjoys all the benefits of an individual plan

c. Senior Citizen's Plan

- Enables senior citizens to pay for health checkups, emergency medical costs and long term treatment.

d. Critical illness plan

- Insure against the risk of serious illness.
- The guaranteed sum will be paid if the unexpected happen

e. Daily hospital cash

- Expense/ benefit is paid on per day basis after hospitalization
- Pre decided daily benefit is paid in full irrespective of the actual expenses.

F. Unit linked health plan

- Long term health insurance plan for entire family.
- Investment in the form of units

g. Medi claim policy

- Reimburses the hospitalization expenses owing to illness or injury

h. Universal health Insurance Scheme.

- Government run scheme
- Financial risk protection to below poverty line families.
- Sum insured Rs 30,000/-

Personal Accident Insurance

Personal Accident policy provides for specific benefits to the insured for loss caused by accidents

- Capital sum insured is given on death, loss of two limbs, loss of sight of both eyes, loss of one limb and loss of sight in one eye.
- 50% of sum insured is given on loss of one limb or one eye
- 1% of capital sum insured subject to conditions for temperary total disablement

Practical

1. Conduct a tele-calling show between a prospective customer and an insurance salesman.

   Step 1:Select 2 students to conduct the show.

   Step 2: Give them roles and ideas on the discussion between the two.

   Step 3: The players enact their assigned role.

   Step 4: Students record the activities in activity log.

Assessment Activity

1. List the important segments in insurance market.
2. "The selling of an insurance product is a complex process." Suggest a suitable selling strategy to make easy.
3. Enlist the services provided by an insurance salesman after selling an insurance product.
2. Mr. Syam, 38 years, his wife Sreeja,34 years ,elder son Sourav, 10years , daughter Sarayu,3 years. Suggest suitable insurance policies for each one.
3. Complete the following table.

Money Back policy	Endowment Policy
No loan Facility	♦
♦	♦
♦	♦

1. Collect and record the NCB rates on private car for the different claim free years.
2. Complete the following benefit chart of personal accident policy.

Contingencies	% of benefits
On death	100 % of CSI.
Loss of two limbs	•
•	•
•	•

TE Questions

1. Give proper awareness on the qualities of a successful insurance salesman to Mr.Ajay, your friend, who is proposed to join in ABC life as a insurance advisor.
2. Mr.Sunny is working as an accountant in a private firm. He wants to get a regular income after his retirement from service. As an Insurance advisor suggest and explain a suitable plan.
3. State various health insurance plans offered by general insurance company.
4. On 01.04.2013, Tom insured his car for Rs.4,50,000/- and paid 15,000/- as premium. On renewing the policy in 2014, he was asked to pay only Rs10, 000/- as premium. State the reason for decrease in premium.(He has not claimed any amount from the insurer during the last year.)
5. State the selling strategies followed for marketing life insurance products.
6. "Insurance selling is mainly through agents". Explain the qualifications required to become an agent.

Unit 4

An introduction to financial market

Introduction

Both banks and insurance companies balances their risk return equations by making timely investments in capital market. Capital market provides different products which can absorb varying risk appetites of these industries. Surplus funds available from these entities will be parked with various investment alternatives provided by capital market. This help these businesses to generate the required return to service the respective customers/stakeholders of both banking and insurance industries. Hence, one is expected to know in detail about how the capital market is functioning in this country.

The available fund of banking or insurance companies are preferably invested in different securities such as shares, debentures, government securities and bonds. The liquidity of the investments are considered before investment.This unit covers investment opportunities of banking and insurance companies , financial securities, procedure of trading in secondary market and role of SEBI in securities market.

Learning outcomes

The Learner:

- Describes the investment opportunities in financial market.
- Describes and categorise different types of financial securities.
- Describes the securities market and classify them as primary and secondary.
- Describes the requisite for investing in financial securities.
- Describes the trading procedure on secondary market.
- Identifies and describe the security market regulations.

Various Investment opportunities in financial market

Financial market is the market where financial securities are exchanged at efficient market prices. Financial market in India are divided into capital market and money market. Capital market is one which supports long term capital and money market is one which supports short term debt instrument.

Financial investment means those assets and securities dealt in by capital market and money market. Financial securities are financial investments and include investment such as shares, bonds, debentures of companies or body corporates or a governments, mutual fund units, etc. A security defines the right of the investor and obligation of the issuer.

Types of Financial Securities.

A wide variety of securities are available in the securities market. An issuer raises money in two ways :by either borrowing(debt instruments) or by issuing ownership rights. (Equity shares). The important type of financial securities are:

Equity Shares:

Equity shares refer to the ownership interest in a company. Equity shares are also called ordinary shares. Equity share holders have voting rights. Equity shares provide permanent finance as equity capital is not repayable except on winding up of the company. Equity investors obtain returns on their investments in two ways - dividend and capital gains. The shares can be sold for capital gains. Shares which are actively traded on the exchange are liquid investments. Equity shares are regarded as the corner stone of the capital structure of a company.

Preference shares

It is a " hybrid" instrument as it has features of both equity and bonds. Preference shares receive a fixed dividend out of profit of the company. They get preference over the equity share holders in payment of dividend. Preference shares have priority in repayment of capital at the time of winding up of the company.

Bonds

A bond is a loan given by the buyer to the issuer of the instrument , in return for interest. Bonds can be issued by companies, financial institutions or even by the government. The buyer receives interest income from the seller and the par value of the bond is received by the buyer on the maturity date which is specified.

Debentures

Debenture is an instrument under the common seal, evidencing debt. The essence of debenture is admission of indebtedness. It is a debt instrument issued by a company with a promise to pay a fixed percentage of interest and repay the principal on maturity. Debenture holders are creditors of the company.

Mutual Funds

Mutual funds pools money from many investors and invest the money in stocks, bond, short term money market instrument, other securities or assets or some combination of these investments. The combined holdings of the mutual funds are known as its portfolio. Professional management, diversification, economy of scale, liquidity and simplicity are the features of mutual funds.

Government Securities (Gilt-Edged securities) : Securities issued by the central government or state government are referred to as government securities. Government security means a security created and issued by government for the purpose of issuing a public loan or for any other purpose. It can be issued in the form of a promissory note, bearer bond, stock certificate, etc.

Treasury bills : These are securities issued by government with a maturity period of 91 days to 364 days.

Commercial paper: _A short term promise to repay a fixed amount that is placed on the market either directly or through a specified intermediary. It is usually issued by companies with high credit standing in the form of promissory note redeemable at par to the holder on maturity and therefore, does not require any guarantee. Commercial paper is a money market instrument issued normally for a tenure of 90 days.

Call Money: Money which can be called back within a short time period, say one day, is known as call money. The market deals in one day loans (call money) is called call money market. The day to day surplus funds, mostly of banks, are usually traded as call money.

Securities market

Securities market is a market which deals in financial securities. Securities market can be classified into primary market and secondary market

1. **Primary market:** It deals with the new issues that a company offers to public. The issuers in any market are the corporations, governments, banks, financial institutions and mutual fund. Securities issued could be shares, bonds, debentures other debt instruments, units of mutual funds etc. The intermediaries of primary markets are merchant bankers, registrars, bankers, underwriters etc. In the primary market, capital is raised through

a. Public Issue : Under this method, company wishes to raise capital, issues a prospectus. It is an invitation for subscription of its shares or debentures. Through this method , the company reaches out to the public at large. This involves a large number of intermediaries such as brokers, bankers and underwriters.

b. Offer for sale: In this method an intermediary comes into the scene. Here new securities are offered to the investing public, not by companies issuing them but an intermediary. The intermediary at first buys over the entire lot of securities at a fixed price. Then it resells to public at a higher price.

c. Private placement : Private placement of shares implies the sale of an entire issue of securities by a company directly to a selected group of investors. They include financial institutions, investment trust companies, insurance companies, pension and provident fund, etc.

d. Right issue: Right issue is an offer with pre-emptive rights to the existing shareholders of the company to further contribute towards its share capital. The rights are offered in a particular ratio to the number of securities held on the record date.

e. Preferential issue: Preferential issue is one that is made at a predetermined price to the pre-identified people like promoters, venture capitalists, financial institutions, buyers of company's products or its suppliers. The issue price is unrelated to the prevailing market price.

2. Secondary market : It is the market where the existing securities of companies are traded. It is the stock market where the shares, bonds and other securities are bought and sold. Stock exchange is the nick name of the secondary market. The securities are traded, cleared, and settled through intermediaries. It provides liquidity and marketability to the securities which are issued in the primary market. In the secondary market, the main intermediaries are the brokers and sub-brokers. The stock exchange facilitate the trading of securities.

A 'stock exchange' is an organization constituted for the purpose of assisting and carrying out buying, selling or otherwise dealing in securities. The oldest stock market in Asia, BSE stands for Bombay Stock Exchange and the largest stock exchange in India and the third largest in the world in terms of volume of transaction, NSE stands for National stock Exchange which is largest in India by daily turnover and number of traders. All of them are Mumbai-based stock exchanges. A number of other regional exchanges also exist. Thus, a stock exchange provides trading platform, where buyers and sellers can meet to transact in securities.

Pre-requisites of investing in financial securities.

An investor must have the fol lowing before investing in securities market. :-

Bank Account

PAN

Demat Account

Trading Account

KYC requirements

PAN card : PAN is the abbreviation for Permanent Account Number. PAN is issued by Income Tax Department. Without a PAN, an investor cannot open a Demat Account. A PAN application form should be obtained, filled up and submitted along with necessary supporting documents at the designated PAN centre. The Income Tax Department send the PAN card within a few days, which has the PAN Number.

Demat Account : In order to invest in shares, it is necessary to understand the term dematerialisation of share, as almost all shares are now in Demat form. Earlier there used to be physical share certificate issued, which are now converted in to electronic form. The next step is to open a Demat Account with a Depository Participants. As we open a Bank Account with a branch of a bank, a Demat Account with a Depository is opened with the Depository Participant. A Demat Account is an account of securities maintained by an investor with a depository participant. It is also called Depository Account or Beneficial Owner Account. It is now compulsory to open a Demat Account to trade in the stock exchange or to apply for public issue.

Trading Account

In order to transact with a Broker, the investor must open a Broking or Trading account with the broker. Once this is done, the transactions can be made through the broker. Nowadays, brokers offer online account, where orders can be placed online through the internet. These are subject to verification of password and other details.

KYC

The broker must ensure that the clients fill up the KYC form and submit it to them. This entails verification of identity and address, financial status, occupation and such other personal information as may be prescribed by the guidelines, rules and regulations.

Trading procedure in secondary market.

The investor should identify and deal with SEBI registered Broker or sub-broker with due diligence. The list of registered brokers can be obtained from the website of the exchanges. After this, a broker-client agreement should be entered into and a client registration form should be filled with the broker /sub-broker. This agreement is mandatory for all investors for registering as a client of broker registered with any exchange. The agreement is executed on a valid stamp paper of the requisite value. The agreement is to be signed on all pages by the client and the broker. Once this formality is completed, the trading process can begin.

Once the investor communicates his order to the broker,(must indicate script name, whether order is for buy or sell, the quantity, rate, etc.) the broker enters the order on his terminal. The broker's computer terminal is connected to the main computer of the stock exchange. The orders are electronically matched by the exchange's main computer, using "price- time" priority protocol. The best priced order is matched based on time priority. Time priority means 'first come first served'. The system tries first to match with the passive orders and if such orders are not present, then it wait for the active order. The matched order is then electronically communicated to the respective broker's terminal. When an order is not matched, it is displayed on the system till a fresh order comes in or it is modified, or cancelled. Once the order execution is communicated, the broker gives a confirmation to his client. The settlement takes place on'T+2' basis, ie. the second day after the trade take place. Within 24 hours of trade execution, a contract note is issued.

The Contract Note or the purchase/sale note is an important document. The broker/ sub-broker is obliged to give a statement of all transactions every quarter to his clients. Once the contract note is issued, the investor should verify the Bank account and Depository Participant account for pay-in and pay-out of funds and securities respectively.

Role of SEBI

Securitises and Exchange Board of India (SEBI) is a statutory authority to deal with all matters relating to the securities market. It is the only regulatory authority to regulate the securities market. SEBI was set up in 1988 and given a statutory status in 1992 by an Act of Parliament. SEBI was set up to protect the interest of investors, promote the development of stock market and regulate it. Its headquarters is at Mumbai, the regional offices at Delhi, Kolkata, Chennai and Ahammedabad.

Objectives of SEBI

The SEBI Act 1992, provides for the establishment of SEBI for the following purposes:

- To protect the interest of investors in securities.
- To promote the development of the securities market.

- To regulate the securities market .
- To provide for the matters connected with or incidental to the aforesaid purpose.

Additional Information

1, PFRDA- Pension Fund Regulatory and Development Authority was first constituted by the government of India in October 2003 with the following responsibilities-

a. To promote old age income security by establishing, developing and regulating pension funds.

b. To protect the interest of subscribers to schemes of pension fund and related matters.

2. Bull – Bull is a person who buys shares expecting a rise in their prices. His intention of buying is to sell them at profit at a future date.

3. Bear – Bear is a person who sells the shares with the expectation of buying them in future at a reduced price.

4. Stag – Stag is the type of bull speculator. He is a person, who applies for shares in the new issue market with the intention of selling them at a profit when allotment is due.

5. Bid- An offer of a price to buy in an auction. Business on the stock exchange is done through bid.

6. Day Order- An order that is placed for execution only for one trading session, if the order cannot be executed on that day, it is automatically cancelled.

7. Blue chips – Blue chips are the shares of large, well established and financially sound companies with impressive record of earnings and dividends.

8. SENSEX – Sensitivity Index - Stock price index of BSE of 30 active scrips with base year 1978-79.

9. NIFTY – Stock index of NSE consist of shares of 50 companies having a market capitalization of Rs.500 cores

10. ISIN- International Securities Identification Number is the number given for demat shares. It is a 12 digit alpha numeric string. The first two characters represent country code(IN for India)

Practical

Find the price variation of 10 shares of BSE and make a chart. Make a comparative study on the basis of safety, liquidity and profitability of investing money in shares and in bank deposit.

Assessment Activity

1. In which category would you put the following services. Give reason also.
   a. Chartered bus service
   b. Tele-shopping
   c. Treatment of a doctor
2. Find the odd one out and state the reason
   A. Share B. Debenture C. Bond D. Unit of a Mutual fund
3. List out the requirements for investing in financial market
4. Collect and list the major powers of SEBI

TE Questions

1. SEBI stands for——
2. Give a short note on
   a. Scrip b. Bid c. Bull d .Contract note
   e. SENSEX & NIFTY
3. Explain pre -requisites of investing in financial securities
4. Write the powers of SEBI in securities market.
5. Distinguish between primary market and secondary market.
6. List out the different types of financial securities
7. Mr. Vijay approaches you to invest his savings in securities market. As a broker, help him by explaining the procedure for investment.

Extended Activity

1. Conduct a study among fifty families about the usage of internet facility and group them on the basis of demographic factors like age, sex, occupation, education, etc.
2. Collect the details of different types of health plans available in the market and show them in a table explaining the features of each.

3. List out 10 important provisions of Motor Vehicles Act 1939
4. A share Trading Game can be arranged in the class with the use of share prices of companies traded in the stock exchange as published in daily news papers.

   The following steps can be used –

   a. Bring Saturday's daily on Monday, to check the prices of listed shares of a selected stock market.

   b. Assume each student hold Rs. 1 lakh , to invest in securities.

   c. Watch and study variations in prices of the securities bought and sold by them on a daily basis and take decision to retain or sell or to buy more securities.

   d. At the end of the week, the gain earned or loss suffered by every one is worked out.

   (We can plan more games like Prediction game, Intra-day game, etc. in this area).

Suggested practical

1. Make a survey, finding reasons for the decline in demand of life insurance/ banking products and suggest suitable measures to improve its demand.

   Hint 1.Introduction by teacher.

   Hint 2.Preparation of a questionnaire.

   Hint 3.Distributing questionnaires to sufficient respondents

   Hint 4.Get the response filled in by the respondents.

   Hint 5.Analyse the responses and make recommendations.

2 Draft an advertisement (brochure) for launching a new product (banking/Insurance) using Photoshop/Word/PageMaker.

3. As the manager of bank/insurance Company make an advertisement for publishing in a leading news paper, for the selection of Insurance advisors/sales officers.

   Hint 1. Name of firm, address

   Hint2. Age

   Hint3. Qulaification

   Hint4. Experience, if any

Hint 5. Last date of receiving application

Hint6. Any other details.

4. Prepare your resume in order to apply for a job in a bank/Insurance company.

5. ABC Bank/Insurance company received 30 applications for the post of insurance advisors. The company requires only 5 advisors. The company decided to conduct an interview on a particular date. Constitute an interview board and complete the selection procedure.

   Hint1- Interview board consist of chairman, subject expert and 3 committee members

   Hint 2-Questions relating to current affairs, GK, Insurance marketing, Personal questions, intelligence, honesty, etc.

6. Make a power point presentation of 7 P's of service marketing (Seven slides with explanation)

7. Identify various service sectors and make an album collecting pictures from different media (newspapers, magazines, internet etc)

8. Analyse the role of product marketing and service marketing in Indian economy on the basis of data of the following areas in 2014 and make a conclusion.

Area	Product marketing	Service marketing
Employment		
Export		
Import		
GDP		

9. Identify the service sectors most suitable to kudumbasree units/residence association and features and importance of those sectors and then conduct an awareness class with power point presentation to the members of kudumbasree units/residence association.

10. Make a comparative study of interest rate of deposits and loans provided by scheduled banks and cooperative society, new generation banks and make a power point presentation.

11. Divide the students into groups and assign the targets of deposit mobilsation from the following categories of society.

    Group I-Visit a few agriculturists

    Group II-Visit a few NRIs

    Group III Visit some selected businessmen

    Group IV Visit a few households

    Group V-Visit some government employees.

    Conduct a role play showing the strategies adopted for deposit canvasing from the above categories.

12. You are the sales manager of XYZ bank. The zonal office gave you a target of 100 car loans for the coming year. Enlist the strategies or techniques to be adopted for achieving the target.

Hint1 Select target group (may be active depositors, financially sound persons, members of general public etc.)

Hint 2 Draft a notice specifying the features of the product.

Hint 3 Intimating the target group by sms, email or direct contact.

Hint 4 Analyze their responses

Hint 5 Direct contact with interested parties and to turn their desire into sales.

Hint 6 Making follow up.

13. Make a video album/photo album about various products of banks(deposits and loans)to be presented in VHSE regional expo(15 Minutes)

14. Make a presentation for marketing of life/non-life insurance products

Hints- Use any of the presentation techniques such as videos/PPT's etc.

Targets groups, features, product details etc.

15. Find the price variation of 10 shares of BSE and make a chart for 20 trading days. Make a comparative study on the basis of safety, liquidity and profitability of investing money in share market and in bank deposit.

16. Visit the nearby share broking firm and find the trading activities, and also analyse and find out the ratio of savings and investment by individuals in share market.

17. Prepare a chart showing the prerequisites of investing in financial securities.

18. Draft a questionnaire (with open ended questions) before approaching a prospective buyer for a life insurance product as part of need analysis

19 . Draft a telephonic script to fix an appointment with a businessman, as part of marketing an insurance product.

20. Exploring the internet, collect data of market share of the following sectors and prepare a bar diagram (using spread sheet)

    1. Insurance Sector
    2. Banking Sector
    3. Hospitality
    4. Information technology
    5. Health care service

21. Exploring the internet, show sectorial distribution of GDP for 2015 of 10 developing countries as in the given format and prepare a note on importance of Service Sector in GDP of our country

Sectorial Distribution of GDP for 2015

Nation	Service sector	Industry	Agriculture
India			
Pakistan			
Srilanka			
Malasia			

22. Prepare pie diagrams by exploring data from internet about India's GDP with the share of Agriculture sector, Industry sector and Service sector in 2013, 2014 and 2015 and make a comparative study.

23. Conduct a survey and collect data on the topic on the prices of some products and services in your locality and prepare a table. Make a study of pricing of product and services. Example, price of soap and price of IT service provided by local firm and a reputed international firm.

24. Conduct a survey and collect data of different products and services in your locality and caegorise them on the basis of common features and prepare a table.

25. Make a collection of popular types of life policies marketed by LIC of India and prepare an album.

    Step 1. Collect the details from Insurance advisors/office/leaflets/news paper/internet.

    Step 2. Set an album containing the types of life policies.

    Step 3. Present it in the class room.

26. Conduct a tele-calling show between a prospective customer and an insurance salesman

    Step 1:Select 2 students to conduct the show.

    Step 2: Give them roles and ideas on the discussion between the two.

    Step 3: The players enact their assigned roles.

    Step 4: Students record the activities in the activity log.

27. Design and prepare an advertisement copy for a new life policy issued by XYZ Co.

    Steps- create advertisement copy including name and address of the company, Logo, features of the product, etc.

29. Write a story board for a television advertisement for a new product issued by LIC and present it in the class.

    Step 1: Divide the students into four different group

    Step 2. The groups makes a story board on the product.

    Step 3. Present the advertisement in the class room

    Step 4: Record the story board in the record book

30. Interview with a sales manager or sales executive/salesman to collect information on various skills and qualities needed by an insurance marketing salesman.

    Step1. Teacher helps the students to prepare a questionnaire/interview sched ule.

    Step2. The programme start with a welcome note by a student. The student introduces the sales manager.

    Step3. The sales manager talks about the skills and qualities required by a salesman.

    Step 4. Interaction between students and the sales manager.

Step 5. Students should present and note down the points.

Step 6. Students should present the skills and qualities.

31. Prepare model of a certificate of insurance, issued by ABC Ltd to Mr.Babu, on insuring his motor car. (IT enabled)
32. Draft a renewal notice/letter issued by an insurance company remembering the date of renewal.
33. Prepare a questionnaire for analyzing the attitude of public about the need of insurance.
34. Conduct a survey on 25 neighbouring families of your school, to record their attitude on the need of insurance by using the questionnaire prepared earlier.

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4. Services Marketing- Vasanti Venugopal & Raghu V.N, Himalaya publishers.
5. Principles of Insurance- Dr. A.P Philip & Dr. M.D.Baby.
6. Life Insurance IC33-Insurance Institute of India.
7. General Insurance IC34-Insurance Institute of India.

Form No.300(BN)

LIFE INSURANCE CORPORATION OF INDIA
(Established by the LIC Act 1956)

Branch Office .... Proposal No .... Agent's Name ....

Licence No .... Dt. of Expiry .... Agent's & DO Code ....

NOTE:
This form has to be filled in by the proposer in his/her own handwriting. If he/she cannot write in the language of this form or he/she is illiterate, the proposal form can be filled in by the Agent/Third party as per normal rules.

1 a) Name in full (IN BLOCK LETTERS): Mr. /Mrs./Miss ....
....

b) Short Name ....

c) Address for Correspondence ....
....
....

d) Nationality ....

e) Are you resident in India ....

f) Father's Name in full ....

2 a) Table/Term ....b) Sum Assured ....

c) Amount of deposit ....d) Date of Birth..............................

e) Age Proof ....

3 a) Nominee under Section 39 of the Insurance Act, 1938, to whom policy moneys will be payable in the event of death.

Nominee's full name: ....
(IN BLOCK LETTERS)
Age ....Relation to yourself ....

Full Address ....
....
....

b) Appointees Name with signature to whom the policy money is payable in the event of the claim arising during the minority of the nominee.

Full Name of the Appointee: ....
(IN BLOCK LETTERS)
Full Address ....
....

Signature of the Appointee ....

Relationship to the Nominee ....

Age of Appointee ....

: 2 :

4 (a) Present Occupation ………………………………..

(b) Nature of duties ………………………………….

(c) Annual Income ………………………………….

(d) Total Sum Assured under Previous policies under Table 132 ……………………………………………………………….

5 (a) Has a proposal on your life or an application for revival of a policy on your life made to this or any other Office of the Corporation ever been ………………………………………………………..

(i) Declined : Yes/No………………………..

(ii) Accepted with extra; if yes, State the highest extra Imposed (excluding age extra) : ………………………………….

(b) Is any proposal/application for revival pending with any office of the Corporatin, if so, give the details : …………………………………..

6 Your exact Height without shoes (in cms) : ……………………

Your exact Weight (in Kgs.) : ……………………

Answer 'Yes' or 'No'
(If 'NO' give details)

7 Are you at present in good health? : ……………………………………

8 Have you ever been admitted to a Hospital/Nursing Home for taking Treatment for a week or more during The last 3 years? (If 'Yes" give details) : ……………………………………

9 Have you any physical deformity? If Yes, give details and total Sum Assured in force under all previous policies taken during last five calendar years including current year. : ……………………………………

10 To be answered by female proposer only

a) Total sum assured in force under all Previous Policies taken during last 5 calendar years including current year : ……………………………………

b) If you are married

(i) Are you pregnant now? : ……………………………………

(ii) have you had any pregnancy related problems at any time : ……………………………………

: 3 :

DECLARATION BY THE PROPOSER

I ……………………………………………………………………………………………….. do hereby Declare that the foregoing statements and answers have been given by me after fully understanding questions and the same are true, and complete in every particular. I agree that if any untrue averment by contained therein the said contract shall be absolutely null and void and all moneys which have been paid in respect thereof shall stand forfeited in part or full to the Corporation.

Dated at ………………………… on the ……………… day ……………………………….. 199…..

Name of witness ………………………………………………

Signature of witness …………………………………………

Occupation …………………………………………..

Address …………………………………………

……………………………………………………………………………

……………………………………………………………………………

Signature or thumb impression of the person whose life is proposed to be assured

If the answers to the questions in this form are given in vernacular and the proposer signs in vernacular then the proposer signs in varnacular then the proposer should declare in his/her own handwriting above his/her own signature that all questions were explained to him/her and that his/her replies were given after fully and properly understanding the same.

OR

In case the prposer is illiterate, the thumb impression of the proposer should be attested by a person of standing whose identity can easily be established but unconnected with the Corporation and this declaration should be made by him/her.

I hereby declare that I have fully explained the Above questions to the proposer in ……………. (language) and I have truthfully recorded the answers and explained to the proposer and that the proposer has affixed his/her thumb impression to the proposal form after duly understanding the contents thereof.

Address of the declarant …………………………………

…………………………………………………………………

…………………………………………………………………

…………………………………

(Signature of the Declarant)

NOTE: In case of dispute in respect of interpretation of terms the English version shall stand valid.

Annexure I
FORM NO. 3783
CLAIM FORM 'A'

LIFE INSURANCE CORPORATION OF INDIA

Divisional Office ………………….. Branch Office ………………………..

CLAIMANT'S STATEMENT

(To be filled in by the person legally entitled to the policy moneys)

(All answers to be filled in legibly. Answers must be given in words, strokes of the pen or dots or dashes cannot be accepted as replies)

In connection with claim under Policy No ……………… For Rs.…………………………. on the life of ………………………………………… I, as the claimant under the

(insert full name of the deceased)
policy make the following statement:

1. Particulars regarding the claimant :

(i) Name of the Claimant ……………………………

(ii) Age ……………………………

(iii) Telephone No. ……………………………

(iv) Address ……………………………

(v) Relationship to the decreased life assured ……………………………

(vi) Nature of Title under which the claim for policy money is submitted viz: Nominee, Assignee, Executor, Administrator, Trustee or Benefciary………………………

2. Particulars regarding the deceased life assured, Shri …………………………………………

(i) Place of death of the life assured ……………………………

(ii) Date of death:Exact time of death …..A.M./P.M ……………………………

(iii) Age of the life assured at death ……………………………

(iv) Duration of last illness ……………………………

(v) Immediate cause of the life assured ……………………………

(vi) Last occupation of the life assured ……………………………

(vii) Last address of the life assured ……………………………

(viii) Full name of deceased'd father ……………………………

3. Particulars regarding other policies on the life of the deceased :

Policy No.	sum Assured	Name of issuing Office	Date of Commencement	Whether with Double Accident or Extended Disability Benefits

4. (a) When did the deceased first complain of being not in usual good health?

   (b) Nature of illness then complained

5. The names of the medical attendants during the last illness

6. Names and addresses of the doctors consulted during the last three years stating against each name the complaint for which he was consulted and the date or dates thereof;

	Date or Dates or consultation	Name of the Doctor or Hospital and address	Nature of complaint
1.			
2.			
3.			

I, ………………………………do hereby declare that the statement made hereinabove is true in each and every respect.

Notwithstanding the provisions of any law, usage, custom or convention for the time being in force prohibiting anu Physician or Hospital from divulging any knowledge or information acquired by him/them in attending upon or examining a person on the ground of secrecy, I hereby authorise the Physician or Hospital who has attended upon or examined or treated the aforsaid deceased life assured life assured for any aliment or illness to divulge any knowledge or information regarding the deceased's state of healthe which he/they may have acquired whether before or after the policy was issued by the Corporation, to the Corporation, its offices and legal advisers or in any Court of Law.

Signature/Thumb impression of the claimant……………
…………………………………………………………………
Designation…………………………………………………
Address………………………………………………………

Declared at……………………this……………day of………………………

…………………19………………..before me.

……………………………….
Signature of Witness

IF THE DECLARANT SIGNS IN VERNACULAR OR AFFIXES THUMB IMORESSION, THE WITNESS SHOULD ALSO SIGN THE FOLLOWING DECLARATION

CERTIFIED THAT THE CONTENTS OF THIS FORM WERE EXPLAINED TO THE DECLARANT IN VERNACULAR AND HE/SHE HAS AFFIXED HIS/HER SIGNATURE/THUMB IMPRESSION HERETO AFTER FULLY UNDERSTANDING THE SAME.

Countersigned by

Signature ....

Designation...............................

Address ....

....

(This statement must be countersigned by (1) an Advocate, (2) an Agent if the Ciroiratuib (who is a member of an Agents' club at the level of Divisional Manager's Club or above), (3) a Bank Manager, (4) a Block Development Officer, (5) a Commissioner of Oaths, (6) a Doctor, (7) a Gazetted Officer, (8) a Head Master of a High School, (9) a Head Post Master or Departmental Sub-Post Master (but not a Branch Post Master), (10) a Magistrate, (11) An Officer or Development Officer of atleast 3 years standing or confirmed Development Officer recruited from the Agents, who were DM or BM Club Members before joining or Development Officer recruited from agents who were ZM or Chairman's Club members before joining or (12) President of a Village Panchayat or Local Body.