

**COMMERCE**  
**HIGHER SECONDARY - FIRST YEAR**  
**8.INSURANCE**

**Short questions**

**1. Give the meaning of insurance**

- Insurance is based on principles of co-operation.
- The losses of a few are shared by many.
- An insurance company, otherwise called the insurer organise this co-operative effort.
- Insurance is a contract between the insurer and the insured under which the insurer undertakes to compensate the insured for the loss arising from the risk insured against.

**2. What is the need for Insurance?**

- Insurance is the best protection against risks attached to business, property and life.
- Business involves many risks.
- There is always the danger of goods being damaged or destroyed while they are on transit or when they are kept in godowns.
- This loss arising on account of fire accident, theft, etc., is reduced largely by gathering the goods insured

**3. Write short notes on privatization of Insurance.**

- Public enterprises in any country cannot perform all the economic and business activities efficiently
- Even in a socialist country, public enterprises in all the fields cannot discharge their full responsibilities.
- Complete nationalisation will lead to serfdom and anarchism.
- Now we are living in competitive world, public enterprises will have to compete with the private enterprises.
- If any public enterprise is found sick or weak it may be replaced by private enterprise with efficiency and productivity

**4. Define the term “Assurance”.**

- The term ‘Assurance is applied to contracts, where the risk insured against is certain to happen, but the time of its happening is uncertain.
- Thus the risk insured against death is contract of assurance.
- Technically speaking a life insurance may be called as “Life Assurance”

**5. What is life insurance and mention its features?**

- Life insurance contract may be defined as the contract, whereby the insurer in consideration of a premium undertakes to pay a certain sum of money either on the death of the insured or on the expiry of a fixed period whichever is earlier.

**Features of Life Insurance (Any two)**

- Life Insurance is not a contract of indemnity.
- There is no question of actual loss in it.

- Consequently the question of proof of actual loss does not arise, whether the assured suffered any financial loss or not.
- The insurer must pay the policy amount on the maturity of the policy.
- A person can take any number of policies of any amount on his own life.

**6. Write short notes on marine insurance.**

- It has developed over many countries.
- Under this, the insurer undertakes to indemnify the insured against marine losses.
- The principles of utmost good faith, indemnity, insurable interest and proximate cause, will apply to marine insurance.
- But insurable interest is present at the time of loss of the insured property.

**7. What is fire insurance and bring its importance?**

- A fire insurance contract does not ensure the safety of the insured property.
- Its purpose is to see that the insured does not suffer pecuniary loss from the insured property due to fire.

**Important (any 2)**

- If the insured property is transferred to another person, the contract of insurance comes to an end.
- If the loss is due to 'fire' within the meaning of the policy, it is immaterial about the cause of fire and the insurer is liable to indemnify the insured.
- In the absence of fraud, the proximate cause of the loss only is to be looked into.

**8. Define mediclaim insurance**

- Under the scheme of mediclaim, the insurance companies pay for the insured hospitalisation, domiciliary hospitalisation, intensive care, surgery and other related medical expenses.
- With a small annual premium, the insured can avail of all mediclaim benefits upto limits specified in the policy.
- The premium rate depends on the category and the scheme has to be selected by the insured

**V. Paragraph questions**

1. Distinguish between Assurance and Insurance.

S.No	INSURANCE	ASSURANCE
1	Loss due to risk is not certain to happen which may or may not take place.	Each person has to die sooner or later. So loss due to risk of death is certain.
2	This is a contract for a short period (one year)	But it is a long term contract (for 15 years or more)
3	It is the contract of indemnity	It is not a contract of indemnity
4	Value of subject matter can be easily determined	It is difficult to determine the value of human Life which is the subject matter of contract.

## 2. What are the principles of insurance?

### 1. Insurable Interest

- Insurable interest is necessary for a valid contract of insurance.
- Insurable interest must be a pecuniary (*Financial*) interest.
- A person is said to have insurable interest in a property, as to have benefit from its existence and prejudiced (*unfair*) by its destruction (*damage*).

### 2. Utmost good faith

- A contract of insurance is a contract of utmost good faith.
- The principle of disclosure of all material facts should be followed.
- In a contract of insurance, the proposer is bound to make full disclosure (*Expose*) of all facts.
- Misrepresentation, non-disclosure or fraudulent misrepresentation in any document leads to is owing the insurer from all liabilities under the contract.

### 3. Indemnity

- 'To indemnify' means 'to make good the actual loss suffered'.
- The principle of indemnity is applicable to property insurance alone.
- Insurance contract are contracts of indemnity (*Compensation*).
- This means that the insured should be placed after a loss, in the same position as he was immediately before the loss.
- This principle ensures that the insured does not make any profit out of the insurance.

### 4. Proximate cause

- Proximate means nearest.
- It is only the nearest reason and not the remotereason is the factor to be taken into account.
- The insurer is liable only if the nearestcause comes within the meaning of risk insured.

### 5. Contribution

- Where a property is over insured by double insurance, each insurer is bound asbetween himself and other insurers, to contribute ratable to the loss, in proportion tothe amount for which he is liable under his contract with the insured.

### 6. Subrogation

- The principle of subrogation is referred as stepping into the shoes of others.
- Subrogation means transfer of rights and remedies of the insured to the insurerafter the indemnity has been effected.
- According to this principle, after the insured is compensated for loss, the right of ownership of such damaged part of the propertypasses to the insurer.
- If the insured has any right of act against third party and can claimdamages from that party, the benefit of recovery of compensation shall be transferredto the insurer.

### 3. What are the kinds of life policies?

#### i). On the basis of duration of policy

##### a. Whole Life Policy

- In whole life policy the sum assured is payable to the legal heir only on the death of the assured.
- It is to protect and support the family of the assured after his death.
- Under this scheme, premium may be payable throughout the life of the assured or for a limited number of years.

##### b. Term Policy

- This policy covers the risk only, during a particular period.
- The sum assured is payable only if death happens during the term. Under this policy premium rate is lower than any other policy.
- Now a days in order to attract more people, policies are issued with the condition that the premium paid will be returned after the term is over, if death does not occur.

#### ii). On the basis of payment of Premium

- The policies according to the payment of premium may be of the following types are : Single Premium policy and Limited payment whole life policy.

#### iii). On the basis of participation in Profits

- Policies according to participation in profits may be Without profit policies, With profit policies.

#### iv). On the basis of number of persons insured

- a) Single life policy    b) Multiple life Policy    c) Joint life Policy    d) Last Survivorship policy

#### v). On the basis of method of payment of claims

- a) Lump-sum policies    b) Instalment or Annuity Policies

### 4. What is the Classification of marine policies?

#### a) Cargo Insurance

- The cargo may be of any description, e.g., wares, merchandise, property, machinery, goods etc.,
- This branch deals with insurance of goods while in transit by ship.
- It provides protection against various risks, such as fire, explosion, collision, theft, cyclonic storm, jettisoning etc.,

#### b) Hull Insurance

- Hull insurance mainly deals with the insurance of ocean going vessels, fishing vessels, yachts, dredgers and builders risks when a ship is under construction.
- This policy covers risks of fire, collision, storm, stranding and liabilities against third parties.

#### c) Freight Insurance

- Freight is payable for the carriage of cargoes or if the vessel is chartered, hiring charges is payable. The carrier will lose the freight if the cargoes (goods) are not delivered at the destination.
- In that case, the insurance company covers the risk of freight loss.

#### d) Liability Insurance

- This may include liability arising out of hazards such as collection, running a ground, damages to harbour etc.
- Insurance can also be taken for the expenses involved in non-compliance of rules and regulations (without any intention to deceive)

## 5. Explain the types of fire policies.

### A) Floating Policy

- It is a policy covering stock in different places within the limits of one city / town / village by charging 25% of premium over and above the highest rate applicable to any one risk.
- The goods should belong to a single owner.
- No floating policy can be issued in respect of immovable property.

### B) Declaration Policy

- Declaration policies may be granted only in respect of own stocks of the insured or which are in the insurer's custody.
- Generally levels of stock will vary frequently depending on purchases and sales.
- The owner takes a policy for a stated sum (Maximum expected level) and premium is paid.
- Every month the owner declares the level of stock to the insurance company.
- At the end the premium is adjusted accordingly.

### C) Reinstatement Policy

- This policy is also known as new or old policy.
- This policy is issued in respect of building, plant and machinery, furniture and fixtures and fittings only.
- Under the reinstatement policy the payment to be made is the cost of reinstatement of the building or the cost of replacement of the machinery to a condition equal to prior to loss.
- The damaged property is replaced by a new property.
- If due to technical improvement the replaced machinery is better than the damaged machinery the insured is obliged to bear a part of the cost of the new machinery to ensure that he does not derive any undue benefit.

## 6. What do you mean by burglary insurance and mention its types?

- Burglary insurance falls under the classification 'Insurance of property.'
- In a burglary policy, the loss of household goods and personal effects due to theft, burglary, house-breaking and acts of such nature are covered. The actual loss is compensated.
- The words, 'burglary, 'house breaking', 'theft' are clearly defined in the policy itself.
- Burglary insurance is becoming popular.

### Types of Policy

#### a) Burglary - Business Premises' - Insurance Policy

- Business premises are generally covered from the risks of burglary and house breaking only.
- Mere theft without the use of force and violence is not covered.



#### **4. Greater operation of freedom**

- Investment managers in private sector enjoy greater operational freedom than their counterparts in the public sector and consequently the private companies can expect to obtain a better yield on investments than Life insurance & General Insurance Corporations.

#### **5. Consumer needs and service**

- This impetus of liberalisation will see the industry transforming approach towards its consumer.
- Unfortunately in recent past there has been much lip talks on this than any actual improvement coming up from public sector insurers.
- Relieved from bureaucratic shackles, industry could become more sensitive towards consumer needs and service.

#### **6. Expansion of Insurance Market**

- Greater the expansion of insurance market, higher the opportunity for so many other sector of the economy to grow.
- This can provide a sustained market for a variety of business like, market for hardware and software products, training institutes and professional services such as legal, consultancy, financial, intermediary and large pool of long term resources for financing infrastructure development.

#### **7. Social Security**

- The new era of liberalized insurance sector will ensure over all economic growth of the country and bring more and more people under the coverage of insurance.
- This will ensure extending the benefits of social security to large sections of our population.
- The trade unions have expressed some reservation and apprehensions in allowing private entry on the following grounds.

### **2. Explain the principles of insurance?**

#### **1. Insurable Interest**

- Insurable interest is necessary for a valid contract of insurance.
- Insurable interest must be a pecuniary interest.
- A person is said to have insurable interest in a property, as to have benefit from its existence and prejudiced by its destruction.
- Insurable interest is not to be presumed from the existence of mere relationship.
- But the pecuniary interest must be proved.

#### **Example**

1. A person has insurable interest in his own life and in the life of his spouse
2. A house owner has insurable interest on his house upto the full value of his house property.
3. A mortgagee acquires insurable interest on a property pledged upto the amount lent.
4. A creditor has insurable interest in the life of the debtors.

#### **2. Utmost good faith**

- A contract of insurance is a contract of utmost good faith.
- In a contract of insurance, the proposer is bound to make full disclosure of all facts (Material or otherwise). Misrepresentation, non-disclosure or fraudulent misrepresentation in any document leads to disowning the insurer from all liabilities under the contract.
- No policy can be challenged after two years on the basis above reasons.
- But this provision is not applicable, if the insurer proves that misrepresentation or non-disclosure of material facts has been willfully done by the insured, with a view to defraud the insurer.
- It is equally obligatory for the insurer to observe utmost good faith and provide all facts to the insured.

### 3. Indemnity

- 'To indemnify' means 'to make good the actual loss suffered'.
- The principle of indemnity is applicable to property insurance alone.
- Insurance contracts are contracts of indemnity.
- This means that the insured should be placed after a loss, in the same position as he was immediately before the loss.

### 4. Proximate cause

- Proximate means nearest.
- It is only the nearest reason and not the remote reason is the factor to be taken into account.
- The insurer is liable only if the nearest cause comes within the meaning of risk insured.

### 5. Contribution

Where a property is over insured by double insurance, each insurer is bound as between himself and other insurers, to contribute ratably to the loss, in proportion to the amount for which he is liable under his contract with the insured.

### 6. Subrogation

- The principle of subrogation is referred to as stepping into the shoes of others.
- Subrogation means transfer of rights and remedies of the insured to the insurer after the indemnity has been effected.
- According to this principle, after the insured is compensated for loss, the right of ownership of such damaged part of the property passes to the insurer.

If the insured has any right of action against a third party and can claim damages from that party, the benefit of recovery of compensation shall be transferred to the insurer. Eg., if a car belonging to Mr. Sanker is damaged due to the negligence of Mr. Raja, and Mr. Sanker is fully compensated by the insurer, the insurer can sue Mr. Raja. In this case, Mr. Sanker cannot sue Mr. Raja to recover any compensation.