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Insurance Digest Version 3

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[Pick the date]

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INSURANCE

"Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for a premium, and can be thought of a guaranteed small loss to prevent a large possibly devastating loss."

Definition of Risks

- A variation in the possible outcome.
- The degree of uncertainty associated with a particular loss.
- Greater the accuracy with which the outcome can be predicted the lower is the risk.
- Risk is the possibility of an unfortunate occurrence.
- Risk is the possibility of loss.
- The combination of hazards.
- Uncertainty of Loss
- The tendency that actual results may differ from predicted results.

Requirements of Insurable Risks

- Should be a pure risk.
- Involves a chance of loss or no loss.
- Large Number of exposure units.
- To predict average loss.
- Accidental and Unintentional loss
- To control moral hazard.
- To assure randomness.
- Determinable and Measurable Loss
- To facilitate loss adjustment

Insurance Industry of India consists of **52** insurance companies of which **24 are life insurance** business and **28 are non – life** insurance companies.
(As per August , 2015 update)

Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non – life insurers there are six public sector insurers.

Out of 28 non-life insurance companies, **five private sector** insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd. There are two more specialized insurers belonging to public sector, namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agriculture Insurance Company Ltd for crop insurance.
The **oldest existing insurance company** in India **is National Insurance Company,** which was founded **in 1906 and is still in business.**

The Government of India issued an Ordinance on 19 January 1956 nationalized the **Life**

Insurance sector and **Life Insurance Corporation (LIC)** came into existence in the same year. But **LIC starts** its operations from **1 September, 1956.**

Functions and Benefits of Insurance

Insurance functions are of two types **Primary Functions and Secondary Functions.** These are explained as under:
Primary Functions/Benefits: Insurance is essentially a risk transfer mechanism removing for a premium the potential financial loss from the individual and placing it upon the insurer. The primary benefit is seen in the financial compensation made available to insured victims of the various insured events. On the commercial side, this enables businesses to survive major fires, liabilities etc.
Ancillary Functions/Benefits: Insurance contributes to society directly or indirectly in many different ways. These will include:

- **Employment -** The insurance industry is a significant factor in the local workforce.
- **Financial Services –** Financial services have assumed a much greater role in the local economy, insurance being a major element in the financial services sector.
- **Loss Prevention and Loss Reduction (Loss Control):** The practice of insurance includes various surveys and inspections related to risk management. It helps in loss prevention and loss reduction in other words we can say that loss control properly implemented through insurance.
- **Savings/Investments:** Life insurance, particularly, offers a convenient and effective way of providing for the future. With the introduction of the Mandatory Provident Fund Schemes in 2000, the value of insurance products in providing for the welfare of people in old age or family tragedy is very evident.
- **Economic Growth/Development:** It will be obvious that few people would venture their capital on costly projects without the protection of insurance (in most cases, bank financing will just not be available without insurance cover). Thus, developments of every kind, from erection of bridges to building construction and a host of other projects, are encouraged and made possible partly because insurance is available.

Core Functions of an Insurance Company:

- Product Development
- Customer Servicing
- Marketing and Promotion
- Insurance Sales
- Underwriting
- Policy Administration
- Claims
- Reinsurance
- Actuarial Support
- Accounting and Investment
- Training and Development

Principles of Insurance

1. Utmost Good Faith
2. Insurable Interest
3. Principle of Indemnity
4. Principle of Contribution
5. Principle of Subrogation
6. Principle of loss Minimization
7. Principle of 'CAUSA PROXIMA'

Utmost Good Faith

- Both the parties i.e. insured and the insurer should a good faith towards each other.
- The insurer must provide the insured complete, correct and clear information of subject matter.
- The insurer must provide the insured complete, correct and clear information regarding terms and conditions of the contract.
- This principle is applicable to all contracts of insurance i.e. life, fire and marine insurance.

Insurable Interest

- The insured must have insurable interest in the subject matter of insurance.
- In life insurance it refers to the life insured.
- In marine insurance it is enough if the insurable interest exits only at the time of occurrence of the loss.
- In fire and general insurance it must be present at the time of taking policy and also at the time of the occurrence of loss.
- The owner of the party is said to have insurable interest as long as he is the owner of it.
- It is applicable to all contracts of insurance.

Principle of Indemnity

- Indemnity means a guarantee or assurance to put the insured in the same position in which he was immediately prior to the happening of the uncertain event. The insurer undertakes to make good loss.
- It is applicable to fire, marine and other general insurance.
- Under this the insurer agrees to compensate the insured for the actual loss suffered.

Principle of Contribution

- The principle is a corollary of the principle of indemnity.
- It is applicable to all contracts of indemnity.
- Under this principle the insured can claim the compensation only to the extent of actual loss either from any one insurer or all the insurers.

Principle of Subrogation

- As per this principle after the insured is compensated for the loss due to damage to property insured, then the right of ownership of such property passes on to the insurer.
- This principle is corollary of the principle of indemnity and is applicable to all contracts of indemnity.

Principle of loss Minimization

- Under this principle it is the duty of the insured to take all possible steps to minimize the loss to the insured property on the happening of uncertain event.

Principle of 'CAUSA PROXIMA'

- The loss of insured property can be caused by more than one cause in succession to another.
- The property may be insured against some causes and not against all causes.
- In such an instance, the proximate cause or nearest cause of loss is to be found out.
- If the proximate cause is the one which is insured against the insurance company is bound to pay the compensation and vice versa

Methods Of Insurance

Some important methods of insurance are discussed as under:

- **Co-insurance** – When insurance companies shares risks between them known as Co-Insurance **or** Risks shared between insurers

- **Dual Insurance** – If a person has taken more than one policies for specific purpose **or**risks having two or more policies with same coverage

- **Self-Insurance** – Situations where risk is not transferred to insurance companies and solely retained by the entities or individuals themselves

- **Reinsurance** – If one insurance company passes some or whole part of risks to another insurance company **or** Situations when Insurer passes some part of or all risks to another Insurer called Reinsurer.

INSURANCE INSTITUTE OF INDIA

- Insurance Institute of India was established in 1955 in Mumbai.
- The institute is formerly known as **Federation of Insurance Institute.**
- The purpose of the institute was to provide necessary education to those people who engaged in insurance or interested in insurance.
- Insurance Institute of India is closely associated with all the segments of the insurance industry which includes Insurance Regulatory Authority of India, Public and Private Sector Insurance Companies.
- Insurance Institute of India also conduct the examinations at various levels.
- It is only one professional institution which devoted solely to insurance related education.
- Successful candidates get certificates and awards from Insurance Institute of India.
- This institute is recognized by Government of India.

IRDA

- IRDA stands for Insurance Regulatory and Development Authority.
- IRDA is an agency of Government of India for supervision and development of Insurance Sector in India.

Powers and functions of IRDA -

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

1. Protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;
2. Specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents
3. Specifying the code of conduct for surveyors and loss assessors;
4. Promoting efficiency in the conduct of insurance business;
5. Promoting and regulating professional organizations connected with the insurance and re-insurance business;
6. Levying fees and other charges for carrying out the purposes of this Act;
7. Calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organizations connected with the insurance business;
8. Control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938);
9. Specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;
10. Regulating investment of funds by insurance companies;
11. Regulating maintenance of margin of solvency;
12. Adjudication of disputes between insurers and intermediaries or insurance intermediaries;
13. Supervising the functioning of the Tariff Advisory Committee;
14. Specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause (f);
15. Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and
16. Exercising such other powers as may be prescribed.

Role of IRDA

- IRDA's primary function is to protect consumer interests. This means ensuring proper disclosure, keeping prices affordable but also insisting on mandatory products, and most importantly making sure that the consumers get paid by insurers.
- Further,ensuring the solvency of insurers.
- Growth of insurance business entails better education and production to customers, creating better incentives for agents and intermediaries.
- It has evolved guidelines on the entry and functions of such intermediaries. Licensing of such agents and brokers are required to check their indulgence in activities such as twisting, fraudulent practices, rebating and misappropriation of funds.

INSURABLE RISKS

For Life Insurance, Insurable Interest must exist at the time of the application of the insurance but it need not exist at the time of the insured's death. For **Property and Casuality** insurance, insurable interest must exist at the time of loss.

An insurance company must be able to predict future losses accurately. Company must deal only with insurable risks. **Not all risks are insurable** and it is important to outline those risks to which insurance concepts can be properly applied.

- **Large Number of Homogeneous Units** – Risks are not considered insurable unless the insurance company has a large enough number of similar risks and knows enough its previous loss experience to be able to predict the future reliably.
- **Loss Must be Ascertainable** – The insurer must be able to place a monetary value on the loss. In Life Insurance, monetary value is placed on the insured's income earning capacity. It is very difficult to determine economic loss under health insurance. For this reason, economic loss is measured by lost wages or by actual medical expenses incurred. The potential loss must be measurable so that both parties can agree on the precise amount payable in the event the loss occurs.
- **Loss Must be Uncertain** – Uncertainty arises out of not knowing what is going to happen, or being unable to predict what is going to happen to the individual exposure unit.
- **Economic Hardship** – The nature of the loss must be such that an economic hardship would occur should the loss occur. We can understand it through example – If a man loses one day's pay because of an injury, a loss occurs, but it is not significant enough to be covered by insurance.
- **Exclusion of Catastrophic Perils** – While the ability to predict future losses with a reasonable degree of accuracy is critical to the insuring functions, certain types of perils do not lend themselves to prediction. Perils are usually excluded from coverage. Example of Excluded catastrophic perils are**Wars, Nuclear Risks, Floods etc.**

History of Life Insurance Companies In India

Some of the important milestones in the life insurance business in India are:

1818: Oriental Life Insurance Company, the first life insurance company on Indian soil started functioning.

1870: Bombay Mutual Life Assurance Society, the first Indian life insurance company started its business.

1912: The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.

1928: The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

1938: Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.

1956: 245 Indian and foreign insurers and provident societies are taken over by the central government and nationalised. LIC formed by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of India.

The General insurance business in India, on the other hand, can trace its roots to the Triton Insurance Company Ltd., the first general insurance company established in the year 1850 in Calcutta by the British.

MALHOTRA COMMITTEE

A Committee was set up in 1993 under the chairmanship of **R.N. Malhotra**, former Governor of the Reserve Bank of India, to make recommendations for reforms in the insurance sector. The Malhotra Committee recommended introduction of a concept of **"professionalization"** in the insurance sector to make out a strong case for paving the way for foreign capital. **On 7th January, 1944** the committee submitted its recommendations to the finance ministry.

Recommendations

1. Private sectors should also be permitted to perform both life and general insurance.
2. Minimum paid up capital should be Rs.100 crore including a minimum subscription of 26% and maximum 40%.
3. Cooperative societies at state level should be permitted to perform business with minimum paid up capital of Rs100 crore.
4. Foreign companies be allowed to enter the insurance sector, preferably through joint ventures with Indian partners.
5. The Insurance Regulatory and Development Authority (IRDA) be constituted as an autonomous body to regulate and develop the insurance sector.
6. Promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums while ensuring the financial security of the insurance market.
7. Brokers representing the customer be brought in as another marketing and distribution channel, a practice prevalent in most developed markets.

8. Raise the level of professional standards in risk management and underwriting and speed up settlement of claims.
9. Restructuring of Insurance Industry
10. All old and new insurance companies should be regulated by similar rules
11. Strengthening rural insurance
12. Postal life insurance should be utilized for promoting life insurance in Rural areas
13. License system for insurance surveyors should be abolished
14. Insurance companies should be given authority to recruit the surveyors of their own
15. Insurance companies should be permitted to settle the claims up to Rs1 lakh on primary survey basis.

LIC

- LIC stands for Life Insurance Corporation of India.
- LIC was founded on1 September,1956.
- Headquarter of LIC is located at Mumbai, Maharashtra.
- The company was founded in 1956 when the Parliament of India passed the Life Insurance of India Act that nationalized the private insurance industry in India.

OBJECTIVES OF LIC

Various necessary objectives of LIC are discussed as under:

- Spread Life Insurance widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.

- Maximize mobilization of people's savings by making insurance-linked savings adequately attractive.

- Bear in mind, in the investment of funds, the primary obligation to its policyholders, whose money it holds in trust, without losing sight of the interest of the community as a whole; the funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.

- Conduct business with utmost economy and with the full realization that the moneys belong to the policyholders.

- Act as trustees of the insured public in their individual and collective capacities.

- Meet the various life insurance needs of the community that would arise in the changing social and economic environment.

- Involve all people working in the Corporation to the best of their capability in furthering the interests of the insured public by providing efficient service with courtesy.

- Promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards achievement of Corporate Objective.

Functions of Life Insurance Corporation

The life insurance business was nationalized on 19th January, 1956 and the Life Insurance Corporation of India came into being on 1st September, 1956 to carry on life business in India with capital of Rs.5 crores contributed by the Central Government. The Corporation is a body corporate having perpetual succession with a common seal with powers to acquire, hold and dispose of property and may by its name sue and be sued.

The functions of the Corporation shall be to carry on and develop life insurance business to the best advantage of the community.

The Corporation shall have power –
(a) to carry on capital redemption business, annuity certain business or reinsurance business in so far as such reinsurance business relating to life insurance business;
(b) to invest the funds of the Corporation in such manner as the Corporation may think fit and to take all such steps as may be necessary or expedient for the protection or realization of any investment; including the taking over of and administering any property offered as security for the investment until a suitable opportunity arises for its disposal;
(c) to acquire, hold and dispose of any property for the purpose of its business;
(d) to transfer the whole or any part of the life insurance business carried on outside India to any other person or persons, if in the interest of the Corporation it is expedient so to do;
(e) to advance or lend money upon the security of any movable or immovable property or otherwise;
(f) to borrow or raise any money in such manner and upon such security as the Corporation may think fit;
(g) to carry on either by itself or through any subsidiary any other business in any case where such other business was being carried on by a subsidiary of an insurer whose controlled business has been transferred to and vested in the Corporation by this act;
(h) to carry on any other business which may seem to the Corporation to be capable of being
conveniently carried on in connection with its business and calculated directly or indirectly to render profitable the business of the Corporation; and
(i) to do all such things as may be incidental or conducive to the proper exercise of any of the powers of the Corporation.
(j) In the discharge of any of its functions the Corporation shall act so far as may be on business principles.

Types of Life Insurance

1. **Term Life Insurance**
   - Term life insurance is insurance of the specific period of time.
   - Premiums for term coverage are usually initially lower than other types of life insurance because the policy only provides a death benefit for a defined period.
   - Some term insurance policies can be extended or converted into another type of coverage. Term Insurance is the simplest form of life insurance. It pays only if death occurs during the term of the policy, which is usually from **one to 30 years**. Most term policies have no other benefit provisions.

2. **Whole Life Insurance**
   - Whole life insurance provides a lifetime death benefit for a set premium amount and builds cash value you can use while you're living.
   - The strength of a whole life insurance policy is that it provides guaranteed cash values and benefits in return for fixed premiums. A trade-off to consider is that a whole life policy may build cash value at a lower rate than alternative coverage options.
   - Whole life or permanent insurance pays a death benefit whenever you die—**even if you live to 100.**
   - Whole life insurance is considered as a **"death benefit with a savings account".**

3. **Universal Life Insurance**

   - Universal Life Insurance is a new insurance product which has greater flexibility in premium payments along with the potential for greater growth of cash values.
   - Paid in premiums increase their cash values but administrative and other costs reduce their cash values.
   - There are **several types** of universal life insurance policies, including interest- sensitive (also known as "traditional fixed universal life insurance", variable universal life VUL, guaranteed death benefit, and equity-indexed universal life insurance.
   - Universal Life Insurance removes the disadvantage of whole life insurance because premiums and death benefits are flexible in universal life insurance.
4. **Index Universal Life Insurance**
   - Index Universal Life insurance includes the flexibility of premium and adjustable death benefit that Universal Life provides.
   - Index Universal Life Insurance can provide the potential for greater policy value growth than Universal Life, with less risk to you than any other universal life policy

LIC Insurance Plans

As individuals it is inherent to differ. Each individual's insurance needs and requirements are different from that of the others. LIC's Insurance Plans are policies that talk to you individually and give you the most suitable options that can fit your requirement.

Endowment Plan

Single Premium Endowment Plan
New Endowment Plan
New JeevanAnand
LIC's JeevanRakshak
LIC's Limited Premium Endowment Plan

Money Back Plans

LIC's NEW MONEY BACK PLAN - 20 YEARS
LIC's NEW MONEY BACK PLAN - 25 YEARS
LIC's NEW BIMA BACHAT

Term Assurance Plans

LIC's AnmolJeevan II
LIC's AmulyaJeevan II
LIC's e-Term
LIC's NEW TERM ASSURANCE RIDER - (UIN: 512B210V01)

Pension Plans

JeevanAkshay-VI
LIC's New JeevanNidhi
VARISHTHA PENSION BIMA YOJANA

Micro Insurance Plans

LICs New JeevanMangal
Micro - Insurance Forms

Group Scheme

LIC's New Group Leave Encashment Plan
LIC's New Group Superannuation Cash Accumulation Plan
LIC's NEW ONE YEAR RENEWABLE GROUP TERM ASSURANCE PLAN I
LIC's NEW ONE YEAR RENEWABLE GROUP TERM ASSURANCE PLAN II
LIC's New Group Gratuity Cash Accumulation Plan

Social Security Scheme

AamAdmiBimaYojana

Withdrawn Plans

JeevanNischay	Market Plus I
Wealth Plus	Profit Plus
JeevanAastha	Money Plus-I
JeevanVarsha	Child Fortune Plus
Fortune Plus	JeevanSaathi Plus
Health Plus	Samridhi Plus
Pension Plus	JeevanNidhi
New JeevanDhara-I	New JeevanSuraksha-I
JeevanVriddhi	JeevanVaibhav (Single Premium Endowment Assurance Plan)
JeevanSugam	Two Year Temporary Assurance Policy
Mortgage Redemption	Flexi Plus
CDA Endowment Vesting At 21	CDA Endowment Vesting At 18
The Whole Life Policy- Limited Payment	Health Protection Plus
JeevanArogya	Bima Account 1
The Whole Life Policy	Bima Account 2
JeevanPramukh	JeevanMitra(Double Cover Endowment Plan)
AnmolJeevan-I	New JeevanNidhi
JeevanAmrit	Jeevan Surabhi-25 Years
JeevanBharthi-I	Jeevan Surabhi-20 Years
The Money Back Policy-25 Years	JeevanMitra(Triple Cover Endowment Plan)
Jeevan Surabhi-15 Years	The Whole Life Policy- Single Premium
JeevanAnurag	KomalJeevan
Child Career Plan	Child Future Plan
Jeevan Kishore	JeevanChhaya
Marriage Endowment	Educational Annuity Plan
JeevanSaathi	Jeevan Shree-I
JeevanAnkur	The Endowment Assurance Policy - Limited Payment

New Janaraksha Plan	The Money Back Policy - 20 Years
JeevanTarang	The Endowment Assurance Policy
JeevanAnand	BimaBachat
JeevanAadhar	JeevanVishwas
Endowment Plus	New Bima Gold
BimaNivesh 2005	JeevanSaral
Jeevan Deep	JeevanMangal
JeevanMadhur	JeevanMangal
AmulyaJeevan-I	LIC's JeevanShagun

Health Plans

LicJeevanSuraksha Plan

GENERAL INSURANCE CORPORATION OF INDIA (GIC)

- The entire general insurance business in India was nationalized by General Insurance Business (Nationalization) Act, 1972 (GIBNA).
- General Insurance Corporation of India was incorporated on 22 November, 1972 under the Companies Act, 1956 as a private company limited by shares.
- GIC was established for the purpose of superintending, controlling and carrying on the business of general insurance.
- When GIC was comes into existence, Government of India transferred all the shares of general insurance companies to GIC.
- After Insurance Regulatory and Development Authority's (IRDA) came into force, the act also introduced amendment to GIBNA and the Insurance Act, 1938.
- In November 2000, GIC was re-notified as the Indian Reinsurer and its supervisory role over the four subsidiaries was ended.
- The four **subsidiaries were - National Insurance Company, New India Assurance Company, Oriental** Insurance Company, United India Insurance Company
- The ownership of the four subsidiary companies and also of the GIC was vested with Government of India.
- Hence, GIC become wholly owned company of Government of India.

General Insurance business covers all insurance except life insurance. General Insurance may include – Business, Automobile, Fire and Health etc.

Reinsurance – Reinsurance is a form of insurance between insurers. It occurs when an insurer (the re – insurer) agrees to accept all or a portion of a risk covered by another insurer.

INSURANCE ACTS

1. INSURANCE REGULATORY DEVELPMENT AUTHORITY ACT (IRDA) 1999

This Act was passed by Parliament in Dec.1999 & it received presidential assent in Jan.2000. The aim of the Authority is "to protect the interest of holders of Insurance policies to regulate, promote and ensure orderly growth of Insurance industry & for matters connected therewith or incidental thereto." Under this Act, an authority called IRDA is established which replaces Controller of Insurance under Insurance Act 1938. Definitions Like any other Act, various terms have been defined as follows under section 2: -

a) "Appointed Day" means the date on which the Authority is established.

b) "Authority" means the Insurance Regulatory and Development Authority.

c) "Chairperson" means the chairperson of the Authority.

d) "Fund" means the Insurance Regulatory and Development Authority Fund.

e) "Interim Insurance Regulatory Authority" means the Insurance Regulatory Authority set up by the Central Government.

f) "Intermediary or Insurance intermediary" includes Insurance brokers, reinsurance brokers, insurance consultants, surveyors and loss assessors.

g) "Member" means a whole time or a part time member of the Authority and includes the Chairperson.

h) "Notification" means a notification published in the Official Gazette.

i) "Prescribed" means prescribed by rules made under this Act.

j) "Regulations" means the regulations made by the Authority.

Composition of Authority

The Authority shall consist of nine persons as per details given below:.

(Section 4)

Chairperson. Not more than 5 whole time members. Not more than 4 part time members. These persons shall be appointed by the Central Govt. from amongst persons of ability, integrity & standing who have knowledge or experience in life Insurance, general Insurance, actuarial science, finance, economics, law accountancy, administration or other discipline which would in the opinion of the Central Govt. be useful to the Authority.

Tenure (Section 5)

- The Chairman tenure will be for 5 years and eligible for reappointment till he attains the age of 65 years.
- The appointment of members will be for 5 years and eligible for reappointment but not exceeding the age 62 years.

Removal of Members (Section 6)

The Central Government can remove any member of the Authority if he

a) Is declared bankrupt

b) Has become physically or mentally incapable of acting as a member.

c) Has been awarded punishment by any Court.

d) Has acquired such financial or other interest which affect his function as a member.

e) Has so abused his position as to render his continuation in office detrimental to the public interest. But no member can be removed form the office unless & until the reasonable opportunity of being heard is given to such member in the matter.

Salary & Allowances (Section 7)

The Chairperson and full time members' shall receive the salary & allowance as prescribed by the Government.

Bar on future employment (Section 8)

The Chairperson and the whole time members cannot accept any appointment without Govt. approval within 2 years from the date on which he ceases or retires from the office.

1. List the Composition of Authority.

2. The Authority shall consist of nine persons i.e. Chairperson, not more than 5 whole time members and not more than 4 part time members.

3. Mention the maximum age of the Chairperson of IRDA. a. Maximum age of Chairperson of IRDA is 65 years.

Superintendence & Direction (Section 9)

The Chairperson shall have overall control & provide direction in respect of all administrative matters of the Authority. He will chair the meeting as and when he is present in the meeting.

Meeting of Authority (Section 10)

The meeting of the Authority will be held at the time and place as decided by the Chairperson as per regulation made under this act. If the Chairperson is unable to attend the meeting then the members will choose the Chairperson from amongst the present members. All the issues to be discussed in the meeting shall be decided MODULE - 5 Legal Framework Notes 7 Insurance Regulatory & Development

Authority Act DIPLOMA IN INSURANCE SERVICES by a majority of votes by the present and voting. In case of equal voting the decision of Chairperson of that meeting will be final.

Invalidation of proceedings of Authority (Section 11)

The proceedings of Authority will not become invalidate (not valid in the eyes of law) due to following reasons:- Defects in the formation of the Authority. Defect in appointment of any Member.

Officers & Employees of Authority (Section 12)

The Authority may appoint officers and employees as it considers necessary for the efficient discharge of its functions. The terms & conditions of such officers shall be governed as per the regulations made under this Act.

Transfer of Assets, Liabilities etc (Section 13)

As stated above that initially the Authority was formed under the name "Insurance Regulatory Authority (IRA)" and later on the name was changed to "Insurance Regulatory & Development Authority."(IRDA) Therefore the assets and liabilities of IRA will be transferred to IRDA on the date of establishment of the Authority.

Duties, Powers & Functions of Authority (Section 14) Duties:

The Authority shall have the duty to regulate, promote and ensure orderly growth of the Insurance business and reinsurance business subject to the provisions of any other provisions of the act. Powers & Functions to:-

(a) Issue to the applicant (Insurance company or Insurance Agent or Surveyors or Insurance Brokers or Third Party Administrators) a certificate of registration, renew, modify, withdraw, suspend or cancel such registration;

(b) Protection of the interests of the policyholders in matters concerning assigning of policy, nomination by policyholders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance; DIPLOMA IN INSURANCE SERVICES MODULE - 5 Notes Insurance Regulatory & Development Authority Act Legal Framework 8

(c) Specifying requisite qualifications, code of conduct and practical training for insurance brokers , agents, surveyors, Third Party Administrator ;

(d) Specifying the code of conduct for surveyors and loss assessors (Who assess the loss of policyholder in case of General Insurance);

(e) Promoting efficiency in the conduct of insurance business;

(f) Promoting and regulating professional organizations connected with the insurance and re-insurance business;

(g) Levying fees and other charges on insurance companies, Agents, Insurance Brokers, Surveyors and Third party Administrator;

(h) Calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organizations connected with the Insurance business;

(i) Control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (w.e.f., 1/1/2007 TAC has ceased to function).

(j) Specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;

(k) Regulating investment of funds by insurance companies;

(l) Regulating maintenance of margin of solvency i.e., having sufficient funds to pay insurance claim amount;

(m) To settle the disputes between insurers and intermediaries or insurance intermediaries;

(n) Supervising the functioning of the Tariff Advisory Committee;

(o) Specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause(f);

(p) Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and

(q) Exercising such other powers as may be prescribed.

Grants from the Central Government (Section 15)

The Government after approval from the Parliament may grant funds to discharge their duties as per this Act.

Constitution of Funds (Section 16)

(1) There shall be a fund to be called "The Insurance Regulatory and Development Authority Fund" and there shall be credited there to:— a. all Government grants, fees and charges received by the Authority; b. all sums received by the Authority from such other source as may be decided upon by the Central Government; c. the percentage of prescribed premium income received from the insurer/insurance intermediaries.

(2) The Fund shall be applied for meeting:— a. the salaries, allowances and other remuneration of the members, officers and other employees of the Authority: b. the other expenses of the Authority in connection with the discharge of its functions and for the purposes of this Act.

Accounts and Audit (Section 17)

(1) The Authority shall maintain proper accounts and other relevant records and prepare an annual statement of accounts in such form as may be prescribed by the Central Government in consultation with the Comptroller and Auditor-General of India.

(2)The accounts of the Authority shall be audited by the Comptroller and Auditor-General of India at such intervals as may be specified by him and any expenditure incurred in connection with such audit shall be payable by the Authority to the Comptroller and Auditor-General.

(3) The Comptroller and Auditor-General of India and any other person appointed by him in connection with the audit of the of the accounts of the Authority shall have the same rights, privileges and authority in connection with DIPLOMA IN INSURANCE SERVICES MODULE - 5 Notes Insurance Regulatory & Development Authority Act Legal Framework 10 such audit as the Comptroller and Auditor-General generally has in connection with the audit of the Government accounts and, in the particular shall have the right to demand the production of books of account, connected vouchers and other documents and papers and to inspect any of the offices of the Authority.

(4) The accounts of the Authority as certified by the Comptroller and Auditor General of India or any other person appointed by him in this behalf together with the audit-report thereon shall be forwarded annually to the Central Government and that Government shall cause the same to be laid before each House of Parliament.

Establishment of Insurance Advisory Committee (Section 25)

(1) The Authority may, by notification, establish with effect from such date as it may specify in such notification, a Committee to be known as the Insurance Advisory Committee.

(2) The Insurance Advisory Committee shall consist of not more than twenty-five members excluding ex-officio members to represent the interests of commerce, industry, transport, agriculture, consumer fora, surveyors, agents, intermediaries, organizations engaged in safety and loss prevention, research bodies and employees' association in the insurance sector.

(3) The Chairperson and the members of the Authority shall be the ex-officio Chairperson and ex officio members of the Insurance Advisory Committee.

(4) The objects of the Insurance Advisory Committee shall be to advise the Authority on matters related to insurance.

(5) The Insurance Advisory Committee may advise the Authority on such other matters as may be prescribed.

Miscellaneous Provisions

The Central Government can issue the direction to the Authority on policy matters not on administrative and technical matters and the Authority is bound to follow such direction. The Central Government can supersede any act of the Authority. MODULE - 5 Legal Framework Notes 11 Insurance Regulatory & Development Authority Act DIPLOMA IN INSURANCE SERVICES. The Chairperson, Members and employees of Authority shall be deemed to be public servant while performing the duties as per the provision of this Act. The Authority can delegate its powers to Chairperson or members or officers and employees of the Authority as per regulation made under this act. The Authority has the power to make rules related to salary & allowances and other terms & conditions to be applicable to its Chairperson, members, employees or officers. The Authority has power to make regulations to be followed at its meetings . The rule & regulation made by the Authority shall be placed before the Parliament. Any rule or regulations made under this act will bar the applicability of other laws of the land. The Authority has the powers to make amendment in Insurance Act 1938, LIC Act 1956 & GIBN Act 1972.

THE INSURANCE ACT, 1938 ACT

[26th February, 1938]

An Act to consolidate and amend the law relating to the business of insurance. WHEREAS it is expedient to consolidate and amend the law relating to the business of insurance ; It is hereby enacted as follows : - **PART I**

PRELIMINARY 1

(1) This Act may be called the Insurance Act, 1938.

(2) It extends to the whole of Pakistan.

(3) It shall come into force on such date 3 as the Central Government may, by notification in the official Gazette, appoint in this behalf. 2. In this Act, unless there is anything repugnant in the subject or context,- (1) "actuary" means an actuary possessing such qualifications as may be prescribed

(3) "approved securities" means Government securities, and any other security charged on the revenues of the Central Government or of a Provincial Government, or guaranteed fully as regards principal and interest by the Central Government or a Provincial Government ; and any debenture or other security for money issued under the authority of any Act of the Central Legislature or any Provincial Legislature by or on behalf of the trustees of the port of Karachi and any security issued by the Government of an Acceding State or a non-Acceding State and specified as an approved security for the purposes of this Act by the Central Government by notification in the official Gazette ;

(3A) "approved investments" means such investments as the Central Government may, by notification in the official Gazette, specify as approved investments for the purposes of this Act ;

(4) "Auditor" means a person qualified under the provisions of section 144 of the Companies Act, 1913, to act as an auditor of companies;

(5) "certified" in relation to any copy or translation of a document required to be furnished by or on behalf of 9[an insurer or a provident society as defined in Part III means certified by a principal officer of to such insurer or provident society to be a true copy or a correct translation, as the case may be ; (5A) "company" has the meaning assigned to it in clause (2) of section 2 of the Companies Act, 1913 ; (5B) "Controller of Insurance" or "Controller" means the officer appointed by the Central Government to perform the duties of the Controller of Insurance under this Act;

(6) "Court" means the principal Civil Court of original jurisdiction in a district, and includes the High Court in exercise of its ordinary original civil jurisdiction ;

(6A) "employer of agents" means a person certified under section 42A who procures insurance business for an insurer whether wholly or in part by employing or causing to be employed insurance agents on behalf of the insurer ;

(6B) "fire insurance business" means the business of effecting, otherwise than incidentally to some other class of insurance business, contracts of insurance against loss by or incidental to fire or other occurrence customarily included among the risks insured against in fire insurance policies ;

(6C) "general insurance business" means fire, marine or miscellaneous insurance business, whether carried on singly or in combination with one or more of them;.

(7) "Government securities" means Government securities as defined in the Securities Act, 1920 ;

(8) "insurance company" means any insurer being a company, association or partnership which may be wound up under the Companies Act, 1913, or to which the Partnership Act, 1932, applies ;

(8A) "insurance surveyor" means a person (certified under 1 section 44A) who examines the goods, property or any interests insured under a policy of general insurance to ascertain the cause, extent and location of any loss and to determine the amount of such loss and the amount which is payable to the insured by the insurer or insurers or any person liable in respect of such loss ;

(9) "insurer" means------ (a) any individual or unincorporated body of individuals or body corporate incorporated under the law of any country or State outside Pakistan, carrying on insurance business not being a person specified in sub-clause (c) of this clause which- (i) carries on that business in Pakistan ; or (ii) has his or its principal place of business or is domiciled in Pakistan ; or (iii) with the object of obtaining insurance business, employs a representative, or maintains a place of business, in Pakistan ; (b) anybody corporate not being a person specified in sub-clause (c) of this clause carrying on the business of insurance, which is a body corporate incorporated under any law for the time being in force in Pakistan ; or stands to any such body corporate in the relation of a subsidiary company within the meaning of the Companies Act, 1913, as defined by sub-section (2) of section 2 of that Act, and (c) any person who in Pakistan has a standing contract with underwriters who are members of the Society of Lloyd's whereby

such person is authorized within the terms of such contract to issue protection notes, cover notes, or other documents granting insurance cover to others on behalf of the underwriters, but does not include an insurance agent licensed under section 42 or a provident society as defined in Part III ;

(10) "insurance agent" means an insurance agent licensed under section 42 being an individual who receives or agrees to receive payment by way of commission or other remuneration in consideration of his soliciting or procuring insurance business ;

(11) "life insurance business" means the business of effecting contracts of insurance upon human life including any contract whereby the payment of money is assured on death (except policies for death by accident only) or the happening of any contingency dependent on human life or which is subject to payment of premiums for a term dependent on human life and shall be deemed to include----- (a) the granting of disability and double or triple indemnity accident benefits, if so provided in the contract of insurance ; (b) the granting of annuities upon human life ; and (c) the granting of superannuation allowances and annuities payable out of any fund applicable solely to the relief and maintenance of persons engaged or who have been engaged in any particular profession, trade or employment or of the dependents of such person;

(12) "Manager" and "officer" have the meanings assigned to those expressions in clauses (9) and (11) respectively of section 2 of the Companies Act, 1913 ;

(13) "Managing Agent" means a person, firm or company entitled to the management of the whole affairs of a company by virtue of an agreement with the company, and under the control and direction of the directors except to the extent, if any, otherwise provided for in the agreement, and includes any person, firm or company occupying such position by whatever name called. Explanation.-If a person occupying the position of managing agent calls himself manager or managing director, he shall nevertheless be regarded as managing agent for the purposes of section 32 of this Act ;

(13A) "marine insurance business" means the business of effecting contracts of insurance upon vessels of any description, including cargoes, freights and other interests which may be legally insured, in or in relation to such vessels, cargoes and freights, goods, wares, merchandise and property of whatever description insured for any transit by land, water or air, or by any combination thereof and whether or not including warehouse risks or similar risks in addition or as incidental to such transit, and includes any other risks customarily included among the risks insured against in marine insurance policies ;

(13B) "miscellaneous insurance business" means the business of effecting contracts of insurance which is not principally of any kind included in clauses (613), (11) and (13A) ;

(13C) "Pakistan Insurance Corporation" means the Corporation established under the Pakistan Insurance Corporation Act, 1952 ;

(13D) "policy-holder" includes a person to whom the whole of the interest of the policy-holder in the policy is assigned once and for all, but does not include an assignee thereof whose interest in the policy is defeasible or is for the time being subject to any condition;

(14) "prescribed" means prescribed by rules made under section 114 ; and

(14A) "private company" has the meaning assigned to it in clause (13) of section 2 of the Companies Act, 1913 ;

(14B) "public company" means a company incorporated under the Companies Act, 1913 or under the Indian Companies Act, 1882, or under the Indian Companies Act, 1866, or under any Act repealed thereby, which is not a private company or a subsidiary of a private company; and

(15) "scheduled bank" has the meaning assigned to it in clause (m) of section 2 of the State Bank of Pakistan Act, 1956. .

PART II PROVISIONS APPLICABLE TO INSURERS

(1) No person shall, after the commencement of this Act, begin to carry on any class of insurance business in Pakistan, and no insurer carrying on any class of insurance business in Pakistan shall, after the expiry of three months from the commencement of this Act, continue to carry on any such business, unless he has obtained from the Controller of Insurance a certificate of registration for the particular class of insurance business; Provided that in the case of an insurer who was carrying on any class of insurance business in Pakistan at the commencement of this Act, failure to obtain a certificate of registration in accordance with the requirements of this sub-section shall not operate to invalidate any contract of insurance entered into by him if before such date as may be fixed in this behalf by the Central Government by notification in the official Gazette, he has obtained that certificate.

(2) Every application for registration shall be accompanied by-----

(a) a certified copy of the memorandum and articles of association, where the applicant is a company and incorporated under the Companies Act, 1913 or under the Indian Companies Act, 1882, or under the Indian Companies Act, 1866, or under any Act repealed thereby, or, in the case of any other insurer specified in sub-clause (a) (ii) or sub-clause (b) of clause (9) of section 2, a certified copy of the deed of partnership or of the deed of constitution of the company, as the case may be, or, in the case of an insurer having his principal place of business or domicile outside Pakistan, the document specified in clause (a) of section 63 ;

(b) the name, address and the occupation, if any, of the directors where the insurer is a Company incorporated under the Companies Act, 1913, or under the Indian Companies Act, 1882, or under the Indian Companies Act, 1866, or under any Act repealed thereby, and in the case of an insurer specified in sub-clause (a) (ii) of clause (9) of section 2 the names and addresses of the proprietors and of the manager in Pakistan, and in any other case the full address of the principal office of the insurer in Pakistan, and the names of the directors and the manager at such office and the name and address of some one or more persons resident in Pakistan authorized to accept any notice required to be served on the insurer ;

(c) a statement of the class or classes of insurance business done or to be done, and a statement that the amount required to be deposited by section 7 or section 98 before application for registration is made has been deposited together with a certificate from the State Bank of Pakistan showing the amount deposited ;
(d) where the provisions of section 6 or 97 apply, a statement duly certified by an auditor showing the total paid up capital or the total working capital of the insurer and a declaration verified by an affidavit made by the principal officer of the insurer authorized in that behalf that the provisions of those sections as to paid up capital or working capital, as the case may be, have been complied with;

(e) in the case of an insurer having his principal place of business or domicile outside Pakistan, a statement verified by an affidavit made by the principal officer of the insurer setting forth the requirements (if any) not applicable to nationals of the country in which such insurer is constituted, incorporated or domiciled which are imposed by the laws or practice of that country upon Pakistan nationals as a condition of carrying on insurance business in that country ;

(f) a certified copy of the published prospectus, if any, and of the standard policy forms of the insurer and statements of the assured rates, advantages, terms and conditions to be offered in connection with insurance policies together with a certificate in connection with life insurance business by an actuary that such rates, advantages, terms and conditions are workable and sound; Provided that in the ease of marine, accident and miscellaneous insurance business other than workmen's compensation and motor car insurance the Controller of Insurance may exempt any insurer from the above requirements regarding prospectus, forms and statements to such extent and for such period as he may deem fit ; and

(g) the receipt showing payment in the prescribed manner of the prescribed fee which shall not be more than five hundred rupees for each class of business.

(3) In the case of any insurer having his principal place of business or domicile outside Pakistan, the Controller of Insurance shall withhold registration or shall cancel a registration already made, if he is satisfied that in the country in which such insurer has his principal place of business or domicile Pakistan nationals are debarred by the law or practice of the country relating to, or applied to insurance from carrying on the business of insurance , or that any requirement imposed on such insurer the provisions of section 62 is not satisfied.

(4) The Controller of Insurance shall cancel the registration of an insurer either wholly or in so far as it relates to a particular class of insurance business, as the case may be,-----

(a) If the insurer fails to comply with the provisions of section 7 or section 98 as to deposits, or

(b) If the insurer is in liquidation or is adjudged an insolvent, or

(c) If the business or a class of the business of the insurer has been transferred to any person or has been transferred to or amalgamated with the business of any other insurer, or

(d) If the whole of the deposit made in respect of a class of insurance business has been returned to the insurer under section 9; or

(e) If, in the case of an insurer specified in sub-clause (c) of clause (9) of section 2, the standing contract referred to in that sub-clause is cancelled or is suspended and continues to be suspended for a period of six months, and the Controller of Insurance may cancel the registration of an insurer----

(f) If the insurer makes default in complying with, or acts in contravention of, any requirement of this Act or any rule or order made thereunder, and

(g) If the Controller of Insurance has reason to believe that any claim upon the insurer arising in Pakistan under any policy of insurance remains unpaid for three months after final judgment in regular course of law.

(5) When the Controller of Insurance withholds or cancels any registration under sub-section (3) or clause (a), clause (e), clause (f) or clause (g) of sub-section (4), he shall give notice in writing to the insurer of his decision, and the decision shall take effect on such date as he may specify in that behalf in the notice, such date not being less than one month nor more than two months from the date of the receipt of the notice in the ordinary course of transmission.

(5A) When the Controller of Insurance cancels any registration under clause (b), clause (c) or clause (d) of sub-section (4) the cancellation shall take effect on the date on which notice of the order of cancellation is served on the insurer.

(5B) When a registration is cancelled the insurer shall not, after the cancellation has taken effect, enter into any new contracts of insurance, but all rights and liabilities in respect of contracts of insurance entered into by him before such cancellation takes effect shall, subject to the provisions of sub-section (5D), continue as if the cancellation had not taken place.

(5C) Where a registration is cancelled under clause (a), clause (e), clause (f), or clause (g) of sub-section (4), the Controller of Insurance may at his discretion revive the registration, if the insurer makes the deposits required by section 7 or section 98, or has his standing contract restored or has had an application under sub-section (4) of section 3A accepted, or satisfies the Controller of Insurance that no claim upon him such as is referred to in clause (g) of sub-section (4) remains unpaid or that he has complied with the requirement for the non-compliance or contravention of which the registration was cancelled under clause (f) of subsection (4) as the case may be, and complies with any directions which may be given to him by the Controller of Insurance.

(5D) Where the registration of an insurance company is cancelled under sub-section (4), the Controller of Insurance may, after the expiry of six months from the date on which the cancellation took effect, apply to the Court for an order to wind up the insurance company, or to wind up the affairs of the company in respect of a class of insurance business, unless the registration of the insurance company has been revived under subsection (5C) or an application for winding up the company has been already presented to the

Court. The Court may proceed as if an application under this sub-section were an application under sub-section (2) of section 53, or sub-section (1) of section 58, as the case may be.

(6) 5Subject to compliance with the provisions of sections 2C, 5, sub-section (2A) of section 10 and section 32 and of any order made under section 3B, the Controller of Insurance shall, on being satisfied that the applicant has fulfilled all the requirements of this section applicable to him, register the insurer and grant him a certificate of registration.

(7) The Controller of Insurance may, on payment of the prescribed fee which shall not exceed twenty-five rupees, issue a duplicate certificate of registration to replace a certificate lost, destroyed or mutilated, or in any other case where he is of opinion that the issue of a duplicate certificate is necessary.

INSURANCE LAWS (AMENDMENT) ACT, 2015

India's top 5 insurance companies are expected to attract upwards of $3 billion of additional foreign investment in the immediate future following the recent increase in the ceiling on permissible foreign investment from 26% to 49%. One of these, for instance (HDFC Standard Life), was itself recently valued in a publicly announced deal at $3.5 billion – which reflects an impressive trajectory for a relative young industry (outside of state owned insurers).

India currently has 52 registered insurance companies, including 24 engaged in life insurance. It is estimated that over the next five years, the industry will grow at a CAGR of 12-15% and require $8 billion of additional capital. This changing landscape presents new opportunities for strategic and financial investments, and for consolidation in the industry, in no small part driven by the regulatory regime.

INSURANCE AMENDMENT ACT

The long overdue Insurance Laws (Amendment) Act, 2015 was enacted on 23 March, 2015, in one of the first legislative actions of India's new government led by **NarendraModi**. The amendment was first presented before parliament as far back as 2008, but failed to get traction because of the legislative log-jam in the intervening years.

The amendment also underwent a few material changes since it was first introduced, such as the prescription for Indian control over insurance joint ventures. However, the head-line objective of increasing the ceiling on foreign investment from 26% to 49% has been achieved.

HIGHLIGHTS

1. Foreign investment ceiling hiked from 26% to 49%

This ceiling applies to the "paid-up equity capital" of an insurance company. The extent of foreign investment is calculated on the same basis as before, i.e., on a 'proportionate' basis. Thus, for example, if a resident shareholder (R) holds a 75% stake in an insurance company (I), and a foreign investor (F) in turn holds 49% of R, then the extent of foreign investment in I equals 75% X 49% = 36.75.

2. However joint ventures must be Indian controlled

This is a new requirement imposed by the Amendment, while raising the ceiling on foreign ownership from 26% to 49%. Unfortunately, there is no bright-line definition of what is adequate to satisfy this requirement. As long as this is the case, the determination of whether an insurer is Indian controlled would have to be made on a case-to-case basis. It is clear from the amendment that 'control' is viewed more broadly than simply owning a majority of voting shares or appointing a majority of directors, and that rights under a shareholders agreement will be factored in.

3. Alternative types of capital instruments (such as non-voting preference shares)

Before the amendment, insurance companies were only permitted to issue equity / ordinary shares with a uniform par value. The amendment, however, permits insurance companies to issue "such other form of capital as may be specified by the regulations." Permission to issue preference shares or debentures, which do not carry voting rights, would open new avenues for an insurer to raise more foreign capital without impacting its compliance with the 49% ceiling on foreign ownership (which only applies to equity capital) or the requirement for Indian control.

4. Indian partner no longer required to divest stake exceeding 26% after 10 years

Previously, the Insurance Act required the Indian 'promoter' of an insurance company to sell down its stake in excess of 26% within 10 years of commencing business (with the objective of discouraging concentrated ownership of insurance companies). However, given the limit on foreign ownership (previously, 26%), this left the Indian promoter with little option but to attempt a listing or induct additional partners.

5. Health insurance will be regulated as a separate class of insurance

Health insurance is currently regulated as a part of the general insurance business. The amendment now proposes to regulate health insurance on a stand-alone basis. The object behind this is to give health insurance business priority through a more focused regulatory regime.

6. Foreign reinsurers permitted to operate out of wholly owned branch offices

Previously, only domestic insurance companies were permitted to sell reinsurance. India's largest state owned general insurance company (GIC) is currently the only active reinsurer. The government has now dispensed with the requirement for reinsurance business to be conducted only through a company incorporated in India.

7. More powers for insurance regulator, decisions now appealable

Under the amendment, the Insurance Regulatory and Development Authority of India has been granted greater flexibility to regulate insurance companies through its rule making powers on matters such as management fees, commissions and composition of the insurance company's investment portfolio. These were earlier hardwired into the provisions of the Insurance Act itself. Simultaneously, the appeals' process for quasi- judicial and administrative rulings of the authority has been streamlined by designating the securities appellate tribunal as the appellate forum. Earlier such appeals lay only to the central government.

Considerations ForInvestors

1. Previous joint ventures were based on the assumption that the ceiling on foreign investment would be increased from 26% to 49% in the near future. During this transition period, the Indian partner in the JV was expected to fund a substantial portion of the foreign partner's capital commitment, and was compensated with a 'fee' for the time value of its money. Alternatively, the foreign partner was expected to contribute a disproportionate share (in excess of its 26% shareholding) of JV's capital until the ceiling on foreign ownership was raised (at which point, the capital structure would be unwound). As it turned out, it took much longer than expected for the ceiling on foreign ownership to be raised to 49%, which placed considerable stress on the capital structure of these JVs.

2. Going forward, the capital structure of an insurance JV cannot be based on the assumption that the 49% ceiling will be raised in the foreseeable future. Thus, the Indian partner (s) must have deep enough pockets to fund up to half of the JV's future capital requirements on a sustained basis. That said, there is now potential for the foreign partner to meet funding gaps through non-voting preference shares (subject to specific rules, which are awaited). Needless to say, the economics of such preference shares would need to make sense.

3. The new requirement for insurance companies to be Indian controlled imposes constraints on governance rights, which a foreign investor would normally expect in a 50:50 joint venture. For instance, in another context in the past, the government has taken the position that extensive veto rights / reserved matters were a form of 'negative control'. Thus, foreign investors would need to prioritize key governance rights and reserved matters to get most 'bang for their buck'. The idea would be to get maximum leverage without tipping the scales for the control test.

4. Foreign investors should also look for additional leverage (and economics) by segmenting the value chain in the insurance business, and outsourcing functions to wholly owned affiliates. IRDA guidelines, which regulate the nature of activities that can be outsourced, will need to be factored in.

5. The possibility of non-voting securities, restrictions on control by the foreign JV partner and capital constraints of the Indian JV partner may open the door to private equity / financial investors.

6. Capital constraints of Indian participants, restrictions on foreign control and those looking to exit may set the stage for consolidation in the industry.

SUMMARY OF INSURANCE AMENDMENT BILL (2015):

Finally the long awaited Insurance Bill was passed in the RajyaSabha on 12th March, 2015 – thereby bringing us one step closer to the Amendment Act.

Introduced in LokSabha on 4th March, 2015 the Amendment Bill started its journey as an ordinance in December 2014.

The Insurance Ordinance, now the Insurance Bill sought to primarily amend the three major Insurance Acts – giving effect to various new provisions and propositions.

The three Acts to be amended as per the new Bill are:

1. The Insurance Act, 1938.
2. The Insurance Regulatory and Development Authority Act, 1999 – popularly known as the IRDA Act.
3. The General Insurance Business (Nationalization) Act, 1972.

The amendments or the salient features of the Insurance Bill are as follows:-

1. Most important and trending topic – The Bill increases the FDI cap in Insurance Sector to 49% (from the earlier 26%). Of the 49% - 26% shall be under the Automatic Route and the remaining 23% shall have the need of FIPB's approval. FIPB is Foreign Investment Promotion Board.

2. And that Foreign Re-insurers will be able to enter the Indian re-insurance sector which only had the Government owned GIC. Recent news has it that UK's Lloyd's is in talks with the IRDA to open business in India; and many others are making beeline to the Indian shores too.

3. Another measure for the insurance companies in respect of raising capital is the opening of capital market to the public sector general insurance companies.

4. And the start up capital (initial capital – required at the time of registration of the company and start of business subsequently) for a health insurance business will be Rs. 100 crore.

5. Insurance Agents will be fined Rs. 1 crore for mis-selling insurance products. Now that's a relief to the insureds (us the customers) who most of the time have no idea which insurance product is actually the right one for them. Also, unauthorized agents – whose only job is to dupe unsuspecting customers – will be fines Rs. 10 lakhs for their scams. And the customers (insured) can utilize legal course for the redressal of their grievances.

6. Agents are now prohibited from acting as agents of more than one company for the same business segment. That is – one agent cannot be a life insurance agent of more than one life insurance company.

   He can a life insurance agent and a general insurance agent of the same company – as life and general insurances are two separate line/business segments.

7. Life Insurance Companies too have been prohibited from challenging any life insurance policy on any ground after three years of having sold such policy.

8. Life Insurance Council and the General Insurance Council will be empowered to act as self-regulating bodies for their respective segment of insurance businesses and the companies operating in the particular line of business.

9. For the customers (insureds) – faster premium payment and processing, faster claims processing and faster and just redressal has been envisaged and provided for.

10. IRDA has been given more regulatory powers to control any misuse of this sector to dupe the masses; non-compliance of IRDA rule and regulations can result in Rs. 25 crores in fines for companies!

    So customer protection has been given a clear priority.

There you have it 10 important features of the Insurance Laws Amendment Bill, 2015; all of these bulleted points will have effect when the earlier mentioned three Acts are amended.

RBI – History and Functions

RBI is the formidable institution that holds our country's banking/economy/industry sectors all together and geared towards growth and development – let me correct myself – 'sustainable' growth and development, as our current Guv'nor so aptly puts it!

1. Brief Introduction and History:

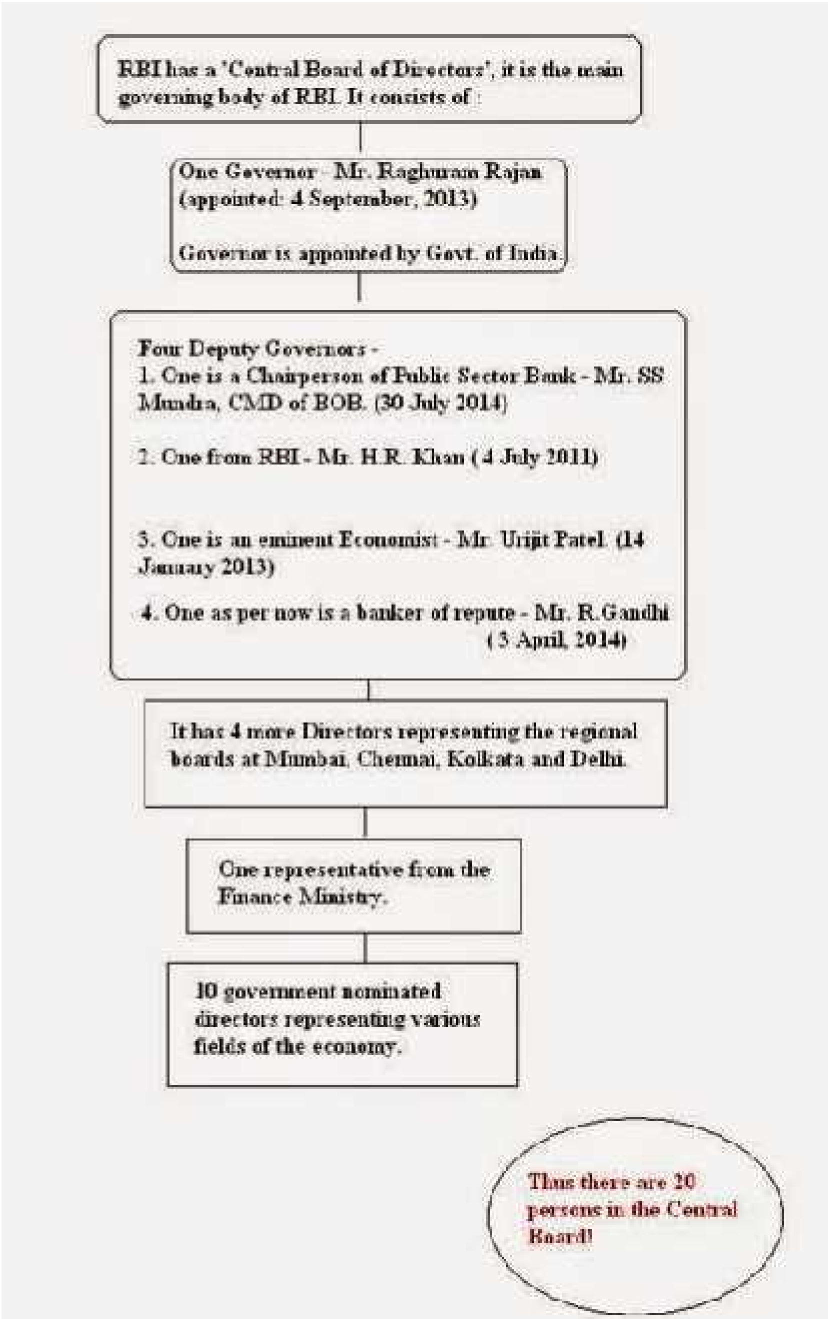
- RBI as India's central bank was conceptualized and **put forward by the Hilton Young Committee in 1926 -27**.
- In 1933, based on Hilton Young Committee's Reports and further improving upon it, the 'Central Banking Investigation Committee's' report was presented and passed in the assembly.
- 1934, saw the **Reserve Bank Of India Act, 1934 being passed**.
- **1935, April 1st, RBI started its operations**, with its head quarter in **Calcutta**.
- 2 years later, in 1937, the Headquarter was permanently shifted to Bombay, (now Mumbai), where it still exists. (all of this happened during the British Rule!)
- **RBI was nationalized in 1949**, 2 years after Independence; the **Governor at the time was C. D. Deshmukh**.
- In 1985 RBI celebrated 50 years of its existence; 75 years in 2010 and 100 years in 2035!

2. Role as Central Bank – What does RBI do?

- RBI is the **Government's banker** and performs banking functions for the central and the state governments.
- RBI is also the **Banker of the Banks -** it maintains operational banking accounts of all scheduled banks.
- It is the **regulator and supervisor** of the country's financial system;
- and sets benchmarks and regulations for the proper operation of the country's banking and financial sector.
- RBI is the **Issuer of Currency** – it issues bank notes and exchanges or destroys currency notes and coins not fit for circulation.

- RBI is instrumental in formulating, implementing and monitoring the country's monetary policies; 'monetary policies' are set of policies formulated by the central bank to attempt to control the economy, the money supply and ultimately inflation.
- Through the provisions of the Foreign Exchange Management Act, 1999, RBI**regulates and facilitates external trade** and promotes development and maintenance of foreign exchange market in India – through which India maintains its forex reserves.
- RBI's monetary policies are **instrumental in maintaining price stability** in the economy – RBI has battled inflationary trends in the Indian Economy. (We'll cover it in another discussion!)
- It also acts as an **advisor to the Government of India** from economic point of view.
- It is the like the **'Godfather' of the public's money**, (albeit the sinister intentions! – RBI is all good!) of the entire banking system and hence the protector of common public's deposits, the influence behind loan rates, the policy maker for financial inclusion, the inflation checker etc.

3. THE GOVERNOR, THE DEPUTIES AND THE BOARD:



4. TRIVIA:

- The first Governor of RBI was Sir Osborne Smith (under the British Government); first Indian Governor is Sir C. D. Deshmukh. RaghuramRajan is the 23rd Governor (current Guv'nor) and ex-PM Manmohan Singh was the 15th Governor!
- The Banking Ombudsman Scheme 2006, has been formulated by RBI for the effective addressal of customer complaints; the Banking Ombudsman Act, 2005.

- RBI prints notes through, the **Bharatita Reserve Bank Note Mudran Private Limited and Security Printing and Minting Corporation of India Limited** – a wholly owned company of the Government of India.
- RBI decides the design of currency notes and coins.
- RBI’s logo/emblem/seal is of a **palm tree and a tiger**.
- RBI has started publishing bi-monthly policy updates since April 2014; it’s latest was in September 2014 being the 4th bi-monthly update.
- RBI is a member of the **Asian Clearing Union.**
- It is also a member of the **Alliance For Financial Inclusion**.
- RBI was conceptualized as per the vision envisaged by **Dr. B. R. Ambedkar** in his book – “The Problem of the Rupee – Its origin and its solution”.
- RBI has served as the **central banks of Burma and Pakistan** for brief period of time.
- RBI has a site named ‘paisaboltahai’! – launched in 2012 to make the masses aware of the features of currency notes to make them vigilant and an aid in the fight against counterfeit notes.

RBI is currently withdrawing all the pre-2005 notes from the system as a measure to combat the twin maladies of counterfeit notes and black money.

ABBREVIATIONS

- A

- **Accelerated death benefits -** A insurance policy with an accelerated death benefits provision will pay - under certain conditions - all or part of the policy death benefits while the policyholder is still alive. These conditions include proof that the policyholder is terminally ill with a life expectancy of less than 12 months, has a specified life-threatening disease or is in a long-term care facility such as a nursing home. For group term life policies or certificates, the amount of accelerated benefit is limited by law to the greatest of $25,000 or 50 percent of the death benefit. By accepting an accelerated benefit payment, a person could be ruled ineligible for Medicaid or other government benefits. The proceeds may also be taxable.
- **Accident -** An unforeseen, unintended event.
- **Accident-only policies -** Policies that pay only in cases arising from an accident or injury.
- **Accidental death benefits -** If a life insurance policy includes an accidental death benefit, the cause of death will be examined to determine whether the insured´s death meets the policy´s definition of accidental.
- **Actual cash value (ACV) -** The value of your property, based on the current cost to replace it minus depreciation. Also see "replacement cost."
- **Additional living expenses (ALE) -** Reimburses the policyholder for the cost of temporary housing, food, and other essential living expenses, if the home is damaged by a covered peril that makes the home temporarily uninhabitable. Policies cap the amount of ALE payable to 20 percent of the policy's dwelling coverage.
- **Adjuster -** An individual employed by an insurer to evaluate losses and settle policyholder claims. Also see "public insurance adjuster."
- **Administrative expense charge -** An amount deducted, usually monthly, from the policy.
- **Agent -** A person who sells insurance policies.
- **Annuitant -** A person who receives the payments from an annuity during his or her lifetime.
- **Annuity -** A contract in which the buyer deposits money with a life insurance company for investment. The contract provides for specific payments to be made at regular intervals for a fixed period or for life.

- **Annuity certain -** An annuity that provides a benefit amount payable for a specified period of time regardless of whether the annuitant lives or dies.
- **Annuity period -** The time span between the benefit payments made under an annuity contract.
- **Application -** A form to be filled out with personal information that an insurance company will use to decide whether to issue a policy and how much to charge.
- **Appraisal -** An evaluation of a home insurance property claim by an authorized person to determine property value or damaged property value. Many policies provide an "appraisal" process to resolve claim disputes. In this process, you and the insurance company hire separate damage appraisers. The two appraisers choose a third appraiser to act as an "umpire." The appraisers then review your claim, and the umpire rules on any disagreements. The umpire's decision is binding on you and the insurance company, but only for the loss amount. If there is a dispute over what is covered, you can still pursue a settlement of the coverage issue after the appraisal takes place. You are required to pay for your appraiser and half of the umpire's costs.
- **Assignment -** The transfer of all or part of a policy owner´s legal title and rights to a policy to another person. It is possible to change this type of transfer at a later date.

- ## B

- **Benchmark rate(s) -**The rates set annually by the Commissioner of Insurance that rate-regulated insurance companies use to reference their rates. Rate-regulated insurance companies filing rates within a range of 30 percent above or below the benchmarks may use them immediately upon filing without prior approval. A company that wants to set its rates outside this range must receive the Commissioner´s prior approval.
- **Beneficiary -** The person, people, or entity designated to receive the death benefits from a life insurance policy or annuity contract.
- **Binder -** A temporary insurance contract that provides proof of coverage until a permanent policy is issued.
- **Bodily injury (BI) -** Physical injury to a person, including death.

- ## C

- **Cancellation -** Termination of an insurance policy by the company or insured before the renewal date.
- **Capitation -** A system where an HMO pays a doctor or hospital a flat monthly fee for the care of each health plan member whether or not any services are delivered.
- **Carrier -** A company or HMO that provides health care coverage.
- **Cash surrender option -** No forfeiture option that specifies the policy owner can cancel the coverage and receive the entire net cash value in a lump sum.
- **Cash value -** The amount of money the life insurance policy owner will receive as a refund if the policy owner cancels the coverage and returns the policy to the company. Also called "cash surrender value."
- **Certificates of coverage -** Printed material showing members of a group health benefit plan the benefits provided by the group master policy.
- **Churning -** This can occur when an agent persuades a consumer to borrow against an existing life insurance policy to pay the premium on a new one.
- **Claim -** A policyholder's request for reimbursement from an insurance company under a home insurance policy for a loss to property.

- **Claimant -** A person who makes an insurance claim.
- **Closed practice -** A primary care physician who is not accepting new patients. Note: Even if your physician is on the HMO or PPO list, call to see if the practice is still open for accepting new HMO or PPO participants.
- **Coinsurance -** The percentage of each health care bill a person must pay out of their own pocket. Non-covered charges and deductibles are in addition to this amount.
- **Coinsurance maximum -** The most you will have to pay in coinsurance during a policy period (usually a year) before your health plan begins paying 100 percent of the cost of your covered health services. The coinsurance maximum generally does not apply to copayments or other expenses you might be required to pay.
- **Collision coverage -** Pays for damage to a car without regard to who caused an accident. The company must pay for the repair or up to the actual cash value of the vehicle, minus the deductible.
- **Company profile -** A summary of information about an insurance company, including its license status, financial data, complaint history, and a history of regulatory action.
- **Complaint -** A written communication primarily expressing a grievance against an insurance company or agent.
- **Complaint history -** Information collected or maintained by the Texas Department of Insurance (TDI) relating to the number of complaints received against a particular insurer, agent, or premium finance company and the disposition of the complaints.
- **Comprehensive coverage (physical damage other than collision) -** Pays for damage to or loss of your automobile from causes other than accidents. These include hail, vandalism, flood, fire, and theft.
- **Conditional receipt -** A premium receipt given to an applicant that makes a life and health insurance policy effective only if or when a specified condition is met.
- **Consumer Choice plans -** Health care plans offered by carriers that do not include all of the state-mandated benefits. Consumer choice plans must provide members with a disclosure statement and a list describing the mandated benefits that are not covered.
- **Contestable period -** A period of up to two years during which a life insurance company may deny payment of a claim because of suicide or a material misrepresentation on an application.
- **Contingent beneficiary -** Another party or parties who will receive the life insurance proceeds if the primary beneficiary should predecease the person whose life is insured.
- **Contract -** In most cases, an insurance policy. A policy is considered to be a contract between the insurance company and the policyholder.
- **Conversion privilege -** The right to change (convert) insurance coverage from one type of policy to another. For example, the right to change from an individual term insurance policy to an individual whole life insurance policy.
- **Copayment -** The amount you must pay out of your own pocket when you receive medical care or a prescription drug. Copayments usually refer to set fees that HMOs charge to access health care services, but they also may apply to a PPO insurance contract.
- **Coordination of benefits -** A group plan provision that stipulates the primary carrier when you have more than one health plan. This ensures that payments made by the carriers do no exceed the cost of the services provided.
- **Credit life insurance -** This is a special type of coverage usually designed to pay off a loan or charge account balance if the policyholder dies. Some lenders or sellers may require credit life insurance before they will approve a loan. If credit life is required, the lender or seller cannot require the policyholder to purchase it from them or a particular insurance company. If the policyholder has an existing life policy, the creditor has to accept an assignment of benefits under their existing policy instead of requiring them to purchase a credit life policy. Credit life

insurance premium rates for loans of 10 years or less are regulated by TDI, but premium rates for loans that are more than 10 years old are unregulated.

- **D**

- **Death benefit -** Amount paid to the beneficiary upon the death of the insured.
- **Declarations page -** The page in a policy that shows the name and address of the insurer, the period of time a policy is in force, the amount of the premium, and the amount of coverage.
- **Deductible -** The amount the insured must pay in a loss before any payment is due from the company.
- **Deferred annuity -** An annuity under which the annuity payment period is scheduled to begin at some future date.
- **Depreciation -** Decrease in the value of property over time due to use or wear and tear.
- **Disability benefits -** Insurance company coverage that pays for lost wages when you are unable to work because of an illness or injury.
- **Dread disease policies -** Policies that pay only if you contract the illness specified in the policy. (Also called specified disease policies.)

- **E**

- **Earned premium -** The portion of a policy premium that has been used to actually buy coverage, or that the insurance company has "earned." For instance, if a policyholder has a six-month policy that was paid for in advance, two months into the policy, there would be two months of earned premium. The remaining four months of premium is "unearned premium."
- **Effective date -** The date on which an insurance policy becomes effective.
- **Eligible employee -** An employee who meets the eligibility requirements for coverage in a group plan. To be eligible to join a group plan, you usually must work full-time for at least 30 hours a week. Some group plans may require employees to be a certain pay grade or job classification to be eligible for coverage.
- **Emergency care -** Health care services provided in a hospital emergency facility or comparable facility to evaluate and stabilize sudden and severe medical conditions.
- **Endorsement -** A written agreement attached to a policy expanding or limiting the benefits otherwise payable under the policy. Also called a "rider."
- **ERISA plan -** Health plans created under the Employee Retirement and Income Security Act (ERISA) of 1974. These plans are self-funded, which means that claims are paid strictly from employer contributions and employee premiums. ERISA plans are administered by the U.S. Department of Labor. (Also known as a self-funded plan.)
- **Escrow -** Money placed in the hands of a third party until specified conditions are met.
- **Evidence of insurability -** To qualify for a particular policy at a particular price, companies have the right to ask for information about health and lifestyle. An insurance company will use this information - the evidence of insurability - in deciding if your application for insurance is acceptable and at what premium rate.
- **Exclusions or limitations -** Provisions that exclude or limit coverage of certain named diseases, medical conditions, or services, as well as some sicknesses or accidents that occur under specified circumstances.
- **Expiration date -** The date on which an insurance policy expires.
- **Extended term insurance option -** A policy provision that provides the option of continuing the existing amount of insurance as term insurance for as long a period of time as the contract's cash value will purchase.

• F

- **Face value -** The initial amount of death benefit provided by the policy as shown on the face page of the contract. The actual death benefit may be higher or lower depending on the options selected, outstanding policy loans, or premium owed.
- **Fee for service -** A health plan that allows you to go to any physician or provider you choose, but requires that you pay for the services yourself and file claims for reimbursement. (Also known as an indemnity plan.)
- **File and Use -** Residential property rates utilize a system called "file and use." Under this system, insurance companies file their rates with the TDI, but they do not need prior approval to implement new rates. If TDI determines that a company's rates are excessive, the company can be ordered to pay refunds to the policyholders it overcharged. Companies can appeal adverse rate decisions.
- **First-party claim -** A claim filed by an insured against his or her own insurance policy.
- **Free examination period -** Also known as "10-day free look" or "free look," it is the time period after a life insurance policy or an annuity is delivered during which the policy owner may review it and return it to the company for a full refund of the initial premium. Variable life policies are required to include a "free-look" provision. For other coverage, it is at the company´s option.

• G

- **Gap insurance -** Insurance that pays the difference between the actual cash value of a vehicle and the amount still to be paid on the loan. Some gap policies may also cover the amount of the deductible.
- **Gatekeeper -** The physician selected by HMO members to serve as their personal doctor and provide all basic medical treatments and any referrals to medical specialists. Gatekeepers are prohibited in PPOs and other indemnity health plans. (Also known as a primary care physician.)
- **Grace period(s)** - The time - usually 31 days - during which a policy remains in force after the premium is due but not paid. The policy lapses as of the day the premium was originally due unless the premium is paid before the end of the 31 days or the insured dies.
- **Grievance procedure -** The required appeal process an HMO provides for you to protest a decision regarding medical necessity or claim payment. Insurance companies also may have grievance procedures.
- **Group life insurance -** This type of life insurance provides coverage to a group of people under one contract. Most group contracts are sold to businesses that want to provide life insurance for their employees. Group life insurance can also be sold to associations to cover their members and to lending institutions to cover the amounts of their debtor loans. Most group policies are for term insurance. Generally, the business will be issued a master policy and each person in the group will receive a certificate of insurance.
- **Group of companies -** Several insurance companies under common ownership and often common management.
- **Guaranteed renewable -** Policies that may not be non-renewed or canceled, except in certain cases. An insurer may cancel a guaranteed renewable policy for failure to pay premiums, fraud, or intentional material misrepresentation. It also may cancel your policy if the company formally leaves the individual or group health market.

- # H

- **Health benefit plan -** In most cases, health care services provided to employees by an employer. It can be an indemnity plan or an HMO plan.
- **Health care reimbursement accounts -** Although not an insurance benefit, these accounts allow you to set aside pre-tax dollars to pay for medical care or medical costs not covered by your regular health benefit plan.
- **Health maintenance organization (HMO) -** Managed care plans that provide health care services to their members through networks of doctors, hospitals, and other health care providers. HMOs are popular alternatives to traditional health care plans offered by insurance companies because they cover a wide variety of services, usually at a lower cost.
- **Home service life -** A method of selling and servicing insurance, mostly life and health insurance, and does not identify the type or relative cost of the product that is sold. Some companies that market on a home service basis sell what is known as "industrial life insurance." These are most often low death benefit policies with face amounts that may vary from $1,000 to $5,000 and which accumulate cash values at a very low rate. They are intended primarily to cover the expenses of a last illness and burial. The relative cost of industrial life insurance is extremely high compared to some other cash value policies and term life insurance policies.
- **Hospital confinement policies -** Policies that pay a fixed amount each day you are in the hospital.
- **Hospital-surgical policies -** Insurance policies that cover hospital and surgical services.

- # I

- **Incontestability -** A provision that places a time limit - up to two years - on a life insurance company´s right to deny payment of a claim because of suicide or a material misrepresentation on your application.
- **Indemnity plan -** A health plan that allows you to go to any physician or provider you choose, but requires that you pay for the services yourself and file claims for reimbursement. (Also known as fee-for-service.)
- **Independent adjuster -** A person who charges a fee to an insurance company to adjust the company´s claim.
- **Independent Review Organization (IRO) -** If your health insurer or HMO declines to pay for health care you believe is medically necessary or appropriate, you may request that it contact TDI and request that an independent group (IRO) review the decision. An IRO review is not required for self-funded ERISA plans. Unless your condition is life-threatening, you must complete the standard appeal process before requesting an IRO review. IROs are not affiliated with your health plan. The health plan must pay for treatment the IRO determines is necessary.
- **Indexed life insurance -** A whole life plan of insurance that provides for the face amount of the policy and, correspondingly, the premium rate, to automatically increase every year based on an increase in the Consumer Price Index (CPI) or another index as defined in the policy.
- **Inflation protection -** Automatically adjusts home insurance policy limits to account for increases in the costs to repair or rebuild a property.
- **Inpatient medical care -** Medical and surgical care usually received in a hospital or skilled nursing home environment.

- **Insurable interest -** Any financial interest a person has in the property or person insured. In life insurance, a person´s or party´s interest - financial or emotional - in the continuing life of the insured.
- **Insured -** The person or organization covered by an insurance policy.
- **Insurer -** The insurance company.
- **Interpleader -** This is a procedure when conflicting claims are made on a life insurance policy by two or more people. Using this procedure the insurance company pays the policy proceeds to a court, stating the company cannot determine the correct party to whom the proceeds should be paid.
- **Irrevocable beneficiary** - A named beneficiary whose rights to life insurance policy proceeds are vested and whose rights cannot be canceled by the policy owner unless the beneficiary consents.

- **J**

- **Justified complaint** - A complaint that exposes an apparent violation of a policy provision, contract provision, rule, or statute; or which indicates a practice or service that a prudent layperson would regard as below customary business or medical standards.

- **K**
- **L**

- **Lapse -** The termination of an insurance policy because a renewal premium is not paid by the end of the grace period.
- **Liability -** Responsibility to another for one´s negligence that results in injury or damage.
- **Liability insurance** - An auto insurance coverage that pays for injuries to the other party and damages to the other vehicle resulting from an accident the policyholder caused. It also pays if the accident was caused by someone covered by the policyholder's policy, including a driver operating the car with their permission.
- **Liability limits -** The maximum amount your liability policy will pay. Your policy must pay at least $30,000 for each injured person, up to a total of $60,000 per accident, and $25,000 for property damage per accident. This basic coverage is called "30/60/25" coverage.
- **Liability coverage** - Covers losses that an insured is legally liable. For homeowners insurance, for example, liability coverage protects the policyholder against financial loss if they are sued and found legally responsible for someone else's injury or property damage.
- **Lifetime maximum -**The total dollar amount a health care plan will pay over a policyholder´s lifetime.
- **Long-term care benefits -** Coverage that provides help for people when they are unable to care for themselves because of prolonged illness or disability. Benefits are triggered by specific findings of "cognitive impairment" or inability to perform certain actions known as "Activities of Daily Living." Benefits can range from help with daily activities while recuperating at home to skilled nursing care provided in a nursing home.
- **Loss** - The amount an insurance company pays on a claim.
- **Loss of use** - A provision in homeowners and renters insurance policies that reimburses policyholders for the additional costs (housing, food, and other essentials) of having to live elsewhere while the home is being restored following a disaster.
- **Loss history** - Refers to the number of insurance claims previously filed by a policyholder. A company will consider loss history when underwriting a new policy or considering a renewal of

an existing policy. Companies view loss history as an indication of the likelihood that an insured will file a claim in the future.

• M

- **Major medical policies -** Health care policies that usually cover both hospital stays and physicians´ services in and out of the hospital.
- **Managed health care -** A system that organizes physicians, hospitals, and other health care providers into networks with the goal of lowering costs while still providing appropriate medical services. Many managed care systems focus on preventive care and case management to avoid treating more costly illnesses.
- **Mandated benefits -** Health care benefits that state or federal law says must be included in health care plans.
- **Mandated offerings -** Health care benefits that must be offered to the employer or organization sponsoring a group policy. The sponsor is not required to include the benefits in its group plan.
- **Market value -** The current value of your home, including the price of land.
- **Material misrepresentation -** A significant misstatement on an application form. If a company had access to the correct information at the time of application, the company might not have agreed to accept the application.
- **Maximum out-of-pocket expense -** The maximum amount someone covered under a health care plan must pay during a certain period for expenses covered by the plan. Until the maximum is reached, the person covered is required to pay a copayment or a percentage on each claim.
- **Medical payments and personal injury protection (PIP) -** Both auto insurance coverages pay limited medical and funeral expenses if the policyholder, a family member, or a passenger in the car is injured or killed in a motor vehicle accident. PIP also pays lost-income benefits.
- **Medically necessary care -** Health care that results from illness or injury or is otherwise authorized by the health care plan. This term can be defined differently from one health care plan to another.
- **Mortality charge -** The cost of the insurance protection element of a universal life policy. This cost is based on the net amount at risk under the policy, the insured´s risk classification at the time of policy purchase, and the insured´s current age.
- **Mortality expenses -** The cost of the insurance protection based upon actuarial tables which are based upon the incidence of death, by age, among given groups of people. This cost is based on the amount at risk under the policy, the insured´s risk classification at the time of policy purchase, and the insured´s current age.
- **Multiple employer plans -** Benefit plans that serve employees of more than one employer and are set up under terms of a collective bargaining agreement.
- **Multiple Employer Welfare Arrangements (MEWAs) -** In general, employee association plans (not set up under a collective bargaining agreement) that provide benefits to employees of more than one employer. If the MEWA assumes all or part of the plan´s insurance risk, it must be licensed by TDI.

• N

- **Named driver exclusion -** An endorsement to an auto insurance policy that provides that a policy does not cover accidents when a specifically named person is the driver.
- **Named driver policy -** An auto insurance policy that doesn't provide coverage for an individual residing in a named insured 's household specifically unless the individual is named on the policy.

The term includes an auto insurance policy that has been endorsed to provide coverage only for drivers specifically named on the policy.

- **Network -** All physicians, specialists, hospitals, and other providers who have agreed to provide medical care to HMO members under terms of the contract with the HMO. Insurance contracts with preferred provider benefits also use networks.
- **Non-network providers -** Health care providers and treatment facilities not under contract with the HMO or those that do not have an insurance PPO contract.
- **Non-owners policy** - Auto insurance coverage that offers liability, uninsured motorist, and medical payments to a named insured who does not own a vehicle.
- **Nonparticipating policy** - A life insurance policy that does not grant the policy owner the right to policy dividends.
- **Non-renewal -** A decision by an insurance company not to renew a policy.

O

- **Out-of-area -** The area outside the counties or ZIP codes in which an HMO provides regular and preventive coverage.
- **Out-of-network services** -Health care services from providers not in an HMO´s or a PPO´s network. Except in certain situations, HMOs will only pay for care received from within its network. If you´re in a PPO plan, you will have to pay more to receive services outside the PPO´s network.
- **Out-of-pocket maximum -** The most you will have to pay during a policy period (usually a year) before you no longer have to pay your share of coinsurance for covered health services. Once you've reached your out-of-pocket maximum, your health plan generally pays 100 percent of your health care costs, up to your policy's coverage limit. You are still responsible for paying your premium. Depending on your plan, you also may have to continue paying copayments and some other expenses.
- **Outpatient services** - Services usually provided in clinics, physician or provider offices, hospital-based outpatient departments, home health services, ambulatory surgical centers, hospices, and kidney dialysis centers.

P

- **Paid-up** - This event occurs when a life insurance policy will not require any further premiums to keep the coverage in force.
- **Paid-up additions** - Additional amounts of life insurance purchased using dividends; these insurance amounts require no further premium payments.
- **Peril** - A specific risk or cause of loss covered by a property insurance policy, such as a fire, windstorm, flood, or theft. A named-peril policy covers the policyholder only for the risks named in the policy. An all-risk policy covers all causes of loss except those specifically excluded.
- **Personal property** - All tangible property (other than land) that is either temporary or movable in some way, such as furniture, jewelry, electronics, etc.
- **Point-of-service (POS) plans -** POS plans allow an HMO to contract with an insurance company to give enrollees the option of receiving services outside the HMO´s network. In Texas, HMOs must contract with an insurance company to offer POS plans.
- **Policy** - The contract issued by the insurance company to the insured.
- **Policy loan** - An advance made by a life insurance company to a policy owner. The advance is secured by the cash value of the policy.

- **Policy owner -** The person or party who owns an individual insurance policy. This person may be the insured, the beneficiary, or another person. The policy owner usually is the one who pays the premium and is the only person who may make changes to a policy.
- **Policy period** - The period a policy is in force, from the beginning or effective date to the expiration date.
- **Precertification -** A requirement that the health care plan must approve, in advance, certain medical procedures. Precertification means the procedure is approved as medically necessary, not approved for payment.
- **Pre-existing condition -** A medical problem or illness you had before applying for health care coverage.
- **Preferred provider organization (PPO) -** A type of plan in which physicians, hospitals, and other providers agree to discount rates for an insurance company. These providers are part of the PPO´s network. Insurance contracts with PPO provisions reimburse at a higher percentage if you use providers in the network. If you go to providers outside the PPO´s network, you will have to pay more for your care.
- **Premium -** The amount paid by an insured to an insurance company to obtain or maintain an insurance policy.
- **Premium load -** An amount deducted from each life insurance premium payment, which reduces the amount credited to the policy.
- **Preventive care -** Health care services such as routine physical examinations and immunizations that are intended to prevent illnesses before they occur.
- **Primary care physician -** The physician selected by HMO members to serve as their personal doctor and provide all basic medical treatments and any referrals to medical specialists. Primary care physicians are prohibited in PPOs and other indemnity health plans. (Also known as a gatekeeper.)
- **Property damage (PD) -** Physical damage to property.
- **Provider -** A hospital, pharmacist, registered nurse, organization, institution, or person licensed to provide health care services in Texas. A physician also may be referred to as a provider. The term provider is often used collectively to refer to individual or facilities who provide health services.
- **Provider network -** All the doctors, specialists, hospitals, and other providers who agree to provide medical care to HMO or PPO members under terms of a contract with the HMO or insurance company.
- **Public insurance adjuster -** An individual employed by a policyholder to negotiate a claim with the insurance company in exchange for a percentage of the claim settlement. Public insurance adjusters must be licensed by TDI.

- **Q**
- **R**

- **Rated policy -** A policy issued at a higher premium to cover a person classified as a greater-than-average risk, usually due to impaired health or a dangerous occupation.
- **Refund** - An amount of money returned to the policyholder for overpayment of premium or if the policyholder is due unearned premium.
- **Reinstatement -** The process by which a life insurance company puts a policy back in force after it lapsed because of nonpayment of renewal premiums.
- **Renewal** - Continuation of a policy after its expiration date.

- **Rental reimbursement coverage -** Auto insurance coverage that pays a set daily amount for a rental car if the policyholder's car is being repaired because of damage covered by the auto policy.
- **Renters insurance -** A form of property insurance that covers a policyholder's belongings against perils. It also provides personal liability coverage and additional living expenses. Possessions can be covered for their replacement cost or the actual cash value, which includes depreciation.
- **Replacement cost -** Insurance coverage that pays the dollar amount needed to replace the structure or damaged personal property without deducting for depreciation but limited by the policy's maximum dollar amount.
- **Rescission -** The termination of an insurance contract by the insurer when material misrepresentation has occurred.
- **Residual market -** Insurers, such as assigned risk plans and the Texas FAIR Plan, that exist to provide coverage for those who cannot get it in the standard market.
- **Return premium -** A portion of the premium returned to a policy owner as a result of cancelation, rate adjustment, or a calculation that an advance premium was in excess of the actual premium.
- **Rider -** A written agreement attached to the policy expanding or limiting the benefits otherwise payable under the policy. Also called an "endorsement."
- **Rule of 78 -** This is a method for calculating the amount of unused premium that takes into account the fact that more insurance coverage is required in the early months of the loan, since the payoff of the loan is greater. As the loan is paid off, less coverage is being paid for, so the refund percentage decreases.
- **Rule of anticipation -** This is a similar method to "Rule of 78" where the amount of unused premium takes into account the fact that more insurance coverage is required in the early months of the loan, since the payoff of the loan is greater. As the loan is paid off, less coverage is being paid for, so the refund percentage decreases.

- **S**

- **Self-funded plans -** Plans funded strictly from employer contributions and employee premiums. These plans are authorized by the federal Employee Retirement and Income Security Act (ERISA) of 1974 and are regulated by the U.S. Department of Labor. State regulation of these plans is limited. Although an insurance company may be hired to administer the plan, the insurance company assumes no risk. (Also known as ERISA plans.)
- **Service area -** The counties, or portions of counties, where an HMO or PPO provides coverage.
- **Single interest insurance -** Insurance coverage for only one of the parties having an insurable interest in that property. For instance, if a policyholder still owes money on their mortgage and they do not have homeowners insurance, the lender may take out a single interest insurance policy to protect its own interest in the property. Single interest insurance protects only the policy owner, not the homeowner.
- **Single-premium whole life policy -** A type of limited-payment policy that requires only one premium payment.
- **Skilled nursing care -** Care needed after a serious illness. It is available 24 hours a day from skilled medical personnel such as registered nurses or professional therapists. A doctor orders skilled nursing care as part of a treatment plan.
- **Specified disease policies -** Policies that pay only if you contract the illness specified in the policy. (Also called dread disease policies.)
- **Specified medical limitations -** A dollar limit placed on treatment of certain medical conditions or types of treatment.

- **Staff adjuster -** Employee of the insurance company´s claims department.
- **Subrogation -** Assignment of rights of recovery from insured.
- **Suicide clause -** Life insurance policy wording which specifies that the proceeds of the policy will not be paid if the insured takes his or her own life within a specified period of time after the policy´s date of issue.
- **Surcharge -** An extra charge added to a premium by an insurance company. For automobile insurance, a surcharge is usually added if a policyholder has at-fault accidents.
- **Surplus lines -** Coverage from out-of-state companies not licensed in Texas but legally eligible to sell insurance on a "surplus lines" basis. Surplus lines companies generally charge more than licensed companies and often offer less coverage.
- **Surrender charges -** Charges that are deducted if a life insurance policy or annuity is cashed in (surrendered). These charges also are deducted if the policyholder borrows money on the policy or if the policy lapses for non-payment.

- **T**

- **Texas Health Insurance Pool -** The Health Pool provides health insurance to Texans unable to obtain coverage because of their medical history or for certain other reasons.
- **Third-party administrator (TPA) -** An organization that performs managerial and clerical functions related to an employee benefit insurance plan by an individual or committee that is not an original party to the benefit plan.
- **Third-party claim -** A claim filed against another person's insurance policy.
- **Towing and labor coverage -** Auto insurance coverage that pays for towing charges when a car can´t be driven. Also pays labor charges, such as changing a flat tire, at the place where the car broke down.

- **U**

- **Underwriter -** The person who reviews an application for insurance and decides if the applicant is acceptable and at what premium rate.
- **Underwriting -** The process an insurance company uses to decide whether to accept or reject an application for a policy.
- **Unearned premium -** The amount of a pre-paid premium that has not yet been used to buy coverage. For instance, if a policyholder paid in advance for a six-month premium, but then cancel the policy after two months, the company must refund the remaining four months of "unearned" premium.
- **Uninsured/underinsured motorist (UM/UIM) coverage -** Auto insurance coverage that pays for the policyholder's injuries and property damage caused by a hit-and-run driver or a motorist without liability insurance. It will also pay when medical and car repair bills are higher than the other driver´s liability coverage.
- **Universal life insurance -** The key characteristic of universal life insurance is flexibility. Within limits, a policyholder can choose the amount of insurance and the premium they want to pay. The policy will stay in force as long as the policy value is sufficient to pay the costs and expenses of the policy. The policy value is "interest-sensitive," which means that it varies in accordance with the general financial climate. Lowering the death benefit and raising the premium will increase the growth rate of your policy. The opposite also is true. Raising the death benefit and lowering the premium will slow the growth of your policy. If insufficient premiums are paid, the policy could lapse without value before the maturity date is reached. (The maturity date is the time your

policy ceases and cash surrender value would be payable if the policyholder is still living.) Therefore, it is the policyholder's responsibility to consistently pay a premium that is high enough to ensure that the policy´s value will be adequate to pay the monthly cost of the policy. The company is required to send an annual report and also to notify the policyholder if they are in danger of losing their policy due to insufficient value.

- **Usual and customary -** The charge for medical services that refers to the amount approved by the carrier for payment. These charges may be based on rates usually charged by physicians and providers in your area; rate averages compiled by independent rating services; or rate averages compiled by the insurance company.
- **Utilization review -** The review process aimed at helping HMOs and insurance companies reduce health care costs by avoiding unnecessary care. The review includes evaluating requests for medical treatment and determining, on a case-by-case basis, whether that treatment is necessary.

- **V**

- **Variable annuity -** A form of annuity policy under which the amount of each benefit payment is not guaranteed and specified in the policy, but which instead fluctuates according to the earnings of a separate account fund.
- **Variable life insurance -** A type of whole life policy in which the death benefit and the cash value fluctuate according to the investment performance of a separate account fund that the policyholder selects. Because the investment account is regulated by the Securities and Exchange Commission, the policyholder must be presented with a prospectus before they purchase a variable life policy.
- **Viatical settlement agreements -** Viatical settlements involve the sale of an existing life insurance policy by a viator (person with a life threatening or terminal illness) to a viatical settlement company in return for a cash payment that is a percentage of the policy´s death benefit.

- **W**

- **Whole life insurance -** Whole life insurance policies are one type of cash value insurance. Whole life policies offer protection through a lifetime - that is, for a person´s "whole life." From the day a person buys the policy, they pay a scheduled premium. The scheduled premium may be level or may increase after a fixed time period, but it will not change from the amount(s) shown in the policy schedule. It is important to look at the policy schedule to understand what the premium payments will be and that they are affordable over time. This premium is based on age at the time of purchase. Initially, it will be higher than the premium paid for a term policy, but they are likely to decrease over time if the policy is kept for a long time. Part of each premium payment will go to cash value growth, part for the death benefit and part for expenses (such as commissions and administrative costs). There is no need to renew whole life policies. As long as the premium is paid when due, coverage will continue in force.

Full Forms of Financial Terms

Important financial terms for banking exams:-

Term	Full form
EFFC A/c	Exchange Earner Foreign Currency Account
LRS	Liberalised Remittance Scheme
NIM	Net Interest Margin
LIBOR	London Inter Bank Offered Rate
MIBOR	Mumbai Inter Bank offered Rate
IBRD	International Bank for Reconstruction & Development
MLAT	Mutual Legal Assistance Treaty (SAARC)
NACP	National Aids Control Programme
CDM	Clean Development Mechanism
CRAR	Capital to Risk Weighted Assets Ratio
GPRS	General Packet Radio Service
CDMA	Code Division Multiple Access
GSM	Global Services for Mobile
BIMSTEC	Bay of Bengal Initiative for Multi Sectoral Technical & Economic Cooperation
CTT	Commodity Transaction Tax
NAPCC	National Action Plan for Climate Change
UNFCCC	U N Framework Convention on Climate Change
NEFT	National Electronic Fund Transfer
FIH	International Hockey Federation
FIFA	International Federation of Association Football/Federation International de Football Association (French acronym)
FSLRC	Financial Sector Legislative Reform Commission
NDM-1	New Delhi Metallo Beta Lactamese-1
CER	Certified Emission Reductions
NPCI	National Payment Corporation of India
IFSC	Indian Financial Services Code
MICR	Magnetic Ink Character Recognition
CBD	Convention on Biological Diversity
COP	Conference of Parties
ABS	Access, Benefit & Sharing
NFS	National Financial Switch
CSE	Centre for Science & Environment
MFI	Micro Finance Institution
QFI	Qualified Foreign Individuals
NAMICA	Nag Missile Carrier
NCHER	National Commission for Higher Education & Research
CCEA	Cabinet Committee on Economic Affairs
PTC	Pass Through Certificate
CAMELS	Capital Assets Management Earnings Liquidity Systems

SECC	Socio Economic & Caste Census
FCEB	Foreign Currency Exchangeable Bonds
NELP	New Exploration Licencing policy
FIPB	Foreign Investment Promotion Board
ITER	International Thermonuclear Experiment Reactor
INDU	Indian National Defence University (Gurgaon, Haryana)
MCX	Multi Commodity Exchange
BAFTA	British Academy Film & Television Awards
NIA	National Investigation Agency
CENVAT	Central Value Added Tax
IIP	Index of Industrial Production
SPV	Special Purpose Vehicle
IMPS	Interbank Mobile Payment Service
OMO	Open Market Operation
GAAR	General Anti Avoidance Rule
FCNR(B)	Foreign Currency Non Resident Bank
MNP	Mobile Number Portability
WIMAX	Worldwide Interoperability of Microwave Access
NCTC	National Counter Terrorism Centre
XBRL	Extensible Business Reporting Language
SACOSAN	South Asian Conference on Sanitation
IMEI	International Mobile Equipment Identity
UNICEF	UN International Children Emergency Fund
OIC	Organisation of Islamic Conference
GCC	Gulf Cooperation Council
SIM	Subscriber Identity Modules
NADA	National Anti Doping Agency
CASA	Current Account, Saving Account
CERN	European Centre for Nuclear Research
CBDR	Common but differentiated responsibility