2) Principles of Insurance

Insurance Industry is based on probabilities and principles. Probabilities of Risk and Reward, possibilities of profit and loss, principles of Good faith, Mutual trust etc. These principles are not written anywhere, they are established standards being followed by all Insurance players and the same is ~~esp~~ expected from the clients. There is no direct punishment if we dont follow these principles but the policy can be declared. void. Following are the principles :-

1. Good faith :-> Insurer and Insured should declare each and every fact correctly so that policy Remains in function without any party challenging anything.

2. Misrepresentation :-> It Means a statement made by one person to another without any authenticity. Misrepresentation can be intentional or unintentional. If it is unintentional, the policy cannot be challenged such as the person admitted to hospital during his childhood, which was not known to him. If the ~~R~~ Misrepresentation is intentional, policy is voidable at the option of aggrieved party. There are two parametres which are always considered Relevant for the judgement Regarding misrepresentation, they are as follows:-

(a) whether the Misrepresentation is giving some benefit to the person making this statement.

(b) Impact of the statement was so material that it can change the premium amount and sume assured

3. Warranties :→ Warranty means an obligation to be fulfiled by either party after the sale of Insurance. They may be expressed ~~at~~ or implied but they must be complied. If these obligations are not fulfilled, Insurance policy can never be challenged. For eg- a clause in a policy that Insured person has to undergo complete health cheekup. twice in an year, which he doesnot follow cannot become a ground for cancallation. Company can decrease sum Assured but cannot cancel the policy.

4. Conditions :- Conditions are obligations to be fulfilled before entering into Insurance contract, such obligations are compulsory for valuation purpose and legal purposes. If they are not fulfilled, it is upto the insurer to continue with the policy or not. for eg :- providing income ~~one~~ evidences and KYC Documents. Insurer can postpone such conditions but they will become warranty then

5. Indemnity and subrogation :- Indemnity Means promise to pay compensation in case of loss arising out of some natural or man-made activity. If the Activity happens but there is no loss, there is no payment from the insurer. When the compensation is paid, the Remains of Asset insured belong to Insurer.

6. Proximate cause :- on single loss can have various Reasons, all of which should be specified in the policy otherwise compensation will not be payable. Proximate means connected, so any Reason not specified, deemed to be not connected with the policy.

7. Insurance and consumer protection :- Generally consumer disputes go to consumer forums but consumers of insurance Industry are not covered by consumer protection Act 1986. this principle says all Insurer should protect the interest of consumers, without dependence ~~of~~ on consumer forum. IRDA is the appellate authority for consumers.

8. Imp Insurable Interest :- There Must be belongingness between the buyer ~~and~~ of Insurance and insured person or object. there must be insurable Interest which means there should be own loss to the buyer of policy. In simple words, If something or someone doesnot belong to a person, He cannot purchase policy. In case of Life insurance, personal accident insurance and health insurance, insurable interest should be present at the time of purchase of policy. and not neccessarily at the time of claim. However in all other insurance, it should be present both at the time of purchase and claim. Moreover, In case of Marine Insurance, this principle doesnot apply.

⇒ Commencement of Policy.

1. Policy cannot be commenced without 2 things.
a) collection of premium.
b) Processing of documents
2. In simple words, communication of offer and acceptance does not matter.
3. Date of commencement is decided by Insurer but it cannot be prior to premium and documents.

4. once the policy is issued, customer has an option to Reject the policy within 15 days from the Reciept of policy document.
5. The policy always start not from the sun Rise but from the last mid night.

⇒ Insurance of properties in India.

1. Property means immovable property and ship and Aircraft,
2. Insurance of property situated in India can be purchased only from indian insurer.
3. It means foreign insurers can sell Life Insurance, health Insurance. and other Insurance of movable properties.

⇒ Records of policies and claims

1. Every insurer will maintain all Records with Respect to policy solds, Policy matured and lapsed.
2. Record of policy holder, transfer, assignment and nomination must be maintained.
3. Record of ~~all~~ all Relevant Dates must be maintained.
4. Record of claims presented, approved, Rejected and settled must be maintained.
5. Such Records has to be maintained both physically and electronically.
6. Such Records shall be maintained Life time.

⇒ Multilevel Marketing

1. Insurance Business cannot be undertaken on the basis of Multilevel Marketing.
2. There cannot be chief-agent, sub-agent, principle-agent, special agent etc.
3. Agent is only an agent, belonging to the company Directly
4. Sub-agents is not possible and to make sure each agent should be certified by IRDA.
5. Multi level marketing, all though prohibited, if done, cannot invalidate the policy.

⇒ Policy not to be questioned after 3 years.

1. If the policy has been once sold, it cannot be challenged after a period of 3 years
2. It applies only on non life policies
3. It means insurance company can challenge the content provided by the insured ~~pers~~ person. but not after 3 years.
4. In case of Date of Birth and intentional wrong enteries, 3 years period does not apply.
5. In simple words if policy is challenged, It can become void at the option of insurance company.
6. In case of clerical errors, policy cannot be challenged.

mp.

⇒ Capital Requirements

1. Minimum paid up capital for general insurance excluding Health insurance is ₹ 100 crore.
2. Minimum paid up capital for health insurance business is ₹ 100 cr.
3. Minimum paid up capital for life insurance business is also ₹ 100 cr.
4. Minimum paid up capital for Re-insurance business is ₹ 200 cr. but net owned funds should be minimum ₹ 5000 crores.
   for eg:- Swiss Reinsurance
5. Insurance companies cannot issue preference shares.
6. All the shares of a insurance company must have same denomination
   for eg → 2 different shares of different prices are not allowed.

⇒ Accounts, Audit and Returns

1. Annual Accounts must be audited by a person prescribed by IRDA.
2. Liabilities of auditor shall be same as specified in section 147 of companies Act 2013
3. 4 copies of Audited Annual Accounts must be submitted to IRDA within 6 months from the end of financial year.
5. Such 4 copies must be signed by following people
   (I) chairman
   (II) Two Directors, preferably 1 of them should be managing Director
   (III) Principle officer maintaining Accounts
   (IV) Auditors
   (V) Actuary

→ Actuarial valuation

1. This Rule applies only on life insurers
2. As per this Rule there must be compulsory valuation of Liabilities and voluntary valuation of Assets, to be done once in one year.
3. IRDA can permitt this valuation to be done once in 2 year.
4. This valuation is done by practicing actuary, whether individual or prioperiotership or partnership or LLP
5. Acturial valuation Report shall be attached with Balance sheet
6. If valuation is done each year, Report should be attached with Balance sheet once in 3 years but if valuation is done once in 2 years, Report should be attached whenever the valluation is done.

→ Prohibition on payment of commission

1. No commission is allowed to be paid to any one except the authorised agents licensed by IRDA
2. If it is done, it will become personal liability of Directors of insurance company to pay fine levid by IRDA
3. In case of ~~Bank~~ Banc Assurance, consolidated profit sharing can take place but not the policy wise commission.
4. Commission collected by authorized agent can not be shared by him with anyone.

Imp:

⇒ Investment of Assets

1. In case of life Insurance companies they have to invest specified percentage of there liabilities as follows:-

a) Minimum 25% should be invested in government securities
b) Minimum 25% should be invested in govt. approved securities.
c) Remaining can be invested anywhere, where anywhere means nowhere as well.

2. In case of non life insurance companies, investment pattern is as follows:-

a) Min. 25% should be invested in Govt. securities.
b) Min. 10% should be invested in Govt. approved securities
c) Balance can be invested anywhere, where anywhere means no where as well.

⇒ Agent not to become Director

1. Any insurance agent cannot become director of the same insurance company.
2. However IRDA can approve such appointment in public interest and good faith.
3. law does not provide any Restriction for Director of one Insurance company to become agent in another insurance co.

⇒ Dividing ~~Principle~~ Business Principles

1. Dividing principle means investment Returns are directly dependent on the Gains made by Insurance company.
2. It means insured person is always at Risk if Market comes done abruptly.
3. Such variable Distribution of Returns is prohibited.
4. Company will have to specify a particular sum assured with which variable Bonus can be paid.

⇒ Insurance Council

1. Insurance companies have established there association, which is called council.
2. Such councils are Independent Associations working for welfare of insurance Industry.
3. There are seperate councils called general Insurance council and life Insurance council.
4. These councils donot Report to IRDA.

⇒ Prohibitions on loans

1. loan to Directors are Regulated by section 185 of co. Act 2013.
2. Insurance company can give loan to its customers on the basis of Life insurance policy submitted as collateral security
3. such loans are allowed but only if the policy is atleast 3 years old.

⇒ Surveyor and loss Assessors

1. every surveyor and loss Assessor needs certification from Indian Institute of Insurance surveyor and loss Assessor
2. They can be Individual, partnership, LLP and even companies.
3. They Must follow code of conduct and code of ethics prescribed by IRDA.

⇒ Assets and Liabilities

1. Total Amount of Assets Must be 50% higher than the amount of Liabilities.
2. All Assets must be valued each year on the basis of historical cost and net Realizable value, which ever is lower
3. Assets include only the tangible Assets