WELCOME

Dear POS student,

Welcome to on-line learning course on POINT OF SALES Person course which has been introduced by IRDA (Insurance Regulatory Authority of India) the insurance regulator.

IRDA has introduced this distribution channel especially with a view to give a boost to insurance business & to increase the penetration as much as possible with less hassle.

With this in view IRDA decided to open a new distribution channel named Point of Sales Person to cater the insured persons.

Initially this channel was to undergo 25 hours online training to be serviced by NIELIT and they were totally responsible to train online and also to take tests and issue certificates. Interested persons were finding difficulty in registering & training & then exam.

IRDAI decided this year, keeping in view the difficulties and providing this training from various sources IRDA decided to pass on this responsibility to insurers as well as intermediaries who will select them for their entity.

Now it's the responsibility of the insurer/intermediaries to provide such a facility & now they are to arrange training & examine them by taking the test after completion of 15 hours of training by them.

The qualification is only the 10th pass & after 15 hours of training the participant appears for the test of 45 minutes answering objective type of questions. Each question carries 2 marks and the participant has to attend all the 30 questions compulsorily. There is no negative marking.

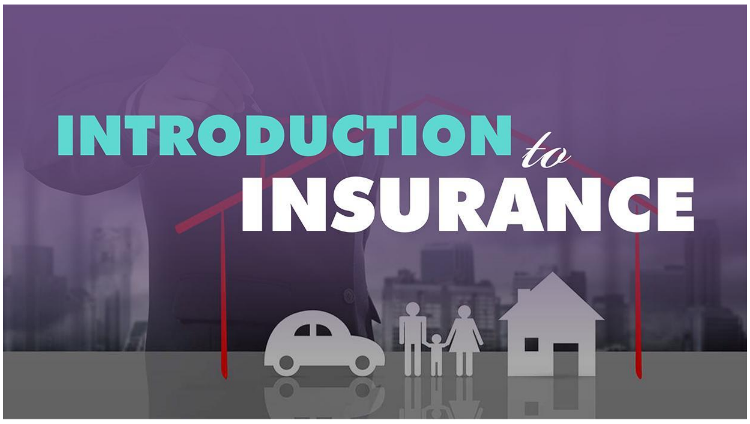
Participant has a choice to select the stream either life or nonlife and on passing he will work with the same sponsoring insurer or intermediary and place business to respective sponsored company. He will be signing the standard format letter to work & no sooner one decides to leave them the training certificate is no longer valid and he will have to take NOC from the current sponsor & undergo again 15 hours training on behalf of the new sponsor & pass the exam.

IRDA circular letters and proforma letters are available for your information.

Best of luck and good career & good income in years to come.

Chapter 1

WHAT IS INSURANCE?



Insurance may be defined as the transfer of risk from the insured to the insurer.

The insured is the person (or firm or company) confronted by risk, who transfers the risk to the insurance company, which specializes in the assumption of risk and accepts the risk.

- The insurer accepts the risk for a fee called the “PREMIUM”.
- The insurer assesses the loss and ‘underwrites’ the risk for a “PREMIUM”.

Insurance as a security is the need of all human beings.

Man is afraid of uncertainty, fears and death. Although it is a reality, that one day each one will die; early or later, timely or untimely is the question, which has no answer.

- Man is afraid of risk & losses in future.
- Man is ever in search of security & certainty.

In early history man lived in a joint family, groups and communities to be secure.

In the earlier days, whenever an earning member would die due to disease or death, the other member of the social group (or family or clan) would contribute to bail the survivors in the family out of financial difficulties. This contribution was in the shape of food-clothing and shelter.

Later, as commercial considerations grew stronger and stronger; nucleus family growth became a common practice, and these contributions and sharing started becoming individualistic.

The ‘assurances’ which were earlier, a common practice became rare.

This is the concept of growth of Insurance.

CONCEPT OF INSURANCE

Basic concept of insurance business is protection of the economic value of assets. Every asset has a value. If some asset is damaged or destroyed, the owner suffers the monetary loss. If an insured insurance company pays for the loss, the extent of loss suffered by the subject is limited. Losses of unfortunate few are shared by and spread over too many exposed to the same risk

CONCEPT OF RISK

Risk involves the chance an investment's actual return will differ from the expected return. Risk includes the possibility of losing some or all of the original investment. Different versions of risk are usually measured by calculating the standard deviation of the historical risks.
A probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through pre-emptive action.

What is a hazard?

A hazard is a situation that poses a level of threat to life, health, property, or environment. Hazards can be dormant or potential, with only a theoretical risk of harm; however, once a hazard becomes "active", it can create an emergency. A hazardous situation that has come to pass is called an incident.

Types of hazard

Hazards are generally labelled as one of five types.

Physical hazards are conditions or situations that are concerned with subject matter of insurance i.e. building, machinery or human being. The description of the same helps the insurer to decide the rates to be charged. Physical hazards can be both natural and human made elements.
Chemical hazards are substances that can cause harm or damage to the body, property or the environment.
Moral Hazard relates to the human beings approach towards the insured property whether he cares for the same "Prudent as if uninsured", if not then his moral hazard is not good and cause loss to insured property of its own to have more amount at the time of loss.
Morale hazard is not like moral hazard but his indifferent attitude towards the insured property which may cause loss without the instinct of dishonesty. It can be said moral hazard is an act of dishonesty whereas moral hazard is indifferent intention with no intention to put the insurer to loss.

What is Peril?

Peril is the cause of loss which is essentially important as most of the general insurance policies are not issuing comprehensive policies which cover all the risk/ cause of losses. There are so many exclusions/ conditions which deprives the insured of getting the loss.

Nature of Perils

The perils relevant to an insurance claim can be classified under three headings:

Insured perils: Those named in the policy as insured e.g. fire, lightening, storm and theft;
Excepted or excluded perils: Those stated in the policy as excluded either as causes of insured perils e.g. riot, earthquake or war or a result of insured perils e.g. certain type of explosion;
Uninsured or other perils: Those perils not mentioned in the policy at all. Smoke and water may not be excluded nor mentioned as insured in a fire policy.

2. HOW INSURANCE WORKS?

Theory of probability :
Let us assume that a particular city has a population of 1 lakh.

In the city, on an average in a year 10000 are affected by way:

- 200 people die in accident
- 800 people get injured and disabled,
- 2000 die natural death,
- 7000 die of disease

This data as per statistic is certain.
Then what is uncertain?
Uncertainty is as to who will die or get disabled during day-to-day high-risk prone fast life.
Though the number of deaths, accidents etc. is known,
What is not known is the name, age, time, place and of the 'PERSONS'.
If it is known that 200 persons are prone to accidental death in a year, it is not known which 200 individuals?
Due to this certainty, that 10000 people will die in an accident, or get injured and disabled or die natural death or die of disease; all 1 lakh people will fear.

- Accident

- Possibility of injury or death and its consequences to varying degrees as per their age, behaviour, nature of work, environment hazards and many other factors.
Grownups and breadwinners may fear more and dependents may fear less.
If in a city of 1 lakh houses & shops, there are about 1000 thefts every year, though some particular 1000 people are affected by the theft, all others (maybe more than 90000) will fear theft, and will like some solution to this problem.
"Many would contribute to mitigate losses of a few".

This method of sharing losses of a few by many is the basis or core philosophy of insurance.

3. PURPOSE OF INSURANCE

Every human being has fear in his mind.

- The fear is whether he will also meet the basic needs of life i.e. Food, clothing and Housing (Roti, Kapda and Makkan).
- He has fear not only for himself but also for his dependents.
- The source of income to meet his basic needs may be through service or business.
- If he is able to meet his basic needs then he acquires the assets i.e. vehicles, property or jewellery etc.

- Then he gets additional fear of saving the assets from destruction. (The assets may be destroyed through accident, fire or earthquake etc. and the income may be cut off due to certainty i.e. old age and death or uncertainty i e. accident, illness or disability.)
- As you know, the old age and death is certain for every human being while the accident, illnesses, disabilities and destruction of assets may be random.
- The number of accidents will take place but with whom is uncertain.

Therefore, to overcome these problems, **the Insurance plays a very important role.** The principal source of income of an individual comes from the compensation for work performed by him. If this source of income gets cut off then: ---

Family will make social and economic adjustments like:

- Wife may take employment at the cost of home making responsibilities
- Children may have to go for work at the cost of education.
- Family members might have to accept charity from relatives, friends etc. at the cost of their independence and self-respect.
- Family standard of living might have to be reduced to a level below the essentials for health and happiness.

4. NATURE OF INSURANCE

The basic threats which all of us may encounter to varied extent and which result in cut off of income or sudden increase in uncalled for expenses (beyond our means or higher than our earnings) i.e. dislocates the human life, are:-

- Illness (malnutrition, environment, chronic) – uncertain
- Accident (uncertain)
- Disability – Permanent or temporary (uncertain)
- Old age- (certain)
- Death – (certain)

5. NEED OF INSURANCE

To provide Security and Safety

- In general Insurance, the property can be insured against any contingency i.e. fire, earthquake etc.
- The uncertainty due to fire, accident, death, illness, disability in the human life, is compensated financially by general insurance.
- Insurance is the only way to assist and provide adequate cover at the time of suffering.
- General Insurance provides only protection to human life and property respectively.

ROLE OF INSURER

Companies conducting insurance business are known as ‘Insurers’. Insurers bring together persons exposed to the same risk by collecting premiums from them and pay compensation to those who suffer. The insurer on the lines explained in examples determines premium. Insurer’s role is that of a trustee and has to ensure that nobody takes undue advantage of the arrangement.

In a nutshell both underwriting and claim settlement are to be done with great care.

INSURANCE AS A SOCIAL SECURITY TOOL

Social security is an obligation of the state. Subject has been included in list III of the seventh schedule of the constitution of India as “Social Security and Social Insurance” and “Welfare of labour including, inter alia, liability for workmen’s compensation, etc.” Further, Article 41 of the Directive Principles of State Policy called upon the state to make provision for public assistance in the case of, inter alia, sickness and disablement and in other cases of undeserved want.

Various laws passed by the state for this purpose involve the use of insurance, compulsory or voluntary, as a tool of social security. The Employees State Insurance Act, 1948 provides for the Employees State Insurance Corporation to pay the expenses of sickness, disability, maternity and death and for the maintenance of hospitals, dispensaries, etc. for the benefit of industrial employees and their families, who are insured persons. The scheme operates in certain industrial areas as notified by the government.

Insurers play an important role in the social security schemes sponsored by the government i.e. Solatium Fund, the Personal Accident Social Security Scheme and the Hut Insurance Scheme. The Crop Insurance Scheme (RKBY) is also of social significance.

Rural insurance schemes are designed to provide social security to the rural families. The insurance companies have introduced special insurance schemes, at subsidised rates of premium to cover cattle and other livestock for the beneficiaries of IRDP and various other government sponsored programmes and financial institutions.

Companies of their own also offer on commercial basis insurance covers, which have the objective of social security. Examples: Janata Personal Accident, Jan Arogya, Bhavishya Arogya, Raj Rajeshwari Mahila Kalyan Yojna, etc.

ROLE OF INSURANCE IN ECONOMIC DEVELOPMENT

Insurers play a vital role in mobilizing funds for economic developments of the country. Savings out of insurance funds are utilized in investments for economic growth.

Strength of insurance companies lies in that huge amount collected and pooled together. This collected amount is called premiums. This is known as pooling of risks.

The very existence of risk that is uncertainty concerning the future is a severe handicap in economic activities. Insurance removes the fear; worry and anxiety associated with this future uncertainty and thus encourages free investment of capital in business enterprises and promotes efficient use of existing resources. Thus insurance encourages commercial and industrial development and thereby contributes to a vigorous economy and increased national productivity.

These days organization of industries, commerce and trade depends on insurance, because no bank or financial institutions lend money without having insurance cover as collateral security. Insurers are closely associated with agencies and institutions engaged in fire loss prevention, cargo loss prevention, and Industrial and road safety. Insurers have established the Loss Prevention Association of India with the intention of creating awareness of the need for loss prevention and implementing loss prevention measures in various sectors.

Before acceptance of risk, the insurer arranges for the survey and inspection of the property to be insured by a qualified engineer and other experts not only to evaluate but also to suggest improvements to avoid losses, which in turn, not only reduces the rates but also reduces the loss potentials.

Insurance ranks with export trade, shipping and banking services as an earner of foreign exchange to the country. Insurers are also operating in foreign countries and earning foreign exchange and representing invisible exports.

Cattle and other livestock and also equipment like pump sets are rural business. Various rural schemes provide necessary financial protection against loss or damage to poor farmers and other peoples of weaker sections of society.