

## Chapter- 13

### Insurance: Introduction and Importance

In today's world everybody is surrounded by risks and uncertainties. Everyone has fear of losing their valuables, whether he is the richest person in the world or any normal human being. Politicians, Businessman, Factory owner, small shopkeeper, Actor, sportsperson, farmer, labour or organizer of any event everyone is afraid of the unforeseen. Someone is worried about his health, someone about loss in business or about what will happen to his family after his/her death. Loss of property and people from natural calamities such as earthquake, famine, drought, floods, avalanches, fire is yet another biggest fear among people. Employees are worried about their job security and employers about the welfare and well being of their employees. Businessman is about risk posed from competition, consumers are worried about adulteration, and creditors are worried about their lending. From all this we can infer that everybody is worried about something or the other. We have all risks and uncertainties around us. In this modern era, we all are loaded with unforeseen events which may pose various threats to us and our properties.

Human being has always been protected about his belongings. He has always preferred a safe environment. To secure himself and his property is the ultimate goal of one and for that Insurance provides a way. Insurance is one of the methods for providing security financially, emotionally and materialistically. Insurance is as old as our civilization. Rig-Veda has identified insurance as “Yogshem”. Even in Manusmriti topic of insurance is covered through various mediums and understanding the peripheral

terms related to insurance such as purchase price, selling price, quality and quantity, related expenses and ways to increase the production and investment with security. Initially insurance was identified with respect to ensure safety and security of man and his property but later on it turned out into ever growing industry providing employment to a large number of people.

Insurance helps us to deal with all the uncertainties that is why insurance is important for every individual, business organization, society and nation. Insurance covers all such risks and uncertainties and help each building block of nation to grow. Insurance is that weapon through which humans can turn uncertainties into certainties and can lower the risk. This is that provision which can increase the chances of profit and success. Through this the needy can sort help from those who have surplus funds. Insurance works on the golden rule of human welfare that is sharing and caring.

#### Meaning and Definition of Insurance:

Many scholars have tried to define insurance in different ways. **Insurance** is a means of protection from financial loss. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. In the functional scenario, it is a social device providing financial compensation for the efforts of misfortune, the payment being made from the accumulated contributions of all the parties participating in the scheme. Likewise scholars have given various definitions for insurance which

can be classified under General, Functional and Legal heads for easy understanding and clarity  
Let's discuss those definitions in details:

#### **(a) General Definitions of Insurance:**

**Insurance** is a term in law and economics. It is something people buy to protect themselves from losing money. People who buy **insurance** pay a "premium" and also promise to be careful. William Henry Beveridge worked upon the social facet of insurance and said that burden of loss will not be borne by individual alone but by all the society at large. In his words "the collective bearing of risk is insurance."

Magge defined insurance as a scheme in which large number of people participate and share their risk. According to him "Insurance is a plan by which large number of people associate themselves and transfer to the shoulder of all risks that attach to individuals."

According to Boon and Kurtz, "insurance is a substitution for a small known loss (the insurance premium) for a large unknown loss which may or may not occur."

Hoopkins and Others opinions "Insurance is the protection against economic loss provided by sharing the risk with other."

Thus, it is clear that insurance is a device for the transfer to an insurer of certain risks of economic loss that would otherwise come by the insured

#### **Functional or Economic or Business definitions**

These definitions are based on economic or business oriented since it is a device providing financial compensation against risk and uncertainties. Here are some definitions:

1. According to D.S. Hansell: Insurance may be defined as social device providing financial compensation for the efforts of misfortune, the payments being made from the accumulated contributions of all the parties participating in the scheme.
2. Encyclopedia of Britannica: Insurance may be described as a social device whereby a large group of people through a system of equitable contribution may reduce or eliminate certain measureable risk of economic loss common to member of the group."
3. According to Mehar and Commack, "Insurance may be defined as a device for reducing risk by combining a sufficient number of exposure units to make their individual losses collectively predictable. The predictable loss is then shared proportionately by all units in combinations."
4. Federation of Insurance Institute, Mumbai, "Insurance is a method in which a large number of people posed to a similar risk make contribution to a common fund out of which, the losses suffered by the unfortunate events due to accidental events, are made good."
5. According to Reiger and Miller, "Insurance is a social device whereby the uncertain risks of individuals may be the combined in a group and thus made more certain small periodic contributions by the individuals providing a fund out of which those who suffer loss may be reimbursed."

Thus it is clear insurance is a system of protection against financial loss in which risk is shifted to a professional risk bearer, an Insurance company in exchange for a certain sum of money ( insurance premium), the insurer agrees to pay the insured if losses occur.

## II) Contractual or Legal Definitions

These definitions consider insurance as a contract to indemnify the losses on happening of certain contingency future. It is a contractual relationship to secure against risks. Some of such definitions are:

- (a) In the words of Justice Tindal, “Insurance is a contract by which a sum of money is paid to the assured consideration of insurer's incurring the risk of paying a large sum upon a given contingency.”
- (b) According to Reiger and Miller, “In its legal aspect it is a contract, the insurer agreeing to make good financial loss of insured may suffer within the scope of the contract and the insured agreeing to pay a consideration (the premium).”
- (c) In the words of E. W. Patterson, “Insurance is a contract by which one party for a consideration called the premium, assumes particular risks of other party and promises to pay to him or his nominee a certain or fixed sum of money on a specified contingency.”

Thus, insurance may be defined as a financial arrangement for redistributing the cost of unexpected losses as a legal contract whereby an insurer agrees to compensate an insured for losses. A loss is defined as an undesired, unplanned reduction of economic value, or utility. A chance of loss represents the probability of the losses occurring.

## Characteristics or Nature of Insurance

The study and analysis of the definitions of insurance reveal the following characteristics or nature of insurance.

- 1. Protection against risks - Insurance provides protection against risks involved in life, materials and property.

- 2. Division of Risks Insurance is a cooperative device to share the burden of risk which may fall on happening of some unforeseen events, such as the death of head of the family, or on happening of marine, accident loss by fire.
- 3. Cooperative device Insurance is a cooperative form of distributing a certain risk over a group of persons, who are exposed to it.
- 4. Wider scope - The scope of Insurance is much wider and extensive as various types of policies have been developed in the country against the risk on life, marine, accident, theft, agriculture, fire, medical, vehicle and trustable insurance.
- 5. Insurance of pure risks only There are 2 types of risks 1) Pure and 2) speculative. Pure risk is focused on only losses to the insured, and no profits. Example of pure risks is accident, misfortune, death, injury etc. Which are all one-sided risks and the ultimate result is loss. Insurance companies issue policies against pure risk only not against speculative.
- 6. Evaluation of Risk: For the purpose of ascertaining the insurance premium, the volume of risks is evaluated which forms the basis of insurance contract.
- 7. Spreading of Risk: Insurance is a plan which spreads the risk and losses of few people among a large number of people. It is a scheme under which the loss is transferred to the shoulders of a large number of people.
- 8. A contract: It is a contract. All the valid points of Contract are applicable to it. It is a legal contract between the insurer and insured under which the insurer promises to bear the risk of loss for a premium.
- 9. Based on Mutual Good faith: Insurance is a

contract based on good faith. Both the parties are bound to disclose true facts and shall not omit any fact which is material.

10. Transfer of Risk: Insurance is a plan in which the insured transfers his risks on the large numbers of persons and in a way transfers the risk. It is transferring the economic losses to the insurer otherwise it would have borne by the insured.
11. Large number of insured persons the success of insurance business depends on the large number of persons insured against the similar risk. This will enable the insurer to spread the losses of risk among large number of persons, thus keeping the rate of premium at minimum.
12. Ascertaining the losses: By taking a life insurance policy, one can ascertain his future losses in terms of money. This is done by the insurer to determine the rate of premium which is calculated on the basis of maximum risks.
13. It is a social phenomenon: Insurance is a social activity because it is for the society of the society and from the society.
14. Insurance is not gambling: Insurance is not gambling.
  - 1) It is a valid contract to indemnify losses, but gambling is illegal which gives gain to one party and loss to other.
  - 2) In insurance, Insurable interest is present but not in gambling
  - 3) Insurance is done in public interest and not gambling
  - 4) Insurance is plan for social welfare and indicator of social prestige, but gambling is a social evil and a gambler has no place in society.
15. Insurance is different from assurance:

- 1) Insurance is used against indemnity but assurance indicates certainty.
  - 2) Insurance is not certain that the event insured against may happen or not in assurance it is bound to happen,
  - 3) The principle of indemnity is the basis of insurance contract, but principle of indemnity doesn't apply in assurance.
16. Insurance is not donation: Insurance is different from donation, because insurance companies do not compensate the insured from their pockets, but pay from the funds provided by the insured in terms of premium. It is not the concept of donation.

### **Objectives/Functions of Insurance:**

According to Reigel and Miller, "The purpose or function of Insurance is primarily to decrease uncertainty of events." In real insurance searched as collective/group efforts to certainty in people's uncertainty. But nowadays insurance is fulfilling many things and coercing various purpose.

Based upon the definitions, the objectives /functions of insurance may be discussed under the three headings:-

- 1) Primary function/ Objective
- 2) Secondary Function/ Objective
- 3) General Function/ Objective

The description of these objectives/functions is given as under:-

### **Primary Objectives/ Functions:**

1. To provide certainty against the probable risks: -

The primary objective or function of the insurance is to provide protection against future risks, accident and uncertainty. The insurance cannot check the happening of risk in future, but it can surely provide for losses at the happening



of risk. The insurer gives certainty of payment of loss to assured by charging premium.

2. To provide security: the next primary function of insurance is to provide security to the insured person. The insured person feels fully secured just after insurance with the insurer, like a mother with an infant kid in her lap to secure him/her against any probable losses. Prof. Hopkins Observe, “Insurance is a security against economic loss by sharing the risks with others.” He further says insurance is protection against economic loss.
3. To spread or divide risk: Insurance is a plan which spreads and distributes risks and losses of the few people among a large number of people.
4. Evaluate risk Insurance determines probable level of risk and various factors which give rise to risk.
5. To do Market Research In this function insurance companies collect the data and information regarding their business at regular basis. They involved in the life insurance business have all the data regarding birth rate, death rate, census, health services, etc.
6. To create insurance awareness - For this purpose insurance select the effective and constructive advertising appeals and apply these appeals on the target market through aggressive advertising programmes. The purpose of insurance awareness is to prepare a large group of the insured persons. Therefore, not only the insurance company gets the profitable business, but the insured person has to pay a little amount of premium.

### Secondary Objectives: -

- 1.) To alert for prevention of losses: - Insurance

cautions individuals and businessmen s to adopt suitable device to prevent unfortunate consequences of risk by observing safety instruments, installation of automatic sparkles or alarm system etc. Prevention of losses causes lesser payment to the assured by the insurer and this will encourage for more savings by way of premium. Reduced rate premiums stimulate for more business and better protection to the insured.

- 2.) To provide financial assistance - The insurance companies collect a huge amount in a very short span of time. They use this amount t fulfill the capital requirements of trade, business, industry for development. Insurance policy performs as an important basis for the short term and middle term credit. With this loan is easily available.
- 3.) To increase in work efficiency It helps to increase the work efficiency because it eliminates worries and miseries of loss such as death and destruction of Property.
- 4.) Ensuring welfare of the society “Insurance is a social service and security” to the society. Security of life and property given by it brings peace of mind to the insured. The investment of LIC in welfare schemes, like electricity, housing, water supply, agriculture and agro industries have solved many pressing problems in India.
- 5.) To contribute in development of large scale enterprises: - Insurance is helpful in developing of large scale enterprise and industries because of more risks. So those in these condition insurance companies assist those enterprise or enterprises who have insured them assets.

## General Objectives:

- 1) To encourage export: Insurance solves many problem of the insurance trade. Different types of policies exist for many different purposes under export and import trade which makes it easy to trade worldwide. In case of marine peril or foreign exchange exposure the risk is covered under various insurance policies available.
- 2) Meaning of saving and investment: Insurance serves as medium for saving and investment so that money can be used in future when in actual need. Although investment is in the primary function of the insurance, but it end results lead to saving money which in turns leads to investment.
- 3) Provide social security: through various social plans, insurance provide social protection to people. It not only provides security at the time of death but also at the time of old age, sickness and maternity etc.
- 4) To contribute in Foreign Monetary Fund: Insurance is an international business. The country can learn foreign exchange by way of issuing marine insurance policies and various other ways.
- 5) To contribute in rural development programme - The object or function of insurance also contributes in the rural development programme as it has various policies and plans for various rural issues such as crop insurance, hut insurance and animal insurance etc.

## Scope and Kinds of Insurance:

The earliest reference of insurance has been found in Babylonia, the Greeks and the Romans. The use of insurance appeared in the account of North Italian Merchant Banks who then dominated

the international trade in Europe at that time. Marine insurance is oldest form of insurance followed by Life and Fire insurance.

In the present age, scope of Insurance became very fast. For convenience of study, Insurance may be classified into the following types

- 1) Classification on the basis of nature
- 2) Classification on the basis of business and
- 3) Classification on the basis of Nature.

### 1) Classification on the basis of Risk -

The classification on the basis of the risk, insurance can be classified into four categories 1) personal insurance 2) property insurance 3) Liability insurance 4) Fidelity guarantee insurance.

### 2) Classification on the basis of business -

The classification on the basis of business can be classified into 1) Life and 2) General.

### 3) Classification on the basis of Nature -

On the basis of nature of business, Insurance may be classified into 5 types

**1) Life insurance** The life of men are insured in life insurance. In this subject matter of insurance is the 'human life'. Life insurance is a contract , whereby the insurer, in consideration of a premium paid either in lump sum or periodical installments, undertake to pay an annuity or a certain sum of money either on the death of the insured or on the expiry of certain number of years.

A contract of life insurance, as in other forms of insurance, requires that the assured must have at the time of the contract as insurable interest in

his life upon which the insurance is affected. Life insurance is both a protection and investment. The purchase of life insurance policy is usually invested in protecting against risk of premature death as well as saving and investing his income on a long term basis. In our country Life insurance business are done by LIC, Kotak Mahendra, Bajaj Alliance, ICICI Prudential.

**2) Fire Insurance** fire insurance is a contract to indemnity, to the insured for destruction of or damage to the property caused by fire. A fire insurance policy is usually taken for one year's only according to the terms of policy. The scope of insurance is much wider because in this risk directly involved by fire is not only included, but lightening, explosion, aircraft damage, riot strike, malicious, terrorism, storm, cyclone, typhoon, tempest, hurricane, tornado, flood and inundation, impact damages are also included. The importance of fire insurance is going more in modern industrial age because insurance minimizes losses, decrease in the probabilities of fire losses, and increase in the growth of business.

**3) Marine Insurance** The business of effecting, cargoes, freights and other interest which may be legally insured in or in relation to such vessels, cargoes and freight, goods, wares, merchandise and property of whatever description insured for any transit by land or water or both are covered in marine insurance policy. There are two types of Marine insurance 1) Ocean and 2) Inland.

**4) Social Insurance** The social insurance is to provide protection to the weaker section of the society who is unable to pay the premium for adequate insurance. Pension plans, disability benefits, unemployment benefits, sickness insurance and industrial insurance are the various forms of social insurance. With the increase in socialistic ideas, the government of the country must provide social insurance to its masses. According to National Labour Commission.

“Social insurance is defined as an economic security to weaker section of the society who is unable to pay the premium for adequate insurance.”

The following types of Insurance can be included in social insurance

**1) Sickness Insurance** In this type of insurance medical benefits, medicine and reimbursement of pay during the sickness period etc. are given to the insured person, who fell sick. The subsidiary companies of General Insurance Corporation Issue 'Med claim Policies' for this purpose.

**2) Death Insurance** Economic assistance to is provided to the dependants of the assured in case of death during the employment. The employer can transfer such liability by getting insurance policy for his employees.

**3) Disability Insurance** - There is a provision of compensation in case of disability total or partial. According to the Employee Compensation Act, the responsibility to pay compensation is vast with the employer. But the

employer transfers his liability on the insurer by taking group insurance policy.

**4) Unemployment Insurance** In case the insured person becomes unemployed due to certain specific reasons, he is given economic support till he gets employment.

**5) Old AGE Insurance** In this category of Insurance, the insured or his dependents is paid, after certain age economic assistance.

### Miscellaneous Insurance:

The process of fast development in the industrialization, technical development and urbanization etc. gave a number of risks or hazards. To provide protection against such hazards various policies are there in the market. The important among them are: -

**(a) Vehicle insurance:** Vehicle insurance on buses, cars, trucks and motorcycle etc. made compulsory, so that the losses due to the accidents can be claimed from the insurance company. Vehicle insurance is for one year period only. In such type of insurance, if accident happens, insured may be bound to pay the third party.

**(b) Personal Accident Insurance:** In case of accidental death or total or partial disability, a fixed amount as per conditions of insurance, is paid to the insured. GIC's subsidiary companies issue "Janta Accident policy" such type of insurance is considered very essential in modern time. Death and Bodily injuries in road accident are the order of the day.

**(c) Burglary Insurance:** Burglary insurance enables the business house to recoup the losses

suffered by them consequent on burglary or house breaking. In order to give covers, burglary department has also devised other types of policies besides burglary policy following upon the entry of the premises by violent and foreseeable means. Burglary insurance is useful for cinemas, petrol pumps, residential hotels, banks, financial institutions and jewellery etc.

**(d) Live Stock Insurance** It refers to the Insurance of Horses and cattle. It provides cover against death of animals like Bulls, buffaloes, cows, donkeys, camels etc. arising as a result of accident, diseases and mal-nutrition as the case may be.

**(e) Crop Insurance** In crop Insurance crops are insured against the losses caused due to famine, floods, excessive rains etc.

**(f) Offence Insurance** This insurance provides protection against coordinated activities of theft and plotting. Banks, Financial Institutions, Hotels, Petrol Pumps etc are secured through this.

**(g) Other Insurance** In addition to the above insurance plans are available against crime, medical insurance, bullock cart, jewelry, air travelling etc.

**(h) Pradhanmantri Suraksha Beema Yojana-** PSBY was started by Honorable PM Shri Narendra Modi in 2015. This type of Beema Yojana is for that person of 18 to 21 years of age. That person deposits Rs. 12 in his bank account. This is one year insurance.

**(i) Pradhanmantri Jeevan Jyoti Beema Yojana:** PMJJBY was also started by present Prime Minister honorable Narendra Modi. This is for all those are 5 to 18 years. In this security up to 2

lac is given and it is also for one year and premium paid is 380 Rs for one year.

### **Need or Importance of Insurance:**

Now a days, we look many and more risks, uncertainties, mentally disturb, dangers, variedness other s to human life. As rightly said by prof. Dinsdale “No one in the modern world can afford to be without Insurance”. Not only had this Prof. Lord Hardvick also said, “The operation of Business is impossible without insurance.”

The need of Insurance can be explained by dividing it onto following heads:

- 1) From Individual or family point of view.
- 2) From economic or business point of view
- 3) From social point of view
- 4) From National Point of view

The description for every point follows here:

#### **1) From Individual or family point of view**

##### **a) Insurance provides security & safety:**

Insurance gives a sense of security to the policy holder. Insurance provide security and safety against the loss of earning at death or in old age, against the loss at fire, against the loss at damage, destruction of property, goods, furniture etc.

Life insurance provides protection to the dependents in case of death of policyholders and to the policyholder in old age. Fire insurance insured the property against loss on a fire. Similarly other insurance provide security against the loss by indemnifying to the extent of actual loss.

**(b) Encourage Savings:** Life insurance is best form of saving. The insured person must regularly save out of his current income an amount equal to the premium to be paid otherwise his policy get lapsed if premium is not paid on time.

**(c) Providing Investment Opportunity:** Life insurance provides different policies in which individual can invest smoothly and with security; like endowment policies, deferred annuities etc. There is special exemption in the Income Tax, Wealth Tax etc. regarding this type of investment.

**(d) Fosters Economic Independence:** Death or accident is the instances in which the people become unsupportive. On the death of the earning member, the family member, especially the dependants face much problems of subsistence. Insurance is such a mean to make one reliant economically.

**(e) Mental piece: -** A sense of security removes all the tensions and worries. It stimulates more and better work because of insurance. It eliminates the constant worry about the loss of their possessions.”

**(f) Safety of Domestic Asset from all the risks: -** Insurance policy ensures safety of the entire domestic asset from any sort of risk.

**(G) Awareness towards Losses:** Insurance Companies give suggestion to many companies to adopt various measures for preventing losses to its customer.

**(h) Cover for legal Liabilities:** It protect against all the legal issues arising out of the legal matters.

**(i) Tax Exemption:** Insurance is as easy way to obtain tax exemptions, there are various



provisions made under the Income Tax act, Life Insurance Act and various other legal enactments which provide tax benefits and deductions.

- (j) **Safety against Decree:** the money saved towards the payment of premium is totally safe, because insurance policy cannot be acquired through any decree by creditors. It is possible only against the property but not policy.
- (k) **Goodwill:** It helps in enhancement of the goodwill of the firm/business. Those having the insurance policy are considered to be secured and settled people.
- (l) **Investment:** The elements of investment, i.e. regular savings, capital formation, bonus and return of the capital are observed in life insurance. Magee has said remarkably in this regard, “Although investment is not the main crux of insurance but it sure does help in saving and encourages investment.”
- (m) **Protects Mortgaged property:** Insurance provides protection to the Mortgaged property.
- (n) **Fulfills the need of Business:** The needs of a person may be divided into 1) Family needs 2) Old age needs 3) readjustment needs 4) special needs including need for education, marriage, settlement of children, 5) clean up funds for ceremonies. Insurance helps for meeting requirements and necessary needs.

## 2) From Business or economic point:

- (a) **Shifting of Risk:** Insurance is a social device whereby businessmen shift specific risks to the insurance company. This helps the businessmen to concentrate more on important business issues.
- (b) **Assuring Expected Profits:** An insured businessman or policyholder can enjoy normal

expected profits as he would not be required to make provisions or allocate funds for meeting future contingencies.

- (c) **Improve Credit Standing:** Insured assets are easily accepted as security for loans by the banks and financial institutions so insurance improves credit standing of the business firm
- (d) **Business Continuation** With the help of property insurance, the property of business is protected against disasters and chance of closure of business is reduced.
- (e) **Protection from loss of key men:** Person having experience and expertise is a boon to every company and having lost him due to any reason can be harmful for the firm/company. Insurance can arbitrage and hedge such losses occurring from the loss of Key person of the organization.
- (f) **Increase in efficiency:** It increases the efficiency of the organization by ensuring continuous supply of funds and hedging losses in case of uncertain event takes place.
- (g) **Protect Employees interest:** By insurance employee interest can be protected because in the position of loss, adverse effects may be on employees but due to the presence of insurance the loss will not be borne by them but by the insurance company.
- (h) **Promotes Foreign Trade:** Insurance provides goodwill and enhances image hence provides opportunity for foreign trade and creates goodwill for import and export of goods and services.
- (i) **Reduces cost:** Prof Angell has said, “Insurance may enable a manufacturer to sell a product at lower cost because through insurance he is able to cover many risks of production for a small premium.”
- (j) **Helps in development of Infrastructure for**

**Industrialization:** Insurance provides finance when need at correct time and help in development of infrastructure and cover any loss from any natural disaster.

(k) **Security from civil liabilities-** Insurance Companies secure many civil liabilities.

(l) **Protection from loss of Profits:** Among with the development of business activities in modern time, insurance also has extended its role of protecting different activities. It provides protection against arising shops and factories. It also undertake to indemnify the loss of profits from business function way. This way loss of profits and profit are protected.

(m) **Financial assistance to Industrial estates:** Insurance companies provide financial assistance to the industry estates as loan on the basis of long term. In this regards LIC and GIC are very important.

(n) **Underwriting of securities:** Insurance companies undertakes underwriting of new issue of shares and debentures of newly formed companies and public limited companies. This way they resolve the problem of newly formed companies in subscribing their shares of debentures.

(o) **Investment in securities:** Insurance companies extends its support for the development and expansion of industrial and commercial activities by investing in securities in shares, debentures etc. Issued by the industrial units.

(p) **Contribution in Management Arrangement** at present insurance companies provides financial help to those industrial estates, there in board of director, they right to appoint as a director. In this condition management

arrangements of those estates become sound.

### **(3) From social point of view:**

(a) **Stability in family life:** Life insurance makes available funds at the time of emergency and, therefore, it act as a source to protect family from dis - interaction. In case death of earning member of the family the burden of supporting the family falls n the next senior member. It ecomes difficult to control the depending members in the family. LIC providing money at the appropriate time o the family protects from disintegration.

(b) **Distribution of risks -** Insurance distributes the risks of a person among a number of people. George Rejda writes”Insurance distributes the burden of loss of a person among the shoulders of entire society.” In addition of this angel said “by distribution of cost of accidents amounting a large group of persons, the cost of such misfortune can be easily borne.”

(c) **Capital Formation:** As institutional investors, insurance companies provide funds for financing economic development. They mobilize the saving of the people and invest these saving into more productive channels

(d) **Generating Employment Opportunities:** With the growth of the insurance business, the insurance companies are creating more and more employment opportunities.

(e) **Promoting Social Welfare:** Policies like old age pension scheme, policies for education, marriage provide sense of security to the policyholders and thus ensure social welfare.

(f) **Helps Controlling Inflation:** The insurance reduces the inflationary pressure in two ways, first, by extracting money in supply to the amount of premium collected and secondly, by

providing funds for production narrow down the inflationary gap.

**(g) Prevention of social evils:** The root cause of any evil in the society is lack of education. Poverty and unemployment. The lack of opportunity to the people makes the way for committing social evils, like - theft, dacoit, prostitution etc.

**(h) A symbol of civilization:** Insurance is earning and saving. Insurance companies provide employment to large number of people in the country with good income by way of salaries and commission. It improves the standard of living of people.

**(i) Alertness towards health:** it provides information and risk cover regarding serious health conditions.

**(j) Promotes Education:** Insurance facilitates and encourage for education in the society. Insurance policies support education of the children of policy holder by providing them liquidity whenever needed.

**(k) Helps fulfills the social responsibilities:** insurance helps to fulfill social liabilities towards people, like companies, suppliers, customer, governments and managers etc.

**(l) A means of social change:** Insurance is means of social change.

#### **(4) From National Point of View:**

**(a) Provide safety and security:** Insurance provide financial support and reduce uncertainties in business and human life. It provides safety and security against particular event. There is always a fear of sudden loss. Insurance provides a cover against any sudden loss. For example, in case of life insurance financial assistance is

provided to the family of the insured on his death. In case of other insurance security is provided against the loss due to fire, marine, accidents etc.

**(b) Generates financial resources:** Insurance generate funds by collecting premium. These funds are invested in government securities and stock. These funds are gainfully employed in industrial development of a country for generating more funds and utilized for the economic development of the country. Employment opportunities are increased by big investments leading to capital formation.

**(c) Life insurance encourages savings:** Insurance does not only protect against risks and uncertainties, but also provides an investment channel too. Life insurance enables systematic savings due to payment of regular premium. Life insurance provides a mode of investment. It develops a habit of saving money by paying premium. The insured get the lump sum amount at the maturity of the contract. Thus life insurance encourages savings.

**(d) Promotes economic growth:** Insurance generates significant impact on the economy by mobilizing domestic savings. Insurance turn accumulated capital into productive investments. Insurance enables to mitigate loss, financial stability and promotes trade and commerce activities those results into economic growth and development. Thus, insurance plays a crucial role in sustainable growth of an economy.

**(e) Medical support:** A medical insurance considered essential in managing risk in health. Anyone can be a victim of critical illness unexpectedly. And rising medical expense is of

great concern. Medical Insurance is one of the insurance policies that cater for different type of health risks. The insured gets a medical support in case of medical insurance policy.

- (f) **Spreading of risk:** Insurance facilitates spreading of risk from the insured to the insurer. The basic principle of insurance is to spread risk among a large number of people. A large number of persons get insurance policies and pay premium to the insurer. Whenever a loss occurs, it is compensated out of funds of the insurer.
- (g) **Source of collecting funds:** Large funds are collected by the way of premium. These funds are utilized in the industrial development of a country, which accelerates the economic growth. Employment opportunities are increased by such big investments. Thus, insurance has become an important source of capital formation.
- (h) **Contributes to the development of the money market:** Insurance contributes in the development of money market of country from big amount of insurance premium.
- (i) **More productivity:** Insurance does fearless to the people. As a result without tension a worried they work as well as more, accept challenges and full utilized efficiency and resources.
- (j) **Contributes to the foreign currency fund:** Insurance companies do the insurance business in other countries so that received foreign currency as on premium, result is contributed to the foreign currency fund.
- (k) **Possibilities of Continuous development:** At present many such insurance policies developed, which they provide continuous security. As for example Insurance of security

of profits, re established insurance etc.

- (l) **Continuous to the functions of public welfare:** Insurance also contributes to fulfill functions of public welfare, like education, medical, social welfare, social justice, balanced economic development etc.
- (m) **Overall development of the nation:** Insurance all rounds develop like employment opportunities, more saving and capital formation etc.
- (n) **Helps to develop stock exchange** The insurance companies with its vast premium funds and reserve funds, invest in stock market and take part regularly in the functioning of stock exchanges. In addition to this, many insurance companies now insure the brokers and this way they ensure the stability in the stock market operations.

### Social Security:

**Social security** is "any government system that provides monetary assistance to people with an inadequate or no income. According to a definition given in the ILO publication', "Social security is the security that society furnishes through appropriate organization against certain risks to which its members are exposed. These risks are essentially contingencies of life which the individual of small means cannot effectively provide by his own ability, or foresight alone or even in private combination with his fellows".

William Beveridge has defined social security as "a means of securing an income to take the place of earnings when they are interrupted by unemployment, sickness or accident to provide for the retirement through old age, to provide against loss of support by death of another person or to

meet exceptional expenditure connected with birth, death, or marriage. The purpose of social security is to provide an income up to a minimum and also medical treatment to bring the interruption of earnings to an end as soon as possible.”

In simple terms, the signatories agree that society in which a person lives should help them to develop and to make the most of all the advantages (culture, work, social welfare) which are offered to them in the country.

Social security may also refer to the action programs of organization intended to promote the welfare of the population through assistance measures guaranteeing access to sufficient resources for food and shelter and to promote health and well-being for the population at large and potentially vulnerable segments such as children, the elderly, the sick and the unemployed. Services providing social security are often called social services

Social security may also refer to Social insurance, where people receive benefits or services in recognition of contributions to an insurance program. These services typically include provision for retirement pensions, disability insurance, survivor benefits and unemployment insurance. Services provided by government or designated agencies responsible for social security provision. In different countries, that may include medical care, financial support during unemployment, sickness, or retirement, health and safety at work, aspects of social work and even industrial relations. Basic security irrespective of participation in specific insurance programs where eligibility may otherwise be an issue. For instance, assistance given to newly arrived refugees for basic

necessities such as food, clothing, housing, education, money, and medical care.

**A brief description of these is given as under:**

**Compensation:**

Compensation ensures security of income. It is based on this consideration that during the period of contingency of risks, the individual and his/her family should not be subjected to a double calamity, i.e., destitution and loss of health, limb, life or work.

**Restoration:**

It commutates cure of one's sickness, reemployment so as to restore him/her to earlier condition. In a sense, it is an extension of compensation.

**Prevention:**

These measures imply to avoid the loss of productive capacity due to sickness, unemployment or invalidity to earn income. In other words, these measures are designed with an objective to increase the material, intellectual and moral well-being of the community by rendering available resources which are used up by avoidable disease and idleness.

**Scope:**

The term 'social security' is all embracing. The scope of social security is, therefore, very wide. It covers the aspects relating to social and economic justice.

**All social security schemes furnished by the government are broadly classified into two types:**



- (i) Social Assistance, and
- (ii) Social Insurance.

**According to the Social Security (Minimum Standards) Convention (No. 102) adopted by the ILO in 1952, the following are the nine components of social security that configure its scope:**

- (i) Medical care,
- (ii) Sickness benefit,
- (iii) Unemployment benefit.
- (iv) Old age benefit,
- (v) Employment injury benefit,
- (vi) Family benefit,
- (vii) Maternity benefit,
- (viii) Invalidity benefit, and
- (ix) Survivor's benefit

### **Need for Social Security:**

One moot question to be answered is why there is a need for social security especially in India. As has already been mentioned, the underlying philosophy of social security is to ensure a minimum level of material living to the needy or helpless ones of the society by the State.

Our accumulated experience reveals that in an industrial economy, the workers have been subjected to periodic unemployment due to cyclical fluctuations in business, sickness, industrial accidents and old age. In fact, there is nothing more disconcerting to worker and his/her family than unemployment.

Similarly, while sickness suspends earning capacity of a worker temporarily, industrial accidents may disable him/her partially or even permanently, and old age may put a stop to his/her ability to earn and support himself/herself and the family. The capitalist having sufficient resources

have no problem in facing such risks of life. But, the worker does not have resources required to face the risks caused by sickness, accidents, unemployment and old age.

Nor has he/she alternative sources of livelihood or accumulated property to overcome the period of adversity. Such a situation underlines the need for social security to be provided to such needy workers/people. Naturally, the Government has, then, the obligation to help the needy and helpless workers and provide them security to pass through in period of adversity.

They constitute an important step toward the goal of a Welfare State, by improving living and working conditions and affording the people protection against the uncertainties of the future. These measures are also important for every industrialization programme, for not only to enable workers to become more efficient but they also reduce the wastage arising from industrial disputes.

The man-days lost on account of sickness and disability also constitute a heavy drain on the slender resources of the worker and on the industrial output of the country. Lack of social security impedes production and prevents the formation of a stable and efficient labour force. Social security is, therefore, not a burden, but a wise investment in the long run.”

Thus, the need for a comprehensive programme of social security in India is so strong that it needs no more proof or evidence. It is must to ensure a minimum level of living for those who are helpless on various counts.

### **Insurance Agent**

A person licensed by a state and generally

employed by an insurance company to sell insurance policies on the company's behalf. The agent generally receives a commission for this service. He/she attempts to extract the maximum value for the insurance company in all his/her dealings. An insurance agent should not be confused with an insurance broker or an insurance underwriter.

An agent is a person who represents an insurance firm and sells insurance policies on its behalf.

### **Difference between an Agent & Servant**

**1. Authority to create contractual relationship:** Apart from acting on behalf of his/her principal, an agent has the authority to create contractual relations between the principal and a third party. A servant ordinarily, has no such authority.

**2. Control and Supervision:** A servant is bound to work under direct control and supervision of his employer. A 'principal' directs the agent as to what is to be done, but a master or employer of a servant not only has that right, but also the right to direct how it is to be done.

**3. Number of Masters:** A servant usually serves only one master, but an agent may work for several principals at the same time.

**4. Remuneration:** The mode of remuneration is usually different. Remuneration for a servant is paid by way of salary or wages, whereas an agent generally gets his remuneration in terms of commission calculated on the basis of the amount of business transacted.

**5. Duty Assignment:** A servant in certain cases to some extent may be assigned the duties of an agent, and may act as one. For example, the secretary of a company is regarded as the servant of the company, but in respect of the matters that come under his/her

domain he/she becomes an agent in their dealings with third persons. An agent as such never occupies the position of a servant because whenever he acts, he acts on behalf of his principal and binds him/her (principal) to third parties.

**6. Liability:** A principal is liable on contracts made by his agent within scope of authority. But a master is answerable for any wrongful act of his servant if it is committed in the course of the servant's employment.

### **Characteristics of an Agent:**

**1. Entrepreneurial mind set** Being an insurance agent has a big similarity with owning a business in such a way that the income is not fixed on a certain rate. Should the agent decide to exert more effort, he can increase his commissions but if he becomes too complacent, he won't get enough sales and consequently, not earn enough commissions.

**2. Good speaker** In offering insurance plans, a sales agent needs to make people realize the need for their product. Simply narrating the benefits of insurance wouldn't help. The agent should be able to deliver the explanation in a convincing way.

**3. Intelligent** This trait is necessary, especially for insurance plans that are more complicated. For this reason, it is always required for an insurance agent to at least, have a bachelor's degree.

**4. Good Listener** The agent should be able to discern what the consumer wants or needs and be able to provide the product that will satisfy the consumer.

**5. Available in different time schedules** Most of the consumers are income-earners who have a stable job or managing a business. For this reason, they would always want to meet with an insurance agent after office or business hours.

**6. Motivated** Being able to close a deal with a consumer is certainly a triumphant moment for an agent but he shouldn't be frustrated whenever a client refuses his offers. During these times, it is important that insurance is always motivated to help him keep going in spite of failures.

**7. Outgoing** An agent needs to have as much connections as possible and it would help a lot if he is always willing to go out and mingle with different sets of people where he can meet new acquaintances and potential clients.

**8. Persistent** There are a couple of clients, especially those who are busy with their job or business, who just needs to be reminded or persuaded about getting an insurance that will be beneficial to them. And for these clients, calling them for a reminder about the insurance plan that the sales agent is offering can make a difference.

**9. Knows When to Stand Back** A lot of complaints about insurance agents are their being overly persistent. It is important to keep in touch but they shouldn't overdo it to avoid irritating the prospective client which will make him reject the offer.

**10. Sees Their Profession as a Fulfilling Venture Rather Than A Job-** One way to help an insurance remain in his profession is to see it as a fulfilling and rewarding venture rather than a job. If an agent sees it as his opportunity to help people prepare for unexpected events rather than to make a sale then get money, it wouldn't be a job at all for him.

### Functions:

1. The insurance agent helps in promoting and selling of insurance products and services to its customers.

2. Giving sound financial advisory services and customer support to the clients
3. Needs to deal with not only individuals but their families and corporate businesses too.
4. Needs to have good relationship including good rapport with his/her existing and prospective clients.
5. Promotion of insurance brands needs to have a carefully drawn roadmap.
6. Well-planned strategies and plans needs to be chalked out.
7. Public-relation (PR) building exercise should be given significant importance
8. Business Development tactics needs to be pursued aggressively

### Insurance Agent cannot perform following functions:

- 1) Recover of Amount
- 2) Give rebate or commission for insurance.
- 3) Accept of any risk for insured
- 4) Give advertisement in newspaper
- 5) Interfere in the function of other agents
- 6) Working without license or with an expired license.

### Qualification of Insurance Agent:

According to Insurance Act and Insurance Agents Regulations, 2000 the following qualifications must be to an Insurance Agent

- 1) If he/she has completed 18 years of age
- 2) He is civilian of India
- 3) He should be of sound mind.
- 4) He was not defaulter by court.

## EXERCISE

### Very Short Questions:

1. What is risk?
2. Define insurance?
3. Insurance is a cooperative device. How?
4. What do you mean by social security?
5. State the difference between an agent and an employee?
6. Who can be an insurance agent?
7. What is Pradhan Mantri Surksha Beema Yojna?
8. What is social insurance?
9. In which epic 'Yogkshem' is mentioned?
10. What is the basic objective of insurance?

### Short Answers Questions:

1. Define insurance.
2. Differentiate between Assurance and Insurance.

3. State the difference between insurance and gambling.
4. Insurance is a method of spreading the risk, not prevention of risk. Comment.
5. Mention the primary function of insurance.
6. Write a brief note on crop insurance.
7. "Insurance gives peace of mind." Comment.
8. Insurance has elements of protection and investment both. How?

### Essay Type Questions:

1. Give various definitions of insurance. Explain its features.
2. Explain in detail the scope of insurance.
3. What do you mean by social security? Discuss the role of insurance in social security.
4. Define an insurance agent. Explain the functions and duties of an insurance agent.
5. Explain the socio-economic significance of insurance.