

## Concept of Insurance

On the one hand, human life is subject to various risks—risk of death or disability due to natural or accidental causes. Humans are also prone to diseases, the treatment of which may involve huge expenditure. On the other hand, property owned by man is exposed to various hazards, natural and man-made.

When human life is lost or a person is disabled permanently or temporarily, there is a loss of income to the household. The family is put to hardship. Sometimes survival itself is at stake for the dependants.

When it comes to property, loss or damage to property results in either whole or partial loss in income to the person or entity.

Risk has the element of unpredictability. Death/disability or loss/damage could occur at anytime. Losses can be mitigated through insurance. Insurance is a commodity which offers protection against various contingencies.

Insurance products available for life and non-life are many. In non-life, apart from personal covers such as accident covers and health insurance, there are products covering liabilities under a particular law and or common law. The various products are designed to cater to different needs of an individual or industry such as fire insurance policy on multi-storeyed building, householder's policy.

An insurance contract promises to make good to the insured a certain sum in consideration for a payment in the form of premium from the insured.

Human life cannot be valued. Hence the sum assured ( or the amount guaranteed to be paid in the event of a loss ) is by way of a 'benefit' in the case of life

insurance. Life insurance products provide a definite amount of money to the dependants of the insured in case the life insured dies during his active income earning period or becomes disabled on account of an accident causing reduction/complete loss in his income earnings. An individual can also protect his old age when he ceases to earn and has no other means of income by purchasing an annuity product.

A Personal Accident cover is also for protection. In the event of death or disability, permanent or temporary, of the insured, it provides for compensation which is either the whole or a percentage of the Capital Sum Insured depending on the kind of loss.

In the case of Health Insurance, the policy seeks to cover expenses towards of treatment of diseases and or injury upto the Sum Insured opted for by the insured.

In respect of insurance relating to property, there are many products available. Property may be covered against fire and perils of nature including flood, earthquake etc. Machinery may be insured for breakdown. Goods in transit can be insured under a marine cargo insurance cover. Insurance covers are also available for ships and other vessels. A motor insurance policy covers third party damage as well as damage to the vehicle.

Insurance of property is based on the principle of indemnity. The idea is to bring the insured to the same financial position as he /she was before the loss occurred. It safeguards the investment in the property. Where there is no insurance, losses can mar a project or an industry. General Insurance offers stability to the economy and to the society.

Insurance offers security and so peace of mind to the individual. The concept of insurance is that the losses of

a few are made good by contribution from many. It is based on the law of large numbers. It stemmed from the need of man to find a solution for mitigation of losses. It also reflects the nature of man to find a solution collectively.

It is important for all to understand the various products that life and general insurance companies offer before they make a choice as to the product they want to buy.

As per regulations, insurers have to give the various features of the products at the point of sale. The insured should also go through the various terms and conditions of the products and understand what they have bought and met their insurance needs. They ought to understand the claim procedures so that they know what to do in the event of a loss.

What is Life Insurance?

Human life is subject to risks of death and disability due to natural and accidental causes. When human life is lost or a person is disabled permanently or temporarily, there is a loss of income to the household. The family is put to hardship. Sometimes, survival itself is at stake for the dependants. Risks are unpredictable. Death/disability may occur when one least expects it. An individual can protect himself or herself against such contingencies through life insurance.

Life insurance is insurance on human beings. Though Human life cannot be valued, a monetary sum could be determined which is based on loss of income in future years. Hence in life insurance, the Sum Assured (or the amount guaranteed to be paid in the event of a loss) is by way of a 'benefit' in the case of life insurance. Life insurance products provide a definite amount of money to the dependants of the insured in case the life insured dies during his active income earning period or becomes disabled on account of an accident causing reduction/complete loss in his income earnings.

An individual can also protect his old age when he ceases to earn and has no other means of income – by purchasing an annuity product.

There are a number of life insurance products which offer protection and also coupled with savings.

A term insurance product provides a fixed amount of money on death during the period of contract.

A whole life insurance product provides a fixed amount of money on death.

An Endowment Assurance product provided a fixed amount of money either on death during the period of contract or at the expiry of contract if life assured is alive.

A money back assurance product provides not only fixed amounts which are payable on specified dates during the period of contract, but also the full amount of money assured on death during the period of contract.

An annuity product provides a series of monthly payments on stipulated dates provided that the life assured is alive on the stipulated dates.

A linked product provides not only a fixed amount of money on death but also sums of money which are linked with the underlying value of assets on the desired dates.

There are a variety of life insurance products to suit to the needs of various categories of people—children, youth, women, middle-aged persons, old people; and also rural people, film actors and unorganized labourers.

Life insurance products could be purchased from registered life insurers notified by the IRDA. Insurers appoint insurance agents to sell their products. Public who are interested to buy life insurance products should receive proper advice from insurance agents/insurer so that a right product could be chosen to suit particular financial needs.

Thus life insurance policies offer protection and security to families and provide happiness to society.

## What is General Insurance?

Insurance other than 'Life Insurance' falls under the category of General Insurance. General Insurance comprises of insurance of property against fire, burglary etc, personal insurance such as Accident and Health Insurance, and liability insurance which covers legal liabilities. There are also other covers such as Errors and Omissions insurance for professionals, credit insurance etc.

Non-life insurance companies have products that cover property against Fire and allied perils, flood storm and inundation, earthquake and so on. There are products that cover property against burglary, theft etc. The non-life companies also offer policies covering machinery against breakdown, there are policies that cover the hull of ships and so on. A Marine Cargo policy covers goods in transit including by sea, air and road. Further, insurance of motor vehicles against damages and theft forms a major chunk of non-life insurance business.

In respect of insurance of property, it is important that the cover is taken for the actual value of the property to avoid being imposed a penalty should there be a claim. Where a property is undervalued for the purposes of insurance, the insured will have to bear a rateable proportion of the loss. For instance if the value of a property is Rs.100 and it is insured for Rs.50/-, in the event of a loss to the extent of say Rs.50/-, the maximum claim amount payable would be Rs.25/- ( 50% of the loss being borne by the insured for underinsuring the property by 50% ). This concept is quite often not understood by most insureds.

Personal insurance covers include policies for Accident, Health etc. Products offering Personal Accident cover are benefit policies. Health insurance covers offered by non-life insurers are mainly hospitalization covers either on reimbursement or cashless basis. The cashless service is offered through Third Party Administrators who have arrangements with various service providers, i.e., hospitals. The Third Party Administrators also provide service for reimbursement claims. Sometimes the insurers themselves process reimbursement claims.

Accident and health insurance policies are available for individuals as well as groups. A group could be a group of employees of an organization or

holders of credit cards or deposit holders in a bank etc. Normally when a group is covered, insurers offer group discounts.

Liability insurance covers such as Motor Third Party Liability Insurance, Workmen's Compensation Policy etc offer cover against legal liabilities that may arise under the respective statutes— Motor Vehicles Act, The Workmen's Compensation Act etc. Some of the covers such as the foregoing (Motor Third Party and Workmen's Compensation policy ) are compulsory by statute. Liability Insurance not compulsory by statute is also gaining popularity these days. Many industries insure against Public liability. There are liability covers available for Products as well.

There are general insurance products that are in the nature of package policies offering a combination of the covers mentioned above. For instance, there are package policies available for householders, shop keepers and also for professionals such as doctors, chartered accountants etc. Apart from offering standard covers, insurers also offer customized or tailor-made ones.

Suitable general Insurance covers are necessary for every family. It is important to protect one's property, which one might have acquired from one's hard earned income. A loss or damage to one's property can leave one shattered. Losses created by catastrophes such as the tsunami, earthquakes, cyclones etc have left many homeless and penniless. Such losses can be devastating but insurance could help mitigate them. Property can be covered, so also the people against Personal Accident. A Health Insurance policy can provide financial relief to a person undergoing medical treatment whether due to a disease or an injury.

Industries also need to protect themselves by obtaining insurance covers to protect their building, machinery, stocks etc. They need to cover their liabilities as well. Financiers insist on insurance. So, most industries or businesses that are financed by banks and other institutions do obtain covers. But are they obtaining the right covers? And are they insuring adequately are questions that need to be given some thought. Also organizations or industries that are self-financed should ensure that they are protected by insurance.

Most general insurance covers are annual contracts. However, there are few products that are long-term.

It is important for proposers to read and understand the terms and conditions of a policy before they enter into an insurance contract. The proposal form needs to be filled in completely and correctly by a proposer to ensure that the cover is adequate and the right one.

## **General insurance : QUESTIONS and ANSWERS**

### **What is insurance?**

We face a lot of risks in our daily lives. Some of these lead to financial losses. Insurance is a way of protecting against these financial losses. For a payment (premium), an insurance company will take the responsibility of compensating your financial losses.

### **What is general insurance?**

Insuring anything other than human life is called general insurance. Examples are insuring property like house and belongings against fire and theft or vehicles against accidental damage or theft. Injury due to accident or hospitalisation for illness and surgery can also be insured. Your liabilities to others arising out of the law can also be insured and is compulsory in some cases like motor third party insurance.

### **Why should one insure ?**

One of the main reasons one should insure is to protect one's belongings and assets against financial loss. When one has earned and accumulated property, protecting it is prudent. The law also requires us to be insured against some liabilities. That is, in case we should cause a loss to another person, that person is entitled to compensation. To ensure that we can afford to pay that compensation, the law requires us to buy liability insurance so that the responsibility of paying the compensation is transferred to an insurance company.

### **Who should buy general insurance?**

Anyone who owns an asset can buy insurance to protect it against losses due to fire or theft and so on. Each one of us can insure our and our dependents' health and well being through hospitalisation and personal accident policies. To buy a policy the person should be the one who will bear financial losses if they occur. This is called insurable interest.

### **What kinds of policies are there?**

Most general insurance policies are annual – that is, they last for one year. Some policies are given for longer periods – like fire insurance for residences – and some for shorter periods – like insurance for goods transportation or for emergency medical treatment during foreign travel.

### **How much should I insure for?**

The amount you insure for is called the sum assured. Normally a policy should cover the value of the asset – either the market value while insuring, or the cost of replacing the asset should it be lost or destroyed. The premium will depend on the sum assured.

### **Can I take two policies and get claims under both of them?**

In case of an indemnity cover (one that seeks to compensate the actual loss )--for instance, a policy that covers property, if there are two policies in vogue, the loss shall be shared by both the policies. In no case can an insured get more than the actual pecuniary loss he or she has incurred. On the other hand, in respect of benefit policies like the Personal Accident policy, where a fixed compensation is paid, no matter what the actual loss is , one may obtain more than one policy.

### **On what basis is claim paid?**

In indemnity policies, the upper limit of a claim is the sum assured and this usually applies for the period of the policy. Certain policies, however, allow for reinstatement of the Sum Insured by payment of proportionate premium for the remaining period of the policy. The actual claim will be the actual extent of financial loss as validated by documents like bills. If the property is underinsured, the insured shall bear a rateable proportion of the loss. There can be more than one claim in the policy period but the sum assured is usually the limit for the policy period unless reinstated.

Nowadays health insurance policies – which cover hospitalisation costs – have also a cashless settlement of claims. That is, you don't have to pay for the treatment at the hospital and then make a claim for reimbursement of the expenses. The insurance company has a service provider called the third party administrator (TPA) health services, who liaises with the hospitals and directly makes the payment for your treatment as per the terms of your policy and coverage.

### **What is the periodicity of premium payments?**

Most general insurance policies are annual and the premium payment is in advance. No risk commences unless you have paid the premium. In some long term policies companies have the facility of collecting premiums periodically.

### **Why do different people have different premiums ?**

The premium is calculated on the extent and nature of the cover you want. A higher sum insured means a higher rate of premium. Similarly a higher risk will be charged a higher premium. An example of this is that an older person will have to pay a higher premium for health insurance for the same sum insured. Sometimes the risk is higher depending on the location of risks – for example in motor insurance in areas where accidents are higher. So the premium will vary according to the nature and severity of the risk.

If I buy a policy and don't make a claim, it is a loss. So, why should I buy insurance?

General insurance is not meant to be for savings or investment returns. It is meant for protection. What you pay for is the protection against a risk. To approach it as something from which returns should be obtained is not the correct approach as there is a price to pay for protecting a property worth lakhs for a few hundred rupees.

**If there are problems with claims what can I do?**

First you should write to the company and give them sufficient time to respond suitably. If they don't respond, or it is not a response satisfactory to you, then you can approach the appropriate judicial channel. For complaints relating to personal insurance covers upto a value of Rs.20 lakh, you may approach the Insurance Ombudsman in your area.

( HERE ANNOUNCE THE CONTACT INFORMATION OF THE OMBUDSMAN ).

The Ombudsman has a technical team that will go into the merits of your case and give an award) If you are unhappy with the outcome with the Ombudsman you still have recourse to consumer courts.

The IRDA also has a Grievance Cell. You may contact.....

( HERE ANNOUNCE THE CONTACT INFORMATION OF IRDA) .

## **Distribution channels in insurance**

An insurance cover is an intangible product evidenced by a written contract known as the 'policy'. Insurers market various insurance covers either directly or through various distribution channels—individual agents, corporate agents (including Bancassurance) and Brokers. The marketer in the distribution network is in direct interface with the prospect and the customer.

Life insurance products are sold through individual agents and many of them have this as their only career occupation. General insurance products are sold through individual agents, corporate agents and brokers.

Distribution channels such as agents are licensed by the IRDA. To get an agency licence, one has to have certain minimum qualifications; practical training in insurance subjects and pass an examination conducted by the Insurance Institute of India.

IRDA regulations on licensing of agents/brokers lay down the code of conduct for individual agents, corporate agents and brokers. A separate note on the code of conduct is appended to this note.

Thus it is seen that the dos and don'ts for these intermediaries are given clearly at the point of sale as well as in the event of a claim. Service does not end with the customer receiving his document; it in fact only begins here. After sales service is as important or even more important – like when a refund has to be made or when a claim has to be made.

One of the issues that is of great concern affecting professionalism in insurance activities is resorting rebating by intermediaries. Rebating is prohibited as per Section 41 of the Insurance Act, 1938 and the public are advised not to deal with intermediaries offering rebate of any kind.

Rebating means a share of commission receivable by the agent/broker is given to the prospect/client. This is done to attract the client in the purchase of insurance contract by offering cash. Competition among agents/brokers is so cut-throat, some agents indulge in such unethical practices. Public are advised not to ask for any prohibited rebates in premium since commission payment to an agent is the only income for some to take care of their families. Similarly, agents are also advised not to indulge in such practices which could cause them loss of agency income.

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## Code of Conduct for Intermediaries

### I. **INSURANCE AGENT**

#### **Every insurance agent shall,---**

- identify himself and the insurance company of whom he is an insurance agent;
- disclose his licence to the prospect on demand;
- disseminate the requisite information in respect of insurance products offered for sale by his insurer and take into account the needs of the prospect while recommending a specific insurance plan;
- disclose the scales of commission in respect of the insurance product offered for sale, if asked by the prospect;
- indicate the premium to be charged by the insurer for the insurance product offered for sale;
- explain to the prospect the nature of information required in the proposal form by the insurer, and also the importance of disclosure of material information in the purchase of an insurance contract;
- bring to the notice of the insurer any adverse habits or income inconsistency of the prospect, in the form of a report (called "Insurance Agent's Confidential Report") along with every proposal submitted to the insurer, and any material fact that may adversely affect the underwriting decision of the insurer as regards acceptance of the proposal, by making all reasonable enquiries about the prospect;
- inform promptly the prospect about the acceptance or rejection of the proposal by the insurer;
- obtain the requisite documents at the time of filing the proposal form with the insurer; and other documents subsequently asked for by the insurer for completion of the proposal;
- render necessary assistance to the policyholders or claimants or beneficiaries in complying with the requirements for settlement of claims by the insurer;
- advise every individual policyholder to effect nomination or assignment or change of address or exercise of options, as the case may be, and offer necessary assistance in this behalf, wherever necessary;

#### **No insurance agent shall,----**

- solicit or procure insurance business without holding a valid licence;
- induce the prospect to omit any material information in the proposal form;
- induce the prospect to submit wrong information in the proposal form or documents submitted to the insurer for acceptance of the proposal;
- behave in a discourteous manner with the prospect;
- interfere with any proposal introduced by any other insurance agent;

- offer different rates, advantages, terms and conditions other than those offered by his insurer;
- demand or receive a share of proceeds from the beneficiary under an insurance contract;
- force a policyholder to terminate the existing policy and to effect a new proposal from him within three years from the date of such termination;
- have, in case of a corporate agent, a portfolio of insurance business under which the premium is in excess of fifty percent of total premium procured, in any year, from one person (who is not an individual) or one organisation or one group of organisations;
- apply for fresh licence to act as an insurance agent, if his licence was earlier cancelled by the designated person, and a period of five years has not elapsed from the date of such cancellation;
- become or remain a director of any insurance company;

Every insurance agent shall, with a view to conserve the insurance business already procured through him, make every attempt to ensure remittance of the premiums by the policyholders within the stipulated time, by giving notice to the policyholder orally and in writing;

## II. CORPORATE AGENT

Every **Licensed Corporate Agent** shall abide by the code of conduct specified below:

Every corporate agent shall:

- a) be responsible for all acts of omission and commission of its corporate insurance executive and every specified person;
- b) ensure that the corporate insurance executive and all specified persons are properly trained, skilled and knowledgeable in the insurance products they market;
- c) ensure that the corporate insurance executive and the specified person do not make to the prospect any misrepresentation on policy benefits and returns available under the policy;
- d) ensure that no prospect is forced to buy an insurance product;
- e) give adequate pre-sales and post-sales advice to the insured in respect of the insurance product;
- f) extend all possible help and cooperation to an insured in completion of all formalities and documentation in the event of a claim;
- g) give due publicity to the fact that the corporate agent does not underwrite the risk or act as an insurer;
- h) enter into service level agreements with the insurer in which the duties and responsibilities of both are defined.

Every corporate agent or a corporate insurance executive or a specified person shall also follow the code of conduct specified below:

(i) Every corporate agent/ corporate insurance executive/ specified person shall,---

- (a) identify himself and the insurance company of whom he is a representative;
- (b) disclose his licence/ certificate to the prospect on demand;
- (c) disseminate the requisite information in respect of insurance products offered for sale by his insurer and take into account the needs of the prospect while recommending a specific insurance plan;
- (d) disclose the scales of commission in respect of the insurance product offered for sale, if asked by the prospect;
- (e) indicate the premium to be charged by the insurer for the insurance product offered for sale;
- (f) explain to the prospect the nature of information required in the proposal form by the insurer, and also the importance of disclosure of material information in the purchase of an insurance contract;
- (g) bring to the notice of the insurer any adverse habits or income inconsistency of the prospect, in the form of a report (called "Insurance Agent's Confidential Report") along with every proposal submitted to the insurer, and any material fact that may adversely affect the underwriting decision of the insurer as regards acceptance of the proposal, by making all reasonable enquiries about the prospect;
- (h) inform promptly the prospect about the acceptance or rejection of the proposal by the insurer;
- (i) obtain the requisite documents at the time of filing the proposal form with the insurer; and other documents subsequently asked for by the insurer for completion of the proposal;
- (j) render necessary assistance to the policyholders or claimants or beneficiaries in complying with the requirements for settlement of claims by the insurer;
- (k) advise every individual policyholder to effect nomination or assignment or change of address or exercise of options, as the case may be, and offer necessary assistance in this behalf, wherever necessary;

(ii) No corporate agent/ corporate insurance executive/ specified person shall,--

- (a) solicit or procure insurance business without holding a valid licence/ certificate;
- (b) induce the prospect to omit any material information in the proposal form;
- (c) induce the prospect to submit wrong information in the proposal form or documents submitted to the insurer for acceptance of the proposal;
- (d) behave in a discourteous manner with the prospect;
- (e) interfere with any proposal introduced by any other specified person or any insurance intermediary;

- (f) offer different rates, advantages, terms and conditions other than those offered by his insurer;
- (g) demand or receive a share of proceeds from the beneficiary under an insurance contract;
- (h) force a policyholder to terminate the existing policy and to effect a new proposal from him within three years from the date of such termination;
- (i) No corporate agent shall have a portfolio of insurance business from one person or one organization or one group of organizations under which the premium is in excess of fifty percent of total premium procured in any year;
- (j) apply for fresh licence to act as an insurance agent, if his licence was earlier cancelled by the designated person, and a period of five years has not elapsed from the date of such cancellation;
- (k) become or remain a director of any insurance company;

**(iii)** Every corporate agent shall, with a view to conserve the insurance business already procured through him, make every attempt to ensure remittance of the premiums by the policyholders within the stipulated time, by giving notice to the policyholder orally and in writing.

**(iv)** No director of a company or a partner of a firm or the chief executive or a corporate insurance executive or a specified person shall hold similar position with another corporate agent of any other insurance company.

### **III. INSURANCE BROKER**

Every **Insurance Broker** shall follow recognised standards of professional conduct and discharge his functions in the interest of the policyholders.

**Conduct in matters relating to clients relationship**— Every insurance broker shall:

conduct its dealings with clients with utmost good faith and integrity at all times;

- act with care and diligence;
- ensure that the client understands his relationship with the broker and on whose behalf the broker is acting;
- treat all information supplied by the prospective clients as completely confidential to themselves and to the insurer(s) to which the business is being offered;
- take appropriate steps to maintain the security of confidential documents in their possession;
- hold specific authority of client to develop terms;
- understand the type of client it is dealing with and the extent of the client's awareness of risk and insurance;
- obtain written mandate from client to represent the client to the insurer and communicate the grant of a cover to the client after effecting insurance;

- obtain written mandate from client to represent the client to the insurer/ reinsurer; and confirm cover to the insurer after effecting re-insurance, and submit relevant reinsurance acceptance and placement slips;
- avoid conflict of interest.

**Conduct in matters relating to Sales practices**— Every insurance Broker shall:

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- (a) confirm that it is a member of the Insurance Brokers Association of India or such a body of brokers as approved by the Authority which has a memorandum of understanding with the Authority;
- (b) confirm that he does not employ agents or canvassers to bring in business;
- (c) identify itself and explain as soon as possible the degree of choice in the products that are on offer;
- (d) ensure that the client understands the type of service it can offer;
- (e) ensure that the policy proposed is suitable to the needs of the prospective client;
- (f) give advice only on those matters in which it is knowledgeable and seek or recommend other specialist for advice when necessary;
- (g) not make inaccurate or unfair criticisms of any insurer or any member of the Insurance Brokers Association of India or member of such body of brokers as approved by the Authority;
- (h) explain why a policy or policies are proposed and provide comparisons in terms of price, cover or service where there is a choice of products;
- (i) state the period of cover for which the quotation remains valid if the proposed cover is not effected immediately;
- (j) explain when and how the premium is payable and how such premium is to be collected, where another party is financing all or part of the premium, full details shall be given to the client including any obligations that the client may owe to that party; and
- (k) explain the procedures to follow in the event of a loss.

**Conduct in relation to furnishing of information** — Every insurance broker shall: —

- (a) ensure that the consequences of non-disclosure and inaccuracies are pointed out to the prospective client;
- (b) avoid influencing the prospective client and make it clear that all the answers or statements given are the latter's -own responsibility. Ask the client to carefully check details of information given in the documents and request the client to make true, fair and complete disclosure where it believes that the client has not done so and in case further disclosure is not forthcoming it should consider declining to act further;
- (c) explain to the client the importance of disclosing all subsequent changes that might affect the insurance throughout the duration of the policy; and
- (d) disclose on behalf of its client all material facts within its knowledge and give a fair presentation of the risk.

**Conduct in relation to explanation of insurance contract** — Every insurance broker shall:

- (a) provide the list of insurer(s) participating under the insurance contract and advise any subsequent changes thereafter;
- (b) explain all the essential provisions of the cover afforded by the policy recommended by him so that, as far as possible, the prospective client understands what is being purchased;
- (c) quote terms exactly as provided by insurer;
- (d) draw attention to any warranty imposed under the policy, major or unusual restrictions, exclusions under the policy and explain how the contract may be cancelled;
- (e) provide the client with prompt written confirmation that insurance has been effected. If the final policy wording is not included with this confirmation, the same shall be forwarded as soon as possible;
- (f) notify changes to the terms and conditions of any insurance contract and give reasonable notice before any changes take effect;
- (g) advise its clients of any insurance proposed on their behalf which will be effected with an insurer outside India, where permitted, and, if appropriate, of the possible risks involved; and

**Conduct in relation to renewal of policies** — Every insurance broker shall:—

- (a) ensure that its client is aware of the expiry date of the insurance even if it chooses not to offer further cover to the client;
- (b) ensure that renewal notices contain a warning about the duty of disclosure including the necessity to advise changes affecting the policy, which have occurred since the policy inception or the last renewal date;
- (c) ensure that renewal notices contain a requirement for keeping a record (including copies of letters) of all information supplied to the insurer for the purpose of renewal of the contract;
- (d) ensure that the client receives the insurer's renewal invitation well in time before the expiry date.

**Conduct in relation to claim by client**— Every insurance broker shall: —

- (a) explain to its clients their obligation to notify claims promptly and to disclose all material facts and advise subsequent developments as soon as possible;
- (b) request the client to make true, fair and complete disclosure where it believes that the client has not done so. If further disclosure is not forthcoming it shall consider declining to act further for the client;
- (c) give prompt advice to the client of any requirements concerning the claim;
- (d) forward any information received from the client regarding a claim or an incident that may give rise to a claim without delay, and in any event within three working days;
- (e) advise the client without delay of the insurer's decision or otherwise of a claim; and give all reasonable assistance to the client in pursuing his claim.  
Provided that the insurance broker shall not take up recovery assignment on a policy contract which has not been serviced through him or should not work as a claims consultant for a policy which has not been serviced through him.

**Conduct in relation to receipt of complaints** — Every insurance broker shall:—

- (a) ensure that letters of instruction, policies and renewal documents contain details of complaints handling procedures;
- (b) accept complaints either by phone or in writing;
- (c) acknowledge a complaint within fourteen days from the receipt of correspondence, advise the member of staff who will be dealing with the complaint and the timetable for dealing with it;
- (d) ensure that response letters are sent and inform the complainant of what he may do if he is unhappy with the response;
- (e) ensure that complaints are dealt with at a suitably senior level;
- (f) have in place a system for recording and monitoring complaints.

**Conduct in relation to documentation** — Every insurance broker shall:—

- (a) ensure that any documents issued comply with all statutory or regulatory requirements from time to time in force;
- (b) send policy documentation without avoidable delay,
- (c) make available, with policy documentation, advice that the documentation shall be read carefully and retained by the client;
- (d) not withhold documentation from its clients without their consent, unless adequate and justifiable reasons are disclosed in writing and without delay to the client. Where documentation is withheld, the client must still receive full details of the insurance contract;
- (e) acknowledge receipt of all monies received in connection with an insurance policy;
- (f) ensure that they reply is sent promptly or use its best endeavours to obtain a prompt reply to all correspondence;
- (g) ensure that all written terms and conditions are fair in substance and set out, clearly and in plain language, client's rights and responsibilities; and
- (h) subject to the payment of any monies owed to it, make available to any new insurance broker instructed by the client all documentation to which the client is entitled and which is necessary for the new insurance broker to act on behalf of the client.

**Conduct in matters relating to advertising** — Every insurance broker shall conform to the relevant provisions of the Insurance Regulatory and Development Authority (Insurance Advertisements and Disclosure) Regulations, 2000, and :—

- (a) ensure that statements made are not misleading or extravagant;
- (b) where appropriate, distinguish between contractual benefits which the insurance policy is bound to provide and non-contractual benefits which may be provided;
- (c) ensure that advertisements shall not be restricted to the policies of one insurer, except where the reasons for such restriction are fully explained with the prior approval of that insurer;
- (d) ensure that advertisements contain nothing which is in breach of the law nor omit anything which the law requires;
- (e) ensure that advertisement does not encourage or condone defiance or breach of the law;
- (f) ensure that advertisements contain nothing which is likely, in the light of generally prevailing standards of decency and propriety, to cause grave or widespread offence or to cause disharmony;

- (g) ensure that advertisements are not so framed as to abuse the trust of clients or exploit their lack of experience or knowledge;
- (h) ensure that all descriptions, claims and comparisons, which relate to matters of objectively ascertainable fact shall be capable of substantiation.

**Conduct in matters relating receipt of remuneration**— Every insurance broker shall:—

- (a) disclose whether in addition to the remuneration prescribed under these regulations, he proposes to charge the client, and if so in what manner;
- (b) advise the client in writing of the insurance premium and any fees or charges separately and the purpose of any related services;
- (c) if requested by a client, disclose the amount of remuneration or other remuneration it receives as a result of effecting insurance for that client. This will include any payment received as a result of securing on behalf of the client any service additional to the arrangement of the contract of insurance; and
- (d) advise its clients, prior to effecting the insurance, of their intention to make any deductions from the amount of claim collected for a client, where this is a recognised practice for the type of insurance concerned.

**Conduct in relation to matters relating to training** — Every insurance broker shall:

- (a) that its staff are aware of and adhere to the standards expected of them by this code;
- (b) ensure that staff are competent, suitable and have been given adequate training;
- (c) ensure that there is a system in place to monitor the quality of advice given by its staff;
- (d) ensure that members of staff are aware of legal requirements including the law of agency affecting their activities; and only handle classes of business in which they are competent;
- (e) draw the attention of the client to Section 41 of the Act, which prohibits rebating and sharing of commission.

Every insurance broker shall display in every office where it is carrying on business and to which the public have access a notice to the effect that a copy of the code of conduct is available upon request and that if a member of the public wishes to make a complaint or requires the assistance of the Authority in resolving a dispute, he may write to the Authority.

An insurance broker as defined in these regulations shall not act as an insurance agent of any insurer under section 42 of the Act.

Every insurance broker shall abide by the provisions of the Insurance Act, 1938 (4 of 1938), Insurance Regulatory And Development Authority Act 1999(41 of 1999), rules and regulations made there under which may be applicable and relevant to the activities carried on by them as insurance brokers.

## **POLICYHOLDERS GRIEVANCES**

Policyholders may have complaints against insurers either in respect of their policies or their claims. As per Regulations for Protection of policyholders interests, 2002, every insurer should have in place, a grievance redressal system to address the complaints of policyholders. Over and above this one may approach the Insurance Ombudsman for complaints relating to personal insurance claims for a value upto Rs.20 lacs. The other channels available to a policyholder are the Consumer courts and the civil courts. The IRDA has a Grievance Redressal Cell which plays a facilitative role by taking up complaints against insurers with the respective companies for speedy resolution. The IRDA however does not adjudicate on complaints.

When a policyholder has a complaint to make, he or she must first approach the Grievance or Consumer Complaints cell of the insurer. In the event of there being no response or no satisfactory response, the policyholder may write to the Grievance Redressal Cell of the IRDA which will then take up the matter with the concerned company for examination/re-examination.

If the complainant is looking for adjudication in respect of claims, he or she may approach the Insurance Ombudsman. The office of the Ombudsman was set up under the Redressal of Public Grievances Rules, 1998 framed by the Central Government. The rules apply to all the insurance companies operating in general insurance and life insurance business. The objects of the rules are to resolve all complaints relating to settlement of claim on the part of insurance companies in a cost-effective, efficient and impartial manner. The rules stipulate that there shall be a governing body of the Insurance Council which shall consist of one representative from each of the Insurance companies. The governing body shall appoint Ombudsmen for the purpose of these rules. Any person who has a grievance against an insurer, may himself or through his legal heirs make a complaint in writing to the Ombudsman within whose jurisdiction the branch or office of the insurer complained against is located. The Ombudsman may either make a recommendation through

mediation or pass an award which he or she thinks is fair in the facts and circumstances of a claim.

With a view to protecting the interests of policyholders, the IRDA brought out The Insurance Regulatory and Development Authority (Protection of Policyholders' Interests) Regulations, 2002. The Regulations apply to all insurers, insurance agents, insurance intermediaries and policyholders. In case of breach of the obligations cast on an insurer or insurance agent or insurance intermediary in terms of these regulations, the IRDA may initiate action against each or all of them, jointly or severally.

A copy of the Regulations for Protection of Policyholders interests is attached.

# Insurance Regulatory and Development Authority (Protection of Policyholders' Interests) Regulations, 2002

*In exercise of the powers conferred by clause (zc) of sub-section (2) of section 114A of the Insurance Act, 1938 (4 of 1938) read with sections 14 and 26 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), the Authority, in consultation with the Insurance Advisory Committee, hereby makes the following regulations, namely:*

## **Short title and commencement**

1. (1) These regulations may be called the Insurance Regulatory and Development Authority (Protection of Policyholders' Interests) Regulations, 2002
- (2) They shall come into force on the date of their publication in the Official Gazette and shall apply to all contracts of insurance effected thereafter, except regulation 4(1) which shall come into force on 1<sup>st</sup> October, 2002.
- (3) These Regulations are in addition to any other regulations made by the Authority, which may, inter alia, provide for protection of the interest of policyholders.
- (4) These Regulations apply to all insurers, insurance agents, insurance intermediaries and policyholders.

## **Definitions**

2. (1) In these regulations, unless the context otherwise requires:
  - (a) "Act" means the Insurance Act, 1938 (4 of 1938);
  - (b) "Authority" means the Insurance Regulatory and Development Authority established under the provisions of section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999);
  - (c) "Cover" means an insurance contract whether in the form of a policy or a cover note or a Certificate of Insurance or any other form prevalent in the industry to evidence the existence of an insurance contract;
  - (d) "Proposal form" means a form to be filled in by the proposer for insurance, for furnishing all material information required by the insurer in respect of a risk, in order to enable the insurer to decide whether to accept or decline, to undertake the risk, and in the event of acceptance of the risk, to determine the rates, terms and conditions of a cover to be granted.  
*Explanation:* "Material" for the purpose of these regulations shall mean and include all important, essential and relevant information in the context of underwriting the risk to be covered by the insurer.
  - (e) "Prospectus" means a document issued by the insurer or in its behalf to the prospective buyers of insurance, and should contain such particulars as are mentioned in Rule 11 of Insurance Rules, 1939 and includes a brochure or leaflet serving the purpose. Such a document should also specify the type and character of riders on the main product indicating the nature of benefits flowing thereupon;
  - (f) Words and expressions used and not defined in these regulations, but defined in the Act, or the Life Insurance Corporation Act, 1956, (31 of 1956) or the General Insurance Business (Nationalisation) Act 1972 (57 of 1972), or the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999) or the Insurance Rules, 1939 shall have the meanings respectively assigned to them in those Acts or the Rules.

### **3. Point of Sale**

(1) Notwithstanding anything mentioned in regulation 2(e) above, a prospectus of any insurance product shall clearly state the scope of benefits, the extent of insurance cover and in an explicit manner explain the warranties, exceptions and conditions of the insurance cover and, in case of life insurance, whether the product is participating (with-profits) or non-participating (without-profits). The allowable rider or riders on the product shall be clearly spelt out with regard to their scope of benefits, and in no case, the premium relatable to all the riders put together shall exceed 30% of the premium of the main product.

*Explanation:* The rider or riders attached to a life policy shall bear the nature and character of the main policy, viz. participating or non-participating and accordingly the life insurer shall make provisions, etc., in its books.

(2) An insurer or its agent or other intermediary shall provide all material information in respect of a proposed cover to the prospect to enable the prospect to decide on the best cover that would be in his or her interest.

(3) Where the prospect depends upon the advice of the insurer or his agent or an insurance intermediary, such a person must advise the prospect dispassionately.

(4) Where, for any reason, the proposal and other connected papers are not filled by the prospect, a certificate may be incorporated at the end of proposal form from the prospect that the contents of the form and documents have been fully explained to him and that he has fully understood the significance of the proposed contract.

(5) In the process of sale, the insurer or its agent or any intermediary shall act according to the code of conduct prescribed by:

- i) the Authority
- ii) the Councils that have been established under section 64C of the Act and
- iii) the recognized professional body or association of which the agent or intermediary or insurance intermediary is a member.

### **4. Proposal for insurance**

(1) Except in cases of a marine insurance cover, where current market practices do not insist on a written proposal form, in all cases, a proposal for grant of a cover, either for life business or for general business, must be evidenced by a written document. It is the duty of an insurer to furnish to the insured free of charge, within 30 days of the acceptance of a proposal, a copy of the proposal form.

(2) Forms and documents used in the grant of cover may, depending upon the circumstances of each case, be made available in languages recognised under the Constitution of India.

(3) In filling the form of proposal, the prospect is to be guided by the provisions of Section 45 of the Act. Any proposal form seeking information for grant of life cover may prominently state therein the requirements of Section 45 of the Act.

(4) Where a proposal form is not used, the insurer shall record the information obtained orally or in writing, and confirm it within a period of 15 days thereof with the proposer and incorporate the information in its cover note or policy. The onus of proof shall rest with the insurer in respect of any information not so recorded, where the insurer claims that the proposer suppressed any material information or provided misleading or false information on any matter material to the grant of a cover.

(5) Wherever the benefit of nomination is available to the proposer, in terms of the Act or the conditions of policy, the insurer shall draw the attention of the proposer to it and encourage the prospect to avail the facility.

(6) Proposals shall be processed by the insurer with speed and efficiency and all decisions thereof shall be communicated by it in writing within a reasonable period not exceeding 15 days from receipt of proposals by the insurer.

## **5. Grievance redressal procedure**

Every insurer shall have in place proper procedures and effective mechanism to address complaints and grievances of policyholders efficiently and with speed and the same along-with the information in respect of Insurance Ombudsman shall be communicated to the policyholder along-with the policy document and as maybe found necessary.

## **6. Matters to be stated in life insurance policy**

(1) A life insurance policy shall clearly state:

- (a) the name of the plan governing the policy, its terms and conditions;
- (b) whether it is participating in profits or not;
- (c) the basis of participation in profits such as cash bonus, deferred bonus, simple or compound reversionary bonus;
- (d) the benefits payable and the contingencies upon which these are payable and the other terms and conditions of the insurance contract;
- (e) the details of the riders attaching to the main policy;
- (f) the date of commencement of risk and the date of maturity or date(s) on which the benefits are payable;
- (g) the premiums payable, periodicity of payment, grace period allowed for payment of the premium, the date the last instalment of premium, the implication of discontinuing the payment of an instalment(s) of premium and also the provisions of a guaranteed surrender value.
- (h) the age at entry and whether the same has been admitted;
- (i) the policy requirements for (a) conversion of the policy into paid up policy, (b) surrender (c) non-forfeiture and (d) revival of lapsed policies;
- (j) contingencies excluded from the scope of the cover, both in respect of the main policy and the riders;
- (k) the provisions for nomination, assignment, and loans on security of the policy and a statement that the rate of interest payable on such loan amount shall be as prescribed by the insurer at the time of taking the loan;
- (l) any special clauses or conditions, such as, first pregnancy clause, suicide clause etc.; and
- (m) the address of the insurer to which all communications in respect of the policy shall be sent.

- (n) the documents that are normally required to be submitted by a claimant in support of a claim under the policy.

(2) While acting under regulation 6(1) in forwarding the policy to the insured, the insurer shall inform by the letter forwarding the policy that he has a period of 15 days from the date of receipt of the policy document to review the terms and conditions of the policy and where the insured disagrees to any of those terms or conditions, he has the option to return the policy stating the reasons for his objection, when he shall be entitled to a refund of the premium paid, subject only to a deduction of a proportionate risk premium for the period on cover and the expenses incurred by the insurer on medical examination of the proposer and stamp duty charges.

(3) In respect of a unit linked policy, in addition to the deductions under sub-regulation (2) of this regulation, the insurer shall also be entitled to repurchase the unit at the price of the units on the date of cancellation.

(4) In respect of a cover, where premium charged is dependent on age, the insurer shall ensure that the age is admitted as far as possible before issuance of the policy document. In case where age has not been admitted by the time the policy is issued, the insurer shall make efforts to obtain proof of age and admit the same as soon as possible.

## **7. Matters to be stated in general insurance policy**

(1) A general insurance policy shall clearly state:

- (a) the name(s) and address(es) of the insured and of any bank(s) or any other person having financial interest in the subject matter of insurance;
- (b) full description of the property or interest insured;
- (c) the location or locations of the property or interest insured under the policy and, where appropriate, with respective insured values;
- (d) period of Insurance;
- (e) sums insured;
- (f) perils covered and not covered;
- (h) any franchise or deductible applicable;
- (i) premium payable and where the premium is provisional subject to adjustment, the basis of adjustment of premium be stated;
- (j) policy terms, conditions and warranties;
- (k) action to be taken by the insured upon occurrence of a contingency likely to give rise to a claim under the policy;
- (l) the obligations of the insured in relation to the subject matter of insurance upon occurrence of an event giving rise to a claim and the rights of the insurer in the circumstances;
- (m) any special conditions attaching to the policy;
- (n) provision for cancellation of the policy on grounds of mis-representation, fraud, non-disclosure of material facts or non-cooperation of the insured;
- (o) the address of the insurer to which all communications in respect of the insurance contract should be sent;
- (p) the details of the riders attaching to the main policy;
- (q) proforma of any communication the insurer may seek from the policyholders to service the policy.

(2) Every insurer shall inform and keep informed periodically the insured on the requirements to be fulfilled by the insured regarding lodging of a claim arising in terms of the policy and the procedures to be followed by him to enable the insurer to settle a claim early.

### **8. Claims procedure in respect of a life insurance policy**

(1) A life insurance policy shall state the primary documents which are normally required to be submitted by a claimant in support of a claim.

(2) A life insurance company, upon receiving a claim, shall process the claim without delay. Any queries or requirement of additional documents, to the extent possible, shall be raised all at once and not in a piece-meal manner, within a period of 15 days of the receipt of the claim.

(3) A claim under a life policy shall be paid or be disputed giving all the relevant reasons, within 30 days from the date of receipt of all relevant papers and clarifications required. However, where the circumstances of a claim warrant an investigation in the opinion of the insurance company, it shall initiate and complete such investigation at the earliest. Where in the opinion of the insurance company the circumstances of a claim warrant an investigation, it shall initiate and complete such investigation at the earliest, in any case not later than 6 months from the time of lodging the claim.

(4) Subject to the provisions of section 47 of the Act, where a claim is ready for payment but the payment cannot be made due to any reasons of a proper identification of the payee, the life insurer shall hold the amount for the benefit of the payee and such an amount shall earn interest at the rate applicable to a savings bank account with a scheduled bank (effective from 30 days following the submission of all papers and information).

(5) Where there is a delay on the part of the insurer in processing a claim for a reason other than the one covered by sub-regulation (4), the life insurance company shall pay interest on the claim amount at a rate which is 2% above the bank rate prevalent at the beginning of the financial year in which the claim is reviewed by it.

### **9. Claim procedure in respect of a general insurance policy**

(1) An insured or the claimant shall give notice to the insurer of any loss arising under contract of insurance at the earliest or within such extended time as may be allowed by the insurer. On receipt of such a communication, a general insurer shall respond immediately and give clear indication to the insured on the procedures that he should follow. In cases where a surveyor has to be appointed for assessing a loss/ claim, it shall be so done within 72 hours of the receipt of intimation from the insured.

(2) Where the insured is unable to furnish all the particulars required by the surveyor or where the surveyor does not receive the full cooperation of the insured, the insurer or the surveyor as the case may be, shall inform in writing the insured about the delay that may result in the assessment of the claim. The surveyor shall be subjected to the code of conduct laid down by the Authority while assessing the loss, and shall communicate his findings to the insurer within 30 days of his appointment with a copy of the report being furnished to the insured, if he so desires. Where, in special circumstances of the case, either due to its special and complicated nature, the surveyor shall under intimation to the insured, seek an extension

from the insurer for submission of his report. In no case shall a surveyor take more than six months from the date of his appointment to furnish his report.

(3) If an insurer, on the receipt of a survey report, finds that it is incomplete in any respect, he shall require the surveyor under intimation to the insured, to furnish an additional report on certain specific issues as may be required by the insurer. Such a request may be made by the insurer within 15 days of the receipt of the original survey report.

Provided that the facility of calling for an additional report by the insurer shall not be resorted to more than once in the case of a claim.

(4) The surveyor on receipt of this communication shall furnish an additional report within three weeks of the date of receipt of communication from the insurer.

(5) On receipt of the survey report or the additional survey report, as the case may be, an insurer shall within a period of 30 days offer a settlement of the claim to the insured. If the insurer, for any reasons to be recorded in writing and communicated to the insured, decides to reject a claim under the policy, it shall do so within a period of 30 days from the receipt of the survey report or the additional survey report, as the case may be.

(6) Upon acceptance of an offer of settlement as stated in sub-regulation (5) by the insured, the payment of the amount due shall be made within 7 days from the date of acceptance of the offer by the insured. In the cases of delay in the payment, the insurer shall be liable to pay interest at a rate which is 2% above the bank rate prevalent at the beginning of the financial year in which the claim is reviewed by it.

## **10. Policyholders' Servicing**

(1) An insurer carrying on life or general business, as the case may be, shall at all times, respond within 10 days of the receipt of any communication from its policyholders in all matters, such as:

- (a) recording change of address;
- (b) noting a new nomination or change of nomination under a policy;
- (c) noting an assignment on the policy;
- (d) providing information on the current status of a policy indicating matters, such as, accrued bonus, surrender value and entitlement to a loan;
- (e) processing papers and disbursal of a loan on security of policy;
- (f) issuance of duplicate policy;
- (g) issuance of an endorsement under the policy; noting a change of interest or sum assured or perils insured, financial interest of a bank and other interests; and
- (h) guidance on the procedure for registering a claim and early settlement thereof.

## **11. General**

(1) The requirements of disclosure of "material information" regarding a proposal or policy apply, under these regulations, both to the insurer and the insured.

(2) The policyholder shall assist the insurer, if the latter so requires, in the prosecution of a proceeding or in the matter of recovery of claims which the insurer has against third parties.

(3) The policyholder shall furnish all information that is sought from him by the insurer and also any other information which the insurer considers as having a bearing on the risk to enable the latter to assess properly the risk sought to be covered by a policy.

(4) Any breaches of the obligations cast on an insurer or insurance agent or insurance intermediary in terms of these regulations may enable the Authority to initiate action against each or all of them, jointly or severally, under the Act and/or the Insurance Regulatory and Development Authority Act, 1999.