



Class: FY BSc

Subject : Non-Life Insurance – Principles, Products, Practices

Subject Code: PUSASQF2.5

Chapter: Unit 1 Chapter 1

Chapter Name: Introduction to Non-Life Insurance

Today's Agenda

1. Introduction
 1. What is General Insurance
 2. Life Insurance vs General Insurance
 3. Different products of general insurance
2. Evolution of insurance in India
 1. GI Industry in India
 2. Private and public sector players
3. Principles of Insurance
4. Stakeholders in Insurance
5. Tariff and De-tariff
 1. Effect of tariff regime

1.1 What is General Insurance?



Insurance – This is a broadly used term.
But what do you understand by insurance?

What is General Insurance?



1.1 What is General Insurance? (GI)



A General insurance policy is a non-life insurance product that includes a range of general insurance policies. Common forms of general insurance in India are automobiles, mediclaim, homeowner's insurance, marine, travel, and others. The policy offers payment to the policyholder based on the loss incurred from a specific financial event. General insurance is insurance that is not categorized under life insurance.

Unlike life insurance policies, the tenure of general insurance policies is normally not that of a lifetime. The usual term lasts for the duration of a particular economic activity or a given period. Most general insurance products are annual contracts. There are, however, a few products, which have a long term.

1.1 Let's see an example!

Still, confused about what is a general insurance policy and general insurance meaning?

If yes, then go through the following example, suppose your family member suffered a heart attack and he/she requires a transplant on an immediate basis. At the same time, you have to pay the fees of your daughter's first year of college.

Now you have huge expenses to meet consecutively and both the issues have the same priority. In this stressful time, the health insurance policy for your family can share your burden and you can pay the fees of your daughter from your savings without any worry.

In this way, general insurance in India works as your saviour.



1.1 Let's see an example!

Suppose you are driving back home after completing a stressful day at work and suddenly another car hits your car from behind. Your car's bumper comes out and it gets a dent.

Now you require approximately Rs.7500 to fix the bumper and Rs.2000 for dent repair.

A car insurance plan in such a case plays a key role. The amount that you have paid for repairing your car can be reimbursed under a comprehensive car insurance policy.

In this way, a general insurance policy for a car fulfilled your requirement of financial help in case of car damage due to an accident.



1.2 Life Insurance vs General Insurance



A life insurance policy is a life cover to put it simply. It is a contract that bounds the insurance provider to offer financial compensation to the beneficiary in case of the unfortunate events covered under the policy, like the insured's untimely demise. In exchange, the policyholder pays a predetermined amount as regular premiums or single premium.



General Insurance is any policy that covers assets and valuables such as a vehicle, home, travel, and health against damage, loss or theft, and many other liabilities. The critical difference between life insurance and general insurance is that the latter offers financial protection against damage or loss other than life.

1.3 Different products of General Insurance

General insurance can be categorised in to following:

- **Motor Insurance:** Motor Insurance can be divided into two groups, two and four wheeled Vehicle insurance.
- **Health insurance:** Common types of health insurance includes: individual health insurance, family floater health insurance, comprehensive health insurance and critical illness insurance.
- **Travel insurance:** Travel insurance can be broadly grouped into: individual travel policy, family travel policy, student travel insurance, and senior citizen health insurance.



1.3 Different products of General Insurance

- **Home insurance:** Home insurance protects a house and its contents.
- **Marine Insurance:** Marine cargo insurance covers goods, freight, cargo, and other interests against loss or damage during transit by rail, road, sea and/or air.
- **Commercial Insurance:** Commercial insurance encompasses solutions for all sectors of the industry arising out of business operations.
- **Accident Insurance :**Accidents of different types are possible at any time, at any place and in case of any person or object. Persons and vehicles are more prone to accidents causing injuries and damages.
- **Fire Insurance :**In order to get the asset, stock or machines insured against fire, a proposal form is to be filled in and submitted to the insurance company. The insurance company examines the proposal and the periodical amount of premium is fixed.a insurance policy is then issued in favour of the applicant
- **Theft Insurance**
- **Property Insurance**
- **Aviation insurance**
- **Livestock insurance**
- **Crop insurance**

2 Evolution in India

- Triton Insurance company Ltd., established in Calcutta in 1850 AD
- Indian Mercantile Insurance company Ltd. started in Bombay in 1906-07 107 insurers were amalgamated and grouped into four companies, namely
- National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd.
- The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1st 1973.



Read: *History of insurance in India*

https://www.irdai.gov.in/ADMINCMS/cms/NormalData_Layout.aspx?page=PageNo4&mid=2

2.1 GI Industry in India

ADVANTAGE INDIA

Robust Demand

- The gross direct premium income for the general insurance industry in India stood at Rs. 1,087 billion (US\$ 14.62 billion) in FY22 (until September 2021), an increase of 12.3% YoY, due to 28.8% growth in the health segment and an 84.7% growth in the personal accident segment.



Attractive Opportunities

- Insurance Regulatory and Development Authority of India (IRDAI) allowed insurers to invest debt securities of Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs); this is expected to provide more investment options for the country's emerging start-up ecosystem.
- Insurance reach is still low in India. Overall insurance penetration (premiums as % of GDP) was 4.2% in FY21, providing a huge underserved market.



Policy Support

- In September 2021, the Union Cabinet approved an investment of Rs. 6,000 crore (US\$ 804.71 million) into entities, offering export insurance cover to facilitate additional exports worth Rs. 5.6 lakh crore (US\$ 75.11 billion) over the next five years.



Increasing Investments

- In February 2021, the Finance Ministry announced to infuse Rs. 3,000 crore (US\$ 413.13 million) into state-owned general insurance companies to improve the overall financial health of companies.



2.1 GI Industry in India

India's premium share in global life insurance and non-life insurance market was at 2.73% and 0.79% respectively, during 2019.

In FY21, non-life insurers (comprising general insurers, standalone health insurers and specialized insurers) recorded a 5.19% growth in gross direct premiums.

The market share of private sector companies in the general and health insurance market has increased from 47.97% in FY19 to 48.03% in FY20.

Motor insurance accounted for 34.1% of the non-life insurance premiums earned, followed by **health insurance** at 29.5%, in FY21 Post-Covid rising demand for personal mobility space is leading to a shift in **vehicle ownership** patterns and may create an opportunity for motor insurers.

Health insurance witnessed 13.3% growth in GDPI in FY21, while fire insurance and liability insurance observed 28.1% and 16.4% growth respectively in the same period.

2.2 GI Industry in India

Private and Public sector players in India

- ❓ Name some private and public sector insurance companies that offer general insurance products.

2.2 GI Industry in India

Private and Public sector players in India



2.2 GI Industry in India

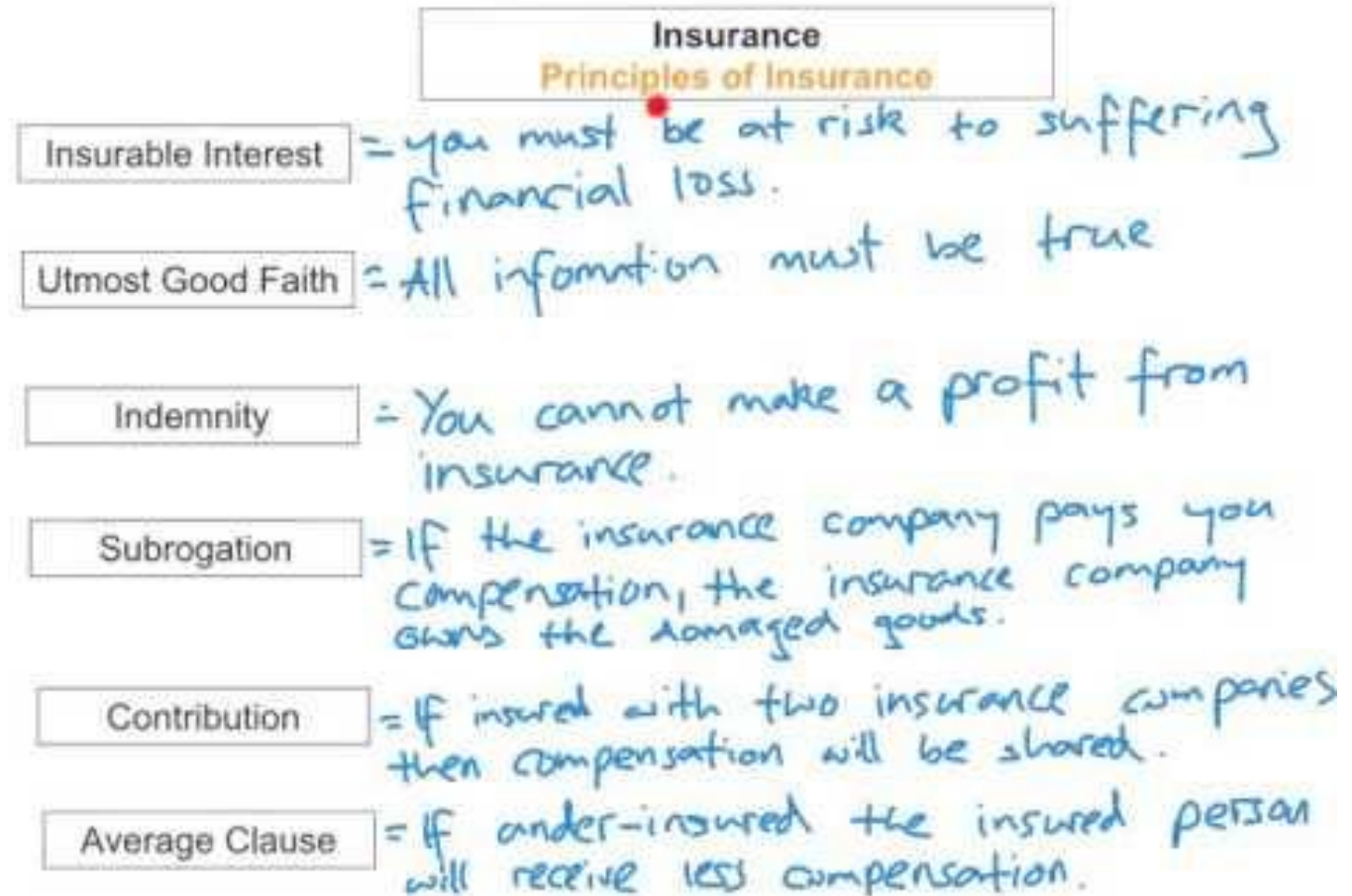
Private and Public sector players in India

Public Sector	Private sector
1. National Insurance Company Limited 2. New India Assurance Company Limited 3. Oriental Insurance Company Limited 4. United India Insurance Company Limited	1. Bajaj Allianz General Insurance Co.Ltd. 2. Bharti AXA General Insurance Co.Ltd. 3. Cholamandalam MS General Insurance Co.Ltd 4. Edelweiss General Insurance Co. Ltd. 5. Future Generali India Insurance Co. Ltd. 6. IFFCO Tokio General Insurance Co. Ltd. 7. Kotak Mahindra General Insurance Co. Ltd. 8. Liberty General Insurance Co. Ltd. 9. Magma HDI General Insurance Co. Ltd. 10. Reliance General Insurance Co. Ltd. 11. Royal Sundaram General Insurance Co.Ltd. 12. SBI General Insurance Co. Ltd. 13. Shriram General Insurance Co. Ltd. 14. TATA AIG General Insurance Co. Ltd. And some more.....

3 Principles of Insurance

The principles of insurance are:

- i. Law of large numbers
- ii. Insurable interest
- iii. Utmost good faith
- iv. Indemnity
- v. Subrogation and contribution
- vi. Proximate cause



3 Principles of Insurance

1. Law of large numbers

Insurance works on this law of large numbers. Insurance companies are able to make near accurate predictions about their risks because they typically spread that risk amongst thousands, even millions, of members who have signed contracts with them and who are their policy holders. This is the reason why when you purchase an insurance policy, the insurance company is able to give you an assurance that your losses would be compensated if they occur due to the insured event.

2. Insurable Interest

The right to insure arising out of a financial relationship, between the insured to the insured and legally recognized

• The insured must benefit financially from the items existence and suffer financially from its loss



My house ✓

neighbours house ✗

3 Principles of Insurance

3. Utmost Good Faith

An action to disclose accurately and completely, all facts material (material fact) about something that will be insured is requested or not. The meaning is: the insurer must honestly explain everything clearly about the extent of the terms / conditions of the insurer and the insured must also provide a clear and correct for objects or interests of the insured.

4. Indemnity

The principle of indemnity means that the loss, and only the loss, is compensated. Insurer has to indemnify (i.e. pay for the financial loss suffered by) the insured. At the same time, the insured should not be paid anything more than the financial loss suffered by him. In other words, the insured should not be able to make a profit out of the loss suffered.

3 Principles of Insurance

5. Subrogation

Subrogation means one party stands in for another. As per this principle, after the insured, i.e. the individual has been compensated for the incurred loss to him on the subject matter that was insured, the rights of the ownership of that property goes to the insurer, i.e. the company.

Subrogation gives the right to the insurance company to claim the amount of loss from the third-party responsible for the same.

6. Contribution

Contribution principle applies when the insured takes more than one insurance policy for the same subject matter. It states the same thing as in the principle of indemnity, i.e. the insured cannot make a profit by claiming the loss of one subject matter from different policies or companies.

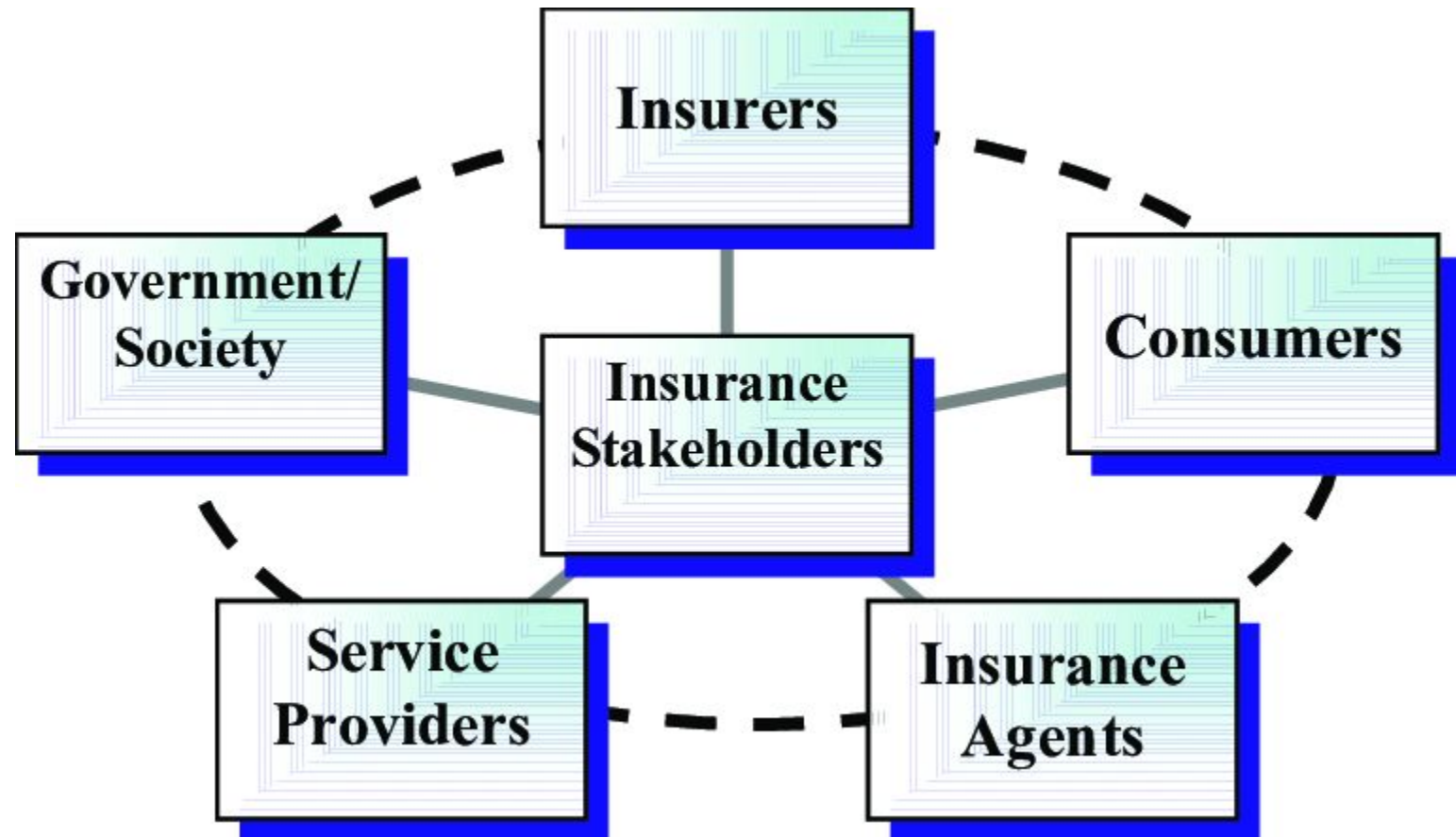
7. Principle of Proximate Cause

This is also called the principle of 'Causa Proxima' or the nearest cause. This principle applies when the loss is the result of two or more causes. The insurance company will find the nearest cause of loss to the property. If the proximate cause is the one in which the property is insured, then the company must pay compensation. If it is not a cause the property is insured against, then no payment will be made by the insured.

4

Stakeholders

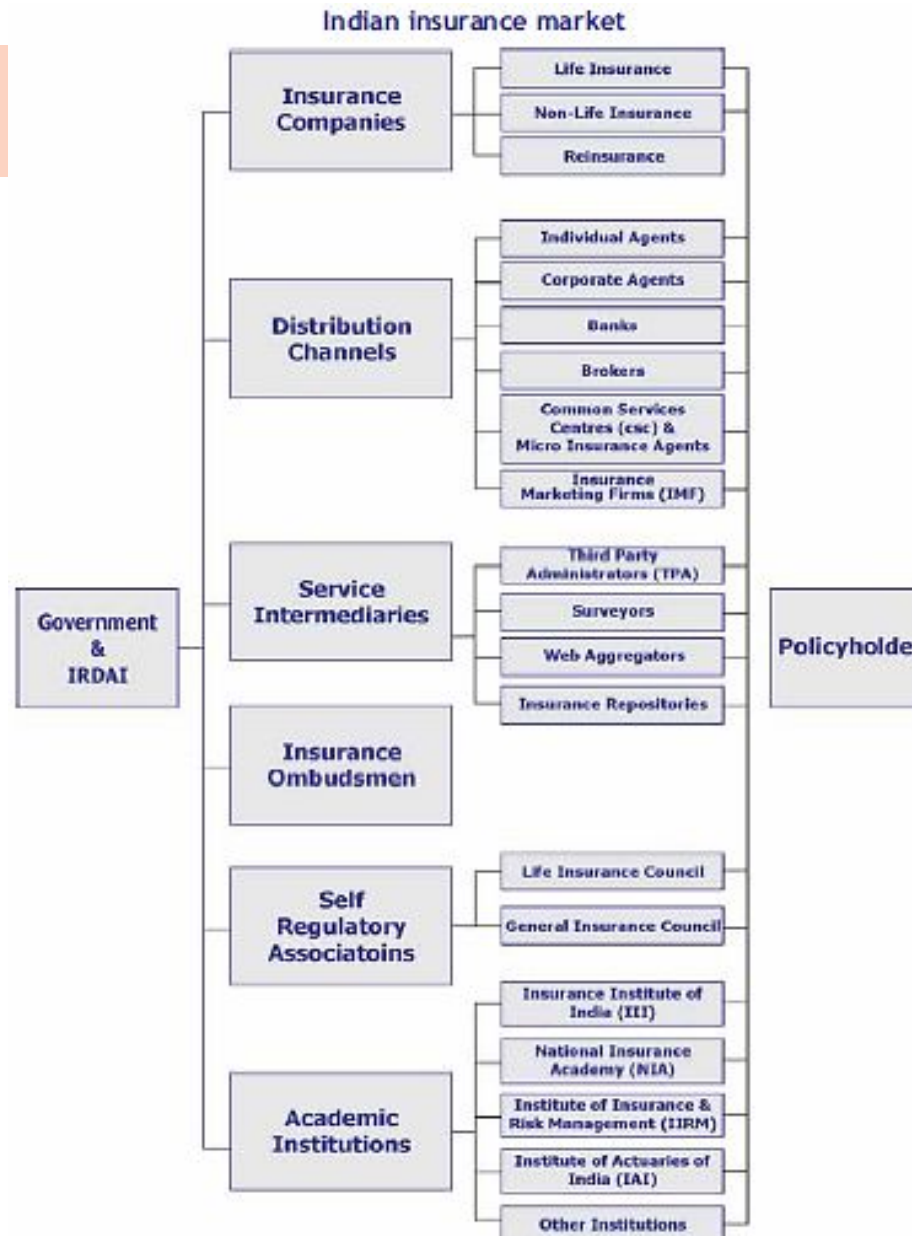
- Policyholders
- Shareholders
- Tax authority
- Credit rating agency
- Management
- Employees
- Brokers & tied agents
- Reinsurer



4

Stakeholders

A broader view of the stakeholders, or say the institutions involved in the insurance industry can be given as:



5 Tariffs and De-tariffs

- Tariff Advisory Committee, established under Insurance Company Act,1938
- General insurance market as a tariff market before 2007
- Public sector monopoly till 1999
- Post IRDA Act,1999 – private sector entered the general insurance market
- No flexibility in pricing or innovation of products under tariff regime
- IRDA initiated the process of **detariff**
 - Phase 1- 1 January,2007
 - Phase 2- 1 March,2008

5.1 Effect of tariff regime

- Cross subsidization of products (which were not under tariff earlier) prevailed;
- Good customers paid for bad ones and better managed risks paid the same premium as their bad counterparts;
- Underwriting skills of the insurers were not encouraged;
- Complete lack of quality data being available with the insurers, since the underwriting is not based.