EFFECT OF FLOOD ON INSURANCE POLICIES-INSURANCE AGENTS' PERSPECTIVE

PROJECT REPORT

Submitted to

MAHATMA GANDHI UNIVERSITY, KOTTAYAM

In partial fulfillment of the requirements for the award of the degree of

BACHELOR OF COMMERCE

Submitted by

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CERTIFICATE

This is to certify that the project work entitled **'EFFECT OF FLOOD ON INSURANCE POLICIES-INSURANCE AGENTS' PERSPECTIVE'** is a bonafide piece of work done by MISS. ANU MARIA ANTONY (Reg. No. 170021056469), MISS. ARYA P.B. (Reg. No. 170021056470), MISS. ASHLI AUGUSTINE (Reg. No. 170021056471), in partial fulfillment of the requirements for the award of degree of Bachelor of Commerce in Mahatma Gandhi University, Kottayam, under my supervision and guidance and that no part thereof has been presented earlier for the award of any other fellowship, associate ship etc.

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DECLARATION

We**, Anu Maria Antony (Reg. No. 170021056469), Arya P.B. (Reg. No. 170021056470), Ashli Augustine (Reg. No. 170021056471)** hereby declare that the project report entitled **'EFFECT OF FLOOD ON INSURANCE POLICIES-INSURANCE AGENTS' PERSPECTIVE'** is a bonafide work done by me under the guidance and supervision of **Mr. Shiju C.R.** , Assistant Professor, Department of Commerce, St. Paul's College, Kalamassery.

We also declare that this work has not been submitted by me fully or partially for the award of any other degree, fellowship, associate ship or other similar title of any other university or board.

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APPENDIX

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1. Name: ……………………………………………………………........

2. Gender

Male [ ] Female [ ] Others [ ]

3. The stream of insurance you are concentrated on?

Life insurance [ ]   Fire insurance [ ]   Marine insurance [ ]

Motor insurance [ ] Crop insurance [ ]

4. Was there a rise in the premium rates charged by your insurance company after flood?

Yes [ ]

No[ ]

Not sure [ ]

5. Is there any new policies introduced after the happening of the flood?

Yes [ ] No[ ] Not sure [ ]

6.If yes, list some

………………………………………..

7."The conditions of claim did change after the occurrence of flood ".Agree?

[ ]Yes, I agree

[ ]No, I don't agree

[ ] I partly agree

8. Do you think your company have adopted effective measures to indemnify the insured from the loss that took place?

- Yes [ ]
- No [ ]
- Somewhat [ ]

9. Do you think the society is aware about the policies that can safeguard their life and assets during flood?

[ ]a good percentage of people is aware

[ ]society is not aware

[ ]It is hard to access

10. Who are the most likely customers of yours after flood?

Rural people [ ]

Urban people [ ]

Some Urban [ ]

All of the above [ ]

Thank you for sparing your valuable time and sharing your views. Above information will be kept confidential and will not be used for any commercial purposes.

CHAPTER 1

INTRODUCTION

In August 2018, harsh flood affected Kerala due to heavy rainfall during the monsoon season. Reports state that these are the worst floods since 1924. Approximately 20 million people have been affected. Landslides are reported in different parts of the state. So far, more than 150000 people have been rescued and lodged in 1068 relief camps across the state. Over 445 people were died and near 14 districts of the state were on high alerts. About one sixth of the population of Kerala is affected by flood and its related incident.

The flooding has disturbed hundreds of villages, destroyed an around of 10000 km of roads and thousands of homes. Indigenous people have lost their home, cattle and agricultural lands. They have no source of income but hope for a better future.

Insurance Regulatory and Development Authority of India(IRDAI) has issued guidelines for fast settlement of insurance claims by Kerala flood victims. Though insurance companies escaped with minimum claims as most properties, especially houses and crops were not covered for insurance in Kerala, which was hit by severe floods causing massive destruction of properties and lives, the insurance industry has received total claims worth Rs 1500 crore from Kerala flood victims. Most of the claims filed by the flood affected people have come from property, resorts, automobiles, restaurants and small units.

1.1 SIGNIFICANCE OF THE STUDY

Kerala, which boasted steady monsoons and salubrious climate, is now grappling with deluge, a repeat of the devastating August 2018 floods. In Kerala, it looks like climate-change induced floods are becoming an annual affair. This study helps to reassess the awareness among the keralites about securing their lives through new insurance policies and claiming their eligible benefits whose lives are shattered by the fatal floods. This study will mark the support ensured to the natives by the insurance companies in the past and the coming future.

1.2 SCOPE OF THE STUDY

The project is undertaken with the objective to study the impact of flood and its awareness among selected respondents within Ernakulam district, ParavurTaluk. Scope of the study may confine to the affected people of Karumalloor Panchayath. The awareness among respondents is determined by various factors which are subject to study.

1.4 PROBLEM STATEMENT

The present study is conducted on topic "EFFECT OF FLOOD ON INSURANCE POLICIES-INSURANCE AGENTS' PERSPECTIVE". It helps in evaluating the awareness regarding the claims and changes in insurance policies. It also gives emphasis to comparative analysis, its importance and effectiveness etc.

1.5 OBJECTIVES

i)To analyse the rate of changes in number of policies before and after flood.

ii) To make comparative analysis of stand of insurance companies based on several factors before and after the occurrence of the disaster.

iii) To identify the level of awareness among the population about the insurance policies related to the destroyed lives and assets.

1.6 METHODOLOGY OF THE STUDY

Research Design: Current study is both descriptive and analytical. Analytical in the sense that study analyses awareness and actions in regard with the insurance claims and the knowledge and awareness of remote, aggrieved population regarding their eligibility of insurance claims.

Collection of data: Both primary and secondary data were used for the data collection.

Primary data: They were collected by conducting survey through interview schedule.

Secondary data: They were collected from published sources like newspapers, magazines, journals, websites, etc

Tools of Analysis: Percentage method is used to analyse the data. Tabular and graphical representation is also used here.

1.7 LIMITATIONS OF STUDY

There are a number of uncontrollable factors acting as limitations in conducting the effective study. They may be:

- Period of study may be restricted due to time constraints.
- The study is based upon information collected from the systematically selected respondents. Hence, there may be sampling errors and information may be biased.

1.8 CHAPTERISATION

The study consists of five chapters:

Chapter 1 deals with the introduction, significance, statement of problem, objectives, methodology, limitations etc.

Chapter 2 covers the review of literature connected with the study.

Chapter 3 deals with the theoretical areas of the topic under study.

Chapter 4 shows the analysis and interpretation of the data collected.

Chapter 5 deals with the findings, suggestions and conclusion of the study.

CHAPTER 2
REVIEW OF LITERATURE

This chapter deals with the review of earlier studies made by several researchers in connection with flood and mitigation through the insurance.

Reed and Robson, (1999, cited in Dawson et al., 2006) stressed that many flood estimation problems were likely to arise at ungauged sites due to the unavailability of flood peak data recorded in the UK Flood Estimation Handbook (FEH). The FEH is produced by the Centre for Ecology and Hydrology with information about River catchments in the UK such as, rainfall frequency estimation, statistical procedures for flood frequency estimation, rainfall-runoff and catchment descriptors. Dawson et al., (2006) used the Artificial Neural Networks (ANN) technique to estimate flood statistics for un-gauged catchments (for most of the River catchments in the UK). The index flood analysis from the ANN results produced a comparable accuracy to that obtained from the Flood Estimation Handbook (FEH), but the flood estimation for each catchment was carried out for only a 10, 20 and 30 year flood event period giving room for short term flood defence preparation thereby incurring future expense on what can be predicted for up to 1000 years.

The literature pertaining to flood risk, insurance and property value is contextualised in three different interrelated aspects: the future marketability and saleability of property, recovery from impact and time taken for resale and finally the discount capitalisation on sale price. **The Royal Institution of Chartered Surveyors (RICS, 2004)** acknowledges that saleability, mortgageability and marketability of properties depend on the terms and conditions attached to insurance cover. The future marketability of property needs to be assessed prudently for determining long term validity of mortgage lending against the value of property (RICS, 2011). The expected impact of insurance on the value of property has been considered, for example, in the US by **Macdonald et al. (1987)Skantzand Strickland (1987) and Harrisonet al (2001)** to be equal to the discounted cost of flood insurance in perpetuity. For the UK, **Eves (2004) and BFRG (2004)** while looking more generally at the impact of flooding on property value suggested that lack of insurance could result in sales falling through, longer recovery time to sale and therefore possibly lower prices for eventual sale. From a more recent study by **Lamond (2008**) in the UK, the perspective that such effects can be minimised over time if there are no repeated flood events and the underwritten conditions attached to the building insurance cover don’t change wassignificant.

In the context of insurance of flood affected properties, memory refers to the differential level of financial and physical vulnerability caused by the insurability as a result of gap between flood impact and recovery time. This is associated with the antecedent effect of the physical damage existing within the built environment due to previous flooding and the limited window of recovery time between events **(Bhattacharya-Mis and Lamond 2014a**). It can be argued that in the insurance system, memory can result in increased premium, increased excess, restrictive insuranceconditions or non-availability of cover. This then feeds through to the property system as embedded memory making property value vulnerable. The change in vulnerability of property due to memory in the insurance system arises through the resulting purchase or non-purchase of cover and any exclusions or excess terms enforced due to flood risk. Central to this, in theory, is the notion that in the presence of fully risk based pricing for insurance, flood memory is situated in the improved scientific calculation of hazard probabilities on a known asset base and may often be a shared and transparent form of memory. In practice, however, Lamond et al. (2009) pointed that insurance terms are not wholly based on the calculation of scientific risk. Other aspects of flood memory affect the supply such as claims history, flood damage history, community preparedness, and tolerance of cross subsidisation. Demand for insurance may also hinge on past damage and claims, community perception of risk and dread of future flooding. These forms of memory are more fragmented, held differentially by individuals and organisations therefore they suffer from information asymmetry and are likely to vary in importance spatially and temporally. These asymmetries can lead to the potential for adverse selection if knowledgeable high risk property owners more actively seek insurance and insurers don’t hold the same risk information or don’t rely on it to price risk.

The underwriting judgements of insurers and reinsurers are not entirely transparent and they will be affected by the uncertainty in scientific calculation of future risk. This will be in terms of availability and accessibility of necessary data associated with damage and their spatial correlation with level of risk to specific properties. On a larger spatial scale, insurers hold reserves to fund expected levels of claims and often reinsure to have enough resources to provide payments in exceptional events. At a national or regional level **Chandler (2012)** referred to the possibility that memory of such extreme events might adversely affect the risk taking capacity of insurers which might make all properties at risk less insurable than before.

A history of clustered claims also resides within the memory of reinsurers and therefore can make insurance less affordable with high premiums **(Aseervatham et al, ;Bowker, 2007).** Memory of flood events held by the local community or policy holder may have an impact on both the demand for insurance cover and the general level of preparedness, potentially resulting in risk reduction and lower claims. Arguably, the local community has a more detailed knowledge of exposure and susceptibility to hazard than the underwriter or reinsurer but their assessment of hazard is influenced by memory of past events and their appreciation of risk by a variety of heuristics **(Tverskyand Kahneman 1974)**. Individual underwriters and local insurers may also employ some of these heuristics in providing quotes for new cover. **Freeman and Kunreuther (1997)** pointed that it is crucial to consider the potential of an important practical implication of existing memory within a specific insurance system to gather a better understanding of its impact on future risk reduction processes for enhancing resilience. The discussion below focuses on the UK insurance context and the evidence for impacts of memory across stakeholders in order to raise some possibilities in the light of current changes in the UK regime.

For the policy holders it is worth noting that residential and commercial properties are increasingly being treated under different systems. Previous research surveys indicated that only a minority of the homeowners living within the high risk zone had severe difficulties in getting insurance regardless of their claims history **(Lamond, 2008).** Under the putative Flood Re scheme this will continue to be the case as risk based premiums will be explicitly subsidised through a levy on the wider insurance pool for the next 25 years **(Defra, 2013).** Homeowners are automatically covered for damage to property and disruption to their accommodation if they hold a bundled general insurance policy. Conversely businesses are often covered for physical flood damage within standard property insurance but business interruption and associated loss of earnings would normally require the deliberate choice of buying separate cover. In the future, Flood Re will not cover businesses – even those micro to medium enterprises that used to be covered under the statement of principle **(ABI,2014).** The spatial scale of flood memory accessible to reinsurance markets is that of major national events and long term trends in claims data. For the UK market, as **Dlugolecki (2009)** suggested, data deficiencies in the past recording of claims has led to a greater focus on extreme flood events and modelled risk. Since 2005 the recording process has changed and consequently reinsurers may be more discerning in their pricing. Flood Re has the potential to reduce the need for reinsurance and may focus the scope of reinsurance cover to much more extreme events.

For the direct underwriter, under the Statement of Principles, provision of cover was affected by policyholder risk status and flood damage as recorded by claims history. However in a competitive market where policyholders are free to shop around, it is apparent that the collective duration of memory of claims was restricted, by the underwriting process, to the short term (usually up to 5 years). Research by **Lamond (2008),Lewes (2004) and Morpeth** flood action groups (2010) revealed that problems in getting cover, for the majority of flood affected households, reduced with time elapsed from the flood event and surveys also reveal that flood risk is still heavily cross subsidised **(CREW, 2012).** Flood Re has the potential to hold a much longer memory of past claims because it reduces the possibility for households to switch insurer and can keep a record based on the property rather than policy holder history. The improved property level information may disadvantage those at highest risk (as against their present policy) but will also allow for incentivisation of risk mitigation through better recording of mitigation, preparedness and loss prevented.

Quantitative evidence of memory acting on mitigation behaviour in the residential property holder system is summarised by **Rose et al (2012)**. However propensity to insure in the UK is rarely measured because insurance cover for residential property is so common and flood insurance is bundled into the all risks policy. There is a range of moral hazard implications arising in relation to this kind of flood insurance **(Pauly, 2005)** by protecting all properties irrespective of risk levels can discourage property holders to take actions to reduce risk, especially when Statement of Principles was in place in the UK such practice was prevalent **(Lamond& Penning-Rowsell, 2014).** Conversely, in the commercial property sector insurance is the second most common flood risk reduction measure adopted by repeatedly flooded businesses in selected case study areas **(Bhattacharya-Mis&Lamond, 2014b).** Those flooded most are more likely to insure leading to the risk of adverse selection where people insure only the highest possible risks and other comparatively lower potentially insurable risks remain uncovered **(Pauly, 2005).** However insurers that store accurate claims records are able to differentiate between past claimants setting the premiums accordingly and embedding memory into the insurance system.

Literature indicates that concern exists in property holders mind regarding financial impact of flooding on the asset value of the property and its long term insurability and saleability in the residential property sector **(Joseph et al., 2015 in press; Treby et al., 2006).** Such concerns are also visible in the commercial property sector is evidenced by a recent survey by **Bhattacharya (2014**) in two selected case studies in England. The study indicated that easier and cheaper availability of insurance might enhance the desirability of properties within high flood risk zones. **Lamond et al.(2009)** saw early indications of direct action in commercial properties in particular. Therefore, despite the short duration of flood memory in practice within the UK residential and commercial market the threat of insurance withdrawal even in the short term is having some impact on property owners' behaviour.

The evidence from the commercial property sector is indicated by a general lack of motivation in investing in resilient and resistant measures in spite of having significant differences in their economic, social and psychological interests **(Bhattacharya-Mis et al., 2015**). Since such factors affecting price structure and future saleability of properties are not often visible in the commercial real estate market presently, it can be presumed that such situations can make it difficult to engender motivation and awareness among stakeholders. Thus it can be proposed that if memory is optimised as an existing source of knowledge when insurance quotes and renewals are made through encouraging investment (for example towards preparedness and adaptation measures) such actions can make properties less vulnerable to changing risk of being less saleable or less insurable in the future.

A relatively small proportion of the reviewed literature focuses primarily on the environmental impact(s) of the National Flood Insurance Programme with considerable empirical detail. A much larger group of studies imply various environmental consequences in discussions of "development" **(Evatt 1999; Salvesen and Godschalk 1998)** and some generalize broadly about environmental impacts (Pew Oceans Commission 2003; Task Force on the Natural and Beneficial Functions of the Floodplain 2002). Most of this literature is concerned with various developmental implications of the NFIP, including such matters as rate of growth in housing units, density and quality of development on floodplains, zoning and land-use changes associated with federal flood insurance, and developmental pressures that the NFIP allegedly creates or exacerbates. Environmental impacts, with a few exceptions to be noted, are discussed more generally in terms of lost or degraded wetlands, accelerated coastal erosion, disturbed plant and animal habitat, and transformed ecosystems. Much of the discussion on environmental impacts, with the exception of somestudies associated with litigation involving the Endangered Species Act, lacks a well-grounded analytic or empirical basis.

Many people are unaware that federal flood insurance is available to nearly everyone who might want to purchase it (KRC Research & Consulting 1996). **Turner, Nigg, and Paz (1986)** found that even high levels of awareness of high-risk natural disasters, such as earthquakes in California, do not prompt people to be better informed, to take preventive actions, or to purchase insurance. In short, the literature consistently suggests that many people put their lives and homes in jeopardy because they underestimate the risks to which they are exposed. When they are informed of the risks to which they are exposed, many do little with that information. In such circumstances, the availability or absence of flood insurance is unlikely to influence decisions about whether development in floodplains is desirable or prudent.

These perceptions about risk and insurance raise at least one further issue. If the availability of flood insurance promotes development that would not otherwise occur, then one would reasonably presume that most people who build in floodplains would purchase and retain flood insurance. When the National Flood Insurance Act was approved in 1968, the widespread assumption was that many communities would join the program, thus making their residents eligible for federal flood insurance. This was a flawed assumption. Four years after the program began, less than 100,000 policies were in force. Most of these policies were subsidized and most were for homes built prior to 1968. In 1973, the Congress imposed a mandatory purchase requirement on many property owners in SFHAs, and then strengthened that requirement in 1994. Despite these efforts, most people who purchase flood insurance in SFHAs do so because they must **(Kriesel and Landry 2000).** Although the total number of policies in force has increased considerably since the program began, eight states, Puerto Rico, and the Virgin Islands had fewer policies in force in mid 2004 than they did in 1980. During that period, Oregon's population increased by almost 20 percent, but the number of policies in force decreased by almost one-third. Arizona's population increased by nearly 90 percent, but the number of policies in force in the state increased by 9 percent over the same period. There were nearly 50 percent more policyholders in Texas in January 2005 than there were in January 1999, but more than 80 percent of that growth was due to the purchase of policies by property owners outside of SFHAs.

Furthermore, as many as a half million policies are cancelled or not renewed each year **(Thomas2004).** FEMA recognizes that the slow growth in policies is due to a large number of policies that lapse or are not renewed **(Hayes and Sabade 2004).** In the two years between September 30, 2002 and September 30, 2004, as an illustration, the total number of policies in force increased by about 2.5 percent -- to 4,498,324 from 4,390,083. To achieve this gain, however, FEMA had to enroll almost 1.26 million new policyholders. This means that approximately 1.15 million policies lapsed or were not renewed during this period. Some portion of these policies were cancelled because the property owner moved or because the property was no longer in a SFHA. In contrast, however, some portion of these policies probably should have been retained or renewed because the coverage was mandatory. In either case, such data suggest that flood insurance is not a primary cause of development in floodplains.

Much of the empirical and descriptive research, particularly during the 1970s and 1980s, was conducted within communities during the NFIP's emergency phase, before FIRMs were widely available **(Evatt 2000, 1999; Shilling, Sirmans, and Benjamin 1989; Bollens, Kaiser,and Burby 1988;Burby 1986; Burbyand French 1981)**. With some exceptions (e.g., Sheaffer, Mullan, and Hinch 2002), these studies suggest that the NFIP influences floodplain development in the communities studied and was sometimes an important influence.

The research claims previously discussed provide richly varied opportunities to characterize flood insurance more convincingly and precisely, and this suggests a productive strategy for continuing research.

CHAPTER 3
THEORETICAL FRAMEWORK

The advancement of science and technology changes the life style of the individuals and the society as a whole. At the same time the degree of risk is also widening. Unexpected accidents and sudden health hazards also cause irreparable and unbearable loss to the members concerned.

Uncertainties can happen to individuals or to his properties which have economic value. This may happen because of natural calamities like thunder and lightning, flood, storm, tsunami, earthquake and the like. At this time the sufferings and the loss of the life of a person or the destruction of properties become a huge loss not only to the individuals but also to the nation.

Risks are inevitable and uncontrollable. The losses caused by the happenings of unforeseen events cannot be avoided and the losses cannot be substituted by any means. There is a possibility for shifting to minimise the effect of risk to some extent. Under these circumstances, the losses are being compensated by monetary measures by the Insurance Business. In this process, the risk of loss is transferred to the group of the likeminded persons under the insurance schemes**.**

3.1 CONCEPT OF INSURANCE

‘According to Disnadle, ‘Insurance is an instrument of distributing the loss of few among many.’1 Insurance acts as an important social security tool providing a sense of security to the society as a whole. Every person has the right to have basic amenities like food, clothing, housing, medical care, standard of living necessary for one’s own and his family’s well being and right to secure in case of unemployment, disability sickness or any other circumstances out of his control. Insurance is an arrangement to overcome from the worst economic situation and rescue the person from losses caused due to uncertain contingencies.

3.1.1 LEGAL CONCEPT

In legal point of view, insurance is a contract arises out of an agreement between two parties whereby one party agrees to undertake the risk of another in exchange for consideration known as premium and promise to pay a fixed sum of money to the other party on happening of an uncertain event or after expiry of a stipulated period in the case of life insurance or to indemnify the other party on happening of an certain event in the case of general insurance. The party promises to pay or bear the risk is called 'insurer' or assurer or underwriter or Insurance Company. The party whose risk is covered is known as the insured or assured.

3.2 BASIC PRINCIPLES OF INSURANCE

Insurance involves pooling of funds from many insured entities to pay for the losses that someone incurs. The insured entity are therefore protected from risk for a fee, with the fee being dependent upon the frequency and severity of the event 31 occurring. In order to be insurable risk, the following seven common characteristics must be met for the insured risk against unforeseen and unexpected events.

3.2.1 A large Number of Homogeneous Exposure Units

Insurance operates through pooling of resources. A vast majority of insurance policies are provided for individual members of large classes allowing insurers to benefit from the law of a large number, in which the predicted losses are similar to the actual losses. In automobile insurance policies are issued to a great large number of individuals. There are exceptions to this criterion, Lloyd's of London, which is famous for insuring the life or health of actors, sports personalities, and other famous persons. However, all exposures will have particular differences which may lead to different premium rates.

3.2.2 Definite Loss

The event that gives rise to the loss that is subject to the insured, at least in principle takes place at a known time, in a known place and from a known cause. The classic example is death of an insured person on a life insurance policy. Fire, automobile accident, and worker injuries may all easily meet this criterion; other types of losses may only be definite in theory. Occupational disease, for instance, may involve prolonged exposure to injurious conditions, where no specific time, place or cause is identifiable. Ideally, the time, place and cause of loss should be clear enough that a reasonable reason, with sufficient infraction, could objectively verify all the three elements.

3.2.3 Accidental Loss

The event that constitutes the trigger of claim should be fortuitous, or at least outside the control of the beneficiary of the Insurance. The loss should be pure, in the sense that it results from an event for which there is only the opportunity for cost. Events that contain speculative elements such as ordinary business risks, or even purchasing a lottery ticket are generally not considered insurable.

3.2.4 Large Loss

The size of the loss must be meaningful from the perspective of the insured. Insurance premium needs to cover both the expected cost of losses, plus the cost of issuing and administering the policy, adjusting losses; and supplying the capital needed to reasonably assure that the insurer will be able to pay claims. For small losses these latter costs may be several times the size of the expected cost of losses. There is hardly any point in paying such costs unless the protection offered has real value to a buyer.

3.2.5 Affordable Premium

If the likelihood of an insured event is so high, or the cost of the event is so large, that the resulting premium is large relatively to the amount of protection offered. It is not likely that any one will buy the insurance even if an offer. Further, as the accounting profession formally recognises in financial accounting standards, the premium cannot be so large that there is not a reasonable chance of a significant loss to the insurer. If there is not such chance of loss, the transaction may have the form of insurance but not the substance.

3.2.6 Calculable Loss

There are two elements that must be at least estimable, if not formally calculable, that is the probability of loss and the attendant cost probability of loss is generally an empirical exercise. While cost has more to do with the ability of a reasonable person in possession of a copy of the insurance policy and a proof of loss associated with a claim presented under that policy, it is to make a reasonably definite and objective evaluation of the amount of the loss recoverable as a result of the claim.

3.2.7 Limited Risk of Catastrophically Large Losses

Insurable losses are ideally independent and non-catastrophic, meaning that the losses do not happen all at once and individual losses are not severe to bankrupt the insurer. Insurer may prefer to limit their exposure to a loss from a single event to some small portion of their capital base. Capital constraints insurer's ability to issue or sell earthquake insurance as well as wind insurance in hurricane zones. In some countries 33 catastrophic risks are insured by the government. In commercial fire insurance, it is possible to find single properties, whose total exposed value is well in excess of any individual insurer's capital constraint. Such properties are generally shared among several insurers or insured by a single insurer who syndicates the risk into the re-insurance market.

3.3 LEGAL PRINCIPLES OF INSURANCE

Insurance companies insure an individual entity, only after fulfilling the basic legal requirements. The following are some of the commonly cited legal principles.

3.3.1 Indemnity

The insurance company indemnifies, or compensates, the insured in the case of certain losses only up to the insured's interest. The principle of indemnity is applicable to all types of insurance policies except life insurance policies. Indemnity means a promise to compensate in case of a loss. The insurer promises to help the insured in restoring the position before loss. Whenever there is a loss of property, the loss is compensated. The compensation payable and the loss suffered should be measurable in terms of money. The insured will be compensated only up to the amount of loss suffered by him. The Insured will not earn profit from the Insurer. The maximum amount of compensation will be up to the value of the policy. The value of the policy undertaken is fixed at the time of contract. The actual amount of loss suffered is compensated and the value of policy is only the maximum limit.

The principle of indemnity is not applicable in case of life insurance contracts, because it is not based on the principle of compensation. The loss of life cannot be compensated by any amount of money.

3.3.2 Insurable Interest

The insured must directly suffer from the loss. Insurable interest must exist whether property insurance or insurance on a person is involved. The concept requires that the insured have a "stake" in the loss or damage to the life or property insured.

What that "stake" is will be determined by the kind of insurance involved and the nature of the property ownership or relationship between the persons.

3.3.3 Utmost Good Faith

The insurance contract is founded on the basis of utmost good faith on the part of both the parties. It is obligatory on the part of the proposer (one who wants to get an insurance policy) to disclose all material facts about the subject to be insured. If some material facts come to light later on, then the contract can be avoided at the discretion of the insurer. The amount of premium is fixed on the basis of all the facts supplied to the insurance company. If some facts are withheld, then the amount of premium will not be properly settled. The insurer should also disclose the facts of the policy to the proposer. So utmost good faith on the part of both the parties is a must. The insured and the insurer are bound by a good faith bond of honesty and fairness. Material facts must be disclosed.

3.3.4 Contribution

The insurer compensates the insured up to the actual loss. Sometimes a property is insured with more than one company. The insured cannot claim more than total loss from all the companies put together. He cannot claim the same loss from different companies. In this case he will be benefitted by the insurance, which runs counter to the principle of indemnity. A person cannot be restored to a better position than before the loss occurred. The total loss suffered by the insured will be contributed by different companies in the ratio of the value of policies issued by them. So companies make a contribution to restore the previous position of the insured.

3.3.5 Subrogation

The principle of subrogation is applicable to all insurances other than the life insurance. If the insured party gets a compensation for the loss suffered by him, he cannot claim the same amount of loss from any other party. The rights of claiming the loss are shifted to the insurer. The insurance company acquires legal rights to pursue recoveries on behalf of the insured.

3.3.6 CausaProxima or Proximate Cause

The cause of loss (the peril) must be covered under the insuring agreement of the policy, and the dominant cause must not be excluded.

3.3.7 Mitigation

In case of any loss or casualty, the asset owner must attempt to keep the loss to a minimum, as if the asset was not insured. It means the owner of the property must take all possible measures to reduce the loss at the minimum, when happening of an unforeseen event.

3.4 CLASSIFICATION OF INSURANCE

Insurance is broadly classified into two categories as stated below.

3.4.1 Life Insurance

Life Insurance which covers the risk of human beings and compensate monetarily the losses of victim's kith and kin is known as Life Insurance. Human life is subject to various risks, such as, risk of death or disability caused by nature or by manmade fatalities. Humans are also prone to some diseases, the treatment of which may involve huge expenditure. When human life is lost or a person is disabled either permanently or temporarily there is a reduction in the earning capacity leads a loss of income to the household. The family is put to hardship. Sometimes survival itself is at stake for the dependents. Basically Life Insurer issues, two types of policies such as Whole Life Policy and Endowment Policy. 'A whole life policy is one where the policy amount is payable only after the death of the policy holder to his nominees. The policy holder may continue to pay the premium. In the Endowment policy premium will bepaid for a specific period. The policy amount will be paid either on the death of the insured or on completion of the stipulated period, whichever happens first.

3.4.2 Non-Life Insurance or General Insurance

Insurance, which is not covered under life insurance, is known as General Insurance. The property owned by man is exposed to various hazards, natural and manmade. In the case of property, loss or damage to property results in loss of income to the persons. Risk has the element of unpredictability. Loss or damage could occur at any time. The losses can be mitigated through insurance. Insurance is a commodity which offers protection against various contingencies. Insurance provides financial protection against a loss arising out of happening of an uncertain event, such as fire, inundation, earthquake, flood, storm damage, burglary, allied perils and the like. Insurance works on the basic principle of risk sharing. The great advantage of insurance is that it spreads the risk of few people over a large group of people exposed to the risk of similar. The concept behind insurance is that a groups of people exposed to similar risk come together and make contribution towards formation of a pool of funds.

In case a person actually suffers a loss on account of such risk he is compensated out of the same pool of funds. The insurance companies are collecting the contribution of premium to the pool from the group of people sharing the common risk. They also act as a trustee to the pool of funds. General Insurer issues policies to cover risks like fire, marine, accident, aviation and other miscellaneous to fulfill the requirements of individual, trader, industrial, commercial entities and others. Normally, they issue policies for a period of one year. In some cases, the policies may also be issued for longer or shorter period.

In this study, an attempt has been made to analyze the 'General Insurance Business in India' particularly with reference to its features and prospects.

3.5 IMPORTANCE OF INSURANCE

Nowadays, insurance plays an important role in every walk of life. Every human being for his survival needs food, clothing and shelter. These human needs give birth to various wants which when satisfied give a sense of satisfaction. If these wants are not attained, one feels unhappy. If the basic needs are satisfied, some more wants come to surface, to be satisfied. In the present day life, man, his family and their belongings or properties are always exposed to variety of risks. Every human being needs money not only for present but also for future for himself and for his dependents. But life is not certain. Any untoward incident will happen for human beings and his belongings. In order to overcome or reduce the burdenof risk, people rely on insurance. Insurance is in fact a social device. It accumulates funds to meet individual loses. It is a mechanism of spreading loss of one over many facing the same risk. Insurance as a business and an institution has very wide scope and covers a variety of transactions.

Insurance is defined as a co-operative device, to spread the loss caused by a particular risk over a number of persons who are exposed to it and also agree to ensure themselves against the risk. Insurance protects the economic values of assets. 'Every asset has a value. Assets are created through the hard efforts of the owner. It is valuable to the owner since it generates some benefits or income'. The income is needed to fulfill our needs.

Every asset has its own life, no asset will lose forever. The owner is well aware of this. So he manages his affairs that the end of the period or life time, a suitable substitute is made available. Thus, he makes sure that the benefits or income is not lost. However, an asset lost earlier due to an accident or some unfortunate event may cause destruction of the asset, which in turn makes the asset incapable of generating benefits or income. In such circumstances the owner and those enjoying the income there would be deprived of the benefits. The planned substitute would not have been ready. This results an adverse and unpleasant situation. Insurance is a mechanism that helps reduce the effect of such adverse situation, make whole again or make good of the loss. It is an essential service to make life most meaningful, dignified and worth living.

The importance of insurance is as follows.

3.5.1 Importance to Individual

Insurance provides safety, security and profitability. When an individual takes a policy it provides not only financial safety and security but also provides earning for their investment. In the case of life insurance, when death occurs or the term of insurance policy expires the full assured payment will be given to the legal heir or the policy holder. In the case of general insurance relevant policies provide necessary financial protection against the loss of a given contingency. They are

Insurance Provides Peace of Mind

Every person faces the risk in the form of death or disability due to accident or fall in sickness. Anything untoward happening to a human being leads to loss of income to the individual concerned. Insurance coverage provides a sense of security against all such odds and provides the necessary financial protection and promises to compensate loses for better work performance of an individual.

Insurance Eliminates Dependency

The family of an insured is safe in the event of a death of a bread winner due to accident, sickness and the like. Insurance company gives a helping hand by providing financial assistance to the insured family.

Insurance Serves as a Source of Savings.

Every individual must plan to save regularly for his future commitments like education, marriage and the like. Insurance provides various plans or schemes to promote systematic savings in the form of regular premium.

Insurance as a Sound Investment with the savings

The regular premium payment periodically will be a good investment to the insured. High returns in the form of periodical bonus and maturity bonus provide with high return on one's investment in the case the funds are invested in insurance policies.

Insurance Protected Mortgaged Property

Many policy holders construct their houses or purchase assets by borrowing money from the insurance companies. The best way to provide for repayment of mortgage loan is life insurance. It helps the individual keep the assets of the family intact.

Other Uses to an Individual

Apart from the above uses, the insurance fulfills the needs of family, old age requirements, education, marriage, settlement for children, income to widower, ritual ceremony, tax saving benefits and the like.

3.5.2 Importance to Business

Financial help

The modern industry needs heavy capital investment. Insurance companies provide financial assistance to the enterprises in the form of equity participation and by granting loans and advances. 1.5.2.2. Reduces uncertainty of business losses Business investments are exposed to loss in the form of fire, theft, accidents and other perils. When the company is insured, it reduces the uncertainty of business losses and be sure of its future earnings and smooth running of business. 1.5.2.3. Improves Efficiency By taking an insurance policy, the insured will get relieved of unnecessary worries and dexterity of the enterprises will improve.

Indemnification

Insurance ensures the compensation to the dependents and indemnification of loss of damaged properties.

Grant of Credit Facilities

A businessman can obtain credit by pledging the insurance policies as collateral securities for the loan.

Continuous Business

If an enterprise is insured, the entrepreneur can run the business uninterrupted against any odds. The employer can give compensation against any loss in the factory.

Employee's Security

Insurance provides social security measures like Employee's state insurance (ESI) life policies, old age pensions, medical benefits and the like. This will provide security coverage to the workers.

Importance to Commerce and Industry

Insurance is very helpful to increase the national productivity. Agriculture experiences loss of cattle, crops, machines, tools and equipment. In trade, there is risk of loss of goods in transit, in godown and the like. In industry also, the machinery, building and the like on operation are also under risk. Insurance protects from these types of risks. Insurance companies invest their surplus funds in bonds and securities of the companies which results into the development of commerce and industry.

Encourage Trade

Further, insurance is a good source of earning of foreign exchange as it covers export, import, shipping, and family services. Risks in foreign trade can be minimized through insurance. It facilitates the growth and development of international trade.

3.5.3. Importance to Society

Protection to Wealth of Society

Insurance coverage protects against financial losses. Loss or damage to property can also be indemnified by the insurance company.

Economic growth of the country

Protection against loss of property and capital provides strong and sound mind for the entrepreneur. This will enhance the production of more wealth. Welfare of employees creates a conductive atmosphere to work.

Standard of living

Destitution and misery are reduced by insurance. This will promote and maintain the standard of living of the people.

Social Security Benefits

In case of natural calamities and other risks, families would have been relieved of financial shock. This could be done only through insurance.

Equitable Distribution of Loss

Insurance tends to distribute equitably the cost of accidental events. In the absence of insurance the cost would have been paid in a haphazard manner.

Removal of Social Evils.

All forms of insurance tend to reduce the extent of evils they are meant to alleviate.

Accelerate the Production Cycle

Adequate capital from insurance companies accelerates the production cycle in the country.

Taming Inflation

Insurance reduces the inflationary pressure by extracting money supply to the amount of premium collected.

Huge Funds

Insurance accumulates from the small deposits of many persons, a large fund that may be invested and used in the development of industry and society.

3.6. HISTORY OF INSURANCE

3.6.1. History of Insurance in the World

Although the concept of insurance is a development of the recent past, the story of insurance is perhaps as old as mankind itself. We know two types of economy in human society.

i) Natural or non-monetary economy: Natural economy is barter and is more primitive and the insurance in such economy entails agreement of mutual help.

ii) Modern monetary economy: Modern monetary economy interacts with markets, financial instruments, currency and the like.

If one family's house is destroyed, the neighbors are committed to help and rebuild the same. Granaries are another primitive form of insurance to indemnify against famines, often informal or formally intrinsic to local religious customs. This type of insurance has survived to the present day in some countries where modern economy is not widespread.

Insurance business has been known to exist in some form or other since 3000 B.C.E (Before Common Era). The Chinese traders travelling treacherous river rapids would distribute their goods among several vessels so that the loss from any vessel being lost would be partial and shared and not total.

The Babylonian developed a system which was recorded in the famous code of Hammurabi, 1750 BCE and practised by early Mediterranean sailing merchants. If a merchant received a loan to fund his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the shipment be stolen or lost at sea.

Achacmenian Monarchs of Ancient Persia were the first to insure their people and made it official by registering the insuring process in governmental notary offices. The insurance tradition was reformed each year in honour (Beginning of the Iranian New year). The heads of different ethnic groups as well as others willing to take part, presented gift to the Monarch. The most important gift was presented during a special ceremony. When a gift was worth more than 1000 Derrick (Achaemenian gold coin) the issue was then registered in a special office. This was advantageous to those who presented such special gifts. For others, the presents were fairly assessed by the confidents of the court and the assessment was registered in special offices.

The purpose of registering was that whenever the persons who presented the special gift registered by the court were in trouble, the monarch and the court would help him. Jahaz, a historian and writer, writes in one of his books on Ancient Iran, whenever the owner of the present is in trouble wants to construct a building, setup a feast, have his children married and the like are to be helped. The one in charge of this in the court would check the registration, if the registered amount exceeds 10000 Derrick. He or she would receive an amount of twice as much he presented.

The inhabitants of Chodes adopted the principles of general coverage, whereby if goods are shipped together, the owners would bear the losses in proportion. If loss occurs, due to jettisoning during distress when Capitans of ships caught in storms would throw some cargo to reduce the weight and restore balance. Such throwing away is called jettisoning.

The Greeks and Romans have started benevolent societies in the late 7th Century. These guilds earned for the families and paid funeral expenses of members upon death.Guilds in the middle ages served a similar purpose.

The Ialmud deals with several aspects of insuring goods. Before insurance was established in the late 17th Century, friendly societies existed in England, in which people donated amounts of money to a general sum that could be used for emergencies.

Towards the end of the seventeenth century, London's growing importance as a centre for trade increased the demand for marine insurance. In the late 1680s Mr. 44 Edward Lloyd opened a Coffee house that became a popular haunt of ship owners, merchants and ship's captains and there by realise source of the latest shipping news. It became the meeting place for parties wishing to insure cargos, ships and those willing to undertake such ventures. Today, Lloyds of London remains the leading market for marine and other special types of insurance, but it works rather differently than the more familiar kinds of insurance.

Fire insurance as we know it today can be traced to the Great Fire of London, which in 1666 devoured 13200 houses. In the aftermath of disaster, Nicholas Barbon opened an office to insure buildings. In 1680, he established England's first fire insurance company. The fire office to insure brick and frame homes.

The first insurance company in the United States under fire insurance was formed in Charles Town, South Carolina in 1732. Benjamin Franklin helped to popularize and made standard the practice of insurance, particularly against fire in the form of perpetual insurance. In 1752, he founded Philadelphia contribution ship for the insurance of houses from loss by fire. Franklin's company was the first to make contributions towards fire prevention. Not only did his company warn against certain fire hazards, it also refused to insure certain buildings where the risk of fire was too great as all wooden houses.

3.6.2. History of Insurance in India

In India insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of polling of resources that could be re-distributed in times of calamities such as fire, flood, epidemics and famine. This was probably a pre-cursor to modern day insurance.' 6 Ancient Indian History has preserved the earliest traces of insurance in the form of marine trade loans and carriers contracts. In Rig-Veda, the most sacred book of India references were made to the concept "yogakshema" more or less liken to the well being and security of the people. These works also show that the system of credit and the law of interest were well developed in India. They were based on a clear appreciation of the hazard involved and the means of safeguarding against it.

In India, life insurance in its modern form was brought for the first time by the Britishers. The Oriental Insurance Company started in the year 1818 in Calcutta was the first to be founded in India by the Europeans to help the widows of their community, which was liquidated in the year 1834 A.D

Bombay Assurance Company was started in 1823. Followed this, the Madras Equitable Life Insurance Society was started in the year CE (Chirst Era) 1829. All of these companies operated their business in India but did not insure the lives of Indians. They were insuring the lives of Europeans living in India. Some of the companies started later, did provide insurance for Indians. But they were treated as "substandard" and therefore had to pay an extra premium of 20 per cent more than a European paid. This practice prevailed until the growth and development of Swadeshi Movement whereby many Indian companies were started to insure our people.

3.6.3. History of General Insurance

The history of General Insurance dates back to the Industrial Revolution in the west and the consequent growth of seafaring trade and commerce in the 17th century.

It came to India as a legacy of British occupation. British and other foreign insurance companies transacted their business in India through their agents.

‘The first General Insurance Company in India is “The Triton Insurance Company Ltd.” was established by British owner in Calcutta in the year 1850’.

Bombay Mutual Life Assurance Society heralded the birth of first Indian Life Insurance Company in the year 1870 covered Indian lives at normal rates. The Swadeshi Movement of 1905-1907 gave rise to more insurance companies. The United India in Madras, National Insurance in Calcutta, and the Co-operative Assurance at Lahore were established in 1906 in India.

In 1907, Hindustan Co-operative Insurance Company took its birth in one of the rooms of the Jorasanko house of the great poet Ravindranath Tagore in Calcutta. In the same year the Indian Mercantile Insurance Ltd was set up; this was the first company to transact all classes of General Insurance business.

Prior to 1912, India had no legislation to regulate insurance business. In the year 1912, the Life Insurance Companies Act and the Provident Fund Act were passed. This Act made it necessary that the premium rate tables and periodical valuation of companies should be certified by an actuary. But the Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage.

The first two decades of the twentieth century witnessed the mushroom growth of the insurance business; many financially unsound and failed miserably. In 1928, The Indian Insurance Companies Act enacted in the parliament, which enables the government to collect statistical information from both life and non-life insurance business companies. In order to protect the interest of the insuring public at a larger interest, the earlier legislations were consolidated and amended by the Insurance Act 1938, with comprehensive provisions and effective control over the activities of insurers. This was the first effective initiative step to bring the insurance business under state’s control to some extent.

Indian insurers are concentrated only in big cities and in trade centers. They were rendering their services only to the rich and strong business concerns. With the object of providing protection of insurance to all people living in every nook and corner of the century, moreover to mobilize the savings for the nation's development, the Life Insurance India was nationalised in the year 1956.

Life Insurance Corporation of India came into existence on the 1st day of September 1956. In order to remember this historical moment, insurance week is celebrated from 1st to 7th September every year.

Another milestone in the history of General Insurance is the establishment of General Insurance Council as a wing of the Insurance Association of India in 1957. This council framed code of conduct rules for ensuring fair conduct and sound business practices among the general insurers operating in India.

With the object of regulating the in nvestments the council set minimum solvency margins that should be followed by all insurance companies. The Insurance Act was amended in the year 1968. The Tariff Advisory Committee was setup. This committee became a statutory body in fixing, amending or modifying rates, advantages or benefits terms and conditions relating to any risk.

3.7. NATIONALISATION OF GENERAL INSURANCE BUSINESS

General Insurance Business was nationalised in 1972. There were 107 General Insurance companies including 45 foreign companies at that time, mainly in large cities catering to the needs of trade and industries in the organised sector. They were of different sizes, operating at different levels of sophistication.

They were amalgamated, grouped into four subsidiaries and assigned to the General Insurance Corporation. The General Insurance Corporation was incorporated as a holding company in November 1972 and it commenced its business on 1st January 1973 onwards. The four subsidiaries are namely, 'The National Insurance Company Limited, The New India Assurance Company Limited, The Oriental Fire and General Insurance Company Limited and The United India Insurance Company Limited'8 having the head offices in Calcutta, Bombay, New Delhi and Madras respectively.

There were several goals for setting up of this structure. First the subsidiary companies were expected to setup standards of conduct and sound practices in the general insurance business and render efficient customer service. Secondly, the general insurance corporation was to help in controlling their expenses. Thirdly, it was to help in the investments of funds. Fourthly, it was to bring general insurance business in the rural areas of the country. Fifthly, the General Insurance Corporation was also designated as the National Re-insurer. All the domestic insurers were to cede 20% of their gross direct premium to the general insurance corporation, under the section 101A of the Insurance Act 1938. The idea was to retain as much risk as possible domestically. This was in turn motivated by the desire to minimize the expenditure on foreign exchange.

Lastly, all the four subsidiaries were supposed to compete with each other to create a healthy insurance business in India.

3.8. NEW ECONOMIC POLICY ERA

Liberalization, privatization and globalization have become a much talked subject among economists, businessmen, politicians and professionals in modern days. Privatization is expressed as the supporting pillar on which is the edifice of new economic policy of the government has been enacted and implemented since 1991.

Although the Indian markets were privatized and opened up the gate for foreign companies in a number of sectors, insurance remained out of bounds on both life and non-life. The government wanted to proceed with caution. With great pressure from the opposition the congress led government at that time decided to set up a committee headed by Mr. R.N. Malhotra, the then Governor of the Reserve Bank of India in the year 1993, to propose recommendations for reforms in the insurance sector. The committee submitted its report in 1996. Wherein among other things, it recommended that the private players be permitted to enter the insurance industry. They stated that foreign companies are allowed to enter by floating Indian companies preferably a Joint venture with Indian Partner.

While praising the work done in achieving many of its objectives, the committee was critical about the low insurance coverage, unresponsiveness to customers' needs, poor service, and costly insurance cover with low returns, hierarchical management and excessive lapse ratio policies. It also stated that there was a large untapped potential for insurance in the country and this led to the first step being taken towards opening up of this sector to private players.

Following the recommendations of the Malhotora Committee Report, the Insurance Regulatory and Development Authority Act (IRDA) was passed in 1999. It was a milestone in the history of insurance sector. It was constituted as an autonomous body to regulate and develop the insurance industry. Insurance Regulatory and Development Authority was incorporated as a statutory body in April 2000. The mainobjective of setting up the Insurance Regulatory and Development Authority was to protect the interest of policy holders and to regulate promote and ensure the development of the insurance sector. It is also aimed at the ending of the monopoly of the Life Insurance Corporation and General Insurance Corporation in the insurance sector of the country.

The IRDA opened up the market to private players in August 2000, with the issue of application for Registration. Foreign companies were allowed hold equity cap up to 26 per cent at that time of introduction. 'The Insurance Bill, Amendment Bill proposes to allow the foreign equity ceiling to 49 per cent from the current level of 26 per cent'. 9 The Authority has the power to frame regulation under section 114A of the Insurance Act and has started enacting rules since 2000 onwards.

The Authority framed various regulations from registration of companies for carrying on insurance business to protection of policy holder's interest. In December 2000, the four subsidiaries of the General Insurance Corporation of India were restructured as independent companies. These subsidiaries have been delinked from the parent company, permitted to function as an independent entity. General Insurance Corporation of India was converted into a National Re-insurer. A Bill delinking the four subsidiaries from GIC was passed in the parliament in July 2002.

Insurance business in India was divided into four classes such as Life Insurance, Fire Insurance, Marine Insurance and miscellaneous Insurance. Life insurers transact Life Insurance Business. General insurers transact the rest. Composite of both are not permissible as per law.

The first private insurance company was registered on 23rd October 2000 by the IRDA and started doing insurance business shortly thereafter there by, the long years of public sector monopoly has come to an end in Indian Insurance Sector. In 2001, Royal Sundaram Alliance Company issued the first non-life insurance policy in private sector. In the year 2000-2001, along with four public sector insurers six private players started their business in the general insurance industry. In 2001-2002, three more life insurer and one more non-life insurance company get registered.

To protect the interest of farmers, a new corporate body called Agricultural Insurance Company of India (AIC) was floated in the fiscal year 2002-03 in pursuance of the announcement made in the annual budget. The main objective of the formation of this corporation was to provide financial security to persons engaged in agriculture and allied activities through insurance products and other support services. AIC offers four major categories of Insurance services namely, Horticulture and Plantation Insurance, Coffee Insurance, Varshabima and National Crop Insurance. In the same period another specialized insurer in field of export trade also started was the Export Credit and Guarantee Corporation. (ECGC)

In 2003-2004, 2004-2005, 2005-2006and 2006-2007 new players registered in the life insurance sector.

'One of the major milestones in the history of general insurance industry has been the withdrawal of premium pricing restrictions from January 2007.' 10 In fact, the de-tariffing of marine cargo, personal accident, health and aviation sector was done in 1994. In 2004, de-tariffing was announced for marine hull segment. The major detarrifing of fire, engineering and motor own damage segments was done in 2007. Motor third party policies are still under tarrifing.

In 2007-2008, further five more private entrants got registered among which two are life insurer and the remaining three are in general insurance.

In the year 2008-2009, four more companies came into the insurance sector, three of them are in life and one in non-life insurance. In the year 2010, three more general insurers got registered in the insurance sector.

As on 31st march, 2010, there were eighteen private players and six public players and one Re-insurer constitute the General Insurance Market. As on 30th January2013, there are twenty-one private sector companies and six public sector companies and one re-insurer have been operating in the general insurance industry. On the private sector, four insurance companies are in the Health Insurance Business. In the public sector insurance companies, two of them specially engaged inthe field of the export trade and agricultural sector respectively which is given in Appendix I.

3.9. DISTINCTION BETWEEN LIFE INSURANCE AND GENERAL INSURANCE

There are many distinctions between life insurance and general insurance .Some of the important differences are listed below.

3.9.1. Contract

A life insurance contract is a long term contract, while general insurance contract is normally a one-year renewable contract.

3.9.2. Risk

In life insurance the risk death is certain. The only uncertainty is as to when it takes place whereas, in general insurance the insured event may or may not take place.

3.9.3. Value

In life insurance, it is difficult to assess the economic value of life. But in general insurance the financial value of any asset can be assessed.

These are the basic distinctions between life insurance and general insurance.

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

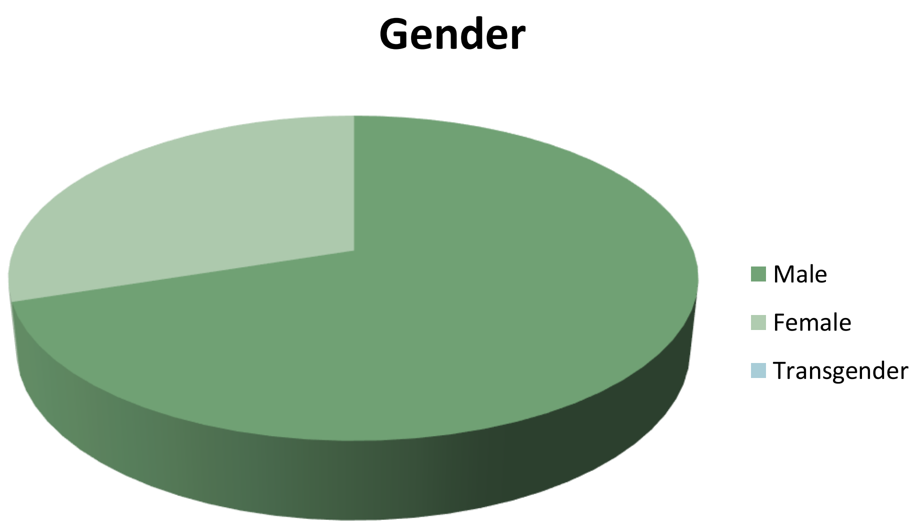
The data collected from respondents (insurance agents) are presented and analysed in this chapter. There is more than 100 agents in the location. Among them 10 agents are chosen as sample size. Following table shows the gender of the respondents in Aluva town.

TABLE 4.1: GENDER OF RESPONDENTS

GENDER	FREQUENCY	PERCENTAGE %
Male	7	70
Female	3	30
Transgender	0	0
Total	**10**	**100**

Source: Primary Data

FIGURE 4.1: GENDER OF RESPONDENTS



INTERPRETATION 4.1

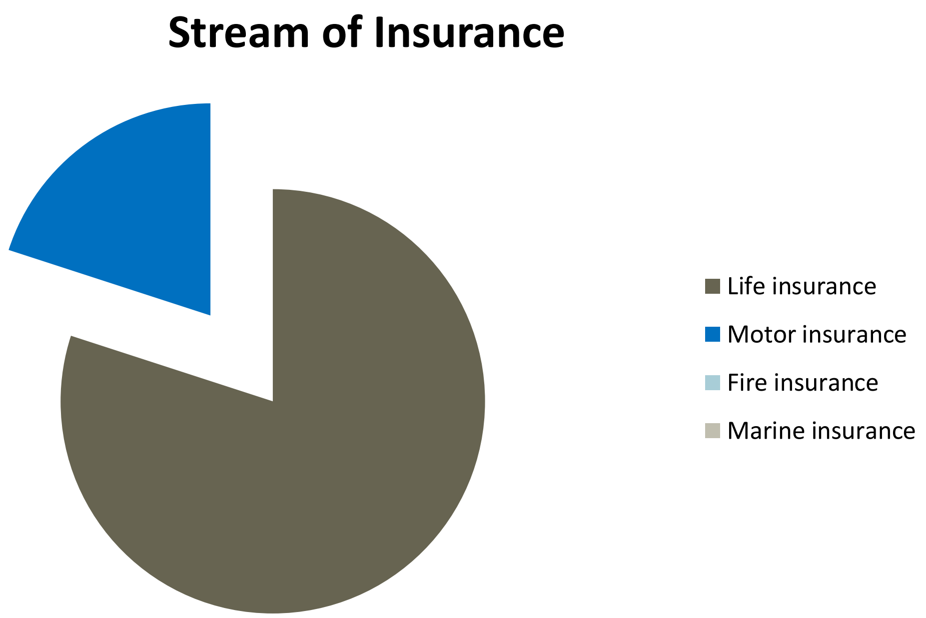
Table 4.1 shows that about 30% of respondents were female insurance agents. Out of 10 respondents, the other 70% of insurance agents are male. There is no disparity based on gender.

TABLE 4.2 STREAM OF INSURANCE

TYPE OF INSURANCE	FREQUENCY	PERCENTAGES %
Life insurance	8	80
Motor insurance	2	20
Fire insurance	0	0
Marine insurance	0	0
Total	**10**	**100**

Source : Primary data

FIGURE 4.2 STREAM OF INSURANCE



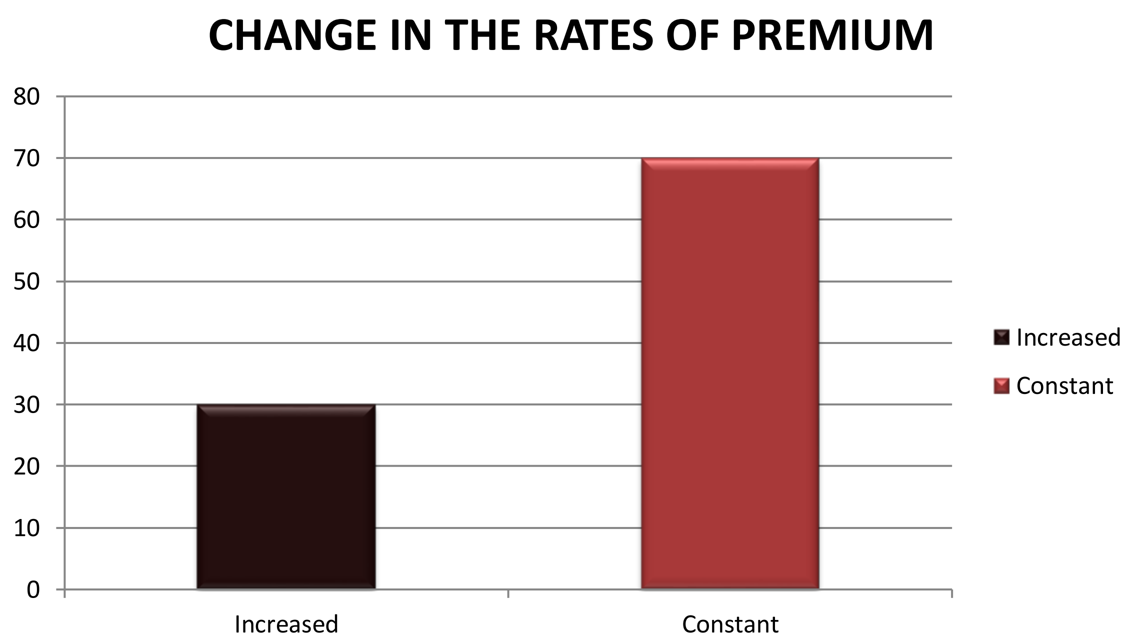
INTERPRETATION 4.2

Table 4.2 shows that about 80% of the sample concentrates on Life insurance. The rest of the sample taken focuses on motor insurance ie., 20%.

TABLE 4.3 RISE IN THE PREMIUM RATES AFTER THE FLOOD – ON THE BASIS OF THE OPINIONS OF THE RESPONDENTS

OPINIONS	FREQUENCY	PERCENTAGE
Increase in the rate of premium (Yes)	3	30%
Constant rate of premium (No)	7	70%
Total	**10**	**100**

FIGURE 4.3: RISE IN THE PREMIUM RATES AFTER FLOOD



INTERPRETATION 4.3

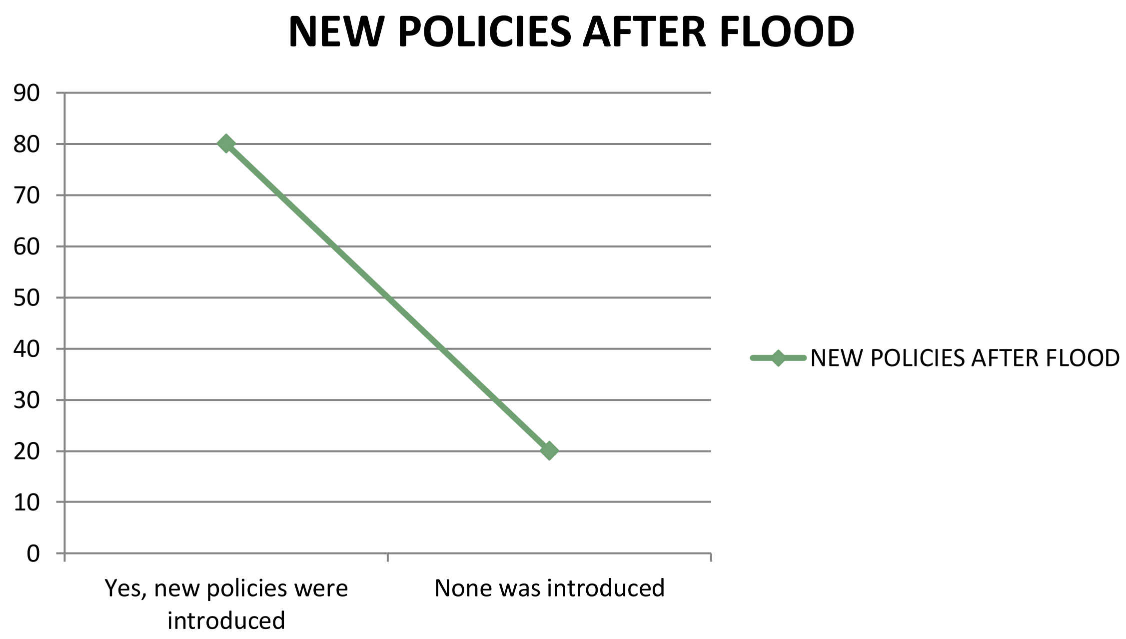
The table 4.3 shows that there was a 30% of agents claiming that there was a rise in the rates of premium charged by insurance companies after flood. But 70% of the sample thinks there was no increment on the rates of premium after the disaster

.

TABLE 4.4 NEW POLICIES INTRODUCED AFTER FLOOD (OPINION BASED)

OPINIONS	FREQUENCY	PERCENTAGE
Yes, new policies were introduced	8	80%
No new policies introduced	2	20%
Total	**10**	**100**

FIGURE 4.4 : NEW POLICIES INTRODUCED AFTER FLOOD



<u>INTERPRETATION 4.4</u>

The table 4.4 reveals that there is a 80% of insurance agents who strictly claims that there was introduction of several policies after flood. Whereas there is a 20% who thinks there weren't any new policies introduced after the flood.

INTERPRETATION 4.5

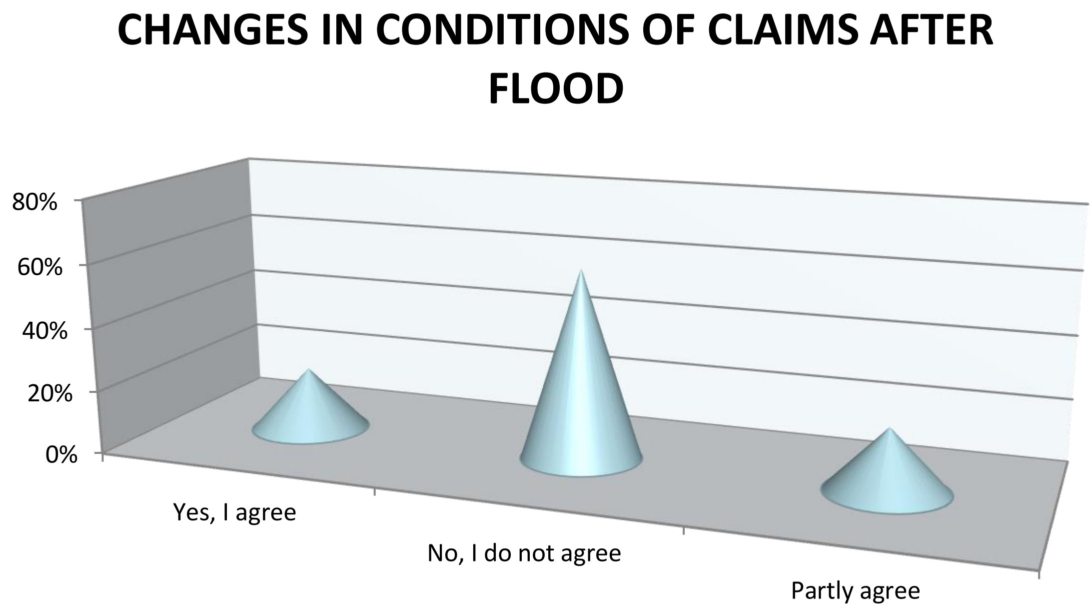
For the question of listing some of the new policies introduced after flood, there were some responses. It includes,

- SIIP, NAV JEEVAN
- NEW ENDOWMENT, JEEVAN ANAND
- Flood 2k20 , Flood 2k11
- LIC Micro BachatNavJeevan Tech term plan Jeevan Amar
- Flood insurance
- NEW ENDOWMENT, JEEVAN LABH etc.

TABLE 4.6 THE CHANGE IN THE CONDITIONS OF CLAIMS AFTER THE OCCURRENCE OF FLOOD (OPINION BASED)

OPINIONS	FREQUENCY	PERCENTAGE
Yes, there was a change in conditions of claims	2	20%
No, there wasn't any changes in conditions of claims	6	60%
Partly agree	2	20%
TOTAL	**10**	**100%**

FIGURE 4.6 : CHANGES IN CONDITIONS OF CLAIMS AFTER FLOOD



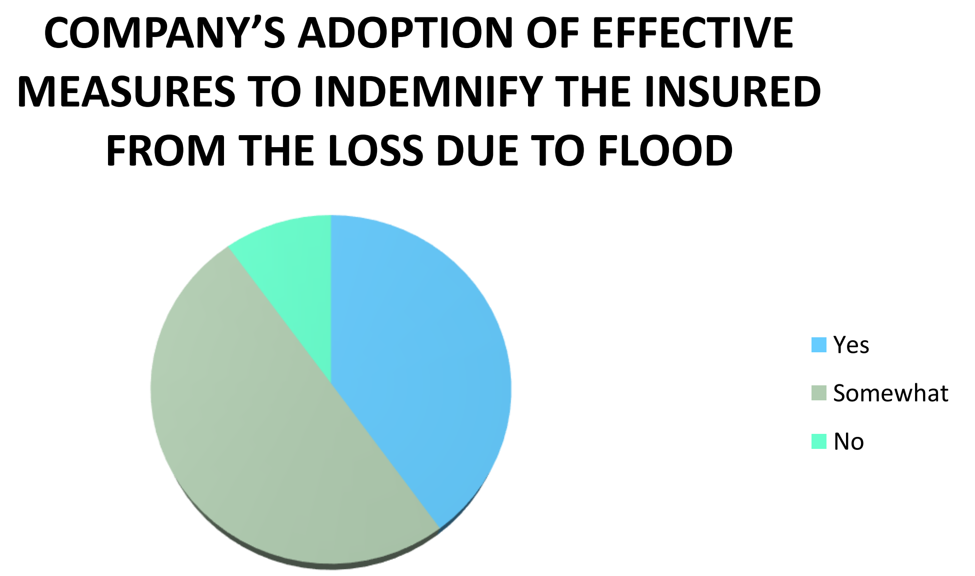
INTERPRETATION 4.6

Table 4.6 shows that 20% of the interviewed agents believe that there was a change in the conditions of the claims after flood. Whereas 60% of them do not find any change in conditions of claims after flood. There comes a 20% of the agents who agrees partly that there was a change in conditions of the claims after the occurrence of flood.

TABLE 4.7 COMPANY'S ADOPTION OF EFFECTIVE MEASURES TO INDEMNIFY THE INSURED FROM THE LOSS AFTER FLOOD (OPINION BASED)

OPINIONS	FREQUENCY	PERCENTAGE
Yes	4	40%
Somewhat	5	50%
No	1	10%
TOTAL	**10**	**100%**

FIGURE 4.7 COMPANY'S ADOPTION OF EFFECTIVE MEASURES TO INDEMNIFY THE INSURED FROM THE LOSS AFTER FLOOD



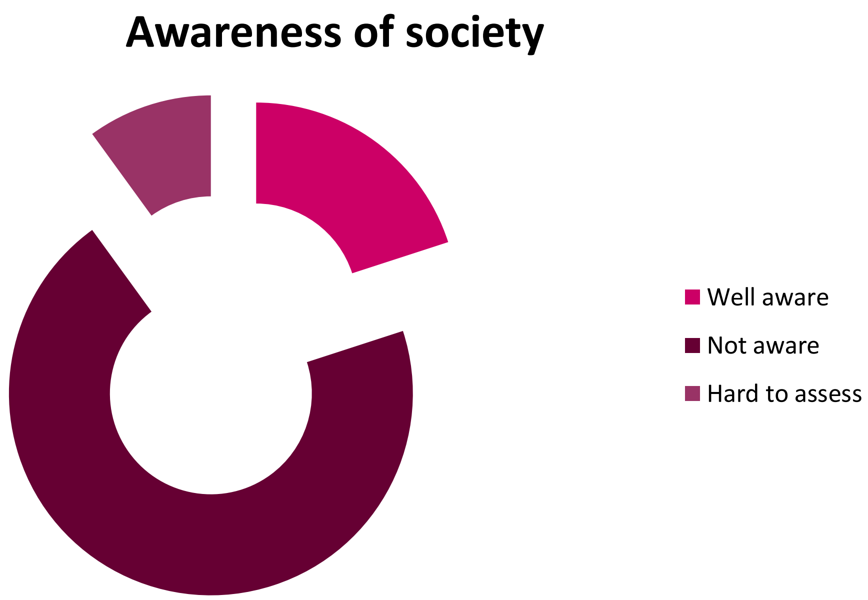
INTERPRETATION 4.7

Table 4.7 shows the agents' opinion on company's adoption of effective measures to indemnify the insured from the loss due to flood. 40% of the sampled agents claims that company adopted effective measures to indemnify the insured from the loss through flood. There comes a 50% who thinks company adopted somewhat, not bad measures to help the insured. The rest of the sample ie, 10% believes that the company hasn't adopted any effective measures to indemnify the insured for their losses.

TABLE 4.8 AWARENESS OF THE SOCIETY ABOUT THE INSURANCE POLICIES AFTER FLOOD

OPINIONS	FREQUENCY	PERCENTAGE
A good percentage of population is aware	2	20%
Society is not aware	7	70%
Hard to assess	1	10%
Total	10	100

FIGURE 4.8 AWARENESS OF THE SOCIETY ABOUT THE INSURANCE POLICIES AFTER FLOOD



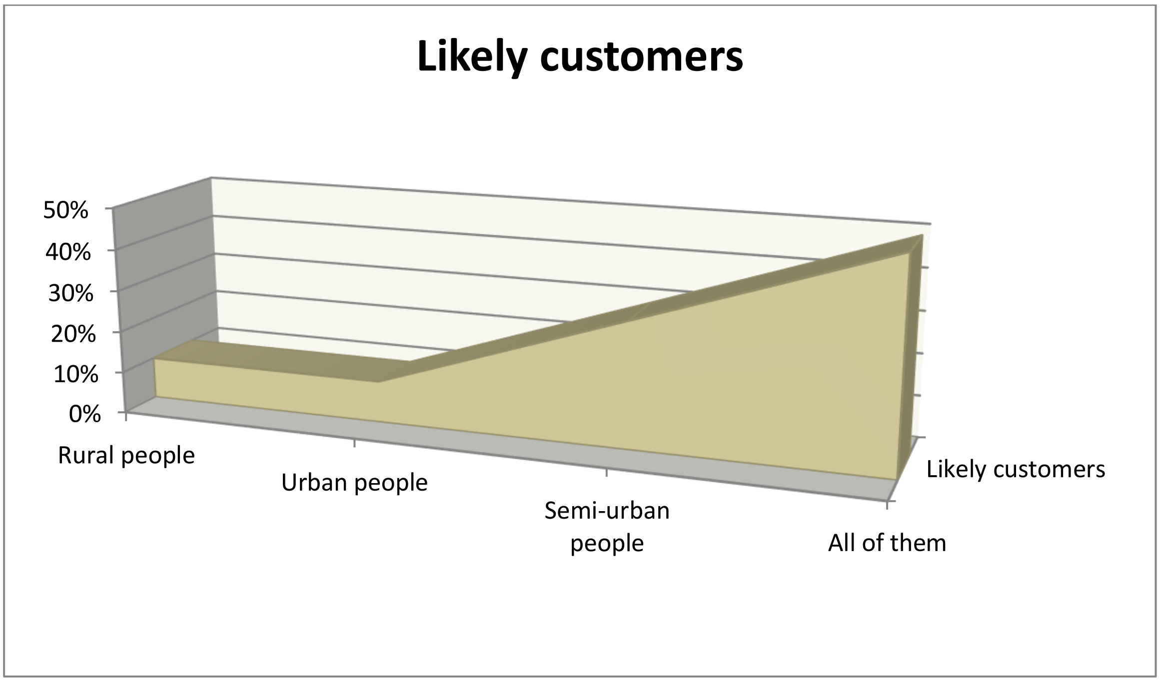
INTERPRETATION 4.8

Table 4.8 shows the awareness of the society about the insurance policies to protect their assets and lives in flood. 70% of the agents interviewed claims that the society lacks knowledge and awareness about the policies to safeguard the society. 20% of them assess that the society is well aware about the policies of the insurance company. But 10% votes for assessment of awareness among citizens hard.

TABLE 4.9 MOST LIKELY CUSTOMERS AFTER FLOOD

TYPE OF CUSTOMERS	FREQUENCY
Rural people	1
Urban people	1
Semi-urban people	3
All of the above	5

FIGURE 4.9 MOST LIKELY CUSTOMERS AFTER FLOOD



<u>INTERPRETATION 4.9</u>

Table 4.9 shows that more insurance agents voted for all types of customers from rural, urban and semi-urban areas(50%). 10% of the sample voted for both urban and rural customers after flood. 30% of the agents voted for semi-urban customers after flood.

CHAPTER 5

FINDINGS, SUGGESTIONS AND CONCLUSION

FINDINGS

- 30% of respondents were female insurance agents and the other 70% of insurance agents are male
- 80% of the sample concentrates on Life insurance. The rest of the sample taken focuses on motor insurance.
- There was a 30% of agents claiming that there was a rise in the rates of premium charged by insurance companies after flood. But 70% of the sample thinks there was no increment on the rates of premium after the disaster
- There is a 80% of insurance agents who strictly claims that there was introduction of several policies after flood. Whereas there is only a 20% who thinks there weren't any new policies introduced after the flood.
- New policies like flood 2k20, SIIP etc were introduced after flood.
- 20% of the interviewed agents believe that there was a change in the conditions of the claims after flood. Whereas 60% of them do not find any change in conditions of claims after flood. There comes a 20% of the agents who agrees partly that there was a change in conditions of the claims after the occurrence of flood.
- 40% of the sampled agents claims that company adopted effective measures to indemnify the insured from the loss through flood. There comes a 50% who thinks company adopted somewhat, not bad measures to help the insured. The rest of the sample ie, 10% believes that the company hasn't adopted any effective measures to indemnify the insured for their losses.
- 70% of the agents interviewed claims that the society lacks knowledge and awareness about the policies to safeguard the society. 20% of them assess that the society is well aware about the policies of the insurance company. But 10% votes for assessment of awareness among citizens hard
- 50% among the sample voted for all types of customers from rural, urban and semi-urban areas. 10% of the sample voted for both urban and rural customers after flood. 30% of the agents voted for semi-urban customers after flood.

SUGGESTIONS

- Insurance agents should try increasing the awareness amongst the society about the policies for safeguarding their lives and assets during flood.
- Insurance companies should give more share of their sincerity and efficiency on settling the claims of the insured during these hard times like flood.
- Advertisement is a great tool to spread caution and knowledge about insurance policies among the society.

- Insurance agents should concentrate more in protecting the interests of people rather than interests of company during hazards like flood which destruct human life.
- The society should take preventive measures to protect themselves and their assets during flood.
- Favourable premium rates should be offered to people on policies related to flood which makes it attractive and reasonable.

CONCLUSION

This paper mainly focused in studying the effect of flood on Insurance policies. A significant part of the agents claim that there was a huge change in the basics of insurance after flood. There are several number of policies introduced after flood. Most of the agents believe that society lacks knowledge about these policies which secures their life and assets. Insurance Companies should do more for ensuring the safety of insured and help them settle their claims. Natural hazards like flood challenges the insurance industry.