Skill India
कौशल भारत - कुशल भारत

सत्यमेव जयते
GOVERNMENT OF INDIA
MINISTRY OF SKILL DEVELOPMENT
& ENTREPRENEURSHIP

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National
Skill Development
Corporation
Transforming the skill landscape

BFSI

Participant Handbook

Sector
Banking Financial Services and Insurance (BFSI)

Sub-Sector
Banking

Occupation
Financial Inclusion Services

Reference ID: **BSC/Q0101, Version 1.0**
NSQF Level 4

Life Insurance Agent

Life Insurance Agent
Participant Handbook
BFSI

> Skilling is building a better India.
> If we have to move India towards development then Skill Development should be our mission.

Shri Narendra Modi
Prime Minister of India

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Certificate

CURRICULUM COMPLIANCE TO QUALIFICATION PACK – NATIONAL OCCUPATIONAL STANDARDS

is hereby issued by the

BFSI SECTOR SKILLS COUNCIL OF INDIA

for the

MODEL CURRICULUM

Complying to National Occupational Standards of
Job Role/ Qualification Pack: '**Life Insurance Agent**'
QP No. '**BSC/Q0101 NSQF Level 4**'

Date of Issuance:	January 15th, 2016
Valid up to:	January 15th, 2017

* Valid up to the next review date of the Qualification Pack

Authorized Signatory
(BFSI Sector Skill Council of India)

Table of Contents

Skill India
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1. To Source Clients

(BSC/ N 0301)

Unit 1.1 - Introduction to Insurance

Unit Objectives

At the end of this unit, the participants will be able to understand:

- Why do we need insurance?
- Identify the history of insurance
- Know why it is important
- Look at the history of insurance in India
- Learn important terms associated with insurance

Need For Insurance

Why do we need insurance?

Life is changing every day. There are events and incidents occurring around us on a daily basis. While there are many happy events in our life, some things make us anxious and afraid. There can be accidents, sudden health issues, premature death of an earning member, natural calamities etc.

Figure 1.1.1

Figure 1.1.2

Figure 1.1.3

Insurance helps you to:

- Keep your home protected
- Keep your vehicle protected
- Cover a critical illness
- Cover an unexpected loss
- Cover health care costs
- Provide for your family in the event of a death

These events make us anxious because:

- They are unpredictable
- They often cause economic loss and grief

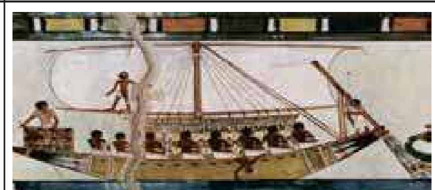
When someone has insurance, they are able to prepare for all these eventualities.

History of insurance

All of us face tragedies and it is important to be prepared for it. Communities have always come together to help its members come out of unexpected circumstances. This is possible by creating a system of mutual support. Insurance is a lot like that.

In fact, a look into history tells us that insurance has existed in different forms across ages. Insurance has existed in some form or other since 3000 BC. One can find many instances where people have come together to merge resources for later use such as in case of a loss for one of the members of the community. However, insurance took up as a business only in the 18th century.

Forms of insurance in ancient times

Babylonian Traders People took bottomry loans to support loss of goods while they were at sea. As a part of these loans, the lenders would get a 'sum' to write off the loan. This loan was taken against the security of the ship or the goods that were being transported.	
Traders from Baruch and Surat Traders in Baruch and Surat also worked like Babylonian traders in case of losses. The idea was to protect themselves against losses at sea because they would frequently visit Sri Lanka, Egypt and Greece for trade.	
Greeks They are known for setting up benevolent societies in the late 7th century AD. These socities helped the families of the deceased at the time of funeral and supported them later as well.	
England The Friendly Societies of England were created on the lines of the Greek societies. They also wanted to create a support system for families who have to go through an unexpected tragedy.	
Lloyd's Coffee House iv Lovdov is covsidered the model for modern commercial insurance business as it exists today.	
Inhabitants of Rhodes The owners of goods that were being transported together would share the losses if some goods were lost. It did not matter who lost the goods.	
Chinese Traders They would carry goods in different boats or ships to prevent huge losses.	

Insurance in India today

Ancient Indian scriptures such as Manusmrithi, Dharmasastra and Kautilya's Arthasastra talk about insurance. They describe it as pooling of resources to help protest people in times of calamities such as fire, floods, epidemics and famine.

Traditionally as well, India has seen one of the strongest forms of business management in the joint-family system. It has been one of the most successful forms of insurance ever seen. Life insurance as it exists today reflects the ancient form where the family members helps each other to come over any financial or personal losses.

History of insurance in India

Modern insurance in India began around the early 1800s. At this time, many foreign insurers set up marine insurance businesses in India. Let us look at a timeline of insurance since 1818 when The Oriental Life Insurance Co. Ltd. was set up.

The Oriental Life Insurance Co. Ltd (1818)	The first life insurance company to be set up in India. This was a British company.
Madras Equitable (1829)	This company was set up to provide life insurance in the Madras Presidency.
Triton Insurance Co. Ltd.	The first non-life insurer to be established in India.
Bombay Mutual Assurance Society Ltd. (1871)	The first Indian insurance company was formed in Mumbai.
National Insurance Company Ltd. (1906)	The oldest insurance company of India that is still in business.

Many other Indian companies were set up subsequently as a result of the Swadeshi movement at the turn of the century.

Dates of important insurance acts
1870: British Insurance Act
1912: Life Insurance Companies Act
1912: Provident Fund Act
1938: Insurance Act 1938

Life insurance was nationalised on 1st September, 1956. As a result of this, the Life Insurance Corporation of India (LIC) was formed to cover almost 170 companies and 75 PF societies that were in existence. In the period from 1956 to 1999, LIC was the only company that could do life insurance in India.

Nationalisation of non-life insurance

This refers to the enactment of the General Insurance Business Nationalisation Act (GIBNA) in 1972. As per this act, non-life insurance in India was also nationalised. Therefore, the **General Insurance Corporation of India (GIC) was set up along with four subsidiaries.** There were about 106 insurers in India at that time. they provided non-life insurance but after GIBNA act, they were included under the GIC of India.

Malhotra Committee and IRDA

In 1994, the Malhotra Committee recommended changes for better industry practices. An important part of that was introducing competition. As part of that report, the Insurance Regulatory Authority (IRA) was set up in 1997.

The Insurance Regulatory & Development Act (IRDA) was also passed in 1999, and the IRDA was formed in April 2000. It works as a statutory regulatory body covering providers of life as well as non-life insurance products.

Life insurance in India today

Today, there are 24 life insurance companies operating in India. Let us look at some facts:

- Life Insurance Corporation (LIC) of India is a public sector company
- There are 23 life insurance companies in the private sector
- The postal department, under the Government of India, also transacts life insurance business via Postal Life Insurance, but is exempt from the purview of the regulator

Exercise

Q1. Define insurance in 50 words.

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Q2. Which of these ancient traders used some form of insurance?

i. Ancient Indian trade
ii. Greeks traders
iii. Chinese traders
iv. Mesopotamian traders

Q3. Describe the following acts in two lines.

i. 1870: British Insurance Act

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ii. 1912: Life Insurance Companies Act

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iii. 1912: Provident Fund Act

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iv. 1938: Insurance Act 1938

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Q4. Who is the regulator for the insurance industry in India?

i. Insurance Authority of India
ii. Insurance Regulatory and Development Authority
iii. Life Insurance Corporation of India
iv. General Insurance Corporation of India

Figure 1.1.4

Asset

A thing that has economic value can be called an asset. Asset can be of three kinds:

2. Physical: Eg. car or a building

2. Non-physical: Eg. name or goodwill

3. Personal: Eg. a talent, ability, face, etc.

In case of a loss or peril, asset may lose its value. This chance of loss is called as **risk**. The cause of the risk event is known as **peril**. **Pooling** consists of people contributing premiums to a common place. They have similar assets exposed to similar risks. The pool of funds is used to compensate those who might suffer the losses as caused by a **peril**. This process of pooling funds and compensating those who suffer a loss is done through an **insurer. Those who pool their resources are called the insured.**

Role of Insurance

Insurance helps to spread risk to safeguard people against a sudden loss of property of life. It protects people and helps to provide stability to people. As insurance helps to safeguard economic interests of people, it also contributes to a healthy economy.

In general, there are two types of risks – **primary and secondary**.

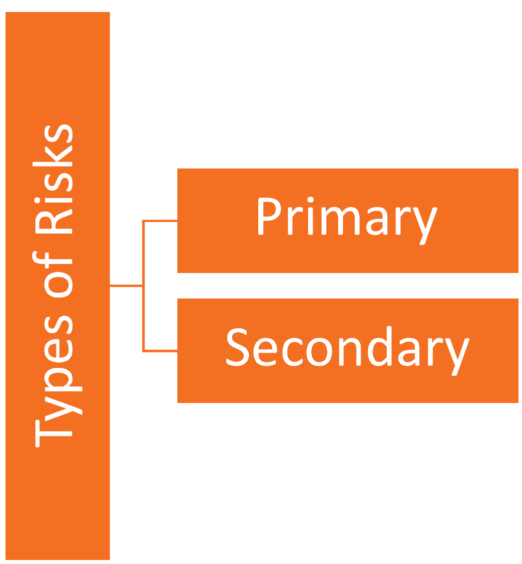

Figure 1.1.5

a) Primary burden of risk

These are real-term losses of households or businesses that occur due to a risky event such as a fire or earthquake. Usually, these losses can be measured because they are evident losses. These losses can be easily compensated for by insurance.

Example:

In case of a flood, all the equipment of a factory is destroyed. At such a time, if they have insured their machines, they will get a value for their damaged or destroyed goods.

b) Secondary burden of risk

This is the risk associated with an unlikely event even if there has been no real loss. It is meant to cover the exposure to peril. It is called the secondary burden of risk.

Example:

In case of a flood, your factory might be save. However, because of the flood you are getting less business. This is considered a secondary burden of risk and should be covered as well.

Notes

Exercise

Q1. Which of these would you consider as a secondary burden of risk?

a. A business loss due to earthquake
b. Damaged car because of a flood
c. Keeping a provision to meet any loss in the future
d. If you are hospitalisation suddenly and it results in a business loss

Q2. Give 5 examples of physical assets:

a)
b)
c)
d)
e)

Q3. In 100 words, explain the importance of insurance.

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Activity

Overview

This activity will help you to understand risk management techniques.

Goals and Objectives:

- To be able to explain risk management in insurance.

Props/Material Required:

- Paper and Pen
- Laptop and Projector
- Classroom
- White/Black Board

Methodology/Procedure:

Research and find out some risk management techniques. Discuss them in class.

Outcome:

What Comprises an Insurance Business?

Asset Value

An asset is any property that has the ability to generate value in return. Most properties can be measures in monetary terms such as a car, home, machines etc. At the same time, the loss of value can also be calculated.

Example:

In case of a car accident, the damage to the vehicle can be estimated. Say the loss is calculated at Rs. 30,000, this is the amount the insurance company has to pay the owner for the car.

The Risk

Insurance offers protection against risky events that have the ability to destroy and destruct. There are different types of risks that result in insurance.

Example:

In case of a car accident, the accident was the risk. It is a common risk associated with vehicles so people want to be insured against it.

Risk Pooling

When people come together to pool their funds to benefit from it later, it is referred to as risk pooling. Policyholders enjoy the benefits of this pooling through life insurance. Life insurance companies also work as contractual financial institutions and the benefits people enjoy are called a contractual guarantee.

Mutuality

This is an important factor of insurance. It helps to reduce the risk in financial markets.

Diversification

Diversification of funds, types of insurances, and types of insured—also helps to curtail risks further. Therefore, it also plays a role in insurance.

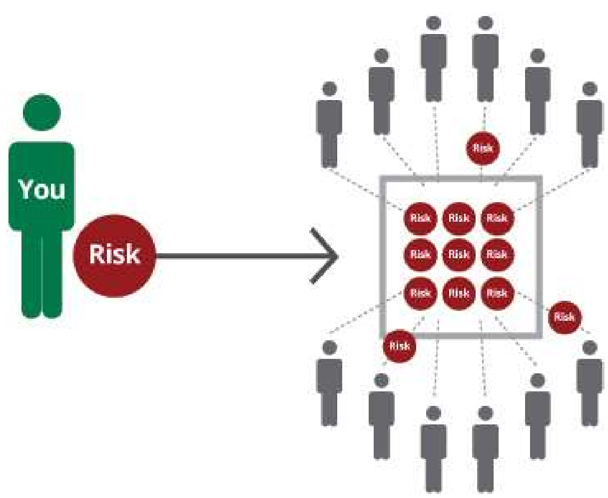

Figure 1.1.6

Life Insurance - Calculating the Loss

Calculating a loss depends on a lot of factors. It has to be determined by the agent based on the aspects of the customer. An agent has to explain the value of loss to the customer before giving them an insurance plan.

Prof. Solom S. Hubener, who is considered the father of insurance education, developed the Human Life Value (HLV) measurement almost 70 years ago. It is widely used across the globe to estimate the value of someone's life.

As per this concept, human life is an asset. The higher the earning of a person, the higher their value. HLV measures human life according to the possible future earnings of the person who is being insured. Net earnings refers to income earned each year in the future, less the money spent. This value estimates the economic loss for the family of that earning member if they were to die prematurely.

Source: Huebner Foundation

Figure 1.1.7

Measurement Human Life Value

$$HLV = \frac{\text{Annual Income if Alive}}{\text{Rate of Interest}}$$

Example: Mr. Khurana earns Rs. 10,00,000 a year and spends Rs. 2,00,000 on himself. The net earnings his family would lose if he were to die prematurely, would be Rs. 8,00,000.

Suppose the rate of interest is 7% (expressed as 0.07). HLV = 800000/ 0.07 = Rs. 1,14,28,571

General Insurance

General insurance broadly falls under two categories:

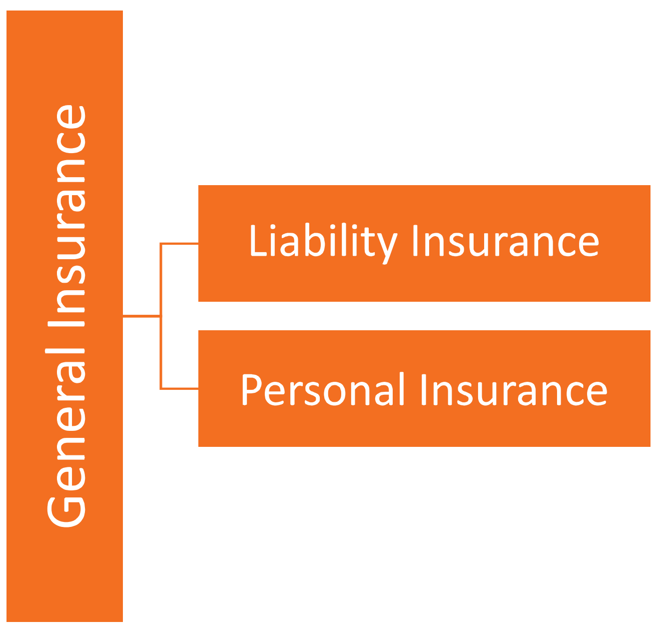

Figure 1.1.8

Liability Insurance

This refers to risks that affect property such as fire, natural calamity, theft etc. General insurance also covers losses incurred due to loss of name or goodwill. Such risks are covered under liability insurance.

Personal Insurance

Risks associated with people like health, personal finance and accident fall under personal insurance. These risks affect a person and they are covered by general insurance.

Difference between life insurance and general insurance

Indemnity	General Insurance	Life Insurance
This is the exact value of loss the insurer determines in case of an eventuality.	Work as contracts of indemnity. The insurer pays compensation only of the value of loss.	These are contracts of assurance. The amount to be paid in case of loss of life is pre-determined. Indemnity is not possible in life insurance.
Uncertainty	It is difficult to give the exact reason for loss. It can happen due to a fire, flood or an accident etc.	The vent life insurance policies are often called life assurance contracts. death is certain. Only the time of death is unknown. So it protects against risk of premature death.
Rise of probability	The chances of an accident do not rise with time. It might not happen at all.	Death is certain and the probability increases with age.

Notes

Nature of life insurance risk

Life insurance has a direct relation with the age of the insured. Therefore, younger people have to pay lower premiums, while older persons have to pay more premium towards life insurance.

Because of this, those who were aged but had good health used to withdraw from life insurance and the unhealthy members would stay with the insurance scheme. This resulted in a lot of trouble for life insurance companies. Therefore, they developed contracts that would have a more affordable premium so that they are able to afford it all their life. This gave birth to level premiums.

What are level premiums?

When a premium remains the same from beginning to end, which means that it does not go up with age, it called level premium. It stays constant during the entire period of the contract. Level premium is an average of all age groups.

Because of this, the premiums that were collected during the early years were more than the amount that was required to cover death claims of those dying at an early age. At the same time, premiums collected among the elder age groups were less than what was required to meet claims of those dying within that age group. This way, the excess premiums earned from younger generation was used to compensate for the deficit of premiums in later ages.

Level Premium

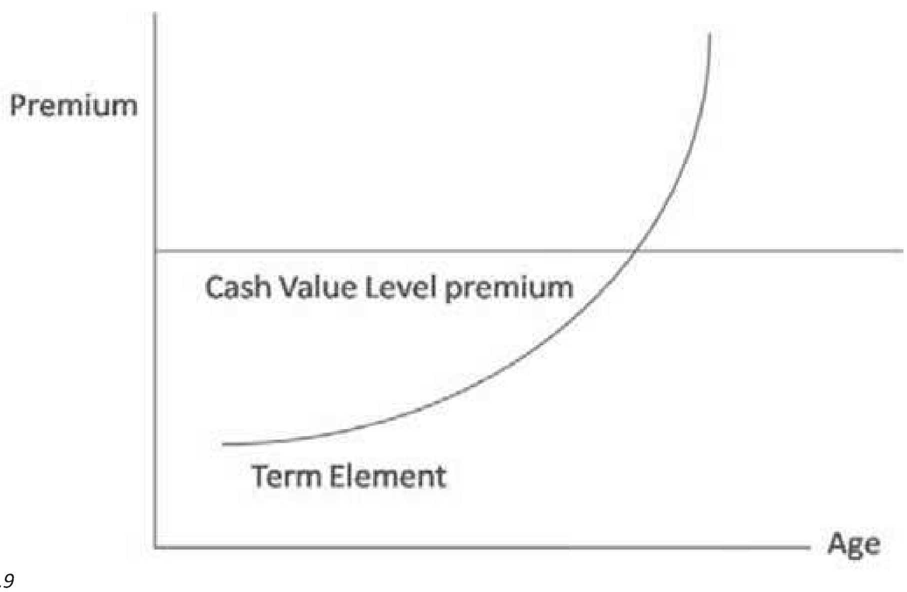

Figure 1.1.9

Level Premium has two components.

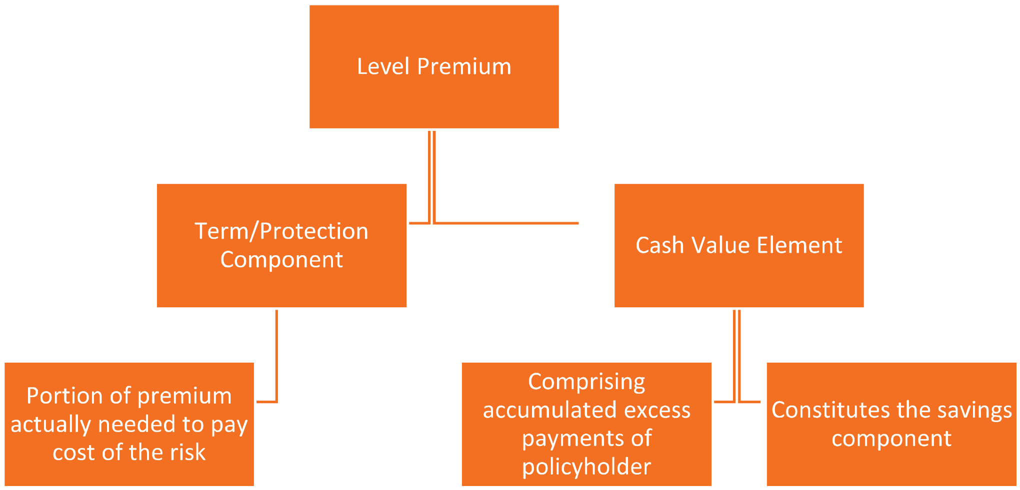

Figure 1.1.10

The above graph suggests that life insurance policies have a mix of protection and savings. If the cash value of the premium is higher, it can be referred to as a savings-oriented insurance policy.

Diversification	Mutuality
Under diversification the funds are spread out among various assets (placing the eggs in different baskets).	Under mutuality or pooling, the funds of various individuals are combined (placing all eggs in one basket).
Under diversification we have funds flowing from one source to many destinations	Under mutuality we have funds flow from many sources to one

Mutuality

As discussed earlier, mutuality plays an important role in life insurance. If we look at it in detail, it has two important roles.

1. Work as a shield against economic losses that are a result of pre-mature death. Such a loss is distributed using the funds that is collected from all persons insured in a common pool.

2. Life insurance is not limited to pooling of the risk. It also involves leavening financial risk. This is done by collecting premiums, funds and risks of different types of contracts from various individuals at different points of time. This way, it is assured that the life insurer is able to pay a standard rate of return at any point in time.

The Life Insurance Contract

Life insurance contract

Figure 1.1.11

A contract is the legalisation of the life insurance. This document includes the term of insurance and the sum assured. It gives the amount that is contractually guaranteed. Thus the contract becomes a vehicle of financial security. As a life insurance also works as a guarantee, it is subject to a number of regulations and supervision.

For a contract to work as a guarantee, life insurers need to have certain statutory reserves. There are riders associated with this investment. For instance, there has to be sufficient premiums and there can be rules governing how to spend the policyholders' money.

Pros and Cons of Life Insurance Contract

Life Insurance policies have often come under debate. It is important to know whether policyholders enough advantages because life insurance has also become a mode of saving. So it is often compared to other financial instruments. Life insurance contracts as they exist today, involve both cover to life but it also works as a saving vehicle.

Let's consider the advantages and disadvantages of a life insurance contract.

Advantages	**Disadvantages**
Safe investment as the return is pre-determined	Not able to withstand the effects of inflation because of constant returns
Premium payments are mandatory so it results in a compulsory payment from the investor	Initial cost of life insurance is high
Investment is managed by the provider of life insurance. The investor doesn't have to worry	Returns tend to be lower than that on other financial market instruments
Offers liquidity because it works as a collateral	
Tends to give income tax advantages	
It is usually safe from creditors' claims	

Notes

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