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INTRODUCTION

AND

RESEARCH METHODOLOGY

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Introduction and Research Methodology

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CHAPTER - I

INTRODUCTION AND RESEARCH METHODOLOGY

1. INTRODUCTION:

The concept of insurance is not new to the society. Insurance is a financial service for collecting the savings of the pubic and providing them with risk coverage. The risk may be certain events like death, retirement, pension, education, marriage etc; or uncertain events like theft, accident, fire, ill health etc. Marine insurance is one category which covers risk of sea voyage of shipping, cargo etc. Motor car, scooter and two wheeler and three wheeler are also provided with insurance called vehicle insurance, Building insurance from thefts etc. and crop insurance are the other categories of risk coverage introduced by GIC.

1.1 Definition of Insurance :

The term "Insurance" can be defined in both financial and legal terms. The financial definition focuses on an arrangement that redistributes the cost of unexpected losses. That is the collection of a small premium payment from exposed and distributed to those suffering loss. The legal definition focuses on a contractual arrangement whereby one party agrees to compensate to another party for losses. The financial definition provides for the funding of the loses whereas the legal definition provides for the legally enforceable contract that spells out the legal rights, duties and obligations of all the parties to the contract. Let us have a look at these definitions:

1.1.1 In financial Sense:

Insurance is a social device in which a group of individuals (insured) transfer risk to another party (insurer) in order to combine loss experience which permits statistical prediction of losses and provides for payment of losses from funds contributed (premiums) by all members who transferred risk.

1.1.2 In Legal Sense:

A contract of insurance is contract by which one party in consideration of the price paid to him proportionate to the risk provides security to the other

party that he shall not suffer loss, damage or prejudice by the happening of certain specifies events. Insurance is meant to protect the insured against uncertain events which may cause disadvantage to him. Life Insurance however is a distinctive type of insurance where there is certainty of payment of a specified amount either on the death of the insured or on the maturity of the policy whichever is earlier.

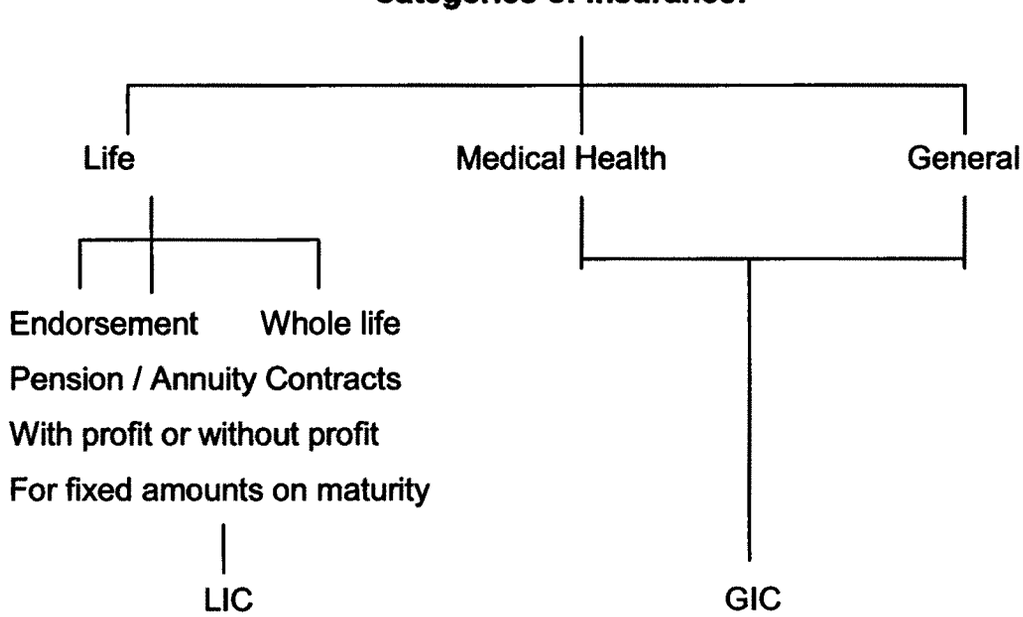
1.1.3 Importance of principles of Insurance:

1. Provides guidance of run the Insurance Business.
2. Guidance to the insurance employees
3. Useful in solving the problems
4. Increases efficiency of business
5. Change attitude of the employee.

1.2 WHY INSURANCE?

They help provide protection to investors from some certain or uncertain risks. There are contractual savings, which the investors are focused to provide for. This will constitute voluntary involvement in savings, but turn into compulsory or forced savings through contractual obligation. These are generally medium and long term savings and the investments of this type provide a low return but the needed risk coverage of life, accident, fire etc.

Categories of Insurance:



LIC:

LIC has a monopoly of life insurance. Life insurance was there in India since 1818 carried by private and foreign insurance. In 1956 life insurance was nationalized and LIC was setup by taking over the business of about 245 large and medium companies doing business of Life insurance.

1.3 OBJECTIVES OF INSURANCES:

1. Family of insured is protected.
2. Provision of retirement and old age.
3. To provide funds for education, marriage and donations to charitable institutions like hospitals and schools.
4. To get tax relief form income tax, wealth tax and gift tax, the premium paid as well as the sum assured.
5. To insure own life or those of any other members of the family.
6. Installment payments in quarterly or monthly basis in addition or as alternative to yearly payments.

As insurance funds are the public funds their investments are controlled by government guidelines. They are not expected to use the funds for speculation or trading. The investments are to be safe and mostly liquid with marketability. The housing loans to State Governments, Co-Operative Housing Societies, HUDCO, Housing Boards, Housing Finance Societies and Individual policy holders are granted as part of the priority sector commitments.

A contract between two or more persons creating legal relationship to do something for another for a consideration needs rules to make the contract enforceable by law. Insurance is also a special type of contract creating legal relation between insurer and insured, needs, rules and regulations, so that it can enforced easily. As insurance contracts are based on material facts of the subject matter and the insurer can know such material facts only if the proposer of insurance decides to disclose them. Non –disclosure of such material facts may bring insurer and insurance community in danger. This can be avoided by making rules and regulations imposing obligations on the parties to the contracts. Such rules or set of rules are called principles, which

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provide guidance to contracting parties so as to perform the promises given in the contracts.

The principles of insurance are the set of rules, which are applicable to the agreement entered in by insurer and insured. The principle on insurance is the guiding force, which lays the path on which the insurer and insured have to take care of the insurance community at large and this can be done by following some fundamental rules or principles, which will help them for a long period. These rules or principles are also needed from the point of view of managerial executives of insurance company to carry out day to day insurance work so that insurance agreement becomes legally binding. These principles also guide the parties to the contract to fulfill the essential requirements of a valid contract and protect their interests.

1.4 INSURANCE SECTOR REFORMS :

Reference was already made to the opening up of the insurance sector to foreign and private enterprise for breaking the monopoly of the public sector in this business. The insurance business can now be undertaken by corporate with foreign participation of 26% of total equity and another 26% to be left to private enterprise leaving the rest for public participation. The main objective of these reforms is to widen the base of public participation in this sector as recommended by Malhotra Committee.

The IRDA act was passed in 1999, and setting up of Insurance Regulatory Development Authority of India was setup to oversee the insurance sector so as to promote and regulate it in the public interest. The Bank's and NBFC's entry into the insurance sector is regulated by the RBI guidelines of January and June 2000 and further amendments effected to them from time to time in the policy announcement of the RBI.

1.5 RBI AND INSURANCE REFORMS:

With the passage of IRDA Act in 1999 and setting up of Insurance Regulatory and Development Authority of India in 1999 there began a foray into this sector by banks and NBFC's RBI has laid down guidelines for FIS and bank to enter into insurance sector in January 2000.

These guidelines are broadly setout below:

1. FIS and bank's are barred to run insurance business due to high risks involved either departmentally or thorough subsidiaries they could however stake up to 50% in these ventures, along with the Indian partners and foreign investors.
2. Such entrants need to have a net worth of Rs. 500 crores or more and a reasonable level of NPA's below the industry average.
3. Their CRAR should not be less than 10% of assets.
4. Their subsidiaries should have a satisfactory track record and continuous profitability over the last three years.
5. Their share in equity participation in joint ventures of insurance business should not exceed 10% of their net worth or Rs. 50 crores whichever is less.
6. Their participation in joint ventures should not exceed 30% of the paid up capital of the insurance company with an important provision that the total amount invested in all subsidiaries and joint ventures should not exceed 20% of the bank's or FIS net worth.
7. Banking business should be kept separate and not contaminated by inducting insurance business into the former due to high risk nature of insurance business.
8. RBI being controller of Foreign Exchange has along with the government fixed ceiling of 26% of FDI in insurance sector. More recently in 2005 the government proposed to raise it to 49%.

The above guidelines apply only to main insurance business and to insurance broking agency or surveying. The guidelines for them has also reinsurance business are the responsibility of IRDA.

1.6 IRDA [Insurance Regulatory and Development Authority of India]

The IRDA Act 1999 provided for three categories of insurer to carry on the business in India. These are the following:

1. A public company which has two categories in operation namely public limited and public unlimited companies of these the public unlimited

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companies setup mostly in the U.S.A. are not eligible to do insurance business. Similarly private limited companies are also not allowed.

2. A society incorporated under the co-operative society's act 1912 in India or under any law relating to co-operative societies.
3. A body corporate incorporated abroad under the law of that country not being in the nature of a private company.

Since IRDA Act provides for disinvestments by the domestic promoter after 10 years one of the ways of allowing the US majors who are public unlimited companies to invest in Indian insurance sector is to allow a fourth category namely deemed public companies. The government was committed to disinvestments by domestic promoters in favour of public after 10 years. After the disinvestments domestic and foreign promoters would hold equal share of 26% each while the rest of stake would be dispersed in favour of the public. The Malhotra Committee which laid down the broad framework for the insurance sector to be opened up recommended will dispersal of share holding of the proposed insurance companies.

1.7 PRINCIPLES OF INSURANCE :

1.7.1 Indemnity :

On the happenings of an event insured against the insured will be placed by the insurer in the same pecuniary (monetary) position that he/she occupied immediately before the event. Indemnity means that the insured person is placed, financially, in the same position, as he was before the loss. The exceptions to the rule are found in Personal Accident Polices. Agreed value policies in Marine insurance & Valuables and reinstatement policies like in engineering policies. These are also contracts of indemnity but by a special application of the principle, the measure of indemnity is decided at the time of entering into the contract itself, in the event of a claim the inured must.

1. Prove that he / she have sustained a monetary loss.
2. Prove the extent and value of his /her loss.
3. Transfer any right which he / she may have for recovery from another source to the Insurer, if he / she have been fully indemnified.

The settlement of the loss will be subject to (a) Sum insured (b) Average and (c) Excess / Deductible.

It is important to note that the contract of the life insurance is not as such insurance but it is in the natural of assurance. This is logical in the sense that life can not be indemnified, instead if a person dies, then under the contract of life insurance the sum assured will be paid by the insured.

1.7.2 Utmost good faith:

Under the contact of insurance, the insured is duty bound to disclose all material facts relating to the risk to be covered. A material fact is a fact which would influence the mind of a prudent underwriter in deciding whether to accept a risk for insurance & on what terms. Both the parties to a contract are expected to observe good faith. However the good faith assumes utmost importance when materials facts are concerned and therefore utmost good faith should be observed on matters relating to material facts. Examples of materials facts in various classes of insurance are:-

1. Motor - Details of any young drivers
2. Household – Details of any commercial use of private dwelling house.
3. Commercial – Previous losses / hazards
4. Life – Details of Heart diseases

Duty of disclosure applies to both the proposer and the insurer. Duty of disclosure operates at inception until the date cover is confirmed by the insurer's renewal up to the renewal date mid term alteration until the insurers confirm cover in respect of the alteration.

1.7.3 Subrogation:

Subrogation in general, means the legal right of one person, having indemnified the other in a contractual obligation to do so, to stand in their place of another and avail of all the rights and remedies of the another , whether enforced or not.

It entitles the Insurer who has granted an indemnity to receive after payment of a loss the advantage of every right of the insured. Subrogation condition is a corollary to the principle of indemnity. A loss may occur accidentally or by the action or negligence of their party (not workmen). The property owners have a right to proceed against the offending third party to recover the loss / damage and also under their insurance policy but not under both. If the insured opts to recover the loss under the insurance policy which is faster and does not involve litigation, he will surrender his rights against the

third parties in favour of the insurance signing 'Letter of Subrogation' of an appropriate stamp paper.

Exceptions to this are life insurance policies insured / beneficiaries can claim under an insurance policy and also proceed against the offending third party. The insurer must exercise the right of recovery in the name of the insured.

Example:

The insurer of an import of electrical goods receives a claim in respect of a faulty toaster. The insurer pays the claim but takes over the insured rights to claim back against the manufacturer. The insurance company can proceed with the claim in this insured's name.

Subrogation rights only apply where there is legal liability under the policy i.e. where policy cover existed.

1.7.4 Contribution:

Contribution condition is a corollary to the principle of Indemnity. If an insured obtains more than one policy covering the same risk, he can not recover the same loss from more than one source so that he is not benefited by more than 'Indemnity'. Although the insured may affect more than one policy to cover the same property or interest, he / she can not recover in total more than a full indemnity. Contribution condition checks that each policy pays only a ratable portion under each separate policy.

Cover can only arise when the policies:

- Cover the same peril.
- Cover the same subject matter
- Are effected by or on behalf of the same insured

Example:

An insured losses his / hers watch on holidays. He / she have holiday insurance and on risks cover on his / her household policy. The cost of the claim should be shared under both policies.

1.7.5 Insurable Interest :

The insured must have an insurance interest in the subject matter of insurance i.e. he /she must benefit by its safety or be prejudiced by its loss. Insurance contract without insurable interests have no sanction of law as they

amount to speculation. The owner of a property has absolute insurance interest. When a person insures a property, what is insured therein, is his interest in that property. By this principle, insurance interest exists to other parties like lesser, lessee, financiers etc. but their interest is limited to the extent of their financial commitment only. The insurable interest must exist both at the time of the proposal and at the time of claims.

1.8 LIFE INSURANCE:

Life insurance is a contract for payment of a sum of money to the person assured (or failing him / her, to the person entitled to receive the same) on the happening of the event insured by the contract.

Usually the insurance contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or at unfortunate death if it occurs earlier. Obviously, there is a price to be paid for this benefit. Among other things, the contract also provides for the payment of premium by the assured. Life insurance is universally acknowledged as a tool to eliminate risk, substitute certainty or uncertainty and ensure timely aid of the family in the unfortunate event of the death of the bread winner. It is sometimes called as the civilized world's partial solution to the problems caused by death. In a nutshell, life insurance helps in two ways – premature death, which leaves dependent families to fend for itself and old age without visible means of support.

1.9 ADVANTAGES OF LIFE INSURANCE:

1.Superior of any other saving plan :

Unlike any other saving plan, a life insurance policy affords full protection against risk of death. In the event of death of a policyholder, the insurance company makes available the full sum assured to the policyholders near and dear ones. In comparison any other saving plan would amount to the total savings accumulated till date. If the death occurs prematurely, such savings can be much lesser than the sum assured. Evidently, the potential financial loss to the family of the policyholder is sizable

2.Encourages and forces thrift :

A savings deposit can easily be withdrawn. The payment of life insurance premiums however is considered sacrosanct and is viewed with the same seriousness as the payment of interest on a mortgage. Thus, a life insurance policy in effect brings about compulsory savings.

3.Easy settlement and protection against creditors :

A life insurance policy is the only financial instrument the proceeds of which can be protected against the claims a creditor of the assured by effecting a valid assignment of the policy.

4.Administering the Legacy for Beneficiaries -

speculative or unwise expenses can quickly cause the proceeds to be squandered. Several policies have foreseen this possibility and provide for payments over a period of years or in a combination of installments and lump sum amounts.

5.Ready Marketability and Suitability for Quick Borrowing –

a life insurance policy can after certain time period (generally three years) surrendered for a cash value. The policy is also acceptable as a security for a commercial loan. For example a students loan It is advisable for housing loan when an acceptable LIC policy may also cause the lending institution to give loan at lower interest rates.

6.Disability Benefits –

Death is not the only hazard that is insured many policies many policies also include disability benefits typically these provide for waiver of future premiums & payment of monthly installments spread over certain time period.

7.Accidental Death Benefits –

Many policies can also provide for an extra sum to be paid (typically equal to the sum assured) if death occurs as a result of accident

8.Tax Relief –

Under the Indian income tax act 15 % of the premiums paid is allowed, as a rebate from the total income tax liability. Also 100 % of the premium paid is deductible as expenditure from business income.

1.10 RESEARCH METHODOLOGY :

1.10.1 Meaning of Research:

Research in common parlance refers to a search for knowledge. Once can also define as a scientific and systematic search for pertinent information on a specific topic. In fact research is an art of scientific investigation. The Advanced Learner's Dictionary of current English lays down the meaning of research as "a careful investigation or inquiry especially through search for new facts in any branch of knowledge". Redman and Mory define research as "systematized effort to gain new knowledge". Some people consider research as movement, a movement from the known to the unknown. It is actually a voyage of discovery. We all process the vital instinct of inquisitiveness for, when the unknown confronts us. We wonder and our inquisitiveness makes us probe and attain full and fuller understanding of the unknown. This inquisitiveness is the mother of all knowledge and the method, which man enjoys for obtaining the knowledge of whatever the unknown can be termed as research.

Research is an academic activity and such the term should be used in a technical sense. According to Clifford Woody research comprises defining and redefining problems, formulating hypothesis or suggested solutions, collecting organizing and evaluating data making deductions and reaching conclusions and at last carefully testing the conclusions to determine whether they fit the formulating hypothesis. Research is thus an original contribution to the existing stock of knowledge making for its advancement.

1.10.2 Selecting the problem:-

The research problem undertaken for study must be carefully selected. The task is a difficult one although it may not appear to be so. Help may be taken from a research guide in this connection. Nevertheless, every researcher must find out his own salvation for research problems cannot be borrowed. A problem must spring from the researchers mind like a plant

springing from its own seed if our eyes need glasses, it is not the optician alone who decides about the number of the lenses we require. We have seen ourselves ad enable him to prescribe for us the right number by co-operating with him. Thus a research guide can at the most only a help researcher choose a subject.

1.10.3 Statement of problem:-

The present study is entitled as of critical study of progress. An ICICI Prudential Life Insurance Company Ltd. With special reference to branches in Kolhapur. Now days various private companies entered into insurance sector. Hence, there is a tough competition. Then what is the role of ICICI Prudential Life Insurance Company Ltd. In present status of market we make critical study on that.

1.10.4 Objectives of study:-

1. To understand the overall progress of ICICI Prudential Life Insurance Company Ltd. In private sector.
2. To examine the progress of traditional policies in ICICI Prudential Life Insurance Company Ltd.
3. To examine the progress on pension policies in ICICI Prudential Life Insurance Company Ltd.
4. To examine the procedure of claim settlements.
5. To examine the cost and benefit of various products.

1.10.5 Scope of study:

The scope of the study is confined the working of both branches of ICICI Prudential Life Insurance Company Ltd. To study the operational scope and financial performance of various types of plan of policies extended over all the schemes. The period covered is four years form 2005 to 2009.

1.10.6 Methods of data collection:

The tack of data collection begins after a research problem has been defined. While deciding about the method of data collection to be used for the study, the researcher keep in mind two types of data namely primary and secondary. The primary data are those which are collected a fresh and for the first time and thus happen to be original in character. The secondary data on the other hand, are those which have already been collected by someone else and which have already been passed through the statistical process. The

researcher would have to decide which sort of data he would be using (thus collecting) for his study and accordingly he will have to select one or the other method of data collection. The methods of collecting primary and secondary data differ since primary data are to be originally collected while in case of secondary data the nature of data collection work is merely that of compilation.

1.10.6.1 Primary Data :

Primary data can be collected either through experiment are through survey. If the researcher conducts an experiment he observes some quantitative measurements or the data with the help of which he examines the truth contained in his hypothesis. The primary data will be colleted by the following sources:

a) Questionnaires.
b) Interviews.
c) Discussions.

1.10.6.2 Secondary Data :

Secondary data means data that are already available i.e. they refer to the data which have already been collected and analyzed by someone else. When the researcher utilizes secondary data then he has to look into various sources from where he can obtain them. Researcher must be very careful in using secondary data. He must make a minute scrutiny because it is just possible that the secondary data may be unsuitable or may be inadequate in the context of the problem which the researcher wants to study. Secondary data will be collected from published sources like official publication, reports of committees, Research institutes, news papers, magazines.

1.10.6.3 Processing of data:

The processing data will be adopted by suitable techniques like analysis, interpretation and tabulation method.