

Key for Licentiate Examination

**Guide to
Principles of Insurance**

(Paper No. 01 of I.I.I)

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Preface

We are happy to launch the 12th Revised edition of Guide to Principles of Insurance. We have included all the latest updates. This is a guide book to help candidates in preparing for the exam conducted by the Insurance Institute of India(III). Over the last 6 years we have received excellent feedback from the candidates and the success rate has been almost 100%.

III has revised the syllabus of Principles of Insurance and the questions are being set on objective pattern.

We have covered thoroughly the whole syllabus prescribed by I.I.I and the questions and answers are given based on each chapter. I.I.I has issued a model question paper in which questions may be of 8 different types.

We hope the candidates will find this book very useful in preparing for the examination. Please do go through the tips given in this book for clearing the exam successfully. We have also covered the objective questions that were asked in the previous exams of Licentiate exams from November 2002 which will be very useful to you.

We are thankful to Shyam Agarwal, B.Com,FIII,ACA,DISA and Prof (Dr)Abhijeet Chatteraj, Editorial Advisory Board Member, The Insurance Times for valuable inputs in the book and their untiring effort in preparation of the guide.

Though we have tried to make this publication error free, if you come across any error please email us so that we can correct the same in next edition.

We wish you best of luck for the examination.

- Editor in Chief,
R. G. Agarwala
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Sample Model Questions prescribed by Insurance Institute of India

I. Select the appropriate answer to complete the sentence (*Checking learning - Direct*)

- i. Insurance works on the principle of:
- a. Sharing of losses
 - b. Probabilities
 - c. Large numbers
 - d. Randomness
 - e. All of the above

Ans: e. All of the above.

- ii. Insurance helps to:
- a. Prevent adverse situations from occurring
 - b. Reduce the financial consequences of adverse situations
 - c. Negate all consequences of adverse situations
 - d. Make assets continuously productive
 - e. All of the above

Ans: b. Reduce the financial consequences of adverse situations.

II. State which of the statements is/are correct (*Checking learning - Direct*)

- i. The term 'Risk' includes:
- a. Damage to machinery and property
 - b. Impact on the health or life of a person

- c. Leakage of toxic products into the atmosphere
- d. Effect on the healthy life of the neighborhood
- e. All of the above

Ans: e. All of the above.

- ii. The main purpose of having Life insurance is:
 - a. As an avenue for long-term investment
 - b. As a medium for getting income tax benefits from savings
 - c. As a governmental programme for reducing poverty
 - d. As an avenue for short-term investment
 - e. None of the above

Ans: e. None of the above.

III. Answer the questions below by selecting the correct answer: (Checking learning - Direct)

- i. Which of the following intermediaries do not require IRDA's licence/ approval to operate in India?
 - a. Insurance Brokers
 - b. Insurance Agents
 - c. Third Party Administrators
 - d. Surveyors
 - e. All the above intermediaries require IRDA's licence/ approval

Ans: e. All the above intermediaries require IRDA's licence/ approval

- ii. An actuary is expected to:
 - a. Make an exact forecast of the future liabilities of policies

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- b. Make a reasonable forecast of the future liabilities of policies
- c. Calculate the premium required to cover a risk on a long-term basis
- d. Find the probability of an insured event to happen in non-life policies
- e. All the above statements are incorrect

Ans: b. Make a reasonable forecast of the future liabilities of policies

IV. Fill in the Blanks using the appropriate word(s) (Checking understanding - Indirect)

- i. The principle of _____ ensures that an insured does not profit by insuring with multiple insurers
 - a. Subrogation
 - b. Contribution
 - c. Co-insurance
 - d. Indemnity
 - e. Particular Average

Ans: b. Contribution

- ii. The principle of average applies when the value is _____ in the proposal
 - a. Understated
 - b. Overstated
 - c. Not ascertainable
 - d. Negligible
 - e. Only sentimental

Ans: a. Understated

- iii. Fidelity Guarantee Policies cover losses due to fraud

by _____

- a. Employees
- b. Customers
- c. Borrowers
- d. Suppliers
- e. Financiers

Ans: a. Employees

V. Select the expanded form of the abbreviation given (*Checking understanding - Indirect*)

- i. CTL as used in insurance
 - a. Contributory Total Loss
 - b. Constructive Total Loss
 - c. Construction Totally Lost
 - d. Contractors' Total Loss
 - e. Co-insurer's Tally of Loss

Ans: b. Constructive Total Loss

- ii. GA as used in insurance
 - a. General Assurance
 - b. General Average
 - c. General Adjustment
 - d. Guaranteed Assurance
 - e. Guaranteed Average

Ans: b. General Average

VI. Select the word(s) that most closely matches the given term. (*Checking understanding - Indirect*)

- i. Which of the following terms matches closest with 'Family Floater'?
 - a. Health insurance

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- b. Property insurance
- c. Accidental injury
- d. Consequential loss
- e. Marine Partial Loss

Ans: a. Health insurance

- ii. Which of the following terms matches closest with 'Asbestosis'?
- a. Products
- b. Pension
- c. Rough Weather
- d. Workmen's Compensation
- e. Long Term Policies

Ans: d. Workmen's Compensation

VII. Find out which of the given statements is incorrect (Checking application of learning)

- i. Regarding 'Exclusions' find out the incorrect statement.
 - a. Exclusions are indicated in the policy
 - b. Exclusions are perils or circumstances not covered
 - c. Exclusions limit the coverage under the policy
 - d. Exclusions do not deal with risk coverage
 - e. All the above statements are incorrect.

Ans: d. Exclusions do not deal with risk coverage

- ii. Which of the following statements is incorrect in respect of brokers?
 - a. Brokers require to undergo training before being licensed

- b. Brokers are appointed by insured to take care of their interests
- c. Brokers have to pass examinations before being licensed
- d. Brokers should be registered companies or firms
- e. Brokers are allowed to negotiate with different insurers for the same insured

Ans: d. Brokers should be registered companies or firms

**VIII. i. Which of the following terms is dissimilar to the other four options? (Find the odd-man out?)
(Checking application of learning)**

- a. Jettison
- b. Hit and Run
- c. Sue and Labour
- d. Salvage
- e. Contamination

Ans: b. Hit and Run

**ii. Which of the following terms is dissimilar to the other four options? (Find the odd-man out?)
(Checking application of learning)**

- a. Post-hospitalisation expenses
- b. Expenses on treatment of pre-existing diseases
- c. Reinstatement value
- d. Funeral expenses
- e. Ambulance charges

Ans: c. Reinstatement value

Tips for passing the exam successfully

1. Plan out your study programme in advance so that you do not leave any important topic.
2. We have covered questions in various pattern and options so that the candidates. Since the exam it is not
3. We have covered previous exams so do not forget to go through the important.
4. Before appearing questions in exam solving the questions
5. Do not consult too many books you will confuse
6. When you receive not try to read too many waste your time some question you
7. Go through the questions which are for negative mark and mark answers

being correct.

8. Read and read carefully as the question may be
9. Before deciding the answer, think about the options and you will get the correct answer.
10. Always keep some time for revision.

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Note: All answers are marked in bold

Chapter -1

Risk Management

Points to remember

Definition & Concept

Risk Management is a new perception of an old idea. The concept of Risk Management is not new to the civilisation. In the ancient Indian Scriptures, it was said that man being the ultimate maker of his destiny, he was supposed to conquer 'vidhi' or 'niyati' (fate or chance) by 'Mati' or intellect. The 'primitive' man's attempt to create a permanent area of safety moving into caves is probably one of the earliest examples of risk management.

This concept appears to have been practised from times immemorial. Prehistoric humans moved together in tribes to conserve resources, hunt for food, fend against attack from others, share responsibilities etc. We also come across a pithy saying (Deuteronomy 22:8 Holy Bible) as follows:- "When you build a new house, you

shall make a parapet for your roof so that you may not bring the guilt of blood upon your house, if anyone falls from it".

Thus, from the distant past, mankind has recognised the need for safeguarding against the bad consequences of risks and chances which are inevitable in the environment.

In fact, risks are inherent in every walk of life. Risks are present " around every corner and under every stone". As the risk has been defined in the Concise Oxford Dictionary as "hazard, chance of bad consequences, loss etc, exposure to mischance" the most straight forward definition of risk management may be accepted as "Structural Common sense applied to loss exposure-Common sense in identifying accidents or other untoward events which may result in losses and then deciding how to cope with them.

" Life is full of surprises-sometimes pleasant, at other times unpleasant, sometimes of minor importance, on other occasions catastrophic. Some unexpected event are the result of one's own actions, perhaps due to a failure to exercise care, or through tackling things for which one is not well-equipped.

Other experiences may be due to actions of other individuals, groups, or society as a whole; and sometimes nature is the culprit. No individual, firm, organisation, or society can know all that the future holds in store. In other words, whereas some of the uncertainties are within the control of the individual or firm, others are part of the environment in which one lives or operates or survives.

All our objectives or plans may be upset by the occurrence of unforeseen events, and it is the exposure to events which cannot be predicted with absolute certainty that may broadly be thought of as risk. Therefore, a general management-oriented definition of risk management (in the broadest terms) is the planning, organising, leading & controlling of an organisation's assets and controlling of activities & resources in ways which minimise the impact of uncertain events (i.e. the adverse operational & financial effects of accidental losses upon that organisation).

Risk Management in present form is new; a development of nineties. Specialists in this line, have however defined risk management in various ways, possibly, emphasising their own perception of risk. Peter Drucker, a reputed Management Expert, is of the opinion

situation will exert influences. Therefore, Risk Management objectives cannot be set out in the one simple, universally applicable statement.

Objective Questions

Q. There are financial risks related to one's financial resources, arising out of –

- a. fluctuations in the stock market
- b. because of exchange rate fluctuations
- c. because of political disturbances
- d. All of the above**

Q. Which is a technical expression for spreading among different avenues that are unlikely to be affected in the same way by the same cause, is one method to meet these risks?

- a. Spreading
- b. Hedging**
- c. Extending
- d. Multiplying

Q. _____ are possibilities, not certainties.

- a. Risks**
- b. Perils
- c. Hazard
- d. Premium

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Q. A measure of the risk is the likely loss that may happen, if _____ -

- a. **the peril strikes**
- b. the hazard strikes
- c. the risk strikes
- d. past experience is known

Q. The actual loss in case of a calamity will range from zero to a total loss of the subject matter of insurance.

- a. **zero to a total loss**
- b. premium amount to claim amount
- c. actual loss to total loss
- d. cost of asset to the repairable amount

Q. The actual loss includes cost of repair and _____

- a. Future losses
- b. Precedent losses
- c. Past losses
- d. **Consequential losses**

Q. _____ will be in the areas of clean up, removal of debris and also loss of rents, production, revenues and profits till normalcy is restored.