IC-01 - Principles of Insurance

Subsequently, Insurance Act,1938, further amended in 2015 and now Insurance Act, 2021 is applicable for the insurance business.

Original Text in book
Chapter 2 Page no.29 point no. 2.2 1st bullet point

- In the year: 2000, the insurance sector was liberalised and opened-up for business to the private sector. Foreign direct investment (F.D.I.) Was allowed in insurance, upto 26%, wherein, the foreign players were allowed to enter into joint-ventures with domestic players.the insurance laws (amendment) act, 2015, have raised this limit of foreign direct investment (F.D.I.) From 26% to 49%.

Revised text as per revised FDI limit as below
Chapter 2 Page no.29 point no. 2.2 1st bullet point

- In the year: 2000, the insurance sector was liberalised and opened-up for business to the private sector. Foreign direct investment (F.D.I.) Was allowed in insurance, upto 49%, wherein, the foreign players were allowed to enter into joint-ventures with domestic players.the insurance laws (amendment) act, 2021, have raised this limit of foreign direct investment (F.D.I.) From 49% to 74%.

Original Text in book

Chapter 2 Page no.30

Test Yourself 2

Question-2

How much is the maximum foreign direct investment (F.D.I.), allowed in insurance, in India?

A. 26%
B. 49%
C. 74%
D. 100%

Answer of the above question as per text book

Chapter 2 Page no.42

Answers to test your-self:

Answer to TY 2
The correct option is B.

The maximum foreign direct investment (F.D.I.), allowed in insurance, in India, is, 49%.

Answer as per revised FDI limit as below

Chapter 2 Page no.42

Answer to TY 2

The correct option is C.

The maximum foreign direct investment (F.D.I.), allowed in insurance, in India, is, 74%.

Original Text in book

Chapter 2 Page no.40

Broad Scope of Insurance Business:

The concept of insurance has been extended beyond the coverage of tangible assets.

- If an exporter has exported goods, he or she faces the risk of the importer in the other country, defaulting on the payment.
- There is, normally, a time-lag of a few months, between the exporter, sending the goods, and receiving the payment. During the time, till the payment comes, the exporter is exposed to the risk of losses, due to sharp appreciation in the domestic currency.
- Exporters also face a risk of changes in the economic policies in the home-country or destination-countries, which may make the export business, un-favourable.

All these risks can now be insured. These risks are insured by Export Credit and Guarantee Corporation (E.C.G.C.), a government-owned company.

Professionals, like, doctors, lawyers, accountants, and engineers; run the risk of being charged with negligence and subsequent liability for damages.

Revised text

Chapter 2 Page no.40

Broad Scope of Insurance Business:

The concept of insurance has been extended beyond the coverage of tangible assets.

- If an exporter has exported goods, he or she faces the risk of the importer in the other country, defaulting on the payment.
- There is, normally, a time-lag of a few months, between the exporter, sending the goods, and receiving the payment. During the time, till the payment comes, the exporter is exposed to the risk of losses, such as non-payment.

All these risks can be insured. These risks are insured by companies like Export Credit and Guarantee Corporation (E.C.G.C.), and other general insurance companies offering credit insurance policies.

Professionals, like, doctors, lawyers, accountants, and engineers; run the risk of being charged with negligence and subsequent liability for damages. Such damages can be covered under liability insurance.

Original Text in book

Chapter 4 Page no.66

1.1 insurers operating in the Indian market:

Prior to 1999, during the nationalisation era, Life Insurance Corporation (L.I.C.) Of India, General Insurance Corporation (G.I.C.) Of India and its 4 subsidiaries, had the exclusive privilege of transacting insurance business in India. After 1999, post-liberalisation, reforms were made by the then finance minister, Dr. Manmohan Singh, under the leadership of prime minister Mr. P. V. Narasimha Rao. A lot of sectors were opened-up for participation from private sectors and foreigners. Insurance sector was also one of them. The insurance act, 1938, was amended in 1999, to provide for registration of private insurers to transact insurance business in India. The Insurance Regulatory and Development Authority (I.R.D.A.) Was set up to regulate the insurance business. The Insurance Regulatory and Development Authority Of India (I.R.D.A.I.) Allowed private insurance companies, to register under the new dispensation. Foreign Direct Investment (F.D.I.) Of up to 26% was allowed, paving the way for domestic private companies to bring in foreign companies as partners through joint ventures. The proposal to hike Foreign Direct Investment (F.D.I.) In insurance sector to 49% from the original limit of 26%, was pending for approval (since, december, 2010), which has been approved by parliament, in march, 2015.

Revised text as per revised FDI limit as below

Chapter 4 Page no.66

1.2 insurers operating in the Indian market:

Prior to 1999, during the nationalisation era, Life Insurance Corporation (L.I.C.) Of India, General Insurance Corporation (G.I.C.) Of India and its 4 subsidiaries, had the exclusive privilege of transacting insurance business in India. After 1999, post-liberalisation, reforms were made by the then finance minister, Dr. Manmohan Singh, under the leadership of prime minister Mr. P. V. Narasimha Rao. A lot of sectors were opened-up for participation from private sectors and foreigners. Insurance sector was also one of them. The insurance act, 1938, was amended in 1999, to provide for registration of private insurers to transact insurance business in India. The Insurance Regulatory and Development Authority (I.R.D.A.) Was set up to regulate the insurance business. The Insurance Regulatory and Development Authority Of India (I.R.D.A.I.) Allowed private insurance companies, to register under the new dispensation. Foreign Direct Investment (F.D.I.) of up to 49% was allowed, paving the way for domestic private companies to bring in foreign companies as partners through joint ventures. The proposal to hike Foreign Direct Investment (F.D.I.) in the insurance sector to 74% from the original limit of 49%, has been approved in parliament by passing the Insurance Amendment Bill 2021.

Original Text in book

Chapter 4 Page no.73 & 74

2.4 Insurance Marketing Firm (I.M.F.):

Insurance Regulatory and Development Authority Of India (I.R.D.A.I.) (registration of insurance marketing firm) regulations, 2015, provides for this new insurance intermediary, for canvassing and procuring the insurance business for 2life assurance companies, 2 general insurance companies (only retail lines of insurance products, viz., motor, health, personal accident, house-holder's, shop-keeper's, etc.), and 2 health insurance companies; at any point of time. Also, any change in the engagement with the insurance companies, shall be done, only with the prior approval of the authority, and with suitable arrangements for servicing the existing policy-holders.

Following 4 entities can be appointed As Insurance Marketing Firm (I.M.F.):

1. A company, formed under the companies act, 2013, or any other company law.
2. A Limited Liability Partnership (L.L.P.), formed and registered under the limited liability partnership act, 2008.
3. Co-operative societies, registed under co-operative societies act, 1912, or any other similar law.
4. Any other person, as may be recognzied by Insurance Regulatory and Development Authority Of India (I.R.D.A.I.), to act as an Insurance Marketing Firm (I.M.F.).

Any of the above entities, must have "insurance marketing" as part of its name; and its minimum "net worth", which is to be maintained at all times, should be rupees 10 lakhs; and it should not undertake Multi-Level Marketing (M.L.M.).

Revised text

Chapter 4 Page no.73 & 74

2.4 Insurance Marketing Firm (I.M.F.):

Insurance Regulatory and Development Authority of India (IRDAI) (Registration of Insurance Marketing Firm) Regulations, 2015 and (Registration of Insurance Marketing Firm) (Amendment) Regulations, 2019 provide for an enabling environment to the Insurance Marketing Firms to help them achieve the objective of increasing the insurance penetration in the country. The IMFs shall engage the Insurance Sales Persons (ISP) for soliciting and procuring insurance products of maximum two Life insurers, two General Insurers and two Health Insurers at any point of time.

They shall also have the option to engage with Agriculture Insurance Company of India Ltd. and Export Credit Guarantee Corporation Ltd. (ECGC).

The IMF shall intimate the Authority of any change in engagement with insurers in the Authority prescribed format.

The IMFs shall be able to solicit or procure:

a) All kinds of products sold on individual and/or retail basis, including crop insurance for non-loanee farmers and combi products ("Combi Product" means any combination of life, general and health insurance as approved by the Authority).
b) Property, Group PA, Group Health, GSLI and term insurance policies for MSMEs.

Net Worth:
The applicant shall have a net worth of:

a. Not less than five lakh rupees, if the applicant is opting for only one district, which is an aspirational district.

Provided that increase in net worth arising out of change of status of aspirational district is mandatory at the time of renewal of registration.

b. Not less than ten lakh rupees for all other cases.

Explanation:

For the purposes of these Regulations, “net worth” shall have the meaning assigned to it in the Companies Act, 2013 and as amended from time to time.”

“Aspirational District” means a district designated as such by the NITI Aayog, Government of India or any other economically backward district, as may be recognized by the Authority.

Original Text in book

Chapter 4 Page no.91 & 92

Question 2

How Much is the Foreign Direct Investment (F.D.I.) allowed in Insurance, in India?

A. 26%
B. 49%
C. 51%
D. 74%

Answer of the above question as per textbook

Chapter 4 Page no.93

Answer to SEQ 2

The Correct Answer-is B.

Foreign Direct Investment (F.D.I.) of up to 49% is allowed, in Insurance, in India.

Answer as per revised FDI limit as below

Chapter 4 Page no.93

Answer to SEQ 2

The Correct Answer is D.

Foreign Direct Investment (F.D.I.) of up to 74% is allowed, in Insurance, in India.