QB365 Question Bank Software Study Materials

Insurance Important 2,3 & 5 Marks Questions With Answers (Book Back and Creative)

11th Standard

Commerce

Total Marks : 75

2 Marks

10 x 2 = 20

1) List any five important types of policies.

Answer : 1. Whole Life Policy
2. Endowment Life Policy
3. Joint Life Policy
4. Annuity Policy
5. Children's Endowment Policy

2) What is health insurance?

Answer : Health insurance policy is a contract between an insurer and an individual or group, in which the insurer agrees to provide specified health insurance at an agreed upon price (premium).

3) How is Insurable Interest applied to various types of Insurance?

Answer : (i) In case of 'Life Insurance' the insurable interest must be present at the time of taking policy.
(ii) In the case of Marine Insurance, the insurable interest must exist at the time of loss.
(iii) In the case of Fire Insurance, the insurable interest must apply at the time of taking policy as well as at the time of occurring loss.

4) State the difference between Double Insurance and re-insurance?

Answer : (i) In case of Double Insurance, the same subject matter is insured by the insured with two or more insures.
(ii) But in the case of re-insurance, the insured insures the subject matter only with one insurer.

5) What are the causes of business risks?

Answer : **The causes of Business Risks are:**
(i) Natural Risks
(ii) Human Causes
(iii) Economic Causes
(iv) Other Causes

6) Write short note on marine insurance.

Answer : Marine insurance is the most important and challenging branch of insurance. Under this, the insurer undertakes to indemnity the insurer against marine losses. The principles of utmost good faith, indemnity, insurable interest and proximate cause applies to marine insurance. The insurable interest is present at the time of loss of the insured property.

7) What do you mean by 'Surrender Value'?

Answer : In some cases, the insured may not be in a position to continue his policy. On such occasion, if the policy is in force for atleast three years, the insurance company offers the chance of surrendering the policy. The surrender value is the amount of premiums paid which is returned to the policy holder if he decides to terminate the contract.

8) What is mitigation?

Answer : (i) In case of a mishap, the insured must take off all possible steps to reduce or mitigate the loss or damage to the subject matter of insurance.
(ii) This principle ensures that the insured does not become negligent about the safety of the subject matter afrer taking the insurance policy.

Define life assurance

9) Define life assurance.

Answer : Life Insurance/ life assurance may be defined as a contract in which the insurance company called insurer undertakes to insure the life of a person called assured in exchange of a sum of money called premium which may be paid in one lump sum or monthly, quarterly, half yearly or years and promises to pay a certain sum of money either on the death of the assured or on expiry of certain period.

10) What is fire insurance?

Answer : Fire insurance is a contract whereby the insurer, in consideration of the premium paid, undertakes to make good any loss or damage caused by a fire during a specified period upto the amount specified in the policy.

3 Marks 10 x 3 = 30

11) Define Insurance.

Answer : "Insurance is a plan by themselves which large number of people associate and transfer to the shoulders of all, risk that attacks to individuals" - According to John Merge.

12) Give the meaning of Crop Insurance.

Answer : **Crop Insurance:**
This policy is to provide financial support to farmers in case of a crop failure due to drought or flood. It generally covers all risks of loss or damages relating to production of rice, wheat, millets, oil seéds and pulses etc.

13) Write a note on IRDAI.

Answer : IRDAI - Insurance Regulatory Development and Authority is the statutory, independent and apex body that governs, regulates and supervises the Insurance Industry in India. It was constituted in the year 2000 by Parliament of India Act called IRDAI Act, 1999. Presently IRDAI headquarters is in Hyderabad.

14) What is Fire Insurance? What are its features.

Answer : (i) Fire insurance is a contract whereby the insurer, in consideration of the premium paid, undertakes to make good any loss or damage caused by a fire during a specified period upto the amount specified in the policy.
(ii) A claim for loss by fire must satisfy the following two conditions :
(1) There must be actual loss; and
(2) Fire must be accidental and nonintentional.
(iii)The Essential elements of Fire Insurance Contract are:
(1) The insured must have insurable interest both at the time of insurance and at the time of loss.
(2) The contract is based on utmost good faith.
(3) It is based on the principle of strict indemnity,
(4) Fire must be the proximate cause of damage or loss.

15) What is Life Insurance? What are its importance?

Answer : (i) Life Insurance may be defined as a contract in which the insurance company called insurer undertakes to insure the life of a person called assured in exchange of a sum of money called premium.
(ii) The premium may be paid in one lump sum or monthly, quarterly, half yearly or yearly.
(iii) The Insurance company in consideration promises to pay a certain sum of money either on the death of the assured or on expiry of certain period.
Importance of Life Insurance :
1. Life insurance provides protection to the family at premature death of an individual.
2. It gives adequate amount at an old age when earning capacities are reduced.
3. Life insurance is not only a protection but is a sort of investment because a certain sum of money is returnable to the assured at the time of death or at the expiry of a certain period

16) What are the objectives of IRDAI?

Answer : 1. To promote the interest and rights of policy holders.
2. To promote and ensure the growth of Insurance Industry.
3. To ensure speedy settlement of genuine claims and to prevent frauds and malpractices.

17) What is fire insurance and bring its importance?

Answer : A fire insurance contract does not ensure the safety of the insured property. Its purpose is to compensate the pecuniary loss from the insured property due to fire. It is a personal contract between the insurer and the insured. If the insured property is transferred to another person, the contract of insurance comes to an end. Thus, the object of fire insurance is to indemnity, the insured against loss from fire.

18) What are the differences between 'with profit policy' and 'without profit policy'?

Answer :

With profit policy	Without profit policy
Generally, in Lifeinsurance, policies may be with profit or without profit. In case of with Profit policy, the assured gets not only the insured amount but also a share in the profits of the insurer called 'bonus'.	But in case of without profit policy, the policy holder gets only the policy amount on maturity. The premium rate is lower for this policy compared to 'with-profit policy'.

19) Explain any 3 principles of insurance.

Answer : **1. Utmost Good Faith:**

According to this principle, both insurer and insured should enter into contract in good faith. Insured should provide all the information that impacts the subject matter.

2. Insurable Interest:

The insured must have an insurable interest in the subject matter of insurance. Insurable interest means some pecuniary interest in the subject matter of the insurance contract.

3. Indemnity:

Indemnity means security or compensation against loss or damages. In insurance, the insured would be compensated with the amount equivalent to the actual loss and not the amount exceeding the loss.

20) Write notes on fire insurance policy.

Answer : **Fire Insurance:**

Fire insurance is a contract whereby the insurer, in consideration of the premium paid, undertakes to make good any loss or damage caused by a fire during a specified period upto the amount specified in the policy. A claim for loss by fire must satisfy the following two conditions:

i. There mustbe actual loss; and

ii. Fire must be accidental and non-intentional.

Essential elements of Fire Insurance Contract:

1. The insured must have insurable interest both at the time of insurance and at the time of loss.
2. The contract is based on utmost good faith.
3. It is based on the principle of strict indemnity
4. Fire must be the proximate cause of damage or loss.

5 Marks 5 x 5 = 25

21) Explain the various types of Insurance. (any 5)

Answer : Types of Insurance:

Insurance covers different types of risks. All contracts of insurance can be broadly classified as follows:

i. Life Insurance (or) Life Assurance

ii. Non-life Insurance (or) General Insurance

It can be further classified into:

i. Fire Insurance

ii. Marine Insurance

iii. Health Insurance

iv. Miscellaneous Insurance.

a) Life Insurance:

Life Insurance may be defined as a contract in which the insurance company called insurer undertakes to insure the life of a person called assured in exchange of a sum of money called premium which may be paid in one lump sum or monthly, quarterly, half yearly or yearly and promises to pay a certain sum of money either on the death of the assured or on expiry of certain period.

Importance of Life Insurance:

i. Life insurance provides protection to the family at premature death of an individual.

ii. It gives adequate amount at an old age when earning capacities are reduced.

iii. Life insurance is not only a protection but is a sort of investment because a certain sum is returnable to the assured at the time of death or at the expiry of a certain period.

b) Non-Life Insurance:

It refers as the insurance not related to human but related to properties. .

i) Fire Insurance:

Fire insurance is a contract whereby the insurer, in consideration of the premium paid, undertakes to make good any loss or damage caused by a fire during a specified period upto the amount specified in the policy.

ii) Marine Insurance;

Marine insurance is a contract of insurance under which the insurer undertakes to indemnify the insured in the manner and to the extent thereby agreed against marine losses. The insured pays the premium in consideration of the insurer's (underwriter's) guarantee to make good the losses arising from marine perils or perils of the sea.

iii) Health Insurance:

In mid 80's, most of the hospitals in India were government owned and treatment was free of cost. With the advent of Private Medical Care, the need for Health Insurance was felt and various Insurance Companies introduced Health Insurance as a Product. Presently the health insurance exists primarily in the form of 'Mediclaim policy'.

22) Explain the Principles of insurance. (any 5)

Answer : **Principles of Insurance:**

Insurance concept was started to distribute risk among group or people. Co-operation is the basic principle behind every Insurance contract. The following are the important principles of Insurance.

a) Utmost Good Faith:

1. According to this principle, both insurer and insured should enter into contract in good faith.
2. Insured should provide all the information that impacts the subject matter.
3. Example: Mr. M is a heart patient. But he hides this fact to the LIC while taking a life policy. On his death due to a heart attack, LIC can refuse to pay compensation to his legal representative because a material fact was not disclosed by the insured.

b) Insurable Interest:

1. The insured must have an insurable interest in the subject matter of insurance.
2. Insurable interest means some pecuniary interest in the subject matter of the insurance contract.
3. The insured must have an interest in the preservation of the thing or life insured, so that they will suffer financially on the happening of the event against which they are insured.
4. Example, a businessman has insurable interest in his stock of goods.

c) Indemnity :

1. Indemnity means security or compensation against loss or damages.
2. In insurance, the insured would be compensated with the amount equivalent to the actual loss and not the amount exceeding the loss.
3. "The principle of indemnity is not applicable to life insurance because one cannot estimate the loss due to the death of a person".

d) Causa Proxima:

1. The word 'Causa proxima' means 'nearest cause'.
2. According to this principle, when the loss is the result of two or more cause, the proximate cause, i.e. the direct.
3. The direct, the most dominant and most effective cause of loss should be taken into consideration.
4. The insurance company is not liable for the remote cause.

e) Contribution:

1. The same subject matter may be insured with more than one insurer then it is known as 'Double Insurance'.
2. In such a case, the insurance claim to be paid to the insured must be shared on contributed by all insurers in proportion to the sum assured by each one of them.
3. Example: A businessman gets his factory insured against fire for Rs 10,00,000 with insurer A and Rs. 5,00,000 with insurer B.
4. Due to fire, a loss of Rs 1,50,000 occurred.
5. Then, insurers A and B will contribute the loss in the ratio of 2:1.
6. A will pay Rs. 1,00,000 and B will pay Rs. 50,000.

f) Subrogation:

1. Subrogation means 'stepping the shoes on others'.
2. According to this principle,once the claim of the insured has been settled, the ownership right of the subject matter of insurance passes on to the insurer.
3. Example Mr.B gets his motor car insured. Some of its parts got damaged in a road accident.
4. He gets the insurance claim and gets the damaged parts replaced with new ones.
5. In this case the damaged parts willbe taken by the insurance company.
6. The insured has no right over the damaged parts since they had already got compensation for the damaged parts.

g) Mitigation:

1. In case of a mishap, the insured must take off all possible steps to reduce or mitigate the loss or damage to the subject matter of insurance.
2. This principle ensures that the insured does not become negligent about the safety of the subject matter after taking the insurance policy.

23) What are the types of Business Risks?

Answer : The types of Business Risks are:

(i) Speculative risks:

Speculative risks are the kind of risks which have the possibility of gain as well as the possibility of loss. Such risks are the result of market conditions . Favourable market conditions result in gains whereas unfavourable market conditions result in losses.

Example: Use of better technology helps to produce better quality products at cheaper prices. This may increase the demand and thus result in higher profits.

(ii) Pure risks:

Pure risks are the type of risks where business suffers loss only if the risk occurs. Non-occurrence of such risks leads 'to absence of loss.

Example: Business may suffer loss only if fire, theft or strike occurs.

(iii) Insurable risks:

Insurable risks are the type of risks where business can insure the probable losses by paying a predetermined premium to an insurance company. At the time of loss the insurance company pays compensation on the basis of agreed terms and conditions. Loss arising from natural and physical risks can be insured as the probability of risk can be determined .

Example: Company can insure its stock against fire or theft and if it loses its stock due to fire or theft in office, the insurance company pays compensation only up to a extent of the value lost.

(iv) Uninsurable risk:

Losses arising from unforeseen natural events, political changes or trade cycles are called uninsurable risks. Loss due to earthquake or flood or cyclone cannot be estimated and their probability cannot be calculated. Government directly takes care of the affected persons. Losses to businesses due to policy decisions of ruling political parties in a country, or due to economic depression cannot be insured. These uninsurable risk events are called uncertainties. The concept of risk is different from uncertainty. During uncertain events decisions cannot be taken.

24) What is General Insurance? What are the different types of general insurance?

Answer : General insurance include all different types of insurance like fire, marine, burglary, crop and miscellaneous insurance business, except life insurance. It does not include redemption business and annuity business. It is a contract of indemnity. Value of the subject matter can be easily determined and the insurer pays the compensation for the loss suffered. This contract is for short period i.e., one year. The loss due to riskis not certain. It may happen or may not.

The types of general insurance are:

(i) Fire Insurance: It isa personal contract between the insurer and the insured. It includes floating policy. Declaration policy and Reinstatement policy against fire.

(ii) Marine Insurance: It is the most important and challenging branch of insurance. Under this, the insurer indemnities the insured against marine losses. It is include cargo insurance, Hull insurance and freight insurance based on the subject matter policy. On the basis of duration and terms various marine policies are undertaken.

(iii) Burglary Insurance: It comes under insurance of property. The loss of household goods, thefts, house-breaking are compensated through burglary insurance.

(iv) Medical Insurance or Mediclaim: The insurance companies pays for the hospitalisation, domiciliary hospitalisation, .surgery or related medical expenses. Under mediclaim with personal accident insurance the maximum benefit can be Rs 1,50,000 and in 'without personal accident' scheme the amount is Rs 96,500.

(v) Crop Insurance: The State Government - set up state crop insurance funds. It is decided in consultation with the state government, Ministry of Finance and Ministry of Agriculture of the Central Govt., for each state.

(vi) Motor Vehicle Insurance: Under motor insurance, the owner's liability to compensate people affected by the negligence of the driver is passed on to the insurance company. Avariety of policies like 'Act only' policy,and 'Comprehensive Policy' are available.

(vii) Third-Party Insurance: The third party policy covers third party damage over and above the limits specified in motor vehicle Act. This policy is operative when the accident occurs both in public places and in private places.

25) What are the duties and functions of IRDAI?

Answer : **Section 14 of IRDAI Act, 1999 lays down the duties and functions of IRDAI:**

1. It issues the registration certificates to Insurance Companies and regulates them.
2. It provides license of insurance to intermediaries such as agents and brokers after specifying the required qualifications and set norms/code of conduct for them.
3. It promotes and regulates the professional organizations related with insurance business to promote efficiency in insurance sector
4. It regulates and supervises the premium rates and terms of insurance covers.
5. It specifies the conditions and manners, according to which the insurance companies and other intermediaries have to make their financial reports.
6. It regulates the investment of policyholder's funds by insurance companies.
7. It also ensures the maintenance of solvency margin (company's ability to pay out claims) by insurance companies.