Fundamental of Banking and Insurance

A bank is a lawful organisation that accepts deposits which can be withdrawn on demand. Banks are institutions that help the public in the management of their finances, public deposit their savings in banks with the assurance to withdraw money from the deposits whenever required

Banks accept deposits from the general public and from the business community as well and give two assurances to the depositors –

1. Safety of deposit
2. Withdrawal of deposit, whenever needed

Banks give interest on deposits which adds to the original deposit amount and is a great incentive to the depositor. This promotes saving habits among the public. Bank also grants loans based on the deposits thereby adding to the economic development of the country and well being of the general public. With this stature, it becomes important to understand the major functions of a bank.

Functions of Bank

There are two types of functions of banks:

1. Primary functions – being primary are also called banking functions.
2. Secondary Functions

Both the types of functions of bank are explained below in detail:

Primary Functions of Bank

All banks have to perform two major primary functions namely:

1. Accepting of deposits
2. Granting of loans and advances

Accepting of Deposits

A very basic yet important function of all the commercial banks is mobilising public funds, providing safe custody of savings and interest on the savings to depositors. Bank accepts different types of deposits from the public such as:

1. **Saving Deposits:** encourages saving habits among the public. It is suitable for salary and wage earners. The rate of interest is low. There is no restriction on the number and amount of withdrawals. The account for saving deposits can be opened in a single name or in joint names. The depositors just need to maintain minimum balance which varies across different banks. Also, Bank provides ATM cum debit card, cheque book, and Internet banking facility.
2. **Fixed Deposits:** Also known as Term Deposits. Money is deposited for a fixed tenure. No withdrawal money during this period allowed. In case depositors withdraw before maturity, banks levy a penalty for premature withdrawal. As a lump-sum amount is paid at one time for a specific period, the rate of interest is high but varies with the period of deposit.
3. **Current Deposits**: are opened by businessmen. The account holders get overdraft facility on this account. These deposits act as a short term loan to meet urgent needs. Bank charges a high-interest rate along with the charges for overdraft facility in order to maintain a reserve for unknown demands for the overdraft.
4. **Recurring Deposits:** A certain sum of money is deposited in the bank at a regular interval. Money can be withdrawn only after the expiry of a certain period. A higher rate of interest is paid on recurring deposits as it provides a benefit of compounded rate of interest and enables depositors to collect a big sum of money. This type of account is operated by salaried persons and petty traders.

Granting of Loans & Advances

The deposits accepted from the public are utilised by the banks to advance loans to the businesses and individuals to meet their uncertainties. Bank charges a higher rate of interest on loans and advances than what it pays on deposits. The difference between the lending interest rate and interest rate for deposits is bank profit.

Bank offers the following types of Loans and Advances:

1. **Bank Overdraft**: This facility is for current account holders. It allows holders to withdraw money anytime more than available in bank balance but up to the provided limit. An overdraft facility is granted against collateral security. The interest for overdraft is paid only on the borrowed amount for the period for which the loan is taken.
2. **Cash Credits:** a short term loan facility up to a specific limit fixed in advance. Banks allow the customer to take a loan against a mortgage of certain property (tangible assets and / guarantees). Cash credit is given to any type of account holders and also to those who do not have an account with a bank. Interest is charged on the amount withdrawn in excess of the limit. Through cash credit, a larger amount of loan is sanctioned than that of overdraft for a longer period.
3. **Loans:** Banks lend money to the customer for short term or medium periods of say 1 to 5 years against tangible assets**.** Nowadays, banks do lend money for the long term. The borrower repays the money either in a lump-sum amount or in the form of instalments spread over a pre-decided time period. Bank charges interest on the actual amount of loan sanctioned, whether withdrawn or not. The interest rate is lower than overdrafts and cash credits facilities.
4. **Discounting the Bill of Exchange:** It is a type of short term loan, where the seller discounts the bill from the bank for some fees. The bank advances money by discounting or purchasing the bills of exchange. It pays the bill amount to the drawer(seller) on behalf of the drawee (buyer) by deducting usual discount charges. On maturity, the bank presents the bill to the drawee or acceptor to collect the bill amount.

Secondary Functions of Bank

Like Primary Functions of Bank, the secondary functions are also classified into two parts:

1. Agency functions
2. Utility Functions

Agency Functions of Bank

Banks are the agents for its customers; hence it has to perform various agency functions as mentioned below:

Transfer of Funds: Transferring of funds from one branch/place to another.

Periodic Collections: collecting dividend, salary, pension, and similar periodic collections on the clients' behalf.

Periodic Payments: making periodic payments of rents, electricity bills, etc on behalf of the client.

Collection of Cheques: Like collecting money from the bills of exchanges, the bank collects the money of the cheques through the clearing section of its customers.

Portfolio Management: banks manage the portfolio of their clients. It undertakes the activity to purchase and sell the shares and debentures of the clients and debits or credits the account.

Other Agency Functions: under this bank act as a representative of its clients for other institutions. It acts as an executor, trustee, administrators, advisers etc. of the client.

The Nationalization of Banks

Nationalization refers to the transfer of public sector assets to be operated or owned by the state or central government. In India, the banks which were previously functioning under private sector were transferred to the public sector by the act of nationalization and thus the nationalized banks came into existence.

Reasons for the Nationalization of Banks

• For Social Welfare • For Developing Banking Habits • For Expansion of Banking Sector • For Controlling Private Monopolies • To Reduce Regional Imbalance • For Prioritizing Sector Lending

The first bank in India to be nationalized was the Reserve Bank of India which happened in January 1949. Further, 14 other banks were nationalized in July 1969.

Bank of India, PNB, and many others were part of this nationalization. While the next phase of nationalization saw 6 other commercial banks were nationalized in

1980. These included Vijaya bank, a new bank of India, Corporation Bank, and others.

The needs for nationalization of banks arose due to many reasons. These were catering to the needs of big business houses and large industries.

Further, sectors such as exports, agriculture, and the small-scale industries were lagging behind. The moneylenders used to export the poor masses in India. These all were taken into consideration during the nationalization of banks.

Also, for a rural section of India, the regional rural banks (RRBs) were formed. The objective was to serve large masses of the unreserved rural population.

Further, the specific requirements of sectors like foreign trade, housing, and agriculture were met. This was met by establishing NABARD, NHB, SIDBI, and EXIM.

Impacts

Due to the nationalization of banks, the efficiency of the banking system in India improved. This also boosted the confidence of the public in banks.

The sectors that were lagging behind like small-scale industries and agriculture got a boost. This led to an increase in funds and thus increases in the economic growth of India.

The nationalization of banks also increased the penetration of banks. This was mainly seen in the rural areas of India.

Role and Function of Reserve Bank of India

Monetary Management

The development and implementation of monetary policy and ensuring monetary stability in India are two of the RBI's most crucial responsibilities. It makes use of the credit and monetary systems for its benefit.

Supervision and Regulation of Banking and Non-Banking Financial Institutions

The RBI serves to protect the interests of depositors through an effective regulatory framework. keeping a close check on how banking operations are being conducted and the bank's solvency, as well as preserving overall financial stability through a variety of policy actions.

Regulation of Foreign Exchange Market, Government Securities Market, and Money Market

- The RBI is in charge of regulating the Indian foreign exchange market. Through the provisions of the FEMA Act 1999, RBI monitors and controls the foreign exchange market.
- The central and state governments' trade securities are governed by the RBI. The RBI Act of 1934 gives it the authority to regulate this.
- The RBI has the authority to regulate short-term and highly liquid debt securities under the terms of the RBI Act of 1934.

Foreign Exchange Reserve Management

The RBI is in charge of looking after India's foreign exchange reserves. The RBI Act of 1934 contains legal provisions relating to the administration of foreign exchange reserves.

The RBI is allowed to invest these foreign exchange reserves in the following instruments under the RBI Act of 1934:

- Place a deposit with international banks.
- With overseas commercial banks, make a deposit.
- Instruments of Debt

Bankers to the Central and State Governments

The RBI serves as the government's banker. The RBI is in charge of receiving and disbursing funds on behalf of the various government agencies. The Central and State Governments' Consolidated Funds, Contingency Funds, and Public Accounts are all maintained by the RBI. As a lender to the government, the RBI also extends loans to the union and federal governments.

Advisor to the Government

The RBI provides financial and banking-related advice to the government as and when requested.

Central and State Governments' Debt Manager

The primary goals of the debt management strategy are to reduce borrowing costs and even out the debt's maturity structure. On behalf of the federal government and state governments, the RBI manages the nation's debt and issues fresh loans.

Banker to Bank

In order to maintain their SLR and CRR, banks open current accounts with the RBI. The RBI serves as a central banker for all of the individual banks and facilitates the settlement of money transfers between banks. The RBI gives banks emergency loans and short-term credit for certain needs.

Issuer of Currency

The RBI is in charge of the printing and overall administration of the national currency, with the aim of releasing a sufficient quantity of authentic notes and maintaining the flow of the economy.

Developmental Role

The RBI's role in economic development includes setting up organizations to construct financial infrastructure, ensuring credit to the economy's productive sector, and increasing access to accessible financial systems.

Meaning of Commercial Banks:

A commercial bank is a financial institution which performs the functions of accepting deposits from the general public and giving loans for investment with the aim of earning profit. In fact, commercial banks, as their name suggests, a profit-seeking institutions, i.e., they do banking business to earn profit.

Functions of Commercial Banks:

The two most distinctive features of a commercial bank are borrowing and lending, i.e., acceptance of deposits and lending of money to projects to earn Interest (profit). In short, banks borrow to lend. The rate of interest offered by the banks to depositors is called the borrowing rate while the rate at which banks lend out is called lending rate.

The difference between the rates is called ‘spread’ which is appropriated by the banks. Mind, all financial institutions are not commercial banks because only those which perform dual functions of (i) accepting deposits and (ii) giving loans are termed as commercial banks. For example post offices are not bank because they do not give loans. Functions of commercial banks are classified in to two main categories—(A) Primary functions and (B) Secondary functions.

STRUCTURE OF INDIAN COMMERCIAL BANKS

Having established the pivotal role performed by the banking system in the Indian financial sector and by implication, in the overall financial intermediation process, thus supporting the real sector of the economy. The strong points of the financial system are its ability to mobilize savings, its vast geographical and functional reach and institutional diversity. Between 1965 and

1990, the household sector's gross savings in the form of financial assets rose from 5.5 per cent to 12.2 per cent of net domestic product. Since 1969 when major banks were nationalized, the number of commercial bank branches increased from about 8,300 to well over 65,000 by 2005.

The commercial banking structure in India consists of: Scheduled Commercial Banks and Unscheduled Banks. Scheduled commercial banks constitute those banks, which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. RBI includes only those banks in this schedule, which satisfy the criteria laid down vide section 42 (6) (a) of the Act. Indian banks can be broadly classified into nationalized banks/ public sector banks, private banks and foreign banks. The Indian banks include 27 public sector banks excluding 196 Regional Rural Banks (RRBs).

Introduction to Insurance

Insurance is a legal agreement between two parties i.e. the insurance company (insurer) and the individual (insured). In which policy holder received financial protection from Insurance they suffer under specific circumstances.

company for the losses In this, the insurance company promises to make good the losses of the insured on happening of the insured contingency. The contingency is the event which causes a loss. It can be the death of the policyholder or damage/destruction of the property. It's called a contingency because there's an uncertainty regarding happening of the event. The insured pays a premium in return for the promise made by the insurer.

Definition of insurance

Insurance is a co-operative form of distributing a certain risk over a group of persons who are exposed to it.

-Ghosh and Agarwal

Insurance is a social device for eliminating or reducing the cost to society of certain types of risk.

-Mowbray and Blan Chard

How does insurance work?

The insurer and the insured get a legal contract for the insurance, which is called the insurance policy. The insurance policy has details about the conditions and circumstances under which the insurance company will pay out the insurance amount to either the insured person or the nominees. Insurance is a way of protecting yourself and your family from a financial loss. Generally, the premium for a big insurance cover is much lesser in terms of money paid. The insurance company takes this risk of providing a high cover for a small premium because very few insured people actually end up claiming the insurance. This is why you get insurance for a big amount at a low price. Any individual or company can seek insurance from an insurance company, but the decision to provide insurance is at the discretion of the insurance company. The insurance company will evaluate the claim application to make a decision. Generally, insurance companies refuse to provide insurance to high-risk applicants.

Nature or Characteristics of Insurance

On the basis of the definitions of insurance discussed above, one can observe **the following nature or characteristics**:

1. Contract

Insurance is a contract between the insurance company and the policyholder wherein the policyholder (insured) makes an offer and the insurance company (insurer) accepts his offer. The contract of insurance is always made in writing.

2. Consideration

Like other contracts, there must be lawful consideration in insurance also. The consideration is in the form of premium which the insured agrees to pay to the insurer.

3. Co-operative Device

All for one and one for all is the basis for cooperation. The insurance is a system wherein large number of persons, exposed to a similar risk, is covered and the risk is spread over among the larger insurable public. Therefore, insurance is a social or cooperative method wherein losses of one are borne by the society.

4. Protection of financial risks

An insurer is protected from financial risks which can be measured in terms of money. As such insurance compensates only financial or monetary loss or risks.

5. Risk sharing and risk transfer

Insurance is a social device for division of financial losses which may fall on an individual or his family on the happening of some unforeseen events. When insured, the loss arising out of the events are shared by all the insured in the form of premium. Therefore the risk is transferred from one individual to a group.

6. Based upon certain principles

The insurance is based upon certain principles like insurable interest, utmost good faith, indemnity, subrogation, causa-proxima, contribution, etc.

7. Regulated by Law

Insurance companies are regulated by statutory laws in almost all the countries. In India, life insurance and general insurance are regulated by Life Insurance Corporation of India Act 1956, and General Insurance Business (Nationalization) Act 1972, and IRDA Regulations etc.

8. Value of Risk

Before insuring the subject matter of the insurance contract, the risk is evaluated in order to determine the amount of premium to be charged on the insured. Several methods are being adopted to evaluate the risks involved in the subject matter. If there is an expectation of heavy loss, higher premiums will be charged. Hence, the probability of occurrence of loss is calculated at the time of insurance.

9. Payment at contingency

An insurer is liable to pay compensation to the insureds only when certain contingencies arise. In life insurance, the contingency — the death or the expiry of the term will certainly occur. In such cases, the life insurer has to pay the assured sum.

In other insurance contracts, the contingency — a fire accident or the marine perils, may or may not occur. So, if the contingency occurs, payment is made, otherwise no payment need to be made to the policyholders.

10. Insurance is not gambling

An insurance contract cannot be considered as gambling as the person insured is assured of his loss indemnified only on the happening of such uncertain event as stipulated in the contract of insurance, whereas the game of gambling may either result into profit or loss.

11. Insurance is not a charity

Premium collected from the policyholders under an insurance is the cost of risk so covered. Hence, it cannot be taken as charity. Charity lacks the element of contract of indemnity and compensation of loss to the person whosoever makes it.

12. Investment portfolio : Since insurers' liability to pay compensation to the insured arises on the happening of certain uncertain event, the insurers do not have to keep the collected premium with them. They invest the premium received in selected securities and earn interest and dividend on them. Thus, the insurers have two sources of income: the insurance premium and the investment income (i.e. interest / dividend) which occurs over time.

Role and importance of insurance:

Insurance has evolved as a process of safeguarding the interest of people from loss and uncertainty. It may be described as a social device to reduce or eliminate risk of loss to life and property.

Insurance contributes a lot to the general economic growth of the society by provides stability to the functioning of process. The insurance industries develop financial institutions and reduce uncertainties by improving financial resources.

1. Provide safety and security:

Insurance provide financial support and reduce uncertainties in business and human life. It provides safety and security against particular event. There is always a fear of sudden loss. Insurance provides a cover against any sudden loss. For example, in case of life insurance financial assistance is provided to the family of the insured on his death. In case of other insurance security is provided against the loss due to fire, marine, accidents etc.

2. Generates financial resources:

Insurance generate funds by collecting premium. These funds are invested in government securities and stock. These funds are gainfully employed in industrial development of a country for generating more funds and utilised for the economic development of the country. Employment opportunities are increased by big investments leading to capital formation.

3. Life insurance encourages savings:

Insurance does not only protect against risks and uncertainties, but also provides an investment channel too. Life insurance enables systematic savings due to payment of regular premium. Life insurance provides a mode of investment. It develops a habit of saving money by paying premium. The insured get the lump sum amount at the maturity of the contract. Thus life insurance encourages savings.

4. Promotes economic growth

Insurance generates significant impact on the economy by mobilizing domestic savings. Insurance turn accumulated capital into productive investments. Insurance enables to mitigate loss, financial stability and promotes trade and commerce activities those results into economic growth and development. Thus, insurance plays a crucial role in sustainable growth of an economy.

5. Medical support:

A medical insurance considered as essential in managing risk in health. Anyone can be a victim of critical illness unexpectedly and rising medical expense is of great concern. Medical Insurance is one of the insurance policies that cater for different type of health risks. The insured gets a medical support in case of medical insurance policy.

6. Spreading of risk:

Insurance facilitates spreading of risk from the insured to the insurer. The basic principle of insurance is to spread risk among a large number of people. A large number of persons get insurance policies and pay premium to the insurer. Whenever a loss occurs, it is compensated out of funds of the insurer.

7. Source of collecting funds:

Large funds are collected by the way of premium. These funds are utilised in the industrial development of a country, which accelerates the economic growth. Employment opportunities are increased by such big investments. Thus, insurance has become an important source of capital formation.

Reinsurance & Double Insurance

Reinsurance

When a insurance company transfers a part of his risk on a particular policy by insuring it with some other insurance company, it is called Reinsurance. The company that issues the policy originally is known as ‘Direct underwriting’ or ‘ceding‘ company. The company to which the risk is transferred is called the ‘Reinsurance or Assuming company’ or “Reinsurer”

Purpose of Reinsurance

The basic purpose of reinsurance is the same as that of an ordinary insurance viz., the risk borne by an individual is greater than he wished to retain. In the same way, every insurer has a limit of the risk that he can undertake at any time a profitable venture comes his way, he may insure it even if the risk involved is beyond his capacity. But in order to safeguard his interests, he may insure the same risk or a part of the risk with other insurers so that the risk is spread.

company, for instance, issues a fire policy on a forest worth Rs. 5 crores thinking that the risk it has accepted is larger than what is prudent for it to bear, it may reinsure its liability in excess of Rs. 3 crores with another company or companies. Reinsurance is, therefore a contract between two insurance companies and the original contract or insured is not at all affected by it.

Double Insurance

Insurance taken on same subject with more than one insurer is called a double insurance. A person can insure his property with two or three companies for the total value of the property and when the loss takes place, he can realize it from all the companies.

Of course, if his total insurance exceeds the actual value of the property, it will be a case of over-insurance and he will not get more than the actual loss. He can however, realize his loss from the companies in any order he likes and the companies will later on adjust their contributions according to the proportion of their insured amounts.

Insurance Contracts 5 marks

An insurance contract is a document representing the agreement between an insurance company and the insured. Central to any insurance contract is the insuring agreement, which specifies the risks that are covered, the limits of the policy, and the term of the policy.

Additionally, all insurance contracts specify:

1. Conditions, which are requirements of the insured, such as paying the premium or reporting a loss;

2. Limitations, which specify the limits of the policy, such as the maximum amount that the insurance company will pay;

3. Exclusions, which specify what is not covered by the contract.

There are 4 requirements for any valid contract, including insurance contracts:

1. Offer and acceptance,

2. Consideration,

3. Competent parties, and

4. Legal purpose.

Life Insurance - Meaning

Life Insurance can be defined as a contract between an insurance policy holder and an insurance company, where the insurer promises to pay a sum of money in exchange for a premium, upon the death of an insured person or after a set period. Here, at ICICI Prudential Life Insurance, you pay premiums for a specific term and in return, we provide you with a Life Cover. This Life Cover secures your loved ones' future by paying a lump sum amount in case of an unfortunate event. In some policies, you are paid an amount called Maturity Benefit at the end of the policy term.

Nature of Life Insurance

1. Economic nature of life insurance and 2. Legal nature life insurance

1. **Economic nature of life insurance:** There are the following factors need for insurance:

 The family need of food, shelter and clothing are meet out of the current income of the bread income

 The current income of everybody depend upon the earning the make

 A person may reach an age when he cannot earn due to old age, disability etc.
 The insured saving will help in meeting the necessities and other needs.

2. **Legal nature of life insurance:** As per life insurance act, life insurance is the business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is insured on death or the happening of any contingent, dependent on human life and shall be deemed to include:

Granting of annuilities on human life

 Granting of compensation on the happening of specified contingencies.

Types of Life Insurance Policies

1. Term insurance plan

As the name says Term insurance plan are those plan that is purchased for a fixed period of time, say 10, 20 or 30 years. As these policies don't carry any cash value their policies do not carry any maturity benefits, hence their policies are cheaper as compared to other policies. This policy turns beneficial only on the occurrence of the event.

2. Endowment policy

The only difference between the term insurance plan and the endowment policy is that endowment policy comes with the extra benefit that the policyholder will receive a lump sum amount in case if he survives until the date of maturity. Rest details of term policy are same and also applicable to an endowment policy.

3. Unit Linked Insurance Plan(ULIP)

These plans offer policyholder to build wealth in addition to life security. Premium paid into this policy is bifurcated into two parts, one for the purpose of Life insurance and another for the purpose of building wealth. This plan offers to partially withdraw the amount.

4. Money Back Policy

This policy is similar to endowment policy, the only difference is that this policy provides many survival benefits which are allotted proportionately over the period of the policy term.

5. Whole Life Policy

Unlike other policies which expire at the end of a specified period of time, this policy extends up to the whole life of the insured. This policy also provides the survival benefit to the insured. In this type of policy, the policyholder has an option to partially withdraw the sum insured. Policyholder also has the option to borrow sum against the policy.

6. Annuity/ Pension Plan

Under this policy, the amount collected in the form of a premium is accumulated as assets and distributed to the policyholder in form of income by way of annuity or lump sum depending on the instruction of insured.

General Insurance

The insurance segment in India is divided into two categories – life insurance and general insurance. While life insurance policies cover the financial loss suffered due to loss of life, general insurance policies cover the financial loss suffered due to the loss of an asset. General insurance, therefore, covers the loss of economic value of assets or the financial loss suffered due to specific contingencies. General insurance has different types of plans, each of which is designed to cover specific risks. So, let’s understand the concept and the types of general insurance plans in India.

What is general insurance?

General insurance is the insurance of assets, financial assets included. If, due to a contingency which is covered under the plan, there is an economic loss, the loss is compensated by general insurance policies.

Following are the different types of General Insurances in India:

- Health Insurance
- Travel Insurance
- Motor Insurance
- Marine Insurance
- Home Insurance
- Commercial Insurance
- Fire Insurance
- Marine insurance

Fire Insurance

Fire insurance is a contract of insurance against the loss/damage by accidental fire or other occurrences customarily included under a fire policy.

Types of Fire Policies

1. **Valued Policy**: As the name suggests, the value of the insured property is pre-determined at the inception of the policy. In case of loss suffered by the insured, a fixed compensation amount is paid by the insurer irrespective of the actual amount of financial loss suffered by the insured. The claim amount may be less or greater than the market value of the property and will not include renovations made in the property.

2. **Valuable Policy:** It is reserve of the above policy. Here, the value of the insured property is determined at the time of loss and claim is paid depending on the market value of the property at the time of damage.

3. **Specific Policy:** In this policy, a specific policy coverage amount is mentioned which is not the market value of the property and is for a specific period of time for a particular property. The compensation paid will not exceed the policy coverage value.

4. **Average Policy:** It is that policy in which the Insured doesn't take insurance policy which covers the total value of the property. The loss is shared by both the insured and the Insurance Company in pre decided proportion. For example, Rama took an Insurance policy of ` 7, 00,000 for her house which value is `1, 4 00,000. In case of a fire, her house is 50 percent damaged, and then she will receive compensation of `3, 50,000 from the Insurance Company which is 50 percent of her Insurance coverage value.

4. **Floating Policy:** In this type, a single policy covers two or more properties present at different locations for an insured. A single premium is paid by the insured, providing him convenience against buying multiple policies.

6. **Adjustable Policy:** There may be change in the value of stocks; hence it becomes difficult for the insured to determine what coverage amount of insurance policy should be purchased. In this case Adjustable policy is taken where insurance amount and premium is calculated on the existing value of the stock initially and the later is adjusted depending on the change in value of the stock which is regularly provided by the insured. The premium changes on a pro rata basis.

7. **Consequential loss Policy**: It covers the consequential loss as well loss by fire, suffered by the insured. As discussed in comprehensive scope, consequential loss is loss suffered by the insured in terms of loss in profit, salary, inflation incidental to the occurrence of the fire.

The following items are included in fire insurance

 Buildings

 Plant & Machinery, Equipments and Accessories

 Furniture and electrical fittings

 Goods as in raw materials, semi-finished and finished goods stored in warehouses and open

 Pipelines present inside as well as outside the building

Remember these points while buying fire insurance:

Buying a fire insurance policy bring customer’s peace of mind as it covers them for losses or damages resulting from a fire and other covered events/perils.

But following points should be considered while buying fire insurance for proper protection.

- Perils Covered
- Exclusions
- Add on Covers
- Proper Description of The Property
- Related Clauses Like Goods Held in Trust Clause, Reinstatement Value Clause Etc.
- Adequacy of Sum Insured to Avoid Under Insurance.

Marine Insurance

Marine insurance definition refers to the insurance of goods dispatched from the country of origin to the country of destination. The term originates from the fact that goods intended for international trade were traditionally transported by sea. Despite what the name implies, marine insurance is applicable to all modes of transportation of goods. When the goods are sent by air, their insurance is also known as marine cargo insurance.

Insurance is often compulsory in many export trade contracts. It can be the obligation of the exporter or the importer to pay the insurance cost on the shipment, depending on the terms of the contract. However, the need for insurance goes beyond contractual obligations, and there are several valid arguments for buying it before dispatching the export cargo.

Goods should only be insured for transit by one of the following three parties:

- The Forwarding Agent
- The Exporter
- The Importer

Types of Marine Insurance policies

Floating policy

Large exporters may opt for an open policy, also known as a blanket policy, instead of taking insurance separately for each shipment. An open policy is a one-time insurance that provides insurance cover against all shipments made during the agreed period, often a year. The exporter may need to declare periodically (say, once a month) the detail of all shipments made during the period, type of goods, modes of transport, destinations, etc.

Voyage policy

A specific policy can be taken for a single lot or consignment only. The exporter needs to purchase insurance cover every time a shipment is sent overseas. The drawback is that extra effort and time is involved each time an exporter sends a consignment. With open policies, on the other hand, shipments are insured automatically.

Time policy

Time policy is generally issued for a year's period. One can issue for more than a year or they may extend to complete a specific voyage. But it is normally for a fixed period. Also under marine insurance in India, time policy can be issued only once a year.

Mixed policy

Mixed policy is a mixture of two policies i.e Voyage policy and Time policy.

Named policy

Named policy is one of the most popular policies in marine insurance policy. The name of the ship is mentioned in the insurance document, stating the policy issued is in the name of the ship.

Port Risk policy

It is a policy taken to ensure the safety of the ship when it is stationed in a port.

Fleet policy

Several ships belonging to the company/owner are covered under one policy. Where it has the advantage of covering even the old ships. Also the policy is a time based policy.

Single Vessel policy

In single vessel policy only one vessel is covered under marine insurance policy.

Blanket policy

In this policy, the owner has to pay the maximum protection amount at the time of buying the policy.