Foundation Course for Sales Representatives

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CHAPTER-1

INTRODUCTION TO INSURANCE

1.1 WHAT IS INSURANCE?

Insurance is an arrangement by which a company or the state undertakes to provide a guarantee of compensation for specified loss, damage, illness, or death in return for payment of a specified premium.

1.2. BRIEF HISTORY OF INSURANCE

The **history of insurance** traces the development of the modern business of insurance against risks, especially regarding cargo, property, death, automobile accidents, and medical treatment.

The insurance industry transfers risks (as when fire-insurance providers demand the implementation of safe practices and the installation of hydrants), spreads risks from individuals to the larger community, and provides an important source of long-term finance for both the public and private sectors. The insurance industry generally generates profits and provides attractive employment opportunities for white-collar workers.

Initially, people used to sell goods in their own villages and gathering society. However, with the passage of time, they turned to nearby villages to sell. Furthermore, in the thirteenth and early fourteenth centuries, the European traders used to travel to sell their goods across the globe and to hedge the risk of theft or fraud by the Captain or crew also known as Risicum Gentium. However, they realized that selling this way, involves not only the risk of loss (i.e. damaged, theft or life of trader as well) but also they cannot cover the wider market. Therefore, the trend of hiring commissioned base agents across different markets emerged. The traders sent (export) their goods to the agents who on the behalf of traders sold them. Sending goods to the agents by road or sea involves different risks i.e. sea storms, pirate attack; goods may be damaged due to poor handling while loading and unloading, etc. Traders exploited different measures to hedge the risk involved in the exporting. Instead of sending all the goods on one ship / truck, they used to send their goods over number of vessels to avoid the total loss of shipment if the vessel was caught in a sea storm, fire, pirate, or came under enemy attacks but this was not good practice due to prolonged time and efforts involved. Insurance is the oldest method of transferring risk, which was developed to mitigate trade/business risk. Marine insurance is very important for international trade and makes large commercial trade possible. The risk hedging instruments our ancestors used to mitigate risk in medieval times were sea/marine (Mutuum) loans, commenda contract, and bill of exchanges. Nelli (1972) highlighted that commenda contract and sea loans were almost the closest substitute of marine insurance. Furthermore, he pointed out that for a half century, it was considered that the first marine insurance contract was floated in Italy on October 23, 1347; however, professor Federigo found that the first written insurance contracts date back to February 13, 1343, in Pisa. Furthermore, Italian traders spread the knowledge and use of insurance into Europe and The Mediterranean. In the fifteenth century, word policy for insurance contract became standardized. By the sixteenth century, insurance was common among Britain, France, and the Netherlands. The concept of insuring outside native countries emerged in the seventeenth century due to reduced trade or higher cost of local insurance. According to Kingston (2011), Lloyd's Coffeehouse was the prominent marine insurance marketplace in London during the eighteenth century and European/American traders used this marketplace to insure their shipments. The rules and regulations of insurance were adopted from Italian merchants known as “Law Merchant” and initially these rules governed the marine insurance across the globe. In case of dispute, policy writer and holder choose one arbitrator each and these two arbitrators choose a third impartial arbitrator and parties were bound to accept the decision made by the majority. Because of the inability of this informal court (arbitrator) to enforce their decisions, in the sixteenth century, traders turned to formal courts to resolve their disputes. Special courts were set up to solve the disputes of marine insurance like in Genoa, insurance regulation passed to impose fine, on who did not obey the Church's prohibitions of usury (Sea loans, Commenda) in 1369. In 1435, Barcelona ordinance issued, making it mandatory for traders to turn to formal courts in case of insurance disputes. In Venice, “Consoli dei Mercanti”, specialized court to deal with marine insurance was set up in 1436. In 1520, the mercantile court of Genoa was replaced by more specialized court “Rota” which not only followed the merchant's customs but also incorporated the legal laws in it.

1.3. PURPOSE AND NEED OF INSURANCE

Insurance is a way of managing risks. When you buy insurance, you transfer the cost of a potential loss to the insurance Company in exchange for a fee, known as the ***premium***. Insurance companies invest the funds securely, so it can grow, and pay out when there's a claim.

Insurance helps you:

- Own a home, because mortgage lenders need to know your home is protected. It covers you for repairs and replacement of any damage that's covered in your policy. It provides protection against theft, damage from perils like fire and water, and financial responsibility that could result from a visitor or guest being accidentally injured on your property.

- Drive vehicles, because few people could afford the repairs, health care costs and legal expenses associated with collisions and injuries without coverage. Auto insurance is also a legal requirement.

- Maintain your current standard of living if you become disabled or have a critical illness. It covers your day-to-day costs and larger expenses like your mortgage while you focus on your health and recovery.

- Cover health care costs like prescription drugs, dental care, vision care and other health-related items.

- Provide for your family in the event of a death. There are life insurance options for short and long-term needs that protect your family's home, mortgage, lifestyle and the cost of post-secondary education for children.

- Run a small business or family farm by managing the risks of ownership. Get owner, business and employee coverage, and provide group benefits and retirement plans for employees.

- Take vacations without worrying about flight cancellations or emergency medical expenses abroad.

1.4. INSURANCE AS A SOCIAL SECURITY TOOL

Typically, an individual has only three resources to fall back upon when a calamity strikes: savings, charity and insurance.

Saving money can be a slow and tedious process. On average, one saves only 10% of one's earnings. Also, the exact amount that will be required to take care of sudden emergencies is extremely unpredictable, making savings insufficient at most critical junctures.

For some people, it may take a life time to accumulate a substantial sum of money that can come in handy during a crisis. This list could include those who didn't invest in avenues such as Fixed Deposits and Mutual Funds.

Charity, on the other hand, could be a demeaning and unreliable resource since you are completely at the mercy of the provider. **Thus, insurance remains the only viable option to fall back upon whenever crisis strikes.**

Life Insurance is one of the most effective social security tools in use across the globe. It is especially important in Pakistan where social security is offered in the form of Employee Provident Fund and Public Provident Fund, which are available only to the working classes.

Unlike any socialist or developed capitalist society, where states are responsible for the deprived and destitute, Pakistan is unfortunately not yet equipped to handle social security for such a large populace.

In the absence of a bread winner in a family, there is little that the government or other social agencies can do to look after the welfare of those left behind. Thus, in order to ensure that a family continues to enjoy the same financial status as before, insurance is probably the best social security tool that can help in case of unforeseen eventualities.

It not only provides peace of mind, but also helps secure the future of the entire family. The government is also encouraging people to take up Life Insurance policies by giving policyholders tax benefits.

The concept of Life Insurance has come a long way from its inception and today provides a smart avenue for investment where policyholders can not only secure themselves against unforeseen contingencies but are also able to create wealth over a period of time by allowing the money paid towards insurance to be invested in market oriented instruments.

You can take a Term Life Insurance plan, a Whole Life Insurance plan, an endowment plan, a money back policy, a child plan or even an annuity plan. You can be sure that there is a Life Insurance policy out there that will meet your needs and requirements, such as your kid's education or your retirement.

1.5. ROLE OF INSURANCE IN ECONOMIC DEVELOPMENT

Insurance sector plays a vital role in the financial sector that contributes significantly to the economy of a country. Insurance market contributes to the economic growth as a financial intermediary and also helps in managing risk more effectively.

Insurance generates significant impact on the economy by mobilizing domestic savings. 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.

Economic development carries risk. When a business owner decide whether to add a new store front in a gentrifying area of town or to serve potential customers that hasn't yet been targeted by their products, they weigh the potential profits against the risk of failure. The availability of insurance helps development primarily by allowing businesses to mitigate that danger, providing encouragement for them to expand their operations.

The life insurance sector also contributes to economic growth by its very mechanism of savings mobilization and thereby performing an intermediation role in the economy. This ensures that capital is provided to deficient units who are in need of capital to finance their working capital requirements and invest in technology thereby resulting in an increase in output which is beneficial for both the financer and the policyholder.

1.6. BIFURCATION OF INSURANCE SECTOR

The Insurance sector can be bifurcated in two segments:

1.6.1. LIFE INSURANCE, AND

Life Insurance - Life insurance is a contract between an insurer and a policyholder in which the insurer guarantees payment of a death benefit to named beneficiaries upon the death of the insured. The insurance company promises a death benefit in consideration of the payment of premium by the insured.

The Life Insurance provides policyholders protection against the loss of income that would result if the insured passed away. The named beneficiary or beneficiaries then receive the proceeds and are thereby safeguarded from the financial impact of the death of the insured.

Depending on the contract, some events such as terminal illness can trigger payment to the beneficiaries, while other events such as claims relating to suicide, or fraud are written as exclusions so as to limit the liability of the insurer. Life-based insurance contracts tend to fall into two major categories: protection policies and investment policies.

1.6.2. NON-LIFE INSURANCE

Non- life insurance or General Insurance refers to the **insurance** of goods and properties. **Non- life insurance** is taken as a means of providing financial protection for building, machinery, equipment, furniture, and vehicle and merchandise items against the risk of fire, earthquake, accident and theft etc.

CHAPTER-2

THE NON-LIFE INSURANCE MARKET

2.1 OPERATION AND STRUCTURE OF THE LIFE INSURANCE MARKET

The life Insurance operation of a major insurance company comprises of the following six categories:

I. Product design and development
II. Product marketing / selling through distribution channels
III. Underwriting / Product Management
IV. Services
V. Claim Administration
VI. Finance and investments

2.2 DISTRIBUTION CHANNEL IN LIFE INSURANCE SECTOR

2.2.1 DIRECT SALES FORCE

Direct selling refers to selling products directly to the consumer in a non-retail environment. Instead, sales occur at home, work, or other non-store location. This system often eliminates several of the middlemen involved in product distribution, such as the regional distribution center. Instead, Insurance products go from the Corporation (manufacturer) to the direct sales company, to the distributor or rep, and to the consumer.

The products sold through direct sales are usually not found in typical retail locations, which means finding a distributor or rep is the only method to buy the products or services.

The division of a business that's responsible for selling products or services, evaluating your current sales force is an important step in the process of deciding whether and how to grow your sales team.

2.2.2 BANCASSURANCE

Bancassurance, is a relationship between a Bank and an Insurance company, aimed at offering insurance products or insurance benefits to the bank's customers. In this partnership, bank staff and tellers become the point of sale and point of contact for the customer. Bank staff are advised and supported by the insurance company through wholesale product information, marketing campaigns and sales training. The bank and the insurance company share the commission. Insurance policies are processed and administered by the insurance company.

This partnership arrangement can be profitable for both companies. Banks can earn additional revenue by selling the insurance products, while insurance companies are able to expand their customer base without having to expand their sales forces or pay commissions to insurance agents or brokers. Bancassurance has proved to be an effective distribution channel in a number of countries in Europe, Latin America, Asia and Australia.

2.2.3 WEBSALES, AND

Websales Marketing, Internet marketing, or online marketing, refers to advertising and marketing efforts that use the Web and email to drive direct sales via electronic commerce, in addition to sales leads from websites or emails.

2.2.4 TELESALES

Telesales is the selling of a company's products and services by telephone, either by calling potential customer or by answering calls from customers.

2.3 INSURANCE INTERMEDIARIES:

Brokers or agents who represent consumers in insurance transaction(s) are insurance intermediaries. Insurance intermediaries are contracted with multiple insurance companies so they can focus on matching their client's needs with the most suitable insurance products.

2.3.1 INSURANCE AGENT

An insurance agent is a representative of an insurer who negotiates and sells insurance contracts. Usually they work independently and are also called Independent insurance agents, or insurance sales agents or "producers", typically they sell a variety of insurance and financial products, including life insurance, health insurance, Group Insurance, disability insurance, property insurance, casualty insurance, and long-term care insurance.

Property and casualty insurance agents sell insurance policies that protect individuals and businesses from financial loss resulting from Death, automobile accidents, fire, theft, storms, and other events that can damage property. For businesses, property and casualty insurance can also cover injured Workers Compensation Insurance, product liability claims, or medical malpractice claims.

Independent insurance agents typically represent a number of insurance companies, or "carriers", and sell the products that most appropriately meet the needs of their clients. Independent agents typically are very well trained and knowledgeable of the complexities of the insurance market and insurance law. Their expertise allows them to advise their clients about appropriate amounts of insurance and insurance coverages for their particular needs. Often, independent insurance agents will work with insurance intermediaries, who obtain quotes from multiple insurance providers and pass them off to the independent agent. Working with an insurance intermediary service allows the independent agent to review many quotes and offer their clients the best policy options available. For their efforts, independent agents are paid a commission (remuneration).

2.3.2 INSURANCE BROKERS

An Insurance broker is a specialist in insurance and Risk management. Brokers act on behalf of their clients and provide advice in the interests of their clients. Sometimes an insurance broker will act as agent of an Insurer but where this occurs the situation should be fully explained to you.

A broker will help you identify your individual and/or business risks to help you decide what to insure, and how to manage those risks in other ways.

An insurance broker might specialize in one specific type of insurance or industry, or they might deal with many different types.

Brokers are aware of the terms and conditions, benefits and exclusions and costs of a wide range of competing insurance policies, so they can help you find the most appropriate cover for your own circumstances.

Brokers can help arrange and place the cover with the chosen insurer and can often provide advice on how to make the most of your insurance budget.

Insurance brokers can also charge a fee for their services, or receive a commission from the insurance company

2.3.3 THIRD PARTY ADMINISTRATORS

A third-party administrator (TPA) is an organization that handles certain administrative responsibilities for other organizations. TPAs typically take on claims administration, loss control, risk management, and retirement plan administration. It is also a term used to define organizations within the insurance industry which administer other services such as underwriting, customer service etc.

2.3.4 INSURANCE SURVEYORS

An individual or company, acting as an independent third-party expert examines and ascertains the condition of goods or transport equipment are called **Surveyors**. They often participate in the **insurance** claim process by examining goods to determine the level of damage and often how it occurred.

Insurance surveyors are usually used in General Insurance for the purpose of claim settlement or to ascertain the claim value.

2.4 LIFE INSURANCE MARKET OF PAKISTAN

The insurance industry in Pakistan is relatively small as compared to its peers in the Region. The insurance penetration and density has remained very modest as compared to other countries. However, the situation has been improving over the last 5 years and the insurance industry, especially life insurance has shown tremendous growth. This growth can be attributed to the change in perception of life insurance which is now being perceived as security for prosperous future in the event of some unfortunate incident.

Life insurance affects a country's social and economic structure to a great extent. Due to its nature, life insurance differs from all other kinds of insurance. In the last few years, this sector in Pakistan has experienced tremendous growth of 30-35% annually. There have been many product and operational innovations because of customer needs and increased competition among the players. Although the industry faces the challenges of uncertain economic conditions, it has also benefitted from the changes in the regulatory environment.

The impressive growth of the last few years is due to aggressive expansion of distribution channels, especially bancassurance which now comprises of a significant portion of the business of most private sector players. Bancassurance has enhanced the insurance industry in Pakistan in terms of increased market penetration by being able to access millions of bank's customers.

Recently, SBP has allowed conventional companies to open Takaful Window Operations which will further boost the insurance sector as companies with their expansive distribution channels will be able to target the market which was previously inaccessible due to religious reasons. Takaful now gives this target market the opportunity to access the value proposition of insurance. It aims to target that market segment that deems conventional insurance against the Islamic principles.

The key drivers of insurance growth in a country are typically macroeconomic factors, regulatory factors and demographics of a country. In Pakistan, the insurance penetration is less than 1% which is very low as compared to India and Bangladesh. Yet there is a remarkable opportunity for the whole sector as there is a huge untapped market. Insurance companies can grab this opportunity with innovative products tailor-made for customers' needs. Life insurance in Pakistan promises exciting growth. There is also room for new players in both conventional and Takaful areas. As of 2018, in the life insurance sector there are nine life insurers, including two family takaful operators and one state-owned insurer i.e., State Life Insurance Corporation of Pakistan. There are currently 41 non-life insurers operating in the market, including three general takaful operators and one state-owned insurer. Multinational players do not appear to be interested in this segment due to political instability and security concerns.

A major challenge facing the insurance industry is lack of quality human resource. Insurance companies need to invest in developing the competencies and skills of their employees along with technical abilities to innovate new products. Further, inculcating ethics and good business practice is also crucial.

Another major area of utmost importance is customer service. The needs of the customers are evolving and they rightly demand value and differentiation in return for their loyalty and long-term relationship. The insurers have to abide by various operational, regulatory and financial requirements which make it all the more complex and expensive. When insurers deliver an exceptional customer experience, it ultimately translates into profits. Therefore, continuous improvement and innovation is required in this area for insurance companies to excel.

The insurance sector is going through a lot of changes worldwide, creating new challenges and opportunities for both the insurers and regulators. Therefore, it is essential for insurance companies to go through organizational and operational restructuring to achieve overall efficiency by avoiding financial risk and uncertainties.

The players in the insurance market should ensure that the life insurance is presented to an individual with all its advantages and benefits. Better education and awareness that would result from a fair and quality transfer of knowledge would itself represent a motivational force that could be highly beneficial for the economy in general and for the insurance industry in particular.

CHAPTER-3

INSURANCE AGENCY

3.1 DEFINITION OF AN INSURANCE AGENT

Insurance Agent is a person or company who gives advice about and sells insurance for an Insurance Company or for number of insurance companies:

A good insurance agent can be a very useful guide to the policies available.

3.2 AGENCY CONTRACT UNDER THE INSURANCE ORDINANCE, 2000

An insurance agency, sometimes called an insurance brokerage or independent agency, solicits, writes and binds policies through many different insurance companies. They are not directly employed by any one insurance carrier.

Following are some extracts taken from the Insurance Ordinance 2000 for reference

102. Insurance brokers to be licensed.-

1) It shall be unlawful for any person to act as or describe himself or hold himself out or permit himself to be described or held out as an insurance broker in respect of direct insurance business unless he holds a current insurance broker's license issued by the Commission.

2) No person who is not a company shall be eligible to be licensed as an insurance broker.

3) An insurance broker's license may only be issued by the Commission to a company which complies with such minimum requirements as may be prescribed by the Government in respect of:

    a) paid-up capital;
    b) statutory deposits;
    c) professional indemnity insurance; and
    d) such other matters as may be prescribed.

4) An application for an insurance broker's license shall be made in the prescribed form, and shall be accompanied by the following documents, namely:-

    a) the memorandum and articles of the broker;
    b) evidence of professional indemnity insurance;
    c) a declaration in a prescribed form to the effect that neither the applicant nor any director or principal officer of the applicant is disqualified from holding his office as such;

d) a letter of support from not fewer than five registered insurers in the prescribed form, each signed, on behalf of the insurer, by a duly authorized representative;
e) evidence of payment of the prescribed fee; and
f) such other evidence and documents as may be prescribed.

5) An insurance broker's license shall be issued initially for a period of one year and may on application in the prescribed form be renewed annually.

6) The Commission may cancel or refuse to issue or renew a broking licence, where the Commission believes on reasonable grounds that the broker has contravened a provision of the Ordinance, including without limitation that the broker has failed to maintain prescribed minimum levels of paid-up capital, statutory deposit or professional indemnity insurance.

7) The Commission may apply for an order from the Tribunal, that a person is disqualified from acting as an insurance broker, or as a director or principal officer of an insurance broker, if it demonstrates on reasonable grounds that the activity of the person as an insurance broker or as a director or principal officer of an insurance broker would be detrimental to the interests of policy holders.

103. Brokers to be presumed agents under certain circumstances; liability of brokers when not so presumed.-

1) A licensed insurance broker shall be presumed to act as the agent of any insurer with which such broker has a contract of agency, so far as relates to any policies placed by that broker with that insurer, and the insurer shall be liable for the conduct or misconduct of the broker with respect to such policies.

2) Where a licensed insurance broker is not, by virtue of the foregoing subsection, presumed to act as the agent of an insurer, the broker shall be liable to the policy holder and the insurer shall not be liable for the conduct or misconduct of the broker as distinct from itself or its agents, except as otherwise provided in this Ordinance.

104. Ownership and management interests *inter se* of brokers and insurers prohibited.-

No insurer and no director of an insurer shall hold any direct or indirect ownership interest in an insurance broker or take part in the management or direction of an insurance broker, and vice versa.

105. Broker's duty to disclose relationships.-

(1) A licensed insurance broker shall disclose to the policy holder or intending policy holder any relationship between the broker and any insurer.

(2) A licensed insurance broker, in placing business with an insurer with whom the broker has a contract of agency, shall, before the contract of insurance is effected, inform the intending

policy holder of both the existence of the contract of agency and that the broker is acting as the agent of the insurer in respect of all matters concerning the contract of insurance.

106. Payments by and to insurance brokers.-

(1) Any sums received by an insurance broker from a policy holder or an insurer, other than remuneration payable to the broker by the insurer, shall be deemed to be held on trust for the insurer. Payment by a policy holder to an insurance broker shall be deemed to constitute payment to the insurer.

(2) Any amount held by an insurance broker for payment to the policy holder shall be paid to the policy holder as soon as practicable and in any case in not less than two weeks.

(3) Any amount held by an insurance broker for payment to the insurer shall unless the insurer has previously agreed otherwise in writing be paid to the insurer as soon as practicable.

(4) Any payment of money (other than premium) from an insurance broker to an insurer or vice versa shall be made by crossed cheque, pay order or electronic funds transfer.

107. Requirements in respect of persons ceasing to act as insurance brokers.-

(1) A company ceasing to act as an insurance broker shall maintain, for such period as may be prescribed, such minimum level of professional indemnity insurance in respect of liabilities arising from its activities as an insurance broker to which the company may be subject, as may be prescribed.

(2) No company formerly acting as an insurance broker may be voluntarily wound up during the period prescribed in the preceding sub-section.

108. Basis for payment of remuneration by insurers to insurance brokers.-

(1) A licensed insurance broker shall not receive from an insurer or from a person on behalf of an insurer a gift, gratuity, benefit or other reward (however described) except as remuneration for services rendered to the insurer:

a. in arranging or effecting a particular contract of insurance;
b. in connection with dealing with or settling a claim under a particular contract of insurance; or
c. otherwise than in connection with the broker arranging or effecting contracts of insurance or dealing with or settling claims under contracts of insurance.

(2) An insurer shall not pay to an insurance broker, and an insurance broker shall not receive from an insurer, in respect of the arranging or effecting of contracts of insurance by that insurance broker with the insurer, remuneration at a rate or on a basis that has been varied having regard to any one or more of the following:

a. the number of contracts so arranged or effected;
b. the total amount of premiums paid or payable under such contracts;
c. the total amount of sums insured under such contracts.

109. Insurance brokers to report annually to Commission.- A licensed insurance broker shall make an annual report to the Commission. Such report shall include audited accounts of the insurance broking business and such other information and statements as may be prescribed, each in such format as may be prescribed.

110. Power to inspect insurance agents and insurance brokers.- The Commission may, in accordance with procedures prescribed by rules, visit the premises of an insurance broker or of an agent of an insurance company, to establish compliance by the broker, or the agent, or any insurer of which the broker or agent is agent, with the provisions of this law relating to insurance contracts, brokers and agents.

3.3 LEGAL STATUS, RIGHTS AND RESPONSIBILITY OF THE AGENT AND PRINCIPAL

Responsibilities of an Agent and its principle are clearly defined under the law. However for reference some of them are reproduced below:-

95. LIABILITY OF INSURER FOR ACT OR OMISSIONS OF AGENT.-

1) Every insurer shall, so far as relates to a contract of insurance entered into by the insurer through an agent, be liable to the policyholder for the acts or omissions of that agent as though that agent were an employee of the insurer, in circumstances where the policy holder has relied in good faith on the agent and as a consequence has suffered loss or damage. Liability shall be absolute and shall not be capable of being contracted out of, either in the agency agreement or on a policy, proposal or other document.

2) For the purposes of this Part, any person who, for remuneration arranges insurance cover for a policy holder or intending policy holder, and who is not a registered insurance broker, shall be presumed to be the agent of the insurer in relation to any matter relating to insurance.

3) The provisions of the foregoing sub-section shall not operate to limit, curtail, diminish or extinguish any liability of the insurer to which the insurer would otherwise have been subject.

96. PERSONS ACTING AS AGENTS:-

1) It shall be unlawful for any person to act as an agent in respect of an insurer if that person, or, in the case of a body corporate, any director of the body corporate, or officer of the body corporate engaging in the business of insurance agency:

   a) is a minor;
   b) has been found of unsound mind by a Court of competent jurisdiction;

c) has been found guilty, within the five years preceding the present date, of criminal misappropriation or criminal breach of trust, cheating or forgery or an abetment of or attempt to commit any such offence by a Court of competent jurisdiction;
d) has served any custodial sentence imposed by a Court of competent jurisdiction, ending within the five years preceding the present date;
e) has been found guilty by a Court of competent jurisdiction of any offence involving insurance; or
f) has been otherwise declared as disqualified by the Tribunal, other than for a term which had expired prior to the present date.

2) It shall be unlawful for any person to act as an agent in respect of an insurer except under a contract in writing.

3) Any person who acts as agent in breach of this section, and any insurer who knowingly permits him to act as agent, shall be guilty of an offence.

4) A contract of agency shall include, and if it does not, shall be deemed to include, as a condition, that the agent must obtain the permission of the insurer before entering into a contract of agency with any other insurer while the contract with the first or any other insurer remains in force.

5) A contract of agency which does not disclose any existing contracts of agency with other insurers shall be deemed to include a warranty that no other such contracts exist.

99. PAYMENT TO AND BY INSURANCE AGENTS:-

1) Any sums received by an insurance agent from a policyholder or an insurer, other than remuneration payable to the agent by the insurer, shall be deemed to be held on trust for the insurer. Payment by a policy holder to an insurance agent shall be deemed to constitute payment to the insurer.

2) Any payment to which sub-section (1) applies shall be passed on to the insurer or the policy holder (as the case may be) as soon as practicable and in any case not later than two weeks from receipt by the agent.

3) No insurance agent shall, except with the approval of the insurer who is the agent's principal, pay to or receive from a policy holder or intending policy holder any sums in relation to a contract of insurance:

   Provided that this sub-section shall not operate to relieve any person from a liability to which that person is otherwise subject by the operation of this Ordinance.

4) It shall be unlawful for an agent to deduct from premiums paid by and received from a policy holder any sums on account of commission due to the agent.

5) No payment of commission or other remuneration to an insurance agent shall be made otherwise than by a crossed cheque, pay order or electronic funds transfer or in such other manner as may be prescribed:

   Provided that this sub-section shall not apply to payments to an agent which do not in the aggregate in one year exceed the sum of five thousand rupees.

100. DUTY TO DISCLOSE AGENCY.-

An agent acting for an insurer shall disclose to the policy holder or intending policy holder the fact that he acts as an agent for that insurer and any relationship between the agent and the insurer.

CHAPTER-4

RISK & INSURANCE

4.1 DEFINITION OF RISK AS IT RELATES TO INSURANCE

The term Risk is used in many ways and is given different definitions depending on the field and context. Common to most definitions of risk is uncertainty and undesirable outcomes or is the possibility of something bad happening or something bad that might happen.

INSURANCE RISK, The likelihood that an insured event could happen, requiring the insurer to pay a claim. For example, in life insurance, the insurance risk is the possibility that the insured party will die before his/her premiums equal or exceed the death benefit.

4.2 CATEGORIES OF RISK, TYPES OF RISK WHICH CAN BE INSURED, TYPES OF RISK WHICH CANNOT BE INSURED

Having dealt with the meaning of risk we shall now attempt to divert our attention to another aspect of the nature of risk which we shall call as Classification of risk.

It is required to know the complex classification and sub-classification of risk and also an insight into risks which can be insured and which cannot be.

We may look into this subject in the following manner:

1. Financial and Non-Financial Risks.
2. Pure and Speculative Risks.
3. Fundamental and Particular Risks.

1. Financial and Non-Financial Risks

Financial risks are the risks where the outcome of an event (i.e. event giving birth to a loss) can be measured in monetary terms.

The losses can be assessed and a proper money value can be given to those losses. The common examples are:

- Material damage to property arising out of an event. We may consider damage to a ship due to a cyclone or even sinking of a ship due to the cyclone. Damage to the motor car due to a road accident which may be of partial or total nature. Damage to stock or machinery etc.
- Theft of a property which may be a motorcycle, motor car, machinery, items of household use or even cash.

- Loss of profit of a business due to fire damaging the material property.
- Personal injuries due to industrial, road or other accidents resulting in medical costs, Court awards etc.
- Death of a breadwinner in a family leading to corresponding financial hardship.

All such losses, i.e. the outcome of unforeseen untoward events can be measured in monetary terms.

The losses can be replaced, reinstated or repaired or even a corresponding reasonable financial support (in case of death) can be thought about.

We would call all such financial risks as insurable risks and these are indeed the main subjects of insurance.

Non-Financial risks are the risks the outcome of which cannot be measured in monetary terms.

There may be a wrong choice or a wrong decision giving rise to possible discomfort or disliking or embarrassment but not being capable of valuation in money terms.
Examples can be:

- Choice of a car, its brand, color etc.
- Selection of a restaurant menu,
- Career selection, whether to be a doctor or engineer etc.
- Choice of bride/bridegroom,
- Choice of publicity etc.

Since the outcome cannot be valued in terms of money, we shall call these non-financial risks as uninsurable.

2. Pure and Speculative Risks.

Pure risks are those risks where the outcome shall result into loss only or at best a break-even situation. We cannot think about a gain-gain situation.

The result is always unfavorable, or maybe the same situation (as existed before the event) has remained without giving a birth to a profit (or loss).

To better understand **Pure & Speculative Risk** it is necessary that we may consider the example of a garments factory where we can have the existence of both pure risks and speculative risks. Here we have:

- Cyclone damage possibility to the factory building,
- Fire damage possibility to stock,
- Machinery breakdown possibility to Machinery,

- Theft possibility to removable items,
- Personal accident possibility of factory workers etc.

Here we are indeed talking about the possibility of certain losses emanating from certain untoward events or unforeseen contingencies (like cyclone, fire, theft, accident etc.) and for convenience we shall call them the risks of trade.

These are identified as pure risks and as such insurable. Notice that these losses can also be measured in monetary terms.

For speculative risk we may consider the following questions that we may have:

- the question of pricing of the product to remain in the competitive market,
- the question of fashion changes leading to a drastic fall in the demand of the product,
- the question of withdrawal of quota system,
- the question of credit sale

As opposed to Pure Risk, if we refer to the second set of example we notice that the outcome of the trade or business is not the result of pure risk but indeed the result of economic factors, supply & demand, change of fashion, trade restriction or liberalization etc. and for convenience we call them trade risk.

These may be identified as speculative risks and usually not insurable

3. <u>Fundamental and Particular Risks.</u>

<u>Fundamental risks</u> are the risks mostly emanating from nature. These are the risks which arise from causes that are beyond the control of an individual or group of individuals.

The losses arising out of such causes may be catastrophic in dimension and felt by a huge number of populations, the society or by the state although an individual may be a part to that catastrophe. The common examples are:

- Flood & Cyclone, Subsidence & landslip,
- Earthquake & volcanic eruption, Tsunami,
- Convulsion of nature and other natural disasters,
- Famine, Draught

Normally fundamental risks were not supposed to be insurable because of the magnitude and these were considered to be the responsibility of State. Now because of demand and insurers' strength, these risks are easily insurable.

<u>Particular risks</u> are; as opposed to what has been narrated hereinbefore, there are risks which usually arise from actions of individuals or even group of individuals.

These may be identified as causes arising from personal (or group) behavior and effects (losses) not being of that magnitude.

These are mostly man created because of their negligence, error in judgment, carelessness, and disregard for law or respect.

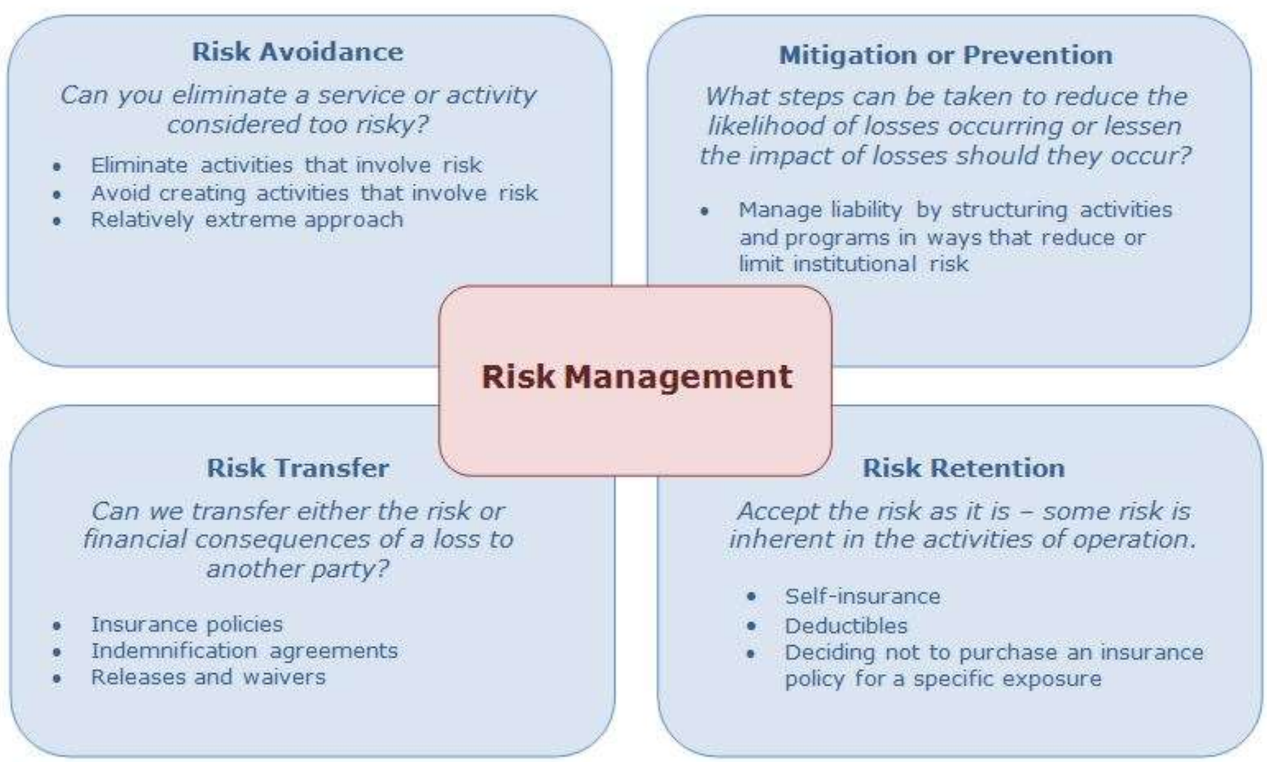
Particular risks are insurable risks and most of the insurances relate to these risks.

4.5 COMPONENT OF RISK

There are four components of effective **Risk management.** It is a process of identification, assessment and prioritization of risks and the subsequent coordinated and economical application of resources to minimize, monitor and control the probability and impact of losses. Effective risk management activities create value and should be an integral part of the decision-making process. How does risk management impact your bottom line?

- Opportunity for better pricing on insurance premiums
- Saves out-of-pocket costs like deductibles
- Ensures a safe and stable environment for employees, volunteers and customers
- Helps you understand and be prepared for risks before losses occur

Strategies for addressing an identified risk typically include two of the following:



4.6 BASIS OF INSURANCE AS A RISK TRANSFER MECHANISM

Risk transfer is a risk management and control strategy that involves the contractual shifting of a pure risk from one party to another. One example is the purchase of an insurance policy, by which a specified risk of loss is passed from the policyholder to the insurer. Risks may transfer between individuals, from individuals to insurance companies, or from insurers to reinsurers.

Insurance is a mechanism through which firms can reduce negative financial consequences of an uncertain event or possible financial loss. Insurance reduces the impact of financial loss on firms, including banks. Pooling of risk, risk transfer, and law of large numbers are important features of insurance.

4.7 POOLING OF RISK

Pooling of Risk is one of the forms mostly practiced by Insurance companies. Under this system, insurance companies come together to form a pool, which can provide protection to insurance companies against catastrophic risks such as floods or earthquakes. The term is also used to describe the pooling of similar risks that underlies the concept of insurance. While risk pooling is necessary for insurance to work, not all risks can be effectively pooled. In particular, it is difficult to pool dissimilar risks in a voluntary insurance bracket, unless there is a subsidy available to encourage participation. The best example of pooling of risk in Life Insurance is Re-insurance wherein one entity (the reinsurer) takes on all or part of the risk covered under a policy issued by an insurance company in consideration of a premium payment. In other words, it is a form of an insurance cover for insurance companies.

4.8 SELF INSURANCE; CO-INSURANCE; DUAL INSURANCE; REINSURANCE

Self-insurance describes a situation in which a person does not take out any third party Insurance. The essence of the concept is that a business that is liable for some risk, such as health costs, chooses to "carry the risk" itself and not take out insurance through an insurance company.

Co-insurance is the amount, generally expressed as a fixed percentage, an insured must pay against a claim after the deductible is satisfied. In health insurance, a coinsurance provision is similar to a co-payment provision, except co-pays require the insured to pay a set amount at the time of the service.

Dual Insurance or Double Insurance as it names, is the situation in which the same risk is insured by two overlapping but independent insurance policies. It is lawful to obtain double insurance and the insured can make claim to both insurers in the event of a loss because both are liable to pay the claim under their respective policies. The insured, however, cannot profit (recover more than the loss suffered) from this arrangement because the insurers are law bound only to share the actual loss in the same proportion they the total premium but in life

Insurance the Insurer is bound to pay the full claim as per terms & condition of the life insurance policy.

Reinsurance, also known as insurance for insurers or stop-loss insurance, is the practice of insurers transferring portions of risk portfolios to other parties by some form of agreement to reduce the likelihood of paying a large obligation resulting from an insurance claim. The party that diversifies its insurance portfolio is known as the ceding party. The party that accepts a portion of the potential obligation in exchange for a share of the insurance premium is known as the reinsurer.

4.9 BENEFITS OF INSURANCE

The problem is that, in most cases, the expenses incurred after an accident, the death of a loved one or a disability are beyond any savings or wealth that a person may have accumulated and it is for this reason that insurance is such an important component of your financial planning.

Purchasing insurance cover is more economical in the long-term than having to use your savings to pay for the loss or damage of assets, especially when it's a costly expense.

Ideally, insurance pay-outs should ensure that you don't incur any additional expenses at the time of the incident and that financial position is relatively unaffected"

Short term insurance is a financial contract that you take with an insurer to protect your movable assets in the case of damage or loss.

BENEFITS OF LIFE INSURANCE

- Life insurance provides an infusion of cash for dealing with the adverse financial consequences of the insured's death.
- Life insurance enjoys favorable tax treatment unlike any other financial instrument.
    - Death benefits are generally income-tax-free to the beneficiary.
    - Death benefits may be estate-tax free if the policy is owned properly.
    - Cash values grow tax deferred during the insured's lifetime.
    - Cash value withdrawals are treated on a first-in-first-out (FIFO) basis, therefore cash value withdrawals up to the total premiums paid are generally income-tax free.
    - Policy loans are income tax free.
    - A life insurance policy may be exchanged for another life insurance policy (or for an annuity) without incurring current taxation.

- Many life insurance policies are exceptionally flexible in terms of adjusting to the policyholder's needs. The death benefit may be decreased at any time and the premiums may be easily reduced, skipped or increased.
- A cash value life insurance policy may be thought of as a tax-favored repository of easily accessible funds if the need arises; yet, the assets backing these funds are generally held in longer-term investments, thereby earning a higher return.

CHAPTER 5

BASIC INSURANCE PRINCIPLES

5.1 ESSENTIALS OF A VALID CONTRACT

The general law of contract in Pakistan is contained in the Contract Act 1872 which is the main source of law regulating contracts in Pakistan. English decision's (where relevant) are also cited in the courts. It determines the circumstances in which promise made by the parties to a contract shall be legally binding on them. All of us enter into a number of contracts everyday knowingly or unknowingly. Each contract creates some right and duties upon the contracting parties. Contract Act deals with the enforcement of these rights and duties upon the parties. The Act defines "contract" as an agreement enforceable by law. The essentials of a (valid) contract are:

a) Intention to create a contract;
b) Offer and acceptance;
c) Consideration;
d) Capacity to enter into a contract;
e) Free consent of the parties;
f) Lawful object of the agreement;

Writing is not essential for the validity of a contract, except where a specific statutory provision requires writing. However, an arbitration clause (if any) should be in writing.

5.2 INSURABLE INTEREST

An insurable interest is a stake in the value of an entity or event for which a person or entity purchases an insurance policy to mitigate the risk of loss. Insurable interest is a basic requirement for issuing an insurance policy that makes the entity or event legal, valid and protected against intentionally harmful acts. Entities or events not subject to financial loss do not have an insurable interest and cannot be purchase an insurance policy to cover them in the event of loss.

5.3 UTMOST GOOD FAITH

Utmost good faith is a common law principle (sometimes called Uberrimae Fidei). The principle means that every person who enters into a contract of insurance has a legal obligation to act with utmost good faith towards the company offering the insurance.

5.4 INDEMNITY

Indemnity is a contractual obligation of one party (indemnifier) to compensate the loss occurred to the other party (indemnity holder) due to the act of the indemnity holder or any other party. The duty to indemnify is usually, but not always, coextensive with the contractual duty to "hold harmless" or "save harmless". In contrast, a guarantee is an obligation of one party assuring the other party that guarantor will perform the promise of the third party if it defaults.

Indemnities form the basis of many insurance contracts; for example, a car owner may purchase different kinds of insurance as an indemnity for various kinds of loss arising from operation of the car, such as damage to the car itself, or medical expenses following an accident. In an agency context, a principal may be obligated to indemnify their agent for liabilities incurred while carrying out responsibilities under the relationship. While the events giving rise to an indemnity may be specified by contract, the actions that must be taken to compensate the injured party are largely unpredictable, and the maximum compensation is often expressly limited.

5.5 PROXIMATE CAUSE

It is an event deemed by law to be the effective cause of an injury. In law, a proximate cause is an event sufficiently related to an injury that the courts deem the event to be the cause of that injury. There are two types of causation in the law: cause-in-fact, and proximate (or legal) cause. Cause-in-fact is determined by the test: But for the action, the result would not have happened. (For example, but for running the red light the collision would not have occurred.) The action is a necessary condition, but may not be a sufficient condition, for the resulting injury. A few circumstances exist where the “but for” test is ineffective. Since but-for causation is very easy to show (but for stopping to tie your shoe, you would not have missed the train and would not have been mugged), a second test is used to determine if an action is close enough to a harm in a "chain of events" to be legally valid. This test is called **proximate cause**. Proximate cause is a key principle of Insurance and is concerned with how the loss or damage actually occurred. There are several competing theories of proximate cause. For an act to be deemed to cause a harm, both tests must be met; proximate cause is a legal limitation on cause-in-fact.

The formal Latin term for "but for" (cause-in-fact) causation, is sine qua.

5.6 SUBROGATION

Subrogation is the assumption by a third party of another party's legal right to collect a debt or damages. It is a legal doctrine whereby one person is entitled to enforce the subsisting or revived rights of another for one's own benefit.

5.7 UNDERINSURANCE AND THE APPLICATION OF AVERAGE

Underinsurance refers to inadequate insurance coverage held by a policyholder. In the event of a claim, **underinsurance** may result in economic losses to the policyholder, since the claim would exceed the maximum amount that can be paid out by the insurance policy.

Average clause is applicable when the property and contents **insured** at the time of loss or damage is collectively of greater value than the sum **insured**. The **insured** person will be deemed to be the insurer to the extent of under insurance, bearing a **ratable** proportion of the loss.

The insurers or the insurance company will **only pay** for the **ratable** proportion of the loss. The average clause applies **only** when the sum insured is less than the actual value of the goods or the property.

The actual amount of claim is **determined** by the formula: Claim = Loss Suffered x Insured Value/Total Cost. The object of such an **Average Clause** is to limit the liability of the Insurance Company. Both the insurer and the insured then bear the loss in proportion to the covered and uncovered sum.

5.8 NON- LIFE INSURANCE AND ITS TYPES

Non- life insurance refers to the insurance of goods and properties. The insurance which is done for the physical properties other than human life is known as non-life insurance. The individual or organizations have to suffer a huge loss from the destruction of their physical things. Thus, they can ensure their properties against the varieties of risks. Such risks may be risk, marine risk etc. Non- life insurance is taken as a means of providing financial protection for building, machinery, equipment, furniture, and vehicle and merchandise items against the risk of fire, earthquake, accident and theft.

Non-life or general insurance includes fire insurance, marine insurance, and miscellaneous insurance.

CHAPTER 6

PRINCIPAL OF LIFE INSURANCE

6.1 LIFE INSURANCE CONTRACT

A life insurance policy is a contract with an insurance company. In exchange for premium payments, the insurance company provides a lump-sum payment, known as a death benefit, to beneficiaries upon the insured's death or to the policyholder at maturity under endowment insurance policy.

6.2 PRINCIPLE OF UTMOST GOOD FAITH

The principle of Utmost Good Faith is the first principle of an life insurance contract and also known as Uberrimae Fides. It means that both the policyholder and the insurer need to disclose all material and relevant information to each other before commencement of the contract.

6.3 INSURABLE INTEREST

In order to purchase a life insurance policy on another person, a beneficiary-owner (a person, trust, or business) has to prove an insurable interest or financial dependency in the insured person.

With regards to life insurance, someone having an insurable interest in you means that they would experience financial loss and hardship should you die. Therefore, for someone to purchase an insurance policy on your life and be considered the beneficiary (making them beneficiary-owner), they must be able to demonstrate an insurable interest. Do note that even with an insurable interest, anyone wanting to insure your life would also require your consent before a policy could be issued. There are some exceptions, such as a parent buying coverage for a minor child.

Generally the following individuals would be considered having an insurable interest.

- Yourself
- Your spouse or former spouse
- Your children or grandchildren
- A special needs adult child
- An aging parent(s)
- Any person under a legal obligation to you for payment of money, services, or property and whose death or illness could prevent or delay such a payment or performance

6.4 PRINCIPLE OF INDEMNITY

The principle of indemnity asserts that on the happening of a loss the insured shall be put back into the same financial position as he used to occupy immediately before the loss.
In other words, the insured shall get neither more nor less than the actual amount of loss sustained.

This, of course, is always subject to the limit of the sum insured and also subject to certain terms and conditions of the policy.

Therefore, to put it in a much better way, on the happening of a loss, the insurers will try to put back the insured into the same financial position as the insured used to occupy immediately before the happening of the loss, only if the insurance is properly arranged on full value insurance.

Under-insurance and restrictive terms of the policy may preclude the insured from getting the actual loss.

On the other hand, even if the sum insured is more than the actual value of the property or subject matter; this would not entitle the insured to get more than the actual loss.

This principle is indeed very important to keep the **business of insurance** on track and to keep it free from wagering.

6.5 NEEDS AND INSURANCE

The needs approach is a function of two variables:

1. How much will be needed at death to meet obligations
2. How much future income is needed to sustain the household

When calculating your expenses, it is best to overestimate your needs a little. If you underestimate, you might realize your mistake until it's too late.

The needs approach contrasts with the human-life approach. The human-life approach calculates the amount of life insurance a family will need, based on the financial loss the family would incur if the insured person were to pass away today. The human life approach usually takes into account factors such as the insured individual's age, gender, planned retirement age, occupation, annual wage, employment benefits, as well as the personal and financial information of the spouse and/or dependent children.

CHAPTER-7

LIFE INSURANCE PRODUCTS

7.1.1 UNIT LINKED POLICIES

A unit linked insurance policy (ULIP) is an investment product that provides for insurance payout benefits. The investment vehicle requires a premium payment which is invested in investment products for capital appreciation.

7.1.2 UNIVERSAL LIFE POLICIES

Universal life insurance Policy is permanent life insurance with an investment savings element and low premiums like term life insurance. Most universal life insurance policies contain a flexible premium option. However, some require a single premium (single lump-sum premium) or fixed premiums (scheduled fixed premiums).

7.1.3 WITH PROFIT AND WITHOUT PROFIT

This means that irrespective of the **profit** earned by the insurance company, the policyholders of **without-profit policies** will get fixed returns on the amount they have invested. However, **in** the case of **with-profit policies** the amount of bonus payable is based on the net surplus earned by the insurers.

7.2 INDIVIDUAL AND GROUP POLICIES

Group life insurance is a type of life insurance in which a single contract covers an entire group of people. Typically, the policy owner is an employer or an entity such as a labor organization, and the policy covers the employees or members of the group. Group life insurance is often provided as part of a complete employee benefit package. In most cases, the cost of group coverage is far less than what the employees or members would pay for a similar amount of individual protection. So if you are offered group life insurance through your employer or another group, you should usually take it, especially if you have no other life insurance or if your personal coverage is inadequate.

As the policy owner, the employer or other entity keeps the actual insurance policy, known as the master contract. All of those who are covered typically receive a certificate of insurance that serves as proof of insurance but is not actually the insurance policy. As with other types of life insurance, group life insurance allows you to choose your beneficiary.

Term insurance is the most common form of group life insurance. Group term life is typically provided in the form of yearly renewable term insurance. When group term insurance is provided through your employer, the employer usually pays for most (and in some cases all) of the premiums. Group term coverage remains in force until your employment is terminated or until the specific term of coverage ends.

7.3 TYPE OF INSURANCE PRODUCTS AS WHOLE LIFE PRODUCT, INTEREST SENSITIVE PRODUCT, TERM ASSURANCE

7.3.1 WHOLE LIFE PRODUCT

Whole life insurance is a type of permanent life insurance. That is, the coverage and possibly the premiums last for your entire life. As long as your premium payments are made as agreed, your insurance coverage lasts throughout your life, and the death benefit is a guaranteed amount. Your premium payments are a set, level amount that can't be increased. You can choose to make smaller premium payments throughout the life of the policy, larger payments over a shorter period (known as limited pay whole life), or lower premiums in the beginning and higher premiums afterward. In addition, dividends are typically paid on whole life contracts and can be used to either increase the death benefit or reduce the premiums.

When you pay the premiums on a whole life policy, part of each payment accumulates as a cash value. The insurance company typically invests the cash value, which continues to grow tax deferred as long as the policy is in force. You can borrow against the cash value, but unpaid policy loans and interest will be subtracted from your death benefit. You may also access your cash value by surrendering (cancelling) the policy. However, if you do this, you'll be left without this insurance coverage.

7.3.2 INTEREST SENSITIVE PRODUCT

Interest sensitive life insurance is a form of permanent life insurance coverage that combines the benefits of whole life and universal life policies. The policy is sometimes referred to as an "excess interest" or "current assumption" whole life policy. As with most permanent life insurance policies, the policy will remain in effect as long as the premiums are kept up to date and the named insured lives.

7.3.3 TERM ASSURANCE

Term life insurance or term assurance is life insurance that provides coverage at a fixed rate of payments for a limited period of time, the relevant term. After that period expires, coverage at the previous rate of premiums is no longer guaranteed and the client must either forgo coverage or potentially obtain further coverage with different payments or conditions. If the life insured dies during the term, the death benefit will be paid to the beneficiary. Term insurance is typically the least expensive way to purchase a substantial death benefit on a coverage amount per premium dollar basis over a specific period of time.

7.4 ANNUITIES, ENDOWMENT ASSURANCE ETC.

7.4.1 ANNUITIES

An annuity is a contract between a person and an insurance company that requires the insurer to make payments to you, either immediately or in the future. You buy an annuity by making either a single payment or a series of payments. Similarly, your payout may come either as one lump-sum payment or as a series of payments over time.

7.4.2 ENDOWMENT ASSURANCE

An endowment policy is a life insurance contract designed to pay a lump sum after a specific term (on its 'maturity') or on death. Typical maturities are ten, fifteen or twenty years up to a certain age limit. Some policies also pay out in the case of critical illness.

Policies are typically traditional with-profits or unit-linked (including those with unitized with-profits funds the holder then receives the surrender value which is determined by the insurance company depending on how long the policy has been running and how much has been paid into it.

It's a safest and surest method of guaranteed cash provision either at a specified time or at death. Under these policies, the sum insured plus bonuses are payable at the end of the specified number of years or at death of the life insured if earlier. Premiums are payable for the specified number of years or till death, if earlier. The benefits under the plan can be further increased by attaching supplementary covers.

TRADITIONAL WITH PROFIT ENDOWMENTS

There is an amount guaranteed to be paid out called the sum assured and this can be increased on the basis of investment performance through the addition of periodic (for example annual) bonuses. Regular bonuses (sometimes referred to as reversionary bonuses) are guaranteed at maturity and a further non-guarantee bonus may be paid at the end known as a terminal bonus. During adverse investment conditions, the encashment value or surrender value may be reduced by a MVR (It is sometime referred to as a market value adjustment but this is a term in decline through pressure from the Financial Conduct Authority to use clearer terms). The idea of such a measure is to protect the investors who remain in the fund from others withdrawing funds with notional values that are, or risk being, in excess of the value of underlying assets at a time when stock markets are low. If an MVA applies an early surrender would be reduced according to the policies adopted by the fund managers at the time.

FULL ENDOWMENT (WITH PROFIT)

A full endowment is a with-profits endowment where the basic sum assured is equal to the death benefit at start of policy and, assuming growth, the final payout would be much higher than the sum assured.

CHAPTER-8

UNDERWRITING

8.1 INTRODUCTION

Underwriting is the process by which an individual or institution takes on financial risk for a fee. The risk can relate to almost anything but most commonly involves loans, Insurance or Investments.

Insurance underwriters evaluate the risk and exposures of potential clients. They decide how much coverage the client should receive, how much they should pay for it, or whether even to accept the risk and insure them. Underwriting involves measuring risk exposure and determining the premium that needs to be charged to insure that risk. The function of the underwriter is to protect the company's book of business from risks that they feel will make a loss and issue insurance policies at a premium that is commensurate with the exposure presented by a risk.

Each insurance company has its own set of underwriting guidelines to help the underwriter determine whether or not the company should accept the risk. The information used to evaluate the risk of an applicant for insurance will depend on the type of coverage involved.

8.2 CLASSIFICATION OF RISK

Risk classification refers to the determination of whether a risk is **preferred, standard** or **substandard** based on the underwriting or risk evaluation process. Standard risks are those who bear the same health, habit and occupational characteristics as the persons on whose lives the mortality table used were compiled. Basically, a standard risk is simply an average risk. If a substandard risk presents an above average risk of loss, preferred risks present a below average risk of loss. In an effort to encourage the public to practice better health, the insurance industry has developed preferred risk policies with lower (or preferred) premium rates. Those applicants who may be eligible for preferred risk classification are those who: work in low risk occupations and do not participate in high-risk hobbies (scuba diving, sky diving, etc.), have a very favorable medical history, presently are in good physical condition without any serious medical problems, do not smoke and meet certain weight limitations. About 90 percent of individuals covered are standard or preferred risks. Less than 2 percent of individuals applying are turned down for coverage completely. That leaves about 8 percent that fall somewhere in between. More and more high-risk cases are becoming acceptable (and, also, many conditions once considered high risk are now, on the basis of more experience, being accepted as standard). Today it is a rare case when coverage cannot be found anywhere for almost any risk. Most insurers offer special but higher rates to persons who are not acceptable at standard rates because of health, habits or occupation. This is sometimes called substandard or extra risk insurance. Some companies have coined euphemistic names for it in order to avoid the rather insulting implication that persons offered this type of coverage are substandard.

8.3 FINANCIAL UNDERWRITING

Financial underwriting is a critical part of the underwriting process that examines the economic feasibility of the case at hand — allowing the underwriter to identify and verify insurable interest and assess face amount suitability at the time of application. The underwriter needs to have a clear understanding of the purpose of the life insurance policy, which in turn indicates what to look for in financially justifying the case.

8.4 NON-MEDICAL UNDERWRITING

Non-Medical Life Insurance is for those who want the quickest possible coverage without going through a longer underwriting process. There is no medical examination with Non-Medical Life insurance. The insurance company only uses your existing health information to underwrite your policy.

To get the best rates requires some form of medical underwriting. This often involves a medical examiner who comes to your home or office or u need to visit their office to obtain / acquire some medical information, measure your height and weight. Then depending on your face amount the examiner takes a blood and urine specimen. This medical exam is linked with your medical records to determine your health status.

Non-medical life insurance avoids the medical exam steps, underwriting are accomplished through questions and electronically available information. The tradeoff is slightly higher rates than a medically underwritten policy if you are healthy, the coverage can be put in force without the hassle of medical testing.

This product is a fully underwritten product which allows for rapid decision on available medical criteria. If you have any of the following medical conditions we recommend you use our fully underwritten products.

It shall be ensured that the information provided to the State Life insurance Corporation is correct, concealment of any fact could cause rejection of your claim on later stage.

8.5 UNDERWRITING BY AGENTS

An agency given underwriting and policy writing authority by an insurer. This authority actually allows an agent to price and issue the physical policy to the insured. In return for this additional administrative work, the agency normally receives increased commissions from the insurer involved.

CHAPTER-9

INSURANCE DOCUMENTS

9.1 INSURANCE DOCUMENTS INCLUDING PROPOSAL FORM, ILLUSTRATION AND OTHER RELEVANT FORMS.

9.1.1 INSURANCE DOCUMENTS

Documents are necessary to evidence the existence of a contract. In life insurance several documents are in vogue. The documents stand as a proof of the contract between the insurer and the insured. The major documents in vogue in life insurance are premium receipt, insurance policy, endorsements etc.

9.1.2 PROPOSAL FORM

Proposal form is the basic format which is filled in by the proposer who wants to take an insurance policy. It can be defined as the application for insurance.

A proposal form has three portions

a. The first gives details about the proposer, his name, address, occupation, the details about the type of insurance that he wants to take and the name of the nominee to whom the money is payable in case the policyholder does not survive to take the maturity amount.

b. The second portion relates to the details of the insurance policy that the proposer already possesses, the present health conditions and the personal history of his health, any sickness or accident he might have had. This is a detailed questionnaire and the proposer is expected to reply to each question truthfully and honestly. A female proposer has to reply to certain additional questions specific to her gender.

c. The last portion of the proposal form relates to the declaration. Through this declaration, the proposer

(i). Affirms the veracity of the statements made in the proposal form in replying to the question
(ii). Affirms that he/she has not suppressed, misrepresented or concealed any fact which may be material to the risk
(iii). Agrees that this declaration along with the proposal form shall form the basis of the contract and if any information is found to be false the contract will be null and void thus reinforcing the principle of "Uberimma Fides" (Utmost good faith).
(iv). Further agrees to take the insurance on the terms and conditions decided by the insurer. The proposer further agrees to keep the insurer informed of any

changes in the position relating to his health or his occupation between now and the issuance of the first premium receipt.

9.2 FIRST YEAR PREMIUM RECEIPT / RENEWAL PREMIUM RECEIPT.

First Year Premium Receipt:

Life insurance policy **receipt** issued upon **payment** of the **first premium** by an applicant. It makes the policy in force before the policy documents are issued, provided the applicant meets all requirements. In State Life a conditional / provisional receipt is issued upon submission of Premium at the Cash counter and First Year Premium Receipt is issued after completion of underwriting by the New Business Department after completion of all the underwriting requirements.

Renewal Premium Receipt:

Renewal premiums are the subsequent **premiums** that are paid by the insured to the insurer in order to keep the policy in operation and avail the benefits of the policy accordingly. If a policy holder fails to pay the **premiums**, then his policy lapses after a grace period or as per terms and condition of the Life Insurance Policy and the policy benefits will also be calculated accordingly. The payment receipt issued against the receipt of said Renewal Premium is called Renewal Premium Receipt.

Though it is the duty of the insured to pay the renewal premium on the due date the insurer sends a renewal premium notice to the insured out of courtesy and on receiving the premium issues a Renewal Premium Receipt which is an important document and has to be preserved as it is the only documentary proof that the due payment has been made.

9.3 POLICY DOCUMENTS, ENDORSEMENT, RENEWAL NOTICE, BONUS NOTICE OTHERS.

POLICY DOCUMENTS

The Policy Document is a legal contract which is also called the Master Contract embodying the agreement between the Policy Holder & State Life Insurance Corporation of Pakistan. This Legal Document is issued for a defined term.

Policy document is a detailed document and it is the Evidence of the insurance contract which mentions all the terms and conditions of the insurance. The insured buys not the policy contract, but the right to the sum of money and its future delivery. The insurer on its part promises to pay a sum of money, provided of course the insured keeps its part of promise of paying the installments of premium as scheduled. The pre-amble to the insurance contract makes the above statement clear and states that this policy is issued subject to the conditions and privileges printed on the back of the policy. The endorsements placed on the policy shall also be part of the policy and it also makes a reference to the proposal form saying that that the statements given in the proposal form are the basis of the contract. The schedule which is printed on the policy document identifies the office which has issued the policy. It states the name of the policyholder, the date of commencement of the policy, an identification number of the policy called policy number. This number is extremely useful for making any reference to the insurer relating to this policy. This shall avoid needless delay. Beneficiary's name is also mentioned along with address. It is necessary to check that it is correct and any mistake should be immediately pointed out for correction. A mistake in the address may misdirect the premium notices and any other future correspondence. It also states the name of the nominee and the date upto which premium has to be paid. The schedule goes on to mention, the type of policy, on the happening of which, the sum assured is payable and to whom it is payable. It of course also mentions when and how long the premium is to be paid. The policy document is signed by an official of the insurer and dated and stamped as per the provision of the Stamp Act to make it a completely legally enforceable document.

ENDORSEMENT:

Life insurance policy being a long term contract, it is quite likely that the conditions may so change over the time that an alteration or change in the policy conditions may be required. The insurers normally permit such changes which are in the interest of the policyholders and also simultaneously do not adversely affect the insurer's interest. It has to be noted however, that the insurer is not authorized to make any change in the conditions of the policy during its continuance except such which has been agreed to in the beginning of the policy. An insurance policy, in this sense is called "unilateral contract". All such alterations as are discussed hereafter are effected by endorsements on the policy document. The following alterations are not permitted.

(i). Alterations during the first year,
(ii). Alteration from one class of assurance to another where the premium scale is reduced.
(iii). Alteration to another plan which is more risk oriented.
(iv). Increase in sum assured in the same policy.

The following alterations are allowed

1. Limiting the premium paying period, but date of maturity remaining unaltered;
2. Change in the mode of payment of premium e.g. Half yearly to yearly or half-yearly to quarterly;
3. Alteration due to age admission, if required, has to be compulsorily done;
4. Alteration or correction in the name of the assured/ nominee;
5. Bringing the policy under salary savings scheme;
6. Replacing a limiting clause by an extra premium. For example the first pregnancy clause can be replaced by a onetime extra premium of Rs.5/- per thousand;

7. An extra premium imposed for specific impairment or occupational reasons can be removed or reduced. For example, an extra premium imposed for hernia or hydrocele can be removed after surgical operation. Similarly, an occupational extra premium can be removed, if there is change in occupation to a less hazardous one. However an occupational extra premium cannot be imposed, after the policy has been issued, even if the policyholder takes up a more hazardous job. All such alterations are effected by an endorsement on the back of the policy or by a separate memo which becomes part of the policy.

RENEWAL NOTICE

Keeping the policy in force is in the interest of the policyholder and also of the insurer. The insured loses the valuable protection that the life assurance policy ensures. The insurer loses because without the renewal premium coming, the heavy expenses which it incurs in the beginning of a policy cannot be compensated. Every insurer will, therefore, take all possible actions to reduce policy-lapses and if lapsed, to get the policy revived. An insurer therefore sends out regular premium notices even though it is not a legal requirement.

Premium notice is usually sent before the due date of the premium. An insurer is not legally obliged to send a premium notice. It is a matter of courtesy and greatly helps the life assured for timely payment of premium.

CHAPTER-10

POLICY CONDITIONS

10.1 AGE, DAYS OF GRACE, LAPSE AND NON FORFEITURE, PAID UP VALUE, REVIVAL, ASSIGNMENTS.

AGE:

Age is an important factor in deciding the quantum of premium against a policy. The document proving the age, i.e. age proof must be reliable and the insured has to undertake as to its truthfulness.

Each policy issued in State Life carries a stipulation that no benefits will be payable unless the age of the assured is admitted. The following documents are acceptable to admit the age of the assured

1. Computerized National Identity Card issued by (NADRA).
2. Certificate of Qualification or a certified extract from the records of any Board of Secondary & Higher Education / University, if the date of birth is stated therein.
3. Certified extract from Govt. record such as service book, civil list, etc., or from the service records of autonomous Bodies, local bodies, semi-government institutions etc.
4. Certified extract from municipal birth register or some other similar public registration record.
5. Recently issued NIC is not generally acceptable as age proof, if however, it is proved that no evidence of definite age proof exists or available and concerned Sector Head certifies the genuineness of NIC and date of birth in writing, then underwriter is at the liberty to accept NIC in such case.
6. Domicile and PRC or nationality certificate, if it bears the date of birth, issued by the competent government authority/ies.
7. Passport issued at-least a year ago.
8. Any Document like driving license, Government permit or license bearing age or date of birth, which was issued at least two or more years before the date of proposal.

FOR MINORS:

1. For minor lives, their registration number with NADRA along with birth certificate, school certificate etc., may be considered as age proof.
2. For standard live of 60 years or over and sub-standard live of 55 years or over, documents listed at 5 to 8 will not be accepted by the Corporation.
3. If the Document bears the year of birth without the date and month, 1st January of that year will be assumed as date of birth.
(Underwriting Guideline 2003)

GRACE PERIOD

Depending on the insurance policy, the grace period can be as little as 24 hours or as long as 31 days. The amount of time granted in an insurance grace period is indicated in the insurance policy contract. Paying 2nd year premium after Grace Period could lapse the policy and the policy needs to be revived according to the SOPs of the State Life.
However, paying 3rd year premium after the lapse of Grace period may cause a financial penalty from State Life or could cause financial loss to the policy holder as per terms and condition of the Policy.

However, if you fail to make the premium payment within the grace period, your term life insurance policy will lapse, and you will need to have it reinstated.

LAPSES AND NONFORFEITURE VALUES

In whole life insurance policies and in other life insurance policies of the Corporation, the benefits that accrue to the insured if the policy lapses due to nonpayment of premium. These benefits are usually either an amount of paid-up term life insurance or a cash surrender value. In State Life insurance policies the non-forfeiture values are available with policy document as illustration but these values are based on assumptions(depending upon the investment return) and not guaranteed.

PAID UP VALUE

When the premium for a life insurance policy is not paid on time and the policy stand lapsed, then the Policy acquires a Paid Up Value (if the policyholder choose to opt for option “A” at the time of submitting proposal form for insurance coverage to the Corporation) and it is considered a Paid Up Policy, such that the Sum Assured of the policy is reduced in proportionate with the number of premiums paid and total number of premiums of the policy.

REVIVAL

Life Insurance policy lapses when the insured defaults on the payments of renewal premium beyond a grace period. Insurance companies provide an option of reactivating the lapsed policy, within a specific period of time post the grace period. This period offered by the insurer to revive the policy and avail benefit pertaining to it is termed as revival period.

During the revival period, the policy is reinstated on the basis of certain conditions. In one case, the policy holder needs to pay the interest along with the unpaid premium. In another case, the policy holder needs to undergo medical tests in order to reinstate the policy.

ASSIGNMMENTS

An Assignment of a policy in favor of another person or institution can be effected by an endorsement on the policy. Re-assignment can also be done by a subsequent endorsement on the same policy. As a nomination is automatically cancelled due to an assignment, after re-assignment, it is necessary to make a fresh nomination. Likewise, if a policy holder draws policy loan from the Corporation the benefits against the said policy is automatically assigned to State Life Insurance Corporation of Pakistan but the assignment is limited to the value of the loan at the time of payment of proceeds.

10.2 NOMINATION, SURRENDER AND LOAN.

NOMINATION is a right given to the life insurance policyholder to appoint a person or persons to receive the benefit under the policy in case it becomes a death claim. Assume if a person who is insured dies, the nominee is entitled to receive the policy proceeds subject to certain conditions of policy and prevailing laws.

SURRENDER The cash surrender value is the sum of money an insurance company pays to a policyholder in the event that his or her policy is voluntarily terminated before its maturity or an insured event occurs. This cash value is the **savings component** of most permanent life insurance policies, particularly whole life insurance policies. It is also known as "cash value,"

Policy holder had decided to buy insurance policy for the protection of himself / herself and for his / her loved ones. After surrender, the policy loses all the benefits and facilities and his / her risk coverage ceases. Hence for the benefit of the policyholder and his / her loved ones, we suggest changing his / her mind of surrendering the policy. If a policyholder has some acute financial exigencies, it can be met by availing loan against the policy

A POLICY LOAN is issued by an insurance company and uses the cash value of a person's life insurance policy as collateral. Sometimes it is referred to as a "life insurance loan." Traditionally, policy loans were issued at a very low interest rate, but that is no longer universally true. If a borrower fails to repay a policy loan, the money is withdrawn from the insurance death benefit.

Unlike bank loans or mortgages, you do not have to pay back the loan you take when borrowing from a permanent life insurance policy. However, when you borrow the money based on your cash value, the amount you borrow may reduce the death benefit from the life insurance portion of your policy. If you do not pay the loan back and the interest combined with the amount borrowed starts to exceed the cash value, you could put your life insurance policy at risk. This can happen more quickly than you think.

Your State Life insurance policy provides a valuable facility of loan to meet the immediate financial exigencies of the policyholder by availing a loan upto 80% of net surrender value of the policy. On policy loans, we charge markup @ of 12.5% per annum compounded semiannually.

10.3 INDISPUTABILITY OF THE POLLICY.

A life insurance policy is always liable to have an indisputability clause. This clause clearly states that the insurance company will not argue on any claim after it has been in force for one or two years, except in the case of fraud, i.e., concealment of facts, medical history etc. The main purpose of this clause is to protect the consumer from rejection of a death claim without any reason due to non-disclosure of material information. After a policy has been issued for a few years, it will be difficult to establish if the non-disclosure is intended or an oversight. The indisputability clause states that the insurance company will not dispute the claim on this account. The claim can also be disputed if the premium is not paid.

CHAPTER-11

CLAIMS

11.1 INTIMATION PROCEDURE

11.2 CLAIM DOCUMENTS, FORMS

11.3 SETTLEMENT PROCEDURE

11.4 ACCIDENT AND DISABILITY BENEFITS

All above procedures are covered under the following article

Claim by Maturity

The policy holder is informed through a "Good News" letter one month in advance that his policy is being matured and proceeds have become payable. The insured is also requested at the same time to complete simple requirements such as:

- Maturity payment discharge voucher duly completed.
- Original policy document.
- Attested copy of CNIC.

Upon completion and receipt of these requirements claim proceeds are paid promptly to the policy holder.

Injuries/Disability Claim Settlement Procedure

According to provisions of the rider intimation of claim is required to be sent within 20 days after the occurrence of such injury to insurer or, as soon as possible. The serious nature of injury may prevent the claimant from forwarding intimation within the specified time.

This period is apparently mentioned so that examination, if found necessary, may be made to check the nature and extent of injuries reported. However, in case of conclusive proof of having sustained the covered injury this period for intimation may be relaxed. Upon receipt of intimation the premium status of the policy is first checked. If the policy is in force, than claim forms are issued to the insured

This set comprises of:

(i) Claimant's statement
(ii) Attending physician's report.

The claimant is required to mention all relevant details correctly and "Physician report" is to be completed by the attending doctor. Where claimant is taken to a Hospital the report is to be completed by the Hospital Doctor under official seal. The attending surgeon also gives estimated period of recovery and the extent of disability. In case of claimant being in service, a certificate of employer is also called for.

If nature of injuries indicates serious disability i.e., loss of a limb etc. further reports such as X-Rays are required are to be submitted. If the matter was reported to Police, then the photocopy of Police Report is also required. Upon all reports being found satisfactory the claim is settled.

Death Claims: Claims arising as a result of death of the life insured are to be dealt with always on priority basis. Such claims require best possible efficiency by all concerned competent to handle them.

Death claim intimation: Death claim is required to be communicated to the insurer within 90 days of the policy holder death. Upon receipt of claim intimation, if the policy is in force than claim forms are issued. This set of forms normally consists of:

- Claimant's Statement
- Proof of Death
- A Certificate by Last Attending Physician
- Certificate of Employer
- Certificate of Identity
- Original Policy Document
- National Identification Card

11.3. Claim Settlement Procedure

When claim form are received, they are scrutinized and submitted to members of claim committee for according approval for payment or expressing their view, otherwise for any further information if required. Upon approval for settlement by the competent authority a form of “discharge voucher” is issued to the claimant for completion and return. On receipt of this form claim proceeds are paid to the claimant promptly.

CHAPTER-12

LIFE INSURANCE MARKETING

12.1 MARKETING CONCEPT

The marketing concept is the philosophy that firms should analyze the needs of their customers and then make decisions to satisfy those needs, better than the competition. Today most firms have adopted the marketing concept, but this has not always been the case.

There are many definitions of marketing. The better definitions are focused upon customer orientation and satisfaction of customer needs:

According to Philip Kotler - "Marketing is the social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others."

According to P.F Drucker "Marketing is not only much broader than selling, it is not a specialized activity at all It encompasses the entire business. It is the whole business seen from the point of view of the final result, that is, from the customer's point of view. Concern and responsibility for marketing must therefore permeate all areas of the enterprise."

12.2 DISTRIBUTION CHANNEL

Already explained at Chapter 2.2

12.3 THE CUSTOMER

A customer by definition (sometimes known as a client, buyer, or purchaser) is the recipient of a good, service, product or an idea - obtained from a seller, vendor, or supplier via a financial transaction or exchange for money or some other valuable consideration.

12.4 STRENGTHENING RELATIONSHIP

Relation with the customer is an important factor in life insurance selling. You need to improve your relation with the customer either through Target Market selling or by other means. Following are few techniques to assess your target customer

TARGET MARKETING

So how do you find target markets? Here are 8 potential opportunities:

1. **Look at businesses or clients you are already serving.** Take a close look at your book of business. Do you write a lot of printers, restaurants or artisan contractors? Have you

had a lot of success providing life insurance for young families? Is long-term disability a market you know well? Maybe you have only one or two clients of a certain type of business, but others in your firm also a write a few of these clients. Leverage your firm's reputation as a specialist in this target market.

2. **Consider emerging industries or businesses, especially in your area.** Cybersecurity has been a growing concern for the past couple of decades and it just keeps getting more important. The benefit of developing deep expertise in one area is that you can use it to leverage the rest of the account. Write all the ancillary insurance as well. With cybersecurity, banks are an obvious example. But say you provide cybersecurity insurance for a manufacturer, you could also provide all the other property and casualty needs, including workers comp and employee benefits.

   The easiest, most consistent way to stay front and center in the minds of your target markets is by sending out a monthly newsletter.
3. **Did you work in a different industry before you started working as an insurance producer?** Do you have contacts you made while working in the restaurant business, construction or pharmaceutical sales that could be leveraged into insurance sales? Your knowledge of another industry could be your golden ticket.
4. **Maybe you have a personal story that makes you passionate about selling a certain kind of policy.** One producer tells the story of how his mother would not have lost her business if she had purchased disability insurance to give her the extra income she needed while she couldn't work for several months. If this was your story, you might become a kind of evangelist for making sure this doesn't happen to other small business owners.
5. **Observe the demographics in your area.** Life insurance opportunities exist with new families. What about long-term care for aging boomers? One producer looks for seniors who own CDs. He shows them the probate advantages of purchasing a life insurance policy for their beneficiaries, if they have any; or, if they don't, the advantages of an annuity.
6. **What do demographic or political trends tell you?** The ACA has been a challenge that's redirected the focus of a lot of agents. Right now the economy looks poised to add new jobs in manufacturing. Is this an opportunity? The demographic shift of baby boomers moving into retirement the past few years has opened a lot of opportunity for agents who want to focus on senior benefits: Life Insurance, Group Insurance, Medicare, long-term care, critical illness, annuities, etc.
7. **You don't have to restrict yourself to one target market, of course.** You might end up having specializations in several. You might want to work in several related target markets, which is typically the approach that many personal lines agencies take, providing a range of products to families and individuals throughout the life cycle. An agent could start by providing a young man with auto insurance, then go on to provide homeowners, life insurance, long-term disability, long-term care and annuities throughout that individual's lifetime.

Still debating whether target marketing makes sense for insurance producers? Here's my take on why this is the best approach to take unless you already have a developed book of business.

- **Target marketing allows you to use your time efficiently and provides a much better return on investment**. Have you ever tried to sell a product to a customer when you had no prior knowledge or experience with the industry or the product? The opportunity presented itself and you took advantage of being in the right place at the right time. Or so you thought. Then a competitor who specializes in the industry or the product suddenly turned up. The competitor offered a better product and made a better presentation and you were left feeling maybe a little embarrassed. But the worst part of all was you had probably invested a lot of time and energy getting up to speed, learning all about the new industry or product so you could make the sale. With target marketing, producers — and their staffs — use their time and resources much more productively because they know their market.
- **By focusing your efforts on the markets that you have studied and deal with on a regular basis, you build your reputation and credibility more easily**. When you use sales tools such as newsletters, brochures, and Internet marketing, you are aiming at a very defined, comparatively small market. When you do this consistently, making a series of impressions that underscore your expertise and interest in doing business, you're building your brand. Then when the opportunity arises, your prospect will recognize you and they will be much more likely to want to do business with you.
- **By targeting certain groups, whether demographic or trade groups, you develop premium volume in particular lines with similar risk characteristics**. This can make negotiating with underwriters easier and more efficient. In some instances, understanding your market well and building a sizeable volume in it may even allow you to leverage your book of business into a special program that you could wholesale to other agents.
- **Producers who specialize by trade group often comment on how much satisfaction they feel serving a particular industry**. Many come to feel as if they are part of the target industry itself, belonging to its associations, serving on committees with industry members and generally developing a strong bond with the group. This can offer great personal and professional satisfaction.

Even if you're a seasoned producer with a well-developed book of business, think about targeting your future efforts if you have never done so before. You'll work smarter not harder.

12.5 FUNCTION OF AN AGENT

In principal the agent's functions include: to (1) act on behalf of and be subject to the control of the principal, (2) act within the scope of authority or power delegated by the principal, (3) discharge his or her duties with appropriate care and diligence, (4) avoid conflict between his or her personal interests and those of the principal,

Functions of Sales Agent

1. Prospecting with a well-directed systematic process.
2. Qualifying prospects based on standards

3. Cultivating Centers of Influence.
4. Being involved in the community.
5. Keeping complete Prospects files and records.
6. Obtaining Referrals (Names).
7. Having a well-defined Market and building clientele.
8. Exploring the market
9. Meeting qualified prospects and their needs.
10. Fulfilling requirements to get a proposal materialized in accordance with Life insurance policies.
11. To prove post-sale service to policyholders for example claims handling.
12. Maintaining a liaison with your Area Office, Sector and Zonal office for continuous learning process.
13. Any other requirements to meet your business goals that may be prescribed by the Corporation.

12.6 ADVERTISEMENT

Advertisement is a technique that how a company encourages people to buy their products, services or ideas. An advertisement (or "ad" for short) is anything that draws good attention towards these. It is usually designed by an advertising agency for an identified sponsor, and performed through a variety of media. Ads appear on television, as well as radio, newspapers, magazines and as billboards in streets and cities. They try to get people to buy their products, by showing them the good rather than bad of their products.

Advertisers influence our emotions by techniques that include stereotyping and targeting the audience according to who we are. Emotions are influenced by things such as this our occupation, beliefs, personality, self-esteem, lifestyle, relationships, friends, how we look and what we wear. Advertisers use methods that attract attention.

For example, to make a burger look tasty in advertising, it may be painted with brown food colors, sprayed with waterproofing to prevent it from going soggy and sesame seeds may be super-glued in place. Advertising can bring new customers and more sales for the business. It can be expensive but can help make a business make more money.

12.7 CUSTOMER SATISFACTION

Customer satisfaction (often abbreviated as **CSAT**, more correctly **CSat**) is a term frequently used in marketing. It is a measure of how products and services supplied by a company meet or surpass customer expectation. Customer satisfaction is defined as "the number of customers, or percentage of total customers, whose reported experience with a firm, its products, or its services (ratings) exceeds specified satisfaction goals.

4 great ways to improve your customer satisfaction

1. Treat every customer as if they were a VIP and Give every customer the same excellent treatment as you would like to receive for yourself.

2. **Keep measuring customer satisfaction.**
   Studies show that 91% of unhappy customers will never come back to a business they believe is below par. By frequently measuring customer satisfaction, you can reduce the number of unsatisfied customers and prevent customer churn. An effective and easy way to measure customer satisfaction is using an online survey tool from a survey provider.

3. **Know how you should survey your customers – the right way.**
   With a customer feedback survey you are able to find out how happy your customers are with you, if and what you need to do to improve your services and to identify those customers who love your services and could possibly send new customers your way. A Net Promoter Score is the ultimate survey to find out how likely it is that your customer would recommend your business to others, with one simple question. If you choose to have a slightly more comprehensive survey, make sure you keep it fairly short, less than 10 questions and not longer than 3.5 minutes.

4. Keep an eye on what customers say about you on social media. Every message from a customer presents an opportunity to improve customer satisfaction. Compliments show you what to reinforce, while complaints point to new ideas and action steps for improvement.

CHAPTER-13

ROLE OF INSURANCE AGENT

13.1 WHAT IS AN INSURANCE AGENT

Definition: An agent is a person who represents an insurance firm and sells insurance policies on its behalf.

Description: Generally, there are two types of such agents who reach the prospective parties that may be interested in buying insurance. These are independent agents and captive or exclusive agents.

Independent agents may represent many insurance firms and receive commission for their services accordingly. On the other hand, there are captive agents who are exclusively employed by a particular insurance firm and sell policies of the same. Their services can be rewarded in the form of salary or commission.

13.2 SELLING PROCESS

When working as an agent for State life insurance, you have several roles and responsibilities. Try to avoid focusing on just one of these roles. Instead, make an effort to be well-rounded in all of these roles, and you'll see the results with good commissions and a burgeoning clientele.

13.3 PRE-APPROACH, INTERVIEW, OBJECTION, CLOSING, SERVICE, ETHICAL BEHAVIOUR.

PRE APPROACH

Educate Your Clients.

Since State Life sells various Life Insurance Products therefore the clients need someone to educate them on the different types of policies available. When they understand the different types of policies, they can make informed decisions about what's best for them and their families. As you teach your clients, they learn to trust you and rely on your solid advice.

Paint the Big Picture.

When selling life insurance, you have a responsibility to help your clients see the big picture. How will their life insurance policies fit their overall financial goals? Do they need to make adjustments to their policies because of financial or family related changes? As their life insurance agent, you can help answer these questions and resolve any concerns.

INTERVIEW

Be Thorough.

When meeting a new client for the first time, refrain from recommending a particular policy too quickly, even if you're pretty sure it's the right one for them. Instead, ask a lot of questions in your initial interview to get a thorough picture of their needs, current financial situation, and future goals. Your effort shows your customer that you care about finding a policy that meets their specific needs.

Keeping these roles and responsibilities in mind can help you build a strong clientele when working with State Life. With the right approach your clients will come to trust you and depend on your good advice, all while you have the satisfaction of a job well done.

ETHICAL BEHAVIOR

Be a Consultant.

When making long-term financial decisions, most people like to consult with experts. Demonstrate that you are an expert in life insurance by sharing your expertise with them. Provide accurate facts and figures, and be available to speak with them any time they have questions. Increase your credibility by presenting charts and graphs specific to their personal financial situations, and stay current on industry trends and new information.

SERVICES

Be a Liaison.

You are the connection between your client and State Life Insurance Corporation of Pakistan. If your client has a problem with the Corporation, be a liaison and try to figure out what the problems is. When you sell a policy and then disappear completely from your client's life, you lose credibility and future business from the client or from referrals. If a client has a simple question about billing or an address change, get involved and see what you can do to solve the problem or at least direct the client to someone at the respective Zonal Office of State Life who can help. Such exemplary customer service proves to your clients that you care.

OBJECTIONS

The prospects may raise objections after the proposal. Usually objections appear as obstacles to the progress of the sale; however it can be an opportunity and positive sign in satisfying the customer and lead that the prospective policyholder is interested in buying your product. Even though most of us think of objections as something negative, they do form a vital part in the progress of the big deal. They open up lines of communication by making you aware of how your prospects are thinking when they object to your suggestions and proposals, and this awareness can help you.

Objections work, it indicates that your prospect is:

- Paying attention to your proposals
- Interested enough to consider possibilities
- Seeking further information
- Evaluating your proposal

Objections can warn you that you need to change your tactics if they indicate that your prospect is:

- Stalling (cutting you short)
- Concealing something
- Making excuses
- Not interested

If the prospect is genuinely interested in your proposals and seeking information, you are in a position to increase his/her interest by providing that information. If the prospect is stalling, concealing or making excuses, you must chip away at the objections until the prospect faces the need to take action.

CLOSING

A good closing of business would help you to Seek New Clients and procure new business.

To ensure future work for yourself, seek out new clients regularly. If you treat your current clients well, they will refer their friends and acquaintances to you. You can also look for new clients through newsletters, ads, door approaches, presentations at seminars and workshop
The CLOSE is that definitive request for that final commitment from the prospect. In most cases this is made by a sales person.

There are some commonly used closing technique; each of which is designed to seek agreement, obtain an opinion or gain a reaction of the prospect.

- Try to involve the prospect in your sales talk
- Keep the proposal form right before your eyes.
- Talk to the prospect when there is no one else present.
- These steps should be accomplished in one session: Fill the proposal form, get it signed
- Receipt of payment through cheque and don't ask for cash payment

13.4 CONSUMERISM IN INSURANCE

Consumerism is a social and economic order that encourages the acquisition of goods and services in ever-increasing amounts with the industrial revolution.

In economics, consumerism may refer to economic policies which emphasis consumption. In an abstract sense, it is the consideration that the free choice of consumers should strongly orient the choice by manufacturers of what is produced and how, and therefore orient the economic organization of a society. In this sense, consumerism expresses the idea not of "one man, one voice", but of "one dollar, one voice", which may or may not reflect the contribution of people to society.

CHAPTER-14

PERSONAL DEVELOPMENT

14.1 SCOPE

Personal development covers activities that improve awareness and identity, develop talents and potential, build human capital and facilitate employability, enhance the quality of life and contribute to the realization of dreams and aspirations. Personal development takes place over the course of a person's entire life.[1] Not limited to self-help, the concept involves formal and informal activities for developing others in roles such as teacher, guide, counselor, manager, life coach or mentor. When personal development takes place in the context of institutions, it refers to the methods, programs, tools, techniques, and assessment systems that support human development at the individual level in organizations.

14.2 PRODUCT KNOWLEDGE

LIFE INSURANCE PRODUCTS

a. Unit Linked Policies
b. Universal Life Policies
c. With Profit and Without Profit Polices
d. Individual and Group Policies
e. Types of Insurance Products as Whole Life Products/plans, Interest sensitive product, Term Assurance
f. Annuities, Endowment Assurance etc.
g. Insurance Products for Female and Children etc.

Life Insurance Products

State life has twenty nine (29) Bonus based life insurance products / policies. (Refer to State Life Rate Book for detail)

Unit Linked Policies

These are unique insurance plans which are basically a mutual fund and term insurance plan rolled into one. The investor doesn't participate in the profits of the plan, but gets returns based on the returns on the funds he/she had chosen.

Universal Life Policies

A life insurance product that provides for variable interest rate assumptions and flexibility in the premium and death benefit amount.

With Profit and Without Profit

With Profit: These policies offered the policyholder a share of the profits of the insurance company. These are termed with-profits policies. With-profits policies are used as a form of collective investment scheme to achieve capital growth.

Without Profit: These policies provide no rights to a share of the profits of the company.

Individual Life Products

Individual Policies: Including all with profit policies and Supplementary contracts

Plans	Tables
Whole Life Insurance Plans	01,02,
Endowment Plans	03,04,05,06,07,09,12,14,17,18,19,36,73,74,75,76,77,78,79
Single Premium Plans	71
Term Insurance Plans	24,25
Annuities	26,27,28-29-31
Mortgage Protection Policy	22,23
Rider	FIB, ADB, AIB, TIR, WP, SWP, GI, RPR, H&S,ND

Table - 01, Whole Life Assurance: It is a unique combination of protection and savings at a very economical premium. It matures at the age of 85 years. Death at any time before age 85 years terminates payment of premiums and the sum insured plus bonuses (if any) become payable. Under this plan the rates of bonuses are usually much higher than the other plans.

Plan Type	Bonus Based
Maturity	Maturity age is 85 years
Entry Age	Min. 10 years, Max. 65 years
Mode	Monthly, Quarterly, Half yearly& Annually
Riders	ADB,AIB,FIB,TIR,WP,SWP,H&S,GI
Need	Best For Saving And Protection On Very Economical Premium

Table - 03 Endowment Assurance: Unique saving and protection scheme. The Policyholder can get a particular amount of money at a specific time speculated on the basis of his / her future requirements.

Plan Type	Bonus based
Entry Age	10 years to 65 years
Tenure	Min. 10 years, Max. 55years or Max. Risk coverage up to Age of 75 years
Mode	Monthly, Quarterly, Half yearly& Annually
Riders	FIB, ADB, AIB, TIR, WP, SWP, GI, RPR, H&S
Need	Retirement , Expansion of business, Children's education and marriage, Purchase of land or construction of house, Loan repayments, etc

Table - 05 Anticipated Endowment Plans (Three Payment Plan): The full sum assured plus bonuses (if any) are payable at death of the assured any time while the policy is in force.

Survival Benefits: On completion of one-third Term of Policy, 25% of the sum assured becomes payable and on completion of two-third Term of Policy, another 25% of the sum assured is payable.

Maturity Benefits: On completion of Term, the 50% balance of the Sum Assured plus Bonuses (if any) are payable. If the policy holder avail both the survival benefits (SB).

Plan Type	Bonus based
Entry Age	20 years to 57 years
Tenure	18 ,21 ,24 ,27 ,30 , years,
Mode	Monthly, Quarterly, Half yearly& Annually
Riders	ADB, AIB, FIB, TIR, WP, SWP, RPR, H&S
Need	A saving plan which provides guaranteed 3 payouts & bonuses on savings. Besides fulfilling the long-term financial needs, it also helps in meeting the medium term & short-term financial exigencies.

Table-19 Jeevan Sathi Plan: State Life has designed a Policy on the lives of husband and wife which is named as Jeevan Sathi Plan. This Policy ensures financial protection and a secure future for married couples as well as business partners. This policy is issued on the lives of husband and wife and simultaneously cover the risk on the lives of both for the sum assured premiums are payable till the specified term or till death of either of the assured persons, if earlier. On the death of the first life, the sum assured will be paid to the survivor. Further premiums under the policy will be waived, and the insurance protection on the second life will continue. The policy will continue to participate in the profits of the corporation

On the death of the second life, again the sum assured will be paid (to the nominee) together with the attaching bonuses .In this event the policy will terminate. If the second life survives the term of the policy, he/she will be paid the sum assured together with the attaching bonuses, even though the sum assured has been paid once, on the death of the first life.

If both the lives survive the term of the policy, the sum assured will be paid to them jointly, only once, together with the attaching bonuses.

Plan Type	Endowment Bonus Based
Entry Age	Min. 18 years, Max. 65 years (Individual life) & 50 years (equivalent Age)
Tenure	10, 15, 20, 25, 30, 35 years
Mode	Monthly, Quarterly, Half yearly& Annually
Riders	FIB , AIB, ADB, TIR

Need	Protection for the family, to get rid of future economic problems, to meet post-retirement needs. Satisfied and happy future Stability of the business in case of (God forbid) death of one partner

Uniform Seniority Table

When difference between the ages of two lives is	Deduct from age of older life
0 To 1 year	Nil
2 To 3 years	1 Year
4 To 6 years	2 Years
7 To 9 years	3 Years
10 To 13 years	4 Years
14 To 17 years	5 Years
18 To 24 years	6 Years
25 To 33 years	7 Years

Table - 36 Shad Abad Plan: This plan meet the requirements of those who demand the basic savings purpose of Endowments Insurance and some additional coverage to protection.
Death Benefits: If the Policyholder dies (God forbid), double Sum Assured and bonuses (if any) are payable to the beneficiaries. If the Policyholder dies (God forbid) due to accident, four times Sum Assured and bonuses are payable to the beneficiaries/nomine.

Plan Type	Endowment Bonus Based
Entry Age	Min. 20 years - Max. 60 years
Tenure	10, 15, 20, 25 years
Mode	Monthly, Quarterly, Semi Annual & Annual
Riders	AIB, FIR, TIR, SWP, RPR, H&S
Need	▪ To meet the post retirement needs. ▪ For the expansion or stability of business. ▪ To meet the expenses of education or marriage of children, ▪ For the purchase of land or house

Table-75 Child Education & Marriage Plan: Child Education and marriage plan is best for the financial protection of child's future. This plan provides coverage for a specified term. It provides a lump sum benefit for the child at the completion of the policy term. The term of the plan is such that the lump sum benefit becomes payable when the child attains a pre-determined age of 18, 21 or 25 years. These ages may be selected considering the occasion at which children generally need financial assistance for higher education, marriage or setting up business the salient feature of plan is.

Benefits: If the policy holder dies before the expiry of the term. A regular income benefits of Rs.240/1000 sum insured per annum is paid to the child until the completion of policy term. Further, the future premiums under the policy are waived and the policy remains in force with full sum assured and continues to participate in State Life's surplus and receive bonuses.

Plan Type	Endowment Bonus Based
Child Age	01 Year to 15 Years
Payer Age	20 Year to 60 Years
Tenure	Minimum 10 years, Maximum 24 years
Mode	Monthly, Quarterly, Half yearly& Annually
Riders	FIB, ADB, AIB, TIR, WP, SWP (built in 24% F.I.B)

Non-Declinature Scheme (ND): This scheme is designed to cater to the financial protection requirements of persons who do not want to fulfill due medical requirements or are unable to fulfill due to his present state of health. The maximum sum assured available under this scheme is Rs.35 lacs. Only annual premium payment mode is available under this scheme. The usual occupational extra will be charged, if the proposer follows a hazardous occupation or takes part in hazardous sports. No rider can be attached to N-D scheme. Under ND policies 31 days grace period will be strictly observed

Death in the first policy year: Payment of sum assured only, if the death occurred by accident as defined in the policy, otherwise no benefit is payable.

Death in the second policy year: Payment of sum assured only, if death occurred by accident as defined in the policy, otherwise return of the second policy year premium only.

Death in the third and later policy years: Payment of full sum assured and bonuses as per policy.

Plan Type	Bonus Based
Entry Age	Min. 20 years - Max. 58 years
Plans	03 (Endowment), 05 (Three payment)
Plane Tenure	03 (10,15,20 , 05 (18,21)
Mode	Only Annual premium payable
Riders	No Rider Can Be Attached
Claim	In Case Of Natural Death
1st Year	Only if death occurred by accident as defined in policy otherwise No Claim Payable
2nd Year	Only if death occurred by accident as defined in policy otherwise

	return of the second policy year Premium only
3rd Year & Onward	Full Claim (Sum Assured + Bonus)

7.3 Individual Life Supplementary Contracts/Riders

AIB (Accidental Death & Indemnity Benefit)

Death	Sum Assured
Entry Age	Min. 18 years, Max. 55 years
Rate	Rs 04/1000 to Rs9/1000 (depending upon the occupation)
Coverage	Up to Rs.100,00,000/= (10 Million)

Loss or Disability

Loss of life by accident One Time Additional Basic Sum Assured

Loss of two or more Limbs by amputation at or above wrist or ankle Basic Sum Assured Total and irrecoverable loss of all sight and both eyes Basic Sum Assured Total and irrecoverable loss of all sight and one eye and one limb Basic Sum Assured Loss of one limb by amputation at or above the wrist or ankle 1/2 Sum Assured.
Total and irrecoverable loss of all sight in one eye 1/3 Sum Assured
Loss of thumb and Index finger of either hand by amputation 1/4 Sum Assured

For other Injuries,

On Temporary total Disability (Weekly @Rs, 5/1000) * **Maximum of 52 weeks**
On partial Disability (Weekly @Rs, 1.25/1000)

Permanent and total continuous disability Annuity payables 10% of Sum Assurance for maximum period of 10 years.

Term Insurance Rider (TIR): One time additional sum assured is payable in case of Policy Holder Death in addition to the benefits already payable under the basic policy. It can be issued three times of the basic sum assured. This supplementary cover is an excellent opportunity for individuals who want to enhance risk coverage. It is available to lives between 18 and 60 years of age or Age at maturity: 70 years. It can be offered to both males and females in category A.

Family Income Benefit (FIB): This supplementary cover provides, that incase of death of the life insured during term of this cover an annuity of 10% to 50% per annum of the basic sum insured will be payable to the nominee till the completion of remaining term of this cover.

Accidental Death Benefit (ADB)

Death	Sum Assured
Entry Age	Min. 05 years, Max. 55 years (on child's life age is not less than 5 years)
Rate	Rs 1.25/1000 to Rs 2.50/1000 (depending upon the occupation)
Coverage	Up to RS.100,00,000/= (10 Million)

Waiver of Premium (WP): This supplementary cover provides for waiver of due premiums in the event of the life insured are Total and Permanent Disability caused by accident. It is offered to males and females in category A, who are gainfully employed. WP is available to lives between 18 and 55 years of ages.

<u>The rate of premium for standard risk will be</u>
Age 20 to 24 Years: Rs. 0.50 per thousand Sum Assured
Age 25 to 29 Years: Rs. 0.75 per thousand Sum Assured
Age 30 and above: Rs. 1.00 per thousand Sum Assured

Special Waiver of Premium (SWP): This supplementary cover provide for waiver of premiums under the policy in case of the life insured's Total and Permanent Disability due to accident or disease which renders him unable to engage in any occupation. SWP is available to lives between 20 and 55 years of ages.

It is offered to self-supporting males and females in category A. Premium is charged according to the health and occupation of the life proposed. Written notice of disability must be given to State Life within 13 weeks of the occurrence of any disability. Proof satisfactory to State Life of the disability and the claim must be furnished within 7 days of the end of the waiting period.

14.3 CUSTOMER ORIENTED BUSINESS TARGET

A service offered by companies that focuses on the internal and external needs of a business's customers. Consumer orientation establishes and monitors standards of customer satisfaction and strives to meet the clientele's needs and expectations related to the product or service sold by the business.

Given the current state of the economy, having a well-defined target market is more important than ever. No one can afford to target everyone. Small businesses can effectively compete with large companies by targeting a specific market.

Targeting a specific market does not mean that you are excluding people who do not fit your criteria. Rather, target marketing allows you to focus your marketing investments and brand message on a specific market that is more likely to buy from you than other markets. This is a much more affordable, efficient, and effective way to reach potential clients and generate business.

14.4 TIME MANAGEMENT

Time management is the process of planning and exercising conscious control of time spent on specific activities, especially to increase effectiveness, efficiency, and productivity.
“Time management” is the process of organizing and planning how to divide your time between specific activities. Good time management enables you to work smarter – not harder – so that you get more done in less time, even when time is tight and pressures are high. Failing to manage your time damages your effectiveness and cause stress.

> It seems that there is never enough time in the day. But, since we all get the same 24 hours, why is it that some people achieve so much more with their time than others? The answer lies in good time management.

The highest achievers manage their time exceptionally well. By using the time-management techniques in this section, you can improve your ability to function more effectively – even when time is tight and pressures are high.

14.5 LONG TERM RELATION

Since you’ve been in Life Insurance business, you know how difficult it can be to win a new customer. You spend quite a bit of money and time marketing to consumers in the hopes of landing even one sale. Even when a first-time customer completes a purchase, there’s no guarantee that person will be back to buy more.

The segment of your customer, who regularly buys from you, could be the biggest asset for you and your Corporation. By adjusting your marketing spends so that you target not only new customers but also nurture your existing policyholder, you could enjoy far greater profitability. Here are some ways that you can ensure your Organization has a sizable share of long-term customers.

Engage them

Long-term customers generally do far more than buy a company’s products. They connect with the business itself, which incentivizes them to keep coming back. Through your website, email messaging, and social media posts, make sure you’re engaging the customers and increasing their personal connection.

With the right tools in place, you can gather information and put it to use in making them feel as though they have more of a one-on-one relationship with your Corporation.

Allow them to experience your brand.

Nothing can replace the experience of interacting with a company in person. When customers can meet you and your team, while also seeing the feature of the State Life Insurance Policies, they'll feel a stronger connection than if they'd only purchased from your website and read your email messages. Therefore personnel engagement with the prospective policyholder is essential to build a long term relationship.

Do not miss any opportunity to meet your customers in person, using experiential marketing techniques to announce, invite, and follow up afterward.

Explore their social media influence.

When it comes to getting the word out about your brand, not all customers are created equal. Some will have a large online following, while others will have an inactive social media presence. Nurturing relationships with your more engaged customers can pay off if they mention you online.

Provide value

Your goal is to introduce a new policy holder with the Life Insurance products of the Corporation. A consumer's goal is to find products and services according to their needs. As you develop a strategy to build customer loyalty, keep in mind what the average customer would hope to get out of such a relationship.

Through your briefing about the Life Insurance Policy and experiences, you can make connections that will add value to your customers' lives according to their needs, which will in turn make them want to keep buying from you.

Make them feel special.

No customer wants to feel as though he or she is just a number. This is one benefit that small businesses have over much larger corporations. As your business grows, though, it can become far more difficult to know each person. It would be appropriate to start building data base about your customer so when your business grows you already have information about your clients in your database, include the date of the customer's first purchase and a notes section where you and your staff can input small details that come up.

To create a history you can call upon when they need to personalize a conversation with a customer.

Respond to every concern.

Even the most loyal customer can have problems. When someone calls for help, it's important to offer the same friendly, attentive service no matter how many times they've bought from you. But if a long-term buyer has an issue, it's important to flag the call for immediate attention to avoid losing someone who regularly makes purchases.

Regularly, monitor your policyholder's complaints that are posted on social media or review sites. This type of criticism can not only cause you to lose the customer doing the complaining, but it could also scare off any new potential clients who are thinking of buying.

Businesses work hard to win repeat business from new customers. But it can be easy to lose customers without even realizing why they're choosing not to return. Using the right tools, brands can learn more about the buyers they're attracting in order to come up with better marketing strategies.

These tools can also help a business ensure it provides great service moving forward, both to brand new customers and those who have been buying from them for years.

14.6 MOTIVATION, MORALE

Motivation is the reason for people's actions, willingness and goals. Motivation is derived from the word *motive* which is defined as a need that requires satisfaction. These needs could also be wants or desires that are acquired through influence of culture, society, lifestyle, etc. or generally innate. Motivation is one's direction to behavior, or what causes a person to want to repeat a behavior, a set of force that acts behind the motives. An individual's motivation may be inspired by others or events (extrinsic motivation) or it may come from within the individual (intrinsic motivation). Motivation has been considered as one of the most important reasons that inspire a person to move forward. Motivation results from the interaction of both conscious and unconscious factors. Mastering motivation to allow sustained and deliberate practice is central to high levels of achievement e.g. in the worlds of elite sport, medicine or music

It is the process of stimulating people to actions to accomplish the goals. In the work goal context the psychological factors stimulating the people's behavior can be -

- desire for money
- success
- recognition
- job-satisfaction
- team work, etc

One of the most important functions of management is to create willingness amongst the employees to perform in the best of their abilities. Therefore the role of a leader is to arouse interest in performance of employees in their jobs. The process of motivation consists of three stages:-

1. A felt need or drive
2. A stimulus in which needs have to be aroused
3. When needs are satisfied, the satisfaction or accomplishment of goals.

Therefore, we can say that motivation is a psychological phenomenon which means needs and wants of the individuals have to be tackled by framing an incentive plan.

Morale, also known as ***esprit de corps*** (French pronunciation: [ɛspʀi də kɔʀ]), is the capacity of a group's members to maintain belief in an institution or goal, particularly in the face of opposition or hardship. Morale is often referenced by authority figures as a generic value judgment of the willpower, obedience, and self-discipline of a group tasked with performing duties assigned by a superior. According to Alexander H. Leighton, "morale is the capacity of a group of people to pull together persistently and consistently in pursuit of a common purpose". Morale is important in the military, because it improves unit cohesion. Without good morale, a force will be more likely to give up or surrender. Morale is usually assessed at a collective, rather than an individual level. In wartime, civilian morale is also important. *Esprit de corps* is considered to be an important part of a fighting unit.

Morale can be defined as the total satisfaction derived by an individual from his job, his work-group, his superior, the organization he works for and the environment. It generally relates to the feeling of individual's comfort, happiness and satisfaction.

> According to Davis, "Morale is a mental condition of groups and individuals which determines their attitude."

In short, morale is a fusion of employees' attitudes, behaviors, manifestation of views and opinions - all taken together in their work scenarios, exhibiting the employees' feelings towards work, working terms and relation with their employers. Morale includes employees' attitudes on and specific reaction to their job.

There are two states of morale:

High morale - High morale implies determination at work- an essential in achievement of management objectives. High morale results in:

- A keen teamwork on part of the employees.
- Organizational Commitment and a sense of belongingness in the employees mind.
- Immediate conflict identification and resolution.
- Healthy and safe work environment.
- Effective communication in the organization.
- Increase in productivity.
- Greater motivation.

Low morale - Low morale has following features:

- Greater grievances and conflicts in organization.
- High rate of employee absenteeism and turnover.
- Dissatisfaction with the superiors and employers.
- Poor working conditions.
- Employees frustration.
- Decrease in productivity.
- Lack of motivation.

14.7 COMMUNICATION SKILL

The ability to communicate effectively with superiors, colleagues, and staff is essential, no matter what industry you work in. Workers in the digital age must know how to effectively convey and receive messages in person as well as via phone, email, and social media. Good communication skills will help you get hired, land promotions, and be a success throughout your career.

Top 10 Communication Skills

Want to stand out from the competition? These are the top 10 communication skills that recruiters and hiring managers want to see on your resume and cover letter. Highlight these skills and demonstrate them during job interviews, and you'll make a solid first impression. Continue to develop these skills once you're hired, and you'll impress your boss, teammates, and clients.

1. Listening

Being a good listener is one of the best ways to be a good communicator. No one likes communicating with someone who only cares about putting in his two cents and does not take the time to listen to the other person. If you're not a good listener, it's going to be hard to comprehend what you're being asked to do.
Take the time to practice active listening. Active listening involves paying close attention to what the other person is saying, asking clarifying questions, and rephrasing what the person says to ensure understanding ("So, what you're saying is…"). Through active listening, you can better understand what the other person is trying to say, and can respond appropriately.

2. Nonverbal Communication

Your body language, eye contact, hand gestures, and tone of voice all color the message you are trying to convey. A relaxed, open stance (arms open, legs relaxed), and a friendly tone will make you appear approachable and will encourage others to speak openly with you.
Eye contact is also important; you want to look the person in the eye to demonstrate that you are focused on the person and the conversation (however, be sure not to stare at the person, which can make him or her uncomfortable).
Also, pay attention to other people's nonverbal signals while you are talking. Often, nonverbal signals convey how a person is really feeling. For example, if the person is not looking you in the eye, he or she might be uncomfortable or hiding the truth.

3. Clarity and Concision

Good verbal communication means saying just enough – don't talk too much or too little. Try to convey your message in as few words as possible. Say what you want clearly and directly, whether you're speaking to someone in person, on the phone, or via email. If you ramble on, your listener will either tune you out or will be unsure of exactly what you want.

Think about what you want to say before you say it; this will help you to avoid talking excessively and/or confusing your audience.

4. Friendliness

Through a friendly tone, a personal question, or simply a smile, you will encourage your coworkers to engage in open and honest communication with you. It's important to be nice and polite in all your workplace communications. This is important in both face-to-face and written communication. When you can, personalize your emails to coworkers and/or employees – a quick "I hope you all had a good weekend" at the start of an email can personalize a message and make the recipient feel more appreciated.

5. Confidence

It is important to be confident in your interactions with others. Confidence shows your coworkers that you believe in what you're saying and will follow through. Exuding confidence can be as simple as making eye contact or using a firm but friendly tone. Avoid making statements sound like questions. Of course, be careful not to sound arrogant or aggressive. Be sure you are always listening to and empathizing with the other person.

6. Empathy

Using phrases as simple as "I understand where you are coming from" demonstrate that you have been listening to the other person and respect their opinions.
Even when you disagree with an employer, coworker, or employee, it is important for you to understand and respect their point of view.

7. Open-Mindedness

A good communicator should enter into any conversation with a flexible, open mind. Be open to listening to and understanding the other person's point of view, rather than simply getting your message across. By being willing to enter into a dialogue, even with people with whom you disagree, you will be able to have more honest, productive conversations.

8. Respect

People will be more open to communicating with you if you convey respect for them and their ideas. Simple actions like using a person's name, making eye contact, and actively listening when a person speaks will make the person feel appreciated. On the phone, avoid distractions and stay focused on the conversation.

Convey respect through email by taking the time to edit your message. If you send a sloppily written, confusing email, the recipient will think you do not respect her enough to think through your communication with her.

9. Feedback

Being able to appropriately give and receive feedback is an important communication skill. Managers and supervisors should continuously look for ways to provide employees with constructive feedback, be it through email, phone calls, or weekly status updates. Giving feedback involves giving praise as well – something as simple as saying "good job" or "thanks for taking care of that" to an employee can greatly increase motivation.
Similarly, you should be able to accept and even encourage, feedback from others. Listen to the feedback you are given, ask clarifying questions if you are unsure of the issue, and make efforts to implement the feedback.

10. Picking the Right Medium

An important communication skill is to simply know what form of communication to use. For example, some serious conversations (layoffs, resignation, changes in salary, etc.) are almost always best done in person.

You should also think about the person with whom you wish to speak, if they are a very busy person (such as your boss, perhaps), you might want to convey your message through email. People will appreciate your thoughtful means of communication and will be more likely to respond positively to you.

14.8 BEHAVIOR WITH OTHERS

The ways in which one's acts or conduct oneself, especially towards others. Here are some tips to be more successful in the work place.

- Behave professionally.
- Learn to take criticism gracefully.
- Learn to do your job, and do it well.
- Cultivate good relationships with the customer.
- When you get the opportunity to learn a new skill, receive training for a different activity.
- Maintain a clean job performance record.
- Be on time.
- Ask your customer what the expectations for outcome are.
- Be part of the solutions.
- Don't drag your feet.
- Always be positive
- Dress appropriately for your job.
- Hold your head high and be confident.
- Don't spend a lot of time on personal phone calls.
- Acceptance is the key.

CHAPTER-15

LAWS AND REGULATION

15.1 INSURANCE ORDINANCE, 2000

The President of Pakistan had promulgated the Insurance Ordinance, 2000 on 19th August 2000 repealing the Insurance Act 1938. The objectives of this ordinance are said to be:

** To regulate the business of the Insurance industry.*
** To ensure the protection of the interest of insurance policyholders.*
** To promote sound development of the insurance industry.*

The new ordinance has divided life insurance business and non life insurance business into following classes:

LIFE INSURANCE BUSINESS:

1. Ordinary Life Business.
2. Capital Redemption Business.
3. Pension Fund Business.
4. Accident and Health Business.

NON-LIFE INSURANCE BUSINESS:

1. Fire and Property Damage Business.
2. Marine, Aviation and Transport Business.
3. Motor Third Party Compulsory Business.
4. Liability Business.
5. Worker's Compensation Business.
6. Credit and Surety-ship Business.
7. Accident and Health Business.
8. Agriculture Insurance including Corp, Insurance.
9. Miscellaneous Business.

A public company or a body corporate can start insurance business in Pakistan. A certificate of registration as insurer will be obtained within six months for life business and non-life business separately. The registered insurer will meet the requirements of minimum paid up capital, statutory deposits, solvency, requirements, and reinsurance: arrangement appointment of auditors and to comply with Provisions of this Ordinance.

A registered insurer shall have to pay an annual supervision fee to SECP at the rate of Rs. 1 per thousand of gross premium written in Pakistan during the calendar year with a minimum of Rs. 100,000.

For sound and prudent management fit and proper persons with appropriate experience and qualification will be employed to conduct their duties with due diligence and skill.

REINSURANCE ARRANGEMENTS

The insurers will maintain assets in excess of liabilities to meet solvency requirement as per this Ordinance. Insurance companies will maintain adequate reinsurance arrangements.

The insurers will submit the quarterly returns on the prescribed form to SECP. The auditors shall be appointed by the commission to audit the accounts of insurer. Actuary report for life insurance business shall be necessary. If any return is considered inaccurate or defective the Commission can call for further information, call upon insurer; examine any officer of insurer

(or decline to accept the return).

If an insurer is likely to become unable to meet liabilities the commission can investigate the affairs of an insurer. If necessary the services of an auditor or actuary can be hired for investigation by the commission. The Commission has the power to prescribe maximum level of acquisition costs and management expenses.

15.2 SEC INSURANCE RULES, 2017

The said rules are available at the website of SECP
https://www.secp.gov.pk/documents/rules/

S.R.O. 89(I)/2017.- In exercise of powers conferred by section 167 of Insurance Ordinance, 2000 (XXXIX of 2000) read with S.R.O. 708(I)/2009 dated 27th July 2009, the Securities and Exchange Commission of Pakistan, with the approval of the Policy Board, is pleased to make the following rules, the same having been previously published in the official Gazette through S.R.O. 1057(I)/2015 dated October 30th, 2015.

1. Short title and commencement.- (1) These Rules shall be called the Insurance Rules, 2017.

(2) These rules shall come into force at once.

Some key features related to insurance agent and employer of agent of the said Rules are given here under for reference.

33. Conduct of agents and insurer.- (1) For the purpose of sections 96 to 99 of the Ordinance, the following actions of an agent shall be treated as violations of the Ordinance, and the agent shall be disqualified from engaging into the business of insurance agency for a period of five years, namely:-

a) Acts as agent in breach of any of the sub-sections of section 96;
b) Holds the property or other documents and cover notes of the previous insurer after entering into the contract of agency with the new insurer;
c) Fails to pass on the payment received from the policyholder to the insurer within the prescribed time as per sub-section (2) of section 99; and
d) Receives from or pays to a policyholder or intending policyholder any sum in relation to the contract of insurance without prior approval of the insurer in violation of sub-section (3) of section 99.

(2) For the purposes of sections 96 to 99, the following actions of an insurer shall be treated as violations of the Ordinance, and the insurer shall be liable to penalty as per section 156 of the Ordinance, namely:-

a) Appoints a person as an agent in breach of any of the subsections of section 96;
b) Fails to take action as provided in sub-rule (3) on the written complaint of the policyholder or intending policyholder within a period of two months;
c) Knowingly permits a disqualified agent to obtain and operate another contract of insurance agency in the name of another person or close relative who is not an active insurance agent;
d) Pays commission or other remuneration to an agent in violation of sub-section (5) of section 99; and
e) Fails to disqualify an agent found guilty of offence under sub-rule (1).

(3) On receipt of a written complaint from the policyholder or intending policyholder that an agent or any other person related to the agent has received money in relation to a contract of insurance from the complainant and the agent has failed to deposit this money with the insurer, the insurer shall conduct an inquiry into it and inform the policyholder or intending policyholder, as the case may be, about the outcome of the inquiry within two months period of the complaint.

34. Qualifications required of insurance agents.- For the purposes of section 97 of the Ordinance, the following shall be the prescribed qualifications, namely:-

a. For persons holding license of insurance agent or certificate of employer of agents under the repealed Act, there shall be no prescribed qualifications; and

b. for persons entering into agency contracts after commencement of the Ordinance, the minimum qualification shall be Matriculate or Secondary School Certificate, and in the case of a natural person, that person, or in the case of a body corporate, each director, or in the case of a partnership, each partner, shall have the said qualification, and -

(i) agents operating in the non-life insurance business shall be required to complete the foundation course of the Pakistan Insurance Institute or a foundation course of thirty days' duration, to be organized in-house by the concerned insurance company, subject to that insurance company having prior approval of the course syllabus by the Commission; and

(ii) Agents operating in the life insurance business shall be required to complete a foundation course of three months duration, to be organized by the concerned insurance company.

(iii) for persons entering into agency contracts with insurers after June 30, 2017, the minimum qualification shall be Higher Secondary School Certificate or equivalent, and in the case of a natural person, that person, or in the case of a body corporate or a partnership, each of its designated persons engaged in the business of insurance sales, shall have the said qualification, and such agents or designated person shall be required to undergo a foundation course based on a curriculum as approved by the Commission within a period of one year from the date of entering into agency contracts, conducted by the respective insurer or an institute recognized by the Commission, and shall also be examined and certified by an institute. The agents or designated person shall also be required to attend a refresher course after every two years from such institute(s) as specified by the Commission for the purposes of continued professional education:

Provided that agents and designated persons may be given exemption from the requirement of foundation course who meet such criteria and requirements as may be approved by the Commission from time to time, but such exemption shall be availed through registering with an institute as approved by the Commission.

Provided further that agents or designated persons who are matriculate or hold Secondary School Certificate and have already completed a foundation course, in case of non-life insurance from Pakistan Insurance Institute and in case of life insurance from the respective insurer prior to commencement of this sub-rule, shall stand exempted from the requirement of foundation course. Such person shall, however, be required to register with an institute as approved by the Commission within three months of the date of effect of this sub-rule and attend a refresher course after every two years from such institute(s) as specified by the Commission for the purposes of continued professional education.

35. Registration of insurance agents.- Every insurer shall, in the register required to be kept by it for the purposes of sub -section (1) of section 98 of the Ordinance, maintain the following details in respect of each insurance agent, namely:

(a) For a natural person:

(i) his name;
(ii) his date of birth;
(iii) his residential address;
(iv) his postal address (if different);

(v) the names of persons employed by the insurance agent for the purpose of carrying out the business of an insurance agent;
(vi) the date of appointment and his registration; and
(vii) such other particulars as may be specified by the Commission.

(b) For a body corporate:

(i) its name;
(ii) the address of its registered office;
(iii) its postal address (if different);
(iv) a description of the business carried on by it (other than insurance agent);
(v) the names of shareholders holding more than ten per cent of the issued share capital;
(vi) the date of appointment and its registration; and
(vii) such other particulars as may be specified by the Commission.

(c) For a firm:

(i) its name;
(ii) the address of its principal office;
(iii) its postal address (if different);
(iv) a description of the business carried on by it (other than insurance agent);
(v) the names of the partners in the firm; and
(vi) the date of appointment and its registration.

36. Statement and declaration required of insurance agents.- (1) Every insurer shall, before appointing an insurance agent, and thereafter at intervals of not less than twelve months, obtain from every insurance agent continuing to be appointed by it a statement of the information required under Rule 35 to be held by it in its register.

(2) Every statement obtained under sub-rule (1) shall be accompanied by a declaration by the insurance agent stating that—

a) The information given by him in accordance with sub-rule (1) is complete and correct;
b) he has complied with the requirements of the Ordinance and the rules made thereunder concerning the required qualifications of an agent;
c) he is (in the case of an existing agent) engaged or (in the case of an agent seeking appointment) proposes to engage *bona fide* in obtaining insurance policies for the insurer to whom the declaration is made;
d) he undertakes to comply, and (in the case of an existing agent) declares that he has during the previous twelve months complied with the relevant

provisions of the Ordinance and the rules made thereunder concerning the conduct of an agent; and

e) he, or, in the case of a body corporate, any director of the body corporate, or officer of the body corporate engaging in the business of insurance agency, or, in the case of a firm, any partner of the firm, or officer of the firm engaging in the business of insurance agency, is not disqualified from acting as an insurance agent by virtue of:-

(i) Being a minor;
(ii) Having been found of unsound mind by a Court of competent jurisdiction;
(iii) Having been found guilty, within the five years preceding the date of the declaration, of criminal misappropriation or criminal breach of trust, cheating or
Forgery or an abetment of or attempt to commit any such offence by a Court of competent jurisdiction;
(iv) Having served any custodial sentence imposed by a Court of competent jurisdiction, ending within the five years preceding the date of the declaration;
(v) Having been found guilty by a Court of competent jurisdiction of any offence involving insurance; or
Having been otherwise declared as disqualified by the Insurance Tribunal, other than for a term which had expired prior to the date of the declaration.

(3) Every statement and declaration required under this rule shall be made in writing and the declaration shall be signed —

a. in the case of a natural person, by the applicant and duly attested in the presence of witnesses who shall, not be related to the applicant;
b. in the case of a body corporate, by not fewer than two directors of the body corporate and duly attested; and
c. in the case of a firm, by not fewer than two partners of the firm and duly attested.

(4) The statement and declaration shall be retained by the insurer for a period of not less than five years from the date of the declaration and shall be produced to the Commission on demand.

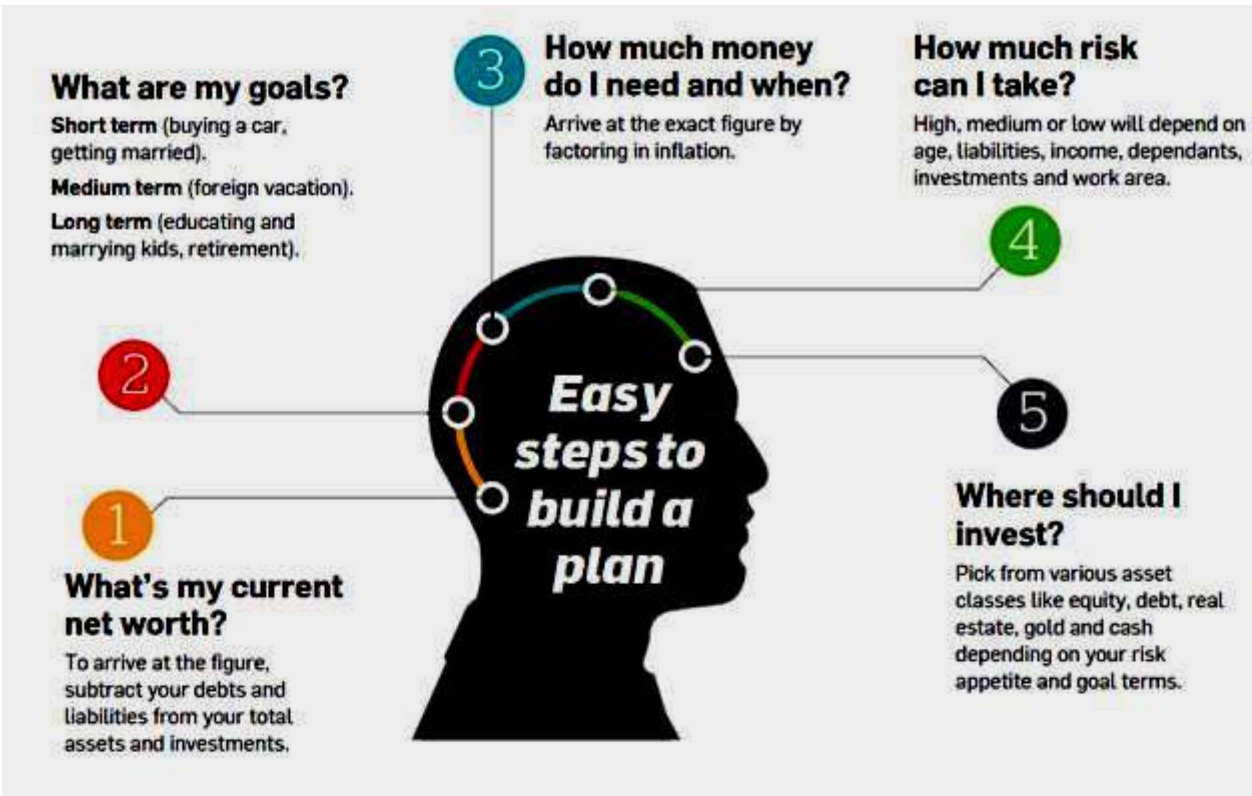
(5) An agent shall notify to the insurer of any change in the details required under sub-rule (1) within three months of that change having effect, such notification to be in writing and signed

a. in the case of a natural person, by the agent and duly attested in the presence of witnesses who shall not be related to the agent;
b. in the case of a body corporate, by not fewer than two directors of the body corporate and duly attested; and
c. in the case of a firm, by not fewer than two partners of the firm and duly attested.

(6) If an agent or, in the case of a body corporate, any director or officer of the body corporate engaging in the business of insurance agency, or, in the case of a firm, any partner or officer of the body corporate engaging in the business of insurance agency becomes disqualified for any reason from acting as an insurance agent, the agent shall within seven days notify the insurer of the disqualification and shall forthwith cease, or cause the disqualified person to cease, engaging in the business of insurance agency.

(7) In addition to the statement and declaration under this rule, the insurer may, as and when it deem necessary, call for other information, documents, photographs, etc.

15.3 FINANCIAL PLANNING & TAXATION



<u>Tax Credit on Investment in Life Insurance Under Section 62 of Financial Bill 2012</u>

In respect of any Life Insurance premium paid on a policy to a life Insurance Co. registered by the Security Exchange Commission of Pakistan under the Insurance Ordinance 2000, provided the resident person is deriving income chargeable to tax under the head "Salary" or "Income from business"

<u>Formula</u>

A. Is the amount of tax assessed to the person for tax year before tax credit
B. Is the person's taxable income for the tax year
C.

A-Total premium paid by the person

B-15% of the taxable income

C-Rs. 1,000,000

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