Open Vocational Education Programme

Diploma in Insurance Services

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BUSINESS ENVIRONMENT

Designed & Developed
by

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Senior Executive Officer
Business & Commerce

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A-24-25, INSTITUTIONAL AREA, SECTOR 62, NOIDA (U.P.)

Diploma in Insurance Services

BUSINESS ENVIRONMENT

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Dear Learner,

This programme is specially for all those who are school dropouts and have started small enterprises, want to work in the Insurance sector as a skilled workforce and contribute substantially to the progress of India.

The multi-skill content with hands-on experience of this programme stimulates the intellect by going through concrete operations and then abstracting the concepts. At the same time by giving a variety of skills usable in everyday life, allowing them to form their preferences and know their aptitudes thus enabling them to choose a career. It also improves their self-image and gives them confidence and hope for the future.

The Insurance sector has completed its full circle in the year 2000, i.e. Private sector to Public sector and now back to Private sector. After 44 years, the monopoly of Life Insurance Corporation is no more and after 27 years four Public Sector general Insurance companies lost their monopoly. As on date there are 50 life and general insurance companies and few are queue to get license.

These insurance companies need trained manpower to be present on all India bases. To cater the needs of the insurance industry NIOS has designed a course namely "Diploma in Insurance Services" for the students who have minimum qualification of 12th standard.

In this module the student will be made familiar with the principles of commercial contracts as well as insurance on which the insurance business is transacted.

In this module the student will be made familiar with the activities related to industry and commerce, job opportunities in the insurance sector, various forms of business organization, basic accounting principles as well as principles of management.

We hope that this programme will help you to carve an niche in your career and play an important role in the society.

With best wishes.

Dr. Ajay Garg
Senior Executive Officer
(Business & Commerce)
National Institute of Open Schooling

Dear Learner,

In the fast expanding world of activities, learning new skills has become a necessity. Learning and re-learning has become essential for all. In such an environment, vocational education has assumed great importance. Vocational education, as a stream of education, promotes skill development and training of youth and directs them towards meaningful employment.

In keeping with the needs of the Learners, NIOS conducts Vocational Education Programmes in many areas through distance mode. These programmes include Agriculture, Business & Commerce, Home Science, Engineering & Technology, Computer Science, and Health & Paramedical. The Courses offered in these areas are aimed at providing self employment & wage employment opportunities for NIOS learners.

Diploma in Insurance Services is a One year Diploma course in Insurance Services. This course has been developed with the help of many leading experts of Insurance Sector. The course syllabus is designed keeping in view the requirements of the insurance sector.

This is multi-skilled programme, which will expose you to variety of skills. It includes Business Environment, Principles of Insurance, Life Insurance, General Insurance and Legal framework. This will help in identifying learner's preference for future vocation. We are confident that this course will prove to be beneficial to you.

We wish you all the best in your future career.

Dr. K. P. Wasnik
Director (VE)
National Institute of Open Schooling

Dear Learner,

Welcome to the National Institute of Open Schooling!

By enrolling with this institution, you have become a part of the family of the world's largest Open Schooling System. As a learner of the National Institute of Open Schooling's (NIOS)Vocational Programme, I am confident that you will enjoy studying and will benefit from this very unique School and method of training.

Before you begin reading your lessons and start your training, there are a few words of advice that I would like to share with you. We, at the NIOS, are well aware that you are different from other learners. We realize that there are many of you who may have rich life experiences; you may have prior knowledge about trades and crafts that are part of your family's legacy; you may have a sharp business sense that will make you fine entrepreneur one day. Most importantly, you have the drive and motivation that has made you enroll with this institution, which believes in the spirit of freedom. Yes, we are aware that you have many positive aspects in your personality, which we respect and relate to them.

During the course of your study, NIOS will treat you as the manager of your own learning. This is why your course material has been developed keeping in mind the fact that there is no teacher to teach you. You are your own teacher. Of course, if you have a problem, we have provided for a teacher at your Accredited Vocational Institution (AVI). I would advise you that you should always be in touch with your AVI for collection of study material, examination schedules etc. You should also always attend the Personal Contact Programmes and practical/ Training sessions held at your study centres. These will give you the necessary hands on training that is very essential to master a vocational course.

Studying for a vocational course is different from any other academic course. Here, while the marks obtained in the examination will indicate your grasp on your subject knowledge, your real achievement will be when you are able to apply your vocational skills in the market. I hope that this skill-based learning will help you perform your tasks better .This course of One year duration Diploma Course in Insurance Services developed by leading experts of Insurance sector. It is a multi-skilled programme, which will expose you to a variety of skills in Insurance sector. We hope that you will find it useful. On behalf of NIOS, I wish you the very best for a bright and successful future.

Dr. S. S. Jena
Chairman
National Institute of Open Schooling

Acknowledgement

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RECENT TRENDS IN INSURANCE SECTOR

1.0 INTRODUCTION

In day to day life every human being is engaged in some activity, it may be related to earn livelihood or household activity. The activity which provides livelihood is known as economic activity. Though there are so many economic activities like manufacturing, trading, banking, transportation and insurance and many more. But in this module we are explaining only the Insurance activity which can be taken by an individual or group of persons to earn their livelihood.

The detail meaning of insurance is being explained in other module but in simple words insurance means transfer of risks of an individual (unexpected and uncertain) i.e Death, old age. Disability, illness or business risks (unexpected and uncertain) i.e fire, earthquake, theft and liability to an insurance company.

The insurance sector is divided in two parts life and general or non-life.

Insurance
↓
Life | Non-life/General

Life insurance deals with only human lives and non-life deals with other than human life. Insurance is divided into two segments i.e. Life and non-life/general and each segment have developed independently therefore it is being discussed separately in the following paragraphs.

In 2000, Indian insurance sector has taken U turn i.e. Privatization (private insurance companies to nationalization (Government Companies) to Privatization/mixed economy (Private/Government companies). Before we discuss how it has happened we would like to enlighten you the past history of insurance in India in brief.

It is said that insurance was practiced in India even in the Vedic times and the sanskrit term “YOGAKSHEMA” in the Rigveda is in reference to a form of insurance practiced by the Aryans 3000 years ago. The code of Manu which prescribes the many practices to be followed by the people for social harmony and development in Ancient India had also dictated that a special charge be made on goods carried from one city to another to ensure their safe carriage to the destination.

1.1 OBJECTIVES

At the end of the lesson you will be able to know

- Why the life & general insurance sector was nationalized
- Why insurance sector was liberalized in 1999
- IRDA action to develop the insurance sector

1.2 LIFE INSURANCE

In 1870 two British life insurance companies entered in India and attempted to do life insurance business on Indian lives. After that many Indian & foreign companies started business in India and by the year 1955 there were 255 insurance companies operating in India and transacting the business to the extent of Rs 200 crores. Due to the following reasons the Government decided to nationalize the life insurance industry w.e.f 1/7/1956.

1. No full guarantee to the Policyholders (who are insured).
2. The concept of trusteeship (confidence) was lacking.
3. Many insurance companies went into liquidation (bankrupt).
4. There was malpractice in the business.
5. Non-Spreading of life insurance.
6. No insurance in rural areas.
7. No group insurance
8. No social security

To overcome the abovementioned problems the life insurance business was nationalized and formed Life Insurance Corporation with following features:

1. The Central Govt. guaranteed the Policyholders through the LIC.
2. Being a Corporation formed under Special Act Passed by the Parliament therefore the public can trust.
3. The LIC cannot be liquidated without the order of the Central Govt.
4. Under the LIC Act, all day-to-day functions of the Corporation and the method of Investment in Govt. Securities were defined. Therefore, the malpractices were eliminated.

After the nationalization the life insurance business has grown substantially in very first year i.e. from Rs 200 crore upto 1956 to Rs 328 crores in 1957 and till privatization in 2000 the business was transacting worth Rs 73436 crores.

1.3 GENERAL INSURANCE

Prior to nationalization of the General Insurance Business in 1972 by enactment of the General Insurance Business Nationalization Act 1972 (GIBNA 1972) there were 55 Indian Companies and 52 non-Indian Companies carrying of the business of General Insurance in India. Before the nationalization the total premium written by these companies was Rs.170 crores as on 1971. At that time the “key Economic indicators” were as follows:

Gross Domestic Product	Rs. 36503 Crores
Per Capita Income	Rs. 675 Crores
Population	541 mns

To understand the why of nationalization in the first place it is sufficient to read the following excerpts from the speech of the then Finance Minister Mr.Y.B.Chavan.

“The primary objective of nationalization of general Insurance was to make it meaningful to the common man, to carry its message to the remotest corner of the country and to give it its rightful place in the economy of the country. When it was in the private sector it was a mere handmaid to trade and industry and served to cater to the interests of a limited clientele. Worse still it functioned in a manner favoring the interests of a few at the expense of, needless to say, the majority. There were allegations of malpractices on a big scale."

"It was the objective of nationalization to remove these malpractices and usher in an era of Insurance run on sound business principles and functioning on healthy and egalitarian lines. The emphasis should be on spreading the message of Insurance as widely as possible and on ensuring that it gives the right weightage to the weaker sections of the society. The principle of competition must have its useful role to play, but not at the expense of unhealthy rivalry."

"General Insurance is a service and proper and efficient service is due to the policyholder as a matter of right. The Corporation exists for the benefit of the policyholder."

"Business must cease to work under purely mercenary motives. Whenever, one feels the need for protection against an unpredictable contingency, a suitable Insurance cover should be available. No excuse should be given that a particular cover is not conventionally given or that other markets of the world do not give it." "Healthy employer-employees relationship is of vital importance to achieve the main objectives of nationalization."

"It will be necessary for the Corporation to review the rating structure in order to ensure that all classes of the policyholder receive a fair deal and the equitable rate of premium."

The Act led to the formation of the General Insurance Corporation (GIC) and the shares of the Indian Insurance Companies and the units of other Insurance Companies operating in India along with the General Insurance business of LIC were transferred to the GIC. The Indian companies became subsidiaries of GIC and the non-Indian Companies were transferred to 4 companies selected as flag companies to operate from 4 zones as under:

1. National Insurance Co. Ltd., with its Head Office at Calcutta.
2. The New India Assurance Co. Ltd. with its Head Office at Mumbai.
3. The Oriental fire & Insurance Co. Ltd., with its Head Office

at New Delhi (from 1974) (now named as The Oriental Insurance Co. Ltd.)

4. United India fire & General Insurance Co. Ltd., with its Head Office at Madras (now named United India Insurance Co. Ltd.)

Notes

The basis of allocation of the 107 companies was the geographical areas of operation i.e. south based companies were allotted to United India, the North based to the Oriental Insurance, the West based to the New India Assurance and East based National Insurance. The 4 flag companies became the subsidiaries of General Insurance Corp. with effect from 1/1/1973.The total business has gone from Rs 1145 crores in 1973 to Rs 9522 crores in 2000.

INTEXT QUESTIONS 1.1

1. Who started the life insurance in India ?
2. How many companies were merged to nationalize the general insurance business?

1.4 REVIEW OF INSURANCE BUSINESS IN INDIA

From above you must have observed that the insurance business has grown manifold after the nationalization of Life Insurance in 1956 and General Insurance in 1972. But the international comparison as per details given below will show that insurance penetration and insurance density in India is at low level as compared to the developing/developed countries.

International Comparison

	Insurance penetration (Premium as GDP)			*Insurance Density (Premium per capita in $)*		
Countries	Total	Non-life	Life	Total	Non-life	Life
USA	8.55	4.32	4.23	2921.1	1474.4	1446.6
UK	13.35	3.05	10.30	3244.3	741.5	2502.8
JAPAN	11.17	2.30	8.87	3908.9	805.50	3103.4
RUSSIA	2.13	1.34	0.78	26.80	17	9.9
France	8.52	2.82	5.70	2080.9	688.60	1392.30
Germany	6.52	3.55	2.96	1675.70	923.50	762.2
INDIA	**1.93**	**0.54**	**1.39**	**8.50**	**2.40**	**6.10**
BRAZIL	2.01	1.66	0.35	68.60	56.70	11.8
MEXICO	1.68	.86	0.82	84.60	43.30	41.30

KENYA	3.26	2.48	0.78	9.9	7.5	2.4
AUSTRALIA	9.82	3.39	6.43	2037.4	703.8	1333.6
MALAYSIA	3.88	1.72	2.16	140.4	62.3	78.1
NIGERIA	0.95	0.88	0.07	2.6	2.4	0.20

The reasons for low penetration may be that the insurance sector was totally in the hands of the public enterprises. It is observed that the public enterprises in any country can't perform all the economic and business effectively. Even in the socialist country, public enterprises in all the fields can't discharge their full responsibilities. It is also said that complete governmentalization or nationalization will lead towards slavery. Though the Indian economy is a mixed economy (not in Insurance sector till 2000) but the expectation from the public enterprises is too much. In fact, the support and subsidy provided by the Govt. indirectly punishes the taxpayer and the countrymen.

Keeping in view these problems the Indian Govt. started the liberalization process in 1991. Though the liberalization, privatization and globalization (LPG) has taken place in many sector but the insurance sector was liberalized, privatization and globalized in the year 2000.

Liberalization: means abolition of industrial licensing, removal of the limit on industrial investment & a more welcoming approach to foreign investment.

Globalization: means opening of the Indian economy for global cooperation in economic activities. This would involve foreign direct investment in industry and foreign institutional investors investing in the securities market by way of mutual funds etc., removal of quantitative restrictions on imports and reduction of import tariff.

Privatization: means refers to allowing private sector to invest in government companies as well as invest in areas earlier reserved for the public sector. It also implies greater participation of private sector in areas exclusively reserved for public sector.

Before liberalization the Insurance sector was controlled by Controller of Insurance but now the corporate body known as Insurance Regulatory & Development Authority (IRDA) has been formed under IRDA Act 1999 whose main objectives are as follows:

So far, the IRDA has issued licences to 20 Life Insurance companies and to 15 General Insurance companies including exclusive health insurance company. The private insurers have started their business during the year from 2000 to 2001; and till date there is growth in insurance penetration from 1.93 to 2.40 as well as insurance density from 8.50 to 9.36.

1.5 STEPS TAKEN BY IRDA

IRDA has taken the following steps to develop the Insurance sector in India keeping in view of the following key indicators.

INDIA'S PROFILE

Total Area	3287263 Sq. Kms.
Land Area	2973190 Sq.Kms.
Coastlines	7000 Kms
States	29
UT	6
Districts	463
Population	1.03 (Billion) as on 1/4/2001
Urban Population	27%
Population Growth	2.14%
Sex Ratio	927 Females 1000 Males
Density of population	273 persons per KM
Literacy Rate	52.10%
Life Expectancy(Male/Female)	62/64 years

1.5.1 Policies And Measures To Develop Insurance Market

The Authority has taken a pro-active role in the establishment of a vibrant Insurance market in the country by taking the following steps:

i) The market regulation by prudential norms,

ii) The registration of players who have the necessary financial strength to withstand the demands of a growing and nascent market,

iii) The necessity to have "fit and proper" person in-charge of businesses,

iv) The implementation of a solvency regime that ensures continuous financial stability, and above all,

v) The presence of an adequate number of insurance companies to provide competition and choice to customers all these steps lead to the establishment of a regime committed to an overall development of the market in normal times.

vi) Prescribed rural and social sector norms in respect of Insurance business being underwritten by the companies.

vii) The companies have also been asked to devise insurance policy to specific sector in the economically weak population.

1.5.2 Research and Development Activities Undertaken by the Insurance companies

The insurers have been conducting market research either in-house or through professional agencies

i) to introduce tailor-made products targeted at specific segments of the population so that Insurance can become more meaningful and affordable.

ii) Risk assessment studies are being carried out for measuring accumulation of risk of a particular place at any one point of time.

iii) Consumer awareness campaigns are being encouraged to improve insurance literacy levels by conducting workshops, distributing literature etc.

1.5.3 Protection of Interests of Policyholders

To protect the interests of holders of Insurance policies and to regulate, promote and ensure orderly growth of the Insurance industry the Authority has taken the following steps:

i) a leading consumer activist has been inducted into the Insurance Advisory Committee.

ii) In addition to this member, this committee has drawn representation form the industry, Insurance agents, women's organizations and other interest groups.

iii) While the Government has taken steps to strengthen the Boards of the State-run companies by inducting representatives from consumer organization and policyholder,

iv) the Authority, on it part, was careful to ensure that all the new private companies registered have a director representing consumer interests on their Boards.

v) In addition to this measure all insurers have been advised to streamline their grievance redressal machinery and set benchmarks for efficient and effective service.

vi) All insurance companies are adhering to the Insurance Ombudsman scheme formulated by the Government and complaints against insurance companies are being referred to them by the aggrieved policyholders from time to time.

vii) The Authority is conscious of the fact that the fine print should not take away what the bold print promises and in this regard has come out with the Insurance Advertisement and Disclosure Regulations which ensure that the Insurance companies adhere to fair trade practices and transparent disclosure norms while addressing the policyholders or the prospects.

viii) All Insurance intermediaries, before obtaining a licence, or at the time of renewal of licence, are required to undergo compulsory training to ensure that they can service the policyholders better by being well trained and informed.

ix) Guidelines have been issued to insurers to file their existing and new products with the Authority. In case of new products insurers are required to submit details of

- premium rating,
- policy conditions,
- proposal form,
- claim form,
- underwriting manual and
- the system in vogue to review the rates, terms and conditions in future.
- In addition to this, they are required to furnish certificates from advocates and actuaries that the statements made are true and accurate and are not in violation of any law and
- that the policy wordings are simple and easily understandable to a policyholder.

1.5.4 Maintenance of Solvency Margins of Insurers

As per provisions of the Insurance Act and the regulations made there under, every life insurer is required

- to maintain an excess of value of his assets over the amount of his liabilities of not less than Rs.50 crores (Rs.100 crores in the case of a reinsurer) or
- a sum equivalent based on a prescribed formula, as determined by regulations not exceeding 5% of the mathematical reserves and a percentage not exceeding 1% of the sum at risk for the policies on which the sum at risk is not negative, whichever is highest.

  Similarly, every General insurer is required to maintain a minimum solvency margin of

- Rs.50 crores (Rs.100 crores in the case of a reinsurer) or
- a sum equivalent to 20% of net premium income or a sum equivalent to 30% of net incurred claims whichever is highest, subject to credit for reinsurance in computing net premiums and net incurred claims.

In addition, at the time of registration all the new insurers have been required to maintain a solvency ratio of 1.5 times the normal requirements.

1.5.5 Monitoring of Investments of the Insurers

Investment income is a key determinant in the calculation of premium rates for any insurance company under the various insurance policies/schemes and for declaration of bonus by life insurers. It is a core function of an insurance company, which cannot be outsourced by an insurer.

In the case of general insurance, investment income compensates underwriting losses, if any, of the insurance company, which in turn enables then to keep their premium rates competitive.

Therefore, insurance companies essentially invest these funds judiciously with the combined objectives of liquidity, maximization of yield and safety.

An investment policy has to be submitted to the Authority by an insurer before the start of an accounting year. Since the insurance companies keep the policyholders money in their fiduciary capacity they are also required to maintain a minimum level of solvency to meet the reasonable expectations of the policyholders.

For this, the Authority has mandated the pattern of investment to be followed by the insurance companies. Investments in Government securities, approved investments and infrastructure and the social sectors have been prescribed in the Insurance Act, 1938. (details have been explained in other module)

1.5.6 Health Insurance

All the new insurance companies have been advised that they will carry out health insurance business not as a stand-alone product but as a combined rider with existing life/ non-life policies, and introduce health products in the market. At the moment the health products available is of the standard reimbursement type policy and its variants.

IRDA has recently notified regulations for Licensing of Third Party Administrators (TPA)- Health Services in order to popularize health insurance. Health services rendered by a TPA shall include services in connection with health insurance business. However this shall not include the business of insurance company or the soliciting, directly or through an insurance intermediary including an insurance agent. It is expected that TPAs will bring some sort of regulation regarding standard and quality of treatment, period of treatment and rates.

The Authority is encouraging to business community to come forward to start exclusively health insurance Company. Till date there is only insurer who is exclusively engaged in health insurance business.

1.5.7 Public Complaints

Many customers of insurance companies approach the Authority-both formally and informally for the settlement of their grievances. IRDA follows up for the settlement of these grievances on the complaints on a continuous basis with the insurance companies. Timely attention is given to these complaints and the insurers are advised to settle claims and grievances promptly.

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A system of grievance redressal has been built in the Authority supervised by one of its senior officers. This system has proved useful to the Authority – not only to see that complaints get attended to but also to give it an idea of the areas of working of an insurer where have to be improved. The experience gained in this regard is reflecting in the regulations made by the Authority.

1.5.8 Functioning of Ombudsman (a person who decides the complaints of an individual on insurance matters)

The institution of Insurance Ombudsman has great importance and relevance for the protection of interest of policyholders and also to build up their confidence in the system.

This institution has helped to generate and sustain the faith and confidence amongst the consumers in insurers.

The Insurance Council, which is the administrative body has appointed twelve ombudsmen across the country and have provided them with the necessary infrastructure.

The companies are required to honour the awards passed by an Ombudsman within three months.

The awards are binding on the Insurance companies: the customer, however, can resort to in case he decides on the insurance companies; the customer, however, can resort to it case he decides to do so, other methods of grievance settlement.

The Insurance Ombudsman is empowered to receive and consider complaints in respect of personal lines of insurance from any person who has any grievance against an insurer.

The complaint has to be writing, and addressed to the jurisdictional Ombudsman within whose territory a branch or office of the insurer complained against is located. The complaint can relate to any:

a) Grievance against insurer.
b) Partial or total rejection of claims by the insurer.
c) Dispute in regard to premium paid or payable in terms of the policy.
d) Dispute on the legal construction of the policy in so far as such dispute relate to claims.

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e) Delay in settlement of claims.

f) Non-issue of any insurance document to customers after receipt of premium.

The limit of an Ombudsman's powers is at present prescribed as Rs.20 lakhs.

The insurance Ombudsman Scheme is complementary to the regulatory functions of IRDA, which has been mandated to take all necessary steps to protect the interest of the policyholders.

The institution of ombudsman has evoked a good deal of public appreciation as is evident from media reports and performance appraisal made by the Authority.

1.5.9 Re-insurer (means insurance of insurance companies)

Reinsurance Business in India is being transacted by General Insurance Corporation. Before the privatization of the Insurance sector the General Insurance Corporation was performing the dual functions i.e. Insurance and Reinsurance. The Insurance business was transacted through its four subsidiaries namely the New India Assurance Co. Ltd., National Insurance Co. Ltd., The Oriental Insurance Co. Ltd., United India Insurance Co. Ltd. After the privatization the functions of GIC has been restricted to reinsurance and civil aviation Insurance. The Insurance Act 1938 has notified under Section 101A that Indian Reinsurer will be General Insurance Corporation and the four subsidiaries have been de-linked from GIC and shall work under the Central Government.

The Reinsurance Programme of every Insurer, carrying on general insurance business, shall be guided by the following objectives viz;

- To maximize retention within the country;
- To develop adequate capacity;
- To secure the best possible protection for the reinsurance costs incurred; and
- To simplify the administration of business.

1.5.10 Customer Service

One of the innovations that some of the insurers have introduced is opening up of "call centers" which are functioning

Notes

on a 24x7 basis. These centers act not only as enquiry offices for new business to be developed but also function as points of reference and records for claims, which have arisen. It is note worthy to find that some of the new insurers have found it possible to settle claims within 24 to 48 hours.

1.6 SUMMARY

Keeping in view the above mentioned steps taken by the Govt. to develop insurance sector, it is expected that growth of insurance will be as follows:

Presently the private players are making their presence felt only in the urban areas as they have open their offices in the selected cities.

Particulars	Audited 2006-07	Unaudited 2007-08	2014-15(Projected)
		LIFE (first Year Premium)	
LIC	55935	59182	100000
PRIVATE	19471	33806	95000
TOTAL	75406	92988	195000
% Growth		23%	109.70%
		NON-LIFE	
PSU's Includes ECGC & Agriculture Insurance)	17442	18398	40000
Private (includes Health Insurance cos)	8739	11407	30000
Total	26181	29805	70000
% Growth		14%	135%
G. Total	101587	122793	265000
Population	1.04 billion	1.06 billion	1.25 billion

To increase the insurance penetration and density these players have not only to operate in the rural area but also to develop new products to meet the customers needs.

1.7 TERMINAL QUESTIONS

1. Why life insurance sector was nationalized in 1956?
2. Why general insurance sector was nationalized in 1972?

3. What steps have taken by the Authority to protect the policyholder's rights?
4. Discuss the various steps taken by IRDA to develop the insurance sector.

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1.8 OBJECTIVE TYPE QUESTIONS

1. Life insurance deals with_______(Human/Animal)
2. In which year ________ the Indian Insurance Sector took U turn. (2000/1999)

Choose the correct option

3. Govt decided to nationalize the life insurance companies in 1956 due to
   a. Lack of confidence
   b. No guarantee to the policyholders
   c. Malpractice in the insurance business
   d. All of the above
4. The name of the Finance Minister at the time of nationalization of general insurance business was __________. (Y.B Chavan, Indira Gandhi)
5. On nationalization of the general insurance business how many govt. companies were formed _____(four/six)
6. LPG in insurance sector means___________ {(Liberalization, Privatization,Globalization)(Liquified Petroleum Gas)}
7. Statement A: Protection of Interest of Policyholders is one of the steps taken by the Govt to develop the insurance sector.

   Statement B: Maintenance of solvency margins of insurers is not a step to develop the insurance sector.

   a. Only A is true b. Only B is true c. Both are true d. Neither of two
8. The main function of Ombudsman is to resolve the complaints of ______(Insurer/policyholders)
9. The financial power of Ombudsman to resolve the complaint is ______(Rs 20 lakhs/Rs 25 lakhs)
10. The reinsurance means______(Insurance of insurer/ insurance of an individual)

Notes

1.9 ANSWERS TO INTEXT QUESTIONS

1.1

1. Two British companies in 1870 started to insure the lives of India.
2. 55 Indian and 52 non-Indian companies were merged in to four companies on regional basis.

1.10 ANSWERS TO OBJECTIVE TYPE QUESTIONS

1. Human	2. 2000
3. d	4. Y. B. Chavan
5. Four	6. Liberalization, privatization, globalization
7. a	8. policyholder
9. Rs 20 lakhs	10. Insurance of insurer

(Rs in crores)

Particulars	Audited 2007-08	Audited 2008-09	2014-15 (Projected)
		LIFE	
LIC	149740	157288	253314
PRIVATE	51561	64503	103883
TOTAL	201301	221791	357197
% Growth		10%	37.91%
		NON-LIFE	
PSU's Includes ECGC & Agriculture Insurance)	16832	18031	29039
Private (includes Health Insurance cos)	10992	12321	19843
Total	27824	30352	48882
% Growth		9%	61%
G. Total	229125	252143	406079
Population	1.04 billion	1.06 billion	1.25 billion

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2

BUSINESS OPPORTUNITIES IN INSURANCE SECTOR

2.0 INTRODUCTION

Every individual is a personality which is defined by the set of traits which he has acquired through conscious or unconscious exposure to various environment. Identification of these traits & selecting a business opportunity which is in prefect unison with the personality is most crucial job for a person. But in the present scenario the opportunities in the ever growing Insurance sector are available in abundance.

2.1 OBJECTIVES

At the end of this lesson you will come to the various carreer opportunities available in Insurance sector

- Agent/Corporate Agent
- Insurance Brokers
- Surveyors etc.

2.2 IMMEDIATE PAST OF INSURANCE SECTOR

Before the passage of IRDA Bill 1999, there were two nationalized companies in the insurance business (i.e.) Life Insurance Corporation of India and General Insurance Corporation of India. General Insurance Corporation of India has four subsidiaries to carry on general insurance business. They are The New India Assurance Co. Ltd., National Insurance Co. Ltd., United India Insurance Co. Ltd. and The Oriental Insurance Co. Ltd.

These companies together have 6300 offices through out the length and breadth of the country. These companies have 10 lacs indirect employees (agents) and 2 lacs direct employees. These 12 lacs employees conduct insurance business of Rs. 42,000 crores annually and cover just 6% of the insurable population.

2.3 LOOKING AHEAD

Already 25 companies have been granted insurance license by Insurance Regulatory and Development Authority (IRDA). When we look at the profile of these companies and their foreign partners, they are financially very strong, have deep pockets and would deploy highly advanced technology in the field of insurance, which has never been witnessed by the Indian Insurance Consumers, be it IT technology, be it Customer Service, be it innovative Products etc.

It is projected that another 20 will enter the insurance sector in next 10 years. The insurance business is projected to grow to 6 lacs crores as per Confederation of Indian Industry (CII) report. The manpower required to generate insurance business of 6 lac crores is projected to be 40 lacs.

Till date, Insurance companies in India have concentrated their efforts to sell insurance in urban areas mainly. Very little premium comes from the rural areas. Seeing that Insurers prefer easy and cost effective selling and with the apprehension that new players will also follow the same strategy, Insurance Regulatory and Development Authority (IRDA) has made it mandatory for insurance companies to do minimum fixed percentage of total insurance business in Rural area as well. This is to ensure that benefit of privatization of insurance is passed on to the masses in real sense.

Over 70% of population lives in the Rural India and this is the segment, which is yet to be accessed. A number of the new entrants shall be targeting this area and for this they shall be needing a trained and well-motivated workforce to effectively market their products, a challenge for next 3 years. Even in the urban area as the existing companies already have a very strong foothold it will not be easy for the new entrants to make a dent in the business of these companies unless aggressive marketing of their products is done. The real test of course will be their service performance at every stage, as worldwide also it is the strength of limited few Insurance companies and weakness of many. It is this benchmark, which will ensure the acceptability of the company by the Public at large.

The traditional mindset of the Indian people does not view Insurance as a very desirable product and it is viewed with suspicion as the general feeling is that Insurance companies collect the premiums but do not pay up when claims arise or if they do pay its only after a lot of harassment. To overcome this mental block is not going to be easy and the new companies will have to go in for innovative marketing methods.

INTEXT QUESTIONS 2.1

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1. How business of insurance companies is projected in CII Report?

2. How much manpower is required to do insurance business in next 10 years?

Till date, the selling of Insurance is done by the branch offices of the companies or the Agents who are paid a healthy commission as a percentage of the business they bring to the company. But as on date various distributional channels are being introduced by IRDA as well as in other related areas are introduced where an individual gets an opportunity to start one's career in Insurance sector as discussed below:

2.4 MULTIPLE CAREERS IN INSURANCE SECTOR

2.4.1 Agents/ Insurance Advisers

The present system of selling Insurance through Agents or Insurance Advisors after the forthcoming amendments are through will continue but things are more professional today. IRDA has regulated the procedure for licensing of agents and their minimum qualifications; compulsory training, and passing of an examination conducted by Insurance Institute of India has been made mandatory before a license can be obtained. The license fee has also been increased 15 times. All this will provide a professional touch. The new entrants are going to require Insurance acumen and entrepreneurship skills for selling their products. At present there are approximately 15 lac agents representing the Life and General

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Insurance Companies. With the entry of the new players, it is estimated that there will be fresh requirement for 50,000 agents/ Insurance advisers every year. The recruitment procedure is explained in the module "Insurance Legislation"

2.4.2 Corporate Agents

The Corporate Agent is a corporate entity wherein two or more Agents join hands and form legal entity wherein minimum two directors/ partners of a Corporate Agents or the firm should have the qualifications required of an Individual Agent. The capital requirement is Rs 15 lakhs. With this concept many bankers have become Corporate Agents.

2.4.3. Brokers

In America and elsewhere a major amount of Insurance business is conducted through Brokers. A broker is representative of the insured (i.e. customer) rather than of the insurer, but he is like an agent in the sense that he gets paid in the form of commission by the Insurance company with whom he places the business. The broker solicits business from the Insured and then places the business with an appropriate Insurance Company. He can deal with any number of Insurance companies as opposed to the single company that an agent can represent. Brokers also provide pre sale and after sales service to the Insured.

This concept also is an opportunity for those who plan to go on their own and bring business to the new entrants from areas where the companies do not have their own offices or may not want to set up an office due to economics of scale & limited business. The recruitment procedure in explained in module "Insurance Legislation"

2.4.4. Surveyors

Independent qualified professionals from the field of Engineering, medicine and finance can enter this field and provide valuable service to the Insurance companies who do not wish to employ surveyors/ loss assessors directly and prefer to have Independent people who will work for them on case to case basis for a percentage of the claim amount. In America, they are called Claim Adjusters and often they are authorized by the companies to settle the claims upto a certain amount and even make the payment to the insured, so that small claims are settled early and the insured's satisfaction level is kept high.

2.4.5. Risk Managers

This is a highly specialized field. While some big Industrial houses are directly appointing Risk Managers on their rolls others are seeking the services of independent specialist firms/ individuals to advise them in this very important aspect. Risk Managers are mainly engineers, who have in-depth knowledge of safety, hazards, claim minimization and perception of magnitude of risk, which can possibly arise. Technocrats with experience have great opportunities in this specialized field.

2.4.6. Legal Consultants

As in the case of Insurance Consultants the services of legal consultants are availed of by both the Insurer and the Insured and their services are mostly required at the time of claim disputes, during arbitration, Third party claims, Liability claims or when the subject matter has been referred to the courts. It is predicted that growth of legal disputes out of insurance related matters is going to increase exponentially with over 20 new players entering the fray.

2.4.7 Investigators

Independent Individuals or a firm whose services are used on case-to-case basis by the Insurance companies to investigate the genuinity /quantum of claims especially early claims and theft claims. They are specialised people and need to be experts in their field as well as in Insurance. Insurance claim detection agencies, fraud control organisations, and statistical/ grading agencies run by entrepreneurs will take a start in coming times.

2.4.8 Recovery Agents

Their services are used by the Insurance Companies to settle third party claims. Wherein there is a chance of recovery from the third party. The insurers send the recovery agents to talk to the third party and arrive at a justified settlement thus savings on legal costs, which otherwise would have been incurred if the matter had gone to court. At times, the settlements made by the recovery agents are quite favourable.

2.4.9 Medical Professionals

TPA" means a Third Party Administrator who is engaged for a fee or remuneration determined in the Agreement for health services. He is a service provider to the Insured on behalf of insurance company. His work profile includes, to obtain all the requisite documents pertaining to the administration of insurance claim arising out of insurance contract concluded by the insurer with the insured and render necessary assistance and advise to policyholders or claimants or beneficiaries in complying with the requirement for settlement of claims with the insurer, if called for by the agreement;

2.4.10 Actuary

Actuary is most remunerative profession in Insurance sector. In life insurance companies the appointment of Actuary is statutory requirement. Basically he is a Production Manager of an insurance company especially of a Life insurer because he designs the product and its price so that the product is easily saleable in the market. To become an Actuary one has to become a member of ***Actuarial Society of India*** who has prescribed the qualification and examination to be passed by an individual. The minimum qualification is 1^{st} class graduation and who studied Mathematics and Statistics at graduation level. It takes minimum 5-6 years to complete the course.

2.5 SUMMARY

The opportunities are many and will grow with almost 25 new entrants expected to be in this sector. The services of independent entrepreneur or group of professionals joining together is what required today. Only time will tell how many take up the challenge and at what stage. Presently, there is lack of awareness as the Insurance companies, professionals and educational Institutes have a lot to contribute in their own way to promote this cause. IRDA is responsible to promote growth of Insurance under its "Development" Banner. If existing & new Insurance Companies, Associations, Professional bodies, Academicians and dedicated Insurance Institutes do not timely step in to share the load of development of Insurance in India, IRDA as a watchdog will surely make it happen by making it an essential activity to be performed by each one of us.

2.6 TERMINAL QUESTIONS

1. What are the various opportunities available to sell insurance products?
2. Explain the various career opportunities available in insurance sector.

2.7 ANSWERS TO INTEXT QUESTIONS

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1. Rs 6 lakhs crores in next ten years.
2. About 40 lakhs

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FORMS OF BUSINESS ORGANISATION

3.0 INTRODUCTION

After identifying the business in any field e.g., Insurance, it is necessary then to have a legal entity to be known in the society. The legal entity can be in any form of a business organization. The various forms of organization are as follows:

1) Sole proprietorship
2) Partnership
3) Co-operative Society
4) Joint stock company (Private and Public)

These are explained in brief as follows:-

3.1 OBJECTIVES

At the end of this lesson you will be able to know

- Various forms of organization
- Its formation & features
- Merits & Demerits

3.2 SOLE PROPRIETORSHIP

3.2.1 Meaning:

The sole proprietorship is a form of business that is owned, managed and controlled by an individual. He has to arrange capital for the business and he alone is responsible for its management. He is therefore, entitled to the profits and has to bear the loss of business, however, he can take the help of his family members and also make use of the services of others such as a manager and other employees.

This type of business organisation is also called single ownership or single proprietorship. If the business primarily consists of trade, the organization is a sole trading organization. Small factories and shops are often found to be sole proprietorship organisations.

It is the simplest and most easily formed business organization. This is because not much legal formality is required to establish it. For instance to start a factory the permission of the local authorities is sufficient. Similarly to start a restaurant, it is only necessary to get the permission of local health authorities. Or again, to run a grocery store, the proprietor has only to follow the rules laid down by local administration.

3.3.2 Features of Sole Proprietorship:

The important features of a sole-proprietary organization include the following:

(i) **Individual Initiative:** One person is the owner in a sole-proprietary form of organisation.

(ii) **Risk Bearing:** The proprietor is the sole beneficiary of profits in this form organisation. If there is a loss he alone has to bear it. Thus the risks of business are borne by the proprietor himself.

(iii) **Management and control:** Management and control of this type of organisation is the responsibility of the sole proprietor. He may, however, employ a manager or other people for the purpose.

(iv) **Minimum government regulations:** The government does not interfere with the working of the sole proprietorship organisation. However, they have to comply with the general laws and rules laid down *by* government.

(v) **Unlimited liability:** The sole proprietor has to bear the losses and is responsible for the liabilities of the business. If the business assets are not sufficient to meet the liabilities, he may also have to sell his personal property for that purpose.

(vi) **Secrecy:** All important decision taken by the owner himself. He keeps all the business secrets only to himself.

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3.3.3 Merits Of Sole Proprietorship:

A sole proprietary organisation has the following advantages:

(i) Easy formation: A sole proprietorship business is easy to form where no legal formality involved in setting up this type of organization. It is not governed by any specific law. It is simply required that the business activity should be lawful and should comply with the rules and regulations laid down by local authorities.

(ii) Better Control: In sole proprietary organisation, all the decisions relating to business operations are taken by one person, which makes functioning of business simple and easy. The sole proprietor can also bring about changes in the size and nature of activity. This gives better control to business.

(iii) Sole beneficiary of profits: The sole proprietor is the only person to whom the profits belong. There is a direct relation between effort and reward. This motivates him to work hard and bear the risks of business.

(iv) Benefits of small-scale operations: The sole proprietorship is generally organized for small-scale business. This helps the proprietor's family members to be employed in business. At the same time such a business is also entitled to certain concessions from the government. For example, small industrial organisations can get electricity and water supply at concessional rates on a priority basis.

(v) Inexpensive Management: The sole proprietor does not appoint any specialists for various functions. He personally supervises various activities and can avoid wastage in the business.

3.3.4 Limitations Of Sole Proprietorship:

A sole proprietor generally suffers from the following limitations:

(i) Limitation of management skills: A sole proprietor may not be able to manage the business efficiently as he is not likely to have necessary skills regarding all aspects of the business. This poses difficulties in the growth of business also.

(ii) Limitation of Resources*:* The sole proprietor of a business is generally at a disadvantage in raising sufficient capital. His own capital may be limited and his personal assets may also be insufficient for raising loans against their security. This reduces the scope of business growth.

(iii) Unlimited liability: The sole proprietor is personally liable for all business obligations. For payment of business debts, his personal property can also be used if the business assets are insufficient.

(iv) Lack of continuity: A sole proprietary organisation suffers from lack of continuity. If the proprietor is ill this may cause temporary closure of business. And if he dies the business may be permanently closed.

From the above account of the merits and limitations it becomes clear that it is only personal services like repair work, tailoring etc. small factories, retail shops and professional activities which can be set up as sole proprietary organisations. In India, this form of organisation is quite popular and accounts for the largest number of business units.

3.3 PARTNERSHIP

Meaning

Partnership is an association of persons who agree to combine their financial resources and managerial abilities to run a business and share profits in an agreed ratio. Since the resources of a sole proprietor to finance, and his capacity to manage a growing business is limited, he feels the need for a partnership firm. Partnership business, therefore, usually grows out of the need for expansion of business with more capital, better supervision and control, division of work and spreading of risks.

The Indian Partnership Act defines partnership as "Partnership" is the relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all. The persons who have agreed to join in partnership are individually called "Partners" and collectively a 'firm'. A partnership firm can be formed with a minimum of two partners and it can have a maximum of twenty partners.

3.3.1 Features of Partnership:

The features of partnership are as follows:

(i) **Existence of an agreement:** Partnership is formed on the basis of an agreement between two or more persons to carry on business. It does not arise out of the operation of law as in the case of joint Hindu family business. The terms and conditions of partnership are laid down in a document known as Partnership Deed.

(ii) **Engagement in business:** A partnership can be formed only on the basis of a business activity. Its business may include any trade, industry or profession. Thus, a partnership can engage in any occupation - production and/or distribution of goods and services with a view to earning profits.

(iii) **Sharing of profits and losses:** In a partnership firm, partners are entitled to share in the profits and are also to bear the losses, if any.

(iv) **Agency relationship:** The partnership business may be carried on by all or any of the partners acting for all. Thus, each partner is a principal and so can act in his own right. At the same time he can act on behalf of other partners as their agent. Thus, every partner can bind the firm by his acts.

(v) **Unlimited Liability:** The liability of partners is unlimited as in the case of sole proprietorship. In case some obligation arises then not only the partnership assets but also the private property of the partners can be taken for the payment of liabilities of the firm.

(vi) **Common Management:** Every partner has a right to take part in the running of the business. It is not necessary for all partners to participate in the day-to-day activities of the business but they are entitled to participate. Even if partnership business is run by some partners, the consent of all other partners is necessary for taking important decisions.

(vii) **Restriction on transferability of share:** No partner can transfer his share in partnership to any other person. He may, however, do so with the consent of all other partners.

(viii) Registration: To form a partnership firm, it is not compulsory to register it. However, if the partners so decide, it may be registered with the Registrar of Firms. There are advantages of registration, which are discussed later.

(ix) Duration: The partnership firm continues at the pleasure of the partners. Legally a partnership comes to an end if any partner dies, retires or becomes insolvent. However, if the remaining partners agree to work together under the original firm's name, the firm will not be dissolved and will continue its business after settling the claim of the outgoing partner.

3.3.2 Formation and Registration:

Partnership Deed:

Since partnership rests on an agreement among persons, its formation does not involve any special legal problems. Generally, the partnership agreement is reduced to writing and a Partnership Deed is prepared. Partnership Deed lays down the terms and conditions of partnership and the rights, duties and obligations of partners. The following points are generally covered in the Deed:

(i) The nature of business.

(ii) Name of the firm and the place where its business will be carried on.

(iii) Amount of capital to be contributed by each partner.

(iv) Duties, powers and obligations of all the partners.

(v) Method of preparing accounts and arrangement for audit.

(vi) Whether loans will be accepted from a partner over and above the capital also, if so, at what rate of interest.

(vii) The amount to be allowed as private drawings by each partner and the interest to be charged thereon.

(viii) The ratio in which profits are to be shared.

(ix) Whether a partner can be expelled and, if so, the procedure for the same.

(x) Method for the settlement of disputes.

(xi) Circumstances under which the partnership will stand dissolved, and in case of dissolution, under whose custody the books of accounts will remain.

The Deed has to be stamped and each partner should have a copy of it.

3.3.3 Registration of firm:

Registration of a partnership firm is not compulsory under Indian Partnership Act. In England registration is compulsory. In India, certain privileges which are allowed to those firms, which are registered. But an unregistered firm suffers from certain disabilities. These disabilities make it virtually compulsory for a firm to get registered. A partnership firm may be registered at any time. That is, at the time of formation or at any time during its existence. A partnership firm desiring registration applies lo the Registrar of Firms in prescribed form along with the registration fee. The application should state the following:

(i) Name of the firm.

(ii) The principal place of business of the firm.

(iii) The name of any other place where the firm is to carry on business:

(iv) Date of admission of the partners in the firm.

(v) Names and permanent addresses of the partners.

(vi) Duration of the firm.

The application shall be signed and verified by each partner. Changes in the above particulars have to be communicated to the Registrar. The Certificate of registration is reliable evidence and a conclusive proof of the existence of the firm.

3.3.4 Consequences of Non-Registration:

An unregistered firm suffers from the following serious disabilities:

(i) A partner of an unregistered firm can not file a suit against the firm or any other partner for enforcing his right arising out of the contract;

(ii) An unregistered firm cannot file suit against any third party for the recovery of the claims;

(iii) Such a firm also cannot file a suit against any partner.

3.3.5 Types of Partnership

According to the nature of agreement among partners, there can be three types of partnership as follows:

(i) **Partnership at-will:** Such a partnership exists on the will of the partners. That is, it can be brought to an end whenever any partner gives notice of his intention to do so.

(ii) **Particular partnership:** A particular partnership is formed for undertaking a particular venture. It comes to an end automatically with completion of the venture.

(iii) **Partnership for a fixed duration:** Such partnership is for a fixed period of time say 2 years, 5 years or any other duration.

3.3.6 Types of Partners

The various types of partner found in partnership firms are as follows:

(i) **Active Partners:** Partners who take active part in the conduct of day-to-day business of the firm are called active partners. These partners carry on business on behalf of the other partners.

(ii) **Sleeping or dormant partners:** Sleeping or dormant partners are those who do not take active part in the management of the business. Such partners only contribute capital in the firm and are bound by the activities of other partners. However, they share in the profits and losses of the business.

(iii) **Others:** Active and sleeping partners are, as a matter of fact, the full-fledged partners i.e. they share in profits and losses of the business and are liable for its dues. However, there are other types of partners also who may be associated with partnership directly or indirectly. They are not full-fledged partners, such partners may include the following:

(a) **Nominal Partners:** Nominal partners are those who do not have interest in the business but lend their name to the firm. They do not make any capital contribution, and are not entitled to take part in management, but are liable, like other partners, to third parties. Such partners generally have a pecuniary interest (like a share in the profits) in lending their name to a firm. However in certain cases they may not have any pecuniary interest in doing so. For example, a reputed industrialist may, without any profit motive lend his name to a firm run by his family members.

(b) **Partners by holding out:** If a person by his words or conduct holds out to another that he is a partner, he will be prevented from denying that he is not a partner. The person who thus becomes liable to third parties to pay the debts of the firm is known as a partner by holding out.

3.3.7 Minor admitted into the benefits of partnership

A minor is a person who has not attained the age of 18 years. Since a minor is not capable of entering into a valid agreement, he cannot become partner of a firm. He may, however, be admitted to the benefits of an existing partnership.

It is clear from the preceding discussion that partners can be of three categories:

(i) Those who share in the profits and losses of the business and assume liability of the business debts (like active partners, dormant partners and nominal partners).

(ii) Those who share in profits only (like minor partners) and

(iii) Those who assume liability without sharing in the profits of the business (like partners by holding out).

3.4.8 Merits of Partnership

A partnership form of organisation offers the following advantages:

(i) **Ease in formation:** A partnership is very easy to form. All that is required is an agreement among the partners. Even the expenses to be incurred for registration are-not much.

(ii) **Pooling of financial resources:** A partnership commands more financial resources compared to sole proprietorship. This helps in expanding business and earning more profits. As and when a firm requires more money, more partners can be admitted.

(iii) Pooling of managerial stalls: A partnership facilitates pooling of managerial skills of all its partners. This leads to greater efficiency in business operations. For instance, in a big partnership firm, one partner can handle production function, another partner can look after all marketing activity, still another can attend to legal and personnel problems, and so on.

(iv) Balanced business decisions: In a partnership firm, decisions are taken unanimously after considering all the major aspects of a problem. This ensures not only balanced business decisions but also removes difficulties in the smooth implementation of those decisions.

(v) Sharing of risks: Unlike sole proprietary organisation, the risks of partnership business are shared by partners on a predetermined basis. This encourages partners to undertake risky but profitable business activities.

3.3.9 Limitations of Partnership

A partnership form of organisation suffers from the following major limitations:

(i) Uncertainty of existence: The existence of a partnership firm is very uncertain. The retirement, death, bankruptcy or lunacy of any partner can put an end to the partnership. Further, the partnership business can come to a close if any partner demands it.

(ii) Risks of implied authority: It is true that like the sole proprietor each partner has unlimited liability. But his liability may arise not only from his own acts but also from the acts and mistakes of co-partners over whom he has no control. This discourages many persons with money and ability, to join a partnership firm as partner.

(iii) Risks of disharmony: In partnership, since decisions are taken unanimously, it is essential that all partners reconcile their views for the common good of the organisation. But there may arise situations when some partners may adopt rigid attitudes and make it impossible to arrive at a commonly agreed decision. Lack of harmony may paralyse the business and cause conflict and mutual bickering.

(iv) Difficulty in withdrawal from the firm: Investment in a partnership can be easily made but cannot be easily withdrawn. This is so because the withdrawal of a partner's share requires the consent of all other partners.

(v) **Lack of institutional confidence:** A partnership business does not enjoy much confidence of banks and financial institutions. It is because the nature of its activities is not disclosed at public and the agreement among partners is not regulated by any law. As a result large financial resources cannot be raised by partnership and growth of business cannot be ensured.

(vi) **Difficulties of expansion:** It is difficult for a partnership firm to undertake modernization of expansion of its operations. This is because of its inability to raise adequate funds for the purpose. Limited membership (restricted to 20) and their limited personal resources do not permit large amounts of capital to be raised by the partners. Therefore, large-scale business cannot generally be organised by partnerships.

It is quite obvious from the discussions that the partnership form of organisation is excellent when the size of business is medium, i.e. neither too small not too large, and when the partners can work in full co-operation with one another,

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INTEXT QUESTIONS 3.1

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1. Whether the liability of sole proprietorship is limited or unlimited?
2. How many minimum members are required to form partnership firm?
3. Is it compulsory to register the partnership firm?

3.4 CO-OPERATIVE ORGANISATION

3.4.1 Meaning:

A co-operative form of business organization is different from other forms of organization. It is a voluntary association of persons for mutual benefit and its aims are accomplished through self help and collective effort. The main principle underlying a cooperative organization is mutual help, i.e., each for one and all for each. A minimum of 10 persons are required to form a co-operative society. To be called a co-operative society it must be registered with the Registrar of Co-operative Societies under the Co-operative Societies Act. The capital of a co-operative Society is raised from its members by way of share capital. It can also obtain additional resources by way of loans from the State and Central Co-operative Banks.

A Co-operative society has much in common with partnership, yet there are differences between the two types of organisation. In partnership, mutual benefit is restricted to partners only, but in a co-operative society it extends to its members as also the public. For example in a consumer co-operative store or a co-operative credit society, the benefits are available to the members as well as the general public. Besides, partnership requires the existence of some business activity whereas a co-operative may be formed whenever individuals have common needs, which are difficult to fulfill single-handed. Also, registration is optional in the case of partnership but it is compulsory for a co-operative society.

3.4.2 Type of Co-operative Societies

Co-operative societies may be classified into different categories according to the nature of activities performed by them. The main types of co-operative societies are:

1. Consumers' co-operative societies.
2. Producers' co-operative societies.
3. Co-operative marketing societies.
4. Co-operative credit societies.
5. Co-operative farming societies.
6. Co-operative housing societies.

1. **Consumers' co-operative societies:** Consumer' co-operatives are organised by consumers to eliminate middlemen and to establish direct relations with the manufacturers or wholesalers. These societies are formed by consumers to ensure a steady supply of goods and services of high quality at reasonable prices. It purchases goods either from the manufacturers or wholesalers for sale at reasonable prices. The profit if any , is distributed among members as dividend in the ratio of capital contributed and also bonus in proportion to the purchases made by them.

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2. **Producers' co-operative societies**: Producers' co-operative are formed to help the members in procuring inputs for production of goods or services. These societies generally provide raw material, tools and equipment and other common facilities to its members. This helps them to concentrate their attention on production of goods. The society provides inputs to the members and takes over their output for sale to outsiders. The basis for distribution of bonus is the goods delivered for sale by each member.

3. **Co-operative marketing societies:** Co-operative marketing societies are voluntary associations of small producers, who find it difficult to individually sell their products at a profit. The main purpose of such a society is to ensure a steady and favourable market for the output of its members. The output is pooled together and sold at the best price. The sale proceeds are distributed in proportion to the contribution of the members to the pool. Marketing co-operatives eliminate middlemen and ensure honest trading practices in weighing, measuring and accounting.

4. **Co-operative credit societies:** Such societies are formed to provide financial help in the form of loans to members. The funds of these societies consist of share capital contributed by the members and the deposits made by them and outsiders. The funds are used in giving loans to needy members on easy terms. Thus, the members are protected from the exploitation of moneylenders, who charge very high rates of interest. Another important purpose of credit co-operatives is to encourage the habit of thrift among their members.

5. **Co-operative farming societies**: In co-operative farming societies, small farmers join together and pool their resources for cultivating their land collectively. Their objective is to achieve economies of large scale farming and maximising agricultural output. Such societies are particularly important in the case of countries like India, where agriculture suffers from excessive sub-division and fragmentation of land. Co-operative farming makes it possible for members to use modem tools and equipments, good seeds, fertilizer and irrigation facilities in order to achieve higher production.

6. **Co-operative housing societies:** They are formed to provide residential accommodation to the members. They undertake the purchase and development of land and/or construction of houses/flats on the land. Some housing co-operatives provide their members with necessary loans at low rates of interest to build houses. These societies are gaining popularity in big cities.

3.4.3 Characteristics of Co-operative Organisation

The following are the main characteristics of cooperative societies:

(i) **Voluntary association:** In co-operatives, the membership is voluntary. Anybody having a common interest is free to join a co-operative society. The member can also leave the society anytime after giving proper notice.

(ii) **Equal voting rights:** In a co-operative society, the principle of one-man one vote is adopted. A member has only one vote irrespective of the number of share(s) held by him. Thus, a co-operative society is run on democratic principles.

(iii) **Separate legal entity:** A co-operative society is required to be registered under the Co-operative Societies Act. Registration provides it a separate legal entity. Its existence is quite different from its members. The death, insolvency or lunacy of a member does not affect its existence. It can sue and be sued in its own name. It can make agreements as well as purchase and sell properly in its own name.

(iv) **Service motive:** A co-operative society is based on the service motive of its members. It’s main objective is to provide service to the members and not to maximize profits. Earning profit is the most important objective of other forms of business organisation. It is not so in the case of co-operatives.

(v) **Distribution of surplus:** Out of the profits of the co-operative, members are paid dividend and bonus. The bonus is given according to the volume of business transacted by each member with the co-operative society. For example, in a consumer co-operative society, bonus is paid in proportion to the purchases made by members during a year. In producers’ co-operative the valued goods delivered for sale form the basis of distributing bonus.

3.4.4 Merits of Co-operative Organisations

The co-operative form of organisation offers the following advantages:

(i) Easy to form: A co-operative society is voluntary association and may be formed with a minimum of ten adult members. Its registration is very simple and can be done without much legal formalities.

(ii) Open membership: Membership in a Co-operative organisation is open to all having a common interest . A person can become a member at any time he likes and can leave the society by returning his shares without affecting its continuity.

(iii) Democratic management : A co-operative society is managed in a democratic manner. It is based on princiiple of one man one vote. All members have equal rights and can have a voice in its management.

(iv) Limited liability: The liability of the members of a co-operative society is limted to the extent of capital contributed by them. They don't have to bear personal liability for the debts of the society.

(v) Stability: A co-operative society has a separate legal existence. It is not affected by the death, insolvency, lunacy or permanent incapacity of any of its members. It has a fairly stable life and continues to exist for a long period.

(vi) Economical operations: The operation of co-operative society is quite economical due to elimination of middlemen and the voulantarily services provided by its members.

(vii) Government patronage: Government gives all kind of help to co-operatives, such as loans at lower rates of interest and relief in taxation.

(viii)Other benefits: Certain non-economic benefits are also derived by members through cooperatives. Credit co-operatives, for instance, promote habits of thrift and producers' co-operative encourage joint activity among members.

3.4.5 Limitations of Co-operative Organisations

As against the above-mentioned advantages of cooperatives the following limitations and drawbacks of this form of organisation must also be noted:

(i) Limited capital: Co-operatives are usually at a disadvantage in raising capital because of the low rate of return on capital invested by members.

(ii) Inefficient management: The management of a co-operative society is generally inefficient because the managing committee consists of part-time and inexperienced people. Qualified managers are not attracted towards a co-operative on account of its limited capacity to pay adequate remuneration.

(iii) Absence of motivation: A co-operative society is formed for mutual benefit and the interest of individual members are not fully satisfied. There is no direct link between effort and reward. Hence members are not inclined to put in their best efforts in a co-operative society.

(iv) Differences and factionalism among members: Once the initial enthusiasm about the co-operative ideal is exhausted, differences and group conflicts arise among members. Then it becomes very difficult to get full co-operation of the members. The selfish motives of members begin to dominate and service motive is some times forgotten. But the society continues because it functions in the interest of members.

(v) Rigid rules and regulations: Excessive government regulation and control over Co-operatives affect their functioning. For example, a Co-operative society is required to get its accounts audited by the auditors of the co-operative department and submit its accounts regularly to the Registrar. These regulations and control may adversely affect the flexibility of operations and the efficiency of management in a co-operative society.

INTEXT QUESTION 3.2

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1. What is the main aim of co-operative society?
2. What are the voting rights of the members in a co-operative society?

3.5 COMPANY

The company form of organisation is considered to be most suitable for organising business activities on a large scale as it does not suffer from the limitations of capital and management of other forms of organisation. The sole proprietorship, partnership and Co-operative organisation are not capable of undertaking large scale activity due to lack of adequate capital and limited managerial abilities. In a company organisation those problems can be easily overcome. It has the advantage of attracting huge capital from the public due to the limited liability of members. With adequate capital it can also employ trained and experienced managers to run the business activities efficiently.

3.5.1 Meaning

A company is defined as a voluntary association of persons having separate legal existence, perpetual succession and a common seal. As per the definition, there must be a group of persons who voluntarily agree to form a company. Once formed the company becomes a separate legal entity with a distinct name of its own. Its existence is not affected by change of members. It must have a seal to be imprinted on documents whenever required. The capital of a company consists of transferable shares, and members have limited liability.

3.5.2 Features of a Company

The following are the chief characteristics of the company form of organisation:

(i) **Registered body:** A company comes into existence only after its registration. For that purpose, necessary legal formalities have to be completed as prescribed under the Companies Act.

(ii) **Distinct legal entity:** A company is regarded as a legal entity separate from its members. Thus a company can carry on business in its own name, enter into contracts, sue, and be sued.

(iii) **Artificial person:** A company is the creation of law and has a distinct entity. It is therefore, regarded as an artificial person. The business is run in the name of the company. But because it is an artificial person, its functions are performed by the elected representatives of members, known as directors.

(iv) Perpetual succession: A company has continuous existence independent of its members. Death, insolvency, or change of members has no effect on the life of a company. The common saying in this regard is that members may come, members may go, but the company goes on forever. The life of the company can come to an end only through the prescribed legal procedure.

(v) Common seal: Since a company is an artificial person, it has no physical existence. The activities of the company are carried through a group of natural persons elected by its members (called directors). Every company must therefore, have a common seal with its name engraved on it. Anyone acting on behalf of the company must use the common seal to bind the company.

(vi) Limited liability: The liability of the members of a company is limited. It is limited to the extent of capital agreed to be contributed. Beyond that amount, the members cannot be personally held liable for payment of the company's debts.

(vii) Transferability of shares: The capital of a company is divided into parts called shares. Normally the shares of a company are freely transferable by its members. However, transferability is restricted in the case of private company.

3.5.3 Merits of Company

The most important advantages of a company organisation may be stated as follows:

(i) Collection of huge financial resources: The biggest advantage of a company organisation is that it has the ability to collect large amounts of funds. This is because a company can raise capital by issuing shares to a large number of persons. Shares of small value can be subscribed even by people with small savings. In addition, company can also raise loans from the public as well as different lending institutions. Availability of necessary funds makes it possible for a company to undertake business activities on a large scale.

(ii) Limited liability: Another advantage of the company form of organisation is the limited liability of members. With

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the liability of members limited to the value of their shares, company is able to attract many people to invest in its shares. It is thus in a position to undertake business ventures involving risks.

(iii) **Free transferability of shares:** A company permits its members to transfer their shares. Free transferability of shares provides liquidity of the member's investment. Thus, if a member needs cash he can sell his shares. Or, he can use the same amount to buy shares of another more profitable company. It enables profitable companies also to attract funds away from the less profitable ones.

(iv) **Durability and stability:** A company is the only form of organisation which enjoys continuous existence and stability. The funds invested in a company by shareholders are not withdrawal until it is wound up. Also any change in the company's membership does not affect its life. As a result of this, a company can undertake projects of long duration and attract people to invest in the business of the company.

(v) **Growth and expansion:** With the large resources at its command a company can organize business on a large scale. Once the business is started on a large scale it gives the company strength to grow and expand. This is because of high profits, which accrue from the economies of large-scale organisation and production.

(vi) **Efficient management:** Since a company undertakes large-scale activities, it requires the services of expert professional managers. Competent managers can be easily hired by a company because it commands large financial resources. Thus, efficient management is ensured in a company organisation.

(vii) **Public confidence:** A company enjoys great confidence and trust of the general people. Companies have to disclose the results of their activities and financial position in the annual reports. The reports are available to the public. It is on the basis of the annual reports and other information that investment is made in companies.

(viii) **Social benefits:** Apart from the benefits mentioned above, a company organisation also offers the following social benefits:

(a) **Democratisation of management:** In the company form of organisation, management of business is entrusted to the elected representative of shareholders, that is the directors. As a result of democratic management the business of company is run in the best interest of the majority shareholders.

(b) **Dispersal of ownership:** Since a large number of persons are associated with a company as members, its ownership is widely held. Thus the benefits of the company's operations are distributed among a large section of people.

(c) **Assumption of social responsibilities:** Large companies often undertake and contribute to social welfare activities by making donations to schools and colleges, developing rural areas, running health-care institutions, and so on.

3.5.4 Limitations of Company Organisation

A company organisation suffers from the following limitations:

(i) **Lengthy and expensive legal procedure:** The registration of a company is a long-drawn process. A number of documents are to be prepared and filled . For preparing documents experts are to be hired who charge heavy fees. Besides, registration fees have also to be paid to the Registrar of Companies.

(ii) **Excessive government regulations:** A company is subject to government regulations at every stage of its working. A company has to file regular returns and statements of its activities with the Registrar. There is a penalty for non-compliance of the legal requirements. Filing returns and reports involving considerable time and money is the responsibility of a company. All this reduces flexibility in operations.

(iii) **Lack of incentive:** The company is not managed by shareholders but by directors and other paid officials. Officials do not have investment in the company and also do not bear the risks. As such, they may not be as much motivated to safeguard the interests of the company as the shareholders.

(iv) **Delay in decision-making and action:** In large companies, decision making and its implementation happen to be a time consuming process. This is obviously because individual managers are unable to take decisions on their own.They may have to consult others which may take a lot of time. Similarly, after decisions are taken, they have to be communicated to people working at various levels of the organisation. It also delays the implementation of already delayed decisions.

(v) Conflict of interest: A company is generally characterised by a large organisation with many groups operating in it. So long as the interests of these groups do not clash with each other they work for the good of the organisation. But sometimes, individual and group interests become difficult to reconcile. For instance, the sales manager may be interested in the quality of products to satisfy customers and increase sales, but the production manager may be more concerned with maximum production without regard to the product quality. In such a situation, the business is bound to suffer in course of time unless there is a reconciliation of the conflicting view points of the two managers.

(vi) Oligarchic management: The company management may seem to be fully democratic, but in actual practice, it is the worst form of oligarchy i.e. control by a small group of persons. People who are once elected as directors of a company adopt various means to get themselves re-elected over and again. Such individuals often exploit the company for personal interests instead of working in the interest of shareholders.

(vii) Speculation: In speculation, profit is fought to be made by manipulating prices of shares without actually holding shares. A company organisation provides scope for speculation in shares by the directors. Because directors have knowledge of all information about the functioning of Company, they can use it to their personal advantage. For example, directors may sell or buy shares knowing that prices will decline or go up because of low or high profits. As a result of this, innocent shareholders may suffer loss.

(viii) Growth of monopolistic tendencies: A company because of its large size has the tendency to grow into a monopoly so as to eliminate competetion , controll the market and charge unreasonable prices to maximise profits. .

(ix) Influencing government decisions: Big companies are generally in a position to influence government officials to make decision in their favour. This is because such companies have large financial resources and are in a position to bribe even high officials.

From the preceding discussion it is clear that the company form of organisation is best suited to those lines of business activity which are to be organised on a large scale, require heavy investment of capital with limited liability of members. That is why enterprises producing steel, automobiles, computers and high technology products are generally organised as companies.

3.6 Limited Liability Partnership (LLP)

Meaning

LLP, a legal form available world-wide is now introduced in India and is governed by the Limited Liability Partnership Act 2008, with effect from April 1, 2009..

LLP combines the advantages of ease of running a Partnership and separate legal entity status and limited liability aspect of a Company.

3.6.1 Main features of a LLP

I. LLP is a separate legal entity separate from its partners, can own assets in its name, sue and be sued.

II. Unlike corporate shareholders, the partners have the right to manage the business directly

III. One partner is not responsible or liable for another partner's misconduct or negligence.

IV. Minimum of 2 partners and no maximum.

V. Should be 'for profit' business.

VI. Perpetual succession.

VII. The rights and duties of partners in LLP, will be governed by the agreement between partners and the partners have the flexibility to devise the agreement as per their choice. The duties and obligations of Designated Partners shall be as provided in the law.

VIII. Liability of the partners is limited to the extent of his contribution in the LLP. No exposure of personal assets of the partner, except in cases of fraud.

IX. LLP shall maintain annual accounts. However, audit of the accounts is required only if the contribution exceeds Rs. 25 lakhs or annual turnover exceeds Rs.40 lakhs.

3.6.2 Merits

a. Lower cost of formation.

b. Lesser compliance requirements.

c. Easy to manage and run.

d. Easy to wind-up and dissolve.

e. No requirement of minimum capital contributions.

f. Partners are not liable for the acts of the other partners.

g. No minimum alternate tax (as of date).

3.6.3 Demerits

a. LLP cannot raise money from the public.

b. Financial Institution may not lend the large amount the LLP.

3.6.4 Process for incorporating a LLP

The Registrar of Companies (ROC) is the authority having jurisdiction over the incorporation.

a. Decide on the Partners and the Designated Partners.

b. Obtain Designated Partner Identification Number (DPIN) and a digital signature certificate.

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c. Decide on the name of the LLP and check whether it is available.

d. Draft the LLP agreement

e. File the LLP Agreement, incorporation documents and obtain the Certificate of Incorporation.

3.6.5 Distinction of Company, partnership firm and LLP

Features	Company	Partnership firm	LLP
Registration	Compulsory registration required with the ROC. Certificate of Incorporation is conclusive evidence.	Not compulsory. Unregistered Partnership Firm will not have the ability to sue.	Compulsory registration required with the ROC
Name	Name of a public company to end with the word "limited" and a private company with the words "private limited"	No guidelines.	Name to end with "LLP"" Limited Liability Partnership"
Capital contribution	Private company should have a minimum paid up capital of Rs. 1 lakh and Rs.5 lakhs for a public company	Not specified	Not specified
Legal entity status	Is a separate legal entity	Not a separate legal entity	Is a separate legal entity
Liability	Limited to the extent of unpaid capital.	Unlimited, can extend to the personal assets of the partners	Limited to the extent of the contribution to the LLP.
No. of shareholders / Partners	Minimum of 2. In a private company, maximum of 50 shareholders	2- 20 partners Minimum of	2. No maximum.
Foreign Nationals as shareholder / Partner	Foreign nationals can be shareholders.	Foreign nationals cannot form partnership firm.	Foreign nationals can be partners.

Taxability	The income is taxed at 30% + surcharge+cess	The income is taxed at 30% + surcharge+cess	Not yet notified.
Meetings	Quarterly Board of Directors meeting, annual shareholding meeting is mandatory	Not required	Not required.
Annual Return	Annual Accounts and Annual Return to be filed with ROC	No returns to be filed with the Registrar of Firms	Annual statement of accounts and solvency & Annual Return has to be filed with ROC

3.6 SUMMARY

CHOICE OF FORM OF ORGANISATION

Having discussed the characteristics, merits, limitations of the various form of organisation (sole proprietorship, partnership, co-operative and company organisation) we may consider how to select most suitable form of organisation for a business venture. Choice of a suitable form of organisation is important because the success and growth of a business depends a great deal on it. The form of organisation determines availability of finance, risk associated with business, division of profit, owners' control, Stability and durability of business, and so on. Since business and entrepreneurial objectives vary, no single form of organisation can be considered as the best for all kind of business. The selection of a suitable form of organisation is generally made after careful consideration of the following factors:

(i) Scale of operations-manufacturing, trading, service;

(ii) Scale of operations-volume of business (small, medium, large) and the market area served (local, national, international);

(iii) Financial requirements for starting and expanding business;

(iv) Degree of direct control desired by owners;

(v) Degree of risk and liability;

(vi) Division of profit;

(vii) Flexibility of operations;

(viii) Stability of business;

(ix) Legal procedure.

It needs to be emphasized that these factors are inter-related and influence each other. For instance, the financial requirements of a business depend upon the nature of business as well as the scale of operations. The establishment of an industrial enterprise on a large scale would need greater outlay of the capital, than a small enterprise for the same purpose. Similarly, the degree of risk and liability will depend both on the amount invested and the nature of demand for the products of the enterprise. Thus, for a small enterprise (say, a workshop or a grocery shop) the risk will be limited and so will be the owner's liability, even if his personal assets may be used to discharge business debts. Control and sharing of profit are interconnected and both are related to the risk and liability. If the risk and liability are not heavy, the entrepreneur would not like to give up control and share profits with others.

3.7 TERMINAL QUESTIONS

1. Explain the features of partnership.
2. Distinguish between Private & Public company.
3. Write short note on
    a) Co-operative organization
    b) Sole proprietorship

3.8 OBJECTIVE TYPE QUESTIONS

1. There are ____forms of business organization.(four/five)
2. Choose the correct option
    a. Limited liability of the partners in Limited liability Partnership
    b. Shareholders have limited liability
    c. Singe proprietor has unlimited liability.
    d. All the above

3. Statement A: A Partnership deed is basic document in partnership

   Statement B: LPP should be registered with the Registrar of Companies.

   a. Only A is true b. Only B is true c. Both are true d. Neither of two

4. Choose the wrong option

   a. Maximum partners can be 20 in the partnership firm.

   b. Maximum partners can be unlimited in LLP

   c. Maximum shareholders are unlimited in private company

   d. Sole proprietorship cannot have the partner.

5. Choose the correct option

   Statement A: Cooperative organization is a voluntary association.

   Statement B: Every member has the equal rights in the Cooperative organization.

   a. Only A is true b. Only B is true c. Both are true d. Neither of two

6. Choose the correct option

   Statement A: Partnership has legal entity.

   Statement B: LPP has no legal entity.

   a. Only A is true b. Only B is true c. Both are true d. Neither of two

7. Choose the correct option

   Statement A: There should be minimum Directors 2 in private company.

   Statement B: There should be maximum 20 directors in a partnership firm.

   a. Only A is true b. Only B is true c. Both are true d. Neither of two

8. Choose the correct option

   a. Shares in a company are transferrable.

b. Shares in LPP are transferable.

c. Share can be returned to the society

d. All the above

9. Choose the correct option

Statement A: The service is the motive of the cooperative societies.

Statement B: LPP is also formed to serve society.

a. Only A is true b. Only B is true c. Both are true d. Neither of two

10. Choose the wrong option

a. Minimum 2 and maximum 50 shareholders in private limited company

b. Minimum 2 and maximum unlimited shareholders in public limited company

c. Minimum 2 and maximum unlimited partners in LPP

d. None of them

3.9 ANSWERS TO INTEXT QUESTIONS

3.1

1. The liability of sole proprietor ship firm is unlimited.
2. Minimum two persons are required to form a partnership firm.
3. No, it is not compulsory but there are certain advantages to get a firm registered.

3.2

1. The main aim is to serve the members.
2. Each member has one vote irrespective of the shares held by him.

3.10 ANSWERS TO OBJECTIVE TYPE QUESTIONS

1. five	2. d	3. c	4. c	5. c
6. d	7. a	8. d	9. a	10. d

4

PRINCIPLES OF MANAGEMENT

4.0 INTRODUCTION

In earlier chapters you have studied how the insurance sector is developing in Indian economy and in the present scenario insurance sector is one of the promising sectors to provide employment opportunity. Once you have opted your career in insurance sector and select any form of organization to do the insurance business, as discussed in the previous chapter and to run any organization one should have the knowledge of principles of management. In the following paragraphs the principles of management is being explained.

Before discussing the principles of management it is to explain that all industrial or business activities can be classified as follows:

1. Technical activities consisting of production or manufacture
2. Commercial activities consisting of buying, selling and exchange
3. Financial activities concerning search for optimum use of capital
4. Security activities concerning protection of property and persons
5. Accounting activities concerning with maintenance of accounts including statistics
6. Managerial activities consisting of planning, organizing, commanding, co-ordaining and controlling

Although industrial or business organizations differ from one another in nature, size or complexities of operation yet all these six activities are common in all enterprises. The first five activities are quite well known therefore we are discussing only the sixth i.e managerial activities. We will explain these principles applicable in any insurance company.

4.1 OBJECTIVES

At the end of this lesson you will be able

- To know the principles of management
- How to apply these principles in insurance organization

4.2 MANAGERIAL ACTIVITIES /PRINCIPLES OF MANAGEMENT

The management activities are known as principles of management which are as follows:

- Forecasting and Planning,
- Organizing,
- Commanding,
- Co-ordaining and
- Controlling

A) Forecasting and Planning

Planning means looking ahead or to foresee. To foresee means, "both to assess the future and make provision for it. To plan means to foresee and provide means for future. The process of planning includes:

1. **The identification of organizational goals**. The aim of any insurance company is to insure life or property of the human being. The goal is to insure maximum number of person or the property so that the risk can be spread on number of persons.

2. **The line of action to be followed**. Once aim is set to insurer human being or property then the next step is how to insure human beings or property. The action will be to create a Marketing Department for a company.

3. **The various stages through which the action would pass**: To sell the insurance product only marketing

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department at one place i.e head office cannot achieve the results therefore various offices at different location to be set up to sell the insurance products.

4. **The method to be used to achieve the desired goals**: The next issue comes how to sell the insurance products. Weather it should be through Agents or Corporate Agent or Broker. Accordingly the action of the insurance company will start to recruit the manpower.

B) Organizing

To organize means building up the dual structure, material and human of the organization. To organize means to provide the organization with everything useful to its functioning raw material, tools, capital and personnel. An insurance company may not require the raw material but it requires other material i.e. tool (computers), capital and personnel. A sound organization should have the following to achieve the good relationship between material and human.

- **A single competent and energetic guiding authority**: There should be a single person to be overall in-charge of the organization who will report to the Board of directors. Like Chief Executing Officer (CEO) or Managing Director is appointed in all organization whether it is insurance or other type of organization. Irrespective of the size of the organization.
- **Efficient selection of personnel:** Any organization is run by the human beings therefore it is always endeavor of the CEO /Managing Director to recruit the manpower weather technical or finance or marketing the person should be intelligent and efficient. It saves the cost because the efficient people understand the working of the organization and take the decisions quickly. In an insurance industry the trained manpower is required because the insurance polices ate technical in nature and requires lot of skill to make the understand to the customer
- **Clear definition of duties at all levels:** The duties of each employee should be defined to get the better results form the employees. If duties are not defined then the employees will be confused what to do or not to do. In an insurance company the target should be given to the

marketing personnel to insure so many lives or property and being a marketing function, it should not be assigned to Finance Deptt. Moreover there will be many employees in the department the target should be given to the Head of the Deptt and then he will assign the targets to his juniors at different locations.

- **Initiative and responsibility:** The management should ensure that employees take initiative to complete the job assigned to them. The employees should be held responsible for not doing the things. In an insurance company the marketing team should be very strong to sell the insurance products. The team should take initiative to meet the number of persons to get the insurance business. The team should not wait for the instruction of their superiors to meet the customers.

- **Minimum paper work:** In the computer era the paper work can be reduced and the employees of the organization should maximum use the computers to save paper work. In insurance the marketing team should send the daily performance report through email which will reduce the paper work.

- **Reward & efficiency**: The good performers should be awarded cash or non cash award which boost the moral and efficiency of the employees.

- **Unit of command:** Every employee should report to one superior not to more than otherwise the performance and controlling of the employees will be very difficult.

- **Clear and precise decision making:** Any decision taken by any employee should not be ambiguous i.e double meaning because it creates confusion.

- **Proper control**

- **Disincentives for faults and error:** for any fault of any employee or non performer should be penalized otherwise it will affect the working of the performers.

- **Supremacy of general interest in relation to individual etc:** Any individual interest should not be clash with the organization interest. The organization interest should be protected.

C) Commanding

It means setting the business going to get the desired optimum results from the subordinates. The managers must posses the requisites personal qualities and knowledge to command effectively. The managers must

- have a thorough knowledge of his personnel
- have capacity to spot the right and competent workers so as to eliminate the incompetent
- set a good example i.e leadership
- conduct periodic assessment or audit of performance
- be well versed in agreement binding the business and its employees
- have lively and constant touch with subordinates
- aim at making unity, energy imitative and loyalty prevail among personnel

D) Co-ordinating

It means the process developed by a manger to secure an orderly pattern of group effort among his personnel through unity of action to pursue the common goals. The coordination should be with in the resources available in the organization.

E) Controlling

The controlling means to ensure that everything is done in accordance with the established rules and instruction given to the workmen. The purpose of control is to point out weaknesses and errors in order to rectify them and prevent their recurrence. The effective control must be

i) prompt,

ii) followed with sanctions and

iii) include measure to prevent recurrence of variances a or error

INTEXT QUESTIONS 4.1

1. What are the common activities of any organization?
2. What do you mean by Planning?

4.3 ADVANTAGE OF PRINCIPLES OF MANAGEMENT:

i) **To increase Management efficiency:** The principles of management have been developed from experiences of various professional people. These principles provide guidelines as to how mangers should function in different situations which in turn increase their efficiency.

ii) **To develop the Science of Management:** The principles of management make use of scientific methods for observation. They have helped to develop the science of management. In absence of principles of management it would be not have been possible to develop the organized body of knowledge by management practitioners, thinker and philosophers.

iii) **To train mangers:** Management of principles is also needed to train managers. In the absence of principles the training of mangers depends upon trial and error methods. Formalized methods of acquiring training are possible only when there exists a systemized body of specialized knowledge, techniques or principles.

iv) **To co-ordinate material and human resources:** The principles of management help to coordinate the material and human resources in order to achieve the desired goals or common objectives. Without principles of management there would be a lot of wastage of resources. The principles of management make optimum utilization of natural resources possible.

v) **To improve researches:** The principles of management have helped in inverse of knowledge and carrying out of further research in the field of management. These have provided new ideas imagination and visions to the organization.

vi) **To attain social objectives**: Development of management principles have helped to attain the social goals by increasing efficiency in the use of scarce resources providing good quality products and services at the lowest possible costs.

4.4 SUMMARY

As you know management of any business has become very complex these days. Managers are expected to deal with a number of problems in their day to day working. Therefore

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principles of management are needed in all business organization.

A principle means a fundamental truth on the basis of reasoning a primary element of general law. Every social science has developed its own principles. Some principles have been developed by experts in management. These principles are the results of various problems faced by professional people and then the solution derived by them to meet with those situations

The principles of management are not like the principles of physical sciences. These are general guidelines and they cannot be mechanically applied. The individual factor plays important part in using managerial principles. To control the individuals the forecasting and planning, Organizing, Commanding, Co-ordaining and Controlling is must as an principles of management.

4.5 TERMINAL QUESTIONS

1. "To mange is to forecast, and plan, to organize, to command, to co-ordiante and to control" Discuss.
2. Discuss the principles of management.
3. What are the advantages of Principles of management as applicable to an insurance company?

4.6 OBJECTIVE TYPE QUESTIONS

1. Planning means______ ahead (Looking/controlling)
2. Choose the correct option

   Statement A: Accounting activities concerning with maintenance of accounts including statistics.

   Statement B: Managerial activities consisting of planning, organizing, commanding , coordinating and controlling.

   a. Only A is true b. Only B is true c. Both are true d. Neither of two
3. Choose the correct option

   a. The effective control must be prompt.

b. The effective control must be followed with sanctions.

c. The effective control must include measure to prevent recurrence of variances or error.

d. All of the above

4. The coordination should be within the ________available in the organization. (resources/manpower)

5. The Mangers set a good example of ______(leadership/ officer)

4.7 ANSWERS TO INTEXT QUESTIONS

4.1

1. Technical activities, Commercial activities, Financial activities, Security activities, Accounting activities, Managerial activities consisting of planning, organizing, commanding, co-ordaining and controlling.

2. Planning means looking ahead or to foresee. To foresee means “both to assess the future and make provision for it. To plan means to foresee and provide means for future.

4.8 ANSWERS TO OBJECTIVE TYPE QUESTIONS

1. looking	2. c
3. d	4. resources
5. Leadership	

5

BASIC ACCOUNTING PRINCIPLES

5.0 INTRODUCTION

We have studied economic activities which have been converted into business activities. In business activity a lot of "give & take" exist which is known as transaction. Transaction involves transfer of money or money's worth. Thus exchange of money, goods & services between the parties is known to have resulted in a transaction. It is necessary to record all these transactions very systematically & scientifically so that the financial relationship of a business with other persons may be properly understood, profit & loss and financial position of the business may be worked out at a particular date. The procedure to record all these transactions is known as "Book-keeping".

In other words the book keeping may be defined as an activity concerned with the recording of financial data relating to business operations in an orderly manner. Book keeping is the recording phase of accounting. Accounting is based on an efficient system of book keeping.

Accounting is the analysis & interpretation of book keeping records. It includes not only the maintenance of accounting records but also the preparation of financial & economic information which involves the measurement of transactions & other events relating to entry.

There are various terminology used in the Accounting which are being explained as under: -

1) **Assets:** An asset may be defined as anything of use in the future operations of the enterprise & belonging to

the enterprise. E.g., land, building, machinery, cash etc.

2) **Equity:** In broader sense, the term equity refers to total claims against the enterprise. It is further divided into two categories.

   i. Owner Claim - Capital

   ii. Outsider's Claim – Liability

   Capital: The excess of assets over liabilities of the enterprise. **It is the difference between the total assets & the total liabilities of the enterprise.** e.g.,: if on a particular date the assets of the business amount to Rs. 1.00 lakhs & liabilities to Rs. 30,000 then the capital on that date would be Rs.70,000/-.

   Liability: Amount owed by the enterprise to the outsiders i.e. to all others except the owner. e.g.,: trade creditor, bank overdraft, loan etc.

3) **Revenue:** It is a monetary value of the products or services sold to the customers during the period. It results from sales, services & sources like interest, dividend & commission.

4) **Expense/Cost:** Expenditure incurred by the enterprise to earn revenue is termed as expense or cost. The difference between expense & asset is that the benefit of the former is consumed by the business in the present whereas in the latter case benefit will be available for future activities of the business. e.g., Raw material, consumables & salaries etc.

5) **Drawings:** Money or value of goods belonging to business used by the proprietor for his personal use.

6) **Owner:** The person who invests his money or money's worth & bears the risk of the business.

7) **Sundry Debtors:** A person from whom amounts are due for goods sold or services rendered or in respect of a contractual obligation. It is also known as debtor, trade debtor, accounts receivable.

8) **Sundry Creditors:** It is an amount owed by the enterprise on account of goods purchased or services rendered or in respect of contractual obligations. e.g., trade creditor, accounts payable.

Notes

5.1 OBJECTIVES

At the end of this lesson you will be able

- To maintain the books of accounts
- To prepare the annual accounts

5.2 ACCOUNTING CYCLE

After taking decisions such as selecting a business, selecting the form of organisation of business, making decision about the amount of capital to be invested, selectingsuitable site, acquiring equipment & supplies, selecting staff, getting customers & selling the goods etc. a business man finally resorts to record keeping.

For all types of business organisations, transactions such as purchases, sales, manufacturing & selling expenses, collection from customers & payments to suppliers do take place. These business transactions are recorded in a set of ruled books such as journal, ledger, cash book etc. Unless these transactions are recorded properly he will not be in a position to know where exactly he stands.

The following is the complete cycle of Accounting

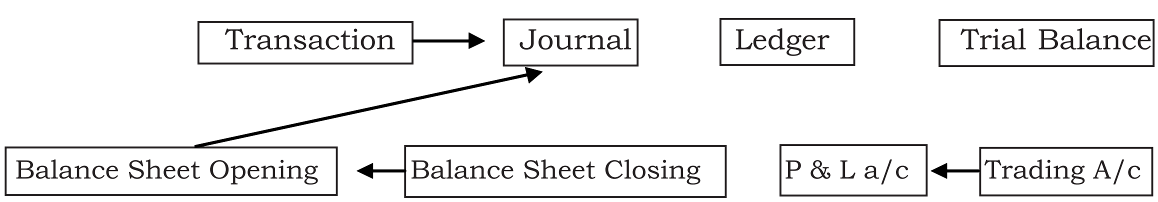
a) The opening balances of accounts from the balance sheet & day to day business transaction of the accounting year are first recorded in a book known as **journal.**

b) Periodically these transactions are transferred to concerned accounts known as **ledger** accounts.

c) At the end of every accounting year these accounts are balanced & the **trial balance** is prepared.

d) Then the final accounts such as **trading & profit & loss** accounts are prepared.

e) Finally, a **balance sheet** is made which gives the financial position of the business at the end of the period.



5.3 ACCOUNTING ASSUMPTIONS

In the modern world no business can afford to remain secretive because various parties such as creditors, employees, Government, investors & public are interested to know about the affairs of the business. The affairs of the business can be studied mainly by consulting final accounts and the balance sheet of the particular business. Final accounts & the balance sheet are the end products of book keeping. Because of the importance of these statements it became necessary for the accountants to develop some principles, concepts and conventions which may be regarded as fundamentals of accounting. The need for generally accepted accounting principles arises from two reasons:

1) to be logical & consistent in recording the transaction

2) to conform to the established practices & procedures

The International Accounting Standards Committee (IASC) as well as the Institute of Chartered Accountants of India (ICAI) treat (vide IAS-I & AS-I) the following as the fundamental assumptions:

1. **Going Concern:** In the ordinary course accounting assumes that the business will continue to exist & carry on its operations for an indefinite period in the future. The entity is assumed to remain in operation sufficiently long to carry out its objects and plans. The values attached to the assets will be on the basis of its current worth. The assumption is that the fixed assets are not intended for re-sale. Therefore, it may be contended that a balance sheet which is prepared on the basis of record of facts on historical costs cannot show the true or real worth of the concern at a particular date. The underlying principle there is that the earning power and not the cost is the basis for valuing a continuing business. The business is to continue indefinitely and the financial and accounting policies are followed to maintain the continuity of the business unit.

2. **Consistency:** There should be uniformity in accounting processes and policies from one period to another. Material changes, if any, should be disclosed even though there is improvement in technique. Only when the accounting procedures are adhered to consistently from year to year

the results disclosed in the financial statements will be uniform and comparable.

3. **Accrual:** Accounting attempts to recognize non-cash events and circumstances as they occur. Accrual is concerned with expected future cash receipts and payments. It is the accounting process of recognizing assets, liabilities or income amounts expected to be received or paid in future. Common examples of accruals include purchases and sales of goods or services on credit, interest, rent (unpaid), wages and salaries, taxes. Thus, we make record of all expenses and incomes relating to the accounting period whether actual cash has been disbursed or received or not.

   In order to keep a complete record of the entire transactions of any business it is necessary to keep the following accounts:

a) **Assets Accounts:** These accounts relate to tangible and intangible assets. e.g., Land a/c, building a/c, cash a/c, goodwill, patents etc.

b) **Liabilities Accounts:** These accounts relate to the financial obligations of an enterprise towards outsiders. e.g., trade creditors, outstanding expenses, bank overdraft, long-term loans.

c) **Capital Accounts:** These accounts relate to the owners of an enterprise. e.g., Capital a/c, drawing a/c.

d) **Revenue Accounts:** These accounts relate to the amount charged for goods sold or services rendered or permitting others to use enterprise's resources yielding interest, royalty or dividend. e.g., Sales a/c, discount received a/c, dividend received a/c, interest received a/c.

e) **Expenses Account:** These accounts relate to the amount spent or lost in the process of earning revenue. e.g., Purchases a/c, discount allowed a/c, royalty paid a/c, interest payable a/c, loss by fire a/c.

5.4 SYSTEMS OF RECORDING

There are three methods of recording of entries which are explained as under:

Single Entry System: This system ignores the two fold aspect of each transaction as considered in double entry system.

Under single entry system, merely personal aspects of transaction i.e. personal accounts are recorded. This method takes no note of the impersonal aspects of the transactions other than cash. It offers no check on the accuracy of the posting and no safeguard against fraud and because it does not provide any check over the recording of cash transactions , it is called as “imperfect accounting”.

Double entry system: The double entry system was first evolved by Luca Pacioli, who was a Franciscan Monk of Italy. With the passage of time, the system has gone through lot of developmental stages. It is the only method fulfilling all the objectives of systematic accounting. It recognizes the two fold aspect of every business transaction.

Indian (Deshi Nama) system: This is the Indian system. It differs from region to region; community to community and from business to business. Under this system books are written in regional languages such as Muriya, Sarafi etc. Books are called “Bahis”. It is older than double entry system and is complete in itself.

5.5 BASIS OF ACCOUNTING SYSTEM

Cash or receipt basis is the method of recording transactions under which revenues and costs and assets and liabilities are reflected in accounts in the period in which actual receipts or actual payments are made. “Receipts and payments account” in case of clubs, societies, hospitals etc., is the example of cash basis of accounting.

Accrual or mercantile basis is the method of recording transactions by which revenues, costs, assets and liabilities are reflected in accounts in the period in which they accrue. This basis includes considerations relating to outstanding; prepaid, accrued due and received in advance.

Hybrid or mixed basis is the combination of both the basis i.e. cash as well as mercantile basis. Income is recorded on cash basis but expenses are recorded on mercantile basis.

5.6 CLASSIFICATION OF ACCOUNTS

The classification of accounts and rules of debit and credit based on such classification are given below:

Classification of accounts

ACCOUNTS

Personal

Impersonal

Real

Nominal

Personal Accounts:

Accounts recording transactions relating to individuals or firms or company are known as personal accounts. Personal accounts may further be classified as:

(i) **Natural Person's personal accounts:** The accounts recording transactions relating to individual human beings e.g., Anand's a/c, Ramesh's a/c, Pankaj a/c are classified as natural persons' personal accounts.

(ii) **Artificial Persons' Personal accounts:** The accounts recording transactions relating to limited companies, bank, firm, institution, club, etc., Delhi Cloth Mill; M/s Sahoo & Sahoo; Hans Raj College; Gymkhana Club are classified as artificial persons' personal accounts.

(iii) **Representative Personal Accounts:** The accounts recording transactions relating to the expenses and incomes are classified as nominal accounts. But in certain cases (due to the matching concept of accounting) the amount, on a particular date, is payable to the individuals or recoverable from individuals. Such amount (i) relates to the particular head of expenditure or income and (ii) represent persons to whom it is payable or from whom it is recoverable. Such accounts are classified as representative personal accounts e.g., "wages outstanding account", pre-paid Insurance account, etc.

Real Accounts: The accounts recording transactions relating to tangible things (which can be touched, purchased and sold) such as goods, cash, building, machinery etc., are classified as tangible real accounts.

Whereas the accounts recording transactions relating to intangible things (which do not have physical shape) such as goodwill, patents and copy rights, trade marks etc., are classified as intangible real accounts.

Nominal Accounts: The accounts recording transactions relating to the losses, gains, expenses and incomes e.g. Rent, salaries, wages, commission, interest, bad debts etc., are classified as nominal accounts.

Rules of debit and credit (classification based)

1.	Personal accounts	:	Debit the receiver Credit the giver (supplier)
2.	Real accounts	:	Debit what comes in Credit what goes out
3.	Nominal accounts	:	Debit expenses and losses Credit incomes and gains

Let us consider the following example to illustrate how the rules of debit and credit are applied in practice:

Illustration 1.

	Rs.
1. Mr. A commenced business with cash	70,000
2. Purchased goods on credit from Mr. B	14,000
3. Paid wages	500
4. Paid to Mr. B	10,000
5. Purchased furniture	1,000
6. Goods stolen by the Store-keeper	200
7. Received commission	100

(a) S. No.	(b) Explanation	(c) Account Involved	(d) Equation based analysis: Group	Effect	Rule I	(e) Classification based analysis: Group	Effect
1.	Business commenced with cash Rs.70,000	Cash & Capital	Assets Personal	Increase Increase	1 3	Real Personal	Comes in Giver
2.	Purchased goods on credit from Rs. 14,000	Goods & Mr. B	Assets Liability	Increase Increase	1 2	Real Personal	Comes in Giver
3.	Paid wages Rs. 500	Wages & Cash	Expenses Asset	Increase Decrease	4 1	Nominal Personal	Expenses go out
4.	Paid to Mr. B Rs.10,000	Mr. B & Cash	Liability Asset	Decrease Decrease	2 1	Personal Real	Receiver Goes out
5.	Purchased furniture for cash Rs.1,000	Furniture & Cash	Assets Assets	Increase Decrease	1 1	Real Real	Comes in Goes out
6.	Goods stolen by store-keeper Rs.200	Loss of Goods & Goods	Loss Asset	Increase Decrease	4 1	Nominal Real	Loss Goes out
7.	Received commission Rs.100	Cash & Commis-sion	Assets Income	Increase Increase	1 5	Real Nominal	Comes in Income

5.7 JOURNAL

Journal is a book which lists accounting transactions of a business other than cash, before posting them to ledgers. The journal is currently only used to a limited extent to cover item outside the scope of other accounting books. Let us understand the mechanism of recording business transaction in a journal.

Example:

Business transactions of Mr.A for the month of Jan.1997.

1st January, 1997	A started business with cash	Rs.20,000/-
3rd January, 1997	Goods purchased for cash	Rs.6,000/-
5th January, 1997	Goods purchased from S	Rs.4,000/-
7th January,1997	Goods sold for cash	Rs.2,000/-
10th January, 1997	Goods sold to B	Rs.6,000/-
12th January, 1997	Cash paid to S	Rs.2,000/-

17th January, 1997	Cash received from B	Rs.4,000/-
23rd January, 1997	Paid wages	Rs.100/-
25th January, 1997	Furniture purchased from R	Rs.400/-
28th January, 1997	Paid for interest	Rs.200/-
31st January, 1997	Paid salaries	Rs.200/-

Journal Entries

Date	*Particulars Ledger Folio*	*Dr. Amount (Rs.)*	*Cr. Amount (Rs.)*
1997 Jan. 1	Cash A/c Dr. To Capital A/c (Being cash introduced by A)	20,000/-	20,000-
Jan.3	Purchase A/c Dr. To Cash A/c (Being cash purchases)	6,000/-	6,000/-
Jan.5	Purchase A.c Dr. To S's A/c (Being credit purchase from S)	4,000/-	4,000/-
Jan.7	Cash A/c Dr. To sales A/c (Being cash sales)	2,000/-	2,000/-
Jan.10	B's A/c Dr. To Sales A/c (Being the amount of credit sales)	6,000/-	6,000/-
Jan.12	S's A/c Dr. To Cash A/c (Being the amount of credit sales)	2,000/-	2,000/-
Jan.17	Cash A/c Dr. To B's A/c (Being receipt of cash from B)	4,000/-	4,000/-
Jan.23	Wages A/c Dr. To Cash A/c (Being payment of wages in cash)	100/-	100/-
Jan.25	Furniture A/c Dr. To R's A/c (Being purchase of furniture on credit from R)	400/-	400/-
Jan.28	Interest A/c Dr. To Cash A/c (Being payment of interest by cash)	200/-	200/-
Jan.31	Salaries A/c Dr. To Cash a/c (Being payment of salaries by cash)	200/-	200/-

5.8 CASH BOOK

All business dealings ultimately resolve themselves into cash transactions, therefore, recording of cash transactions in a separate book becomes necessary. To keep record of all receipts and payments of money in business, cash book is maintained. Cash book with regard to the nature of business and the manner in which the cash is dealt with. Money receipts are entered on debit side and payments are shown on the credit side.

There are three distinct types of Cash Book, and each business could get its cash book ruled in a manner as would suit its own requirements. Thus the Cash Book may be ruled so as to possess.

- Cash and Discount columns only on both sides or
- Cash, Bank and Discount columns on both sides or
- Bank and Discount columns only on both sides.

5.9 PRINCIPAL BOOK: LEDGER

A ledger is a group of accounts. Most of us have probably seen a bound book with the word 'ledger' printed on the cover. All the accounts of a small business/industry could be entered in a ledger in concerned accounts in a summarised and classified form.

From the journal a trader cannot know his total cash, purchases, amount spent under each head of expense and amount earned under each head of income. The journal will not tell him what he owes to his creditors and what his customers owe to him. Such classified information can be got only by opening ledger accounts for every kind of transaction.

Every ledger has two sides namely debit and credit. Left hand side is debit and right hand side is credit. Each side of the ledger has columns on date, particulars, journal folio and amount- In the particulars column of the debit side the name of the account from which benefit is received is recorded and on the credit side, the name of the account to which benefit is given is recorded. The words 'To' and 'By' are affixed to the name of the amount entered on debit and credit sides respectively.

If a business is not able to accommodate all its accounts in

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one ledger it can have more than one ledgers. Business may have an 'accounts receivable ledger' an 'accounts payable ledger' and a 'general ledger' each containing the group of accounts suggested by the title. The ledger is not necessarily a bound book, it may consist of a set of loose leaf pages, a set of punched cards, or if computerised a set of impulses on a magnetic tape. No matter what its form may be, the essential character of the account and the rules for making entries to it remain exactly the same.

(i) Ledger Posting:

Transferring the entries from the journal or a subsidiary book to the ledger is known as posting. Posting the ledger from journal is easy as the transactions in the journal are already classified into debit and credit. However, the following points must be noted while posting the ledger.

- For the same person or expense only one account should be opened.
- Cash and credit sales should be posted to Sales Account and cash and credit purchases to Purchase Account.
- The word Debit as Dr. and Credit as Cr. should not be omitted.
- Date and folio columns should not be left blank.

(ii) Balancing of Ledger Accounts :

At periodic intervals, the debit and credit sides of individual ledger accounts are totalled and balance of each account indicated. If the total of the debit side of any account is more than the credit side, there will be a debit balance and, if the credit side is more than the debit side there will be credit balance.

With the help of the illustration which we took for recording journal entries, let us see how the ledger postings and balancing will be done.

Based on the illustration the following accounts need to be opened in ledger.

Dr. Capital A/c Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
	To balance c/d		20,000/-		By Cash		20,000/-
			20,000/-				20,000/-
				Feb.1	By balance b/f		20,000/-

Dr. Cash A/c Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
1997	To capital		20,000	1997	By purchase		6,000
Jan.1	To sales		2,000	Jan.3	By S		2,000
Jan.7	To B		4,000	Jan.12	By wages		100
Jan.17				Jan.23	By interest		200
				Jan.28	By salaries		200
				Jan.31	By bal. c/d		200
				Jan.31			17,500
			26,000				26,000
Feb1	To bal. b/f		17,500				

Dr. Purchase A/c Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
1997				1997			
Jan.3	To cash		6,000	Jan 31	By balance c/d		10,000
Jan.5	To S		4,000				10,000
			10,000				
Feb.1	To bal. b/f		10,000				

Dr. Sales A/c Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
1997				1997			
Jan.31	To balance		8,000	Jan.7	By cash		2,000
			8,000	Jan.10	By B		6,000
							8,000
				Feb.1	By bal. b/f		8,000

Dr. S's A/c Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
1997				1997			
Jan.12	To cash		2,000	Jan.5	By Purchase		4,000
Jan.31	To bal. c/d		2,000				
			4,000				4,000
				Feb.1	By bal. b/f		2,000

Dr. **B's A/c** **Cr.**

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
1997				1997			
Jan.10	To sales		6,000	Jan.17	By cash		4,000
				Jan.31	By bal. c/d		2,000
			6,000				6,000
Feb.1	To bal. b/f		2,000				

Dr. **Wages A/c** **Cr.**

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
1997				1997			
Jan.23	To cash		100	Jan.31	By bal. c/d		100
			100				100
Feb.1	To bal. b/f		100				

Dr. **Furniture A/c** **Cr.**

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
1997				1997			
Jan.25	To R		400	Jan.31	By bal. c/d		400
			400				400
Feb.1	To bal. b/f		400				

Dr. **Interest A/c** **Cr.**

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
1997				1997			
Jan.28	To Cash		200	Jan.31	By bal. c/d		200
			200				200
Feb.1	To bal. b/f		200				

Dr. **R's A/c** **Cr.**

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
1997				1997			
Jan.31	To bal. c/d		400	Jan.25	By furniture		400
			400				400
				Feb.1	By bal. b/f		400

Dr. **Salaries A/c** **Cr.**

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
1997				1997			
Jan.31	To Cash		200	Jan.31	By bal. c/d		200
			200				200
Feb.1	To bal. b/f		200				

5.10 FINAL ACCOUNTS

The final accounts of a business consists of :

(i) Manufacturing Account

(ii) Trading Account

(iii) Profit and Loss Account

(iv) Balance Sheet.

Before we look into the process of preparing final accounts we must understand the meaning and importance of Trial Balance.

The Trial Balance

The trial balance is simply a list of names of the accounts, and the balances in each account as at a given moment of time, with debit balances in one column and credit balances in another column. The preparation of trial balance serves two principal purposes (i) it shows whether the equality of debits and credits has been maintained and (ii) it provides a convenient transcript of the ledger record as a basis for making adjustments and closing entries for preparation of final accounts.

When the total debits equal total credits, it does not mean that there has been no error in recording the transactions. Entries may have been omitted entirely; they may have been posted to the wrong accounts; off-setting errors may have been made; or the transactions may have been analysed incorrectly. For example when a debit for purchase of a truck is made incorrectly to an expense account, rather than correctly to a fixed assets account, the total of the trial balance is not affected. Nevertheless, errors that result in unequal debits and credits are common, and the existence of such errors is revealed when a trial balance does not balance, that is when the debit column does not add to the same total as the credit column.

A trial balance may be prepared at any time. A pre-adjustment trial balance is one prepared after the original entries for the period have been posted, but prior to the adjusting and closing process. A post closing trial balance is prepared after the closing process.

(i) Manufacturing Account :

When a concern is engaged in both production and selling

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activities it will have to open a manufacturing account in the general ledger. The manufacturing account is prepared in the following manner.

Manufacturing Account of M/s ____________ for the period from _________ to _________ .

Dr. Cr.

Particulars		Amount Rs.	Particulars	Amount Rs.
To Opening stock of materials		____	By Closing stock of work in progress	____
To Opening stock of work in progress		____		
To Purchases	____		By Cost of manufacturing (B/F)	
Less Purchases returns	____	____		____
To Carriage inward		____		
To Manufacturing wages		____		
To Factory rent		____		
To Power		____		
To Fuel		____		
To Coal		____		
To Water		____		
To Factory insurance		____		
		____		____

Manufacturing Account is balanced by adding debit side and finding the excess of debit over credit. The excess of debit over credit will indicate the cost of manufacturing of the finished goods. This balancing figure will be inserted in the credit side of the Manufacturing Account preceded by the word 'By cost of manufacturing' during the period transferred to Trading Account and the same figure will also be written on the debit side of a 'Trading Account' to be opened in General Ledger. In the Trading Account this figure will be preceded by the word 'To cost of production transferred from the Manufacturing Account'. Thus Manufacturing Account is closed and the cost of production of finished goods during the period is transferred to the Trading Account. The debit balance of (a) opening stock of finished goods, (b) purchase less returns, (c) nominal accounts representing cost incurred in connection with purchase of materials/goods, like carriage inward on such

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purchase etc. will then be cleared by crediting these accounts and debiting the Trading Account.

(ii) Trading Account

When a concern is engaged in trading activities only, there will be no Manufacturing Account. The Trading Account on its debit side will show certain entries regarding opening stock (of saleable goods), purchase less returns and expenses relating to purchase viz. freight, duty, carriage inward etc.

The credit balance of sales account (less the debit balance of sales return accounts) will then be transferred to Trading Account by debiting the former account and crediting the latter account.

The excess of credit total of trading account over the debit total is called the gross profit. This amount is computed and an entry is passed by debiting this amount to Trading Account (preceded by the word 'To Gross Profit transferred to Profit and Loss Account') and crediting the Profit and Loss Account (preceded by the word 'By Gross Profit, brought over from Trading Account'). The Trading Account .thus indicates the gross result from selling of the goods.

(iii) Profit and Loss Account

At this stage Profit and Loss Account stands credited with gross profit. The Profit and Loss Account also stands adjusted with some of the adjustment entries like bad debts, depreciation, insurance, rent etc. All the debit and credit balances lying in different nominal accounts are then transferred to Profit and Loss Account. The debit balances are closed by entering the respective word 'By Profit and Loss Account'. The respective amounts are also entered on the debit side of the Profit and Loss Account preceded by the words To .... The credit balance of nominal accounts are similarly closed by passing debit entries to the respective nominal accounts preceded by the word 'To Profit and Loss Account'. In the credit side of the "Profit and Loss Account" the corresponding credit entries are inserted preceded by the word 'By ....'.

Thus, the Profit and Loss Account on its credit shows Gross

Profit and items of miscellaneous incomes and on its debit shows Gross Loss and expenses incidental to carrying of the business and arising in course of running the business. The excess of credit side over the debit side is known as net profit and the excess of debit side over the credit side is known as net loss. The net profit or net loss is transferred to Capital Accounts) in case of proprietary or partnership business and to an account called Profit and Loss Appropriation Account in case of corporate business.

Proforma of Profit & Loss Account

Profit and Loss Account of M/s .... for the year ending ....

Dr. Cr.

Particulars	*Amount Rs.*	*Particulars*	*Amount Rs.*
To Trading A/c (Gross Loss)		By Trading A/c (Gross Profit)	
To Travelling exp.A/c		By Commission (Received)	
To Salaries & Wages A/c		By Interest A/c (Received)	
To Audit Fee A/c		By Discount A/c (Received)	
To printing charges A/c		By Rent A/c (Received)	
To Office establishment A/c		By Net Loss (trans-	
To Discount Paid A/c		ferred to Capital A/c	
To Advertisement A/c		or Profit & Loss	
To Insurance A/c		Appropriation A/c)	
To Carriage outward A/c			
To Dock dues outward A/c			
To Depreciation A/c			
To Bad debts A/c			
To Repair a/c			
To Office lighting A/c			
To Postage, Telegram A/c			
To Interest Paid			
To Legal charges A/c			
To Stationary A/c			
To Trade expenses A/c			
To Bank charges A/c			
Rates and taxes A/c			

To Brokerage A/c

To Sundry expenses A/c

To Rent A/c

To Duty on exported goods A/c

To Net Profit (transferred

to Capital A/c or Profit

& Loss Appropriation A/c)

(iv) The Balance Sheet

A balance sheet shows the financial position of an organisation as on a specified moment of time; in fact it is sometimes called a statement of financial position. It is therefore a status report, rather than a flow report.

After Trial Balance is prepared; adjustments entries passed, and revenue accounts drawn up, all the nominal accounts will stand closed. The accounts still remaining open in the general ledger will represent either personal accounts or real accounts. The balance remaining after the preparations of Trading and Profit and Loss Account in the Trial Balance represents either assets or liabilities existing on the date of the closing of the accounts. When they are arranged in a proper manner, the resultant statement is called 'Balance Sheet'. The balance sheet is a statement of position and strictly speaking not a part of double entry system of book keeping. No transfer of ledger accounts balances is therefore necessary. Only the relevant particulars are extracted from the general ledger. The balance sheet is prepared on a certain date and not for a period. Therefore, it is true only on the date of its preparation and not on any other day. Secondly, the total of liabilities including capital must be equal to total of assets, otherwise it means that the double entry system of book keeping has not been followed properly in respect of all the transactions.

A balance sheet represents the assets of the business, whether fixed or current or fictitious, on the right hand side and liabilities, whether owned or borrowed, on the left hand side. The balance sheet of an organisation can be prepared in the following format :

Proforma of Balance Sheet

Balance Sheet of M/s ....

as on ....

Liabilities	*Amount Rs.*	*Assests*	*Amount Rs.*
Capital —		Land	
+ Fresh Capital —		Building	
+ Profit —		(—) Less Depreciation	—
- Losses __		Plant & Machinery	
- Drawings __	____	(—) Less Dep.	—
Term Loan	—	Office Furniture	
Bank Over Draft	—	(—) Less Dep.	—
Creditors	—	Stock in Trade	
Bills Payables	—	Sundry Debtors	
Outstanding	—	(—) Less Reserve for	
Other Liabilities	—	Doubtful Debtors	—
		Bills Receivables	
		Prepaid Expenses	—
		Investments	—
		Cash at Bank	—
		Cash in Hand	—
Total	———	Total	———

5.11 APPLICATION OF COMPUTERS AND INFORMATION TECHNOLOGY TO ACCOUNTING AND FINANCIAL MANAGEMENT

Business Accounting and Financial Management are crucial management functions in every enterprise. Whether you manage a small department, a major division, big company, small company or your micro enterprise, you work with numbers every day. Numbers are the language of business and industrial enterprises. Use of computers in general and electronic spread sheet in particular can economically and effectively replace traditional tools of accounting like ledger pager, stubby pencils, worn-out erasers, desktop calculators etc. Use of computer and spread sheet in today's complex business can take you ahead in speed, accuracy and capability.

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Computer application in accounting and financial management can help you in transaction recording, financial planning, analysis, and forecasting. Best of all, it gives you a method of examining the implications of endless "What if ?" situations - the tough alternatives you face in running your business profitably. Computer software developing companies have developed a large number of accounting and financial management softwares.

A brief account of some of the important soft wares available in India is given below. The basic function of these softwares is to enter the transactions and the rest of things i.e posting , balance calculation is done by these software. These software can prepare the trail balance, cash book, balance sheet and profit and loss account.

1. Tally
2. Easy
3. Visipak
4. Fact
5. Fast
6. Ex 3.0

5.12 SUMMARY OF ACCOUNTING PROCESS

(i) The first and the most important part of the accounting process is the analysis of transactions, i.e. the process of deciding which account or accounts should be debited, which should be credited, and in what amounts, in order to reflect events in the accounting records. This requires judgement.

(ii) Next comes the purely mechanical step of journalising original entries, that is, recording the result of the analysis.

(iii) Next to journalising is ledger posting. Posting is the process of recording transactions in the ledger accounts, exactly as specified by the journal entries. This is another purely mechanical step.

(iv) At the end of the accounting period Judgement is involved in deciding on the adjusting entries, and these are journalised and posted in the same way as original entries.

(v) The closing entries are journalised and posted. This is also a purely mechanical step.

(vi) Finally, the financial statements are required to be prepared. This requires judgement and knowledge. The accuracy of financial statements will depend upon the quality of judgement made as suggested in steps (i) and (ii)

5.13 TERMINAL QUESTIONS

1. Discuss the principles of accounting.

2. Pass the journal entries for the following transactions in the Books of Mr S.K.Jain

   a) He Sold old furniture for Rs 5000/-

   b) He received insurance commission of Rs 50000/-

   c) Rent paid by cheque Rs 2000/-

   d) He incurred traveling expenses of Rs 3900/-

3. Discuss the various financial statements prepared by any insurance broker.

5.14 OBJECTIVE TYPE QUESTIONS

1. Choose the correct option

   a. Accounting system is either on cash or receipt basis.

   b. Accounting system is either accrual or mercantile basis.

   c. Accounting system is either hybrid or mixed basis.

   d. All of the above

2. Statement A: Real accounts are maintained for tangible things

   Statement B: Real accounts are also maintained for intangible things.

   a. Only A is true   b. Only B is true

   c. Both are true   d. Neither of two

3. The final accounts of a business consists of

   a. Trading account b. Profit & loss Account

   c. Balance Sheet d. All of the above

4. Statement A: Balance sheet is summary of the financial position as on date.

   Statement B: Profit and loss account shows profit or loss for the year.

   a. Only A is true b. Only B is true

   c. Both are true d. Neither of two

5. Choose the correct options:

   a. Single entry system is a system of recording of transactions.

   b. Double entry system is a system of recording of transactions.

   c. Indian (desi nama) system is a system of recording of transactions

   d. All of the above

5.15 ANSWERS TO INTEXT QUESTIONS

5.1

1. Technical activities, Commercial activities, Financial activities, Security activities, Accounting activities, Managerial activities consisting of planning, organizing, commanding, co-ordaining and controlling.

2. Planning means looking ahead or to foresee. To foresee means "both to assess the future and make provision for it. To plan means to foresee and provide means for future.

5.16 ANSWERS TO OBJECTIVE TYPE QUESTIONS

1.d 2. c 3. d 4. c 5. d

6

COMMUNICATION

6.0 INTRODUCTION

Communication is very important function to manage any organization whether it is small or large. In other words, nothing happens in management until communication takes place.

The word communication has been derived from Latin ward "communis" which means common. Thus communication means sharing of ideas is common. It can be defined as exchange of facts, ideas, opinions or emotions between two or more persons to create a common ground of understanding.

Communication is the process of passing information & message from one person to another. It involves atleast two persons i.e. a sender & a receiver. The sender develops & transmits a message to the receiver. The purpose is to achieve common understanding between the sender & the receiver.

The basic unit of communication in an organisation is the link between manager & subordinator. Managers communicate to their subordinates & receive messages from them. To be effective as a manager, you need to be an effective communicator.

6.1 OBJECTIVES

At the end of this lesson you will be able

- To know the communication process to be followed in any organization
- How informal communication is more important than the formal communication

6.2 COMMUNICATION FUNCTION IN ORGANISATIONS

The communication function as the means by which the activities in the organisation are coordinated to achieve the organisational goals. It is also the means by the which behaviour is modified, change is effected, information is made productive & goals are achieved. Whether it is with a business enterprise, a family, educational institution or trade exhibition, the transfer of information from individual to another is absolutely essential.

There are two main types of communication in every organisation – formal & informal communication.

6.2.1 Formal Communication

Formal communication refers to official communication which takes place through a chain of commands. It flows in formally established channels & is concerned with work related matters. Members of the enterprise and expected to communication with one another strictly as per channels laid down in the structure.

The formal communication may be divided into three categories which are given as follows:

a) Downward Communication:

Under this system, the flow of communication from the top management downward to be operating level. It may also be called a communication from a superior to a subordinate. It follows the line of authority from the top to the bottom of the organisation hierarchy. Downward communication consists of plans & policies, orders and instructions, procedures & rules etc.

b) Upward Communication:

It means the flow of information from the lower levels of the organisation to the higher level of authority. It passes from subordinate to superior as that from worker to foreman, foreman to manager. From manager to general manager & so on. This communication includes opinions, ideas, suggestions, complaints, grievances, appeals, reports etc.

It is very important as it serves as the feedback on the effectiveness of downward communication. Management is able to know how well its policies, plans & objectives are followed by those working at lower levels of the organisation. It keeps the management informed about the progress of the work & difficulties faced in performance. On the basis of upward communication, the management revises its plans & policies & makes further planning.

c) Horizontal Communication:

The transmission of information and understanding between people on the same level of organisation hierarchy is called the horizontal communication. This type of communication is also known as lateral or sideward or crosswise communication. Usually, it pertains to inter departmental managers working at the same level of organisation or among subordinates working under one boss. Horizontal communication speeds up information and promotes mutual understanding. It enables the managers working at the same level to exchange information and co-ordinate their activities without referring all matters to the higher level of management.

The horizontal communication is generally of an informal nature. Whenever a departmental head requires some information from another departmental head, he tends to contact him directly. However, this type of communication can be oral or written.

6.2.2 Informal Communication

There is also a great deal of informal communication in an organisation. This communication flows through informal channels and may or may not be work related. Informal communication cuts through the formal organisational structure. Most of us are familiar with the term 'grapevine' used to describe a network of informal communication. Grapevines are present in all organisations. In fact, in large organisations, there are many grapevines moving up, down and across departments.

Grapevines flourish because communication is a natural human tendency. People who know each other in the organisation talk together informally. One thing they have in common is the organisation they work for, so they talk about the happenings in the organisation.

Grapevines carry two types of information : work related and people related. Employees want to know what is going on in

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the organisation. When they are not kept informed through formal channels, they seek information from the grapevine. Likewise, they are curious about the people they work with. Grapevine carry the type of personnel information not generally communicated through formal channels.

Employees get to know plans, promotions, punishments, etc, much before they are formally announced. Informality however, reduces uniformity of communication and sometimes false or distorted news is circulated.

Some employees consider the grapevine their main source of information. It is fast- they get information quickly and more information is given than is normally included in formal downward communications, which are often written and may originate from some one they do not know personally.

Manager often become frustrated with grapevines, particularly when they carry incorrect information. But grapevines exist; managers cannot stop them. Managers can, however, increase the accuracy of the grapevine by feeding it correct information. And they can try to reduce the relevance placed on grapevines by making certain that formal communication is complete and timely.

INTEXT QUESTIONS 6.1

1. Discuss Types of formal communication.
2. Whether informal communication is good for any organization?

6.3 IMPORTANCE OF COMMUNICATION

Communication is an indispensable part of the process of management. The success of an enterprise depends upon the effective of communication. Every manager must communicate in order to get things done through others. A good communication system offers the following benefits :

1. **Basis of Decision-Making and Planning.** Communication is essential for decision-making and planning. It enables the management to secure information without which it may be possible to take any decision. The quality of managerial decisions depends upon the quality of communication. Further, the decisions and plans of the

management need to be communicated to the subordinates. Without effective communication, it may not be possible to issue instructions and orders. Effective communication helps in proper implementation of plans and policies of the management.

2. **Smooth and Efficient Working:** Communication makes possible the smooth and efficient working of an enterprise. It is only through communication that the management changes and regulates the actions of the subordinates in the desired direction.

3. **Facilitates Co-ordination:** Management is the art of getting things done through others and this objective of management cannot be achieved unless there is unity of purpose and harmony of effort. Communication through exchange of ideas and information helps to bring about unity of action in the pursuit of common purpose. It binds the people together and facilitates co-ordination.

4. **Increases Managerial Efficiency:** Effective communication increases managerial efficiency. It is rightly said that nothing happens in management until communication takes place. The efficiency of a manager depends upon his ability to communicate effectively with the members of his organisation. It is only through communication that management conveys its goals and desires, issues instructions and orders, allocates jobs and responsibility and evaluates performance of subordinates.

5. **Sound Industrial Relations:** Effective communication creates mutual understanding and trust among the members of the organisation. It promotes co-operation between the employer and the employees. Without communication, there cannot be sound industrial relations and industrial peace. It is only through communication that workers can put in their grievances, problems and suggestions to the management.

6. **Helps in Establishing Effective Leadership:** Communication is the basis of effective leadership. There cannot be any leadership action without the effective communication between the leader and the led. Communication is absolutely necessary for maintaining man to man relationship in leadership. It brings the

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manager (leader) and the subordinates (led) in close contact with each other and helps in establishing effective leadership.

7. **Motivation and Morale:** Communication is the means by which the behaviour of the subordinates is modified and change is effected in their actions. Through communication workers are motivated to achieve the goals of the enterprise and their morale is boosted. Although motivation comes from within yet the manager can also motivate people by effective communication, e.g., proper drafting of message, proper timing of communication and the way of communication, etc.

8. **Effective Control:** Communication acts as a tool of effective control. The plans have to be communicated to the subordinates, the actual performance has to be measured and communicated to the top management and a corrective action has to be taken or communicated so as to achieve the desired goals. All this may not be possible without an efficient system of communication.

9. **Job Satisfaction:** Effective communication creates job satisfaction among employees as it increased mutual trust and confidence between management and the employees. The gap between management and the employees is reduced through the efficient means of communication and a sense of belongingness is created among employees. They work with zeal and enthusiasm.

10. **Democratic Management:** Communication is also essential for democratic management. It helps to achieve workers' participation in management by involving workers in the process of decision-making. In the absence of an efficient system of communication, there cannot be any delegation an decentralization of authority.

11. **Public Relations:** In the present business world, every business enterprise has to create and maintain a good corporate image in the society. It is only through communication that management can present a good corporate image to the outside world. Effective communication helps management in maintaining good relations with workers, customers, suppliers, shareholders, government and community at large.

6.4 PURPOSE OF COMMUNICATION

In its broadest sense, the purpose of communication in an enterprise is to effect change to influence action towards achieving the goals of the enterprise. Communication is essential for the internal functioning of the enterprises, because it integrates the managerial functions. Especially, communication is needed to:

— establish and disseminate goals of an enterprise,

— develop plans for their achievements,

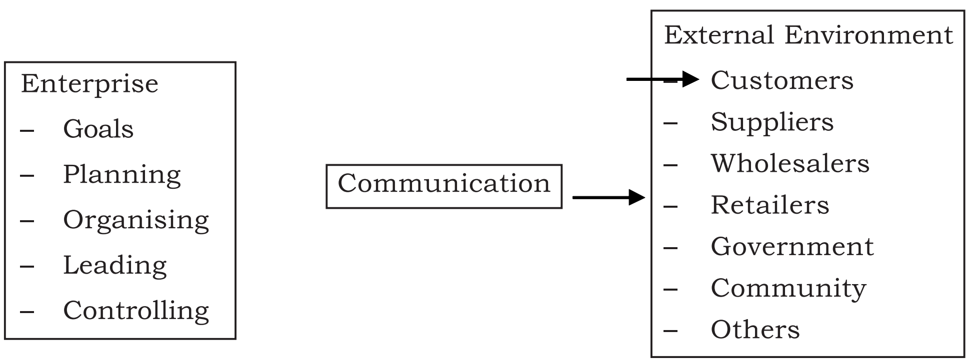
— select, develop and appraise members of the organisation,

— lead, direct, motivate and create a climate in which people want to contribute,

— control performance,

— develop rapport with various agencies and organisations concerned with the business enterprise.

The Management Process



The Purpose and Functions of Communication

The above figure graphically shows not only that communication facilitates the managerial functions but also help an enterprise to relate to its external environment. It is through information exchange that managers become aware of the needs of customers, the availability of suppliers, the claim of stockholders, the regulations of governments, and the concerns of a community. It is through communication that any organisation becomes an open system interacting with its environment.

6.5 COMMUNICATION PROCESS

Communication process involves sender, transmission of message through a selected channel, receiver and the feedback. The specific steps in communication process are described below :

(a) The Sender of the Message :

Communication begins with the sender, who has a thought or an idea which is then encoded in a way that can be understood by both the sender and the receiver. While it is usual to think of encoding a message into the English language, there are many other ways of encoding, such as translating the thought into computer language.

(b) Channel for Transmission of Message :

The information is transmitted over a channel that links the sender with the receiver. The message may be oral or written, and it may be transmitted through a memorandum, a computer, the telephone, the telegram or television. Television of course, also facilitates the transmission of gestures and visual clues. At all times two or more channels are used. In a telephonic conversation, for instance, two people may reach a basic agreement that they later confirm by a letter. Since many choices are available, each with advantages and disadvantages, the proper selection of the channel is vital for effective communication.

(c) The Receiver of the Message :

The receiver has to be ready for the message so that it can be decoded into the idea. A person thinking about an exciting cricket match may pay insufficient attention to what is being said about an inventory report, thus increasing the probability of a communication breakdown. The next process is the decoding, in which the receiver converts the message into thoughts. Accurate communication can occur only when both the sender and the receiver attach the same or atleast similar meanings to the symbols that compose the message. Thus, it is obvious that a message encoded into German requires a receiver who understands German. Less obvious, and frequently overlooked, is the fact that a message in technical or professional jargons requires a recipient who understands such language. So communication is not complete unless it is understood. Understanding is in the mind of both the sender and the receiver. Persons with closed minds will normally not completely understand messages, especially if the information is contrary to their value system.

(d) The Feedback :

To ensure that the message has reached the intended receiver correctly, the communicator has to get feedback from the receiver about the message. Feedback ensures that the process of communication has intact taken place. The feedback provides learning opportunities to the sender and the receiver because it mirrors the consequences of the behaviour. In addition, if the behaviour has been found to be incongruous with the message it opens avenues to make corrections wherever necessary. Without feedback it would be difficult to ascertain whether communication has been received as indicated or not.

In organisational settings feedback is essential. Each employee needs to know where he stands vis-a-vis the organisational expectations, so that he can adjust his behaviour. Similarly, all organisations need some feedback from employees on their policies and practices in order to make improvements whenever necessary.

All organisations have mechanisms to seek and receive feedbacks because the overall viability depends to a large extent on the sharing of information. However, it is often noticed that the efforts of a management to plan and establish reliable and formalized systems of feedback are often defeated because of the widespread tendency of people to establish informal channels and also because of various sources of distortions. Since most of the feedback in organisations is work related, the system should be improved and made more effective.

The following observations are useful pointers :

To avoid unpleasantness some managers and supervisors provide only positive feedback. Whenever an employee does something commendable, a useful positive acknowledgement is made. Actually, both positive and negative feedback should be provided. It is equally necessary to tell the employee that he is not doing something correct.

Feedback should be focussed on the specific action rather than on the individual. Comments relating to behaviour are accepted more easily than those relating to an individual's personalities, attitudes, feelings, etc.

Feedback can be valuable if it refers to the description of behaviour. It makes sense to say 'improve your skills' or 'make fewer mistakes' to an erring employee rather, than 'your work is absolutely incorrect'.

Feedback which is provided 'here and now' is more meaningful than delayed feedback. If an employee has done something inappropriate it is necessary to tell him immediately rather than wait for an opportune moment. By then he might have forgotten the event.

Efficiency and satisfaction in an organisation can be improved by providing feedback as a way of sharing information rather than insisting on the right way of doing things. Sharing means that the employers and employees together study the problems, evaluate various alternatives, and choose the best. This conveys the message to the employee that his opinion is valued and he can contribute meaningfully in achieving organisational goals, Feedback plays an important role in the communication process. It requires skill and willingness on the part of the managers and entrepreneurs to involve employees in decisions and share the necessary information with them. As the organisation grow in size, people may not be able to keep in touch with each other and with the organisation's activities and plans. Hence, there is a constant need to evolve mechanisms to communicate with employees, so that they feel part of the organisation.

(e) Noise and Filters in Communication :

Unfortunately communication is affected by noise, which is anything- whether in the sender, the transmission, or the receiver- that hinders communication. Communication suffers from distortion, something intended, sometimes unconscious and it seldom reaches the intended receiver in the form it originated. Distortion in communication takes place because of both environment and human factors.

In factory situation the roar of machines makes it difficult for both sender and receivers to transmit. They either shout or resort to some form of body communication rather than verbal. Gestures, use of various parts of the body, facial expression, etc, are some of the mechanisms that serve the purpose of communication in case of high environmental noise.

However, the most important are human factors. Assumptions, values, past experiences, stereotypes and predisposition influence both the transmission and reception of the messages. Thus the filters and messages passing through them get distorted.

6.6 BARRIERS & BREAKDOWNS IN COMMUNICATION

The managers frequently cite communication breakdowns as one of their most important problems. However, communication problems are often symptoms of more deeply rooted problems. For example, poor planning may be cause of uncertainty about the direction of the firm, Similarly, a poorly designed organisation structure may not clearly communicate organisational relationships. Vague performance standards may leave people uncertain about what is expected of them. Thus the perceptive manager will look for the causes of communication problems instead of just dealing with the symptoms. Barriers can exist in the sender, in the transmission of the message, in the receiver, or in the feedback. Specific communication barriers are discussed below :

(i) **Lack of Planning:** Good communication seldom happens by chance. Too often people start talking and writing without first thinking, planning and stating the purpose of the message. Giving the reasons for a directive, selecting the most appropriate channel, and choosing proper timing can greatly improve understanding and reduce resistance to change.

(ii) **Unclarified Assumptions:** Often overlooked, yet very important, are the uncommunicated assumptions that underlie messages. A customer may send a note stating that he will visit a vendor's plant. Then he may assume that the vendor will meet him at the airport, reserve a hotel room, arrange for transportation, and set up a full-scale review of the programme at the plant. But the vendor may assume that the customer is coming to town mainly to attend a wedding and will make a routine call at the plant. These unclarified assumptions in both instances may result in confusion and the loss of goodwill.

(iii) Poorly Expressed Message: No matter how clear the idea in the mind of the sender of communication, it may still be marked by poorly chosen words, omissions, lack of coherence, poor organisation of ideas, awkward sentence structure, unnecessary jargons and a failure to clarify the implications of the message. This lack of clarity and precision, which can be costly, can be avoided through greater care in encoding the message.

(iv) Loss of Transmission and Poor Retention: In a series of transmissions from one person to next, the message becomes less and less accurate. Poor retention of information is another serious problem. Thus the necessity of repeating the message and using more than one channel is rather obvious. The loss may also be due to long distance, distracting noises and similar interferences.

(v) Poor Listening and Premature Evaluation: There are many talkers but few listeners. Everyone probably has observed people entering a discussion with comments that have no relation to the topic. One reason may be that these persons are pondering over their own problems - such as preserving their own egos or making a good impression on other group members instead of listening to the conversation. Listening demands full attention and self-discipline. It also requires that the listener avoid premature evaluation of what another person has to say. A common tendency is to judge to approve or disapprove what is being said- rather than trying to understand the speakers frame of reference. Yet listening without making hasty judgements can make the whole enterprise more effective and efficient. For example, sympathetic listening can result in better labour management relations and greater understanding among managers. Specially sales personnel may better understand the problems of production people, and the credit manager may realize that an over-restrict credit policy may lead to a disproportionate loss in sales. In short, listening with empathy can reduce some of the daily frustrations in organised lies and result in better communication.

(vi) Semantic Distortion: Semantic is the science of the meaning of words and symbols. Another barrier to effective communication is semantic distortion, which can be deliberate or accidental. An advertisement that states 'we sell for less' is deliberately ambiguous; it raises the question - less than what? Words may evoke different responses. To some people the 'Government' may mean interference or deficit spending; to others, the same word may mean help, equalization, and justice.

(vii) Distrust, Threat and Fear: Distrust, threat and fear undermine communication. In a climate containing these factors, any message will be viewed with skepticism. Distrust can be the result of inconsistent behaviour by the superior, or it can be due to past experiences in which the subordinate was punished for honestly reporting unfavourable, but true, information to the boss. Similarly, in the light of threats - whether real or imagined - people tend to tighten up, become defensive, and distort information. What is needed is a climate of trust, which facilitates open and honest, communication. Other personal barriers may arise from the judgements, emotions and social values of people. They cause psychological distance between the people, which may prevent communication. Our emotions, for example, act as filters in nearly all our communications. We see or hear what we are emotionally tuned to see or hear. Thus communication can not be separated from the personality itself.

(viii) Insufficient Period for adjustment to Change: The purpose of communication is to effect change that may seriously concern employees: shifts in the time, place, type and order of work or shifts in group arrangements or skills to be used. Some communications point to the need for further training, career adjustment, or status arrangements. Change affects people in different ways, and it may take time to think through the full meaning of a message. Consequently, for maximum efficiency, it is important not to force change before people can adjust to its implications.

(ix) Information Overload: One might think that more and unrestricted information flow would help people overcome communication problems. But unrestricted flow may result in too much information. People respond to information overload in various ways. First, they may disregard certain information. A person getting too much mail may ignore letters that should be answered. Second, if they are overwhelmed with too much information, people make errors in processing it. For example, they may leave out the word 'not' in a message, which reverses the intended meaning. Third, people may delay processing information either permanently or with the intention of catching up in the future. Fourth, people may filter information. Finally, people respond to information overload by simply escaping from the task of communication. Efforts should be made to reduce the information overload at each level.

6.7 IMPROVING COMMUNICATION

Although many problems make effective communication difficult the picture is not entirely bleak. As an entrepreneur/ manager, you can improve your communication effectiveness. Whether communication is effective it can be evaluated by the intended results.

Guidelines for Improving Communication

Senders of the messages must clarify in their minds what they want to communicate. This means that the purpose of the message and making a plan to achieve the intended end. Clarity is very essential in any communication.

Effective communication requires that encoding and decoding be done with symbols that are familiar to the sender and the receiver of the message. Thus managers should avoid unnecessary jargons, which is intelligible to the experts in their particular field. Common problems in written communications are that writers omit the conclusion or bury it in the report, are too wordy, and use poor grammar, ineffective sentence structure and incorrect spellings. Yet a few guidelines may do much to improve written communication:

Writing style should fit the situation and the effect the writer wants to achieve. The forceful style should be used when the writer has power. The tone should be polite, but firm.

The planning of the communication should not be done in a vacuum. Instead, other people should be consulted and encouraged to participate to collect the facts, analyse the message, and select the appropriate media.

Make certain that your message is complete. If you do not supply all of the necessary information people make assumptions about the missing information. This can result in incorrect meaning.

Select the proper time to communicate. Messages received too early or too late decrease communication effectiveness. People are most receptive when there is a need for information. If information is received too late, it may be of no value.

Another aspect of timing concerns the volume of communication. At times we suffer from communication overload : we miss some of the information transmitted to us. You need to be careful not to add to communication overload, rather select a better time to communicate.

Encourage upward communication. Feedback is one of the most important steps in the communication process. Without feedback you cannot be certain the receiver has actually understood what you have communicated. Managers need to be particularly conscious of the importance of checking subordinates' reactions to communications. In face-to-face communication, direct feedback is possible.

Upward communication is necessary to get employees ideas, opinions, and suggestions. Such communication does not occur automatically; it must be encouraged. We need to develop good relationship with our employees, one that is characterised by openness and trust. Once this relationship is established, employees will feel more free to communicate, to respond to our communication, and to make suggestions on their own.

There is a saying that the tone makes the music. Similarly, in communication the tone of the voice, the choice of language, and the congruency between what is said and how it is said influence the reactions of the receiver of the message. An autocratic manager ordering subordinate supervisors to practice participative management will create a credibility gap that will be difficult to overcome. People believe in actions more than they do in words. Actions speak louder than words in the long run. The amount of difference between what one says and what one does is that person's communication credibility gap. When a person's credibility gap is large, poor human relations are likely to follow, such as losing confidence in that person.

The function of communication is more than transmitting information. It also deals with emotions that are very important in interpersonal relationships between superiors, subordinates and colleagues in an organisation. Furthermore, communication is vital for creating an environment in which people are motivated to work towards the goals of the enterprise while they achieve their personal aims.

6.8 SUMMARY

Communication is very important in every organization whether it profitable or non profitable organization. Effective communication is the responsibility not only of the sender but also of the receiver of the information. We need to be a good listener. We need to listen actively with both our ears and our eyes open, hearing what others are saying and understanding their non-verbal communication.

6.9 TERMINAL QUESTIONS

1. Distinguish between formal & informal communication.
2. Discuss the importance of communication in an organization.
3. Explain the communication process.

6.10 OBJECTIVE TYPE QUESTIONS

1. Find Odd man out
   a. Upward communication

Notes

b. Down ward communication

c. Horizontal Communication

d. Vertical Communication

2. Choose the correct Option

Statement A: Formal Communication is the only way to improve the organization.

Statement B: Informal communication is also part of the communication system.

a. both b. neither

c. Statement A d. Statement B

3. Communication process

a. involves sender

b. transmission of message through a selected channel,

c. receiver and the feedback

d. All the above

4. Choose the correct Option

Statement A: Communication is always within the organization only.

Statement B: Communication is always within the organization as well as with the external agencies.

a. both b. neither

c. Statement B d. Statement A

5. Choose the best way of communication

a. Verbal

b. writing

c. Email

d. a& b

6.10 ANSWERS TO INTEXT QUESTIONS

6.1

1. Three types of formal communication

   i) Down ward   ii) Horizontal   iii) Upward

2. No organization can work without informal communication.

6.10 ANSWER TO OBJECTIVE TYPE QUESTIONS

1. d   2. d   3. d   4. c   5. d

7

INFORMATION TECHNOLOGY (IT) APPLICATIONS IN INSURANCE

7.0 INTRODUCTION

In the present scenario everyone is using computer one way or the other and whenever you go to the market for shopping in any departmental store there you will find billing is computerized. The most common item now a days is a Mobile phone which uses the information technology to send the data or store the data like phone numbers or the messages. In the latest mobile sets songs can also be stored and the mobile phone instrument can be used as computer. The innovation in the computer field is taking at very high pace. Under this chapter we will not teach the working of the computer or any language. We are going to explain how the computer can be useful in the insurance sector.

7.1 OBJECTIVES

At the end of this lesson you will be able to know:

- About Information Technology
- How is it used in Insurance sector i.e Life Insurer as well as General insurer

7.2 MEANING OF INFORMATION TECHNOLOGY

The devices and techniques used to store, process, manage transit and communicate information, encompass various technologies such as computing, microelectronics and telecommunication is known as Information Technology.

There is revolution in the Information Technology after the advent of computers starting with first Generation Computers to the latest Pentium microprocessor based Personal computer. It has been further revolutionized with the development of software packages for specific area from stand alone personal Computers to Local Area Network and ~Wide Area Network~ and Main Frame computers. These computers can be used by many users simultaneously known as Multi-user environment.

You know very well that the volume of transaction is very large in any insurance organization. The data and information are to be stored for a Longer period because insurance contracts are long term especially life Insurance contracts. The Insurance organizations have the network all over. the countries even in foreign countries. Moreover, the transactions are of repetitive nature therefore, it has become necessary to seek the help of machines to process the data.

Initially, the Insurance companies used adrena machines and punch card equipment for creating, storing and processing data. But these machines were severely limited in their capacity. These were mechanical machines or Electra mechanical machines therefore, their speed, capacity and flexibility was much limited, But even the computers had some limitations initially, But these difficulties have been overcome with the help of the recent developments in tele-communication, which are used to aid computer technology.

7.3 INSURANCE RELATED APPLICATIONS

7.3.1 Life Insurance Applications

(a) Life Administration Module:

- **Policy Servicing of existing policies**: The existing policyholders may require various services after taking the insurance policy For eg: Change of Nominee, Change of address, of change in mode of payment, assignment of the policy, Claims payment etc. These changes or payment can be made very easily through computers.

- **New Business:** As and when the new business is acquired the initial data of a policyholder is quite large and as stated above the data is to be maintained for longer period therefore storage of data in computer is useful
- **Renewal notice/Billing:** Renewal notices to be sent for the payment of the premium and with a no. of policyholders are very large and the renewal is on different dates. The computer generates the renewal notice at very high speed and does it automatically. The inter-mediatory bills are generated very fast and quickly
- **Loans:** The Policyholders do take loans and the insurer has to maintain the records as the insurer has to recover the loan from the policyholder along with the interest. The recovery of loan may be regular or recovery at the time of payment of claim

(b) **Statistics and MIS Claims**: As the data in computer can be stored for longer period the data may be useful for the insurer to prepare the type of policies are sold in the market and type of claim arisen in the particular region. These types of data will be useful for management to take any decision.

(c) **Archiving of historical data and imaging Systems**: As the past data is available with life insurer therefore they can design the new products and price them accordingly.

7.3.2 General Insurance Applications

a) **Front Office System**

- Policy Management and underwriting system
- Co-insurance
- Reinsurance
- Claims Management System
- Financial' Accounts and Audit
- Statistics and MIS

b) **Reinsurance System .**

- Inward insurance

- Outward Insurance
- Reinsurance Account
- MIS.

c) **Risk Management System**

7.3.3 Other Applications

a) **Investment**

- Term Loan . ..
- Money market .
- Investment Accounts .
- Market Operations

(b) **Personnel System**.

- Payroll system
- Performance Appraisals
- Attendance and leave system
- PF .

(C) **Office Services**

- Purchases
- Inventory
- Tours and Travels etc
- Corporate Accounting System General Insurance Applications

Let us discuss about Front Office System In the General Insurance Industry. These applications can be written in any language and they may differ from Office to Office of The different Insurance Companies. The software namely GENESIS~ is being used by General Insurance Companies.

On-line Front Office System is the first step towards computerization of any insurance Company and a well-designed system at the front offices has following advantages to the company.

- To carry out business transactions efficiently
- Easy to handle growing volume of business and variety of business

(No. of documents processed, Variety of policies issued, Volume of business)

- Efficient customer services
- Reduction in office expenses
- MIS for the Branch Managers .

A good Front Office System should allow Insurer, Underwriters, and agents to manage the day to day operations of the office. The system should be capable of administering all stages of policy development from questions to new business, through adjustments by way of endorsements and renewals of policies. Coinsurance, Claims re-insurance and all accounting functions. The main components of the Front office System are given below:

- Policy Management including Underwriting (Policy acceptance and printing and customer services)
- co-insurance
- Re-insurance.
- Claims.
- Statistics & MIS
- Accounts

7.4 POLICY MANAGEMENT INCLUDING UNDERWRITING

Policy Management has provisions for policy acceptance, client interaction window and policy printing. They should be able to store policies and the system should allow immediate access to a client portfolio. The policy management system generally has provisions for dealing directly through a broker or an agent or branch office. Generally in a good *Policy* Management system The Policy" is able to handle multiple and mixed risks even if these risks are located at multiple locations. Policy management system has following additional features:

- User configured screens
- Provision for questions
- Policy production (including printing)
- Renewals

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- Endorsements
- Coinsurance

The front office system should have the facility to handle Co-insurance policies. The provisions should be such that underwriter simply states whether the insurer is acting as lead insurer or follower. They should then automatically pass the retained premium to the relevant reinsurance. Claims payment should activate co-insurer recoveries wherever necessary.

Reinsurance: The Front Office system generally has facility to handle all types of proportional reinsurance including Surplus and Quota Share Treaties: The system should be capable of setting up treaty layers by class of business with exposure levels varied according to the EML (estimated maximum ion). The system generally has the provision to incorporate proportional reinsurance ceding automatically into any claim payments or recoveries. The reinsurance module automatically produces reinsurance Bordeaux for each cedant.

Claims

The Front Office System includes an integrated claims system to record, progress and monitor claims, experience by Policy Clients brokers, Branch and risk covered. Some of the features of a claims module are given below

- Movement history or duration of claim
- Analysis of claims with user defined screens .
- Automatic recovery from reinsurers
- Incurred but not Reported (IBNR) causation and catastrophe recording and exception reporting
- Other routine enquiries.

Generally the claims system provides all the facilities required to manage reserves, payments. recovery, accounting, claims history recording, statistics, various kinds of ratios, and 'run off. The claims system also provides claims experience information at the time of renewals and monitors motor claims in order to accurately manage 'no claims' bonus.

Accounting

Front Office System allows accounting for all transactions, which occur in the operating office. The accounting is generally integrated to policy management system and should automatically produce debit/credit notes, renewals notices, cover notes, reminders, statements, Bordeaux, remittance advices etc. The system should be able to handle taxes~ duties, reporting requirements as well as automatic calculation of midterm adjustments:

Statistics & MIS

The statistics module should allow production of comprehensive statistical, analytical and management information, Reports should be in any different formats and should include detailed audits, performance reports for management, should have provisions for exception reports for underwriting purposes and cumulative reports for statutory returns.

7.5 LIFE INSURANCE APPLICATIONS

7.5.1 The Operational Offices

The Operational Office is engaged in procuring of new business and servicing of policies, Hence it has to maintain three types of data in respect of the policies being serviced by it.

7.5.2 Billing

Records containing policy number, name and address, installment premium etc. for printing receipts and notices.

7.5.3 Premium

Records containing policy number, name and address, agency code number, installment premium, commission etc. For preparing commission bills.

7.5.4 Valuation

Master Records containing necessary information for assessing the liability under a policy at any point of time and providing necessary statistical information to management.

When, under a policy, some alterations in policy conditions are effected and the installment premium consequently gets altered! all the three files or the Policy Servicing Database have to be corrected. During mid fifties it was difficult as the only way of correcting a punched card was to punch a new card, reproducing the unaltered information from the old card and punching only the altered information. There was always chance of errors creeping into the systems.

In order to avoid errors creeping into the system, the Insurance Industry was therefore continuously on the look out for a system wherein the particulars pertaining to a policy can be maintained on a single record. So when the electronic computers were introduced, the Insurance lndustry was in the safeguard of its users, Since the length of a record on magnetic media can be fairly large almost all the information pertaining to a policy could be contained in single record This eliminated the problem of inter-file consistency and also simplified the process of making any alterations.

After liberalization of insurance sector there are 29 insurers of life and general insurance and apart from Public sector undertaking all are using independent computer software keeping in their marketing strategy. The private players are controlling centrally therefore their module is quite different from the PSU's who are in the field for the more than 50 year. We are discussing in brief the module followed by Life Insurance Corporation (LIC) for the Front End Application for the branches:

1. NEW BUSINESSMODULE (N B Module).
2. CASH COUNTER MODULE .
3. POLICY SERVICING MODULE.
4. CLAIM MODULE.

1. NB Module:

The NB Module takes care of premium calculation, adherence to policy terms and conditions such as minimum or maximum age at entry maximum age at maturity, policy term, sum assured, mode of payment of premium etc. The program checks the validity of individual entry and does consistency checks ag. date of birth and age, data of commencement age, term, and date of maturity, plan, mode of payment etc as expected in the

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policy conditions end underwriting rules, The Arithmetical part of the Underwriting process, as referred to above, having been taken care of in the Module, the underwriter is free to concentrate on other areas such as Medical Report, Moral Hazard Report. Special Report etc, thereby enhancing the quality of Underwriting Standards. Many jobs manually done previously, such as proposal review slip typing, writing of proposal register and completion advice, outstanding deposit schedule etc has been taken over by the Computer.

2. CASH Module:

The cash module mainly caters to the needs of the cashier and some of the function of the Accounts Department. The premium receipts, policy and proposal deposit receipts, 555, Loan and interest receipts, and Miscellaneous receipts are printed through the use of the Computers. The receipts are generated on-line and there is no need to generate Special Premium receipts (as was the practice earlier). There is no need to keep the preprinted renewal premium receipts. The Renewal Premium history file is updated, This eliminates the ledger posting (i.e. posting of the collection of the premium in the individual ledger, which is a laborious, time consuming job). The cash book, cash and cheques collection list policy deposit schedules etc could now be printed under the CASH MODULE, thereby eliminating the manual preparation of the cash books and Outstanding Policy Deposit schedule.

3. Policy Service Module:

This module enables recording of the Change of Address, furnishing Revival and Surrender Value quotations, Requested File Maintenance (RFM) actions, displaying Policy Deposit position, displaying premium history refunding policy deposits etc.

4. Claim Module:

This module mechanizes all the jobs related with claims that are currently done manually starting from printing discharge voucher, data sheet to the final printing of various MIS statement.

7.5 SUMMARY

As we have studied above how the IT is playing important role in insurance sector and not only this, the developments in telecommunication, have enabled networking of various computer systems. The computers have been interlinked same office through Local Area Network (LAN). As the company has many offices all over the country and to facilitate the customers, in network called Metro Area Network (MAN) is installed. Through this networking all the branches located in large cities have been interlinked. It is generally done through a central computer, which keeps the data of all the branches. This system has enabled the data for policies to be available at any branch terminal for any policy irrespective of the branch where the policy is underwritten. In this way policyholder is enable to make the payment of premium in any branch to get the receipt immediately.

As the technology is developing very fast the crime rate IT is also increasing and to protect the public interest the Govt. has implemented Indian Information Technology Act 2000 to avoid any crime in IT sector.

7.6 TERMINAL QUESTIONS

1. Explain the importance of IT in life insurance sector.
2. How many IT modules are being used in General Insurance Sector?
3. Is networking helpful in insurance sector?

7.7 OBJECTIVE TYPE QUESTIONS

1. Information Technology is used for ____(Life insurance / General Insurance/Both)
2. Choose odd man out
   a. Personal Computers
   b. Local Area Network
   c. Wide Area Network
   d. Internet

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3. Whether Reinsurer can use the computer in its business? Yes/No

4. Choose the correct option

   Statement A: Computers are more useful in life insurance as the life insurance contracts are for longer period.

   Statement B: Computers are not useful in general insurance as the general insurance contracts are for one year only.

   a. both b. Statement A c. Statement B d. Neither

5. Computers are not used in any general insurance office

   a. To play games

   b. To feed the data

   c. To process the claims

   d. To record the investments

7.8 ANSWER TO OBJECTIVE TYPE QUESTIONS

1. Both 2. a 3. yes 4. d 5. a