UNIT-1 LIFE INSURANCE ORGANISATION, LIFE INSURANCE CORPORATION OF INDIA (LIC)

Structure:

1.0 Learning Objectives
1.1 Introduction
1.2 Life Insurance Organisation
1.3 Life Insurance Market in India
1.4 List of Private Insurance Companies in India
1.5 Life Insurance Corporation of India (LIC)
1.6 Let Us Sum Up
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1.0 LEARNING OBJECTIVES

After studying this unit, you will be able to know

- Life Insurance as an Organisation
- The insurance market in India
- LIC as an Organisation and its functional methods

1.1 INTRODUCTION

The Indian Insurance Sector is divided into two categories namely Life Insurance Sector and Non-Life Insurance Sector (Non-life Insurance sector is also known as General Insurance). Both Life Insurance and Non-life Insurance is governed by the IRDAI (Insurance Regulatory and Development Authority of India). The role of IRDAI is to thoroughly monitor the entire insurance sector in India and also act as a guardian of all the insurance consumer rights. This is the reason all insurers have to abide by the rules and regulations of the IRDAI.

Life Insurance Corporation of India took Birth through an ordinance, which was issued on 19th January 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian insurers, 16 non-Indian insurers as also 75 provident societies - 245 Indian and foreign insurers in all. The LIC had a monopoly till the late 90s when the Insurance sector was reopened to the private sector. In 1993, the Government of India appointed RN Malhotra (Former Governor of RBI) Committee to lay down a road map for privatisation of the life insurance sector. In other words, the objective was to complement the reforms initiated in the financial sector. While the committee submitted its report in 1994, among other things, it recommended that the private

sector be permitted to enter the insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners. Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April 2000. The key objectives of the IRDA include the promotion of competition to enhance customer satisfaction through increased consumer choice and lower premiums while ensuring the financial security of the insurance market. It took another six years before the enabling legislation was passed in the year 2000, legislation amending the Insurance Act of 1938 and legislating the Insurance Regulatory and Development Authority Act of 2000. The IRDA opened up the market in August 2000 inviting applications for registrations. Foreign companies were allowed ownership of up to 26%. Later Cabinet approved a proposal to increase FDI to 49%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

IRDA's primary function is to protect consumer interests. This means ensuring proper disclosure, keeping prices affordable but also insisting on mandatory products, and most importantly making sure that the consumers get paid by insurers. Further, ensuring the solvency of insurers. The growth of the insurance business requires better education and production to customers, creating better incentives for agents and intermediaries. It has evolved guidelines on the entry and functions of such intermediaries. Licensing of such agents and brokers are required to check their understanding in activities such as twisting, fraudulent practices, rebating and misappropriation of funds.

In the history of the Indian insurance sector, LIC was the only life insurance provider whereas, other public sector companies like the National Insurance, United India Insurance, Oriental Insurance and New India Assurance provided non-life or general insurance in India. However, with the introduction of new private sector companies, the insurance sector in India gained momentum in the year 2000. So far, the insurance industry of India has 57 insurance companies -24 are in the life insurance business, while 33 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. There are six public sector insurers in the non-life insurance segment. In addition to these, there is a sole national re-insurer, namely the General Insurance Corporation of India (GIC Re). As the industry goes, LIC, New India, National Insurance, United Insurance and Oriental Insurance are the only government ruled organisations that control high market share and their contribution to the growing Insurance sector in India is immense. There are two specialized insurers – Agriculture Insurance Company Ltd catering to Crop Insurance and Export Credit Guarantee of India catering to Credit Insurance.

1.2 LIFE INSURANCE ORGANISATION

The term "Organisation" means the arrangement of different activities and responsibilities of different persons to carry out work hassle-free. Further, activities of similar nature and importance are identified and grouped to form departments and sections.

1.3 LIFE INSURANCE MARKET IN INDIA

Insurance is a service and insurance market comprised of insurers, agents on one side and insured or perspective buyers on the other. Indian Insurance market which includes both the public sector and private sector functions under the strict guidelines of the Insurance Regulatory Development Authority (IRDA). The Federation of Insurance Institutes, Mumbai has defined insurance as: "The term 'insurance market' comprises the insurers, the buyers and the intermediaries who bring the two together". An insurance market mainly includes insurance companies or insurers, insurance agents or brokers and prospective buyers.

Buyers: are those who are either insured or will be insured in future to protect their unexpected losses. The buyer may be an individual or from trader community or industrial and commercial sector or a self-employed professional or a student or an employee of the state and central government agencies.

Sellers: are those insurance companies like Life Insurance Corporation of India (LIC) and private companies like ICICI Prudential Life Insurance Co. Ltd., Bajaj Allianz Life Insurance Co. Ltd, HDFC Life Insurance Co. Ltd. Bharti-Axa Life Insurance Co. Ltd. etc. and General Insurance Corporation of India (GIC) and private companies like Tata AIG General Insurance Co. Ltd., Bharti-Axa General Insurance Co. Ltd., ICICI Lombard General Insurance Co. Ltd. Etc.

Intermediaries: are those either full time or part-time engaged agents who are licensed by IRDA to promote and sell insurance products (Life only or Non-Life only or both Life & Non-Life) to individuals or groups. They are responsible to solicit and get insurance business.

Other patrons in the Indian Insurance market include agents (individual and corporate), brokers, surveyors and third-party administrators servicing health insurance claims. Life insurance companies offer coverage to the life of the individuals, whereas the non-life insurance companies offer insurance for travel, health, motor, home, industrial equipment, crop insurance, gadgets and pets insurance etc. The life insurance companies have gained an investment prospectus in recent times with the idea of providing insurance along with a growth of your savings. But, the general insurance companies remain unwilling to offer pure risk cover to the individuals.

Though LIC continues to dominate the Insurance sector in India, the introduction of the new private insurers has seen a vibrant expansion and growth of both life and non-life sectors from 2006 onwards. The demands for new insurance policies with pocket-friendly premiums are very high. Considering this opportunity, to promote the domestic economy growth drastically, the insurance sector in India is controlled and monitored strongly. With the increase in income and exponential growth of purchasing power as well as household savings, the insurance sector in India has witnessed emerging trends like product innovation, multi-distribution, better claims management and regulatory trends in the Indian market. The government also strives hard to provide insurance to individuals in a below poverty line by introducing schemes such as:

- Pradhan Mantri Suraksha Bima Yojana (PMSBY),
- Rashtriya Swasthya Bima Yojana (RSBY) and
- Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY).

The introduction of these schemes would help the lower and lower-middle income categories to utilize the new policies with lower premiums in India. With several regulatory changes in the past two decades in the insurance sector in India, the future looks pretty awesome and promising for the life insurance industry. This would further lead to a change in the way insurers take care of the business and engage proactively with its genuine buyers. Some demographic factors like the growing insurance awareness of the insurance, retirement planning, growing middle class and young insurable crowd will substantially increase the growth of the Insurance sector in India.

The insurance industry in India was expected to reach US$ 280 billion by end of 2020. Whereas, in our country, the expected growth of the insurance industry is around 12-15% per annum over the next four to five years. The government's policy of insuring the uninsured segment has gradually pushed insurance penetration in the country and the propagation of insurance schemes. The gross premium collected by life insurance companies in India increased from Rs. 2.56 trillion (US$ 39.7 billion) in FY12 to Rs. 7.31 trillion (US$ 94.7 billion) in FY20. During FY12-FY20, premiums from the new business of life insurance companies in India increased at a CAGR of 15% to reach Rs. 2.13 trillion (US$ 37 billion) in FY20. Overall insurance penetration (premiums as% of GDP) in India reached 3.71% in FY19 from 2.71% in FY02. Life insurers reported 14% YoY growth in individual annualised premium equivalent (APE) in October 2020, compared with 4% YoY in September 2020. The market shares of private sector companies in the non-life insurance market rose from 15% in FY04 to 56% in FY21 (till April 2020). In the life insurance segment, private players had a market share of 31.3% in new business in FY20. This indicates the aggressive persuasions by private insurance companies in India.

In the past few years, the Government has taken many Initiatives to boost the insurance industry. Some of them are as follows:

- As per Union Budget 2019-20, 100% foreign direct investment (FDI) was permitted for insurance intermediaries.

- In September 2018, National Health Protection Scheme was launched under Ayushman Bharat to provide coverage of up to Rs. 500,000 (US$ 7,723) to more than 100 million vulnerable families. The scheme is expected to increase the penetration of health insurance in India from 34% to 50%.
- The Insurance Regulatory and Development Authority of India (IRDAI) plans to issue redesigned initial public offering (IPO) guidelines for insurance companies in India, which are to looking to divest equity through the IPO route.
- IRDAI has allowed insurers to invest up to 10% in additional tier 1 (AT1) bonds that are issued by banks to enhance their tier 1 capital, to expand the pool of eligible investors for the banks.
- In October 2020, Andhra Pradesh rolled out free of cost crop insurance scheme for the state farmers.

The future looks promising for the life insurance industry with several changes in the regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance. The collaboration with the foreign markets has also made the Insurance Sector in India only grow tremendously with a high current market share.

Investments and Recent Developments

The following are some of the major investments and developments in the Indian insurance sector in recent times:

- In November 2020, the Competition Commission of India (CCI) approved the acquisition of the General Insurance Business of Bharti AXA General Insurance Company Limited (Bharti AXA) by ICICI Lombard General Insurance Company Limited (ICICI Lombard).
- In November 2020, Airtel Payments Bank tied up with Bharti AXA General Insurance to offer comprehensive car insurance to customers.
- In October 2020, Phone Pe launched cashless repair services, which will be available through a countrywide network of third-party garages associated with Bajaj Allianz General Insurance.
- Enrolments under the Pradhan Mantri Suraksha Bima Yojana (PMSBY) reached 154.7 million in December 2019 since its launch.
- Over 53.8 million farmers were benefitted from the Pradhan Mantri Fasal Bima Yojana (PMFBY) in FY20.
- In April 2020, Axis Bank acquired an additional 29% stake in Max Life Insurance.
- In November 2019, Airtel partnered with Bharti AXA Life to launch a prepaid bundle with insurance cover.
- In September 2019, the Competition Commission of India (CCI) approved the acquisition of shares in SBI General Insurance by Napean Opportunities LLP and Honey Wheat.

1.4 LIST OF PRIVATE INSURANCE COMPANIES IN INDIA

List of private Life insurance companies currently operational in India.

- Aegon Life Insurance Co. Ltd.
- Aviva Life Insurance Co. India Ltd.
- Bajaj Allianz Life Insurance Co. Ltd.
- Bharti AXA Life Insurance Co. Ltd.
- Birla Sun Life Insurance Co. Ltd.
- Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd.
- DHFL Pramerica Life Insurance Co. Ltd.
- Edelweiss Tokio Life Insurance Co. Ltd
- Exide Life Insurance Co. Ltd.
- Future Generali India Life Insurance Co. Ltd.
- HDFC Standard Life Insurance Co. Ltd.
- ICICI Prudential Life Insurance Co. Ltd.
- IDBI Federal Life Insurance Co. Ltd.
- IndiaFirst Life Insurance Co. Ltd
- Kotak Mahindra Old Mutual Life Insurance Ltd.
- Max Life Insurance Co. Ltd.
- PNB MetLife India Insurance Co. Ltd.
- Reliance Life Insurance Co. Ltd.
- Sahara India Life Insurance Co. Ltd.
- SBI Life Insurance Co. Ltd.
- Shriram Life Insurance Co. Ltd.
- Star Union Dai-Ichi Life Insurance Co. Ltd.
- Tata AIA Life Insurance Co. Ltd.

List of Private General Insurance Companies currently operational in India

- Aditya Birla Health Insurance Co. Ltd.
- Bajaj Allianz General Insurance Co. Ltd.
- Bharti AXA General Insurance Co. Ltd.
- Cholamandalam General Insurance Co. Ltd.
- Future Generali India Insurance Co. Ltd.
- HDFC ERGO General Insurance Co. Ltd.
- ICICI Lombard General Insurance Co. Ltd.
- IFFCO-Tokio General Insurance Co. Ltd.
- Kotak General Insurance Co. Ltd.
- L&T General Insurance Co. Ltd.
- Liberty Videocon General Insurance Co. Ltd.
- Magma HDI General Insurance Co. Ltd.
- Raheja QBE General Insurance Co. Ltd.
- Reliance General Insurance Co. Ltd.
- Royal Sundaram Alliance Insurance Co. Ltd
- SBI General Insurance Co. Ltd.
- Shriram General Insurance Co. Ltd.

- TATA AIG General Insurance Co. Ltd.
- Universal Sompo General Insurance Co. Ltd.

List of Private Health Insurance Companies currently operational in India

- Apollo Munich Health Insurance Co. Ltd.
- Star Health Allied Insurance Co. Ltd.
- Max Bupa Health Insurance Co. Ltd.
- Religare Health Insurance Co. Ltd.
- Cigna TTK Health Insurance Co. Ltd.

1.5 LIFE INSURANCE CORPORATION OF INDIA

Life Insurance Corporation of India (LIC) is an Indian insurance and investment Corporation. This was established on September 1st year 1956 after Life Insurance Act was passed in the parliament of India. All existing insurance companies and societies were merged to create the Life Insurance Corporation of India to curb the failure of insurance companies, misuse of funds and to ensure absolute security to the policy holders. As of 2019, the Life Insurance Corporation of India had a total life fund of ₹28.3 trillion. The total value of sold policies in the year 2018-19 is ₹21.4 million. Life Insurance Corporation of India settled 26 million claims in 2018–19. It has 290 million policy holders.

Founding organisations

The Oriental Life Insurance Company, the first company in India offering life insurance coverage, was established in Kolkata in 1818. Its primary target market was the Europeans based in India, and it charged Indians heftier premiums. Surendranath Tagore had founded the Hindustan Insurance Society, which later became Life Insurance Corporation. The Bombay Mutual Life Assurance Society, formed in 1870, was the first native insurance provider. Other insurance companies established in the pre-independence era included Postal Life Insurance (PLI) was introduced on 1 February 1884, Bharat Insurance Company (1896), United India (1906), National Indian (1906), National Insurance (1906), Co-operative Assurance (1906), Hindustan Co-operatives (1907), Indian Mercantile, General Assurance, Swadeshi Life (later Bombay Life), Sahyadri Insurance (Merged into LIC, 1986)

Life Insurance Corporation of India is a corporate body having permanent status and it has got the power to acquire, hold and dispose of the property. It consists of 16 members who constitute the board of the Corporation having their head office in Mumbai. The general supervision and direction of the affairs and business of the corporation were entrusted to the Executive Committee consisting of the Chairman, two managing directors and two other members of the Executive Committee are drawn from the Board of the Corporation. The Directors of the board is appointed by the Central Government.

Objectives of LIC

Being one of the oldest and largest government-owned life insurance companies, LIC of India continues to be the dominant life insurer even in the liberalized scenario of the Indian insurance sector. For over years now, the company is surpassing its records. Here are few objectives of the Life Insurance Corporation of India:

- The primary objective of the LIC of India is to spread the importance of life insurance widely in the rural areas and people belonging to socially and economically backward classes. The company functions with a view of providing such individuals with financial cover against death at a reasonable cost.
- The company strives hard to meet various life insurance needs of the community depending on the changing social and economic environment.
- The main focus of the Life Insurance Corporation of India is to safeguard the interests of the life insureds and act as a trustee in their individual and collective capacities.
- Maximize the ability of savings by providing a diverse range of life insurance products to choose from.
- LIC of India fully encourages the participation and involvement of its employees and LIC agents so they work towards attaining the objectives of the company.

The Corporation has established eight Zonal offices one each at Mumbai, Bhopal, Hyderabad, Kolkata, Delhi, Kanpur, Patna and Chennai. A Zonal Manager is appointed to takes care of a zonal office. Each zonal office has several Divisional offices under it. Further, each Divisional office controls several branch offices in a different location. LIC has over 2048 branches in India and abroad, 1408 satellite offices and the Central Office to offer the best sale and services to its customers. It also has 73 customer zones and 25 metro-area service hubs located in different cities and towns of India. It also has a network of 1,537,064 individual agents, 342 Corporate Agents, 109 Referral Agents, 114 Brokers and 42 Banks for soliciting life insurance businesses from the public. Additionally, now LIC also has the 1899 branches of IDBI bank at its disposal thus it can carry out its insurance business through these branches of the bank.

The LIC has 22 departments each headed by an Executive Director Namely Marketing, Bank assurance (B & AC), Corporate Communication, Personnel, CRM, Direct Marketing, E&OS, F&A, IT/BPR, Inspection, Investment, SBU/Estates, Investment Operations, P&GS, Actuarial, Chairman, F&A, Micro Insurance, RTI, HRD, Engineering, and Vigilance.

LIC has three different types of branches and they are the Ordinary branch, Direct Agent branch and Career Development branch.

- In an ordinary Branch, agents are not directly engaged in any of their work. The agents work under the Development Officer and the DO works as a link between the agents and branch.

- In the Direct Agent branch, the agents are directly involved and engaged for office work and receive their commission from a branch. It has been experienced that in this set up the agent's works much better, they are found to be more efficient and their productivity in terms of sale is higher.
- In the Career Development branch selection of prospective agents for recruitment or future recruitment is done. Once selected required training is provided and after completion agents are authorised to work in their branch.

As we already know Life Insurances Corporation of India (LIC) was formed in September 1956 by passing the Life Insurance Corporation Act, 1956, in parliament. For formation and start-up, the capital contribution was done by the Government of India. During the passing of the Act the then finance minister Mr C. D. Deshmukh outlined few objectives of LIC and those are:

- To conduct the business with the utmost economy, in a spirit of trusteeship to change premium no higher than warranted by strict actuarial considerations.
- To invest the funds for obtaining maximum yield for the policy holders consistent with the safety of the capital.
- To render prompt and efficient service to policy holders, thereby making insurance widely popular.
- Spreading of life insurance facilities much more widely to rural and economically backward areas and people, conducting business with utmost economy, prompting a sense of participation amongst all agents and employees.

Holdings

LIC invests in sectors such as banks, cement, chemicals and fertilizers, electricity and transmission, electrical and electronics, engineering, construction and infrastructure, fast-moving consumer goods, finance and investments, healthcare, hotels, information technology, metals and mining, motor vehicles and ancillaries, oil and natural resources, retail, textiles, transportation and logistics.

Among the Nifty companies, LIC's holding in terms of value in 2012 was estimated to be the highest in ITC (₹27,326 crores), followed by RIL (₹21,659 crores), ONGC (₹17,764 crores), SBI (₹17,058 crores), L&T (₹16,800 crores), and ICICI Bank (₹10,006 crores).

LIC also holds a 51% stake in IDBI Bank, making it the only insurer in India to own a bank, since regulations prohibit insurers from holding more than 15% stake in any company, LIC will have to decide a timeline for paring its stake in IDBI bank; also LIC may have to pare its stake in LIC Housing Finance Ltd as a company cannot be the promoter of two finance companies carrying out same housing finance business in India.

In the past few years, it has been observed that the use of information technology has played a vital role in improving commerce as a whole in our country. Digitalization is

no more a luxury, it has become a necessity. Having realized the wide potential of the digital platform to connect companies with their customers, a rapidly increasing number of businesses are integrating it into their processes. LIC too has digitalized its processes, creating an extensive online database for their customers. This has made LIC's products and services more accessible right at the fingertips of existing and prospective customers. Following are the online services provided by LIC of India:

- Online forms for the products and services from LIC of India
- Registration for e-Services from LIC of India
- Policy schedule
- Status of policy
- Status of claim
- Status of loan
- Status of accrued bonus
- Revival quotation
- Certificate of premium payment
- Premium due Calendar
- Policy bond/Proposal form image
- Claim history
- Registration of grievances

1.6 LET'S SUM UP

The history of the Indian insurance sector and its development over the years has been of great importance to understand this insurance industry. The role of IRDA, the regulator authority is who controls the entire insurance activity in India and its role to protect the consumer and its right. The insurance industry of India has 57 insurance companies -24 are in the life insurance business, while 33 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. A detailed function of private companies in India and LIC being the lone public sector in the Indian life insurance sector have been explained.

1.7 KEYWORDS

- **LIC:** Life Insurance Corporation of India is an Indian government-owned insurance and Investment Corporation. It is under the ownership of the Ministry of Finance, Government of India.
- **IRDAI:** The Insurance Regulatory and Development Authority of India is a regulatory body under the jurisdiction of the Ministry of Finance, Government of India and is tasked with regulating and promoting the insurance and re-insurance industries in India.
- **GIC:** General Insurance Corporation of India Limited abbreviated as GIC Re is an Indian government-owned Reinsurance Company. It is under the ownership of the Ministry of Finance, Government of India.

- **Premium:** Premium is an amount paid periodically to the insurer by the insured for covering his risk.
- **Insurer:** A person or company that underwrites an insurance risk; the party in an insurance contract undertaking to pay compensation.
- **Insured:** The person, group, or organization whose life or property is covered by an insurance policy.

1.8 FURTHER READINGS

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- G. Krishnaswamy: Principles & Practice of Life Insurance
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1.9 MODEL QUESTIONS

Q 01: Write a note on Insurance Market in India.
Q 02: What are the initiatives taken by the government to boost the insurance industry?
Q 03: What are the objectives of LIC?

UNIT-2 LIFE INSURANCE PLANS, PREMIUMS & BONUSES, ANNUITIES, GROUP INSURANCE, LINKED LIFE INSURANCE POLICIES

Structure:

2.0 Learning Objectives
2.1 Introduction
2.2 Life Insurance Plans
2.3 Premiums & Bonuses
2.5 Annuities
2.6 Linked Life Insurance Policies
2.7 Group Insurance Policies
2.8 Let us Sum up
2.9 Key Words
2.10 Further Readings
2.11 Model Questions

2.0 LEARNING OBJECTIVES

After studying this unit, you will be able to know:

- The differentiate between different Life Insurance Plans
- The concepts of premiums and bonus
- About various annuity plan
- Unit Link concepts and functions of Linked Policies
- The concept and importance of Group Insurance

2.1 INTRODUCTION

ULIP is introduced in the year of 1971 for the first time by the Unit Trust of India. Since then the Indian insurance market started promoting the ULIP policies realising its strength to return goods for the customers while keeping them protected. Major Private Insurers like ICICI Prudential, Bajaj Life, HDFC Life etc. have introduced their own designed ULIPs for the Indian customers. Today most insurers have started offering various kinds of ULIPs for their customers and can help the customers to build their wealth over some time.

A Unit Linked Insurance Plan is a complete package of investment and insurance cover that allows doing wealth accumulation over some time. Mostly ULIPs are transparent and flexible plans that allow a person to customise as per his requirement in various stages of life. A part of the premium paid in these policies are used for providing the

life cover to the insured and the other part is invested in the bond, mutual fund and stock market either in equity, or debt or a mix of both instruments to obtain the best possible market return.

2.2 LIFE INSURANCE PLANS

The Life insurance basket of the insurers in India are mostly offering the following categories of plans in the market.
They are

a) Term Life Plans
b) Whole Life Plans
c) Endowment Plans
d) Money-Back Plans
e) Savings & Investment Plans
f) Retirement Plans
g) Unit Linked Plans

TERM LIFE PLANS:
As the name suggests, Term insurance is one of the most popular types in the market because it is the purest and the simplest life insurance plan. It's popular because the insured can avail a high sum assured or life cover by paying a very nominal sum to the insurer. A Term insurance plan is a protection plan for the family (family's future) of the insured because it provides financial protection to the family in case of the untimely demise of the life insured. The sum assured is paid to the nominee in case of the demise of the insured during the term of the policy.

Example: Alok is married and he has one kid. He has purchased a term plan at the age of 30 that offers Rs. 1.20 crore as death benefit and the policy is applicable up to the age of 60 years. In case anything happens to Alok till he attains the age of 60, his family will be paid Rs. 1.20 crore by the insurer.

There are few reasons mentioned below, why one should purchase Term plans for himself:
Term plans offer high Life Cover to the insured at a very reasonable rate which is affordable by almost all.

- A term plan offers Critical Illness cover additionally, which pays a lump sum on the first diagnosis of it i.e. heart attack, cancer, failure of kidney etc.
- A term plan offers Accidental cover additionally. So, if the insured face an unfortunate demise because of any accident then the family gets a larger amount.
- Term plans provide tax benefits on premiums paid under section 80C. If it is taken with Critical Illness cover then the premium paid is eligible to get tax benefit under section 80D. The death benefit amount which the nominee receives also gets a tax benefit under section 10(10D)

- Few Term Plans has provisions to waive all the future premiums of the insured in case of permanent disability to the insured but the life cover continues till the end of the plan

In 2021 the following are the better performing Term Plans by different insurers in India.

- SBI Life eShield Plan where anyone who is between 18-65 years of age can enter into this plan by paying a premium for a minimum of 25 Lakhs of life cover
- Max Life Online Term Plan Plus where anyone who is between 18-60 years of age can enter into this plan by paying a premium for a minimum of 2 Crores of life cover
- LIC E-Term Plan where anyone who is between 18-65 years of age can enter into this plan by paying a premium for a minimum of 25 Lakhs of life cover. Life cover can be taken in 25 Lakhs multiple i.e. 25 Lakhs, 50 Lakhs, 75 Lakhs etc.
- Future Generali Flexi Online Term Plan where anyone who is between 18-65 years of age can enter into this plan by paying a premium for a minimum of 50 Lakhs of life cover
- Bharti Axa Term Plan protect where anyone who is between 18-65 years of age can enter into this plan by paying a premium for a minimum of 25 Lakhs of life cover
- ICICI Prudential i-Protect Smart plan where anyone who is between 18-60 years of age can enter into this plan by paying a premium for a minimum of 50 Lakhs - 1Crore of life cover
- Bajaj Allianz e-Touch Lump-sum plan where anyone who is between 18-65 years of age can enter into this plan by paying a premium for a minimum of 50 Lakhs of life cover

WHOLE LIFE PLANS:

Whole life insurance is a very popular and well-accepted plan by the customers because the plan comes with not only death benefits but also maturity and survival benefits along with bonuses if any. The life assured is covered until the death, and also has the maturity benefit feature to help the life assured to live a worry-free life while being able to create a legacy for his heirs. A whole life insurance policy provides life coverage until the death of the life assured. The policy stays in force throughout life as long as the life assured pays the premium. The sum assured or the coverage is decided at the time of policy purchase and is paid to the nominee at the time of when the life assured dies. Usually, the maturity age of this policy is 100 years. But If the life assured dies before the age of 100 years, the nominee receives the sum assured. However, if the life assured outlives the age of 100 years, the insurance company pays the matured endowment coverage to the life insured.

While purchasing a whole life plan a customer can either opt for a traditional whole life plan or a unit-linked plan. Traditional Whole Life plans may found either as participating or non-participating.

In the case of **Participating** policies, the insurance company shares the excess profits (divisible surplus) with the policyholder in the form of annual dividends. Typically, these "refunds" are not taxable because they are considered an overcharge of premium. Participating policies are typically issued by Mutual life insurance companies. In the case of **Non-Participating** policies does not pay any dividends nor does receive any bonuses as it is non-participating

Features of Whole Life Plans

(a) Guaranteed Premium – This means in a whole life policy the premium amount is fixed and will never change anytime during the life span of the policy.
(b) Death Benefit – will be paid to the nominee in case of death of the insured, if the status of the policy is "enforce" and all premiums are paid to date
(c) Tax Benefits - are applicable under IT Act, 1961. Premium paid towards the policy can be exempted u/s 80C whereas the pay-out made to the nominee (upon the death of the insured) or policy holder (upon survival) is exempted from u/s 10(10D)
(d) The loan can be obtained against this plan subject to the completion of three years of the plan.

Types of Whole Life Plan

- **Non-Participating Whole Life Insurance**: A non-participating whole life plan is a low-cost life insurance policy with a level premium. It does not pay any dividends nor does receive any bonuses as it is non-participating.
- **Participating Whole Life Insurance**: As opposed to the non-participating whole life plan, this is a participating whole life insurance policy, wherein, the policy holder may receive bonuses. In this plan, the premiums are invested by the company. The profit or the excess amount that the company has earned through various investments, savings left out of cost expense, etc. is distributed as a bonus to all policyholders.
- **Level Premium Whole Life Insurance**: In this payment plan, premiums are paid regularly till the insured is alive. The premiums remain constant throughout the policy term.
- **Limited Payment Whole Life Insurance**: The policyholder pays the premium for a limited period, under the Limited Payment Whole Life Insurance plan. But, the life protection cover is for the whole life or till age 100. The difference is not only the duration of the premium payment but also the amount. Since it is a limited period, the premium amount is relatively higher than the regular premium whole life plan. Premiums payment periods are usually for a fixed number of years, say 10 years, 20 years, and so on.
- **Single-Premium**: A whole life plan where a large sum of cash is paid as a payment guarantee to the beneficiary. While a single-premium policy is fully funded, the money invested builds up rapidly, making for quite a large benefit even in the event of the policyholder's sudden demise.

- **Indeterminate Premium**: This is a kind of whole life policy that has two premium rates. First, a maximum guaranteed rate and second, a lower rate. The carrier charges the lower premium rate while the policy is invested in for the first time. After maintaining that rate for a given period, the insurer utilises its actual mortality, interest, and expense experience to establish a new premium rate that may vary from the previously premium rate.

In 2021 the following are the few better performing Whole Life Policies by different insurers in India.

- Aegon Life Guaranteed Income Advantage Insurance plan where anyone who is between the age of 20-55 years can enter into this policy by paying a premium for a minimum sum assured of 1 Lakh. This policy maturity age is 85 years
- HDFC Life Sampoorn Samridhi Plus plan where anyone who is between the age of 30-60 years can enter into this policy by paying a premium for a minimum sum assured of 65,463. This policy maturity age is 75 years
- IDBI Federal Whole Life Insurance plan where anyone who is between the age of 18-55 years can enter into this policy by paying a premium for a minimum sum assured as per entry age. This policy maturity age is 100 years
- Kotak Premier Life Plan where anyone who is between the age of 3-45 years can enter into this policy by paying a premium for a minimum sum assured of 2 Lakh. This policy maturity age is 99 years
- Max Life Whole Life Super plan where anyone who is between the age of 18-50 years can enter into this policy by paying a premium for a minimum sum assured of 50000. This policy maturity age is 100 years
- SBI Life Subh Nivesh plan where anyone who is between the age of 18-60 years can enter into this policy by paying a premium for a minimum sum assured of 1 Lakh. This policy maturity age is 65 years. An extended 15 years' life cover is available up to 100 years)
- Reliance Life Long Savings plan where anyone who is between the age of 15-30 years can enter into this policy by paying a premium for a minimum sum assured of 80000. This policy maturity age is 70 years

ENDOWMENT PLANS:

An Endowment policy is a plan which is designed to provide the combined benefit of insurance cover and savings. It is a plan where the insured pays a regular premium (savings) for a specific number of years as decided while taking the plan to pay a lump sum on the maturity of the plan to the insured as a survival benefit or on the death of the insured, sum assured is paid to the nominee. Generally, these endowment plans are traditional with profit plans or Unit Linked.

In 2021 the following are the few better performing endowment Policies by different insurers in India.

- Aviva Dhan Nirman Endowment plan where anyone who is between the age of 04-50 years can enter into this policy by paying a premium for a minimum sum assured of 200000-10000000. This policy maturity age is 18-30 years
- LIC Jeevan Nivesh Plan where anyone who is between the age of 18-55 years can enter into this policy by paying a premium for a minimum sum assured of 300000 for regular yearly premium and 500000 in case of monthly mode premium. This policy maturity age is 10-30 years
- Kotak Classic Endowment plan where anyone who is between the age of 08-60 years can enter into this policy by paying a premium for a minimum sum assured of 61071. This policy maturity age is 10-30 years
- LIC New Endowment plan where anyone who is between the age of 08-55 years can enter into this policy by paying a premium for a minimum sum assured of 100000. This policy maturity age is 12-35 years
- ICICIPru Savings Suraksha plan where anyone who is between the age of 0-60 years can enter into this policy by paying a premium for a minimum sum assured of 10 times of the premium paid. This policy maturity age is 10-13 years
- HDFC Endowment Assurance Plan where anyone who is between the age of 18-60 years can enter into this policy by paying a premium. This policy maturity age is 10-30 years
- Exide Life Jeevan Uday plan where anyone who is between the age of 0-55 years can enter into this policy by paying a premium for a minimum sum assured of 42000. This policy maturity age is 10 or 15 or 30 years

MONEY-BACK PLANS:

Money-Back Policies are very popular in our country. This offers both Life cover and investment options. It protects the family's financial interest in case of the death of the insured and critical illness situations. This plan offers periodic pay-outs to cater to financial commitments in various stages of life.

In 2021 the following are the few better performing endowment Policies by different insurers in India.

- Bajaj Allianz Cash Assure plan where anyone who is between the age of 0-54 years can enter into this policy by paying a premium. This policy maturity age is 16 or 20 or 24 or 28 years
- Bharti-Axa Life Child Advantage plan where anyone who is between the age of 18-55 years can enter into this policy by paying a premium. This policy maturity age is 11 or 21 years
- ICICI Pru Cash Advantage plan where anyone who is between the age of 0-60 years can enter into this policy by paying a premium. This policy maturity age is 15 or 17 or 20 years
- LIC Money Back Policy-20 Years plan where anyone who is between the age of 0-12 years can enter into this policy by paying a premium. This policy maturity age is 25 years

- Kotak Premier Money Back plan where anyone who is between the age of 2-59 years can enter into this policy by paying a premium. This policy maturity age is 16 or 20 or 24 or years
- LIC Money Back Policy for Children plan where anyone who is between the age of 0-54 years can enter into this policy by paying a premium. This policy maturity age is 16 or 20 or 24 or 28 years
- Reliance Super Money Back plans where anyone who is between the age of 18-55 years can enter into this policy by paying a premium. This policy maturity age is 10 or 20 or 30 or 40 or 50 years

SAVING & INVESTMENT PLANS:

One needs to build a corpus at various stages of life. Whether the need is for a child's education, marriage or retirement savings. When one starts looking up various ways to build funds, one tends to look at investment plans where your money grows while you keep working.

What is an Investment Plan?

Investment plans are a combination of both investment and life protection elements. A portion of the premium paid is taken to protect the life of an insured and the remaining part is used for investment purposes. Such policies are capable of taking care of both short term and long term goals of an individual, hence very popular. It also helps the individual not only to create wealth for himself and his family but also helps to save taxes. Life insurance companies offer two major types of the investment plan. It could be either ULIPs or Endowment Plans. ULIPs are an excellent option as a portion of the premium is invested in the market to avail high returns while an Endowment offers lower but safer returns.

Types of Investment Plans

There are many types of investment plans under insurance available and they are Short Term Investment Plans, Long Term Investment Plans, Child Investment Plans, and Retirement Investment Plans etc.

Benefits of Investment Plans

Wealth Creation

Wealth creation in every stage of life is very important for every individual because sooner or later he has to take care of children education, marriage, building a suitable house for himself and family, retirement etc. So, achieving the same investment plan with insurance companies is best because it gives you various options to choose an investment based on your investment capacity, appetite for risks and returns.

Financial Protection

An investment plan under insurance offers financial protection during the survival period and in an unfortunate situation as well. At maturity, if the insured is surviving then receives the fund value/ maturity value whereas in case of the insured’s demise before the policy term the nominee gets the sum assured.

Retirement Savings

An investment plan helps the individual to build a corpus over some time for his post-retirement period. It makes an investor financially independent.

Flexibility

Investment plans under insurance allow flexibility in the invested amount and the payment period. It helps the investor to plan better keeping his needs in mind.

Tax Saving-Investment plans under insurance not only cover the life of an insured, create wealth for him but also helps in tax saving u/s 80C (premium paid are tax exempted) and 10(10D) (Maturity Value is exempted.

RETIREMENT/ANNUITY PLANS:

Retirement plans are investment plans which help to accumulate a portion of savings over a long period so, that a corpus can build available to the investor post-retirement when all his income is stopped. It also allows financial independence to the investor and takes away all his unnecessary worries, as this plan offers a steady income over the long term. In few policies, the plan continues paying the spouse as well after the demise of the investor. In 2021 the following are the few better performing endowment Policies by different insurers in India.

- **LIC Jeevan Akshaya Plan** is an immediate annuity plan, which the investor buys by paying a lump sum amount (Single Premium) to the insurer and the pension starts immediately after buying either in monthly, quarterly, half-yearly or yearly mode.
- **LIC Jeevan Nidhi Plan** is a with-profit pension plan and starts paying pension on the survival of the investor past the policy term. During the first five years, the policy receives guaranteed addition of Rs. 50 per thousand sums assured after each policy year. Then from the 6th year, the policy participates in profits of LIC.
- **SBI Life Saral Pension Plan** is a participating, non-linked pension plan which offers 2.50% of the sum assured for the first three years and thereafter 2.75% of the sum assured for the next two years.
- **HDFC Life Click2 Retire plan** is an online ULIP that offer market-linked returns to the investor. In this, the death benefit paid to the nominee is higher than the fund value of the policy or 105% of premiums paid till that the death of the investor.
- **ICICI Pru Easy Retirement plan** is a regular income plan that offers pension either in monthly, quarterly, half-yearly or yearly mode to the investor for a period of 10 or 15 or 20 or 30 years period.
- **Bajaj Allianz Pension Guarantee Plan** is a guaranteed regular income plan post-retirement for an investor’s lifetime and after the demise of annuitant pension to his spouse.
- **Max Life Guaranteed Lifetime Income Plan** is a non-linked traditional pension plan which guarantees pension post-retirement till the lifetime of the annuitant and after the demise lifetime of his spouse.

UNIT LINKED PLANS:

These days' insurers have designed various types of ULIPs to suit everyone's needs. Based on purpose ULIPs may be divided into three different categories and they are for Retirement purpose, Wealth Creation Purpose and children's educational purpose. ULIPs based on death benefit can be divided into two different categories and they are Type 1 and Type 2 plans. Under Type 1 plan if the insured dies because of any unfortunate incident, then the nominee receives the higher the fund value or Sum Assured. Hence, the policyholder will end up paying lower mortality charges in Type 1 plans and the maximum premium will be invested to fetch more returns. Whereas under the Type 2 ULIPs if the insured dies then the nominee receives both the sum assured and the fund value as a death benefit. Here as the sum assured remains constant and thus mortality charges are higher and it impacts adversely on the investment return over some time. Therefore, between Type 1 & Type 2 ULIPs, Type 1 ULIPs would substantially offer better returns than type-II ULIPs. Finally, based on funds to invest ULIPs offer mostly four different funds as Cash funds, Equity funds, Fixed return funds and balanced funds.

In 2021 the following are the few better performing ULIPs by different insurers in India.

- Bajaj Allianz Future Gain plan where anyone who is between 1 year to 60 years can enter into the policy by paying a minimum premium of Rs. 25,000. An allocation charge of 0-2.5% is charged by the insurer and an unlimited free switching facility is provided to the policyholder
- HDFC Click 2 Wealth plan where anyone who is 30 days old to 60 years can enter into the policy by paying a regular premium of Rs. 12,000 or Rs. 25,000 as a single premium. No allocation charges are charged on the premium and an unlimited free switching option is provided to the policyholder.
- PNB Metlife Smart Platinum plan where anyone who is between 7 years and 70 years of age can enter by paying a minimum premium of Rs. 30,000 – Rs. 60,000. Policy term between 1-5 years 6% allocation charges is charged, 6-10 years 2.5% allocation charges are charged and more than 11 years no allocation charges are charged and four switching options are provided to the policyholder.
- SBI Life Wealth Assure plan where anyone who is between 8 and 60 years can enter by paying a premium of Rs. 50,000 one time (single premium). An allocation charge of 3% is charged and two free switching option is provided to the policyholder.
- ICICI Wealth Builder II plan where anyone who is between 0-69 years' age can enter by paying a minimum premium of Rs. 24,000. An Allocation charge of 3% is charged and no free switching option is provided to the policyholder.
- HDFC Life Pro Growth Plus plan where anyone who is 14 – 65 years of age can enter by paying a minimum premium amount of Rs. 2500-24,000. An Allocation charge of 2% is charged and an unlimited free switching option is provided to the policyholder.

- LIC Market Plus I Growth Fund plan where anyone who is 18 – 65 years of age can enter by paying a premium of 5,000-30,000. An Allocation charge of 3.3% is charged and four free switching option is provided to the policyholder.

2.3 PREMIUMS & BONUSES

In the insurance, contract Premium is referred to as consideration. It is an amount paid by the insured to the insurer along with the proposal form to purchase an insurance plan or in other words, in an insurance contract, the risk is transferred from the insured to the insurer. For each type of insurance policy, there is a rate fixed by the actuary on behalf of the insurer (the rate is fixed depending on how much risk the insurer can absorb). Premium is expressed mostly in terms of thousands of Sum insured. Premiums are paid either as a Single Premium (One Time) or as a Regular Premium (paid either at Monthly, Quarterly, Half Yearly or Yearly mode).

Premium Calculations:
While calculating premium Life Insurance Company considers the following few elements: These are (a) Cost of Mortality (b) Estimated Expense

Cost of Mortality: is calculated using mortality tables. It is an instrument using which we measure the probabilities of life and death. A mortality rate is usually expressed in terms of the number of death. A mortality rate is usually expressed in terms of several deaths per thousand at a given age.

Expense: in insurance, is calculated because there are various kinds of expenses an insurer incurs (sourcing potential clients for policy, cost to collect renewal premiums, administration & management expense, conducting medical examination for insured and commission paid to agents and brokerage etc.) from sourcing to end of the policy. Hence, no policy can be given at cost to cause loss to the company.

It is one of the most complicated aspects of actuarial science. Insurance companies use advanced mathematical and statistical calculations to calculate the number of insurance premiums for a policy. Premium rates can differ, depending on some common factors and they are:

- Type of policy chosen
- Age of the to be insured
- Lifestyle and habits i.e. smoking and alcohol, use of drugs, chewing habit etc.
- Medical history (diabetes, heart condition, Hypertension etc.)

Insurers (Life Insurance Companies) appoint actuaries to analyse the above-mentioned factors and assess the risks associated with a possible claim. While calculating, Actuaries use mortality and sickness statistics to predict possible losses due to sickness and death and use the tables to assign a probability to age and gender concerning the possibility of them falling sick or dying. They also create models to understand the likelihood of the person becoming sick and dying at a certain time based on the

information they collected on that person. The greater the risk assessed, the higher is the life insurance premium. Additionally, the premium rate may increase if the profession of the to be insured is exposed to higher risk. Premium also increases If it is added with accidental or disability riders (covers) on the insured's request.

The calculation of the premium is highly influenced by Risk assessment. And while doing it generally actuaries follow either Value of service method or the Cost of services method.

In the Value of Service method, the premium is calculated based on the value or utility of insurance of –person to be insured. Hence, premium differs from person to person. At times calculation of premium becomes very difficult because determining the utility or value of a particular individual accurately is not possible.
In the Cost of Service method, all the cost incurred by the insurer is taken into consideration along with claim cost, administration cost etc. The actuary calculates the claim cost to compensate any future claim liability is known as net premium. Net premium calculation is very important from the insurer point of view as it includes every cost to be incurred by the insurer which may be fixed or variable in nature.

In any insurance company, the underwriting department calculates the final insurance premium. The process involves, investigating family health details, illnesses and diseases, Analysing medical records, predicting the likelihood of a client claiming their insurance coverage. If the possibility of making a claim is high, insurance companies will charge higher insurance premiums.

Premium Plans
There are three types of insurance plans of premiums is found and they are:

- Assessment Plan
- Natural Premium Plan
- Level Premium Plan

Assessment Plan was used in the early years of the insurance business. Under this plan, interested members for the protection of their lives use to form a group and contribute to compensate for the family of unfortunate ones. Each member's contribution is assured, whenever death takes place. Nowhere the age of the member was considered while deciding on the contribution amount. Later the form was modified and the members started contributing in advance to a common fund to meet all future payments.

In Natural Premium Plan the contribution was decided based on the age of the member. The higher age bracket member pays more than the younger age member. In this, the member pays more contribution as the age increases.
In Level Premium Plan a member contributes a uniform premium throughout the policy period. It is fixed based on the mortality table and rate in such a way that the

premium amounts collected from the insured are just enough to meet the claims as and when they arise.

Bonus

Bonus is a part of the profits the Life Insurance Companies make and allocates. It is a pay-out one receives in addition to the entitled basic sum assured under a plan. The concept of the bonus is quite simple. The extra sum which keeps accumulating under the plan every year is paid to the policyholder at maturity or death. Generally, if the policy is surrendered before the completion of the policy term then the bonus is not paid to the policyholder but in other cases like on maturity of the policy, the bonus for the entire policy term is paid and in case of death of the policyholder before completion of the policy term, bonus collected till that unfortunate day is paid to the nominee.

Life Insurance Companies, in general, use the following two methods to distribute bonuses to the policyholders: (a) Uniform Bonus method and (b) Contribution method
Bonus Method: This is a method in which a uniform bonus is paid every year on the participating policies and is allocated on the sum assured per thousand. So, it can be understandable that the higher is the premium amount higher is the bonus paid.

Contribution Method: This is a method in which the bonus is allocated to the various policies in proportion to the individual contribution under each policy. So, like the bonus method in this method also higher is the premium amount higher is the bonus paid. This method is not very popular because of its complicacy in practice.

Bonus Calculation

The modus operandi of insurance companies is to collect premiums under plans from policyholders and build a fund that is used as and when the claims arise. The fund is built mostly invested in bonds or government securities and the debt market. Part of the fund is also invested in the market to generate returns. At the end of a financial year, the insurance companies do the valuation of return on investments and liabilities that they have carried out during the financial year. The gains are then distributed as an annual bonus among the policyholders after an extensive analysis of factors like returns received out of assets invested, previous bonus declared, number of claims filed, current financial market etc.

The bonus rate is dependent on several factors such as return on company assets, bonuses declared in the previous year, claims filed, expected interest rates in the future and several other estimates.

Types of Bonus

Simple Reversionary Bonus: This is a bonus calculated only on the sum assured and declared annually. The accrued amount is paid either at the end of the policy term or when a death claim is filed. For example, if the bonus is Rs. 50 per Rs. 1000 for a

policy with a sum assured of Rs. 1 lakh, the annual bonus will be Rs. 5000. For a policy term of 10 years, the simple reversionary bonus comes out to be Rs. 50,000.

Compound Reversionary Bonus: This is a bonus calculated based on the percentage on the sum assured and is compounded with the previously accumulated bonus. In other words, every year bonus declared is added to the sum assured and the next year's bonus is calculated on the combined amount. Because of the compounding effect this type of bonus increases to a sizeable amount. The accrued amount is paid either at the end of the policy term or when a death claim is filed.

Cash Bonus: is a bonus accumulated and paid annually in the policy, unlike a simple reversionary bonus which is paid at the end of the policy term.

Terminal Bonus: is a one-time bonus added to the policy i.e. at the time of maturity or claim.

Interim Bonus: This is a bonus that is paid by the insurance company within a financial year on the occasion of claim or maturity to take care of the short period between the bonus declaration and policy claim or maturity date.

Life Insurance Companies pay bonuses only on traditional participating policies that fall under the category of "with profit" like whole life, money back or endowment plans. Because of which the participating policy premiums are higher than non-profit policy premiums.

2.4 ANNUITIES

An Annuity is a financial product that pays a periodical payment to an individual. This product is primarily used as an income solution after retirement. An annuity is a contract between the individual and an insurance company in which the individual makes a lump-sum payment or regular payments for a specified period pre fixed in the plan and return, receive regular pay-outs, beginning either immediately or at some point in the future periodically, up to death or expiry of the term. In other words, annuities are contracts sourced and issued by insurers and invest collected funds from individuals in government-guaranteed bonds and securities, mostly debt instruments. Insurers help individuals address the risk of outliving their savings, especially during post-retirement days.

Key Points

- Annuities are insurance contracts that promise to pay you regular income either immediately or in the future.
- You can buy an annuity with a lump sum or regular payments.
- Annuities come in three main varieties—fixed, variable, and indexed—each with its level of risk and pay-out probable

- The income received from an annuity was taxed at regular income tax rates but recently the government has decided not to tax it anymore
- Annuities are financial products that offer a guaranteed income stream, to be used primarily after retirees.
- The first phase of Annuities is an accumulation phase. During this phase, the fund collected from policy holders either by lump-sum or periodic payments is invested in guaranteed, secured bonds and securities, mainly in debt instruments
- Once the annuitization phase has been reached, the product begins paying out to the annuitant for either a fixed period or for the annuitant's remaining lifetime.
- Annuities can be structured into different kinds of instruments—fixed, variable, immediate, and deferred income—which gives investors lots of flexibility

Annuity Objectives
The goal of an annuity is to provide a steady stream of income, typically after retirement. Funds accrue on a tax-deferred basis, can only be withdrawn without penalty after age 60. Many aspects of an annuity can be tailored to the specific needs of the buyer. In addition to choosing between a lump-sum payment or a series of payments to the insurer, you can choose when you want to annuitize your contributions or start receiving payments. An annuity that begins paying out immediately is referred to as an immediate annuity, while one that starts at a predetermined date in the future is called a deferred annuity.

The duration of the disbursements can also vary. You can choose to receive payments for a specific period, such as 15/20/25 years, or the rest of your life. Of course, securing a lifetime of payments can lower the amount of each check, but it helps ensure that you don't outlive your assets, which is one of the main selling points of annuities.

Types of Annuities

Immediate Annuity is an annuity plan which provides consistent income to the annuitant immediately after the ending of the first income period which can be either annually or half-yearly or quarterly or monthly as allowed in the annuity plan. In this annuity plan, the person has to pay a single premium amount to the insurer. In this plan, the annuitant receives more annuity than the regular premium plan immediately till a specified period or lifetime.

Deferred Annuity: is an annuity plan in which the annuity is received by the annuitant at a later stage or only after attaining a specified age. In this plan, the purchaser invests his money either through a single premium or a regular premium over a fixed period.

Annuities can be classified into the following categories of annuity and those are (a) number of lives covered (b) mode of payment of premium (c) disposition of proceeds etc.

Several lives covered annuity has Single life annuity and Multiple life annuity schemes under it. A Single Life Annuity is an annuity in which a person pays a lump sum and receives an annuity till his death. Multiple Life Annuity as the name suggests can be a Joint Life Annuity where the annuity is paid till the first death occurs and if it is a Joint Life Last Survivor annuity then the annuity is paid till the death of the last person in the group.

Mode of Payment annuity has Level premium and Single premium annuities under it. Level Premium Annuity is an annuity where the purchaser deposits contribution over a while to receive the annuity after a pre-decided period (accumulation period) in equal instalments. In case of death of the annuitant during the accumulation period, the nominee receives either the surrender value or premiums paid whichever is higher. In Single-Premium Annuity the purchaser pays a single lump sum amount.

Disposition of proceeds annuity has Life annuity, Guaranteed premium annuity and Retirement Annuity under it. Life Annuity offers a guaranteed fixed regular payment to the annuitant throughout his life. In this plan, once the annuitant demise happens no further payment is done. In Guaranteed Payment Annuity as the name suggests annuity payment is guaranteed by the insurer. Under this plan, there are two types of schemes available (a) immediate annuity with guaranteed payment – in this plan annuity payment for several years is prefixed and paid to the annuitant if he survives or else the nominee receives the remaining annuities if the annuitant dies. This plan also comes with a little variation where the annuitant is paid annuity regularly for a period of 5 or 10 or 15 or 20 years and thereafter if the annuitant survives then till the end of his life. (b) In Deferred annuity with a guaranteed payment plan, the annuity starts either after a later period or after attaining a specified age for a fixed pre-decided period of 5 or 10 or 15 or 20 years and further life time of the annuitant and after his demise, the insurer pays a lump sum amount to the nominee. Retirement Annuity is mostly opted out by employees and this annuity payment starts between the age 58 – 68 years of the annuitant. Ordinarily, this annuity plan payment is done till the death of the annuitant.

Currently, there are various kinds of Annuities offered by various Government and Private insurers. They are:

- **Life Annuity:** Regular (Yearly/Half Yearly, Quarterly, Monthly) annuity payouts are made to the annuitant till his death. The annuity pay-out stops after the demise of the annuitant
- **Life Annuity with return of purchase price:** Regular (Yearly/Half Yearly, Quarterly, Monthly) annuity pay-outs are made to the annuitant till his death

after which, the insurer returns the total premium paid to purchase the annuity to the nominee.

- **Annuity payable for a guaranteed period:** Regular (Yearly/Half Yearly, Quarterly, Monthly) annuity payouts are made for a guaranteed period of 5 or 10 or 15 or 20 years. In such a plan the pay-out is paid for the pre-decided fixed number of years irrespective of whether the annuitant is living or dead. The annuity pay-out stops either on the death of the annuitant or completion of the guaranteed period, whichever is later.
- **Inflation-indexed annuity:** in such policy every year the annuitant gets a rise in the annuity payable at a certain rate fixed by the insurer to take care of the inflation load on expenses.
- **Joint Life Survivor annuity:** the annuity payout is paid to the annuitant till he survives and later the pay-out I made to the spouse till she survives.
- **Joint Life Annuity with a return of purchase price:** the annuity payout is paid to the annuitant till he survives and later the pay-out I made to the spouse till she survives. In case of demise of both the joint-life annuitant the nominee gets the total premium paid to purchase the annuity.

2.5 LINKED LIFE INSURANCE POLICIES

Introduction

The introduction of unit-linked insurance plans (ULIPs) has been, one of the most noteworthy innovations in the field of life insurance. This one category of product has addressed and overcome several concerns that customers had for few decades about life insurance –be it liquidity, flexibility or transparency. Before the introduction of ULIPs, different goals of an individual were addressed with separate products. ULIPs are structured in such a way that the protection element and the savings element can be distinguished and hence managed according to investor’s specific needs, offering unprecedented flexibility and transparency. Initial days insurers were selling this ULIP product as a Tax saving investment tool than an insurance product with the help of agents and corporate brokers. And these agencies and agents were selling not what customers wanted but the product which was giving them more commission. But IRDA came out with new guidelines in September 2010 when it won the ULIP debate with SEBI. In Unit Linked Insurance Plans (ULIP), the investments made are subject to risks associated with the capital markets. This investment risk in the investment portfolio is borne by the policyholder. Thus, you should make your investment choice after considering your risk appetite and needs. Another factor that one needs to consider is the future need for funds. ULIP plans offer one a variety of unit-linked insurance products to suit one’s goals - be it for retirement planning, for health, for child's education and marriage or investment purposes.

A **Unit Linked Insurance Plan (ULIP)** is a product offered by insurance companies that, allows investors to invest in both protection and investment under a single integrated plan. A small portion of the money invested goes to securing your life whereas the rest of the money is invested in the market. Policyholders can pay

premiums monthly/quarterly/half-yearly or annually. In 2001 the Government of India opened up the insurance sector to foreign investors and the Insurance Regulatory and Development Authority (IRDA) released detailed guidelines for ULIPs. After which, in 2005 several insurance companies forayed into the ULIP business to serve the investment needs of those interested to invest in an investment cum insurance product. The first ULIP was launched by the Unit Trust of India (UTI).

By now as we know a Unit-Linked Insurance Plan has two components and they are insurance and investment. A part of the premium paid by the policyholder is utilized to provide insurance coverage to the policyholder and the remaining part is invested in the market through equity and debt instruments. The premiums collected by the insurance company providing such plans are pooled and invested in varying proportions of debt and equity securities in a similar manner to mutual funds. Each policyholder has the option to select a personalized investment mix based on his/her investment needs and risk appetite. Like mutual funds, each policyholder's Unit-Linked Insurance Plan holds a certain number of fund units, each of which has a net asset value (NAV) that is declared daily in various mediums. The NAV is the value upon which net rates of return on ULIPs are determined. The NAV varies from one ULIP to another based on market conditions and fund performance.

Features

A part of the premium paid towards ULIP investment goes towards providing life cover to the policyholder or in other words the mortality charges. The remaining invested premium gets invested into funds of the policyholder's choice i.e. debt or equity or mixed. Invested funds continue to earn market-linked returns. ULIP policyholders can make use of features such as top-up facilities, switching between various funds during the tenure of the policy, reduce or increase the level of protection, options to surrender, additional riders to enhance coverage and returns as well as avail tax benefits. In **Single Premium** Plan the policyholder pays the entire premium one time at the beginning of the policy term. In **Regular Premium** the policyholder pays the fixed determining premium amount annually. Semi-annually, quarterly or monthly for a fixed number of years as decided and agreed by the policyholder during the acceptance of the policy

Types

Depending upon the death benefit, there are broadly two types of ULIPs. Under Type-I ULIP, the nominee gets the higher of Sum Assured and Fund Value while under Type-II ULIPs, the nominee of the policyholder gets the Sum of Sum Assured and Fund Value in the event of the demise of the policy holder. There is a variety of ULIP plans to choose from based on the investment objectives of the investor, his risk appetite as well as investment horizon. Some ULIPs play it safe by allocating a larger portion of the invested capital in debt instruments while others purely invest in equity. Again, all this is based on the type of ULIP chosen for investment and the investor preference and risk appetite.

Charges
Unlike traditional insurance policies, ULIP schemes have a list of applicable charges that are deducted from the payable premium. The notable ones include policy administration charges, premium allocation charges, fund switching charges, mortality charges, and a policy surrender or withdrawal charge. Some insurers also charge a "Guarantee Charge" as a percentage of Fund Value for a built-in minimum guarantee under the policy.

Risks
Since ULIP (Unit Linked Insurance Plan) returns are directly linked to market performance and the investment risk in the investment portfolio is borne entirely by the policyholder, one needs to thoroughly understand the risks involved and one's risk absorption capacity before deciding to invest in ULIPs.

Providers
Currently, there are several public and private sector insurance providers that either operate solo or have partnered with foreign insurance companies to sell unit-linked insurance plans in India. The public insurance provider includes LIC of India while some of the private insurance providers include Aegon Life, Canara, Edelweiss Tokyo Life Insurance, Reliance Life, SBI Life, ICICI Prudential, HDFC Life, Bajaj Allianz, Aviva Life Insurance, Max life insurance, Kotak Mahindra Life, and DHFL Pramerica Life Insurance etc.

Tax Benefits
Investment in ULIPs is eligible for tax benefit up to a maximum of Rs 1.5 lacs under Section 80C of the Income Tax Act. Maturity proceeds are also exempt from income tax. There is a caveat. The Sum Assured or the minimum death benefit must be at least 10 times the annual premium. If this condition is not met, the benefit under Section 80C shall be capped at 10% of Sum Assured while the maturity proceeds will not be exempt from income tax.

ULIP Investor Segment
- Those who wish to closely track their investments
- Unit linked insurance plans allow policy takers to closely monitor their portfolios. They also offer the flexibility to switch your capital between funds with varying risk-return profiles.
- Individuals with a medium to the long term investment horizon
- ULIPs (Unit Insurance-Linked Plans) are ideal for individuals who are ready to stay invested for relatively long periods.
- Those with varying risk profiles
- Across the seven funds offered, the equity component varies from zero to a maximum of 100 per cent. Thus there is a choice of funds available to all types of investors - from risk-averse investors to those investors who have a strong risk appetite.
- Investors across all life stages

- This plan category offers a variety of plans which can be opted for depending upon the life stage you are in and your needs and financial liabilities then.

Structure of ULIP

In a Unit Linked Insurance Plan (ULIP), the premiums you pay are invested in the funds chosen by you after deducting allocation charges and charges including those for managing funds, policy administration and for providing insurance cover are deducted from the funds by cancelling certain units. The value of each unit of a fund is determined by dividing the total value of the fund's investments by the total number of units.

Advantage of ULIP

- **Market Linked Returns**
  Unit Linked Insurance Plans allows you to earn market-linked returns as part of the premiums are invested in market-linked funds like equity, debt and mixed funds in various percentages.

- **Life Protection Investment and Savings**
  Unit Linked Plans are the only plans which offer both investment and life protection opportunity to the investor. Investor/Policy Holder gets an opportunity to earn market returns staying protected as the premiums are invested in both areas. Investing in unit-linked Insurance plans helps to inculcate a regular habit of saving and investing, which is important for building wealth over a long period.

- **Flexibility**
  Insurance companies offer different ULIPs which suits a variety of customer segments and can help the customers to meet their specific financial objectives over a pre-decided span. They also get an option to keep switching between different funds to receive the maximum market returns in various stages of their life. In some plans, the customers are allowed to withdraw a portion of the fund (subject to plan terms & conditions) whereas in few plans the customers are allowed to invest an additional amount over and above the premium amount.

ULIP Charges

ULIPs are designed in such a way that maximum transparency can be offered to the policyholder. They are mainly:

- **Administration Charges** is a deduction made by the insurer every month by adjusting the units to cover administration expenses on the policy administered
- **Fund Management Charges** is a deduction to meet fund management expense by the insurer and this charge is deducted as a percentage of the fund value. This deduction is done before the NAV is calculated
- **Premium Allocation Charges** is deducted based on a pre-fixed percentage. It is a mostly higher percentage in the early years of the policy. The charges vary depending upon the payment mode of the policy (Single or Regular Premium), Premium size, Premium frequency etc.

- **Switching Charges** is deducted only when the policyholder utilises all the free switching chances given by the insurer in a particular policy year. The switching charge is deducted by adjusting the units in the policy
- **Mortality Charges** is deducted based on the age and the amount of life cover taken by the policyholder. This charge is deducted to protect the life cover of the insured
- **Surrender Charges** is deducted by the insurer only if there is any premature encashment of the units of policy. This charge varies on the number of years the insured stays invested in the policy hence, the surrender year is important for the calculation of this charge and the fund value of the policy at that period

2.6 GROUP INSURANCE

A group insurance policy gives advantages of standardised coverage and very competitive premium rates to a group of people under one single policy. All the members of the group are covered against the same risk under one group insurance scheme. Mostly group insurance is provided by organisations to its employees as part of their employee benefits scheme.

There are two types of groups covered under group insurance schemes and they are formal groups and informal groups.
Formal Groups are those groups where all the members of the group work for the same employer or work for the same group owner

Informal Groups are those where all the members do not work for the same employer or group owner. Also popularly known as a non-employer-employee group. In such a group the leader of the group or the manager of the group buys the policy on behalf of all the members. These members may be holders of the same credit card, savings bank account holders of a bank or members of the same social or cultural association etc.

Characteristics of Group Insurance:
The followings are some important characteristics of group insurance that differentiates it from individual policies.

- A Group insurance policy covers all the members of the group under one single policy no matter whatever the size of the group
- The life coverage provided in the policy remains the same for the entire group member irrespective of their age, designation or economic status
- A member of a group remains covered until he is a part of the group. The moment he leaves the group his life cover ceases

Group Insurance Benefits - Organisation
In Group Insurance not only the employee under a group gets the benefits the employer also gets it.

Lower Premium: The premium paid for a group policy for any number of members is much cheaper than the combined individual policy premium of all the members. A group insurance premium works out to be cheaper because the risk is spread over several persons in the group which reduces the risk burden of the insurer

Increases Loyalty in Group: When an Employer takes a group policy in the name of its employees, the employees feel good thinking that the employer is concerned and value them. And by covering their life risk the employees feel free in their mind and feel motivated to attain a higher amount of productivity. Also brings in good feeling in them and their loyalty towards the employer. Generally, it has been seen that such activity helps to retain the employees.

Tax Benefits: A group insurance policy offers tax benefits to the participating member. He can avail the same while filing his tax return

Motivates Employees: Once an organisation covers its employees under a group insurance scheme the employees feel stress-free knowing that their lifetime risk is covered for any unforeseen incidents hence automatically they are motivated and their efficiency increases

Customization of Policy: A Group Insurance policy can be customised as per the requirement of the group members and the organisation needs. It can be customised based on designation, salary etc.

Group Insurance Benefits - Members

Affordable Premiums: A group insurance premium is quite less in comparison to an individual insurance policy because the risks are shared among the members and reduce the burden on the insurer. Hence lower-income groups can avail such policies to protect themselves either by paying from their pocket or the company pays the premium for them

Risk Cover Extended to Families: Many group insurances allow the coverage to be extended to member's families. Especially group health plans cover the spouse and dependent children and parents of the member.

Cover Standardisation: In a group insurance policy life cover remains the same for all the group members irrespective of their designation, salary, gender etc. Hence, a lower income group gets the same benefits and life cover as a higher designated employee.

No Pre-Policy Conditions: In a group policy no member required to fulfil any conditions to enter into a group policy except that he should be a group member.

Easy Conversion to Individual Policy: Many insurers provide the facility of converting the group insurance policy of the member to convert into an individual

insurance policy once he leaves the group by paying a small amount towards the conversion of his policy

Anyone can avail group insurance policy subject to the condition that he/she should be part of a group. Groups can be employer-employee groups or non-employee-employer groups as defined by IRDA's group insurance guidelines. While participating in a group insurance scheme one should remember the following:

- Only one master policy will be issued to the Manager of the group and will be in the name of the group (i.e. the association)
- A certificate will be issued to the member of the group if he/she participates in a non-employer-employee group policy for record purposes. This certificate contains:
    - The schedule of benefits
    - Premium charged and
    - Terms and conditions of the cover
- Once a member leaves the group the life covers ceases
- When a member leaves the group the insurer offers a continued coverage under an individual policy
- The Manager of the group should disclose the premium rate and terms of the policy including the premium discounts offered to the group and should pass on the discounts to all members
- The manager of the group has to disclose any administrative or other charges he is collecting from members over and above the premium charged by the insurance company

Types of Group Insurance Policy

There are four types of Group Insurance Policies offered by insurance companies in India.

(a) Group Life Insurance

Provides term life insurance or death benefit to the members of a group for a fixed period. During the covered period if any unfortunate incident happens and the member succumbs (accidental death or normal death) then the nominee of the member receives the death benefit or SA (sum assured). At the same time if the insured member survives the insurance maturity period then the insurer does not pay any benefits to the member. It is similar to a term plan offered by almost all the insurers to individuals. Few common features of Group Life Insurance are mentioned below:

- Basic coverage in a group insurance policy is mostly once or twice of the average salary of the group members
- Mostly such group insurance policies are bought by large organisations or employers for their employees
- The premium charged in a group insurance policy is usually very cheap
- A master policy is issued to the purchaser and the members get a certificate of insurance
- A group insurance policy does not require any kind of health check-ups of the member like individual policies do

b) Group Health Insurance

It provides health coverage to all the members of a group. It mostly covers sickness, accidental hospitalised expenses, ambulance expenses and daycare expenses amongst other medical expenses. Some of the features of group health insurance policies mentioned below:

- Provides group health coverage to the member and his family members
- This group health policy accepts the policy with all pre-disease of the member and his family member and allows coverage from the first day unlike any other individual medical policy
- This group health policy provides maternity expenses and the newborn child care expenses from the first day unlike individual health policy where the waiting period is 9 months
- Cashless facility in-network hospital is available

c) Group Personal Accident Insurance

In this group insurance policy, the member is covered for either accidental death or disability. This policy provides compensation in case the insured member suffers from permanent total or partial disability as well as the temporary total disability. Some of the features of group health insurance policies mentioned below:

- Compensates a large number of expenses incurred due to the death or disability of the insured member or his family
- Such policies are covered by most the insurer
- This policy allows additional covers along with an accidental cover
- Many insurers provide on-duty and off-duty cover under the group insurance policy

d) Group Travel Insurance

As the name suggests this group policy is offered to a group of people travelling together against any medical or non-medical contingencies. This policy typically covers medical expenses, personal accident expenses, baggage loss expenses, passport loss expense, personal liability if any, flight delays, trip delays and cancellations of flights and trips etc. This policy starts as soon as the group travel starts and ends as soon as the group members return. Some of the features of group health insurance policies mentioned below:

- This policy is available for domestic travel as well as international travel
- This policy covers medical, travel-related and other types of emergencies faced during travelling
- A single premium paid covers all the group members of the travel group
- It reduces stress on travelling group member's minds while travelling so that they can enjoy their trip to the maximum
- As this policy covers international travelling hence, the insured may freely travel to any destination of his choice without any kinds of worry or stress

2.7 LET US SUM UP

There are so many Life insurance plans in the current market by many insurers. Again life insurance plans are designed under various categories like term, endowment, whole life, annuity, investment. Life insurance can be a unit-linked or non-linked plan. Today most insurers are offering various kinds of ULIPs for their customers to build their wealth over some time. All these have been explained along with the calculation of consideration required for any proposal to be accepted by any insurer. Bonus which is paid by the insurer to a policy every year has been explained. Various plans under many categories have been discussed for a better understanding. Group insurance which is very helpful to organisations and groups is explained.

2.8 KEYWORDS

- **Bonus:** In the insurance sector, a bonus is an additional sum that is accrued to the life insurance policy on an annual basis. This amount is paid out by the insurer to the policyholder at the time of either maturity or sudden demise
- **Annuity:** An annuity is a contract between you and an insurance company in which you make a lump-sum payment or series of payments and, in return, receive regular disbursements, beginning either immediately or at some point in the future
- **Group Insurance:** Group insurance is insurance that covers a group of people, for example, the members of a society or professional association, or the employees of a particular employer to take insurance
- **ULIP:** A Unit Linked Insurance Plan is a product offered by insurance companies that, unlike a pure insurance policy, gives investors both insurance and investment under a single integrated plan.

2.9 FURTHER READINGS

- M.N. Mishra: Insurance Principles and Practice, S. Chand & Company Ltd, Delhi.
- Indian Institute of Bankers (Pub) Commercial Banking Vol-I/Vol-II (part I&II) Vol- III.
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- Dr P. Periasamy: Principles and Practice of Insurance, Himalaya Publishing House, Delhi.
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- Inderjit Singh, Rakesh Katyal& Sanjay Arora: Insurance Principles and Practices, Kalyani Publishers, Chennai.
- G. Krishnaswamy: Principles & Practice of Life Insurance
- Kothari & Bahl: Principles and Practices of Insurance.

2.10 MODEL QUESTIONS

Q 01: Write a note on Life Insurance Plan and also state different types of LIP Plans.
Q 02: What are the features and type of Whole Life Plan?
Q 03: What are the benefits of Investment Plans?
Q 04: Briefly discuss different types of Annuity.
Q 05: What are the features of a linked life insurance policy?
Q 06: Write short notes on the following:

- Term Life Plans
- Money-Back Plans
- Endowment Plans
- Unit Linked Plan

Q 07: What are the benefits of group insurance?

UNIT-3 APPLICATIONS AND ACCEPTANCE; POLICY DOCUMENTS; PREMIUM PAYMENT, POLICY LAPSE & REVIVAL

Structure:

3.0 Learning Objectives
3.1 Introduction
3.2 Application & Acceptance
3.3 Policy Documents
3.4 Premium Payment
3.5 Policy Lapse & Revival
3.6 Let's Sum Up
3.7 Keywords
3.8 Further Readings
3.9 Model Questions

3.0 LEARNING OBJECTIVES

After studying this unit, you will be able to know

- The Insurance policy proposal details & acceptance process
- The policy document
- Premium payment modes and payment methods
- Lapse of Policy & Revival Process

3.1 INTRODUCTION

The insurance process has been developed to protect, provide safety and security to the people from facing financial losses because of the uncertainty of life by compensating payment to the nominee. Insurance cannot eradicate risks but it can minimise the financial loss caused by any risk which is covered. So, insurance is a contract between the individual (insured) and the insurance company (insurer) where a particular risk is spread over a large insured base who are exposed to the same type of risks. We can also say that insurance is a contract under which the insurance company agrees to payment of a certain sum of money to compensate the financial loss caused by an uncertain event, against a periodical payment by an individual known as premium. A contract of insurance is completed as soon as the insurance company accepts the premium after the proposal is accepted. The key points of an insurance contract are:

- Life insurance is a legally binding contract.
- For the contract to be enforceable, the life insurance application must accurately disclose the insured's past and current health conditions and high-risk activities.

- For a life insurance policy to remain in force, the policyholder must pay a single premium upfront or pay regular premiums over time.
- When the insured dies, the policy's named beneficiaries will receive the policy's face value or death benefit.
- Term life insurance policies expire after a certain number of years. Permanent life insurance policies remain active until the insured dies, stops paying premiums, or surrenders the policy.
- A life insurance policy is only as good as the financial strength of the company that issues it. State guaranty funds may pay claims if the issuer can't.

3.2 APLICATION & ACCEPTANCE

The insurer tries to learn and gather as much information as possible from the to be insured through filling up an application form. This is essential because based on the information provided by the applicant the insurer decides whether to accept the policy normally, policy accepted with medicals, increase the premium of the policy or reject the policy etc. Hence, the application is designed in such a way that the applicant has to provide lots of relevant information to the insurance company by answering questions. Most of the insurance application contains the following basic questions and they are:

- Name of the applicant
- Father's Name
- Nationality, Gender, Contact No (landline, mobile), email-id
- Address (present & permanent of applicant)
- Marital Status
- Date of Birth of the applicant
- Pan & Aadhar Details
- Occupation
- Name of Employer & office Address
- Gross Annual Income
- Educational Qualifications
- Other Policies details if any
- Habit details if any
- Family details (Father, Mother, Brother, Sister, Children etc.)
- Nominee details. In case of minor nominee guardian details

In addition to the above basic questions, few other questions regarding life Cover & other related areas are asked in the application. For example, questions can include the amount of death benefit, as well as the length of coverage (if applying for term insurance). Also, questions related to riders are asked to include in the policy. Such as a waiver of premium or an accidental death benefit rider etc. If this is the case, these riders will also be noted on the policy application.

In the case of traditional policies before acceptance of the policy medical examinations of the applicant is required. Based on the medical report the insurer decides whether

to accept the policy at a normal rate or increase the premium or postpone the policy for some period or reject the proposal. This will consist of a licensed health care professional, meeting with you to discuss your and your family's medical history, inquiring about any prescription medication that you take, as well as to perform certain other medical tests.

Medical Exams Typically Include:

- Taking your blood pressure
- Listening to your heartbeat and pulse
- Checking your height and weight
- Obtaining a blood and urine sample
- Discussing your habits such as smoking, exercise, foreign travel, and/or high-risk hobbies such as skydiving or rock climbing

Depending on the amount of coverage and/or your age, some additional testing may be required. Your doctor's records may be requested as well, such as the number of cigarettes you smoke, the amount of alcohol you drink, your parent's illnesses before they were 65, and also your medical history.

By now the importance of filling up the proposal form is understood. Hence, the applicant needs to fill in the answer to every question very carefully. Besides, check height and weight before mentioning it on the form. As we know the life insurance business is based on utmost good faith, the Latin word "Uberrimae Fidei" which means the customer must disclose all material facts which may help and influence the insurance company's decision to accept it. A Non-disclosure or a partial-disclosure makes such agreements voidable – the insurance company can choose to ignore it, but they have a right to cancel the contract as well. It is necessary to be truthful while filling up the proposal form because in case of the early demise of the insured the insurer does an investigation and if any of the material facts found to be untruthful or manipulated then there is a very high possibility that the nominee may not get the payment from the company.

3.3 POLICY DOCUMENT

In a Life Insurance Policy, the proposer or the policyholder (who has applied for the policy and pays the premium) is the owner of the policy.

Proposer: Who is the owner of the policy has absolute access to all policy information and can either change nominee or any other details or can surrender or assign the policy.

Insured: is the person on whose name the policy has been taken. The insurer fixes premium after careful evaluation of age, occupation, lifestyle information and on whose demise the insurer makes payment. In most cases, it is seen that the proposer and the insured are the same.

Beneficiary: is the nominee of the policy who will receive the death benefit upon the death of the policyholder or insured. Example: A husband can purchase a policy in his wife's name and he becomes the owner and beneficiary of the policy whereas the wife will remain as the life insured.

Policy Document - Benefits

A policy document is a legal contract of insurance between the insurance company and the policyholder which contains all the terms and conditions and important features. This document is a promise in writing for the future. In the case of survival of the policyholder, he gets the maturity benefit but in case of any unfortunate event, the nominee gets the death benefit. In both cases, the documents play a vital role.

Policy Document - Important Sections

The Policy Document generally contains the policy schedule in the first section. Typically, it includes:

- The benefit amount is called **"Sum Assured"** which is to be paid to the nominee/ beneficiary in case of death of the person insured.
- A payment that the owner of the policy pays is called the **"Premium"**
- **Frequency of payment** – Monthly, quarterly, half-yearly or yearly payment mode
- **Benefit Illustration** – IRDAI (Insurance Regulatory and Development Authority of India has made it compulsory to include Benefit Illustration in a policy document to avoid mis-spelling. Inclusion of the Illustration is solely for the customer to understand the return on policy @4% and @8% scenario.
- **Death Benefit** – In this section details of the death benefit is mentioned. An exclusion section is mentioned under the death benefits section which the customer needs to read and understand very well because it states the circumstances in which the insurer (insurance company) will not pay the death benefit. Suicide is one condition where the insurance company doesn't pay the death benefit to the nominee. Misstatements about the personal details of the customer such as age, medical history, occupation etc. could also lead towards limiting the death benefit and could void the policy or could even lead to insurance fraud.
- **Free Look Period** – In case if a policy document details do not match with the details explained by the representative then the policyholder may return the policy document within a free look period (a period calculated as 15-30 days from the receipt of the policy at customer end). Once the policy document is returned, the insurance company refund the premium paid by the client after adjusting few charges like stamp fees, medical expenses if any etc.
- **Unit Linked Product** – In the linked product policy document the details of the Investment Fund are included along with premium allocation percentage and allocation areas. Fund switching details are also mentioned.
- **Legal Language Understanding** – As the policy document is a contract hence generally includes legal language which is not very easy to understand by the

customer. So, the policy document contains a definition section where words used in the policy document are explained.

- **Nomination** – The policyholder mentioned the name of the person to whom the policy benefit would be payable in the event of his death. The nominee can be either the child of the policyholder or spouse or parents etc.
- **Claims** – This section clearly explains how a nominee or beneficiary can make a claim.
- **Revival** – If the policy premiums are not paid within a stipulated time limit then the policy lapses and the policyholder losses all his rights and benefits on his policy. But if the policyholder wishes to bring the policy into normal mode then he has to pay all unpaid premiums along with a fine if any and reinstate the policy. Once reinstated he again gets back all his rights and benefits on his policy. This process is called the revival process. Generally, 3-5 years is allowed to revive the policy in most cases.
- **Lock-in Period** – A period within which a policyholder cannot exit from his policy or withdraw funds from it.
- **Surrender** – A policyholder may require funds for some of his emergency and cannot wait until the maturity of the policy then he can exercise this option of surrender and get back funds from the company as per terms & conditions mentioned in the policy document
- **Tax Benefit** – Income Tax Act provides a tax benefit to the policyholder on premium paid 80C and on the maturity amount 10 (10D)

3.4 PREMIUM PAYMENT

The Premium or consideration is paid to the insurer by the insured for taking the risk. There are two types of Premiums and they are Net Premium and Gross Premium. Further premiums are subdivided into Single Premium and Level (Regular) Premium. The Net Premium is calculated based on mortality and interest rates and Gross Premium is calculated further by adding expenses and the bonus loading. As the name suggests Single Premium is paid in one lump sum amount whereas Level Premiums are paid in regular periodical instalments (Monthly or quarterly or Half-Yearly or yearly).

As we know the premium is the most important factor in an insurance policy as it completes the insurance contract. It varies from insurer to insurer, plans to plan, different age bracket and sum assured opt for. But irrespective of all these variations one thing which is common and that is the premium has to be paid to the insurer to get into a valid contract. This can be paid through various modes depending on the insurer and the plan the customer gets into.

Again the frequency of premium payment can be either monthly, quarterly, half-yearly or annually. Most of the insurance companies offer rebates on premiums on annual mode. At the same time, insurance companies offer a rebate on digital or online premium payment transactions.

In contrast, few premiums attract extra additions to the premiums based on high risks because of occupation, habits, medical history of the client. The insurer also charges extra premiums if the client opts for riders to the basic sum assured.

In today's scenario insurance premiums can be paid either by cash, demand draft, pay order, cheque, ECS or online by the policyholder. Traditionally clients either pay cash over the insurer's counter or through a cheque in favour of the insurer. But currently because of the availability of the internet and digitalisation premium payment is mostly done by either using the credit card or through online net banking or through ECS mode (special instruction mandate to deduct premium amount directly from the bank account on premium date) or through UPIs such as Pay TM, Phone Pay, BHIM etc.

3.5 POLICY LAPSE & REVIVAL

Insurance policies stay active as long as the insured continues to pay the agreed premium on time. In case the policyholder misses a payment due to any reason on the due date and within the grace period then the policy becomes lapsed.

Grace Period - Insurance companies understand that the insured might not always be able to pay the premium every time before the due date. Hence, almost every insurance policy offers a grace period. It is important to note here that the policy is still in force during the grace period, and if anything happens to the insured, the nominee would still be eligible for the benefits.

Lapsed Policy – When the insured does not pay the premium amount even during the grace period, the life insurance policy lapses. In this state, the insured will no longer enjoy coverage from the policy, and will also not be eligible for any death benefit.

Once the policy becomes lapsed state the policyholder doesn't enjoy any rights or benefits of the policy anymore. So, it means the objective of the policyholder to take the policy is lost. Lapsation affects both the insurer and the insured. Insured loses all his rights and benefits once the policy lapses and the insurer loses all the premiums it was supposed to receive from the policyholder. Realising this almost all the insurers offers a chance to bring back the policy into a normal state. It's a special privilege offered to the policyholder by the insurer. Under this privilege, the policyholder needs to pay all outstanding premiums and penalties if any, to re-instate or revive the policy to enjoy all rights and benefits.

Almost all the Insurers offer different schemes of revival to help the policyholder to revive lapsed policies easily. They are (a) Ordinary Revival Scheme (b) Special Revival Scheme (c) Revival by Instalment Scheme

Ordinary Revival Scheme: A lapsed policy revived within 5 years from the due date of the first unpaid premium and before the maturity date. To revive policy insurers put forward a few terms and conditions and they are

(a) If the revival is within six months from the date of the first unpaid premium, then no health certificate is required. The insured can clear the outstanding premium along with interest if any
(b) If the revival is after six months period from the date of first unpaid premium but within 5 years the policy can be revived by submitting a good health certificate, declaration of habits and need to clear all outstanding premium with interest

Special Revival Scheme: This scheme helps those policyholders whose policy has been lapsed and are not in a position to clear the entire arrear premiums and interest and revive the policy. In this scheme, a new policy with the same plan and term is issued but with few following changes.

(a) The date of commencement is advanced by a period equal to the duration of the lapse but limited to two years only. Example: If the original policy commenced on 01.10.1999 and had lapsed on 01,01,2001, and the revival is done on 01.04.2003 (the lapsed period is 2 years 3 months) then the new date of commencement would be 01.10.2001 and not 01.01.2002 (limited to 2 years only)
(b) With the new commencement date, a new premium is calculated and the difference between the old premium and the new premium with interest will have to be paid by the policyholder
(c) The policyholder has to pay the endorsement fee

Following are the conditions to be met by the policy before a special revival scheme is allowed and they are:

(a) The policy should not have acquired any surrender value
(b) Revival request to be submitted in between 6 months and 3 years from the lapse date
(c) This revival option is available only once during the policy term
(d) Revised policy conditions are applied to the new policy irrespective of the date of commencement

Revival by Instalment Method: This scheme helps those policyholders who cannot pay arrear premiums and interest in a lump sum and also those policyholders who are not eligible for the special Revival Scheme. In this scheme, the policyholders can pay their outstanding revival amount in instalments along with due premium over a period allowed by the insurer. The insurers apply few conditions under this scheme which are:

(a) The scheme applies only for those policyholders whose policy is in lapse for more than one year

(b) In this revival scheme, the policyholder needs to pay a sum equivalent either to six monthly premiums or two-quarter premium or one half-yearly premium or fifty per cent of the yearly premium upfront

(c) The balance amount can be paid in instalments over the remaining premium due dates in the current policy year

3.6 LET'S SUM UP

Insurance has many stages in admitting a proposal and issuing a contract to the policyholder. A client fills in the required form and submits the same along with valid documents and consideration. But the same proposal passes through a strict underwriting process before admitting the same. Once the insurer's underwriting team is satisfied then the insurer issues a contract explaining the term & conditions, Premium Receipt, benefit illustration @ 4 & 8 per cent, the due date of next premium and modes etc. The section also explains in detail how a policy becomes lapse and how to revive the same to continue the protection and other benefits for the policyholder.

3.7 KEYWORDS

- **Uberrimae Fidei:** Uberrima fides is a Latin phrase meaning "utmost good faith". It is the name of a legal doctrine that governs insurance contracts. This means that all parties to an insurance contract must deal in good faith, making a full declaration of all material facts in the insurance proposal.
- **Beneficiary: A** person who derives advantage from something, especially a trust, will, or life insurance policy.
- **Tax Benefit:** A **tax benefit** is a broadly encompassing term that refers to some type of savings for a taxpayer. **Tax benefits** reduce a taxpayer's monetary burdens.
- **Policy:** The insurance policy is a contract between the insurer and the policyholder, which determines the claims which the insurer is legally required to pay. In exchange for an initial payment, known as the premium, the insurer promises to pay for loss caused by perils covered under the policy language.
- **Grace Period:** An insurance grace period is a defined amount of time after the premium is due in which a policyholder can make a premium payment without coverage lapsing. Depending on the insurance policy, the grace period can be as little as 24 hours or as long as 30 days.

3.8 FURTHER READINGS

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- Kothari &Bahl: Principles and Practices of Insurance.

3.9 MODEL QUESTIONS

Q 01: What is an insurance policy proposal? Also, write about what are the benefits of a policy proposal?

Q 02: What are the important sections of a policy document?

Q 03: Write short notes on the followings

- Lapsed Policy
- Grace Period

UNIT-4 ASSIGNMENT, NOMINATION AND SURRENDER OF POLICY

Structure

4.0 Learning Objectives
4.1 Introduction
4.2 Assignment
4.3 Nomination
4.4 Surrender Policy
4.5 Let's Sum Up
4.6 Key Words
4.7 Further Readings
4.8 Model Questions

4.0 LEARNING OBJECTIVES

After studying this unit, you will be able to know

- The process of Assignment of Insurance policy
- The importance of Nomination in the policy document
- The process of Surrender of Policy

4.1 INTRODUCTION

The basic objective of a life insurance policy is financial protection for the family in an unfortunate event with the policyholder. So, the policyholder mentions the nominee or beneficiary of his policy who will receive the death benefit in his absence. At the same time, the policyholder can exercise one facility in his policy named Assignment in case he wants to take a loan and pledge the policy or decides to give a gift to someone etc. Assignment term can be simply explained by saying that a complete transfer of the ownership rights to a third party (an individual or an organisation) including the rights to make decisions regarding life cover, investment options etc. The assignment right is governed by section 38 of the Insurance Act, 1938 in India. Usually, assignment is done for raising loans from the bank or financial institutions.

Nomination is mandatory while taking an insurance policy. A policyholder has to exercise his right to declare a nominee in his policy who will receive the death benefit if he dies before the completion of the policy term. So, we can say that a person who receives the benefit in case of death of the insured is a nominee. Generally, the nominee is either the spouse, children or parents. The process of selecting a nominee is called nomination. **Nomination** is only possible if the policyholder has insured his own life means the policyholder and the life insured is the same person. If they are different people, the nomination is not allowed. If the Policyholder and the Life Insured are

different, then the policyholder or the payor of the insurance policy automatically becomes the nominee. In such a case if the life insured dies then the policyholder receives the policy benefits.

Surrender of policy means the policyholder is no more interested in continuing the policy and wants to take an amount from the insurer before the policy term ends. The cash surrender value is the sum of money an insurance company pays to a policyholder in the event of policy voluntarily terminated before its maturity or an insured event occurs. This surrender cash value is the savings component of the policies.

4.2 ASSIGNMENT

A life insurance policy is the property of the policyholder which can be mortgaged, transferred or gifted to another party. This method of transfer is known as Assignment. Assignment of a life insurance policy means the transfer of rights from one person to another or organisation for some reason. This process is referred to as '**Assignment**'. The person who assigns the insurance policy is called the **Assignor** (Policyholder) and the one to whom the policy has been assigned (the person to whom the policy rights have been transferred) is called the **Assignee**. The assignee has the right to receive the claim amount either on the maturity of the policy or in the event of the death of the insured.

Provision of assignment of insurance policy is regulated by section 38 of the Insurance Act, 1938 in India. The Act briefly explains 'who can assign' and 'who can be the assignee'.

Who can assign: A person who is competent under the law to get into a contract and is the policyholder can assign. As it is treated as a transfer of property hence the assignor must have the capacity to contract and authority to transfer the property. In addition, an authorised person (a power of attorney holder or a court authorised Guardian of a minor) can also assign the policy and transfer the rights.

Who can be Assignee: anyone who is lawfully not disqualified can be the assignee. The assignee can either be an individual or an organisation.

An assignment becomes effective as soon as the assignment is executed. But a written notice of assignment needs to be submitted as per the Insurance Act to the office along with the original copy of the policy. Usually, the notice is served by the assignor but if the assignor fails to do so then the assignee can serve the notice of assignment with the insurer. Assignments can be done by two methods (a) assignment can be done through an endorsement on the backside of the policy and an advantage to follow this method is that stamp duty is not required. (b) Otherwise, an assignment can be done in a separate deed and if this method of assignment is followed then stamp duty is required. If not stamped in future if there is a necessity to produce the assignment in the court, then this will not be treated as valid evidence.

There are two types of assignment practised and they are (a) Absolute Assignment and (b) Conditional Assignment.

(a) **Absolute Assignment:** In the absolute assignment, all the rights of the policy, Title and benefits of the assignor in the policy is transferred to the assignee. The assignee can handle and deal with the policy any way he likes to do it without any intimation to the assignor. The assignor completely loses his control over his policy until and unless the policy is reassigned to him

(b) **Conditional Assignment:** As the name suggests the assignment is done based on condition. Once the condition is fulfilled then the policy rights are back with the policyholder.

Minor Assignee: In case the assignment is done in favour of a minor in case of any claim the policy benefit (amount) cannot be paid to the minor (below 18 years old) so, in this case, the amount can be paid to the natural guardian if available or else the money can be paid to a testamentary guardian appointed under the Guardian & Wards Act. Hence usually, when the assignment is done in favour of the minor a guardian is suggested. While appointing a guardian, (a) he is asked to put his signature on the appointment deed in presence of two witnesses (b) Only the father of the minor can appoint the guardian (c) No stamp duty is required for appointing a guardian in case of minor assignment It is duly recorded in the policy document (d) Appointment of a guardian can be revoked any point of time while the assignee is a minor. It is done either by an endorsement or by a separate deed

Death of Assignee: If an assignee dies the rights passed to the legal heirs automatically. But if the assignee has mentioned a transfer of his interest to someone else (conditional assignment) during the lifetime of the insured then the legal heirs don't get the policy rights.

4.3 NOMINATION

It's a process through which a person is selected by the policyholder or insured to receive the policy benefit if he dies before the completion of the policy term. Indian Insurance Act, 1938 regulates this right of the insured for the limited purpose of settlement of the claim.

Nomination can be done either at the time of buying a policy or can be done later. But if the nomination is done at a later stage then an endorsement regarding the nomination will have to be done on the backside of the policy document.

A nomination is an authorisation process to name a particular person to receive the policy amount on behalf of the legal heirs of the policyholder. By appointing a nominee to any policy doesn't take away any right of the policyholder he remains as the sole owner of the policy. A nominee never has any rights over the policy except to receive

the policy benefit amount in case of the demise of the policyholder before the policy term is over.

Nomination in a particular policy can happen either during the proposal stage or later. The only difference between both the stages is that if the proposer completes the nomination process at the proposal stage then the nomination gets registered in the policy from the beginning but if the nomination process is executed later then it has to be endorsed and most importantly it has to be communicated to the insurer to make necessary arrangements at its end to reflects the same in the policy. AT no point in time nomination requires any kind of consideration whether the proposer does it at the beginning or later stage.

A nomination can be changed during the term of the policy many times as per the directions of the policyholder but every time he does change the nominee, an endorsement is required. In case the nominee is minor (less than 18 years of age) then an appointee (guardian) is appointed but once the nominee attains the age of major then the appointee is automatically cancelled. The life assured has the right to change the nominee and appointee many times during the term of the policy. In case the nominee expires because of some reason before the insured, the nomination comes to an end and the insured has to nominate once again. Again in case the nominee dies, after the insured's death but before receiving the policy amount from the insurer then in such case the policy payment will be paid to the legal heir of the policyholder.

In case of assignment of the policy, the assignee becomes the owner of the policy and is entitled to execute his rights. In other words, the assignee becomes the policyholder during the assignment period. So, the nomination will no longer exist and gets cancelled automatically. Here as the assignee is not the life insured hence, cannot make a nominee. Once the assignment is over and reassigned is done then the life assured has to again make the nomination.

In a joint life policy if both the life survives the policy term then the maturity benefit or survival benefit is paid to them jointly. In case of death of one life, the death benefit is paid to the other living life assured. So, the nomination u/s 39 of the Insurance Act would normally doesn't arise. However, a nomination can be made jointly by both the life assured.

After learning about Assignment and Nomination now we can briefly point out the differences between both Assignment & Nomination:

NOMINATION		**ASSIGNMENT**	
1	Doesn't deprive LA's rights, privileges, benefits under the policy, including the right to change nominee	1	Once the assignment is made cannot be cancelled by the assignor at his will

2	A nominee has no right over the policy except that he can receive the death benefit from the insurer if the insured dies before the policy term	2	Assignments of the policy transfer all rights and benefits of the policy to the assignee
3	The Nominee does not have any right over the policy if the Life Assured is alive	3	After Assignment, all the benefits go to the Assignee even if the Assignor is alive
4	No consideration is required for Nomination		Consideration is required
5	Nomination notice needs to be given to the insurer	5	Assignment notice is required
6	Creditors of Life Insured can legally claim and attach the policy amount	6	Creditors of Life Insured cannot legally attach the policy amount unless it is proved that the assignment has been done intentionally to deprive the creditors
7	The appointee is appointed in case of minor nomination	7	Appointee or Guardian is appointed in case of minor assignment
8	A witness may be required	8	The witness must be required
9	If the nominee dies after the life assured and before the settlement of claim then the policy amount is payable to the legal heirs of the Life Insured	8	If the assignee dies at a point in time then the policy amount is paid to the legal heirs of the assignee

4.4 SURRENDER POLICY

Surrender of Policy & Value

Surrender is an untimely termination of the policy contract by the policyholder before the policy term completes or before the claim arise. But every policy is required to be paid for a certain number of years before the surrender of the policy is permitted. The amount payable to the policyholders by the insurer after the surrender of the policy is called surrender value or cash value. Generally, a policyholder surrenders his policy when either he is unable to pay his premiums on time or not been able to revive the policy in the allowed period or if he has some urgency of money.

Once the surrender value is paid to the policyholder the policy contract is terminated and there is no future liability lies with both parties. LIC policies are allowed to surrender if three years' premiums are paid. Surrender value is a percentage of the premiums paid or paid of value. As the number of policy years increases the surrender value also increases. But the surrender value is always less than the total amount of premiums paid to the insurer. Because a portion of the premium is adjusted against various expenses at the insurer end.

Once a request for surrender of policy is received at the insurer office the insurer raises its requirements, which need to be fulfilled by the policyholder. If there is any loan outstanding with interest, then will be deducted from the surrender value and balance payment will be made to the policyholder. In the case of absolute assigned policy, the assignee needs to put his signature for discharge of payment but in case of conditional assignment, both the policyholder and the assignee need to put their signature on the discharge form.

Surrender Value in Traditional insurance policies

After completion of three years, when the policy is surrendered, the higher the guaranteed surrender value or special surrender value is paid in the case of traditional policies.

Types of the surrender value

There are two types of surrender value called guaranteed surrender value and a Special surrender value

Guaranteed Surrender Value (GSV): Guaranteed surrender value is determined based on the surrender value factor specified in the policy document. The surrender value factor is the percentage of total premiums paid. The surrender value factor increases with the number of years of the policy. The surrender value factor will get close to 100% of premiums paid when the policy nears maturity. Hence, the guaranteed surrender value is calculated as total premiums paid multiplied by the surrender value factor.

Special Surrender Value: Special surrender value is usually higher than the guaranteed surrender value. However, it depends on the insurance company. Special surrender value depends on the sum assured, premiums paid, policy term and bonuses. Generally, the special surrender value is calculated using the formula

Special Surrender Value = (*Paid-up value + accrued bonuses) X surrender value factor

*where paid-up value = Basic sum assured X (Number of premiums paid/Number of premiums payable)

Surrender Value in ULIPs

Unit linked investment plans are designed with both savings and insurance protection components. ULIPs are structured differently than traditional insurance plans. ULIPs funds are invested in various financial instruments such as equity and debt through various fund options. The Lock-in period in ULIPs is mostly five years.

Surrendering the ULIP plans before the lock-in period involves discontinuation charges. The surrender value will be equal to the fund value on the date of surrender after deduction of discontinuation charges whereas, surrendering the ULIP plans after the lock-in period involves no charges. Hence, the surrender value will be equivalent to the fund value on the date of surrender

Surrender Value Calculation Methods

Generally, there are two ways the surrender value is calculated. They are (a) Saving approach (b) Accumulation approach

Saving Approach

This approach is considered to be the most scientific and in this case, the surrender value is paid to the policyholder instead of the claim amount. The insurer is liable to pay the claims whenever arises. If the policy is surrendered, then the insurer is relieved of its obligation to pay the sum assured payment.

In this method the following formula is used for calculating the surrender value during death or maturity of the policy or whenever applied for:

SV = (Sum Assured + Accumulated Value of Future Expenses + Future Revisionary Bonus (if policy is a Participating policy)) – (Accumulated value of all future premiums + Expenses incurred in the processing of surrender value)

In case of surrender value claimed before the death or maturity of the policy, the insurer pays a minimum surrender amount to the policyholder and at the time of maturity or death, the surrender value is paid adjusting the already paid amount.

Accumulation Approach

In insurance policies, equal premiums are paid by the policyholder. During the early years of the policy, the amount received is more than the amount required to meet death claims. The difference amount, in this case, is not treated as a profit for the insurer rather gets accumulated as a reserve for future use. During the later stage of the policy premiums received are less than the amount required for making payments if any claim arises. Here the accumulated reserve fills the gap. This approach regards reserves for a policy as the basis for the distribution of surrender value.

Surrender Value = Full Reserve – *Surrender Charges

*Agents Commission and Medical Expenses, Cost of Surrender, Contingency reserves and other miscellaneous expenses and losses estimated by actuary etc.

Losses on Surrender of Policy

When a policy is surrendered before the maturity term of the policy, the policyholder losses certain benefits and they are:

- Once the policy is surrendered the life protection cover cease
- In most cases the surrender value is calculated based on the surrender factor, so the policyholder losses partially of what is already paid as premium
- Once surrender the policy ceases hence, the policyholder cannot use the benefit of tax exemptions

IRDAI Regulation 3 deals with Surrender Value and Paid-up Value under insurance policies offered by Life Insurers:

- **The policy offered by life insurers under the linked scheme**
  1) Shall provide surrender value by Insurance Regulatory and Development Authority (Linked Insurance Products) Regulations, 2013, as amended from time to time
  2) Shall comply with all the provisions related to surrender or discontinuance by the Insurance Regulatory and Development Authority (Linked Insurance Products) Regulations, 2013, as amended from time to time

- **The policy offered by life insurers under a non-linked scheme**

  i) Shall provide surrender value by the Insurance Regulatory and Development Authority (Non-Linked Insurance Products) Regulations, 2013, as amended from time to time

  ii) Shall comply with all the provisions related to surrender by the Insurance Regulatory and Development Authority (Non-Linked Insurance Products) Regulations, 2013, as amended from time to time

  iii) Once acquired a surrender value shall not lapse because of non-payment of further premiums but shall be kept in force to the extent of paid-up sum assured and the subsisting reversionary bonuses including guaranteed additions if any

  iv) Paid-up sum assured in 3 (b) (iii) shall be calculated using a formula as approved by the Authority, and contained in the terms and conditions of the policy

  v) Policies wherein the amount of premium amount payable is fixed and uniform, the paid-up sum assured (before inclusion of reversionary bonuses or the guaranteed additions if any
     - On death shall not be less than the ratio of the total period for which premiums have already been paid bears to the maximum period for which premiums were originally payable multiplied by the sum assured
     - On maturity shall not be less than the ratio of the total period for which premiums have already been paid bears to the maximum period for which premiums were originally payable multiplied by the sum assured on maturity
     - Adjustment shall be made to the paid-up sum assured calculated as above on account of survival benefits paid, if any

  vi) For policies other than as mentioned in 3 (b) (v) above, the Authority may approve a different formula for calculation of paid-up sum assured.

  vii) The Regulation 3 (b) (iii) above shall not apply,
     - Where the paid-up sum assured of the policy exclusive of attached bonuses and the guaranteed additions, if any, (under other than Micro Insurance and Health Insurance Business) is less than Rupees One Thousand Two Hundred and Fifty
     - Where the paid-up sum assured of the policy exclusive of attached bonuses and the guaranteed additions if any (under Micro Insurance and Health Insurance Business) is less than Rupees One Hundred

- Where paid-up sum insured takes the form of an annuity of less than Rupees Two Hundred Fifty per month.

viii) A life insurance policy may be terminated after the expiry of the revival period by paying the surrender value if the paid-up sum assured of the policy is less than as specified under 3(b) (vii) above.

ix) The Authority may issue instructions for payment of surrender value under extraordinary circumstances.

On July 8, 2019, Insurance Regulatory Development Authority (IRDAI) came up with some new rules on Unit Linked (ULIPs) and non-linked life insurance plans.
New Rule –Other than single premium products: The minimum guaranteed surrender value shall be the sum of guaranteed surrender value and the surrender value of any subsisting bonus and any guaranteed additions already attached to the policy.

- The guaranteed surrender value shall be at least:
  (a) 30% of the total premiums paid less any survival benefits already paid if surrendered during the second year of the policy, and
  (b) 35% of the total premiums paid less any survival benefits already paid if surrendered during the third year of the policy
  (c) 50% of the total premiums paid less any survival benefits already paid if surrendered between the fourth year and seventh year of the policy
- Meaning – For the previous policies, the surrender value could be acquired only if a minimum of 2 premiums had been paid. Though few policies could acquire surrender value in the 2nd year itself
- Now, it is compulsory to give surrender value after the 1st premium has been paid. In simple words, a customer can surrender the policy in the 2nd year itself and a minimum of 30% of the premiums paid back will be returned to the customer. The customer would also receive the surrender value of the guaranteed bonus which was promised at the beginning of the policy
- There is not much difference in the surrender value after the 2nd year – Previously, the minimum amount was 30% of the premium for surrendering after 2 years whereas now it is 35%.

4.5 LETS SUM UP

Rights of the policy such as Assignment, Nomination and Surrender of policy plays a very important role for the policyholder. Assignment helps to pledge the policy with a bank or financial institution to avail loan in requirement whereas, Surrender of policy helps to get cash from the insurer in urgency. On the other hand, the Nomination right helps to record who will receive the death benefit on behalf of the legal heir in case the policyholder dies before completion of the policy term. In case a minor is involved in an assignment or nomination then an appointee is appointed till the minor grows up to an age of a major. Assignment and Surrender policy processes are a little technical and not a very easy process for a layman hence, absolute and conditional assignments are explained. During a surrender, cash value calculation is also discussed. IRDAI

regulations &amendments regarding linked plans and Non-Linked plans have been discussed for everyone's benefit and understanding.

4.6 KEYWORDS

Surrender Policy: Surrender value is the amount that a policyholder receives from the life insurer when he or she decides to terminate a policy before its maturity period
Nomination: Nomination is the process by which the policyholder appoints a person or persons to receive policy benefits in case of a death claim. So in case of an eventuality, the life insurance company pays the policy proceeds to the appointed person - called Nominee.
Assignment: A transfer of legal rights under, or interest in, an **insurance** policy to another party. In most instances, the **assignment** of such rights can only be effected with the written consent of the insurer.
Linked Scheme: Linked plans offer the facility to track your investment portfolio and as a part of your plan, the insurance company may update you regularly on the premium you invest and the value of the fund units you hold at regular intervals.

4.7 FURTHER READINGS

- M.N. Mishra: Insurance Principles and Practice, S. Chand & Company Ltd, Delhi.
- Indian Institute of Bankers (Pub) Commercial Banking Vol-I/Vol-II (part I&II) Vol- III.
- Hota P.K., and Das S.K. Financial Literacy and Banking, Kalyani Publishers
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- Inderjit Singh, Rakesh Katyal& Sanjay Arora: Insurance Principles and Practices, Kalyani Publishers, Chennai.
- G. Krishnaswamy: Principles & Practice of Life Insurance
- Kothari & Bahl: Principles and Practices of Insurance.

4.8 MODEL QUESTIONS

Q 01: What are the different types of surrender value?
Q 02: State the difference between nomination and assignment.
Q0 3: What are the methods of calculations of surrender value?
Q 04: Write short notes on the following.

- Linked Scheme
- Guaranteed Surrender Value
- Nomination

UNIT-5 POLICY CLAIMS

Structure

5.0 Learning Objectives
5.1 Introduction
5.2 Policy Claims
 5.2.1 Death Claim
 5.2.2 Maturity Claim
5.3 Let's Sum Up
5.4 Keywords
5.5 Further Readings
5.6 Model Questions

5.0 LEARNING OBJECTIVES

After studying this unit, you will be able to know

- The claim and process
- Types of claims and settlement process
- Documentation required for claim

5.1 INTRODUCTION

A claim is a demand or a formal request by the nominee after the demise of a policyholder to the insurer to uphold a promise made by the insurer at the beginning of the policy contract. The insurer obliges its promise subject to the fulfilment of the obligations by the policyholder in time. Again, this process involves interventions from the nominee such as immediate intimation of death of the policyholder and subsequently, submission of required documents with the insurance office within a stipulated period. Claim settlement is one of the most important services that an insurance company provides to its customers. Insurance companies must settle claims on time.

5.2 POLICY CLAIMS

At the beginning of the policy contract between the policyholder and the insurer, an insurer promises to protect the loss of the asset (policyholder) within the term of the policy. Hence, in case of the untimely demise of the policyholder within the policy term, a claim situation arises, where the insurer pays promised amount to the nominee of the deceased subject to fulfilment of all required documents and information. In a claim process the insurer verifies the policy and other documents submitted to assess the following:

(a) What are the obligations as per the contract which needs to be fulfilled

(b) Whether the obligations of the policyholder have been duly discharged and verifications of reports
(c) Facts about the incident which lead to death or permanent disability
(d) Competency of the claimant such as nominee or assignee etc.

Types of Claims

There are two types of claims seen which are Death Claim and Maturity Claim. In a death claim sum assured is paid to the nominee whereas, a maturity amount is paid to the policyholder in maturity claim (on survival of the insured). The process of providing a maturity claim to the life insured on survival of the entire policy term is quite simpler in comparison to the death claim process where insurers need to verify documents and reports and establish the right of the claimant etc.

5.2.1 Death Claims

In a death claim, the first and foremost requirement is the death intimation provided to the insurer by the nominee or any family members or agent or assignee. The intimation generally contains the policy number, policyholder name, death date, cause of the death and the relationship of the intimation provider etc.

Being the Claim form and documents are the most important for the insurer hence the followings need to be provided:

(a) Policy Document
(b) Deeds of Assignment/Re-Assignment
(c) Death Certificate
(d) Identity Proof, Age Proof
(e) Discharge Form duly signed in presence of witnesses

If the death occurs within the first 3 years of the contract or the policy revived, then few additional documents are required to process the claim and they are:

(a) Medical treatment records duly certified by a competent doctor
(b) Indoor records of hospital
(c) Declaration from a person who has seen a dead body and has attended funeral rites
(d) If employed, then leave records

If the life insured has faced an unnatural death such as accidental death or suicidal death or some unknown cause then the police inquest report, post-mortem report, chemical analyser report etc. would be required before the claim payment made by the insurer. At times if the insurer is not convinced with the initially submitted information, an inquiry may be initiated.

Death Claims Settlement

In most death claims the claim amount is paid to the nominee or assignee or the legal successor depending on the case. However, if the deceased policyholder has not nominated nor assigned the policy before his death then the claim amount is paid to

the succession certificate holder or titleholder by the order of the court of law. At times the insurer waives the proof of title and releases the claim settlement amount based on declarations, affidavits and indemnity bonds etc. subject to if the claim amount is small.

Death Claims arising within the first three years of the starting of the policy contract are viewed very closely and critically as these claims are treated as early claims. In such cases, the special investigation is ordered by the insurer and the claim amount is released only when the insurer is convinced else if any discrepancy found (treated as suppression of material facts) the claim amount is not paid. The insurer does all the processes of verification, inquiry etc. to eradicate any scope of fraud in the claim process.

Death Claim Concessions

If any policyholder dies within 6 months of the grace period of the first policy premium un-paid date (lapsed due to premium not paid) and has already completed payment of 3 years' premiums the insurer allows concession in claim settlement.

It has also been seen insurers settled the death claims when the policy is in the lapsed state i.e. in an endowment policy of 25 years, the policy lapses because the 25th year premium has not been paid and the policyholder dies before the maturity term of the policy. Considering that the policyholder has paid all the 24 years' premium the insurer applies concessions and release the death claim amount to the nominee.

5.2.2 Maturity Claims

The maturity date of the policy is the same as the end date of the term of the policy and the settlement amount which is paid on that date is known as the maturity amount. In endowment policies, at the end of the policy term maturity amount (sum assured + bonus) is paid to the policyholder if it is a with-profit plan. Maturity claim advance intimations are generally initiated by the insurer and communication is sent to the policyholder. To get the maturity amount the policyholder needs to submit the original policy and the duly signed discharge voucher at the insurer's office. The insurer after receiving the policy bond, bank account details and the discharge voucher, verify the policy status to check whether all the premiums are paid, the identity document of the policyholder etc.

The insurer also may ask to submit the following documents well before the maturity date to verify at its end.

(a) In absence of original policy document, the insurer asks to submit the duplicate policy bond and in absence of original and duplicate bond, if the case is genuine then the insurer asks for an indemnity bond and advertisement is given in newspaper to the general public to ensure there is no misuse or fraud of the policy bond in future

(b) Age proof if the age is not already admitted

(c) If the policy bond is assigned, then the assignment deed is asked to be submitted.

Maturity Claims Settlement

Maturity claims are treated as simple claims because the policyholder is live to accept the maturity benefit. Once the policy bond and the duly filled and signed discharge voucher is received at the insurer's office the insurer verifies the documents and transfer the maturity amount to policy holder's account. In some cases, where the policyholder requests, the insurer issues a cheque in the name of the policyholder.

- In case the life assured is not competent enough to sign the discharge voucher then a certificate needs to be brought from the court of law under the Indian Lunacy Act appointing a person as an appointee or guardian to receive the maturity benefit and deposit the same with the insurer's office.
- If the life assured has been declared as insolvent by the court of law before the maturity of the policy and if notice from the court is sent to the insurer stating the appointment of the official assignee and the copy of insolvent order, then maturity date and other details are shared to them by the insurer.
- If the life assured dies after the maturity period and before signing on the discharge voucher, then the case is treated as a maturity claim and the benefit is paid to the nominee or legal heirs. In such a case the insurer asks to submit the death certificate and document to establish the title.

In the case of a money-back policy, some pre-decided amount is paid to the life assured in intervals either directly to his bank account or by cheque. It is the same as making survival maturity amount and the insurer automatically does it from its end. If the policy is lost and reported the same to the insurer in case of a money-back policy, then the insurer may deny the interval payments because the policy continues after the payment.

5.3 LET US SUM UP

The claim is a lawful right by the policyholder either on his survival of the policy term or in case of any death during the policy term. Both the claims are treated differently by the insurer and different processes are applied. Different sets of documents are also asked for by the insurer to settle the claim. It has been seen in many cases, life insurance claims have been delayed or denied due to lack of proper documentation or simply because the proper claim process was not followed. Hence, it is suggested that the claimant should be aware of the claim process to have a hassle-free claim settlement process during the tragic moment especially while filing a death claim.

5.4 KEYWORDS

- **Death Claim:** A death Claim is a formal request made by the nominee in a life insurance policy to the life insurance company. This request is made for the

payment of the Life Cover amount in case of the unfortunate event of death of the Life Assured.

- **Maturity Claim:** Maturity Claim is associated with the Maturity Benefit of the Policy i.e. the claim which arises when the policy matures. It simply means that when the policy completes its tenure, a certain amount of money called Maturity Claim amount is settled towards the life assured.

5.5 FURTHER READINGS

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- G. Krishnaswamy: Principles & Practice of Life Insurance
- Kothari & Bahl: Principles and Practices of Insurance.

5.6 MODEL QUESTIONS

Q1: What is Policy Claim? What are the different types of claims?
Q2: Differentiate between death claim, concessions and death claim settlement.
Q3: Explain the maturity claim settlement.