LIFE INSURANCE WITH PRACTICE

B.Com
Semester-V

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B.Com: Life Insurance with Practice

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FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining 'A' grade from the NAAC in the year 2016, Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 443 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education in 2003-04 with the aim of taking higher education to the door step of all the sectors of the society. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even to housewives desirous of pursuing higher studies. Acharya Nagarjuna University has started offering B.A., and B.Com courses at the Degree level and M.A., M.Com., M.Sc., M.B.A., and L.L.M., courses at the PG level from the academic year 2003-2004 onwards.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers involved respectively. Such ideas will be incorporated for the greater efficacy ofthis distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is my aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities andin turn be part of country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Academic Coordinators, Editors and Lesson- writers of the Centre who have helped in these endeavors.

Prof. Raja Sekhar Patteti
Vice-Chancellor
Acharya Nagarjuna University

A.P. State Council of Higher Education
Semester-wise Revised Syllabus under CBCS, 2020-21

Course Code:

Four-year B.Com. (Hons)
Domain Subject: **COMMERCE**
IV Year B. Com.(Hons) – Semester – V

Max Marks: 100

Course- 20-B. LIFE INSURANCE WITH PRACTICE
(Skill Enhancement Course (Elective), 4 Credits)

I: Course Learning Outcomes

After completing the course, the student shall be able to:

1. Understand the Features of Life Insurance , schemes and policies and insurance companies in India
2. Analyze various schemes and policies related to Life Insurance sector
3. Choose suitable insurance policy for given situation and respective persons
4. Acquire Insurance Agency skills and other administrative skills
5. Acquire skill of settlement of claims under various circumstances

II. Syllabus: Total 75hrs (Teaching 60, Training10, Others 05 including IE etc.)

Unit-I: Features of Life insurance contract
Life Insurance- Features- Advantages - Group Insurance – Group Gratuity Schemes - Group Superannuation Schemes, Social Security Schemes- Life Insurance companies in India.

Unit-II: Plans of Life Insurance
Types of Plans: Basic - Popular Plans – Term Plans-Whole Life-Endowment-Money Back-Savings-Retirement-Convertible - Joint Life Policies - Children's Plans - Educational Annuity Plans - Variable Insurance Plans – Riders

Unit-III: Principles of Life Insurance
Utmost Good Faith- Insurable Interest- Medical Examination - Age proof, Special reports - Premium payment - Lapse and revival – Premium, Surrender Value, Non-Forfeiture Option - Assignment of Nomination- Loans – Surrenders – Foreclosure.

Unit-IV: Policy Claims
Maturity claims, Survival Benefits, Death Claims, Claim concession - Procedures - Problems in claim settlement - Consumer Protection Act relating to life insurance and insurance claims.

Unit-V: Regulatory Framework and Middlemen
Role of IRDAI & other Agencies - Regulatory Framework - Mediators in Life Insurance – Agency services – Development Officers and other Officials.

III: References:

1. G. S. Pande, Insurance – Principles and Practices of Insurance, Himalaya Publishing.
2. C. Gopalkrishna, Insurance – Principles and Practices, Sterling Publishers Private Ltd.
3. G. R. Desai, Life Insurance in India, MacMillan India.
4. M. N. Mishra, Insurance Principles and Practices, Chand & Co, New Delhi.
5. M.N.Mishra, Modern Concepts of Insurance, S.Chand& Co.
6. P.S. Palandi, Insurance in India, Response Books – Sagar Publications.
7. Taxman, Insurance Law Manual.

8. https://www.irdai.gov.in
9. https://www.policybazaar.com
10. Web resources suggested by the Teacher concerned and the College Librarian including reading material

IV. Co-Curricular Activities:

A. Mandatory *(Student training by teacher in the related field skills: 10 hrs.):*

1. **For Teachers:** Training of students by teacher (using actual field material) in classroom/field for not less than 10 hours on techniques/skills of life insurance sector from opening of insurance policies to settlement of claims.
   a. Working with websites to ascertain various LIC Companies and their schemes in Life Insurance sector (Ref. unit-1)
   b. Working with websites to ascertain various policies in Life Insurance sector (Ref. unit-2)
   c. Working with websites like policy bazaar.com for Calculation of Premium for Specified policies and ascertain various options under policy (ref. unit-3)
   d. Preparation of statements for claims under various policies working with specified Life Insurance Company for settlement of Claims under different circumstances (Ref. Unit 4)
   e. Prepare the students to choose the Life Insurance field and show the opportunities in public and private insurance companies. (ref. Unit.5)
2. **For Students:** Students shall take up individual Fieldwork/Project work and make observations on the procedures followed in the life insurance activities including identifying customers, filling applications, calculation of premium and settlement of insurance claims. Working with Insurance Agents and Life Insurance companies may be done if possible. Each student shall submit a hand-written Fieldwork/Project work Report on his/her observations in the given format to teacher.
3. Max marks for Fieldwork/Project work Report:05
4. Suggested Format for Fieldwork/Project work (not more than 10 pages**):** Title page, student details, contents, objective, step-wise work done, findings, conclusions and acknowledgements.
5. Unit tests (IE).

B. Suggested Co-Curricular Activities

1. Training of students by a related field expert.
2. Assignments including technical assignments like Working with any insurance Company for observation of various policies, premiums, claims, loans and other activities.
3. Seminars, Conferences, discussions by inviting concerned institutions
4. Field Visit
5. Invited lectures and presentations on related topics

V. Suggested Question Paper Pattern:

Max. Marks 75 Time: 3 hrs

SECTION - A (Total 25 marks)
Answer any FIVE Questions (5×5 Marks)
Out of Eight Questions covering all units
SECTION - B (Total 50 marks)
Answer any FIVE Questions (5×10 Marks)
Out of Eight Questions covering all units

(505BCE21)

MODEL QUESTION PAPER

B.Com. (General) DEGREE EXAMINATION,

Third Year – Fifth Semester

Part II – Commerce

Paper VI – LIFE INSURANCE WITH PRACTICE

Time: Three hours **Max. Marks: 70**

SECTION A–(5 x 4 = 20 marks)

Write a short answer for any FIVE of the following.

Each question carries 4 marks.

1. Group insurance.
   సమూహ భీమా.

2. Riders.
   రైడర్స్.

3. Children's insurance plans.
   పిల్లల భీమా పథకాలు.

4. Nomination.
   నామినేషన్.

5. Foreclosure.
   జప్తు.

6. Life insurance.
   జీవిత భీమా.

7. Claim concession.
   క్లెయిమ్ రాయితీ.

8. Define IRDA.
   IRDA ని నిర్వచించండి.

SECTION B – (5 x 10 = 50 marks)

Answer the following questions.

Each question carries 10 marks.

9. (a) Explain the features of life insurance.
జీవిత భీమా యొక్క లక్షణాలను వివరించండి.

Or

(b) Write about the group gratuity schemes.
గ్రూప్ గ్రాట్యుటీ పథకాల గురించి వ్రాయండి.

10. (a) Explain the different plans of life insurance.
జీవిత భీమా యొక్క విభిన్న ప్రణాళికలను వివరించండి.

Or

(b) Discuss variable insurance plans.
వేరియబుల్ భీమా ప్లాన్ల గురించి చర్చించండి.

11. (a) Explain the principles of life insurance.
జీవిత భీమా సూత్రాలను వివరించండి.

Or

(b) Describe the following terms :
కింది నిబంధనలను వివరించండి :

(i) Premium
ప్రీమియం

(ii) Surrender value
సరెండర్ విలువ

(iii) Non–forfeiture option
జప్తు చేయని ఎంపిక

12. (a) Explain the procedure for claims settlement?
క్లెయిమ్ల పరిష్కార ప్రక్రియను వివరించండి.

Or

(b) Write about the problems in claim settlement?
క్లెయిమ్ సెటిల్మెంట్లో ఉన్న సమస్యల గురించి వ్రాయండి.

13. (a) Discuss the role of IRDA and other agencies?

IRDA మరియు ఇతర ఏజెన్సీల పాత్ర గురించి చర్చించండి.

Or

(b) Explain the various types of agency services.
వివిధ రకాల ఏజెన్సీ సేవలను వివరించండి.

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Lesson-1

LIFE INSURANCE FEATURES AND ADVANTAGES

Objectives:

- To define the meaningof Life Insurance Policy
- To understand Indian Insurance Sector
- To define the Working Method of Life Insurance Policy
- To explain features and benefits of Life Insurance
- To define define different types of insurance plans in India.
- To understand the components of insurance premium

Structure:

1.1. Introduction
1 2. Meaning of Life Insurance Policy
1.3. The Indian Insurance Sector
1.4. Parties in Life Insurance
1.5. Working Method of Life Insurance Policy
1.6. Features of Life Insurance
1.7. Benefits of Life Insurance Plans
1.8. Different Types of Life Insurance Plans in India
1.9. Affects of Life Insurance Premiums and Costs
1.10. Life Insurance Buying Guide
1.11. Target Group of Life Insurance
1.12. Components of Premium
1.13. Conclusion
1.14 Keywords
1.15. Self-assessment questions
1.16 References

1.1. Introduction:

Life Insurance can be defined as a contract between an insurance policy holder and an insurance company, where the insurer promises to pay a sum of money in exchange for a premium, upon the death of an insured person or after a set period. Insurance is a mechanism of risk transfer and sharing by pooling of risks and funds among a group of individuals who are exposed to similar kinds of risks for the benefit of those who suffer loss on account of the risk.Life Insurance is a contract between an insurance policy holder and an insurer, where the insurer promises to pay a sum of money to the beneficiary when the insured person dies or after a pre-determined period in exchange for the premiums paid by policyholder.In life insurance policy you need to pay premiums for a specified policy term and life insurance company provides you with a comprehensive life cover, in return. Life Insurance protects future of your loved by paying a lump sum amount referred to as death benefit if an unfortunate event occurs. Some life insurance policies provide you a Maturity Benefit after the end of the policy term.

Lack of awareness is one of the major impediments for widespread adoption of life insurance. The availability of different types of insurance products also confuses some people. But most life insurance policies function in a similar manner. Let us understand what is life insurance and how does it work.

1.2. Meaning of Life Insurance Policy:

Life insurance is defined as a legally binding contract between a policyholder and an insurer in which the insurance company provides financial protection to the policyholder and pays a death benefit to the nominee when the insured dies. For a life insurance policy to remain in force, the policyholder must pay regular premiums over the period of time or pay a single premium upfront.In a nutshell, all the benefits of a life insurance policy are tied to the payment of premiums, which is why one should opt for a premium that can be easily serviced. A life insurance policy works only if the policyholder has paid all premiums regularly.

Life Insurance can be defined as a contract between an insurance policy holder and an insurance company, where the insurer promises to pay a sum of money in exchange for a premium, upon the death of an insured person or after a set period.It provides financial security, helps to pay off debts, helps to pay living expenses, and helps to pay any medical or final expenses.

1.3. The Indian Insurance Sector:

The Indian Insurance Sector is basically divided into two categories – Life Insurance and Non-life Insurance. The Non-life Insurance sector is also termed as General Insurance. Both the Life Insurance and the Non-life Insurance is governed by the IRDAI (Insurance Regulatory and Development Authority of India).

The role of IRDA is to thoroughly monitor the entire insurance sector in India and also act like a custodian of all the insurance consumer rights. This is the reason all the insurers have to abide by the rules and regulations of the IRDAI.

The Insurance sector in India consists of total 57 insurance companies. Out of which 24 companies are the life insurance providers and the remaining 33 are non-life insurers. Out which there are seven public sector companies.

Life insurance companies offer coverage to the life of the individuals, whereas the non-life insurance companies offer coverage with our day-to-day living like travel, health insurance, our car and bikes, and home insurance. Not only this, but the non-life insurance companies provide coverage for our industrial equipment’s as well. Crop insurance for our farmers, gadget insurance for mobiles, pet insurance etc. are some more insurance products being made available by the general insurance companies in India.

The life insurance companies have gained an investment prospectus in the recent times with an idea of providing insurance along with a growth of your savings. But, the general insurance companies remain reluctant to offer pure risk cover to the individuals.

1.3.a. The Past of Insurance Sector in India:

In the history of the Indian insurance sector, a decade back LIC was the only life insurance provider. Other public sector companies like the National Insurance, United India Insurance, Oriental Insurance and New India Assurance provided non-life insurance or say general insurance in India.

However, with the introduction of new private sector companies, the insurance sector in India gained a momentum in the year 2000. Currently, 24 life insurance companies and 30 non-life insurance companies have been aggressive enough to rule the insurance sector in India.

But, there are yet many more insurers who are awaiting IRDAI approvals to start both life insurance and non-life insurance sectors in India.

1.3.b. The Present of Insurance Sector in India:
So far as the industry goes, LIC, New India, National Insurance, United insurance and Oriental are the only government ruled entity that stands high both in the market share as well as their contribution to the Insurance sector in India. There are two specialized insurers – Agriculture Insurance Company Ltd catering to Crop Insurance and Export Credit Guarantee of India catering to Credit Insurance. Whereas, others are the private insurers (both life and general) who have done a joint venture with foreign insurance companies to start their insurance businesses in India.

1.3.c. The Future of Insurance Sector in India:
Though LIC continues to dominate the Insurance sector in India, the introduction of the new private insurers will see a vibrant expansion and growth of both life and non-life sectors in 2017. The demands for new insurance policies with pocket-friendly premiums are sky high. Since the domestic economy cannot grow drastically, the insurance sector in India is controlled for a strong growth.

With the increase in income and exponential growth of purchasing power as well as household savings, the insurance sector in India would introduce 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 like the

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

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 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.

1.4. Parties in Life Insurance:

An insurance policy is a contract between the insurer and the insured.
There are two parties in life insurance:

i. The insured is the person whose life is being covered against the risk under the policy.
ii. The insurer is the insurance company that provides the insurance cover.

1.5. Working Method of Life Insurance Policy:

Life insurance is a legal contract where you pay a small sum as a premium for ensuring a large protective sum. The insurer will make the large sum available to your family and dependents in the case of your untimely demise.Usually, the life insurance is available for a limited period. Thus, if your death occurs within this period the life insurer is bound to pay a death benefit, which is also called sum assured. However, in the case of your surviving the term, you may receive a maturity benefit depending on the type of life insurance.

Whole life insurance plans however, are more likely to pay the death benefit than maturity benefit.

Example:
Mr. Shah bought a life insurance policy from Canara HSBC Life Insurance. The 20-year policy has a sum assured of Rs 10 lakhs and an annual premium of Rs 25,000 payable for 20 years, i.e., premium payment term = policy term.

The sum assured of the policy is also payable as maturity benefit if Mr Shah completes the policy term. Here's how this life insurance policy will work for Mr Shah:

Mr Shah Completes the Policy Term

- He has paid a total of Rs 5 lakhs as premiums for the life cover
- He will receive maturity benefit of Rs 10 lakhs + any bonus (if applicable)
- Policy will terminate after paying the maturity benefit

Mr Shah dies in the 10th policy year

- He has paid a total of Rs 2.5 lakhs in premiums for the life cover
- His nominees will receive a total of Rs 10 lakhs + any bonus (if applicable) in the 10th policy year
- Policy will terminate after paying the death benefit

If Mr Shah opted for Premium Protection in the policy, upon his death in the 10th year the policy will:

- Pay the death benefit (10 lakhs only) as usual to his family in the 10th policy year
- Continue to accumulate investment value
- Will pay the promised maturity value of Rs 10 lakhs + any bonus (if applicable) at the end of 20-year policy term.

1.6. Features of Life Insurance:
The following are the features of Life Insurance:

i. Life insurance policies provide a lump sum money to financially support a person's family in the case of applicant's early demise. Plan can look after the family's regular expenses, future goals and any ongoing debts after applicants' death.
ii. The contract offers the guarantee of financial compensation to the policyholder's beneficiaries for loss of a policyholder's life.
iii. This financial compensation is provided in return for the payment of a regularly paid fixed amount known as a premium.A life insurance policy can be a good saving/investment plan for the future or a pension/post-retirement plan. This depends on the type of policy.

iv. It can also provide tax benefits. It comes to aid in case of the untimely or sudden death of the breadwinner of the family.

v. A life insurance policy can be a good saving/investment plan for the future or a pension/post-retirement plan. This depends on the type of policy. It can also provide tax benefits. It comes to aid in case of the untimely or sudden death of the breadwinner of the family.
vi. Insurance policies hedge against financial losses resulting from accidents, injury, or property damage. Insurance also helps cover costs associated with liability (legal responsibility) for damage or injury caused to a third party.
vii. The insurance is a system wherein large number of persons, exposed to a similar risk, are covered and the risk is spread over among the larger insurable public. Therefore, insurance is a social or cooperative method wherein losses of one is borne by the society.
viii. Insurance plans will help you pay for medical emergencies, hospitalization, contraction of any illnesses and treatment, and medical care required in the future. The financial loss to the family due to the unfortunate death of the sole earner can be covered by insurance plans.

Key Takeaways:

- Life insurance is a legally binding contract that promises a death benefit to the policy owner when the insured person dies.
- 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 person 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 person dies, stops paying premiums, or surrenders the policy.
- A life insurance policy is only as good as the financial strength of the life insurance company that issues it. State guaranty funds may pay claims if the issuer can’t.

Basic Conditions to Qualify for Life Insurance:

To qualify for life insurance, applicant need to submit an application. But life insurance is available to almost anyone. However, the cost or premium level can vary greatly based on your age, health, and lifestyle. Some types of life insurance don't require medical information but generally have much higher premiums and involve an initial waiting period before the death benefit is available.

1.7. Benefits of Life Insurance Plans:

Life insurance plans are long-term investment and protection plans with several benefits. A few of the most prominent benefits of life insurance plans are:

i. Financial Protection:

A major benefit of any life insurance plan is that it provides financial security to your family members. Life insurance policies include a death benefit. If you die during the term of the policy, then a pre-defined amount, known as the sum assured is given to your familymembers. This ensures that your family members are financially secured even after you are not present with them.

i. Builds Saving Habit:

To keep your life insurance policy active, you are required to pay regular amounts known as premiums. Without the payment of premiums, your policy can get canceled. Thus, by investing regularly, you inculcate a habit of savings which benefits you in the long run.An

advantage of life insurance plans gives the applicant the choice to lock in low premium rates while you're young. The same policy if bought when applicant is older will cost him dearly as the premiums he will have to pay will be much higher than for the younger. For example, in case of a 30 year term plan, a 20 year old would buy a 1 Crore plan by paying Rs. 5955/- annually while a 30 year old would be paying Rs. 9009/- annually for the same plan. The younger applicant is, the more he saves.

ii. Helps in Tax-Savings:

To promote savings and investment, the government has made many investment instruments eligible for tax savings. Life insurance is one such instrument. You can avail of a tax deduction of up to Rs 1.5 lakh towards the premium you pay in a year u/s 80C of the Income Tax Act 1961. Thus, you have the benefit of investment as well as tax savings.If a personhappen to pay 2 lakhs rupees premium annually, this amount is deducted from his payout and lowers his tax outgo. The maturity amount too comes to him tax free as per section 10(10D) of the Income Tax Act.

iii. Achieve your Big Financial Goals:

Some life insurance policies build a cash value over time. Life insurance policies such as ULIP, have an investment component as well. Your premium is invested in marketable securities and earns a return. With time they build into a large corpus that can be used to achieve goals such as your child's education, child marriage, etc.

iv. Wealth Protection & Distribution:

Life insurance plans are one of the safest long term investment options. Thus, a life insurance will mean you can preserve your wealth for a long time against tax and inflation. This feature means that a life insurance plan is also a great instrument for retired investors to generate long-term pension.So some insurance policies use applicant's premiums to invest in different stocks as per their expertise and help him in growing his wealth.

vii. Sound Sleep benefit: When you are financially secured by life insurance, you have peace of mind and will have a sound sleep. Everyone worries what will happen to their families when they have left this world. Believing in the fact that life insurance provides a safety financial net for the family after your demise is very comforting and relaxing to the human mind.

1.8. Different Types of Life Insurance Plans in India:

Now that you know what is a life insurance policy, let us understand how many types of life insurance policies are available. Life insurance plans are based on your discretion. There are various types of life insurance policies that you can choose from. Remember that it is important to consider your financial goals when you are planning to buy the best life insurance plan. Listed below are the different types of life insurance plans that are available:

i. Term Life Insurance Plan:

Term insurance is the most popular one in life insurance category. It has a specific period and expires at the end of the term. The best things about a term plan are the premiums are quite affordable. These plans can be bought by people who have just started their career as the premiums are low. Some of the best term life insurance plans offer critical or terminal illness cover – that means the policyholder will be paid a lump sum amount on diagnosis of life-threatening diseases to help them cover the medical expenses.

ii. Whole Life Insurance Plan:

As the name suggests, it is a policy that covers you till you turn 99. That means, you can be protected till you are 99 years of age. Whole life insurance plans have a death benefit along with cash value. The life insurance policy's cash value will grow over time and can be

withdrawn by the policyholder when it accumulates enough value. Or, it can also be withdrawn if the policyholder opts for a loan on the life insurance policy.

iii. Unit Linked Insurance Plans:

ULIPs are investment plus insurance plans so that you can enjoy best of both the worlds. This is a type of life insurance policy that offers life cover along with investment opportunities. Most of the ULIPs have a lock-in period of 5 years, hence, it can be considered as a long-term investment plan. It functions as per market dynamics and you should understand your risk appetite before buying a ULIP.

iv. Endowment/ Saving Plans:

This is a type of life insurance policy that offers you a life cover along with an avenue for savings. If you buy the best saving plan, you can save regularly over a period and this will lead you to get a lump sum amount at maturity. Buying an endowment or saving plan is beneficial if you have long-term financial goals such as funding your child's education, buying a new house, or spending a carefree retirement life.

v. Money Back Policy:

Money back policy is a type of life insurance policy that gives money-back at regular intervals. A percentage of the Sum Assured is paid back at intervals during the policy tenure. These life insurance plans offer Survival Benefits, which are paid out during the plan tenure and at maturity. If the policyholder passes away when the policy is in force, the entire Sum Assured is paid to the beneficiaries irrespective of the Survival Benefits already paid.

vi. Child Insurance Plan:

Child insurance plans are life insurance policies that are opted to safeguard the future of your child. Along with providing a life cover, it helps in building an education fund to support your child's dreams and aspirations. Child plans are investment plus insurance plans designed to assist you in creating wealth for your child's future needs. You can invest in these plans right when your kid is born to build a strong financial cover.

vii. Retirement Plans:

These life insurance policies help you build a retirement corpus so that applicant can enjoy your post-retirement life. Applicant can make his/ her spouse the beneficiary to applicant's life insurance plan. So, in case, something happens to applicant, they can be financially independent. Also, having the best life insurance plan will help applicant pay for medical expenses during retirement.

1.9. Affectsof Life Insurance Premiums and Costs:

Many factors can affect the cost of life insurance premiums. Certain things may be beyond your control, but other criteria can be managed to potentially bring down the cost before (and even after) applying. Applicant's health and age are the most important factors that determine cost, so buying life insurance as soon as an applicant's need it is often the best course of action.

After being approved for an insurance policy, if applicant's health has improved and applicant's made positive lifestyle changes, applicant can request to be considered for a change in risk class. Even if it is found that applicant is in poorer health than at the initial underwriting, applicant's premiums will not go up. If applicantfound to be in better health, then applicant's premiums may decrease. Applicant may also be able to buy additional coverage at a lower rate than applicants initially did.

1.10. Life Insurance Buying Guide:

Main factors in calculating an insurance premium depends upon insurance premiums which vary based on the coverage and the person taking out the policy. Many variables factor into

the amount that you'll pay, but the main considerations are the level of coverage that you'll receive and personal information such as age and personal information. Cost of insurance is a fee associated with certain types of life insurance, such as variable and universal life insurance. Different from premiums, these charges are billed to pay for administration, mortality and other responsibilities of the insurer.

The following are the some of the steps in buying an insurance policy:

Step 1: Determine How Much an Applicant Needs:

Think about what expenses would need to be covered in the event of your death. Consider things like mortgage, college tuition, and other debts, not to mention funeral expenses. Plus, income replacement is a major factor if your spouse or loved ones need cash flow and are not able to provide it on their own.

There are helpful tools online to calculate the lump sum that can satisfy any potential expenses that would need to be covered.

Step 2: Preparing Application:

Life insurance applications generally require personal and family medical history and beneficiary information. You may need to take a medical exam and will need to disclose any preexisting medical conditions, history of moving violations, DUIs, and any dangerous hobbies, such as auto racing or skydiving.

The following are crucial elements for consideration of most life insurance applications:

- **Age:** This is the most important factor because life expectancy is the biggest determinant of risk for the insurance company.
- **Gender:** Because women statistically live longer, they generally pay lower rates than males of the same age.
- **Smoking:** A person who smokes is at risk for many health issues that could shorten life and increase risk-based premiums.
- **Health Status:** Medical exams for most policies include screening for health conditions like heart disease, diabetes, and cancer and related medical metrics that can indicate risk.
- **Lifestyle:** Dangerous lifestyles can make premiums much more expensive.
- Family medical history: If you have evidence of major disease in your immediate family, your risk of developing certain conditions is much higher.
- **Driving record:** A history of moving violations or drunk driving can dramatically increase the cost of insurance premiums.

Standard forms of identification will also be needed before a policy can be written, such as your Social Security card, driver's license etc.,

Step 3: Comparison of Policy Quotes:

When you've assembled all of your necessary information, you can gather multiple life insurance quotes from different providers based on your research. Prices can differ markedly from company to company, so it's important to make the effort to find the best combination of policy, company rating, and premium cost. Because life insurance premiums are something you will likely pay monthly for decades, finding the best policy to fit your needs can save an enormous amount of money.

1.11. Target Group of Life Insurance:

Life insurance provides financial support to surviving dependents or other beneficiaries after the death of an insured policyholder. Here are some examples of people who may need life insurance:

i. **Parents with minor children:** If a parent dies, the loss of their income or caregiving skills could create a financial hardship. Life insurance can make sure the kids will have the financial resources they need until they can support themselves.
ii. **Parents with special-needs adult children**: For children who require lifelong care and who will never be self-sufficient, life insurance can make sure their needs will be met after their parents pass away. The death benefit can be used to fund a special needs trust that a fiduciary will manage for the adult child's benefit.
iii. **Adults who own property together:** Married or not, if the death of one adult would mean that the other could no longer afford loan payments, upkeep, and taxes on the property, life insurance may be a good idea. One example would be an engaged couple who take out a joint mortgage to buy their first house.
iv. **Seniors who want to leave money to adult childrenwho provide their care.** Many adult children sacrifice time at work to care for an elderly parent who needs help. This help may also include direct financial support. Life insurance can help reimburse the adult child's costs when the parent passes away.
v. **Young adults whose parents incurred private student loan debt or cosigned a loan for them:** Young adults without dependents rarely need life insurance, but if a parent will be on the hook for a child's debt after their death, the child may want to carry enough life insurance to pay off that debt.
vi. **Children or young adults who want to lock in low rates:** The younger and healthier you are, the lower your insurance premiums. A 20-something adult might buy a policy even without having dependents if there is an expectation to have them in the future.
vii. **Stay-at-home spouses:** Stay-at-home spouses should have life insurance as they have significant economic value based on the work they do in the home.
viii. **Wealthy families who expect to owe estate taxes:** Life insurance can provide funds to cover the taxes and keep the full value of the estate intact.
ix. **Families who can't afford burial and funeral expenses:** A small life insurance policy can provide funds to honor a loved one's passing.
x. **Businesses with key employees:** If the death of a key employee, such as a CEO, would create a severe financial hardship for a firm, that firm may have an insurable interest that will allow it to purchase a life insurance policy on that employee.
xi. **Married pensioners:** Instead of choosing between a pension payout that offers a spousal benefit and one that doesn't, pensioners can choose to accept their full pension and use some of the money to buy life insurance to benefit their spouse. This strategy is called pension maximization.
xii. **Those with preexisting conditions:** Such as cancer, diabetes, or smoking. Note, however, that some insurers may deny coverage for such individuals, or else charge very high rates.

1.12. Components of Premium:

Paying higher premium only means that you are closer to securing your family's financial future. Take this increase in premiums in a positive manner because it will help you prepare better for the risks to your health, due to conditions that may include smoking, alcohol or a high-risk lifestyle. Premium is an amount paid periodically to the insurer by the insured for covering his risk. Description: In an insurance contract, the risk is transferred from the insured to the insurer. For taking this risk, the insurer charges an amount called the premium. There are three important elements in the computation of premium.

They are:

i. mortality,
ii. expenses of management,
iii. expected yield on its investment.

Methods of Premium:
A premium is the amount of money that an insurance policyholder pays to the insurer in exchange for coverage. There are several different modes of premium payment.
The most common payment modes are:
i. Monthly,
ii. Quarterly,
iii. Semi-Annual, and Annual.

Out of all of these, monthly is the most common.A premium is the amount of money that an insurance policyholder pays to the insurer in exchange for coverage. There are several different modes of premium payment. The most common payment modes are monthly, quarterly, semi-annual, and annual. Out of all of these, monthly is the most common.
Life insurance premium is a payment made to the insurance company that keeps the policy active. Without this payment, the policy will lapse, and the coverage will come to an end. Paying life insurance premiums helps allow your beneficiary to receive the death benefit later.

A policy premium is the amount of money paid towards the life insurance policy. The policy premium component comprises pure premium, operating expenses, investment and earning margin.

Method of Earning Premium:
An earned premium is the premium used for the time period in which the insurance policy was in effect. Insurance companies can record earned premiums as revenue after the premium's coverage period expires. Earned premiums can be calculated by using the accounting method and the exposure method.

1.13. Conclusion:
Insurance allows businesses to take risks and invest in new ventures, knowing that they are protected in case of unforeseen events. This security encourages innovation and growth, leading to job creation and economic development. In conclusion, taking insurance is an essential part of managing one's financial risks.Term insurance and whole life insurance serve different purposes and cater to distinct financial needs. Term insurance is a low-cost tool for people looking for coverage for a certain period of time. Whole life insurance provides lifelong protection and adds savings or income benefit for future goals.

1.14. Keywords:
- Insurance Policy
- Policy Conditions
- Premium
- Calculation
- Interest
- Tax Benefits
- Insurance Regulatory and Development Authority of India(IRDAI).

1.15. Self-assessment questions:

i) What is insurance policy and explain the features of insurance policy?
ii) Explain present past, present and future scenario of insurance sector in India?
iii) Explain the working methodology of life insurance policy with an example?
iv) Explain some of the benefits of insurance policy?
v) Explain some of the affects of life insurance premiums and costs?

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Lesson -2

GROUP INSURANCE, SOCIAL SECURITY SCHEMES & LIFE INSURANCE COMPANIES IN INDIA

Objectives:

- To understand group insurance policy, features and types of group insurance policies.
- To know group gratuity schemes and types of group gratuity insurance plans.
- To understand group superannuation insurance,
- To know various social security schemes by government of India.
- To know various life insurance companies in India.

Structure

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2.1. Introduction:

Group Insurance covers a defined group of people, for example members of a professional association, or a society or employees of an organization. Group Insurance may offer life

cover, health cover, and/or other types of personal insurance.A single policy that covers many people, most often provided by an employer or a group (like a union). Covers an individual for a certain amount of time only, in contrast to permanent insurance like whole life. Pays a lump sum to a deceased person's beneficiaries.Group life insurance is a single contract that provides coverage to a group of people, typically those who work for the same company. The employer owns the policy, which covers the employees. Beneficiaries will get a payout if you pass away while covered by group insurance.

2.2. Meaning of Group Insurance:

Life insurance is a product that pays beneficiaries a federal income tax-free lump sum should the insured pass away while the insurance is in effect. Finances are the last thing a family wants to worry about when dealing with a tragic loss, and life insurance can go a long way toward making sure a family can manage. There are many different kinds of life insurance, with an even greater number of customizations.Group term life is often a part of employee benefits packages, and there are a number of payment options employers can use. Typically, an employer pays most, if not all, of the premiums, but the employer can also split the cost with employees, or even make it 100% voluntary (paid by employees) to offset costs. These benefits can be a significant non-salary factor in employee satisfaction and feelings of financial security, and employers who aren't offering life insurance as a benefit may be missing out on a key aspect of recruiting and retaining top talent.

2.3. Importance of Group Insurance:

A group life insurance policy is less expensive than individual insurance, and some employers provide it to their employees for free. As an applicant do not have to undergo a medical assessment test to qualify for this policy. Moreover, this type of policy does not require individual underwriting.Group term life insurance schemes offer financial independence to the concerned employee's family in the event of death. It is intended to provide a monetary guarantee to the beneficiary of the covered under the group term life insurance plan in the case of death of the insured.Understanding Group Life Insurance.

Group life insurance is a single contract for life insurance coverage that extends to a group of people. By purchasing group life insurance policy coverage through an insurance provider on a wholesale basis for its members, companies are able to secure costs for each individual employee that are much lower than if they were to purchase an individual policy.

Those receiving group life insurance coverage may not have to pay anything out of pocket for policy benefits. People who choose to take more-advanced coverage alongside it may elect to have their portion of the premium payment deducted from their paycheck. Just as with regular insurance policies, insured parties are required to list one or more beneficiaries before the policy comes into effect. Beneficiaries can be changed at any point during the coverage period.

The typical group policy is for term life insurance, often renewable each year with a company's open-enrollment process. This is in contrast to whole life insurance, which provides coverage no matter when you die. Whole life insurance policies are permanent, have higher premiums and death benefits, and constitute the most popular type of life insurance.

2.4. Features of Group Insurance:

Group Insurance covers a defined group of people, for example members of a professional association, or a society or employees of an organization. Group Insurance may offer life cover, health cover, and/or other types of personal insurance.Group life insurance is offered by an employer or another large-scale entity, such as an association or labor organization, to

its workers or members. It is fairly inexpensive, may even be free for certain employees, and is pretty common nationwide.

Group life often has a relatively low coverage amount and is offered as a piece of a larger employer or membership benefit package. Members of a group life policy do not need to submit to a medical examination and are not subject to individual underwriting.

2.5. Types of Group Insurance:

Types of group insurance plans available in India:

i. Group Health Insurance/Mediclaim Cover.
ii. Group Personal Accident Insurance.
iii. Group Pension/Superannuation Insurance.
iv. Group Employee Deposit Linked Insurance (EDLI)
v. Workmen/Employee Compensation Insurance.
vi. Group Travel Insurance.

2.6. Group Term Insurance Working Method:

A short time after a company or group purchases a policy, coverage begins for all eligible employees. The company pays a monthly or annual premium based on the number of employees and the amount of coverage offered. The company can set eligibility requirements. Usually, every employee who meets the requirements is automatically enrolled in the base coverage, and employees have the option of adding more coverage for additional premiums. Changes in coverage can be made during an open enrollment period or might be affected if an employee has a qualifying life event (like marriage or the birth of a child).

Group Life Insurance works with large contributions from the employer. Employers are expected to provide and finance a Group Life Insurance plan for active employees in their payroll. The premium is expected to be paid no later than the date of commencement of the policy.

2.7. Advantages and Disadvantages of Group Term Life Insurance:

Group term life is one of the most common ways to get life insurance, and it makes a fantastic benefit. Usually, all eligible employees are automatically covered. Most group life does not require employee health information or a medical exam (known as underwriting).

Benefits of Group Term Life Insurance:

The typical coverage amount is equal to the annual salary of each employee, but an employer can pick different benefit levels. Often, there is an option for extra coverage if the employee wants to pay the additional premiums. Eligible employees are automatically enrolled; there is usually no medical exam or underwriting.

i) Advantages:

a) Inexpensive for companies
b) Various options to pay premiums
c) All eligible employees automatically enrolled
d) No underwriting
e) Customizable benefit amounts
f) Potential tax savings for employer-paid coverage

For many employees, group term life coverage provides an important safety net. It may not be enough, however. Additional coverage may still be needed, either through the group term policy or with an individual policy. Also, since group term life is provided by the employer, people who leave their jobs will likely lose their coverage.

ii) Disadvantages:

a) Some employees (like those who work part-time) may not qualify
b) Lack of portability
c) Some employees may need/desire additional coverage.

2.8. Introduction to Group Gratuity Scheme:

The group gratuity scheme gives the employer a chance to set aside predetermined funds for the employees. To pay off the debt owed to the workers who are entitled to gratuities, money is being saved. Saving money is crucial because the employer is responsible for paying gratuities. For gratuity scheme, you should be able to prove that a person was eligible and had worked for over 5 years in the company. Under the Group Superannuation scheme, the funds are invested scientifically and in a well-researched mix of equity and debt.

2.9. Meaning of Group Gratuity Scheme:

A group gratuity scheme is the insurance policy that helps the employer save money to pay gratuity to the employees. Description: All the employees covered under the Group Gratuity Scheme are eligible for payment of gratuity only if they fulfil the conditions specified under the Gratuity Act.This plan helps to meet the employer's obligation for Gratuity Benefit to their employees. The plan also offers Life Cover Benefit so that in case of death of a group Member an amount equal to Sum Assured in respect of that Member will be paid.

2.10. Eligibility for Group Gratuity Scheme:

As per the Payment of Gratuity Act, 1972 (the Act), it is mandatory for organizations with more than 10 employees to pay Gratuity to all employees who complete 5 continuous years of service, on their superannuation, retirement, resignation, death or disablement due to accident or disease.

Gratuity - Gratuity Calculation, Eligibility and Formula.

i. Gratuity Rules:

Any company with a workforce of 10 or more employees is obligated to provide gratuity, a commitment that persists even if the employee count falls below 10. To qualify for gratuity, an employee must have completed a minimum of five years of continuous service with the company.Organizations will have to pay a minimum of 50% of the salary of the employees as basic pay. In such situations where the basic pay of the employee is below 50%, the employers may need to restructure the employee's salary structure to abide by the new gratuity rules under the four labour codes.

ii. Limit of Gratuity in Group:

25,000 as his last drawn salary (Basic +DA amount) then the gratuity amount of Rajesh will be. Even though the employer can choose to make more gratuity payment to the employee in the form of a tip, the amount of gratuity payment should not exceed Rs. 10 Lakh as restricted by the Gratuity Act.

iii. Group Gratuity Premium Calculation:

The formula to calculate the gratuity of an employee is as follows:

Gratuity=Last drawn salaryx(15/26)xNumber of years of service In this case, 26 relates to the projected number of working days in a month, and the gratuity calculation is accounted at the rate of 15 days wages.

iv. Group Gratuity Plan Working Methodology:

An employer has the option of paying the employees out of pocket or purchasing a group gratuity insurance coverage from an insurance company.

An organization must have employed at least 10 individuals on a single day over the previous 12 months in order to be covered under the Gratuity Payment Act. Even if the organization has less than 10 employees going forwards, coverage will still be maintained. For long-term gains, the money you set aside is invested in a variety of stock and debt funds. When employees leave, claims for gratuity are paid out of the fund established under this scheme. *Example:*Mr.K. Abraham Linchon was the owner of his textile mill. He had 350 people working for him for many years. Each month, he deposited a set sum of money to cover his obligations to the staff. Over the past ten years, Mr. K. Sudheer Kumar had worked with Mr. K.Abraham Linchon and was considering changing careers. Mr.K. Abraham Linchongave him the lump sum gratuity money because he was covered by the gratuity plan.

2.11. Different Types of Group Gratuity Insurance Plans:

There are the two types of Group Gratuity Insurance Plans:

i. United Linked Plan:

A group policy with an indefinite policy period is the Unit Linked Plan. Because it is a group gratuity insurance plan, the sum assured is based on employee salaries and annuity rates. The number of yearly payments is another factor. The plan provides life insurance coverage for the duration of the policy term, renews automatically every year, and provides tax benefits following current tax rules. The rewards of the policy are dependent on how the market performs.

ii. Non-Participating Endowment Plan:

Participating and non-participating plans are the two possibilities offered by endowment plans. Benefits of the insurance are specified at the time of purchase in the case of a Non-Participating Endowment Plan. In this case, the expenses and returns are disclosed up front to the policy buyer.

iii. Advantages of Funding a Gratuity Scheme to Employees:

Here is the list of the advantages of funding gratuity schemes to employees as mentioned:

a) **Tax Benefits:**

   The annual contribution is accepted as an expense or deduction by the employer when determining taxable income. The employee’s gratuity is tax-free up to the allotted limit and is subject to the restrictions in Section 10(10).

b) **Opportunity Cost:**

   Companies will need to agree to a gratuity trust and raise money from within the company to cover their gratuity liabilities. The alternative uses for the money, as well as the return and duration of that return, could be considered to be the most crucial factors.

   One item to keep in mind while conducting such a comparison is the fact that interest collected within a gratuity fund is tax-free. Consequently, after grossing up for tax at 30%, a 10% annual return is comparable to a 14% annual pre-tax return.

c) **Liquidity Management:**

   Companies will be required to pay off the gratuities to departing employees as and when they leave if liabilities are not covered. As a result, because it will be unpredictable how many employees will leave, the amount that employers will pay could differ significantly from year to year. This would be a worry for small or mid-sized businesses because it may have an impact on their cash flow if a few senior staff left with high salaries and long tenures.

d) Cashflow Stability:

The gratuities paid to employees by new businesses would be rare and small. Nevertheless, as workers get older and put in more hours, gratuity payments rise almost tenfold. Companies can replace the rapidly rising gratuity payouts with a comparatively steady stream of contributions to the fund by having the obligations paid.

e) Cost Management:

Once money has been set aside to cover the gratuity liabilities, a well-thought-out investment plan could significantly improve returns while lowering costs for the employer. Although there isn't a single technique that would work for all businesses, organizations should make sure they can cut costs on investment management by handling the assets themselves.

2.12. Amount to be paid to the employee (member) in the event of death, retirement, or resignation:

The Master Policyholder will be paid an amount equal to the amount payable to the member under the Company's Gratuity Rules by cancelling the units of the equal amount from the Master Policyholder's account.An additional sum equal to the sum insured for that specific member is paid upon the death of that member.

The Master Policyholder may choose to have the units cancelled from the different funds. The allocation proportion that the Master Policyholder last selected to invest contributions will be utilized if the Master Policyholder does not specify the allocation proportion for cancellation of units.

2.13. Advantages of Group Gratuity to Organization:

Some of the advantages to group gratuity to organization are:

i. Tax Benefits:

In accordance with the Income Tax Act of 1961's current rules, approved gratuity funds are eligible for the following tax benefits:

Up to 8.33% of an employee's income in contributions or premiums paid by an employer in a given fiscal year are considered expenses for tax purposes in the year of payment.

The employee's gratuity is excluded under Section 10 up to half a month's average wage for each year of service, with a maximum of Rs. 10,00,000. (10).

Benefits paid upon death are tax-free.

2.14. Meaning of Group Superannuation Scheme:

The definition of "superannuation" or "superannuate" in the dictionary is to retire due to old age or infirmity. Therefore, a group superannuation scheme is a retirement benefit plan provided by a company to its working class. The plan is established by an organization or an employer for the benefit of its staff.

Group Superannuation Scheme is meant for the employees' benefits. It is an excellent scheme that provides the much-needed financial support in your old age after retirement. Applicant can use the accumulated corpus in the fund to draw pension and meet applicant's regular expenses.

Superannuation is a term that is often used in discussions about retirement savings. This financial arrangement allows individuals to save a portion of their income during their working years to use in retirement. It's a popular retirement savings vehicle in many countries

around the world. The exact structure of superannuation plans can vary, but they generally provide benefits that are designed to help ensure a comfortable retirement for individuals.

2.15. Importance of Group Superannuation Insurance:

The majority of organizations offer retirement benefits to their employees, such as National Pension System (NPS),Provident Fund (PF), gratuity, and so on. This enables the employers to gain the confidence of the workforce and keep them around for a longer period of time, in addition to assisting the employees in receiving a pension after retirement.

However, another typical employee retirement benefit is the 'group superannuation insurance' scheme. According to some studies, the majority of Indian employees are unaware of the superannuation benefits they are eligible for when they retire from employment. This article will be helpful for readers who are unaware of superannuation benefits as we have covered various aspects of group superannuation plans.

i. Two Main Types of Superannuation:

Superannuation plans can be broadly classified into two types:

a) Namely accumulation funds and
b) Defined benefit funds.

Each type has its unique characteristics and features that employees should consider when choosing the most suitable plan for their retirement.

ii. Features and Benefits Provided by Group Superannuation Scheme:

Each plan comes with its own set of features and benefits, and the group superannuation scheme is not an exception. Here are some of them:

a) **Good Returns:** Since funds are invested meticulously and scientifically under the group superannuation scheme, the possibility of receiving better investment returns increases. This ensures to secure the employee's long-term financial goals and assists in savings for their retirement years.
b) **Budget-Friendly:** As the plan allows all the employees in an organization to save each month by bearing a portion of their salary, the employer is not required to bear a significant and hefty cost. Moreover, the plan is budget-friendly for the employees too because the cost is divided among all the employees.
c) **Free Look Period:** The master policyholder has 15 days from the date of delivery of the policy document to review the terms and conditions. If the master policyholder objects to any of the terms and conditions, he or she has the option to return the policy and provide justification.
d) **Multiple Annuity Options:** The plan has multiple payout options, including quarterly, monthly, half-yearly, and yearly. One can also purchase annuities that return the premium to nominees in case of unfortunate death, amounts are assured for as long as the nominee lives, or even options to grow in annuity benefits each year.
e) **Nomination:** Section 39 of the Insurance Act of 1938, as amended from time to time, permits nominations for recipients of the superannuation benefit in the case of a member's death.
f) **Tax Benefits:** Since the fund is not a prerequisite for the employee, the employee can leverage the tax benefits for the same. Moreover, the contribution done by the employees towards this insurance scheme is eligible for tax deductions under Section 80 C of the Income Tax Act, 1961. Not only this but also the amount accumulated on maturity and the benefits payable on death are exempted from tax charges.

2.16. Group Superannuation Insurance Working Method:

In a group superannuation plan, the company makes a contribution to the insurance coverage they buy on behalf of every employee. The employer has three options for managing the

superannuation fund: using their own trusts, opening an account with one of the authorized insurance firms, or purchasing a superannuation product from an insurance company.

A predetermined portion of the employee's basic salary and dearness allowance is contributed by the employer. The maximum payment made by employers to employee group superannuation plans is typically 15% of the employee's basic wage and dearness allowance. Although the company makes contributions to group superannuation, they are included in the employee's CTC.

The employees have the choice to freely make a contribution to the superannuation fund in addition to the employer's contribution. This contribution is only permitted, though, if the company has a defined contribution plan. Up to one-third of the accumulated corpus may be withdrawn in a lump payment at retirement, with the balance being used to fund a pension. As a result, the employee can control his expenses more effectively and continue to receive a steady income stream even after retirement.

2.17. Claim Process of Group Superannuation Insurance Scheme:

Since the superannuation insurance scheme is managed by the employer, the claims can only be made in the below-mentioned scenarios:

In case the employee discontinues working or retires: They have the option to either withdraw 1/3rd of the accumulated wealth or receive the rest of the amount as pension or retirement.

In case the employee, unfortunately, dies during the service period: The accumulated fund will be given to the nominee of the employee.

In case the employee changes his job: The employee can transfer the accumulated fund to the new employer.

Withdraw 1/3rd of the accumulated wealth or receive the rest of the amount as pension or retirement.

Continue using the same scheme for wealth accumulation till they retire.

2.18. Documents Required for Claiming Against Group Superannuation Insurance Scheme:

Below are some of the most important documents that one should keep while raising a claim against the plan:

i. Original policy document
ii. Duly filled and signed claim form
iii. Proof of claimant's identity
iv. Death certificate – in case of the insured's death
v. NEFT mandate for the claimant (in case of direct transfer of money to the account).

2.19. Social Security Schemes in Insurance in India:

Introduction:

Social Security Schemes are such schemes where Government tries to provide monetary assistance to those people who have no income or inadequate income. In India there are various schemes that are run as social security schemes.

2.20. Meaning of Social Security Schemes in India:

Social security schemes are governmental programs designed to provide financial and social assistance to individuals and families who are unable to fully support themselves due to

various reasons such as age, disability, unemployment, or loss of a family member. These schemes aim to ensure that basic needs are met and that individuals have access to healthcare, education, and other essential services. They play a crucial role in promoting social welfare and reducing poverty.

2.21. Importance of Social Security Schemes: Social insurance is a public insurance that provides protection against economic risks. Participation in social insurance is compulsory. Social insurance is considered to be a type of social security.

2.22. Objectives of Social Security Schemes:

The primary objective of social security in India is to provide a safety net for those who are unable to support themselves due to various reasons. Social security in India is implemented by the government through various schemes and programs.

Social Security in India, Laws and Social Security Schemes are:

i. Compensation,
ii. Restoration and
iii. Prevention are the three major objectives of Social Security.

Compensation implies security of income.

2.23. Social Security Insurance Schemes:

The Ministry of Finance, Government of India, in its Union Budget FY 2015-16, launched three social security schemes as under:

i. Pradhan Mantri Suraksha Bima Yojana (PMSBY) for Personal Accidental Cover.
ii. Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) for Life Insurance Cover.
iii. Atal Pension Yojana (APY) for Old Age Pension.

i. Pradhan Mantri Suraksha Bima Yojana (PMSBY):

The Scheme is available to people in the age group 18 to 70 years with a bank / Post office account who give their consent to join / enable auto-debit on or before 31st May for the coverage period 1st June to 31st May on an annual renewal basis. Aadhar would be the primary KYC for the bank account. The risk coverage under the scheme is Rs. 2 lakh for accidental death and full disability and Rs. 1 lakh for partial disability. The premium of Rs. 12 per annum is to be deducted from the account holder’s bank / Post office account through ‘auto-debit’ facility in one installment. The scheme is being offered by Public Sector General Insurance Companies or any other General Insurance Company who are offering the product on similar terms with necessary approvals and tie up with Banks.

ii. Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY):

The scheme is available to people in the age group of 18 to 50 years having a bank/ Post office account who gives their consent to join / enable auto-debit. Aadhar would be the primary KYC for the bank account. The life cover of Rs. 2 lakhs is available for a one year period stretching from 1st June to 31st May and is renewable. Risk coverage under this 2scheme is for Rs. 2 Lakh in case of death of the insured, due to any reason. The premium is Rs. 330 per annum which is to be auto-debited in one instalment from the subscriber’s bank / Post office account as per the option given by him on or before 31st May of each annual coverage period under the scheme. The scheme is being offered by Life Insurance Corporation and all other life insurers who are offering the product on similar terms with necessary approvals and tie up with Banks and Post Offices for this purpose.

To facilitate all those getting enrolled under PMJJBY for the first time during the

middle of the policy period, payment of pro-rata premium has been allowed at a considerable low premium. Thus, if the enrolment takes place during the months of –

- June, July & August –Annual premium of Rs. 330/- is payable.
- September, October & November –3 quarters of premium @ Rs.86.00 i.e. Rs. 258/- is payable.
- December, January & February – 2 quarters of premium @ Rs.86.00 i.e. Rs. 172/- ispayable.
- March, April & May – 1 Qty premium @ Rs.86.00 is payable.

As on 31st March 2019, the gross enrolment by banks, subject to verification of eligibility criteria, is about 5.91 crore people under PMJJBY and 1,35,212 claims of Rs. 2704.24 Crore have been disbursed.
Post Offices for this purpose.

As on 31st March 2019, the gross enrolment by banks, subject to verification of eligibility criteria, is about 15.47 crore under PMSBY and 32,176 claims of Rs. 643.52 Crore have been disbursed.

The schemes were launched as social security measures to help citizens prepare for unforeseen circumstances and old age. Therefore, these schemes have been introduced at very low premiums. The Government offers these schemes only to bank account holders and the premiums are to be collected from the customer through an auto debit to the bank account. They are available to all citizens who meet the eligibility criteria.

All banks are required to offer these schemes to their customers by entering into tie-ups with insurance providers (Life & General).

iii. Atal Pension Yojana:

Atal Pension Yojana (APY) is being implemented with effect from 1st June, 2015. The Scheme aims to provide monthly pension to eligible subscribers not covered under any organized pension schemes. APY is open to all bank and post office account holders in the age group of 18 to 40 years. Under APY, any subscriber can opt a guaranteed pension of Rs 1000 to Rs 5000 (in multiples of Rs. 1,000) receivable at the age of 60 3years. The contributions to be made vary based on pension amount chosen.

The keyfeatures of APY are as under:

a) The APY is primarily focused on all citizens in the unorganized sector, who join the NPS. However, all citizens of the country in the eligible category may join the scheme.
b) Any Indian Citizen between 18-40 years of age can join through their savings bank account or post office savings bank account.
c) Minimum pension of Rs. 1000 or Rs. 2000 or Rs. 3000 or Rs. 4000 or Rs. 5000 is guaranteed by the Government of India to the subscriber at the age of 60 years, with a minimum monthly contribution (for those joining at age 18) of Rs. 42 or Rs. 84 or Rs. 126 or Rs. 168 and Rs. 210, respectively.
d) After the subscriber's demise, the spouse of the subscriber shall be entitled to receive the same pension amount as that of the subscriber until the death of the spouse.

e) After the demise of both the subscriber and the spouse, the nominee of the subscriber shall be entitled to receive the pension wealth, as accumulated till age

60 of the subscribers.

f) The subscribers in the eligible age, who are not income-tax payers and who are not covered under any statutory social security scheme, are entitled to receive the co-contribution by Central Government of 50% of the total prescribed contribution, up to Rs. 1000 per annum, and this will be available for those eligible subscribers, who join APY before 31st March, 2016. The Central Government co-contribution shall be available for a period of 5 years, i.e., from Financial Year 2015-16 to 2019-20.

g) If the actual returns during the accumulation phase are higher than the assumed returns for minimum guaranteed pension, such excess will be passed on to the subscriber.

h) The contributions can be made at monthly / quarterly / half yearly intervals through auto debit facility from savings bank account/ post office savings bank account of the subscriber. The monthly / quarterly / half yearly contribution depends upon the intended / desired monthly pension and the age of subscriber at entry

2.24. List of Social Security schemes by the Government of India:

The table below gives the list of the social security schemes in India:

Scheme Name	**Brief Description**	**Year of Launch**
Employees' State Insurance Scheme	Provides medical benefits, maternity benefits, and sickness benefits to employees in the organized sector.	1952
Employees' Provident Fund Scheme	Retirement benefit scheme providing a lump sum amount to employees upon retirement or resignation.	1952
Financial assistance to ex-servicemen in penury	Provides financial aid to ex-servicemen who are in a state of penury.	1981
Pandit Deendayal Upadhyay National Welfare Fund For Sportspersons	Provides financial assistance and welfare support to sportspersons in India.	1982
Mahatma Gandhi National Rural Employment Guarantee Act	Provides guaranteed employment opportunities and wage security to rural households.	2005
National Pension Scheme	Voluntary retirement savings scheme offering regular income after retirement.	2004
Rashtriya Swasthya Bima Yojana	Health insurance scheme for below-poverty-line families offering cashless treatment for hospitalization expenses.	2008
Prime Minister's Employment Generation Programme	Credit-linked subsidy program promoting self-employment opportunities by providing financial assistance for small businesses.	2008
Pradhan Mantri Jan Dhan Yojana	Financial inclusion program providing access to banking services, insurance, and pension schemes for all.	2014
Pradhan Mantri Suraksha Bima Yojana	Personal accident insurance scheme offering coverage for accidental death and disability at a nominal premium.	2015
Pradhan Mantri Jeevan Jyoti Bima Yojana	Life insurance scheme providing a life cover of Rs. 2 lakh at an affordable premium.	2015
Atal Pension Yojana	Pension scheme for workers in the unorganized	2015

	sector offering fixed monthly pension amounts based on contributions.	
Central Victim Compensation Fund scheme (CVCF)	Provides financial assistance to victims of crime to support their rehabilitation and relief.	2015
Pradhan Mantri Vaya Vandana Yojana	Pension scheme for senior citizens offering guaranteed returns and regular income.	2017
Pradhan Mantri Matru Vandana Yojana	Maternity benefit program providing financial assistance to pregnant and lactating women for their healthcare needs.	2017
Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana	Health insurance scheme providing cashless treatment for certain illnesses and hospitalization expenses.	2018
Atal Beemit Vyakti Kalyan Yojana	Provides unemployment benefits to insured persons covered under the Employees' State Insurance Scheme.	2018
Pradhan Mantri Shram Yogi Maan-Dhan Yojana (PM-SYM) Old Age Protection	Pension scheme for workers in the unorganized sector providing a minimum assured pension upon reaching the age of 60.	2019
National Pension Scheme for Traders and The Self-employed Persons (NPS)	Voluntary pension scheme where individuals are eligible to receive a minimum monthly pension of Rs. 3000 upon reaching the age of 60.	2019
Special Portal For Battle Casualties Welfare Fund	A dedicated portal to provide welfare support and financial assistance to the families of battle casualties.	2022
Sports Fund for Pension to Meritorious Sportspersons	Establishes a fund to provide pensions to meritorious sportspersons for their achievements and contributions.	-
Insurance coverage for LPG users	Provides insurance coverage for users of LPG (liquefied petroleum gas) for accidents, injuries, and property damage.	-
Minimum Wages for various employment roles	Ensures a minimum wage for workers in various employment roles to protect their economic well-being.	-

2.25. Life Insurance Companies in India:

We cannot ignore the stress pertaining to our daily life, like we often come across the event of people meeting an early end, often leaving their entire families devastated after their demise. So it is not hard to understand that why one must consider investing in a life insurance plan. A life insurance policy provides compensation or financial shield in the form of lump sum amount to you and your dependents after your demise.

Hence to offer a financial security and sense of peace to your family after your demise, it is essential to select a life insurance policy from the right life insurance company in India that can easily go well with the requirements of your dependants. In India there are approximately 24 life insurance companies and Life Insurance Corporation (LIC) is the only public sector insurance company among them. However, applicant should consider your preferences towards choosing the right life insurance company.

There are 24 leading life insurance companies in India which have been regulated by the Insurance Regulatory and Development Authority of India (IRDAI). These life insurers offer

comprehensive insurance solutions and cater to the needs of individuals and groups. They also provide a wide range of insurance products and benefits at competitive premiums.

i. India Life Insurance Market Report Overview:

The gross written premium of India life insurance market was INR7.9 trillion ($100.4 billion) in 2022 and is expected to achieve a CAGR of more than 12% during 2023-2027. The India life insurance market research report provides in-depth market analysis, information, insights, and a detailed outlook by product category for Indian life insurance segment. It also provides values for key performance indicators such as gross written premium, penetration, and premium ceded and cession rates during the review period and forecast period.

The following are 24 insurance companies in India:

i. Aegon Life Insurance Co. Ltd.
ii. Aviva Life Insurance Co. India Ltd.
iii. Bajaj Allianz Life Insurance Co. Ltd.
iv. Bharti AXA Life Insurance Co. Ltd.
v. Birla Sun Life Insurance Co. Ltd.
vi. Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd.
vii. Pramerica Life Insurance Co. Ltd.
viii. Edelweiss Tokio Life Insurance Co. Ltd
ix. Exide Life Insurance Co. Ltd.
x. Future Generali India Life Insurance Co. Ltd.
xi. HDFC Life Insurance Co. Ltd.
xii. ICICI Prudential Life Insurance Co. Ltd.
xiii. Aegas Federal Life Insurance company
xiv. IndiaFirst Life Insurance Co. Ltd
xv. Kotak Mahindra Life Insurance Co Ltd
xvi. Life Insurance Corporation of India
xvii. Max Life Insurance Co. Ltd.
xviii. PNB MetLife India Insurance Co. Ltd.
xix. Reliance Nippon Life Insurance company
xx. Sahara India Life Insurance Co. Ltd.
xxi. SBI Life Insurance Co. Ltd.
xxii. Shriram Life Insurance Co. Ltd.
xxiii. Star Union Dai-Ichi Life Insurance Co. Ltd.
xxiv. Tata AIA Life Insurance Co. Ltd.

2.26. Conclusion: Group Term Insurance Plans are a valuable benefit that provides financial security for employees and their families. It's important to compare policies from different providers and understand the limitations of coverage.Insurance allows businesses to take risks and invest in new ventures, knowing that they are protected in case of unforeseen events. This security encourages innovation and growth, leading to job creation and economic development. In conclusion, taking insurance is an essential part of managing one's financial risks.This plan helps to meet the employer's obligation for Gratuity Benefit to their employees. Group gratuity plan also offers life cover benefit so that in case of death of a group member an amount equal to sum assured in respect of that member will be paid.Group superannuation scheme is a retirement benefit plan provided by a company to its working class. The plan is established by an organization or an employer for the benefit of its staff.

2.27. Keywords:

- **Group Insurance**

- **Group Gratuity**
- **Group Superannuation**
- **Employer**
- **Premium**
- **Claim process**
- **Nomination**
- **Social Security Insurance Schemes etc.,**

2.28. Self-Assessment Questions:

i) What is group insurance? explain the features of group insurance?
ii) Explain various types of group insurance schemes?
iii) What is group gratuity scheme? Explain eligibility conditions of group gratuity?
iv) Explain different types of group gratuity insurance plans?
v) What are Social Security Insurance Schemes in India and explain social security insurance schemes by government of India?
vi) Explain some of life insurance companies in India?

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Dr. K. Abraham Lincoln

Lesson -3
PLANS OF LIFE INSURANCE

Objectives

After studying this unit, you should be able to:

- To understanding the concept of insurance and basic characteristics of insurance.
- To learn the principles of insurance and role of insurance industry in India
- To know different plans of life insurance and their approaches.

Structure

3.1. Origin of Insurance
3.2. Definition of Insurance and basic characteristics
3.3. Basic Principles of Insurance
3.4. Insurance Industry in India
3.5. Classification of Insurance
3.6. Life Insurance Plans –Approaches
3.7. Popular Life Insurance Plans
3.8. Selection of Right Life Insurance Policy
3.9. Summary
3.10. Keywords
3.11. Self-Assessment Questions
3.12. Suggested Readings

3.1. ORIGIN OF INSURANCE

Insurance is a technique involving collection of small amounts of premium from many individuals and companies out of which losses suffered by a few are reimbursed. In this method the individual insured who is exposed to uncertain and accidental loss is able to get protection through payment of a small but definite cost, namely premium. In other words the risk is transferred from the insured to the insurer.

Insurance is a contract between two parties i.e. insurer and insured, whereby in consideration of payment of premium by the insured, the insurer agrees to reimburse a financial loss which the insured may incur due to an insured peril. The contract is again subject to the Indian Contract Act coupled with special principles evolved by common law. The policy which is the document issued by insurer is an evidence of the contract.

Early insurance goes back to the Egyptian times. Around 3000 BC, Chinese merchants dispersed their shipments among several vessels to avoid the possibility of damage or loss. Insurance understood as a technique providing protection against the fortuitous events for a consideration had its origin in the bottomry bonds which were issued by the Mediterranean merchants as early as the fourth century B.C. This loan was an advance of money on a ship during the period of voyage and the loan was repayable with the agreed rate of interest on arrival of the ship safely at the destination. During the voyage if ship was lost, the obligation to repay the loan was extinguished. The interest payable constituted a sort of premium for the risk of total loss. Now, there is insurance for many aspects of daily living Business, Auto, Health, Life, Travel. Each of those categories include sub-categories, branching off into numerous divisions.

3.2. DEFINITION OF INSURANCE AND BASIC CHARACTERISTICS

Insurance is a method of risk transfer. In insurance the losses of the unfortunate few are shared by fortunate many. The loss of an individual is shared by all those who are likely to face the same situation of loss. In other words, Insurance is the pooling of future unexpected losses by transfer of such risks to the insurers who agree to indemnify insured for such losses, to provide other preliminary benefits on their occurrence or to render services connected with the risk. This definition indicates the basic characteristics of insurance, viz.:

Risk pooling: Insurers pool the risk i.e. the spreading of losses of unfortunate few over the entire group. In process actual loss is substituted by average loss.

Risk Transfer: Risk transfer takes place when an insurer agrees to pay loss that may occur and the uncertainty of financial result has been transferred to insurer from insured. For this insured pays premium to the insurer.

Indemnification: Insured is re-established to his or her approximate financial position prior to the occurrence of the loss.

An individual pays a premium while purchasing a policy and can make a claim if insured event occurs. The main functions of insurance are risk transfer by creation of common pool whereby losses of the few are met by the contributions of many. And charging equitable premiums i.e. the premium charged to each risk must reflect the severity of risk brought to the pool. If it is set too low losses will be made and if too high, business will lose competitive edge. Insurance policies are contracts whereby Insurance companies (Insurers) promise the insureds that they will pay the financial loss suffered by the insured in the event of occurrence of insured event and to get this promise insured pays premium (consideration) to the insured.

3.3. BASIC PRINCIPLES OF INSURANCE

A contract is an agreement. It includes a set of promises that are imposed by law and for breach of promises law provides a remedy. Hence, Insurance is under the purview of Contract Act. Non-life insurance policies are contracts of indemnity and involves insurable interest of insured. Basic principles of insurance are utmost good faith, insurable interest, indemnity, subrogation and contribution. Before proceeding to the classification of Insurance, let’s review the principles of Insurance.

3.3.1. Utmost Good Faith: Insurance contract is done on utmost good faith i.e. in a contract of insurance, there is an implied condition that each party must disclose every material fact known to him. A representation is a statement made by an applicant (proposer) for insurance before the contract is effected. A misrepresentation of material fact makes the contract voidable at the option of insurer. Like misrepresentation, concealment has also the same legal effect. A concealment is defined as a failure of applicant to reveal the facts when obligated to speak. Applicant should not conceal the facts, even if the disclosure of the same may result into rejection of application. e.g. In case of fire insurance material facts are information regarding construction of the building, nature of goods stored, nature of process carried on, location, etc. To give one more example in case of accident insurance, one should give information regarding type of vehicle, nature of operation, tonnage, etc. in motor and in case of burglary, nature of goods, security arrangements, etc.

3.3.2. Principle of Insurable Interest: Insurable interest exists only if insured would suffer economic loss in the event of damage or destruction of insured object. For e.g. insurance of house or shop; damage to the house will result into financial loss to the owner. It is also

necessary that insurable interest must exist at the time of loss. Secured creditors have insurable interest in the property for which they have given loan. To illustrate, Mr. Iyer cannot purchase insurance of Mr. Shah's house and collect the insurance claim if house is damaged. By doing this Mr. Iyer will be profiting from the insurance.

3.3.3. Principle of Indemnity: This principle argues that individual should not be permitted to make profit from the contract but should be re-established to the same financial conditions that existed prior to the occurrence of loss. In other words, insurance company agrees to pay not more than the actual amount of loss suffered by the insured. There are two fundamental purposes involved; first is to prevent the insured from making profits from occurrence of loss and second is to reduce moral hazard.

3.3.4. Subrogation: Another provision under the insurance contract which is preventing insured from making profits is subrogation. Subrogation means substitution of the insurer in place of insured for the purpose of claiming indemnity from third party for a loss covered by Life Insurance insured. e.g. a negligent car driver fails to stop at red signal and smashes into the car causing damage worth Rs. 10000. If he has comprehensive car insurance then insurance company will pay physical damage expenses and then make an effort to collect the cost of damage from negligent driver who caused accident.

3.3.5. Contribution: It is the right of insurer who have paid a loss under a policy to recover a proportionate amount from other insurers who have covered the liability for the same loss. e.g. A house is insured against the fire with two insurance companies under two different fire insurance policies with sum insured Rs. 20000. Fire occurs in the house causing loss of Rs. 20000 then in the event of loss the insurer who paid full claim has a right to recover Rs. 10000, the proportionate amount of claim paid, from the other insurer.

3.3.6. Deductibles: Deductible is a provision by which a specified amount is subtracted from the loss payment otherwise payable to the insured. Deductible is used to eliminate small claims and the administrative expense of adjusting these claims. Deductible is the amount of the loss which the insured has to bear in each and every claim and in return substantial premium savings are possible. Insurance company shall be liable only when the amount of loss exceeds the 'deductible', e.g. A policy with Rs.100 deductible would mean that policyholder has to bear Rs.100 of each and every claim under the policy. You may choose a higher deductible to lower your premium. But it is not advisable to opt for a higher deductible to reduce the premium outgo.

One should make an informed decision by giving due consideration to policy coverage, service offered by insurer and such other aspects discussed above rather than basing the decision solely on the premium outgo. And one should know that no decision is an informed decision unless that decision is based on the correct and complete understanding of the policy wordings.

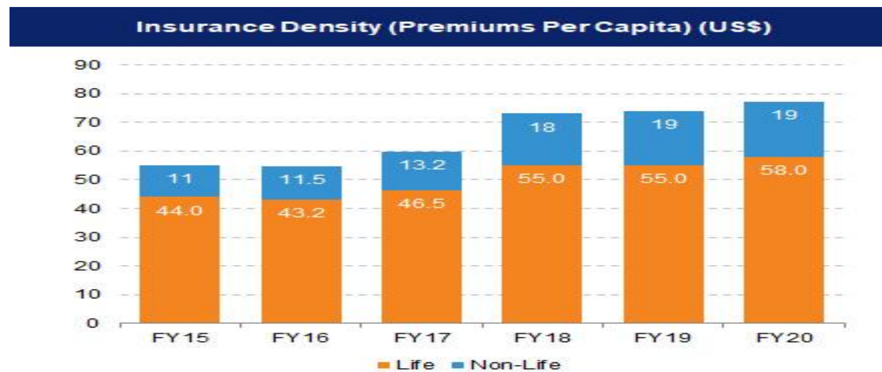
3.4. INSURANCE INDUSTRY IN INDIA

India's Insurance industry is one of the premium sectors experiencing upward growth. This upward growth of the insurance industry can be attributed to growing incomes and increasing awareness in the industry. India is the fifth largest life insurance market in the world's emerging insurance markets, growing at a rate of 32-34% each year. In recent years the industry has been experiencing fierce competition among its peers which has led to new and innovative products within the industry. Foreign Direct Investment (FDI) in the industry under the automatic method is allowed up to 26% and licensing of the industry is monitored by the insurance regulator the Insurance Regulatory and Development Authority of India (IRDAI).

The insurance industry of India has 57 insurance companies - 24 are in the life insurance business, while 34 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 General Insurance Corporation of India (GIC Re). Other stakeholders in the Indian Insurance market include agents (individual and corporate), brokers, surveyors and third-party administrators servicing health insurance claims.

The insurance industry has undergone numerous transformations in terms of new developments, modified regulations, proposals for amendments and growth in 2022. These developments have opened new avenues of growth for the industry while ensuring that insurers stay relevant with changing times and the latest digital disruptions.The Insurance Regulatory and Development Authority India (IRDA) is vigilant and progressive and is determined to achieve its mission of '**Insurance for all by 2047**', with aggressive plans to address the industry's challenges.The growth of the insurance market is being supported by important government initiatives, strong democratic factors, conducive regulatory environment, increased partnerships, product innovations, and vibrant distribution channels.

Insurance Industry was largely dominated by offline channels like corporate agents, offline brokers or banks. Today, rapid digitization, product innovation and progressive regulation policies have made it possible for consumers to buy insurance through multiple distribution channels with the click of a button. The instability of the covid-19 pandemic highlighted the necessity for consumers to invest in products that would increase financial security, one of them being life insurance.



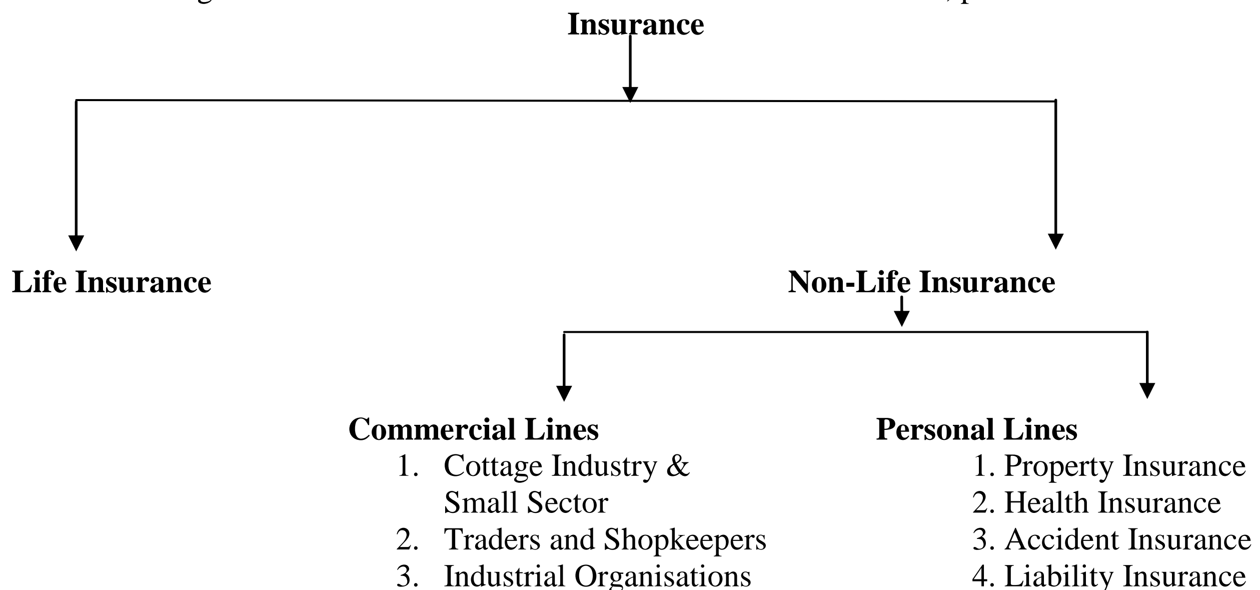
- The insurance industry in India has witnessed an impressive growth rate over the last two decades driven by the greater private sector participation and an improvement in distribution capabilities, along with substantial improvements in operational efficiencies.
- In Financial Year 2024 (until September 2023), non-life players' saw a premium income increase by 14.86% year-over-year to Rs. 1,43,802 crore (US$ 17.29 billion) due to strong demand for health and motor policies.
- The Indian non-life insurance industry logged 14.86% growth during the first half of Financial Year 2024 as compared to 15.30% growth for the same period the previous year. The business growth for the first half of Financial Year 2024 was driven by health (especially the group segment), motor, and crop insurance.
- In April-November 2023, life insurers' new business premiums grew to Rs. 211,690.65 crore (US$ 25.38 billion), according to Life Insurance Council data.

- The premium in the month of March 2023 for the private life insurance industry grew at a healthy pace of 35% on a year-on-year basis and 20% for Financial Year 2023.
- Life insurance firms collected 18% more premiums in Financial Year 2023 compared to the year before. Life insurers collected Rs. 3.71 lakh crore (US$ 44.85 billion) as the first-year premium in Financial Year 2023 as against Rs. 3.14 lakh crore (US$ 37.96 billion) in Financial Year 2022, shows the latest IRDAI data.
- Mr. Debashish Panda, Chairman, IRDAI informed that the insurance industry of India has become a Rs. 59 crore (US$ 7.1 million) industry as of February 2023.
- Driven by a pick-up in health and motor insurance segments, the non-life insurance industry has grown by 16.4% in Financial Year 2023 compared to 11.1% in the previous year.
- Among the private players, SBI Life, HDFC Life and ICICI Prudential Life led the industry in premium collection. SBI Life collected Rs. 29,587 crore (US$ 3.57 billion) premium in Financial Year 2023 while HDFC Life and ICICI Prudential Life received Rs. 28,876 crore (US$ 3.48 billion) and Rs. 16,921 crore (US$ 2.04 billion), respectively.
- As expected, the state-run insurance behemoth LIC alone contributed over 60% to the total new business premium collection. The insurer received close to Rs. 2.31 lakh crore (US$ 27.93 billion) as premium in Financial Year 2023 compared to Rs. 1.99 lakh crore (US$ 24.06 billion) in Financial Year 2022.
- Among the private players, SBI Life, HDFC Life and ICICI Prudential Life led the industry in premium collection. SBI Life collected Rs. 29,600 crore (US$ 3.58 billion) premium in Financial Year 2023 while HDFC Life and ICICI Prudential Life received Rs. 28,900 crore (US$ 3.49 billion) and Rs. 17,000 crore (US$ 2.05 billion), respectively.
- According to the latest data released by the insurance regulator – the Insurance Regulatory and Development Authority of India - LIC improved its market share by 67.72% as of October, a gain of 447 basis points (bps). At the end of 2021-22, private players had a 36.75% share of the life insurance market, while LIC had 63.25%.
- With nearly 62.58% of the new business market share in Financial Year 2023, Life Insurance Corporation of India, the only public sector life insurer in the country, continued to be the market leader.
- In Financial Year 2023, non-life insurers (comprising general insurers, standalone health insurers and specialized insurers) recorded a 16.4% growth in gross direct premiums.
- In India, gross premiums written off by non-life insurers reached US$ 10.95 billion in Financial Year 2024* and US$ 31 billion in Financial Year 2023.
- The life insurance industry was expected to increase at a CAGR of 5.3% between 2019 and 2023. India’s insurance penetration was pegged at 4.2% in Financial Year 2021, with life insurance penetration at 3.2% and non-life insurance penetration at 1.0%. In terms of insurance density, India’s overall density stood at US$ 78 in Financial Year 2021.
- Premiums from India’s life insurance industry is expected to reach Rs. 24 lakh crore (US$ 317.98 billion) by Financial Year 2031.
- Between April 2021-March 2022, gross premiums written off by non-life insurers reached Rs. 220,772.07 crore (US$ 28.14 billion), an increase of 11.1% over the same period in Financial Year 2021. In May 2022, the total premium earned by the non-life insurance segment stood at Rs. 36,680.73 crore (US$ 4.61 billion), a 24.15% increase compared to the previous year’s period.

- The market share of private sector companies in the general and health insurance market increased from 48.03% in Financial Year 2020 to 49.31% in Financial Year 2021 to 62.5% in Financial Year 2023. Six standalone private sector health insurance companies registered a jump of 66.6% in their gross premium at Rs 1,406.64 crore (US$ 191.84 million) in May 2021, as against Rs. 844.13 crore (US$ 115.12 million) earlier.
- According to S&P Global Market Intelligence data, India is the second-largest insurance technology market in Asia-Pacific, accounting for 35% of the US$ 3.66 billion insurtech-focused venture investments made in the country.

3.5. CLASSIFICATION OF INSURANCE

Insurance may be classified according to the type of coverage. The conventional classification of Insurance is Life Insurance and Non-Life Insurance. Life insurance coverage can be further divided into life and health insurance. Non-life or General insurance is further classified into 2 categories Property Insurance and Liability Insurance. General Insurance is again classified into Commercial Line of Insurance i.e. for industry, small sector industry so also commercial organizations and Personal Line of Insurance for individuals, professionals.



Life Insurance

Under the purview of this class of insurance, the risk associated with human life in general can be covered up to the limit specified called sum assured. A person can insure his or her life and his health against the contingencies like, death, disability, surviving too long. In event of his death, his dependents will be reimbursed to the full amount that he was insured for. Or if the insured person meets with an accident or suffers from an illness that cripples him forever, he will be compensated with the complete sum assured anyway since he may not be able to lead a normal life again. In case, the accident is not that severe, he should be able to recover after medical treatment and rehabilitation. If he has opted for medical cover, then his medical expenses, treatment and medication will be paid for by his insurance policy.

Non-Life Insurance (General Insurance)

The scope of commercial lines of insurance has been extended to the following categories and offer covers for:

Cottage Industry and Small Sector

Traders and shopkeepers

- Professionals and specific professions
- Industries and Commercial oganisations
- Rural Industries and Rural prospects

Personal Line of Insurance

- Property Insurance
- Health Insurance
- Accident Insurance
- Liability Insurance Covers

Property Insurance business may be classified under three broad heads, viz., Fire, Marine or Miscellaneous Insurance. General Insurance business is generally contract of indemnity and are totally different from Life Insurance Contracts. Within the framework of the policy of the general insurance the insured is indemnified or provided with compensation in the event of operation of an insured peril. The essentials of normal contract are equally applicable to general insurance contracts.

Property Insurance covers insurances of building, motor vehicles, marine and aviation, boilers machinery, furniture, fixtures, cash in transit, crop, cattle, etc.; whereas Liability Insurance covers public liability (Third Party Liability), Product Liability and Professional Indemnity.

Property Insurance is designed to indemnify the insured for loss or damage to buildings, furniture or other personal property due to different ways in which property can be damaged. Property may be damaged due to fire, theft, engineering, breaking glasses, etc. The standard cover used by almost all the business and households is of Fire Insurance.

3.6. LIFE INSURANCE PLANS – APPROACHES

Introducing life insurance into your financial plan can offer significant benefits and peace of mind for you and your loved ones. Here's a structured approach to incorporating life insurance into your plans:

1. **Assess Your Needs**: Understand why you need life insurance. It could be to replace lost income, pay off debts, cover final expenses, fund your children's education, or provide for your family's long-term financial security.
2. **Evaluate Different Types of Policies**: There are various types of life insurance policies such as term life, whole life, universal life, and variable life. Each has its own features, benefits, and costs. Choose the one that aligns best with your needs and financial goals.
3. **Calculate Coverage Amount**: Determine how much coverage you need based on your current financial obligations, future expenses, and your family's needs. Online calculators and financial advisors can help you arrive at an appropriate coverage amount.
4. **Understand Policy Features**: Familiarize yourself with the features of the policy you're considering, including premiums, death benefits, cash value (for permanent policies), policy term (for term life), and any riders or additional benefits.
5. **Compare Quotes**: Obtain quotes from multiple insurance companies to ensure you're getting the best coverage at the most competitive price. Consider factors such as financial stability, customer service reputation, and policy flexibility when comparing.
6. **Review and Adjust Regularly**: Life insurance needs can change over time due to factors like marriage, childbirth, career advancement, or changes in financial status. Regularly review your coverage and adjust it as needed to ensure it remains adequate.

7. **Consider Supplementary Coverage**: Depending on your circumstances, you may benefit from additional coverage such as disability insurance, critical illness insurance, or long-term care insurance. Evaluate these options alongside your life insurance policy.
8. **Consult with a Financial Advisor**: A professional advisor can provide personalized guidance tailored to your specific financial situation and goals. They can help you navigate the complexities of life insurance and ensure your plan meets your needs effectively.
9. **Educate Beneficiaries**: Make sure your beneficiaries are aware of the life insurance policy, how to file a claim, and any other relevant details. Keeping them informed can streamline the process and ensure they receive the benefits promptly when needed.
10. **Review Estate Planning Implications**: Life insurance proceeds may be subject to estate taxes if not structured properly. Consult with an estate planning attorney to ensure your policy aligns with your overall estate plan and minimizes tax implications.

By following these steps and incorporating life insurance into your financial strategy, you can provide valuable protection for your loved ones and achieve greater financial security for the future.

3.7. POPULAR LIFE INSURANCE PLANS

A life insurance policy is a contract between the insurer and policyholder, wherein the insurer promises to pay a life cover in return for regular premiums paid by the insured. This life cover secures your dear ones' future by paying a lump sum in case of an unforeseen event. The best type of life insurance for you depends on your budget and your financial responsibilities. The following are the various popular plans in life insurance industry:

3.7.1. Term Life Insurance or Term Plan: Term life insurance is the most popular type of life insurance. It is widely considered to be the simplest and purest form of life insurance. It offers a death benefit to the beneficiaries of the policy if the policyholder passes away during the policy term.

Term insurance is the most affordable types of life insurance. The most distinctive feature of this plan is the high amount of coverage offered at extremely nominal premium rates. It is thus cheaper than other types of life insurance policies. In general, term life insurance does not offer maturity benefits. But certain types of term plans also offer maturity benefits, i.e., term plan with return of premiums (TROP) if the policyholder outlives the policy term. One can also increase the amount of coverage offered by a term plan by opting for additional riders, such as Accidental Death Benefit or Child Support riders.

3.7.2. Whole Life Insurance Plan: Whole life insurance is a type of life insurance that offers coverage right until the death of the policyholder. In this policy, you can opt for either a participating or non-participating policy, as per your financial needs and risk appetite. Though the premiums for participating whole life insurance are higher in comparison, dividends are paid out at regular intervals to the policyholders. The premium rates for a non-participating policy are lower, but the policyholder generally cannot avail the benefits of regular dividends.

3.7.3. Unit Linked Insurance Plan (ULIP): Unit Linked Insurance Plan or ULIP is a type of life insurance product that offers dual benefits of investment and life insurance. Among the different types of life insurance policies available, ULIPs enjoy a high amount of popularity

owing to their versatile nature. A portion of the premiums paid is directed towards ensuring insurance coverage, while the rest of the premium is invested into a bouquet of investment instruments, which can include market-backed equity funds, debt funds and other securities.

ULIPs are extremely flexible instruments since investors can easily switch or redirect their premiums between the different funds available. They are also touted as having an edge over other market instruments in terms of tax-saving benefits, since their proceeds are exempted from LTCG (Long Term Capital Gains).

3.7.4. Endowment Policy: Endowment Policy is a type of life insurance policy which acts as, both, an instrument for insurance and saving. These plans aim to provide maturity benefits to the life insured, in the form of a lump sum payment at the end of the policy tenure, even if a claim hasn't been made. It is the most suitable types of life insurance for people looking to get maximum coverage alongside having a sizable savings component. They help the policyholder inculcate the habit of savings, even while providing financial security to their family. Endowment plans can broadly be classified into two types: with profit and without profit. Policyholders can choose from these two types based on their risk appetite.

3.7.5. Money Back Policy:

Being one of the best types of life insurance policies, a money back plan offers policyholders a percentage of the total sum assured at periodic intervals in the form of Survival Benefits. Once the policy reaches maturity, the remaining amount of the Sum Assured is handed over to the policyholder. However, if the policyholder dies while the term is ongoing, their dependents are given the entire Sum Assured without any deductions.

3.7.6. Retirement Plan:

A retirement plan is a type of life insurance that focuses on providing you financial stability and security post your retirement. After you retire, you lose your regular income from employment. Investing in retirement plans can help you create a stable regular income stream. If you continue to invest until retirement, the plan will help you take care of your expenses after retirement. It requires you to invest a certain part of your income regularly during your working life. At the time you retire, the amount that you create over the years will be converted into a regular income stream. Retirement plans also involve death benefits. Thus, if the policyholder passes away during the course of the policy, their beneficiaries will be provided with an assured sum.

3.7.7. Child Insurance: A child insurance plan is a savings cum investment plan that provides financial protection for the child's future upon the unfortunate demise of the policyholder. It is ideal for ensuring the future needs of the child are well taken care of, even in the absence of the life insured. Parents can invest in the best child insurance plans, in order to meet the financial requirements for their child's education, marriage or to fulfill a multitude of other financial goals their child might have.

3.7.8. Group Insurance Plan: A group life insurance policy is a type of life insurance that covers a group of people inside a single insurance policy. Unlike individual life insurance policies, which cover one person for a period, group insurance covers a minimum of 10 members.

Employers, banks, corporate, and other homogeneous groups of persons can buy group Life Insurance policies for their employees and customers. While employers would want to offer financial protection to their employees' families banks and lending institutions aim to keep the debt off the borrowers' family after their death.

1. The plan under which the group is covered is called the Master Plan.
2. The policy is issued to the manager of the group (master) but will remain in the name of the group only.

For example, Ram is the manager of a firm, to protect his employees, he has taken a group insurance policy. Now the policy will be issued to Ram in the name of the firm.
One of the distinct features of these life insurance policies is that you get insurance till the time you are part of the group. If you leave the group, your cover ceases to exist.

3.7.9. Savings and Investment Plan: Savings and investment plans from life insurance are the plans which channel your regular savings into long-term investment goals. Savings and Investment Plan is a life insurance cum savings plan that offers a life cover along with guaranteed maturity benefits. With this, you can plan your investments so that you can achieve your life goals smoothly. You can also protect your financial goal with a premium protection option. This option allows the planned investments to continue even after your demise.

3.8. SELECTION OF RIGHT LIFE INSURANCE POLICY

The idea of selecting the right policy differs from person to person. What will be a good option for someone else, may not be as attractive for you. Thus, it becomes important to choose the policy that suits you the best. The following are the various factors involved in choosing the right type of life insurance policy:
Choose according to the Goal: Different life insurance policies can help fulfill different goals. You should be clear about the goal that you want to achieve with your life insurance policy.
Consider the Sum Assured: Ascertain the needs and wants of your family members as well as the daily expenses and choose a cover that can fulfill all these. The general rule that goes is that you should select a sum assured which is at least 10 times your annual income.
Policy Term: While some policies are made to achieve long-term goals and have a longer time frame, some policies have shorter terms as well. Select a policy that has multiple time frames.
Riders: Riders can enhance your sum assured and can cover those occurrences which the basic policy doesn't. Choose a policy with maximum riders.

Check Information of the Company: Apart from the policy, research about the company that provided the policy as well.

3.9. SUMMARY

Insurance is a risk cover wherein the risk is transferred from the insured to the insurer. Risk is an uncertainty of loss or a combination of hazards. Risks are classified into Objective risk and Subjective risk; Financial risks and Non-financial risks; pure risk and Speculative risk; Fundamental risk and Particular risk. Risks that have a direct impact on an individual, such as

loss of ability to earn income, premature death, sickness or disability etc. are called personal risks and are insurable. Insurable risks also include property risk such as property damaged or destroyed because of fire, lightening, flood, cyclone, earthquake or any natural disasters, and liability risks wherein under the law of the land a person can be held legally liable if his/her act results in serious bodily injury or property damage to someone else. Insurance is the pooling of future unexpected losses by transfer of such risks to the insurers who agree to indemnify insured for such losses, to provide other preliminary benefits on their occurrence or to render services connected with the risks.

3.10. KEY WORDS

Insurance: Insurance is the pooling of future unexpected losses by transfer of such risks to the insurers who agree to indemnify insured for such losses, to provide other preliminary benefits on their occurrence or to render services connected with the risk.

Principle of Indemnity: This principle argues that individual should not be permitted to make profit from the contract but should be re-established to the same financial conditions that existed prior to the occurrence of loss.

Life Insurance: the risk associated with human life in general can be covered up to the limit specified called sum assured. A person can insure his or her life and his health against the contingencies like, death, disability, surviving too long.

Property Insurance: Property Insurance covers insurances of building, motor vehicles, marine and aviation, boilers machinery, furniture, fixtures, cash in transit, crop, cattle, etc.

Term Life Insurance: It offers a death benefit to the beneficiaries of the policy if the policyholder passes away during the policy term. The most distinctive feature of this plan is the high amount of coverage offered at extremely nominal premium rates.

3.11. SELF ASSESSMENT QUESTIONS

1. What is meant by insurance? Explain the need for insurance.
2. State the basic characteristics of insurance.
3. Write a note on broad classification of insurance.
4. Name the basic Life Insurance Plans. Explain those in details.

3.12. SUGGESTED READINGS

1. Kaninika Mishra, ‘Fundamentals of Life Insurance: Theories and Applications, Prentice Hall of India Learning Pvt. Ltd., New Delhi, 2010.
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LESSON - 4
TYPES OF LIFE INSURANCE PLANS

Objectives
After studying this unit, you should be able to:

- To identify the difference between general insurance and life insurance;
- To understand the different types of life insurance plans;
- To know the various types of whole life plans, reasons to opt the whole life insurance plans; and
- To learn about endowment plans and their types.

Structure

4.1. Introduction
4.2. Term Plans
4.3. Whole Life Insurance Plans
4.4. Endowment Policy
4.5. Money Back Policy
4.6. Savings
4.7. Retirement and Pension Plans
4.8. Convertible Plans
4.9. Variable Insurance Plans
4.10. Riders
4.11. Summary
4.12. Key Words
4.13. Self-Assessment Questions
4.14. Suggested Readings

4.1. INTRODUCTION

Insurance policies provide protection against the various types of uncertainties that can occur in the life of an individual. Having health insurance can help you cover up for the expenses paid for any diseases, while an accident insurance can help you in getting cover for any kind of accidents that may occur.

Insurance is a legal contract between a person and an insurance business in which the insurer promises to provide financial protection (Sum guaranteed) against unforeseen events for a certain price (premium). The many types of insurance plans available today may be grouped into two groups:

- **Life Insurance**
- **General Insurance**

Life Insurance: Life insurance comes in a variety of forms. The most prevalent types of life insurance policies offered in India are as follows:

- Term Life Insurance
- Unit-Linked Insurance Plans
- Whole Life Insurance
- Endowment Plans
- Child Plans for Educations

- Retirement Plans

General Insurance: Some of the kinds of general insurance offered in India are as follows :

- Health Care Coverage
- Automobile Insurance
- Homeowners' Insurance
- Insurance against fire
- Insurance for Travel

Let's take a closer look at the many kinds of Life insurance policies :

4.2. TERM PLANS

Life insurance term plans are a type of life insurance policy that provides coverage for a specific period or "term" of time, typically ranging from 5 to 30 years. These plans offer a death benefit to the beneficiaries if the insured individual passes away during the term of the policy. Here are some key points to know about term life insurance plans:

1. **Duration**: Term plans provide coverage for a predetermined period, such as 10, 20, or 30 years. Once the term expires, the coverage ends. If the insured individual passes away during the term, the death benefit is paid out to the beneficiaries.
2. **Affordability**: Term life insurance tends to be more affordable compared to whole life or universal life insurance because it does not build cash value over time. You're essentially paying for pure insurance coverage.
3. **Death Benefit**: Term plans offer a death benefit, which is the amount paid to the beneficiaries if the insured person dies during the term of the policy. This benefit is generally tax-free to the beneficiaries.
4. **Renewability**: Some term plans offer the option to renew the policy at the end of the term, typically at a higher premium rate. However, the renewal may be subject to certain conditions, such as the insured's age and health status.
5. **Convertibility**: Many term plans allow the policyholder to convert the term policy into a permanent life insurance policy, such as whole life or universal life, without undergoing a medical exam. This can be advantageous if the insured's needs change over time.
6. **Coverage Amount**: The coverage amount or death benefit of a term life insurance policy is chosen by the policyholder and should be based on factors such as income replacement needs, outstanding debts, and future financial obligations like mortgage payments or college tuition.
7. **Beneficiaries**: The policyholder designates beneficiaries who will receive the death benefit in the event of the insured's death. Beneficiaries can be individuals, such as family members, or entities like trusts or charities.

Overall, term life insurance can be an essential financial tool for providing financial protection to your loved ones during your working years or when you have significant financial obligations. It's important to assess your insurance needs and choose a term length and coverage amount that aligns with your financial goals and obligations.

Term assurance plan is the basic plan of insurance. All that one gets after purchasing the term assurance plan is protection for a specified period for a specific sum assured. It is like insuring a property for a specified period. If life assured does not die during the term of the policy there is no return of premium and over just ceases. The period for which cover will be provided may be as short as one year to as long as 25 years. Term assurance policy, has no surrender value so also no investment element that generally attracts people. In other words term assurance plan does not pay on survival and hence, they are extremely cheap. Secondly, the higher the sum assured, longer the term of cover and the worse the state of life assured

then policy attracts higher premium. Generally, people with little disposable income find term assurance plans attractive.

Exclusions: There is very little exclusion in Term Assurance Plan (TAP). Suicide is a universal exclusion. Death benefit is not payable where the insured person commits suicide within one year from the date of commencement of policy. Some policies also exclude war civil commotion, etc., as risks to life. There are a number of variances of TAP.

VARIANCES OF TERM ASSURANCE PLAN (TAP)

Increasing Term Assurance Plan: Under this plan the insurance coverage goes on increasing periodically over the term. It can increase at a predetermined rate. To illustrate, suppose an individual has purchased 15 years term assurance plan of sum assured Rs.1,00,000 for the first 3 years then it will increased by 30% for every 3 years, viz., Rs.1,30,000 at the end of 3rd year and will continue till 6th year. From 7th to 9th year, the coverage will be Rs.1,60,000 and from 10th to 12th year Rs.1,90,000 and 13th to 15th year Rs.2,00,000. Sometimes, the insurance coverage can be linked to an external index, like consumer price index and can increase with the index.

Decreasing Term Insurance Plan: When extra risk is undergone for a restricted period like mortgage protection where term assurance plan will provide money to pay off mortgage in the event of life assured dies within the term. Normally, decreasing term assurance plan is utilized to protect mortgage, so outstanding loan amount decreases with the passage of time so also the sum assured.

Renewable Term Insurance Plan: This plan grants the insured the right to renew the policy for a limited number of additional periods, each usually of the same length as the original length of the policy subject to an age limit. For example, the insured purchases a 15 year term policy at the age of 25 and survive this period then he has the option to renew the policy for the next 15 years without proving insurability. The insured may renew the policy at the age of 40, perhaps at age of 55 and hence, insurers impose an age limit beyond which renewal is not granted.

Convertible Term Assurance Plan: This plan permits policyholder to exchange the term policy for whole life policy or endowment insurance contract without evidence of insurability. This serves the need of those who want permanent protection but are presently unable to pay the higher premium for whole life or endowment plans. Conversion must take place within specified number of years after issuance. This facility increase flexibility of term plan.

The age of the insured must generally be between 18 and 50 years. The cover can be renewed until the insured reached 65 years of age. Some of the private insurance companies in India allow the age limit between 10 and 50 with the authorization of parent for a minor life assured.

4.3. WHOLE LIFE INSURANCE PLANS

Whole Life plan is also called as straight life, ordinary life. It remains throughout the insured whole lifetime provided the premiums are paid. A certain aforementioned amount is paid to the nominee in the event the insured dies. The policyholder at any time withdraws the policy or borrow against it. The maturity age for this policy is 100 years. If the insured lives past the maturity age, the policy will become matured endowment. The death benefit under this plan is tax free.

4.3.1. Way of Working Of Whole Life Policy: Understanding how they work can also help you decide whether they are fit for you or not. A whole life plan can be purchased against a payment which can be made as a one-off sum, on a monthly or a yearly basis. If you have

purchased a unit-linked whole life policy, then your funds will be directed not only towards the purchase of your life insurance for payment of the sum assured amount and the remainder of the amount will be invested in an investment fund. In the case of unit-linked/flexible whole life policies, the insurer will regularly review the policy to compare whether the value of the policy is equivalent with the cost of the life assurance which it is providing. In case the investment fund, where the remainder of the money is invested, is not performing to help cover the cost of benefits, your insurer may suggest you to either reduce the amount of your sum assured or to increase your regular contribution. Additionally, certain whole life policies also give customers the option of obtaining cover against specific illnesses or disability.

4.3.2. Types of Whole Life Policy: There are different types of Whole Life Insurance Policies available in the market, each of which is designed to cater to specific requirements. Read about each of these to find out more about which one may suit your needs.

- **Non-Participating Whole Life Insurance**: A non-participating whole life policy has a level premium and face amount during your entire life. The advantages of such a policy are its fixed costs and relatively low out-of-pocket premium payments. Since the policy is non-participating it does not pay you any dividends.
- **Participating Whole Life Insurance**: The defining feature of a participating whole life policy is that it pays dividends. Payment of dividends essentially indicates that the excess earnings which the company has accumulated via investments, savings from expenses and favorable mortality of the organization. There is no guarantee that policy holders will receive dividends. However, if dividends are paid, they will be paid in the form of cash which will be utilized to bring down the premium payment amount or will be allowed to accumulate and will attract interest at a specified rate. The dividends can also be used to for purchasing paid-up additional insurance to enhance the face amount of coverage provided. Under these two broad categories of participating and non-participating, there are several types of whole life policies which individuals can choose from:

▪ **Level Premium Whole Life Insurance**: As the name suggests, level premium whole life insurance features level premium payments which must be paid till the insured is alive. The premiums collected in the early stages of this policy are sufficient to pay for the insurance protection costs. The surplus funds, inclusive of the interest earnings will contribute towards any shortfalls in premiums at a later stage when the annual premium payments may not be enough to cover the insurance costs.

▪ **Limited Payment Whole Life Insurance**: Under the Limited Payment Whole Life Insurance, policyholders will be required to pay premiums for a limited period of time but will receive lifetime protection. However, since the premiums are to be paid for a shorter period of time, the premium amount will be relatively higher than the premium amount payable for an ordinary whole life plan. Under this kind of plan, customers have to pay premiums for a specified number of years - 10 years, 20 years, etc.

▪ **Single Premium Whole Life Insurance**: Under the single premium whole life insurance policy, individuals have to make the premium payment in a single lump sum. The payment must be made at the issue of the policy, making the policy fully paid up, with no requirements of any further premium payments. The single lump sum premium payment will provide the policy with loan value and immediate cash value, both of which could be significant in amount, depending on the amount of the lump sum premium. Given the sizeable amount of the lump sum premium payment, the Single Premium Whole Life policy is considered more as an investment insurance product.

▪ **Indeterminate Premium Whole Life Insurance**: The special feature of an indeterminate premium whole life policy, which is otherwise similar to an ordinary whole life insurance policy, is that is allows policyholders the option of adjusting their

premiums. Based on its estimate of its current earnings, cost of expense and mortality, the insurer will charge policyholders a 'current' premium. In case there are any changes in the aforementioned estimates, the insurer will adjust the premium amount accordingly which the policyholder will then be charged.

4.3.3. Reasons to Opt for Whole Life Insurance: Reasons to opt for whole life insurance if:

- You have made investments towards your post-retirement requirements and are seeking for other opportunities to invest in.
- You own an estate and wish to plan and bequeath your estate and savings to your beneficiaries and transfer your wealth.
- You are a young professional who has started off with their career and will be able to make premium payments for a considerable time going into the future.

4.3.4. Benefits of Whole Life Policy:

1. **Cover for Life:** The insured will get cover for his entire life unlike other life insurance plans that is fixed for a certain period. The other life insurance plans will expire and it will be expensive to take another one when you really want one. In the event you die, a lump sum tax free amount is paid to the nominee. If you outlive the term, you will not receive any return. For example, if a 25-year-old takes a whole life plan at the age of 25 years, he will receive a lump sum payment at the age of 45, the age at which his 20 year premium payment term will expire. He can use this money for his retirement and also his cover will continue till he turns 100 or till the date he dies.
2. **Assurance of Coverage, Periodic Payments and Tax Benefits:** The survival benefits will be built over time which keeps increasing over time. You will get lifetime coverage along with guaranteed level premiums for a limited premium payment term. The premium is constant throughout the premium payment term. Sum assured is guaranteed and the bonuses are declared based on the performance. Some companies offer survival benefit from the end of the premium payment term till the policy matures. Tax benefits are also available to the insured under Section 80C and Section 10(10D) of the Income Tax Act, 1961.
3. **Serves as a Source of Cash:** Financial experts believe that a person must keep six to eight month's living expenses in the form of liquid asset. It is however difficult to reserve such a huge cash while meeting retirement and long term saving goals. But with a whole life plan, you can get the cash at the end of the premium payment term.
4. **Loan option Available on Your Whole Life Plan Policy:** The surrender value of the policy increases over time and you can borrow against the policy's surrender value at any time. This is a better alternative against borrowing against home or retirement accounts.
5. **Your dependents Will Benefit from This Plan:** The return will prove to be an additional financial source in the family. This plan is ideal for estate planning individuals who want to pass on their estate to their legal heir as it helps create wealth.

4.4. ENDOWMENT POLICY

Endowment Life Insurance Policy is a type of life insurance that combines life coverage with savings. Under an Endowment Policy, if the policyholder passes away during the policy term, the nominee receives the sum assured or the death benefit. However, if the policyholder survives the policy term, he or she receives the maturity benefit, which is the sum assured plus any bonuses accrued during the policy term. Endowment Policies offer a disciplined savings avenue and provide financial security for the policyholder and their

family. They are typically offered by life insurance companies in India and can be purchased for a specific term or as a whole life policy.

4.4.1. Endowment Policy Working Procedure: Here's how an Endowment Policy works in India.

- **Choosing the policy:** The policyholder selects an Endowment Policy based on their requirements and preferences. The policyholder decides on the sum assured, policy term, premium payment term, and type of Endowment Policy they want to purchase.
- **Paying premiums:** The policyholder pays premiums regularly or as a lump sum, per the policy terms. The insurance company invests the premiums in various investment options such as stocks, bonds, and fixed deposits to generate returns.
- **Accruing bonuses:** The insurance company declares bonuses or profits on the premiums paid by the policyholder, which are added to the policy and paid along with the sum assured at maturity or in the event of the policyholder's death.
- **Maturity benefits:** At the end of the policy term, the policyholder receives the sum assured along with any accrued bonuses or profits, as per the policy terms. This lump sum amount can be used for various purposes such as retirement planning, children's education, or any other financial goals.
- **Death benefit:** In case of the policyholder's death during the policy term, the sum assured, along with any accrued bonuses or profits, is paid to the nominee as a death benefit. This provides financial security to the policyholder's family in case of any unfortunate event.
- **Surrender benefits:** If the policyholder decides to surrender the policy before the maturity term, they may receive a surrender value, which is a percentage of the premiums paid, as per the terms of the policy.

4.4.2. Types of Endowment Policies in India: Understanding the different types of Endowment Policies available in India is essential before choosing one. Here are some of the most common Endowment Life Insurance Plans.

1. **With-profit Endowment Policies:** This type of policy is designed to offer bonuses or profits on the premiums the policyholder pays. The bonus is usually a percentage of the sum assured and is declared annually by the insurance company. The bonus is added to the policy and paid along with the sum assured on maturity or in the event of the policyholder's death.

2. **Unit-linked Endowment Policies:** Unit-linked Endowment Policies provide investment options to the policyholders. The policyholder can choose to invest in various funds, such as equity, debt, or balanced funds, based on their risk appetite. The returns on the investment depend on the performance of the fund(s) chosen by the policyholder.
3. **Non-participating Endowment Policies:** Non-participating Endowment Policies do not offer bonuses or profits on premiums the policyholder pays. The sum assured is paid along with the accrued interest on maturity or in the event of the policyholder's death.
4. **Limited Premium Payment Endowment Policies:** This type of policy requires the policyholder to pay premiums for a specific period, such as 5, 10, or 15 years, and the policy remains in force for a longer period, such as 20 or 25 years. This allows the policyholder to complete their premium payments within a shorter duration and enjoy the policy's benefits for a longer time.
5. **Money-back Endowment Policies:** Money-back Endowment Policies are designed to provide periodic payments during the policy term. The policyholder receives a percentage of the sum assured at specific intervals, such as every 3 or 5 years. The remaining sum assured, along with bonuses, if any, is paid at maturity or in the event of the policyholder's death.

4.4.3. Best Endowment Policy in India: Choosing the right Endowment Policy can help you secure your financial future and provide financial security to your loved ones. Here are some tips to help you choose the best Endowment Policy in India.

1. **Assess your financial goals:** Before choosing an Endowment Policy, assess your financial goals and requirements. Decide how much money you want to save, how long you want to save for, and what kind of returns you are looking for.
2. **Compare policies:** Compare different Endowment Policies offered by various insurance companies in terms of the premium payment term, policy term, sum assured, and payout options. Look for policies that offer the best combination of insurance coverage and returns.
3. **Check the bonus structure:** Endowment Policies provide bonuses or profits on the premiums paid by the policyholder. Check the bonus structure of the policy and the company's track record of declaring bonuses before making a decision.
4. **Check the Claim Settlement Ratio (CSR):** The claim settlement ratio of an insurance company can be one of the important matrices to check their reliability. Consider choosing an insurer with a high CSR to ensure that your family receives the financial benefit of your Endowment plan after your demise.
5. **Read the fine print:** Before choosing an endowment policy, read the terms and conditions carefully. Understand the premium payment terms, policy term, payout options, and other policy details to avoid any surprises later on.

4.4.4. Limitations of Endowment Plans: Although Endowment Life Insurance Plans can offer financial security, it's important to consider their limitations before investing in them.

1. **Low rate of return:** One of the main limitations of Endowment Life Insurance Plans is their low rate of return. While these plans offer a guaranteed sum assured upon maturity, the returns on investment are often lower than what one could earn through other investment options like mutual funds or stocks.
2. **Longer lock-in period:** Endowment Plans usually have a long lock-in period, which means you cannot withdraw your investment before a certain number of years without incurring significant penalties.
3. **Higher premiums:** Endowment Plans often have a higher premium than term insurance plans that only provide life cover. This can make it difficult for individuals with limited financial resources to afford these plans.
4. **Lower flexibility of premium payments:** Endowment Plans may also have low flexibility in premium payments. Unlike other investment options like mutual funds or stocks, Endowment Plans typically require fixed premium payments. This can be problematic for individuals with fluctuating incomes or those who want to make additional contributions to their investments at irregular intervals.
5. **Inadequate coverage:** Endowment Plans may not provide adequate life coverage for certain individuals. If you have dependents that rely on your income, you may need a higher coverage amount than what an Endowment Plan can provide. In such cases, opting for a Term Insurance Plan with a higher coverage amount may be more suitable.

4.5. MONEY BACK POLICY

As the name suggests, this policy provides money back at regular intervals (usually in installments after a few years). The installment amount, which is also called 'Survival Benefits' is a certain percentage of the sum assured. The remaining sum assured is paid back on maturity with consigned bonuses. In case of the death of the insured during the policy tenure, the full sum assured is paid regardless of the Survival Benefits already paid.

Let's take an imaginative scenario to understand the work process of money back policy. Mr. Sharma purchases a 20-year money back policy with a sum assured of Rs. 20 lakhs. The plan offers 20% survival benefits every 5 years from the purchase date.

Now, Mr. Sharma shall receive Rs. 4 lakhs in the 5th, 10th, 15th and 20th year of the policy. In addition, in the 20th year, he shall also get the remaining Rs. 4 lakhs coupled with vested bonuses and the plan will terminate.
If Mr. Sharma passes away in the 15th year of the policy, then the nominee shall receive the entire Rs. 20 lakhs although Mr. Sharma already availed Rs. 12 lakhs as Survival Benefits.

4.5.1. Features of Money Back Policy: Money back plan is like a double-edged sword—it is an investment and insurance option at the same time. Some features of this plan are enumerated below:
1. Guaranteed Returns from a Money Back Plan: This plan is an ideal fit for people who are looking for a safe and secure investment irrespective of the market condition at any given point of time. The money is returned to the policyholder either as a survival benefit or to the nominee in case of early demise of the policyholder.
2. Income during the Lifetime of the Money Back Plan: Money back plan ensures guaranteed returns throughout the lifespan of the policy. The survival benefits accrue regularly and are paid to the policyholder after every few years (specified in the terms & conditions). This covers the cost for unforeseen large expenses that may happen at any time. The person can also use the fund for a family holiday, to pay off loans, to buy an apartment or simply for savings purposes. Therefore, this policy is unparallel to any other common policy currently available in the market.
3. Income on Maturity of the Money Back Plan: Money back policy also offers a lump sum amount to the policyholder after the maturity period. This end benefit is guaranteed and always communicated upfront. Hence, the plan covers your life and provides a definite return as well as a sum assured.
4. Income on the Death of the Insured Person in a Money Back Plan: The nominee of the policy receives the sum assured even if any unfortunate event happens to the policyholder inside the policy tenure. This includes the applicable bonus as well; reversionary or additional. Hence, the money back policy acts like a life insurance plan that takes care of the financial well-being of the family members even if the policyholder is not around.
5. **Bonus Amounts Help Increase Payout in a Money Back Policy:** By nature, the policy increases the benefits for the insured through an additional bonus. Every year the insurance provider declares the bonus as a percentage of the sum assured. This bonus is added to the overall amount on maturity of the policy. However, the bonus amount is subject to regular & timely payment of the premium by the policyholder.
6. **Add on Riders Available for the Insured to Increase Their Cover:** 'Add on' as the name suggests, is a means to increase the coverage of your policy. Insurance providers allow the policyholder to choose several add-on riders like critical illness, personal accident or a term rider in exchange for a higher premium. Experts say that an ideal money back plan comprises assured returns, more add-on riders, lower risk and additional tax benefits.

4.5.2. Common Optional covers in Money Back Policy:
Critical Illness: In the event of any critical illness, the insured gets a cash sum if a critical illness rider is taken with the money back policy. The amount can be used to pay medical bills or for any other reason. Common critical illnesses that are covered include**:**

- Heart attacks or bypass surgery
- Cancer

- Paralysis or strokes
- Major organ transplant
- Kidney failure

Accident or Disability Benefit Rider: This rider is very helpful if any unexpected costs arise from an accident that may lead to disability (partial or permanent) or death. The amount paid is determined by the severity of the injuries. Insurance providers pay part of the sum assured for any disability or the full sum assured in case of an unexpected happening.

Waiver of Premium: This rider is bliss for people who are unable to pay the premium for any inconvenience. Even if the premium is not paid, the insured does not lose insurance coverage due to this rider.

Accelerated Sum Assured: As the name suggests, this rider helps the insured to get the sum assured without paying the premium or waiting for the whole term of the money back plan to get the insurance amount.

Term Rider: This rider is more or less similar to a term life insurance policy. The policyholder can take this rider to make sure that the nominees get the term insurance payment even if he or she is not around.

Hospital Cash Benefit Rider: If the insured is admitted to the hospital for a minimum of 48 days, this rider helps to get daily cash to meet the hospital expenses. Cash benefit rider also covers the cost of surgeries and ICU stay.

4.5.3. Advantages of Money Back Policy: Following are the advantages of money back policy:

Returns Accrue only after a Few Years: This is one of the best parts of a money back plan. Sometimes, the policy term can be long like 15 to 20 years. In that case, insurance providers pay the accrued sum in every few years. Usually, the accrual payment interval is specified.

Value of Money Higher with a Money Back Policy: Being an insurance coverage in nature, a money back policy offers good value for money. The policyholder receives money in 3 ways: the survival benefits, the sum assured on maturity, and the bonus. The survival benefits are usually paid in regular intervals and bring higher value for the users compared to if the lump sum amount would be paid only after the maturity.

Insured Receives the Full Sum Assured on Maturity: The policyholder always receives the full sum assured on maturity irrespective of the amount he/she already availed as survival benefits. On top of that, an additional bonus is paid along with the sum assured that increases the total money.

Insurance Cover at the Same Time as Investment Returns: Quite a few other investment plans offer returns at the end of the investment period or over the lifetime of the policy. However, only the money back life insurance policy provides several advantages like survival benefits, maturity benefits with bonus and insurance cover.

Bonus at Maturity Significantly Increases the Overall Payout: There are two types of bonuses provided with the money back plan: Simple Reversionary bonus that is declared at the end of each year and added to the overall sum that the policyholder receives at the maturity period. Compound Reversionary is when the declared bonus for the current year is added to the sum assured instantly and the next year's bonus calculation is done on the already increased amount.

Counter Vitality of Market-Linked Investments: A money back policy should be a part of an individual's investment portfolio to counter the volatility of the market-linked investment like stock or commodity market. Due to the guaranteed nature of the return, it provides an effective cushioning against loss of income from other investments.

Secure Investments with a Money Back Plan: This policy ensures that the insured gets his or her sum assured back no matter what the market condition is. Hence, it is a good way to

make your investment portfolio secure. Moreover, the money back plan supports if suddenly you need a certain amount of money in the future—thanks to the survival benefits payout.

Tax Savings with a Money Back Plan: The policy premium qualifies for tax deductions (up to a specified limit) under section 80C of the Indian Income Tax Act, if the premium is less than 10% of the sum assured. Additionally, if the sum assured is 5x higher than the premium it is exempted from tax at source deduction.

4.5.4. Benefits of Money Back Insurance Policy:

Survival Benefits: Survival benefits are money paid to the policyholder after every few years. These benefits continue till the very end of the policy tenure. The amount is determined as a certain percentage of the sum assured and spread across the policy period.

Death Benefits: If any unfortunate event happens to the policy owner, the nominee(s) receives the sum assured including the bonus accrued. However, the death benefit does not include survival benefits as those are paid only if the insured is alive.

Maturity Benefits: On the maturity of the money back plan, the insured is rewarded with maturity benefits that include the sum assured, the remaining survival benefits as well as all accrued bonuses.

Tax Benefit: As per section 80C of the Indian Income Tax Act, if the policy premium is less than 10% of the sum assured it qualifies for tax deductions. Moreover, there is no tax deduction at source if the sum assured is 5 times higher than the premium paid.

4.6. SAVINGS

Savings policy or saving plan is a financial product that helps fulfill the twin goals of wealth creation and life insurance. In a savings insurance plan, buyers get the dual advantages of making goal-oriented savings and securing their loved ones in times of uncertainty. Saving investment plans are of various categories and often help buyers tick off many life milestones like education, higher education, marriage, home purchase, travel, and so on. It also comes in handy in clearing debts and taking care of financial emergencies like health scares, loss of employment, and so on. Before saving in an insurance savings plan, it is crucial to understand the types of savings plans in India, their benefits, and how each one works.

4.6.1. Types of Savings Plans: A savings policy works on a simple principle. First, you pay a specified premium to the insurer offering the savings investment plan. The money you give gets invested in non-market linked instruments and accumulates returns at a pre-specified interest rate. The initial invested money grows and multiplies over a period of years. Once the period passes, you start receiving the accrued income at regular intervals during the income payout period, in a lump sum at the end of the tenure, or a combination of both, monthly payouts and a lump sum.

Monthly savings plan: A monthly savings plan is one of the most popular types of savings plans. Under this plan, you receive guaranteed[1] income every month after a specific period of premium payments. You receive the monthly income during the income period or maturity and can use it for your monthly needs. You also get life insurance coverage so that your family members receive financial support on your demise.

A guaranteed return savings plan: In a guaranteed return savings plan, you get guaranteed[1] and assured returns during major life stages or milestones. The rest you get at the maturity of the savings plan while also getting a life insurance cover for unforeseen death. A guaranteed[1] return plan has liquidity which means you can encash your money from time to time – something which many investors prefer.

Money-back savings plan: In a money-back savings plan, you receive the returns generated partially at regular intervals during the subsistence of the savings policy instead of waiting for

the maturity period to arrive. The remaining sum assured is given at the expiry of the savings plan. Money-back plans help you fulfill various financial commitments every 2-5 years.

Endowment savings plan: An endowment savings plan is like any other savings plan. It pays a maturity benefit at the end of the savings plan, , and offers a life insurance cover. However, most endowment plans are profit and non-profit saving plans. In profit endowment policies, you receive any company-earned profits, along with the returns, and in non-profit policies, you only get the accrued returns.

Unit-linked savings investment plan: This is a subcategory of saving plans. Most saving plans are non-linked, which means the returns accrued are independent of the capital market. This makes them safe to invest in. However, unit-linked insurance plans are linked to the capital market, and their returns are prone to market fluctuations. However, unit-linked savings investment plans generate good returns. You can even balance out the risk by staying invested in it for the long term, as opposed to a short-term savings plan.

4.6.2. Benefits of Savings Plans:

Assured maturity benefits: One of the biggest benefits of a savings insurance plan is that it gives policyholders assured and guaranteed[1] returns. Because most savings plans are non-linked, the returns accrued are safe from market ups and downs and are risk-free. In addition, the interest rate gets fixed at the start of the savings policy, so there is no confusion when the returns and maturity benefit become payable. In some savings plans, you also get bonuses on the sum assured.

Flexible returns: The best part about a savings policy is that the returns earned are flexible. You can choose when and how to receive them per your changing life needs. For instance, you can choose to receive the funds during your child’s higher education, marriage, or purchasing a home.

Furthermore, you can select monthly income payouts, regular income payouts, a lump sum payout, or a combination payout option. In addition, the premium payments are flexible – you can choose between monthly, quarterly, half-yearly, and yearly payment options.

Life insurance coverage: What makes a saving plan a hit among buyers is the added comfort of life insurance. Life insurance is an essential tool to secure your loved ones in your absence and help them continue living their lives. In addition, it gives a death benefit that works as a financial reserve through times of crisis.

Various rider options: Savings plans also offer various rider additions that provide extra financial support over and above the base maturity and death benefit. Many situations in life aren’t deadly but are life-altering. Riders provide additional finances during tough eventualities like accidents, critical illnesses, terminal ailments, job loss, physical disabilities arising from an accident, and the like.

Tax Benefits: Saving life insurance policies also come with several tax advantages under the relevant sections of the Income Tax Act of 1961. Under the Act, the premiums you pay towards the savings plan are claimable as tax returns under section 80C. You can claim up to ₹1,50,000 in a given year. In addition, under section 10(10) D of the Act, the maturity benefit and death benefit you receive under the savings policy are exempt from tax deductions. These tax advantages make a savings plan a profitable investment.

4.7. RETIREMENT AND PENSION PLANS

Retirement plan and pension plan are names you will hear commonly for saving plans designed to serve your post-retirement financial needs. However, the meaning of retirement plan could be slightly different from that of the pension plan. Few examples of retirement plans are the Employee Provident Fund (EPF), New Pension Scheme (NPS),

Public Provident Fund (PPF), etc. Whereas pension plans would be the annuity plans which will offer a monthly income from the invested money.

To be well prepared financially for your life that will start after work, proper retirement planning must be done. Rising inflation rates, soaring living costs have made retirement planning all the more important. Retirement and pension plans aim at providing you with adequate financial security so that you can live without compromises post your retirement.

Pension plans are the type of investment under which an employee is required to allocate a part of their saving and to a fund over a period of time. This saving will help you build a large corpus which will enable you to have a safe financial future. Retirement/Pension plans provide you financial stability by providing constant income after retirement which makes sure that you can live without worrying too much about finances.

The savings you have built through a period of time is used to source a regular income in a retirement and pension plan. Thanks to this income you along with other family members can maintain the lifestyle without your regular salary as well.

4.7.1. Retirement Planning Goals: Your retirement goal will differ from others depending on several factors involving your lifestyle and income during your employment years. Another factor which you should account for in your retirement goal is inflation. The factor which makes inflation a strong factor to consider in your retirement goal is that it will affect your life during the later years. As you progress in your retired life, your chances of earning from employment reduce and so do your chance of correcting the investment mistakes.

Thus, the earlier you factor in inflation in your retirement goal the better. Other factors which will define your retirement goal are:

Factor	Impact
Your expected retirement age	A higher retirement age gives you more time to invest and grow your corpus. However, early retirement will give you less time to accumulate sufficient money. Also, you will need more money to sustain your extended post-retirement life.
Life-expectancy	A higher-life expectancy extends your retired period. Thus, you will need a bigger corpus to sustain your living costs. Also, inflation will have a bigger impact.
Health condition	Health condition and lifestyle affect your medical expenses at a later age or in post-retirement life. Poor health and unhealthy habits may increase your medical expenses post-retirement.
Current income	Current income affects your lifestyle and overall living costs also, it defines the amount you can save now for your retirement goal.
Current age	The current age is the factor which will define how much time you have until retirement, and how much of your today's income should be your retirement goal.

4.7.2. Reasons to Start Planning for Retirement Today:

Cheaper when younger: Retirement plans offer dual benefits of insurance and investment. When you are young the body is less prone to a disease which reduces the risk for the insurer. Since insurance is a business of risk assessment, the premiums are lower for young policy buyers.

Compounding: When you leave an investment to accumulate for a long time, the interest earned on the original investment too starts to generate returns. This leads to rapid accumulation and the corpus grows exponentially. When you start investing early, compounding helps in multiplying the investment rapidly.
Course correction: All market-linked investments are inevitably risky. When you start investing early you have ample time to monitor the performance of the investment and make necessary portfolio adjustment.

4.7.3. Stages of Retirement Planning: Retirement planning is not a task of a few weeks, or even months. A satisfying and fulfilling life post-retirement requires several years of planning and implementation. Depending on your age, retirement planning can be divided into three stages:
1. Accumulation: In the first stage of retirement planning, you have to contribute regularly to the pension plan. The premiums have to be carved out from your monthly income. The corpus available at your disposal after retirement will depend solely on the number of contributions made to a pension plan during the accumulation phase.
2. Preservation phase: Your expenses will change dramatically with age. The change in lifestyle fuels an increase in expenses as one nears retirement. The preservation phase kicks in 10-15 years prior to retirement. In the preservation stage, you can make a better analysis of your post-retirement requirements. Taking the required fund in an account, conduct a thorough review of existing investments.
3. Distribution Phase: The distribution phase starts when your regular income stops. This is the final phase of retirement planning when the fruits of the decades-long labour ripen. In this phase, you begin receiving monthly income from the pension plan to support your post-retirement expenses.

4.8. CONVERTIBLE PLANS

Convertible insurance is a type of life insurance that allows the policy owner to change a term policy into a whole or universal policy without going through the health qualification process again. Convertible insurance lets the policy owner convert a term policy that only covers the insured individual for a predetermined number of years into a policy that covers that individual indefinitely, as long as the policyholder continues to pay the insurance premium.

If the policyholder decides to make the conversion on their convertible insurance, the permanent policy will have the same value as the term policy, but the permanent policy will have higher premiums. Even before conversion, convertible insurance will be more expensive than a term life insurance policy for the same amount of coverage, because there is a built-in cost for the option of being able to make the conversion without a medical exam.

The benefit of convertible insurance is that the policyholder doesn't have to go through the medical underwriting process again to switch the policy from term to permanent. This is a valuable feature. If the policyholder's health has declined since they started the convertible term policy, they will be able to obtain a permanent policy that they otherwise might not qualify for. With convertible insurance, the policyholder only needs to pay their insurance premiums on time to retain the option of converting the policy from term to permanent.

Example of Convertible Insurance:

Immediately after getting her first job, River purchased a $100,000 convertible term life insurance policy for 30 years and has the option to convert part of or the entire policy into a whole life insurance policy before the age of 50.

After marriage and kids, at the age of 40, River rethinks the approach to life insurance and decides to convert her term policy to whole life insurance. The premium amounts increase,

but there is a cash value component to withdraw even as the policy provides for her beneficiaries after death.

4.8.1. Features of convertible Term Life Insurance Plans:

1. **On-demand Conversion*:*** Whether a Convertible Term Life Insurance Plan has an inbuilt conversion feature or offers it as an option, the conversion only occurs when the policyholder formally requests it. The Insurance Company does not automatically exercise this option. If the policyholder fails to request conversion, the plan continues as a Term Life Insurance Plan and terminates upon the insured's death or maturity.
2. **Premiums:** Premiums for these plans are determined based on the insured's age, sum assured, policy term, and premium paying term. These premiums are fixed at the plan's inception and do not change over time. When the policyholder exercises the conversion option, the plan and its benefit structure change, but the premiums remain the same.

3. **Sum assured*:*** These policies typically offer limited sum assured amounts because they generally do not allow for maximum guaranteed sum levels, as the plan can be converted into an Endowment Policy with a maturity benefit later.

4. **Riders:** These plans often offer optional riders that policyholders can add for an additional premium.
   Common riders available are:
   - Critical or terminal illness riders.
   - Accidental death riders.
   - Waiver of premium riders.

4.8.2. Advantages of Convertible Insurance Plans:

You might choose a convertible term policy if you can only afford a less expensive term policy now, but think you might prefer and be able to afford a more expensive permanent policy later and don’t want to take the risk that a change in your health could disqualify you from life insurance coverage. There are also other reasons to purchase a convertible insurance policy. For example, you might want to convert from term to whole because you want to make sure that your dependents are taken care of financially, after your demise. Whole life insurance policies also come with a cash value component that appreciates through dividends. While it takes time to build up savings, the cash value component is a useful avenue to generate tax-deferred savings.

4.8.3. Disadvantages of Convertible Insurance:

Choosing convertible insurance doesn't mean that you'll be able to get a permanent policy for the same price as a term policy if you make the conversion. All else being equal, permanent insurance is always more expensive than term insurance. For those interested in using their original age for the conversion process in order to save on later premiums (as opposed to attained age at the time of conversion), some insurance companies will collect a lump-sum payment up-front to preserve that age calculation.

When purchasing a convertible insurance policy, make sure you understand when you can convert the policy (for example, each year on the policy renewal date); the point at which conversion is no longer allowed (for example, after age 65); and the features of the permanent policy (for example, how much savings it lets you accumulate, how you can invest those savings, and whether the policy pays annual dividends).

Most term life insurance policies have a conversion deadline. Policyholders cannot convert their insurance policies, once the deadline has passed.

4.9. VARIABLE INSURANCE PLANS

Variable life insurance is like bundling an investment portfolio into your permanent policy. Unlike standard whole life insurance, which earns plain interest on your cash value, variable life lets you channel part of your payments into various shareable investment funds. Instead of collecting interest, your cash value can shoot up if the funds do well. But if the market tanks, your cash value could get slammed, too. So, it brings higher risk into the picture.

The premiums, after the first year, are flexible within certain limits. One can scale premium payments up or down or even skip payments. This can impact the death benefit, so adequate funding must be maintained.

Examples variable life insurance:

Ravi, a 30-year-old Accountant, opts for a Variable Life Insurance policy to protect his wife and 1-year-old daughter financially.

Ravi chooses an INR 1 crore coverage Variable plan with a monthly premium of Rs. 10,000 over a 10-year lock-in period, aiming for long-term growth to achieve future financial goals.

The policy offers Ravi investment choices between equity, debt, and balanced funds. Based on his risk appetite and market outlook, he allocates 60% to equity funds and 40% to debt funds.

Over the years, Ravi’s investments under the Variable Life plan have grown significantly, creating a large corpus that can fund needs like his daughter's education or retirement.

Additionally, Ravi enjoys yearly tax benefits under Section 80C, reducing taxable salary by the annual premium amount. This further enhances Ravi's investible surplus.

In this manner, the Variable Life Insurance policy provides Ravi market-linked returns on policy funds while offering an INR 1 crore life cover, fulfilling insurance and investment needs in one comprehensive plan.

4.9.1. Types of Variable Life Insurance: Different Variable Life Insurance Policies cater to different financial goals and risk appetites. Let's look at some of India's most popular types of Variable Life Insurance.

1. Unit-linked Insurance Plan (ULIP)
2. Indexed ULIP
3. Variable Annuity
4. Endowment Plan
5. Child Plan

1. Unit-Linked Insurance Plan (ULIP): A ULIP is a market-linked investment-oriented insurance plan that offers both insurance protection and the opportunity to invest in a variety of funds. Based on one's risk appetite, premiums can be invested in equity, debt, or hybrid funds. The returns are linked to the performance of chosen funds. ULIPs allow long-term wealth creation and provide tax benefits.

2. Indexed ULIP: An Indexed ULIP offers returns derived from the performance of a particular market index such as Nifty 50. Premiums get invested into funds that mirror the portfolio of the linked equity index. It provides upside potential of equity with downside protection of debt/fixed income funds. In simple terms, it combines the potential for higher returns associated with equity investments (such as stocks) with the safety and stability provided by debt or fixed-income investments, making it a less risky investment option than other market-linked funds.

3. Variable Annuity: A variable annuity is a long-term retirement planning product that provides regular income through annuity payouts post-retirement along with life cover during the accumulation phase. One can invest across various funds during the accumulation years and then convert the corpus into annuity income after vesting to receive guaranteed income.

4. Endowment Plan: Endowment plans offer the dual benefit of life cover during the policy

term and a lump sum on maturity if the insured survives the policy term. Premiums get invested in debt and equity markets to build cash value. It serves shorter-term needs like child education, weddings, etc., with a medium risk appetite.

5. Child Plan: Child plans are dedicated insurance solutions to financially secure a child's key future milestones like higher education or marriage. Premiums are invested in funds based on risk profile to build the required corpus over 10-25 years. It offers adequate life cover in case of the untimely death of a parent, along with maturity benefits.

4.9.2. Choosing the Right Variable Life Insurance Policy: Here are some tips for choosing the optimum variable life insurance policy:

- **Compare Illustrations**: Check premium outlay projections, cash value accumulation, and death benefit estimates across different policies and insurers. Opt for projections best matching future requirements.
- **Evaluate Expenses**: Factor in various fees charged and impact on investment returns - mortality charges, fund management charges, administration fees, etc. Choose lower-cost insurers.
- **Study Past Performance**: Review returns of investment fund options over the past 5-10 years. Opt for funds with higher and more consistent returns based on your risk appetite.
- **Check Ratings**: Choose a strong insurer with robust financial ratings. Opt for insurers that have the highest financial strength to meet future liabilities.
- **Reassess Regularly**: Review your variable insurance plan periodically based on market conditions, returns achieved, and policy performance. Alter premium amounts or fund options if required.

  Finding the sweet spot between optimum insurance protection and attractive market-linked returns at a suitable budget is vital in variable life insurance. An unbiased financial advisor can help make an informed decision.

4.9.3. Factors Affecting Variable Life Insurance Premium: Several factors influence the premium amount payable for a variable life insurance policy. Understanding these aspects helps in making an informed purchase decision.

- **Age**: The policyholder's age is a crucial determinant of premium. Younger individuals generally pay lower premiums than older applicants, as they present a lower risk to the insurer.
- **Health Condition**: The policyholder's health status significantly affects the premium. Pre-existing medical conditions, lifestyle habits like smoking, and family medical history can lead to higher premiums or even policy denial.
- **Gender**: Women typically pay lower premiums than men for the same coverage, as they tend to have a longer life expectancy.
- **Sum Assured**: The total death benefit amount chosen directly impacts the premium. Higher coverage levels translate to increased premiums to account for the greater financial risk assumed by the insurer.
- **Policy Term**: The duration of the policy influences the premium. Longer policy terms generally result in higher premiums, as the insurer provides coverage for an extended period.
- **Premium Payment Term**: The length of the premium payment period affects the premium amount. Shorter payment terms require higher premiums, while longer payment terms allow for lower installments.
- **Investment Fund Options**: The choice of investment funds and their associated management fees can impact the policy's overall cost. Funds with higher expenses may lead to increased premiums.

- **Riders**: Additional benefits or riders opted for, such as critical illness coverage or accidental death benefit. Riders increase the premium as they provide extra coverage. ACKO Life Critical Illness Benefit Rider provides extra protection for 21 illnesses, including life-threatening common diseases among women, such as breast cancer, cervical cancer, fallopian cancer and ovarian cancer.
- **Occupation**: Certain high-risk occupations, such as those involving hazardous work environments, may attract higher premiums due to the increased likelihood of mortality.
- **Lifestyle Factors**: Engaging in risky hobbies or activities, such as skydiving or motorsports, can result in higher premiums, as they pose a greater risk to the insurer. By considering these factors, insurers determine the appropriate premium for a variable life insurance policy based on the individual policyholder's risk profile. It is essential for potential policyholders to provide accurate information during the application process to ensure fair premium pricing and avoid policy disputes in the future.

4.10. RIDERS

Riders are the add-one that one may buy and add the benefits to the basic insurance policy. These add-ons or riders are additional benefits that can be purchased along with a basic insurance policy, to make the basic policy to match individual's present and future requirements. Theoretically, a rider can be purchased anytime during the lifetime of the policy depending on the need. But as of now, companies do not allow riders to be purchased after the policy is issued, i.e., riders are to be purchased only at the time of commencement of the policy. But as the riders are becoming more popular in the market, insurers may think of allowing the purchase of riders anytime during the policy period.

There are two effects of riders on Basic plan. When a claim for benefit under a rider is made, it can either result in payment of the benefit along with the termination of the entire policy contract, whereby the basic policy also will come to an end or the policy may continue to exist till the original date of maturity with only the rider getting turned off. For example, a critical illness rider can provide for payment of a lump sum in case of affliction with one of the illnesses covered, with the basic policy continuing to cover the risk of death or survival or getting terminated. Rider can provide for waiver of premium on the basic policy in case of critical illness a part from paying a lump sum. Hence, as a financial planner one has to be conversant with the benefits that a rider provides while also knowing the effect it has on the basic policy.

Policyholders normally like to attach riders to basic policies to acquire additional protection.

1. **Accidental Death Benefit:** when the death results from accidental or bodily injury or accidental means, accidental death benefit doubles the sum assured payable. In some policies accidental death benefit is some other multiple of sum assured. It generally terminates after the insured reaches the age of 65 years. This is one of the most popular riders because of small premium.
2. **Accelerated Death Benefit:** it involves the payment of all or a portion of life insurance policy's face value proper to the insured's death because of adverse medical condition of the insured. It is also referred to as living insurance. It may take three forms:
   A. **Terminal Illness Coverage:** This coverage provides that a specified maximum percentage typically 25 to 50 % of the life policy's death benefit can be paid if the insured has been diagnosed as having a terminal illness. Most provisions require that the insured have a maximum of either six months or one year to live. Many companies make no explicit charge for the coverage because they believe that they can absorb the cost of prepayment of what would be resulting in death claim shortly.

B. **Catastrophic Illness Coverage or Dreaded Disease Coverage:** The provision covers illness typically including stroke heart attack, cancer, renal failure and similar catastrophic illnesses. In this case, insured must be diagnosed as suffering from one of the several catastrophic diseases. Both terminal and catastrophic illness coverage provide that the policy death benefits are reduced on pay out basis and cash values are reduced in proportion to death benefit reduction.

C. **Long-Term Care Coverage:** It provides benefits of skilled nursing home care, custodial care and home health care. When the insured is unable to perform a certain number of activities such as eating, bathing, dressing, general mobility, toileting or taking medication. When the rider is a dependent rider the death benefits. When they are independent riders their benefits may be paid out without reducing underlying policy benefits.

3. **Waiver of Premium:** The waiver of premium benefit offered by life insurance companies provides that in the event of total disability of insured before the age of 65 years the premium on the contract will be waived during the continuance of disability beyond the specified waiting period. All the benefits under the contract, viz., bonus, cash value, and loan are paid. The contract continues as if the insured is paying the premia. Death benefit remains unaffected. Following are some more riders available in the developed markets, which are currently not available in India

i. **Guaranteed Insurability Option:** this option permits an insured to purchase additional amount of insurance without providing evidence of insurability at three years interval provided the insured has not reached specified age. In most cases the additional insurance is limited to a multiple of basic policy face amount or for the additional purchase option whichever is smaller. The maximum amount of each option is $ 50,000. This rider can prove to be of value especially to those whose family health history suggests that potentially significant medical problems may develop.

ii. **Cost of Living Rider:** It can be added to most forms of the life insurance. It can be useful when one’s needs for life insurance are expected to change over time in approximately the same proportion as changes in the cost of living.

iii. **Disability Income Benefit:** Companies that provide disability income often pay monthly 1% of face value. Many companies limit the maximum monthly income that they will issue. The premiums on both base policy and rider will be waived during a period covered disability. Six months total disability is considered as permanent and they commence payment at the end of sixth month. Dividends/Bonuses are paid as usual. Basic contract continues through no disability had occurred. Death benefit remains intact.

With the help of traditional life products and riders. Products can be tailored for all market segments. Instead of one complex, there should be base products with optional riders to satisfy customers’ needs and to achieve greater flexibility. It is necessary to unbundle and rebundle the products to meet customer’s demands.

4.11. SUMMARY

Life insurance provides the money needed to pay funeral and burial expenses, and it can provide money for our families to replace the money we would have earned, if we were still alive. There is a second reason some workers have for purchasing life insurance. It can be used as a savings program. Many life insurance policies build up a cash value that can be used if a financial need arises in your life, or for retirement when you reach that age. The most important factor to consider when purchasing life insurance is whether you are only interested in protection or if you want a policy that accumulates a cash value. Generally

speaking, policies with no cash value (called term insurance) provided the greatest amount of protection for the cost. Policies that accumulate a cash value may be less expensive in the long run, because your premiums do not normally increase as you get older, and you will get money back when you withdraw accumulated cash. Another very important factor is how much insurance you need. You need to carefully consider what would happen if you were to suddenly die and how your family would meet their financial obligations. A good insurance agent can help you assess your life insurance needs and guide you to the correct level of insurance coverage.

Classification of insurance according to the type of coverage has also been discussed. Life insurance is designed to be an effective and efficient means of planning for adverse financial consequences in the event of untimely death of income earner for the average family. During an individual's life span his needs may vary and hence in order to reach maximum number of customers having diverse needs, product differentiation is a must. The features generally used to bring about product differentiation are sum assured, principal and supplementary benefits of the policy, embedded or in-built options available under the policy, policy term, premium paying modes available, etc. All these product design features constitute life insurance product designs which have been discussed in detail. And also given brief idea about the insurance market and the life insurance industry in India.

4.12. KEY WORDS

Term Insurance Plan: The term insurance plan is one of the most sought-after types of life insurance policies in India. This is one of the types of life insurance policy in India that you can buy for a specific period of 10, 20, 30 or more years, hence the name.
Unit Linked Insurance Plan (ULIP): A ULIP is one of the types of life insurance policies in India that fulfill both these aspects. Amongst different types of life insurance, it is the one that offers life cover along with investment opportunities. Being one of the types of life insurance, it has a lock-in period of five years, which makes it a long-term investment instrument that comes with risk protection. ULIPs also allow you to balance your funds as per market dynamics.
Endowment Policy: Endowment policies are one of the types of life insurance policies that provide you with the combined benefit of life insurance and savings. Along with giving you the life cover, these types of life insurance help you save money regularly over a period to get a lump sum at maturity.
Group Life Insurance: Just like group health insurance, group life insurance is one of the types of life insurance that covers a group of people under one master policy. These types of life insurance are generally provided as part of an employment benefit.

4.13. SELF ASSESSMENT QUESTIONS

1. Classify the life insurance policies based on mode of premium payment.
2. Differentiate between life insurance and general insurance..
3. What do you about Whole Life Insurance Plans? Describe the benefits of Whole Life Insurance Policies.
4. Write about Endowment Plans. Explain different types of Endowment Policies in India.
5. Define Money Back Policy and explain the feature of Money Back Policy.
6. Write about Retirement Plans. Describe the stages help in Retirement Planning.
7. What do you about Convertible Term Life Insurance Plans and explain the features and Advantages of Convertible Insurance Plans?
8. Write about

(a) Variable Life Insurance Policy
(b) Riders
(c) Unit-linked Insurance Plan (ULIP)
(d) Indexed ULIP
(e) Variable Annuity
(f) Child Plan

4.14. SUGGESTED READINGS

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LESSON – 5
PRINCIPLES OF LIFE INSURANCE

OBJECTIVES:

- To know the Concept of Principles of life insurance
- To understand the Insurable Interest
- To focus on various Principles of life insurance

STRUCTURE:

5.1 Introduction to Principles of life insurance
5.2 Utmost Good Faith
    5.2.1 The facts that must be disclosed to be good faith
    5.2.2 The facts that need not be disclosed
    5.2.3 Violation of Principle of Utmost Good faith
5.3 Insurable Interest
    5.3.1 Reasons for Insurable interest
    5.3.2 Types of insurable interest
5.4 Medical Examination
    5.4.1 Factors affected by term insurance medical examinations
    5.4.2 Benefits of Medical Tests in Term Insurance
    5.4.3 Medical Tests Required for Term Insurance
5.5 Indemnity
    5.5.1 Types of indemnity insurance
    5.5.2 Features of indemnity insurance
5.6 Subrogation
    5.6.1 Principle of Subrogation
    5.6.2 Rights of an Insurer in Subrogation in Insurance
5.7 Summary
5.8 Key words
5.9 Self-Assessment Questions
5.10 Further Readings

5.1 INTRODUCTION TO PRINCIPLES OF LIFE INSURANCE

The insurer and the insured enter a legal contract for the insurance called the insurance policy that provides financial security from the future uncertainties. In simple words, insurance is a contract, a legal agreement between two parties, i.e., the individual named insured and the insurance company called insurer. In this agreement, the insurer promises to help with the losses of the insured on the happening contingency. The insured, on the other hand, pays a premium in return for the promise made by the insurer. Insurance contract is nothing but a legally binding contract, the possibility of an unknown large financial loss is exchanged for a comparatively small certain payment.

This contract is not a guarantee against a loss occurring, but a method of ensuring that payment is made for a loss that does occur. Understanding these principles will help one to understand better how life insurance works. Life insurance is based on several basic principles

that apply to all types of insurance, and that form the foundation of the insurance contract. Understanding these principles will help one to understand better how life insurance works.

However to ensure fairness and proper functioning of the Insurance contract the following seven principles are essential:

1. Utmost Good Faith
2. Insurable Interest
3. Indemnity
4. Proximate Cause
5. Subrogation
6. Contribution
7. Mitigation of Loss (Minimization)

5.2 UTMOST GOOD FAITH

The very basic principle is that both the parties in an insurance contract should act in good faith towards each other i.e. they must provide clear and concise information related to the terms and conditions of the contract. The Insured should provide all the information related to the subject matter and the insurer must give clear details regarding the contract. The commercial contracts are normally subject to the principle of "Caveat Emptor" i.e. let the buyer beware. In most of these contracts each party to the contract can examine the item or services which is the subject matter of contract.

An action to disclose accurately and completely, all facts material (material fact) about something that will be insured is requested or not. The meaning is: the insurer must honestly explain everything clearly about the extent of the terms / conditions of the insurer and the insured must also provide a clear and correct for objects or interests of the insured. This principle of utmost good faith states that both the parties of an insurance contract should have good faith towards each other. Also, each party should communicate the terms and conditions in a non-ambiguous manner to the other. In other words, the insurer is obligated to provide precise details about the contract to the insured, who, in turn, should provide all the details regarding the subject matter (for which the insurance is being taken) to the former. Simply put, this principle requires both the parties to be transparent towards each other. Most commercial contracts are subject to the principle of caveat emptor (let the buyer beware). Under these contracts, there is no need to disclose information that is not asked for. Insurance contracts are different in that they are based on facts which are within the knowledge of the insured; the law imposes a duty of uberrima fides or 'utmost good faith'. The principle of utmost good faith requires anyone seeking insurance to disclose all relevant facts. Where material non-disclosure can be proved, a contract can be voided. Both the insurer and the policyholder are required to act in utmost good faith.

Normally the doctrine of "Caveat Emptor" governs the formation of commercial contracts which means 'let the buyer beware'. The buyer is responsible for examining the good or service and its features and functions. It is not binding upon the parties to disclose the information, which is not asked for. However in case of insurance, the products sold are intangible. Here the required facts relate to the proposer, those that are very personal and known only to him. The law imposes a greater duty on the parties to an insurance contract

than those involved in commercial contracts. They need to have utmost good faith in each other, which implies full and correct disclosure of all material facts by both parties to the contract of insurance. The term "material fact" refers to every fact or information, which has a bearing on the decisions with respect to the determination of the severity of risk involved and the amount of premium. The disclosure of material facts determines the terms of coverage of the policy. Any concealment of material facts may lead to negative repercussions on the functioning of the insurance company's normal business. For instance life insurance companies normally segregate the quality of lives depending upon the state of health of the people. Healthy people are accorded a higher status in the table and different (lower) rates of premium are applicable to them since their risk of ill health is lower. If a person suppresses facts about his ill health and manages to buy a policy at rates applicable to the low risk group then other policyholders in the same group have to share his risk.

This results in adverse selection. Hence as per the principle of utmost good faith it is binding on the part of parties, the insured and the insurer, to expressly disclose all the relevant material facts pertaining to the contract. This doctrine is incorporated in insurance law and both the parties are expected to adhere to a high degree of honesty. Based on such faith, the insurer and the insured execute the contract of insurance. Thus each party believes that on fulfillment of the conditions for which the insurance policy was purchased, the other party would perform his duties as promised by him. Non-compliance by either party or any nondisclosure of the relevant facts renders the contract null and void.

Hence utmost good faith can be defined as a positive duty to disclose accurately & fully all facts material to the risk being proposed whether requested or not. The material fact is the material, which would influence the judgment of a prudent insurer in fixing the premium or determining whether he will cover the risk. Therefore, facts regarding age, height, weight, previous medical history, smoking/ drinking habits, operations, details of earlier Insurances and hazardous occupation must be disclosed.

5.2.1 THE FACTS THAT MUST BE DISCLOSED TO BE GOOD FAITH

Based on this definition, the facts that must be disclosed to be good faith are:

- ❖ The facts indicate that the risk required to be closed internally is greater/higher than the usual size for the risk.
- ❖ The facts indicate that the risk asked to be closed is greater than normal due to external and external factors.
- ❖ Facts that can increase the amount of losses or make the amount of losses become greater than normal.
- ❖ Losses and claims records.
- ❖ Rejection or harsh/severe conditions imposed/imposed during the previous closure by the insurer or other insurers.
- ❖ Facts that limit the subrogation rights of the insurer because the insured reduces the responsibility of the third party.
- ❖ Complete facts related to the depreciation of the object of coverage.

5.2.2 THE FACTS THAT NEED NOT BE DISCLOSED

There are certain circumstances, which need not be disclosed. The facts that do not have to be disclosed to be good faith are:

- Legal facts
- The facts that the insurer himself is considered to already know.
- Facts that have been submitted previously by the insured to the insurer at the request of the insurer.
- Facts that should have been recorded or known by the insurer at the time the insurer conducted a survey of the relevant risks.
- Facts that the insurer has included in the conditions or conditions of the policy.
- Facts unknown by the insured.

5.2.3 VIOLATION OF PRINCIPLE OF UTMOST GOOD FAITH

As explained earlier, the principle of utmost good faith is an obligation and basic principle that must be fulfilled in the insurance contract. So, this violation of the principle of utmost good faith has the consequence of canceling the insurance contract. There are two things that violate the principle of utmost good faith, namely:

- **Non-Disclosure:** In the principle of utmost good faith, the obligation of full disclosure is mandatory and absolute. The insured is obliged to disclose in full or completely to the insurer, requested or not requested, all material/important facts. By not performing such obligations (non-disclosure) is a violation/breach of the principle of utmost good faith.

  Non-disclosure can occur due to disregards behavior, deliberate intention to deceive, indifference, lack of caution, mistakes/errors, and mistakes in making decisions to the party who is obliged to carry out the duty of full disclosure. Even fraudulent non-disclosure or innocent non-disclosure remains a violation of the principle of utmost good faith.
- **Misrepresentation:** In addition to the duty of full disclosure, the insured is required to convey (representation) all material facts accurately to the insurer. So, representation must be an accurate representation. Violation by the insured of the obligation to perform accurate representation is a violation of the principle of utmost good faith (breach of the doctrine of utmost good faith) in the form of misrepresentation of material facts. Even misrepresentation is done with the intention of committing fraud against the insurer (fraudulent misrepresentation) and misrepresentation is done guiltily (innocent misrepresentation), still giving rights to the insurer to ask for the cancellation of the relevant policy.

5.3 INSURABLE INTEREST

This principle says that the individual (insured) must have an insurable interest in the subject matter. Insurable interest means that the subject matter for which the individual enters the insurance contract must provide some financial gain to the insured and also lead to a financial loss if there is any damage, destruction or loss. The right to insure arising out of a financial relationship, between the insured to the insured and legally recognized. This principle ensures that insurance is not used for speculative purposes.

According to E. W. Patterson, “Insurable Interest is a relation between insured and the event insured against such as the occurrence of events will cause substantial loss or injury of some kind to the insured.”

According to Rodda, "Insurable Interest may be defined as an interest of such a nature that the occurrence of the event insured against would cause financial loss to the insured."

It is also defined as, "When the assured is so stipulate that the happening of the event on which the insurance money is to be payable would as an approximate result involve in the loss or determination of any right recognized by law or in any legal liability there is an insurable interest to the extent of the possible loss or liability."

So long as the Insurance is on one's own life, the "Insurance Interest" presents no difficulty. A person has insurable interest in his own life to an unlimited extent. The absence of a limit in this case is reasonable. When a person insures his life he obtains protection against loss to his estate; for in the event of his untimely death the estate would not benefit by the future accumulation he hopes to make during the normal span of life. It is not easy to compute with any degree of certainty what the future earnings of a person would be. Hence no limit may be fixed in respect of life Insurance he may affect. Where, however, insurer rejects a proposal for an amount of assurance, which is disproportionate to the means of the proposer, it is not normally for lack of Insurable interest but on considerations of "moral hazard". Indeed it may also be presumed in a case where a person proposes for a policy for a large amount, which he may not be able to maintain having regard to his income, that it will be financed by some other person and that there is no insurable interest.

5.3.1 REASONS FOR INSURABLE INTEREST:

Insurable interest is an important component of insurance policies for several reasons:

- ❖ It decreases the chances of insurance policies creating a moral hazard by preventing persons or entities from profiting by insuring properties that they do not have a financial stake in.
- ❖ Insurable interest is a key component of the principle of indemnification, which holds that policyholders should be restored to their pre-loss condition, rather than rewarded or penalized through insurance proceeds.
- ❖ To protect an insurable interest, the person with the interest must purchase an applicable insurance policy.

5.3.2. TYPES OF INSURABLE INTEREST

There are basically two types of insurable interest:

1.Contractual

2.Statutory

1. **Contractual:** If the insurable interest is absent, the insurance contract is illegal or void and no agreement between the parties dispensing with this requirement can be effective. Contractual insurable interest is an interest which is being required by contract of insurance by itself. In an action upon such a contract if the insurer does not raise the plea of want of interest nevertheless the court of its own motion may refuse to enforce the contract.
2. **Statutory:** As we have seen in some cases that interest in the subject matter of insurance is required by law itself for the validity of the policy, whether by express statutory law as in the Marine Insurance Act 1906 or as by section 30 of the Indian Contract Act which merely declares that all contracts by way of wager is void. This is the interest required by statue.

5.4 MEDICAL EXAMINATION

Medical tests are conducted to determine the current health status of a potential policyholder. Medical tests play a critical role in term insurance plans by ensuring to get the right coverage and premium. The applicant and his/her family's medical history would be looked at and assessed to see what has to be covered. The tests conducted are usually subjective to the policyholder's age. The common tests done would be height and weight measurement, blood test and urine test. Blood tests would compromise test profiles such as complete blood count, differential count, bio, fasting plasma glucose and haemoglobin. Height and weight help to determine the BMI and urine tests give a measure of cotinine levels. The tests can also involve measuring cholesterol levels as well as HIV I and II. There might be additional tests required if the individual or a family has a history of illnesses. It is essential to be truthful about our smoking and drinking habits when these tests are performed. Once the application form is submitted to the insurance company, they make a request to the applicant for medical tests. They will coordinate with the applicant and schedule an appointment for him/her. The list of centres available in the individual's locality is provided, for them to select the convenient one. Many companies also offer the facility of home testing. The insurance company bears the cost of these tests. The individual is also given instructions, if any, regarding tests such as fasting 8 hours before the test, etc.

Physical medical tests may be required on case-to-case basis depending on the customer's profile. This usually takes into account aspects like age, sex, existing health conditions if any, habits such as smoking or alcohol consumption and overall health. However, getting a test can help to get a lower premium. The medical check-up helps the insurance provider understand the status of the health, according to which they decide the premium of the plan. Without the test, the company has no insight into the health and would likely charge a higher premium to cover all possible risks. There are two ways to undergo medical tests. Either the insurance company can arrange for an examination at the residence. In this case, it can select a time slot and have the medical representative collect the sample from the residence. In some cases, it may be asked to visit a nearby hospital or diagnostic centre. This depends on the city of residence, the facilities or availability of at-home pick-up, and other similar factors.

5.4.1 FACTORS AFFECTED BY TERM INSURANCE MEDICAL EXAMINATIONS:

The primary purpose of any term insurance medical test in India is for the insurance provider to know everything about a term plan applicant's health. Subsequently, the insurer can proceed to create personalized term insurance coverage complete with maximal coverage tenure, optimal rates of premium payable and host of other policy benefits. The terms and conditions for life insurance plans, primarily term insurance, are determined based on the results of the term insurance medical test that the insurance company asks to undergo. Let us look at some policy attributes that get affected by the results of a term plan medical test

- ❖ **Premium Payable:** The primary goal of the insurance provider is to calculate the amount of premium payable towards the term plan. The life insurance business model works based on the overall risk perception of an applicant. Therefore, the insurer must determine existing physical health condition before they can determine what will be the appropriate quotation for the premium payable towards the plan. If in peak physical health, then premium payable will be low. On the other hand, if the term insurance

medical test identifies any pre-existing medical conditions, the risk factor associated with becomes higher. Subsequently, may have to pay a higher amount of premium the desired coverage.

- ❖ **Sum Assured:** Another aspect of the term insurance policy that is affected by the term insurance medical test results is the Sum Assured. The Sum Assured is the amount of insurance benefit money that the family receives, in case of an unfortunate event taking place during the term policy tenure.

  The term insurance medical test can help avail of a higher amount of Sum Assured if results are relatively healthy. The insurance policies that do not require any medical test for term insurance in India usually offer a lower Sum Assured, which, may often prove to be inadequate in covering family financially. Before undergoing a term insurance medical test, it is advisable that thoroughly research about the benefits of the available term insurance plans and use an online term insurance calculator to estimate the premium payable for the desired Sum Assured.
- ❖ **Claim Rejection:** Many people mistakenly believe that even if they have a pre-existing health condition, they can avail the desired coverage by opting for a plan that does not require a term insurance medical test. At the time of claim settlement, if the insurance provider finds that the policyholder's untimely demise is a result of any pre-existing condition that was not mentioned in their application; the insurer can reject the term insurance claim.

5.4.2 BENEFITS OF MEDICAL TESTS IN TERM INSURANCE

Medical tests play a critical role in term insurance plans by ensuring get the right coverage and premium. Below are some benefits of a medical test in term insurance:

- ❖ **Decision making:** Medical tests help insurance companies decide the premium for the plan. If healthy, the company will offer a lower premium. On the other hand, if it have underlying health issues or a history of illnesses, the company may charge a higher premium.
- ❖ **Reduction in claim rejection:** Medical tests are a certified medium for provide accurate medical information to the insurance company. This ensures complete disclosure of the medical history, ensuring the present an honest picture of the health. This lowers claim rejections due to inaccurate information later.
- ❖ **Effect on the sum assured:** The sum assured is the amount of coverage the policy offers to beneficiary in the case of an unfortunate incident during the policy term. The insurance company decides the sum assured as per medical tests. Medical tests in term insurance ensure the sum assured is adequate for the medical situation.

5.4.3 MEDICAL TESTS REQUIRED FOR TERM INSURANCE

- ❖ **Body Mass Index (BMI):** The BMI is used to assess the body mass of an individual. This evaluates the physical condition by comparing weight to height.
- ❖ **Urine Test:** A urine test or urinalysis involves a medical examination in which a sample of urine is analysed by a doctor. This test helps assess the overall health and identify specific conditions like diabetes and kidney ailments.
- ❖ **Blood Test:** Routine blood tests are a common and effective way to assess the health. They involve analysing a blood sample to measure factors like glucose levels. This single

test can reveal conditions like diabetes, thyroid problems and more, providing valuable insights for insurance decisions and overall well-being.

- **Complete Blood Count:** The CBC test is a blood test that provides insights into overall health and can detect various conditions such as anaemia, infections and leukaemia. It counts the overall blood cell count and offers a comprehensive view of the blood's composition.
- **Blood Sugar:** A blood sugar test is mainly done to determine if someone has diabetes. The test measures the amount of sugar or glucose in bloodstream and is performed like a standard blood test. A blood sugar test is one of the most common medical tests used by insurers to acquire crucial information about the health and potential risks.
- **Kidney Function:** The kidney function test evaluates kidney performance. It detects potential kidney-related health problems. The test may use the blood or urine samples.
- **Liver Function:** The liver function test is used to identify potential liver infections by analysing enzyme levels and the blood's protein content. It is used for detecting alcohol-related liver problems, hepatitis and other health issues.
- **Lipid Profile:** A lipid profile is a type of blood test that is used to detect the risk of cardiovascular disease. The test measures different types of lipids in the blood and helps spot abnormal cholesterol content in body.
- **Human Immunodeficiency Virus (HIV) Test:** The HIV test confirms the presence of HIV in the bloodstream and assesses whether it have Acquired Immune Deficiency Syndrome (AIDS). Not all insurance companies require taking this test, but some providers may request this test to determine whether are HIV positive.
- **Chest X-Ray:** A chest X-ray uses a radiation beam to detect problems in the heart, lungs and bones. Insurance companies use this test to get comprehensive healthcare evaluation before issuing a policy.
- **Ultrasonography:** Ultrasonography is used to determine the condition of major organs and can provide valuable information about potential tumours, but it may not be the primary tool for diagnosing cancer.
- **Comprehensive Trail-Making Test:** The comprehensive trail-making test is a neuropsychological test that uses five visual search and sequencing tasks to diagnose a brain injury.
- **Treadmill Test:** The treadmill test detects abnormal heart rhythms and the heart's response to cardiovascular exercise. It is typically used to identify coronary artery disease.

5.5 INDEMNITY

The term indemnity insurance refers to an insurance policy that compensates an insured party for certain unexpected damages or losses up to a certain limit usually the amount of the loss itself. Insurance companies provide coverage in exchange for premiums paid by the insured parties. These policies are commonly designed to protect professionals and business owners when they are found to be at fault for a specific event such as misjudgment or malpractice. They generally take the form of a letter of indemnity.

Indemnity insurance is a type of insurance policy where the insurance company guarantees compensation for losses or damages sustained by a policyholder. Indemnity insurance is designed to protect professionals and business owners when found to be at fault for

a specific event such as misjudgment. Certain professionals must carry indemnity insurance including those involved in financial and legal services, such as financial advisors, insurance agents, accountants, mortgage brokers, and attorneys. Medical malpractice, professional liability, and errors and omissions insurance are examples of indemnity insurance.

5.5.1 TYPES OF INDEMNITY INSURANCE

There are various indemnity insurance policy kinds that can be purchased, each of which is intended to offer security against a different class of risk. Some of the most common types of indemnity insurance include:

- **Professional liability insurance**: Professionals like doctors, attorneys, accountants, and architects are protected by this kind of insurance from accusations of malpractice or negligence.
- **General liability insurance**: This kind of insurance offers protection for companies if they are held accountable for third-party harm, such as property damage, bodily injury, or other kinds of destruction.
- **Product liability insurance**: Manufacturers, distributors, and sellers of goods are covered by this kind of insurance if a product they have created or sold harms a customer.
- **Directors' and officers' liability insurance**: The directors and officers of a company are protected by this kind of insurance in the event that they are held liable for wrongdoing or breaches of fiduciary duty.
- **Errors and omissions insurance**: If a professional makes a mistake or neglects to act that harms a customer, this kind of insurance covers them. Examples of professionals covered include consultants, insurance agents, and real estate agents.
- **Cyber liability insurance**: This kind of insurance offers defence against financial losses brought on by data breaches, cyberattacks, and other dangers associated with the internet.

These are only a few kinds of indemnity insurance policies that are offered. Depending on the insurer and the needs of the policyholder, the policy's terms and precise types of coverage will vary.

5.5.2 FEATURES OF INDEMNITY INSURANCE

Here are some common features of indemnity insurance:

- **Protection against financial losses:** Policyholders are protected financially by indemnity insurance, which pays out for covered damages.
- **Customizable coverage:** The degree of coverage and deductible can both be altered in indemnity insurance to meet the requirements of the policyholder.
- **Claims-based coverage:** Only losses that are expressly mentioned in the policy and that adhere to its terms and conditions are covered by indemnity insurance.
- **Retroactive coverage**: Certain indemnification insurance products, like professional liability insurance, may offer retroactive coverage for claims resulting from occurrences that took place before the policy was bought.
- **Limitations and exclusions:** Limitations and exclusions may be included in indemnity insurance plans. For example, intentional actions or losses brought on by specific events may not be covered.

- **Endorsements or Riders:** In some cases, the insurance will include a policy with an endorsement that will provide coverage for specific actions that happen during the policy's period, even after the policy has expired.
- **Policy limits:** Depending on the type of policy and the particular terms of the policy, indemnity insurance policies generally have a cap on the total amount of coverage that is offered.

  In general, indemnity insurance acts as an invaluable layer of protection for policyholders by shielding them from monetary losses brought on by covered occurrences or situations.

5.6 SUBROGATION

Subrogation is a term describing a right held by most insurance carriers to legally pursue a third party that caused an insurance loss to the insured. This is done in order to recover the amount of the claim paid by the insurance carrier to the insured for the loss. Subrogation is a term describing a legal right held by most insurance carriers to legally pursue a third party that caused an insurance loss to the insured. Generally, in most subrogation cases, an individual’s insurance company pays its client’s claim for losses directly, and then seeks reimbursement from the other party's insurance company. Subrogation is most common in an auto insurance policy but also occurs in property/casualty and healthcare policy claims. Subrogation allows the at-fault party's insurer to reimburse the victim's insurance company. That insurance company will then reimburse the insured, along with any deductibles paid.

5.6.1 PRINCIPLE OF SUBROGATION

Principle of subrogation means surrender of the legal right to receive compensation or salvage the damages in the favour of the insurer. Here is how the concept of subrogation works:

- In case of lost insured goods, insurer pays for the loss and now owns the right to possess the goods if they are later found or recovered.
- If a third-party is supposed to compensate for the insured loss, but insurer pays, the legal right to receive compensation shifts to the insurer.
- Only the insurance company has the right to claim reimbursement for the amount that they have paid.

This principle works in the following scenarios:

- A third party causes the insured loss
- Certain goods were lost which can be recovered later

5.6.2 RIGHTS OF AN INSURER IN SUBROGATION IN INSURANCE

The principle of subrogation endows the insurer with certain rights to the claims that the insurer accepts. These rights can be as follows:

- Receive the lost property for which the insured has been compensated by the insurer if the property or asset is recovered in the future
- Receive the compensation from the insured if the lost asset is recovered by the insured later
- Salvage the damaged property in full or to the extent reimbursed to the insured
- Sue or pursue legal action against the culprits, who may have caused the damage to the property or loss to the insured
- These rights will only come into play once the insurer accepts the claim of the insured for the loss.

5.7 SUMMARY

The insured, on the other hand, pays a premium in return for the promise made by the insurer. Insurance contract is nothing but a legally binding contract, the possibility of an unknown large financial loss is exchanged for a comparatively small certain payment. The Insured should provide all the information related to the subject matter and the insurer must give clear details regarding the contract. Healthy people are accorded a higher status in the table and different (lower) rates of premium are applicable to them since their risk of ill health is lower. If a person suppresses facts about his ill health and manages to buy a policy at rates applicable to the low risk group then other policyholders in the same group have to share his risk. This results in adverse selection. Hence as per the principle of utmost good faith it is binding on the part of parties, the insured and the insurer, to expressly disclose all the relevant material facts pertaining to the contract. The tests conducted are usually subjective to the policyholder's age.

The common tests done would be height and weight measurement, blood test and urine test. Blood tests would compromise test profiles such as complete blood count, differential count, bio, fasting plasma glucose and haemoglobin. Height and weight help to determine the BMI and urine tests give a measure of cotinine levels. The tests can also involve measuring cholesterol levels as well as HIV I and II. Indemnity insurance is a type of insurance policy where the insurance company guarantees compensation for losses or damages sustained by a policyholder. Indemnity insurance is designed to protect professionals and business owners when found to be at fault for a specific event such as misjudgment. Subrogation is most common in an auto insurance policy but also occurs in property/casualty and healthcare policy claims. Subrogation allows the at-fault party's insurer to reimburse the victim's insurance company. That insurance company will then reimburse the insured, along with any deductibles paid.

5.8 KEY WORDS

- **Utmost good faith:** utmost good faith can be defined as a positive duty to disclose accurately & fully all facts material to the risk being proposed whether requested or not. The material fact is the material, which would influence the judgment of a prudent insurer in fixing the premium or determining whether he will cover the risk.
- **Insurable Interest:** According to E. W. Patterson, “Insurable Interest is a relation between insured and the event insured against such as the occurrence of events will cause substantial loss or injury of some kind to the insured.”
- **Medical Examinations:** Medical tests are conducted to determine the current health status of a potential policyholder. Medical tests play a critical role in term insurance plans by ensuring to get the right coverage and premium. The applicant and his/her family’s medical history would be looked at and assessed to see what has to be covered. The tests conducted are usually subjective to the policyholder's age.
- **Medical Examinations Tests:** The common tests done would be height and weight measurement, blood test and urine test. Blood tests would compromise test profiles such as complete blood count, differential count, bio, fasting plasma glucose and haemoglobin. Height and weight help to determine the BMI and urine tests give a measure of cotinine levels. The tests can also involve measuring cholesterol levels as well as HIV I and II

- **Indemnity insurance:** Indemnity insurance is a type of insurance policy where the insurance company guarantees compensation for losses or damages sustained by a policyholder. Indemnity insurance is designed to protect professionals and business owners when found to be at fault for a specific event such as misjudgment.
- **Subrogation:** It is a term describing a right held by most insurance carriers to legally pursue a third party that caused an insurance loss to the insured. This is done in order to recover the amount of the claim paid by the insurance carrier to the insured for the loss. Subrogation is a term describing a legal right held by most insurance carriers to legally pursue a third party that caused an insurance loss to the insured.

5.9 SELF-ASSESSMENT QUESTIONS

1. What do you understand about principles of life insurance? Explain?
2. Define utmost good faith? Illustrate with suitable example?
3. What is Insurable Interest? What are types of insurable interest?
4. What is called Medical Examination? What are the medical Tests Required for Term Insurance?
5. Define Indemnity? Explain the Features of indemnity insurance?
6. What is Subrogation principle in insurance? Explain rights of an Insurer in Subrogation in Insurance?

5.10 FURTHER READINGS

- Fundamentals of Life Insurance by Mishra Kaninika, PHI Learning
- A Textbook on Principles and Practice of Life Insuranceby G. Krishnaswamy, Excel Books
- Course Book of Life Insurance by Mohinder Singh Kamboj , KIMT
- Fundamental Principles of Insurance by Prof. M. Eswari Karthikeyan, Sahitya Bhawan Publications
- The Fundamentals of Insurance - Theories, Principles and by Hargovind Dayal, Notion Press.

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LESSON – 6

LIFE INSURANCE-POLICY CONDITION AND THEIR IMPLICATION

OBJECTIVES:

- To study on Premium payments.
- To understand the surrender value
- To focus on various non-forfeiture option

STRUCTURE:

6.1 Principle of Premium payments
6.1.1. The price of the premium factors
6.1.2 Different types of premium payment terms
6.2 Age proof and special reports
6.2.1 Age proofs
6.2.2 Special reports
6.3 Lapse and revival
6.3.1 Purpose of the revival period
6.3.2 Lapsed policy can be revived
6.4 Surrender value
6.4.1 Factors to Consider While Calculating Surrender Value
6.4.2 Types of Policy Surrender Values
6.5 Non-forfeiture option
6.5.1 The most common possibilities of Nonforfeiture Options
6.5.2 Pros & Cons of Nonforfeiture Options
6.6 Assignment of nomination, loans and foreclosure
6.6.1 Assignment of nomination
6.6.2 Loans
6.6.3 Foreclosure
6.7 Summary
6.8 Key words
6.9 Self-Assessment Questions
6.10 Further Readings

6.1 PRINCIPLE OF PREMIUM PAYMENTS

An insurance premium is the amount of money an individual or business pays for an insurance policy. Insurance premiums are paid for policies that cover healthcare, auto, home, and life insurance. Once earned, the premium is income for the insurance company. It also represents a liability, as the insurer must provide coverage for claims being made against the policy. Failure to pay the premium on the individual or the business may result in the cancellation of the policy. An insurance premium is the amount of money an individual or business must pay for an insurance policy. Insurance premiums are paid for policies that cover healthcare, auto, home, and life insurance. Failure to pay the premium on the part of the individual or the business may result in the cancellation of the policy and a loss of coverage. Some premiums are paid quarterly, monthly, or semi-annually depending on the policy. Shopping around for insurance may help to find affordable premiums.

6.1. THE PRICE OF THE PREMIUM FACTORS

The price of the premium depends on a variety of factors, including:

- The type of coverage
- Age
- The area in which to live
- Any claims filed in the past
- Moral hazard and adverse selection

The premium payment term in insurance refers to the duration or period during which the policyholder is required to make premium payments for their insurance policy. It specifies the timeframe over which the premiums are to be paid to keep the policy in force and active. The premium payment term is an important aspect of an insurance policy. It impacts the policyholder's financial commitment and determines the frequency and duration of premium payments. The premium payment term can vary depending on the type of insurance policy and the terms and conditions set by the insurance company.

6.1.2 DIFFERENT TYPES OF PREMIUM PAYMENT TERMS

Insurance policies can have various premium payment terms. Here are a few common types:

- ❖ **Regular Premium Payment:** In a regular premium payment term, the **policyholder** is required to pay premiums at regular intervals, such as monthly, quarterly, semi-annually, or annually, throughout the policy's term. This is the most common type of premium payment term.
- ❖ **Limited Premium Payment:** In a limited premium payment term, the policyholder pays premiums for a specified number of years or until a certain age, after which no further premium payments are required. This allows the policyholder to complete premium payments within a shorter timeframe while maintaining **coverage** for a longer period.
- ❖ **Single Premium Payment:** In a single premium payment term, the policyholder makes a lump-sum payment of the entire premium amount at the inception of the policy. Once the single premium is paid, no further premium payments are required.
- **Flexible Premium Payment:** Some insurance policies offer flexible premium payment terms, allowing the policyholder to adjust the premium payment amount and frequency within certain limits. This provides flexibility to adapt to changing financial circumstances.

6.2 AGE PROOF AND SPECIAL REPORTS

6.2.1 AGE PROOFS:

Age is a very important factor. The eligibility criteria to enter into an insurance contract for a particular plan and term, the medical reports to be called for and the premiums are base on age so prior admission of age before conclusion of contract is a must. **Type of age proofs:**

1. **Standard age proofs**: Standard age proofs are those where date of birth is verified from the documents like birth certificate / school proof by the issuing authority before issuance.

The following are accepted Standard age proofs as evidence of age:

- ❖ School Certificate: Certified Extract from Municipal or Other records made at the time of birth.

- Certificate Extract from service register, in case of Government Employees and Employees of Quasi-Government, Institutions and certificates from Commercial Institutions and industrial undertakings provided conclusive evidence of age was produced at the time of recruitment of the employee.
- Identity cards issued by the Defence Departments to defence personnel.
- Identity Cards (provided date of birth is mentioned therein) issued by Government, Quasi-Government, reputed commercial and industrial undertakings to their employees.
- Marriage certificates issued by Roman Catholic Churches in the case of Roman Catholics.
- Domicile Certificates in which the date of birth stated was proved on the basis of the school or birth certificate.
- Passport.
- Horoscope maintained by a Hindu family in a Bahi or family horoscope provided Manager (NB) is satisfied with its reliability and originality.
- Non standard age proofs: Non standard age proofs are those where date of birth on the proof is basis self declaration – e.g Voter ID card.

6.2.2 SPECIAL REPORTS

An agent and /or an official of the corporation have to be present while identifying the proposer before medical examiner. Whenever a proposer has taken any treatment in a hospital, a detailed hospital report should be insisted upon, in those cases where the life to be assured has been operated, operating surgeon's report alone will not suffice, as it may not reveal all the details required by us. In case the hospital is unable to give the report, then the operating surgeon's report may be obtained.

The report or operating surgeon's report should contain the following:

- History of sickness, as stated by life to be assured
- Date and duration of illness
- Details of investigations done and results thereof
- Results of clinical examination e. Diagnosis
- Details of treatment and exact nature of operation
- Dates of admission and discharge h. Condition on discharge
- Any subsequent check – ups, etc
- Histopathology reports (Biopsy report), if any

6.3 LAPSE AND REVIVAL

One of the most important steps to ensure that the policy remains active is to pay the premium continuously. However, if the policy has lapsed due to any unavoidable reason, must make sure to revive it at the earliest to continue enjoying life cover uninterrupted. The revival period refers to the specific span of time provided by an insurance company during which a policyholder can reactivate their lapsed or dormant insurance policy. If a policyholder fails to pay the premiums within the grace period, the insurance policy typically becomes inactive or lapses. However, the insurance company offers a chance to reinstate the policy during the revival period. The revival of the lapsed policy can only be done if it has not crossed a specific duration from the lapsation date of the policy.

In general, insurers give two years to policyholders to revive their policy. This revival period may vary based on the plan and the insurer. The policyholder needs to visit their insurer's branch to get a revival quote. The revival quote will be a sum of all premiums due on the policy. The whole amount needs to be paid to the insurance company by the insured along with the interest to get a policy revival. The insurer may also charge some fines/penalties for reviving the policy. It depends on the sum assured and the period after the policy gets lapsed.

6.3.1 Purpose of the revival period

"Revival" means "To bring back to life". Reviving the lapsed policy is now much easier with Policy Revival Scheme. A revival period is used in insurance to give policyholders a chance to renew their expired coverage. This can happen for various reasons such as forgetting to pay, financial hardship, or misunderstanding the payment schedule.

The key purposes of a revival period are:

- **Coverage Continuation:** If a policyholder fails to pay the premium within the stipulated time, the **policy lapses**, and the coverage stops. During the revival period, the policyholder can pay the due premiums, potentially along with a late fee or interest, to reinstate the policy and continue the coverage.
- **Benefit Protection:** A lapsed policy means loss of benefits, which can include the surrender value in a life insurance policy or coverage in a health insurance policy. The revival period allows policyholders to reactivate their policy, thus retaining their benefits.
- **Flexibility:** It provides flexibility to those who might have missed their premium payments due to unforeseen circumstances or financial difficulties. The provision to revive the policy ensures that policyholders do not lose their coverage due to temporary financial problems.
- **Preventive Measure:** The revival period serves as a wake-up call for policyholders to manage their premium payments better. It also indirectly encourages timely payments to avoid the penalties associated with policy revival.

6.3.2 LAPSED POLICY CAN BE REVIVED

Lapsed policy can be revived under below scheme:

- A Lapsed Policy or a Policy under Reduced Paid up mode can be revived as per Underwriting Policy, within the Revival Period. The 'RBI Bank Rate' for the financial year ending 31st March (every year) will be considered for determining the revival late fee.
- The Revival of the Lapsed Policy or a Policy under Reduced Paid up Mode will take effect only after have approved the same in accordance with Our Underwriting Policy and communicated to decision in writing. All original benefits such as Death Benefit and Maturity Benefit which were originally payable will be restored on such Revival. However, no interest shall be payable by Us on such restoration.
- If a Lapsed Policy is not Revived within the Revival Period, this Policy will terminate without value, on the expiry of the Revival Period.
- If a Policy under Reduced Paid Up Mode is not Revived within the Revival Period then, the Policy under Reduced Paid Up Mode cannot be revived and will continue to be under Reduced Paid Up Mode for the remaining part of the Policy Term.
- For the avoidance of doubt, the Policy cannot be Revived beyond the Policy Term

- In addition to the Revival provisions stated above, it may also be eligible to avail of one or more of the following revival schemes to revive the Policy:
- Reduction in the Sum Assured: It may be eligible to revive the Policy by reducing the Sum Assured. Please contact Us for details on whether policyholders are eligible for this revival scheme and, if so, the extent to which the Sum Assured can be reduced, the total amount required to be paid by to revive the Policy and the applicable terms and conditions for utilizing this revival scheme;
- Reduction in the Premium Payment Term: It may be eligible to revive the Policy by reducing the Premium Payment Term. Please contact Us for details on whether policyholders are eligible for this revival scheme and if so, the extent to which the Premium Payment Term can be reduced, the total amount required to be paid by to revive the Policy and the applicable terms and conditions for utilizing this revival scheme;
- Special Revival Schemes: It may also introduce special revival schemes from time to time which are available for a particular period. Contact to for details on whether such revival scheme is available and, if policyhoders are eligible for the same, the total amount required to be paid by to revive the Policy and the applicable terms and conditions for utilizing such revival scheme.

6.4 SURRENDER VALUE

A surrender value in insurance refers to the amount paid by the insurance company to the policyholder upon terminating the policy before its maturity date. If the policyholder surrenders during the policy tenure, the earnings and savings portion will be paid to him or her. Surrender charges are deducted based on the terms of the plan. Surrender values typically are paid only after a policy has been active for a specified period of time, usually three to five years.

Imagine purchasing an Rs 1 crore term insurance policy five years ago, but being unable to pay the insurance premiums due to financial difficulties. In such circumstances, it can surrender the policy to the insurer. Surrendering a policy results in the surrender value being reduced by the surrender charge imposed by the insurer, and all associated policy benefits are terminated. Depending on the policy, surrender charges may vary; however, under IRDAI regulations, life insurance companies in India are prohibited from levying surrender charges on policies surrendered after five years.

In simple words, Surrender Value is the specified portion of sum paid by the life insurance company when, as a policy holder, decide to terminate a policy before its maturity. The surrender value of an insurance policy is the amount which the insurance company will pay (the policyholder) back when decide to terminate the policy before maturity.

There is often a misconception that it is not possible to surrender policy term insurance. As per a directive issued by the Insurance and Regulatory Development Authority (IRDA), term plans in India provide the option to give up on the policy at any time. Occasionally, a surrender (discontinuance) charge might be levied upon the policyholder for premature termination of the policy. However, these charges are not applied if the policy is renounced after five years.

After the policyholder has paid premiums consistently for three years, a regular premium policy acquires certain surrender value. Once opt to exit the insurance policy, all the rights, benefits, and interests linked with it, including the protection cover, will cease to exist. But it will be paid back the surrender value that the policy has accumulated over the years.

However, if one wishes to cancel their policy or ULIPs much before the maturity date, then they can easily do it via visiting the company's website or LIC's nearest office branch.

Step 1: Policyholders to go to the nearest branch office of LIC or log in via LIC's official webpage.
Step 2: They can collect the printout of "Surrender Discharge Voucher" or LIC Form No. 5074 either by downloading it online or via LIC office.
Step 3: This form is required for discontinuing the LIC policy and for withdrawing the surrender value from the bank and thus has to be carefully filled.
Step 4: After filling the form, submit back to the LIC along with proper documentation.
Step 5: Once the form gets acceptance by the company, then the process of surrendering the policy starts.
Step 6: As a next step, the surrender value gets credited into the registered bank account of the policyholder.

6.4.1 Factors to Consider While Calculating Surrender Value

- **Types and features of policies:** Surrender value is heavily influenced by the choice of insurance policy. There are several factors that influence surrender value calculations depending on the type of policy, such as term life, whole life, or endowment plans. Depending on the policy, some may have cash value components, while others may not. How surrender values are determined requires an understanding of the specific features of the policy type selected.
- **Duration of the policy:** A longer policy term increases insurance holders' chances of receiving a more substantial surrender value. The accrued value is directly influenced by the duration of the policy.
- **Accumulated policy value: The** accumulated value of a life insurance policy includes premiums paid, interest earned, and any additional benefits. Using this cumulative value as a foundation for the calculation of surrender value is very important.
- **Accumulated bonuses:** Based on the company's performance, bonuses may be declared over the course of the policy. Whether accumulated bonuses are in cash or added benefits, they are crucial to enhancing surrender value. In most cases, policies with a consistent bonus accrual are likely to yield a higher surrender value.
- **Higher premium payments:** The amount of premium paid has a significant impact on surrender value. A higher premium will result in an increased surrender value for insurance holders. A correlation like this illustrates how premium levels affect surrender value calculations.
- **Age of the insured:** When a life insurance policy is initiated at a younger age, the surrender value is likely to be higher. During the course of a policy's life, the age at which it is initiated plays a pivotal role in shaping the surrender value. Due to extended policy duration, early adoption of policies often results in a higher surrender value.
- **Current market conditions:** Surrender value calculations are influenced by the current market conditions, including economic factors, interest rates, and investment performance within the insurance portfolio. Attention should be paid to market dynamics since they can affect the overall value of a policy in the long run.

- **Fees for surrender:** A surrender fee may be imposed on some insurance policies. Surrender fees are crucial to understanding, as they directly impact the amount a policyholder receives upon surrendering the policy. Those considering premature surrender may find it more advantageous to select a policy with a lower surrender charge.
- **Optimal surrender timing:** It is crucial to time the surrender correctly. Surrendering at the right time, considering factors such as market conditions, policy accumulation, and bonus declaration, will maximise the surrender value. A premature surrender will result in a reduced value, whereas a well-timed surrender will ensure that the policyholder receives the maximum amount possible. To make informed decisions, it is crucial to understand when the best time to surrender is.

6.4.2 Types of Policy Surrender Values

There are two types of surrender values – guaranteed surrender value and special surrender value.

1. **Guaranteed Surrender Value** – This is the value that is typically stated in the policy brochure/documentation. Are entitled to the sum if have paid the premium for three years in a row. The sum is equivalent to all premiums paid up to this point, except the initial payment and any premiums paid for extra benefits or riders. Any bonus money might have received upon the plan's maturity will not be included in the surrender value of the policy. Guaranteed surrender value is determined by multiplying the total premiums paid by the surrender value factor (the percentage of total premiums paid). When the insurance is close to its maturity period, the surrender value factor will almost be equal to 100% of premiums paid.

   For example, assume that policyholder has paid Rs 40,000 in premiums and surrender value factor is 30%.

   Guaranteed Surrender Value = Premiums Paid x Surrender Value Factor
   Guaranteed Surrender Value = 40,000 x (30/100)
   Guaranteed Surrender Value = INR 12,000

2. **Special Surrender Value** – The total sum assured, premium payments, policy term, and bonuses all affect the special surrender value of the plan. In situations where the policyholder fails to make premium payments, but the plan remains in effect until they decide to surrender it, the special surrender value is determined. The sum insured may be lesser when premium payments end, and the lesser amount is referred to as the paid-up value.

Let us take a similar example with the same numbers to calculate the special surrender value. Say it takes a policy with yearly premiums of INR 10,000 for a period of 10 years, and the sum assured is INR 2 lacs. After 4 years of premium payments, decide to stop paying the premiums.

First will need to calculate Paid-Up Value:

Paid-Up Value = Original Sum Assured x (No. of Premiums Paid / No. of Premiums Payable)

Paid-Up Value = 2,00,000 x (4/10)

Paid-Up Value = 2,00,000 x (2/5)

Paid-Up Value = INR 80,000

Surrender value factor will once again be 30%. The surrender value factor is always 0 for the first three years, meaning that it will get no money if surrender policy before three years. Various companies decide their own surrender value factor, but usually it is the percentage of

premiums paid over the course of insurance term. For example, if stop paying premiums in/ from the fourth year, and we can assume that policy's surrender value factor is 30%. Additionally, let's assume that in the four years earned a bonus of INR 30,000.

Use this information to calculate special surrender value:
Special Surrender Value = (Paid-Up Value + Bonus) x Surrender Value Factor
Special Surrender Value = (80,000 + 30,000) x (30/100)
Special Surrender Value = 1,10,000 x (30/100)
Special Surrender Value = INR 33,000

6.5 NON-FORFEITURE OPTION

A non-forfeiture option (or clause) is a provision included in certain life insurance policies stipulating that the policyholder will not forfeit the value of the policy if the policy lapses after a defined period due to missed premium payments. The nonforfeiture clause may also become available when the holder of some life insurance policies surrenders (actively cancels) the policy. Carefully weigh the consequences of canceling the original policy, which also cancels the death benefit of the policy. A nonforfeiture clause is an insurance policy clause stipulating that an insured party can receive full or partial benefits or a partial refund of premiums after a lapse due to nonpayment. Standard life insurance and long-term care insurance may have nonforfeiture clauses. The clause may involve returning some portion of the total premiums paid, the cash surrender value of the policy, or a reduced benefit based upon premiums paid before the policy lapses.

A nonforfeiture clause is an insurance policy clause stipulating that an insured party can receive full or partial benefits or a partial refund of premiums after a lapse due to nonpayment. Permanent life insurance, long-term disability, and long-term care insurance policies may have nonforfeiture clauses. For traditional whole life policies, the policyholder decides how they would like to access the policy's cash value. For life insurance plans in India, always have an option to surrender the policy after the payment of premiums for a certain premium payment term. Apart from pure term insurance plans, any policy that offers guaranteed[1] returns, such as a savings policy or a money-back policy, will offer a minimum cash value once the policy has been surrendered. Once the policy has been surrendered, the death benefit under the policy will not be available anymore. This can be true either for a whole life insurance policy or a savings insurance policy.

If have taken a loan against the insurance plan, as offered by some insurance providers, any outstanding loan amounts will be made from the cash value before the remaining cash value is paid out to , the policyholder. Do not have to pay back any amount from the loan against the policy from own pocket. This amount will be deducted either from the cash value (as mentioned above) or the death benefit, and an interest rate of between 5% to 9% can be charged on loan. It is better to pay off the loan amount soon so that the unpaid interest does not increase due to compound interest. In the case of some insurance policies and according to the life insurance guidelines of some life insurance providers, the cash value receive can be used to avail of a pure term insurance plan. However, the sum assured and the policy period can be calculated as per current age at the time of buying the term insurance policy.

6.5.1 THE MOST COMMON POSSIBILITIES OF NONFORFEITURE OPTIONS

The insurance company could offer a number of options. What's available depends on which company works with, but these are five of the most common possibilities:

1. **Cash Surrender:** With the cash surrender option, the insurer will send a lump-sum payment for cash value balance. By choosing to surrender policy, end the life insurance protection. Variable and universal life insurance policies may deduct a surrender charge. If surrender the policy within 10-15 years of signing up, the insurer would deduct this fee from cash value. It's typically a percentage of balance, like 5%, and decreases over time. Whatever is leftover would then be sent to after forfeit the policy.

   For example, if you had $100,000 in cash value with a 5% surrender charge, you would receive $95,000 for surrendering. You could owe income tax for choosing this nonforfeiture option. If your cash surrender value is less than or equal to what you paid in premiums, you won't owe taxes. However, if you receive more than you paid in total premiums, you will owe income tax on your gain. Your insurer can tell you if you would owe taxes on the cash surrender. Note that you will owe your regular income tax rate on any cash value growth. Such growth doesn't qualify for taxation at the lower capital gains rate.
2. **Reduced Paid-Up Insurance:** If would like to keep some life insurance without paying any more premiums, it could elect a reduced paid-up insurance option. This would enable the life insurance company to replace existing policy for another one with a smaller death benefit. The insurer would tell how much paid-up insurance qualify for based on cash value and past premium payments. If switch to this paid-up policy, the insurance company wouldn't charge any more premiums for the rest of the life. For example, the insurer could potentially let swap your $500,000 policy for one with $150,000 of protection that's fully paid for.
3. **Extended Term Insurance:** Extended term is another way to keep coverage without owing any more premium payments. With this option, the insurer would put the cash value toward a temporary **term life insurance policy**. Would then get term protection for the same size death benefit as existing coverage. However, this term policy would have an expiration date, typically within five to 20 years. If outlive the term, coverage ends. The insurance company would tell what length term could receive based on cash value balance when to make this decision.
4. **Automatic Premium Loan:** Insurer could also let use the cash value to cover premiums through an automatic policy loan. Each premium payment will reduce remaining cash value balance. When take out such a loan, the insurer will charge interest on outstanding debt. Would then have the option to pay off the premium loan at any point to return to previous balance. If die while insured before paying off the loan, the insurer will deduct this amount from the **death benefit** before paying the rest to beneficiaries. If use up all the cash value on premiums, the policy will lapse (unless resume paying premiums again).
5. **Annuity Conversion:** One other possibility is that insurer could let exchange life insurance policy cash value for an annuity. An annuity is a type of contract that turns savings into future income. Wouldn't owe any tax for transferring life insurance cash value into the annuity. The annuity would then continue to grow balance. At any point, can choose to start receiving annuity payments. Could receive payments for a set period of time, such as monthly payments for five years. Could also receive annuity payments guaranteed for the rest of life. The insurer would tell how much could receive for each option.

6.5. 2 Pros & Cons of Nonforfeiture Options

The Potential Pros & Cons of Nonforfeiture Options are:

Pros:

- It protects cash value. Say built up cash value through years of dedicated premium payments. Nonforfeiture clause helps make sure money is protected, so it's not lost to the insurer even if can no longer make the premium payments.
- It puts cash value toward another financial goal. Nonforfeiture options can provide money for other financial goals through a lump-sum cash payment or by setting up an annuity for future income.
- Can continue life insurance coverage. Nonforfeiture options also give several ways to extend life insurance: through a paid-up smaller permanent policy, an extended temporary term policy or by covering the premiums on existing policy with a loan.

Cons:

- It reduces insurance coverage. If use a nonforfeiture option to get a policy that doesn't charge premiums, the benefits will likely be reduced in some way. Either switch for another permanent policy with a smaller death benefit, or get a term policy for the same death benefit, but it will expire if outlives the term.
- It could lead to extra taxes. If elect to surrender policy cash value for a lump-sum payment, owe income tax for any amount beyond what paid in premiums.
- It's not available on all policies. Only permanent policies with cash value include nonforfeiture options.

6.6 ASSIGNMENT OF NOMINATION, LOANS AND FORECLOSURE

6.6.1 ASSIGNMENT OF NOMINATION

'Assignment' and 'Nomination' are two most common terms used in a life insurance policy document. Nomination in a life insurance policy refers to the act of appointing a person or persons who will receive the policy proceeds in the event of the policyholder's demise. It is a simple yet powerful way to express one's wishes regarding the distribution of the financial benefits.

The nominee can be a family member, a friend, or anyone chosen by the policyholder. In Insurance it is important to define the Nominee as the one who suffer financial loss in the absence of the insured person. During the policy application process, the policyholder has the option to specify the percentage of the sum assured that each nominee is entitled to receive. This ensures a clear and unambiguous distribution of the policy benefits, reducing the chances of disputes among family members.

One of the key advantages of nomination is the expeditious settlement of claims. In the absence of a nominee, the legal heirs may have to go through a lengthy and complicated legal process to establish their claim. Nomination simplifies this process, allowing the insurer to release the funds directly to the nominee, facilitating a smoother transition of financial support. While nomination dictates who will receive the policy proceeds, assignment empowers the policyholder to transfer the rights and benefits of the policy to another person or entity during their lifetime. This process allows for a more dynamic and flexible approach to managing financial assets. Assignment can be either conditional or absolute. Conditional assignment involves transferring the benefits to another party with the condition that the rights will revert to the policyholder under specific circumstances. On the other hand, absolute assignment permanently transfers the rights and benefits to another

individual or entity, irrevocably changing the ownership of the policy. One of the common reasons for assignment is to secure a loan. Policyholders can assign their life insurance policy to a lender as collateral, providing a layer of security that benefits both parties. In the unfortunate event of the policyholder's demise before repaying the loan, the outstanding amount is deducted from the policy proceeds, and the remaining sum is disbursed to the nominee.

Fining Parameters	Assignment	Nomination
Source	The endorsement is made on the contract policy.	The nominees' names are mentioned.
Policy Ownership	It involves transferring rights/ownership from the assignor (policyholder) to the assignee (person/entity).	Policy ownership does not change under nomination, it continues with the policyholder.
Purpose	The life assured will transfer all his/her right/ownership of the policy to another person/institution.	It offers the nominee to avail claim benefits in case of death of the life assured.
Consideration	The assignment might/might not support consideration.	Nomination does not support consideration.
Witness	Without a witness, the assignment will be considered invalid.	It is not required in the nomination.
Right to sue	Assignee has the right to sue the assignor of the policy.	The nominee cannot sue the policyholder of the policy.
Policy Amount	Assignee is entitled to receive the policy money.	The nominee is entitled to avail the claim benefits in case of death of the life assured

6.6.2 LOANS

A policy loan, issued by an insurance company, uses the cash value of a life insurance policy as collateral. Also called a "life insurance loan," it often has lower interest rates than a personal loan and it can use the money for any purpose. don't need to repay this loan before to die. But there are also downsides to consider. Policy loans provide a source of funds that use policy's cash value as collateral. It must have accumulated cash value in a permanent life insurance policy to get a policy loan. Options for repaying loan include paying only the annual interest or making periodic payments. Don't need to pay back a policy loan before to die, but a loan balance will reduce the death benefit.

A policy loan is a loan that a policyholder can obtain from their insurance company, using the cash value of their life insurance policy as collateral. A policy loan is a unique and noteworthy feature in the insurance industry, primarily associated with life insurance policies that have a cash value component, such as whole life and universal life insurance policies. This concept is relevant for Indian readers who hold cash-value life insurance policies and may need access to funds for various purposes, such as emergencies, investments, or debt consolidation. Assess financial needs and explore alternative options before taking a policy loan. A policy loan should be considered as a last resort, especially if it may negatively impact life insurance coverage or death benefit. Familiarize with the terms and conditions of policy loan, including the loan amount, repayment schedule, interest rate, and potential consequences for non-repayment.

Develop a repayment strategy to ensure that can repay the policy loan on time, minimizing the impact on life insurance coverage and death benefit.

Policy loans offer several advantages for policyholders, such as:

1. Policy loans can provide with quick access to funds, usually without the need for a credit check or extensive documentation. This can be especially helpful during emergencies or when need funds urgently.
2. Policy loans offer flexibility in terms of loan amounts, repayment schedules, and interest rates. It can usually borrow up to a certain percentage of policy's cash value and choose a repayment schedule that suits financial situation. The interest rates on policy loans are often lower than those on personal loans or credit cards, making them a more cost-effective borrowing option.
3. Unlike surrendering life insurance policy, taking a policy loan does not affect life insurance coverage, as long as maintain premium payments and repay the loan as per the agreed terms.

A policy loan allows borrowing money from insurance company using the cash value of policy as collateral, offering benefits such as easy access to funds, flexibility, and no impact on coverage. However, consider policy loans carefully, evaluating needs, understanding the terms, and planning for repayment to ensure

6.6.3 FORECLOSURE

The surrender value is the maximum value that is payable to in between the terms of the plan. If the outstanding liability exceeds this value, the company is forced to foreclose the policy. Foreclosure is an early termination of policy. Foreclosure is the legal process in which the ownership shifts to the bank or lender if the homeowner fails to pay the loan; home in foreclosure is the property undergoing the foreclosure process and foreclosed home or REO refers to the property which has gone through the foreclosure process and is now owned by the bank or the lender. A foreclosure, as one would expect, can lead to a significant drop in credit score, by hundreds of points. The exact impact depends on various factors, including credit history before the foreclosure and the scoring model used. After a foreclosure, borrower may find it challenging to get new credit or loans.

The company informs before foreclosing the policy and requests to pay the loan to avoid foreclosure. If do not repay the loan or respond to the company’s notice of foreclosure, the policy is foreclosed. Any remaining surrender value (after deducting the outstanding loan) is refunded to on foreclosure. A foreclosure the actual act of a lender seizing a property is typically the final step after a lengthy pre-foreclosure process. Before foreclosure, the lender may offer several alternatives to avoid foreclosure, many of which can mediate a foreclosure’s negative consequences for both the buyer and the seller. Consider the following pros and cons of purchasing a foreclosed property:

Pros

- Most foreclosed housing properties are sold at a price lower than the market value.
- High return on investment
- A faster transaction ensures purchasing a foreclosed property within the shortest possible time.

Cons

- If one purchases a foreclosed property in an auction, he or she cannot check what is inside the house beforehand.

- A buyer may need to spend a lot of money on repair works in the house.
- It is a competitive market, making it difficult for buyers to purchase a foreclosed property.
- Buying a foreclosed property may require substantial funds, especially if an individual is buying it at an auction.

6.7 SUMMARY

An insurance premium is the amount of money an individual or business must pay for an insurance policy. Insurance premiums are paid for policies that cover healthcare, auto, home, and life insurance. The premium payment term can vary depending on the type of insurance policy and the terms and conditions set by the insurance company. Age is a very important factor. An agent and /or an official of the corporation have to be present while identifying the proposer before medical examiner. The revival of the lapsed policy can only be done if it has not crossed a specific duration from the lapsation date of the policy. Surrender values typically are paid only after a policy has been active for a specified period of time, usually three to five years. A non-forfeiture option (or clause) is a provision included in certain life insurance policies stipulating that the policyholder will not forfeit the value of the policy if the policy lapses after a defined period due to missed premium payments.

Nomination in a life insurance policy refers to the act of appointing a person or persons who will receive the policy proceeds in the event of the policyholder's demise. A policy loan is a unique and noteworthy feature in the insurance industry, primarily associated with life insurance policies that have a cash value component, such as whole life and universal life insurance policies. This concept is relevant for Indian readers who hold cash-value life insurance policies and may need access to funds for various purposes, such as emergencies, investments, or debt consolidation. Assess financial needs and explore alternative options before taking a policy loan. A foreclosure, as one would expect, can lead to a significant drop in credit score, by hundreds of points.

6.8 KEY WORDS

- **Insurance premium:** An insurance premium is the amount of money an individual or business must pay for an insurance policy. Insurance premiums are paid for policies that cover healthcare, auto, home, and life insurance.
- **The premium payment:** It is a term in insurance refers to the duration or period during which the policyholder is required to make premium payments for their insurance policy. It specifies the timeframe over which the premiums are to be paid to keep the policy in force and active. The premium payment term is an important aspect of an insurance policy.
- **Single Premium Payment:** In a single premium payment term, the policyholder makes a lump-sum payment of the entire premium amount at the inception of the policy. Once the single premium is paid, no further premium payments are required.
- **Standard age proofs:** Standard age proofs are those where date of birth is verified from the documents like birth certificate / school proof by the issuing authority before issuance.
- **Revival:** It means to bring back to life. Reviving lapsed policy is now much easier with Policy Revival Scheme. A revival period is used in insurance to give policyholders a chance to renew their expired coverage.

- **Lapsed Policy:** A Lapsed Policy or a Policy under Reduced Paid up mode can be revived as per Underwriting Policy, within the Revival Period. The 'RBI Bank Rate' for the financial year ending 31st March (every year) will be considered for determining the revival late fee.
- **Surrender value:** A surrender value in insurance refers to the amount paid by the **insurance company** to the policyholder upon terminating the policy before its maturity date. If the policyholder surrenders during the policy tenure, the earnings and savings portion will be paid to him or her. Surrender charges are deducted based on the terms of the plan.
- **A non-forfeiture option (or clause):** It is a provision included in certain life insurance policies stipulating that the policyholder will not forfeit the value of the policy if the policy lapses after a defined period due to missed premium payments.
- **Nomination:** It is in a life insurance policy refers to the act of appointing a person or persons who will receive the policy proceeds in the event of the policyholder's demise.
- **Policy loan:** A policy loan, issued by an insurance company, uses the cash value of a **life insurance** policy as collateral. Also called a "life insurance loan," it often has lower interest rates than a personal loan and can use the money for any purpose.
- **Foreclosure:** Foreclosure is an early termination of policy. Foreclosure is the legal process in which the ownership shifts to the bank or lender if the homeowner fails to pay the loan; home in foreclosure is the property undergoing the foreclosure process and foreclosed home or REO refers to the property which has gone through the foreclosure process and is now owned by the bank or the lender.

6.9 SELF-ASSESSMENT QUESTIONS

1. Discuss in briefly about the principle of premium payments in insurance?
2. Explain Age proof and special reports in insurance?
3. What is meant by lapse and revival? Is lapsed policy can be revived
4. Define surrender value factors to consider while calculating surrender value?
5. What is Non-forfeiture option? The most common possibilities of Non-forfeiture Options?
6. Explain Loans and Foreclosure in insurance?

6.10 FURTHER READINGS

- Insurance-Principles And Practice by Dr.S.B.Agarwal, Dr.A.K.Mittal, Sanjeev Prakashan
- Principles And Practice Of Insurance by Dr. Satish Kumar Saha, SBPD Publications
- Principles and Practices of Insurance by M. Eswari Karthikeyan, Sahitya Bhawan Publications
- Money. Wealth. Life Insurance. By Jake Thompson, **JL Company**
- The Book on Life Insurance: How Much Do You Value Your Life? By Raymond Aaron and Mia T White, Independently Published
- Insurance Law: An Introduction (Practical Insurance Guides) by Robert Merkin (Editor), Informa Law.

Dr. Sadhik Sayyed

LESSON-7
POLICY CLAIMS AND MATURITY CLAIMS

OBJECTIVES

The main Objective of this lesson are to study the Policy Claims and Maturity Claims, to study Survival benefits and Claim Concession.

STRUCTURE

7.1 Introduction
7.2 Defining Policy Claims
7.3 Nature and Characteristics of Maturity Claims
7.4 Stages of Survival Benefits
7.5 Steps in the Death Claim
7.6 Factors influencing Claim Concession
7.7 Summary
7.8 Key words
7.9 Self Assessment Questions
7.10 Reference Books

7.1 INTRODUCTION

The claim for which a policyholder/life insured can apply for after surviving the complete policy term is called maturity claim. The life insured after surviving the complete policy term has to file a claim to the insurance company to get the maturity benefit. In case of Endowment type of Policies, amount is payable at the end of the policy period. The Branch Office which services the policy sends out a letter informing the date on which the policy monies are payable to the policyholder at least two months before the due date of payment. An insurance claim is a formal request to an insurance company asking for a payment based on the terms of the insurance policy. The insurance company reviews the claim for its validity and then pays out to the insured or requesting party (on behalf of the insured) once approved.

Maturity claims are rather simple, as you will file the claim on your own policy. Also, the insurer may intimate you near the maturity and ask for the necessary documents to close the policy. To file a maturity claim you will usually need the following documents: The policy discharge form. Maturity benefits are the sum assured along with bonuses that your life insurance provider pays to you when you survive the policy tenure. Thus, maturity benefits turn regular life insurance products into saving instruments. However, term insurance offers pure protection without any maturity benefits.

Claims usually fall into one of three types: Claims of fact. Claims of value. Claims of policy. The policyholder receives the intimation from the insurance company once the policy is matured. Or else, even the policyholder can approach the insurer on the completion of the insurance duration. The insurance company processes the maturity benefits, which they pass on to the insurance policyholder. The maturity value in Term Insurance (TI) refers to the amount that is payable to the policyholder if they survive the policy term. In other words, if the policyholder outlives the term of the policy, the insurance company will pay out an amount.

7.2 DEFINING POLICY CLAIMS

A claim of policy argues that certain conditions should exist, or that something should or should not be done, in order to solve a problem. A policy claim is an argument that makes an assertion about a course of action that should be taken. It shows the need for a solution,

makes a clear proposal that includes a specific list of reasons, supports this proposal with appeals to logic and/or emotion, and demonstrates consideration of opposing viewpoints.

A term insurance claim is filed by the policy beneficiary to the insurance company in. A majority of insurance companies offer a seamless claim processing facility so that the beneficiary can file a claim and avail of insurance coverage seamlessly. The examples of claim of policy are: The death penalty should be abolished because it does nothing to prevent murder. Legislation should be passed to stop the sale of cigarettes. The age at which people can get a driver's license must be raised to 18.

Insurance is a contract, represented by a policy, in which a policyholder receives financial protection or reimbursement against losses from an insurance company. The company pools clients' risks to make payments more affordable for the insured.

There are 3 types of claims: claims of fact, which assert something exists/existed/will exist and can be proven true or false; claims of value, which make judgments about whether something is good/bad; and claims of policy, which assert what should/should not be done. The claim defines what the author wants you to do, think, or believe by the time you finish reading his or her work. Your claim is your thesis assertion, or angle. In logical argument, your argument is only as valuable as its claim, which needs to be detailed, reasonable, and supportable with valid evidence.

How to File an Insurance Claim

1. Step 1: Call the Police if Necessary. If a crime was committed, someone was hurt in an accident, or there is significant damage, don't just stand there. ...
2. Step 2: Document Everything and Exchange Information. ...
3. Step 3: Contact Your Insurance Company. ...
4. Step 4: Filing Your Insurance Claim.

In insurance, there are 7 basic principles that should be upheld, ie Insurable interest, Utmost good faith, proximate cause, indemnity, subrogation, contribution and loss of minimization.

Characteristics of a Claim

- Claims are phrased as statements and not questions. ...
- Claims are phrased against the status quo in order to create the potential for controversy. ...
- Claims should be phrased in an unbiased manner so that both sides have an equal opportunity to advocate, support, and defend their positions.

7.3 NATURE AND CHARACTERSTICS OF MATURITY CLAIMS

In case of Endowment type of Policies, amount is payable at the end of the policy period. The Branch Office which services the policy sends out a letter informing the date on which the policy monies are payable to the policyholder at least two months before the due date of payment. Life Insurance Can Provide Protection Against Critical Illness and Permanent/Temporary Disabilities. When combined with a term plan, effective riders can help protect the life insured as well as safeguard their family's financial needs.

Maturity benefits are the sum assured along with bonuses that your life insurance provider pays to you when you survive the policy tenure. Thus, maturity benefits turn regular life insurance products into saving instruments. However, term insurance offers pure protection without any maturity benefits. Based on the preceding definition, an insurance plan or arrangement typically includes the following characteristics: Pooling of losses. Payment of fortuitous losses. Risk transfer. Indemnification. Insurance is a contract, represented by a policy, in which a policyholder receives financial protection or reimbursement against losses from an insurance company. The company pools clients' risks to make payments more affordable for the insured.

1. Insurance is a contract between an insurer and insured where the insurer promises to pay a sum of money to the insured if a specified event occurs, such as property damage, death, or an accident.
2. The nature of insurance depends on the risk being protected against. In a life insurance policy with maturity benefits, the insured will be entitled to claim maturity benefits if he or she outlives the term of the policy. The insured is entitled to claim the maturity benefits only when the policy is in force and all premiums have been paid duly.

The date at which your life insurance policy matures, i.e., comes to an end is known as the maturity date of the policy. On the maturity date, you are liable to receive all the maturity benefits.

The 7 Principles of Insurance Contracts: When You Need A Lawyer

- Utmost Good Faith.
- Insurable Interest.
- Proximate Cause.
- Indemnity.
- Subrogation.
- Contribution.

Loss Minimization.

As insurance is contractual in nature, it is regulated under due procedure of law. Because of which the amount of insurance can either be paid as a gambling or as charity, it has to be paid according to the terms and condition of the insurance contract. These elements are "due to chance," definiteness and measurability, statistical predictability, lack of catastrophic exposure, random selection, and large loss exposure.

When an insurance claim is approved, the insurance company provides reimbursement to the insured party. In the trial balance, the accounting treatment for insurance claims depends on the specific circumstances and policies of the insurance contract. Life insurance is important because it provides financial security to the family in case of the unfortunate death of the policyholder. Life insurance can enable the family of the policyholder to stay financially independent so that they do not have to compromise their lifestyle.

The maturity value in Term Insurance (TI) refers to the amount that is payable to the policyholder if they survive the policy term. In other words, if the policyholder outlives the term of the policy, the insurance company will pay out an amount. Maturity is the state of being fully developed or adult. Humans experience a delayed maturity; we arrive at all stages of life later than other mammals. Synonyms: adulthood, majority, completion, puberty More Synonyms of maturity. 2. uncountable noun.

The concept of insurance developed from the need to minimize the adverse effects of risk associated with the probability of financial loss. The function of insurance is to safeguard against financial loss by having the losses of few paid by the contributions of many who are exposed to the same risk. Claims usually fall into one of three types: Claims of fact. Claims of value. Claims of policy.

To file a maturity claim you will usually need the following documents:

1. The policy discharge form.
2. Original policy document.
3. Your ID and age proof.
4. Proof of your bank account and details (submit passbook copy or cancelled check)

7.4 STAGES OF SURVIVAL BENEFITS

The survival benefit of a life insurance policy pays an amount to the policyholder when the life insured outlives the policy term, and no death claim is filed. If the policyholder dies within this period, his/her family gets the death benefit. But, if he/she survives the whole

duration, they will get the maturity benefit. Survival benefit, on the other hand, is an amount that is given to this policyholder if he/she survives specific years within the policy term.

If the policyholder dies during the policy tenure or before the maturity date: 125% of the Base Sum Assured or seven times the annual premium amount, whichever is higher will be provided. Along with this, additional bonus as well as reversionary bonuses are also offered. Survival benefit is the amount a policyholder receives at the end of a policy term. In case, you survive till the end of your policy and the policy is active, it will take care of your financial needs by offering survival benefits.

With survival benefits, the policyholders receive financial benefits if they survive several years, as mentioned in the policy. However, maturity benefits only apply to policyholders who have survived the entire insurance policy tenure. Is tax applicable on the monetary compensation received from survival benefits? As per current tax laws in India, survival benefits received from a life insurance policy are generally tax-free under Section 10(10D)** of the Income Tax Act, provided certain conditions are met.

Top LIC Plans 2024

- New Jeevan Shanti (Plan no. 858) Secure Your Future with Pension Plan! ...
- Guaranteed Lumpsum Plan. Bima Jyoti (Plan no. 860) ...
- Guaranteed Income Plan. Jeevan Umang (Plan no. 945) ...
- Market Linked Plan. SIIP (Plan no. 852) ...
- Jeevan Utsav (Plan no. 871) Get Details. ...
- Market Linked Plan. Index Plus (Plan no. 873)

Definition: Generally survival period comes under health insurance and life insurance policies that cover particular critical illnesses. This is the time period that the insured must live after getting diagnosed with a critical illness for a successful claim. The length of the survival period varies from insurer to Insurer, however it typically ranges from 14 days to a month. When purchasing insurance, this factor must be considered. A shorter survival period will prevent emotional fatigue.

Maturity benefits are the sum assured along with bonuses that your life insurance provider pays to you when you survive the policy tenure. Thus, maturity benefits turn regular life insurance products into saving instruments. However, term insurance offers pure protection without any maturity benefits. Insurance companies have three years to investigate a life insurance policy. Once the period of three years lapses, no claim can be rejected on the grounds of misrepresentation of facts.

7.5 STEPS IN DEATH CLAIM

The claimant must submit the written intimation as soon as possible to enable the insurance company to initiate the claim processing. The claim intimation should consist of basic information such as policy number, name of the insured, date of death, cause of death, place of death, name of the claimant. Fortunately, most life insurance companies are very quick in expediting death claims. As long as the required paperwork is in order and the policy isn't being contested, a life insurance claim can often be paid within 30 days of the death of the insured.

Your insurance claim, step-by-step

1. Connect with your broker. Your broker is your primary contact when it comes to your insurance policy – they should understand your situation and how to proceed. ...
2. Claim investigation begins. ...
3. Your policy is reviewed. ...
4. Damage evaluation is conducted. ...
5. Payment is arranged.

Formalities for a death claim

1 Filled-up claim form (provided by the insurance company)
2 Certificate of death.
3 Policy document.
4 Deeds of assignments/ re-assignments if any.
5 Legal evidence of title, if the policy is not assigned or nominated.
6 Form of discharge executed and witnessed.

In the instance of death claims, when no nomination has been made or the claimant is unable to present any legal evidence and the final claim amount does not exceed Rs 5 lakh, the legal successor can file a claim six months after the depositor's death. Following documents submission and thorough verification, the insurer decides to either reject the claim or approve it. If a claim has been rejected, claimants can pursue Review Committees established by LIC at zonal and central levels.

Record all details about the event. Make a complete list of damaged, destroyed or stolen items. Take photos and detailed notes. Call your insurance representative as soon as you can. Death claims arise when a policyholder passes away, and beneficiaries initiate the process to receive the assured sum. This process ensures the financial security the insurance policy promises is delivered to the family or nominees.

Proof of Address such as Aadhaar Card (UID), Passport, Election ID etc.

- Legal Heir Certificate (not mandatory)
- Affidavit stating that the deceased died intestate and there are no other legal heirs other than the one mentioned therein (to be stamped as per local Law).

All Claims shall be settled and the payments shall be made to survivor(s)/ nominee, within a period not exceeding 15 days from the date of receipt of the claim subject to the production of the proof of death of the depositor and suitable identification of the claimants to the Bank's satisfaction. To file a claim, the beneficiary will need to notify the insurance company's claims department. The claims department then sends a form for the beneficiary to complete and return along with the policy and a certified copy of the insured's death certificate.

7.6 Factors influencing Claim Concession

It means that the life insurance industry settled over 98% of the total individual death claim requests received during FY 2022-23. The overall claim settlement ratio was 98.64% in 2022-23. Claim Settlement Ratio is calculated as (total claims settled / total claims filed) multiplied by 100.

S.no	**Insurance Company**	**CSR (2022-2023)**
1.	**LIC of India**	98.74%
2.	Max Life Insurance	99.34%
3.	HDFC Life Insurance	98.66%
4.	ICICI Prudential Life Insurance	97.82%

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*. LIC policies are backed by the central government and are less risky. It offers guaranteed death benefits as well. Mutual

funds are dependent on the market and are far more volatile in terms of returns. LIC is a government-backed entity that fulfils a person's insurance needs.

Following is a list of top 10 Life Insurance Companies in India:

- HDFC Life Insurance Company. ...
- ICICI Prudential Life Insurance Company. ...
- Life Insurance Corporation (LIC) India Company. ...
- Max Life Insurance Company. ...
- PNB MetLife India Insurance Company. ...
- SBI Life Insurance Company. ...
- TATA AIA Life Insurance Company.

India's most expensive policy: Closer to home, a policy[4] was purchased with a premium of Rs 50 crore in Mumbai during the demonetization wave. The record premium was paid by an individual for a pension plan. Popularly known as LIC, the company made its debut in India over 100 yrs ago. The company has the highest market share of life insurance companies in India 2024. It has a diversified product portfolio covering various segments across individual products and group products. One such company, which holds the distinction of being the oldest insurance company in India, is the Oriental Life Insurance Company. The Oriental Life Insurance Company: Founded in 1818, the Oriental Life Insurance Company, now known as Oriental Insurance Company Limited, has a legacy spanning over two centuries. The solvency ratio of an insurance company is how much capital it has compared to the risk it has taken on. The risk is calculated by subtracting liabilities from total assets. In other words, solvency measures how much the corporation has versus how much it owes.

When you purchase a life insurance policy, you will need to fill out a proposal form with all your details, like name, age, address, qualifications, occupation, etc. You will also need to submit documents like your ID proof like an Aadhaar Card, proof of income like income tax returns, and recent passport-sized photographs. You will be asked about your and your family's medical history and any underlying medical conditions you may have. Also, details about your nominee.

As per Section 45 of the Insurance Act, 1938, the insurer cannot reject your claim if your policy has been in force for 3 years continuously. However, in cases of early death within the first 3 years of the policy, the insurers have been known to investigate the reason for death. And if they find any wrong declarations made in the proposal form, they may dispute the claim. So it’s really important to be honest with your insurer and disclose all the necessary details. This will save your family the trouble of facing issues regarding claims when they’re already going through so much.

To receive the life insurance death claim amount, your nominee will need to submit the claim form and other relevant documents. Along with the mandatory documents, the insurer can even ask your nominee to share additional documents - depending on the product. The insurance company will verify the submitted documents, and only then initiate the claim intimation request. If the documents are incorrect, or the insurer finds any discrepancy with them, your family's claim may get rejected.

The claims process and document requirements are subject to change and may vary from insurer to insurer. Therefore, at the time of policy purchase, make sure you ask the right questions to the insurer and understand the policy thoroughly. Once you and your nominee learn about the details, you can bring all the policy-related and other documents together, and store them in a safe, secure place to avoid misplacement and confusion. You can also create an account on the Digilocker app or open an e-insurance account to store the documents in digital format. Remember to share the account details with your family members - so they can take over the process when you’re not there.

Exclusions In Your Policy Along with the features and benefits of a policy, it is also important to know about its exclusions (situations it won't cover) - to avoid any surprises during the claim. There's just one exclusion in life insurance - death due to suicide in the first year of buying the policy. So if a claim is filed on the grounds that a suicide has taken place within 1 year, it will be rejected. In this situation, however, all the premiums (excluding the taxes) you have paid in the first year - will be paid back to your nominee. If you opt for riders, i.e., optional benefits with your life insurance policy, you should know that they come with specific exclusions too. So, while only death due to suicide in the first year will be excluded under your base life insurance plan, there might be a variety of deaths that the riders won't cover. It is important to inform your family about this - to avoid any hassles at the time of claim.

7.7 SUMMARY

An insurance claim is a formal request to an insurance company asking for a payment based on the terms of the insurance policy. The insurance company reviews the claim for its validity and then pays out to the insured or requesting party (on behalf of the insured) once approved. A claim summary is an insurance adjuster's estimate of the expected cost to repair your damages. A claims-made policy refers to an insurance policy that provides coverage when a claim is made against it, regardless of when the claim event occurred. A claims-made policy is a popular option for when there is a delay between when events occur and when claimants file claims.

A policy claim is an argument that makes an assertion about a course of action that should be taken. It shows the need for a solution, makes a clear proposal that includes a specific list of reasons, supports this proposal with appeals to logic and/or emotion, and demonstrates consideration of opposing viewpoints. A claim summary is an insurance adjuster's estimate of the expected cost to repair your damages. The primary purpose of life insurance is to provide a financial benefit to dependants upon premature death of an insured person. The policy pays a specified amount called a "death benefit" to the named beneficiary, when the insured dies.

7.8 KEY WORDS

Policy Claims, Maturity Claims, Survival benefits, Death Claims and Claim Concession.

7.9 SELF ASSESSMENT QUESTIONS

1. Explain the meaning of Maturity Claims
2.Discuss the stages of Survival benefits
3. Describe the factors influencing the Claim Concession

7.10 REFERENCE BOOKS

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2. 2014 Life Insurers Fact Book. Washington, DC: American Council of Life Insurers, 2014.
3. Graves, Edward E. (Ed.), McGill's Life Insurance, 9th ed. Bryn Mawr, PA: The American College, 2013, Chs. 22–23.

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LESSON-8

CONSUMER PROTECTION ACT & INSURANCE CLAIMS

OBJECTIVES

To provide an overview of the various procedures and problems in claim settlement and to study the consumer protection Act relating to life insurance and Insurance Clams.

STRUCTURE

8.1 Introduction
8.2 Techniques of Procedures
8.3 Problems in Claim Settlement
8.4 .Meaning of Consumer Protection
8.5. Definition of Consumer Protection
8.6. Consumer Protection Act relating to Life Insurance and Insurance Claims
8.7. Summary
8.8. Key Words
8.9. Self Assessment Questions
8.10. Reference Books

8.1. INTRODUCTION

Insurance claims across the policies follow a similar process, except for a few steps where claim processing can be faster. The usual procedure includes the following: a) Report the unfortunate event to the insurer. The event should be the one covered in the policy. An insurance claim is a formal request to the insurance company, in writing, for the amount assured on the occurrence of an event as specified in the insurance policy. An insurance claim is compensation against losses covered under your insurance policy. As an insured or as a nominee you are entitled to claim because of the premiums paid to the insurer in line with the terms and conditions of the policy document.

Insurance is a financial agreement in which you pay a fixed premium and in return, the insurer provides financial cover for losses incurred. In the case of life insurance, the loss of income due to untimely demise is considered a loss for the grieving family and is compensated to the extent of the sum assured. The objective of the “claim process” is to inform the insurance company that the event for which the insurance cover was offered has occurred and that the assured amount should be disbursed. The claims process is a pivotal moment in the intricate web of insurance operations. It's the juncture where policyholders seek reimbursement for covered losses and damages, and insurers assess and settle these claims.

Insurance claims across the policies follow a similar process, except for a few steps where claim processing can be faster. The usual procedure includes the following:

a) Report the unfortunate event to the insurer. The event should be the one covered in the policy. For example, death cannot be reported to a health insurer.

b) Receive and file the claim form along with all the relevant documents.

c) Submit the supporting documents to strengthen your claim.

d) The insurer will review the documents and process the claim – Approve, reject or demand additional documents.

e) If the claim is approved the insurer pays the benefits offered in the policy.

f) The claim settlement may include a lump sum payment or regular income or a mix of both as selected by the policyholder in the policy.

The first step of claim process is to contact your insurer and intimate about the claim. Fill your claim form and attach the relevant documents. A surveyor conducts damage evaluation. Acceptance of your claim. Claims handling service is the basis on which an insurance company is ultimately judged by clients and the key issue affecting the reputation of the insurer. The payment of legitimate claims represents the delivery of the promise at the heart of the insurance contract. Claims processors record and maintain insurance policy and claim information in database systems and determine policy coverage while calculating claim amounts. Claims processors process any claim payments when applicable and must ensure they comply with federal, state, and company regulations and policies.

Insurance companies conduct a verification of all the details provided by the buyer before issuing a policy. One has to fill out an application form with details like medical history and family health history. The insurer may even ask you to undergo a medical examination, if required. The claim defines what the author wants you to do, think, or believe by the time you finish reading his or her work. Your claim is your thesis assertion, or angle. In logical argument, your argument is only as valuable as its claim, which needs to be detailed, reasonable, and supportable with valid evidence.

An insurance claim is a formal request to your insurance provider for reimbursement against losses covered under your insurance policy. Insurance is a financial agreement between you and your insurer. You have to pay a fixed premium. Claims processing is an intricate workflow involving 20+ checkpoints that every claim must go through before it's approved. If a claim makes it through all these checkpoints without issues, the insurance company approves it and processes any insurance payments.

8.2 TECHNIQUES OF PROCEDURES

The first step of claim process is to contact your insurer and intimate about the claim. Fill your claim form and attach the relevant documents. A surveyor conducts damage evaluation. Acceptance of your claim

Follow these four simple steps to file a claim:

- 1.Claim intimation/notification. ...
- 2.Documents required for claim processing. ...
- 3.Submission of required documents for claim processing. ...
- 4.Settlement of claim.

We can file a claim for property damage, bodily injury, the death of a loved one, health care benefits, and premises liability, to name a few. Read on to learn more about different types of insurance claims. During the life cycle of the claim, each step will vary depending on the individual case and circumstances in which it was filed. For common and uncomplicated claim types, like a low severity personal auto vehicle damage claim, the above life cycle can happen shortly after a claim submission on your mobile app.

Life insurance type	Coverage length	Best for ages
Term	Coverage length10, 15, 20, 30 years	Best for ages18 – 65
Whole	Coverage lengthYour lifetime	Best for ages18 – 65

Universal	Coverage lengthYour lifetime	Best for ages18 – 65
Variable †	Coverage lengthYour lifetime	Best for ages18 – 65

The insurance claim life cycle has four phases: adjudication, submission, payment, and processing. It can be difficult to remember what needs to happen at each phase of the insurance claims process. Insured's name, policy number, death site, date, claimant's name, etc. The beneficiary can obtain a claim notification form by contacting the insurance company directly, submitting an online request, or visiting any of the insurer's local offices. In India, insurance can be broadly classified into two types — life insurance and non-life insurance, also known as general insurance.

There are three types of claims: claims of fact, claims of value, and claims of policy. Each type of claim focuses on a different aspect of a topic. To best participate in an argument, it is beneficial to understand the type of claim that is being argued. Insurance plans are beneficial to anyone looking to protect their family, assets/property and themselves from financial risk/losses: Insurance plans will help you pay for medical emergencies, hospitalization, contraction of any illnesses and treatment, and medical care required in the future.

Insurance is a contract (policy) in which an insurer indemnifies another against losses from specific contingencies or perils. There are many types of insurance policies. Life, health, homeowners, and auto are among the most common forms of insurance. Most experts agree that life, health, long-term disability, and auto insurance are the four types of insurance you must have. Process Risk – Process risk is the risk of financial losses and negative social performance related to failed internal business processes within every aspect of the business. This can include product design flaws and internal project failures.

What are the 7 best practices to mitigate process risks?

1. Develop a data-driven process risk assessment. ...
2. Map your processes. ...
3. Increase automation level. ...
4. Monitor and measure process performance. ...
5. Comply with best practices and regulations. ...
6. Improve communication channel. ...
7. Consider process inter-dependency.

The claim defines what the author wants you to do, think, or believe by the time you finish reading his or her work. Your claim is your thesis assertion, or angle. In logical argument, your argument is only as valuable as its claim, which needs to be detailed, reasonable, and supportable with valid evidence. The scope of insurance refers to the range of risks and uncertainties that can be covered by insurance policies. It includes various domains such as personal insurance, auto insurance, business insurance, liability insurance, and more. Insurance is a legal agreement between two parties – the insurer and the insured, also known as insurance coverage or insurance policy. The insurer provides financial coverage for the losses of the insured that s/he may bear under certain circumstances.

Types of Life Insurance

- Term Insurance Plans. Term insurance protects your family's financial future if something were to happen to you. ...
- ULIPs – Unit Linked Insurance Plans. ...
- Endowment Insurance Plans. ...
- Money Back Insurance Plans. ...

- Whole Life Insurance Plans. ...
- Child Insurance Plans. ...
- Retirement Insurance Plans.

- Step 1: Hazard identification. This is the process of examining each work area and work task for the purpose of identifying all the hazards which are "inherent in the job". ...
- Step 2: Risk identification.
- Step 3: Risk assessment.
- Step 4: Risk control. ...
- Step 5: Documenting the process. ...
- Step 6: Monitoring and reviewing.

Process safety is a proactive form of risk assessment combined with engineering that focuses on preventing high-impact fires, explosions, accidental chemical releases, and structural collapses, especially in facilities that use, process, and handle hazardous materials. Claim settlement is one of the most important services that an insurance company can provide to its customers. Insurance companies have an obligation to settle claims promptly. You will need to fill a claim form and contact the financial advisor from whom you bought your policy.

A reimbursement system that protects insurers from very high claims. It usually involves a third party paying part of an insurance company's claims once they pass a certain amount. Reinsurance is a way to stabilize an insurance market and make coverage more available and affordable. Insurance planning is the process of carefully selecting insurance policies to financially protect yourself, your family members, assets, etc., against unexpected losses. It includes finding one or more insurance providers who can financially support you in case of a crisis.

8.3 PROBLEMS IN CLAIM SETTLEMENT

The claim settlement team finds it difficult to process the claim application if there is lack of proper documentation. An insurance policy is invalid if it has crossed its expiry date, claims raised with an invalid insurance policy are not settled. Providing wrong or no information is one of the most common life insurance claim rejection reasons. The logic behind this is quite simple, the premium and risk coverage is determined by personal details like age, profession, health condition, medical history etc. An insurance settlement is the payment that an insurance company offers to a customer in response to a claim. The settlement is the final amount paid to the customer, after their claim has been adjusted (and assuming their claim is covered by their policy).

The time limit set for the claim settlement process by the IRDAI is within 30 days of raising the claim. Most insurance companies settle the claims within 10 days. Read on to know everything about the claim settlement process. The surveyor will evaluate the authenticity of the claim with due diligence. For life and health insurance, the insurer will start processing the claim settlement request upon receiving and verifying all the documents.

8.4 MEANING OF CONSUMER PROTECTION

Consumer protection is the practice of safeguarding buyers of goods and services, and the public, against unfair practices in the marketplace. Consumer protection measures are often established by law. "consumer" means a person who acquires goods or services from a. manufacturer or trader; "defect in relation to goods" or "defective goods" means goods that do. not comply with a product safety or quality standard as prescribed by. Regulations for goods and includes new or second-hand goods that are in.

Consumer Protection Act provides Consumer Rights to prevent consumers from fraud or specified unfair practices. These rights ensure that consumers can make better choices in the marketplace and get help with complaints. Consumer protection law can cover the sale and advertising of goods, services, and consumer financial products like credit cards, auto loans, and mortgages. It encompasses issues like false advertising, scams, predatory lending, unfair debt collection, and foreclosure.

Consumer Protection is a term given to a practice wherein we need to protect the consumer from the unfair practice, educating them about their rights and responsibilities and also redressing their grievances. A consumer is a person who consumes a product or service. The word consumer is often used interchangeably with the word customer. This is not entirely accurate. A customer is a person or organisation that purchases goods or services. They may or may not consume them.

8.5 DEFINITION OF CONSUMER PROTECTION

It safeguards and encourages consumers to speak against insufficiency and flaws in goods and services. If traders and manufacturers practice any illegal trade, this act protects their rights as a consumer. The primary motivation of this forum is to bestow aid to both the parties and eliminate lengthy lawsuits. Consumer rights can be defined as the right to safety, the right to be informed, the right to choose, and the right to be heard. These rights were meant to ensure consumers' fair treatment and that they had the information they needed to make informed decisions about the products and services they bought.

Consumer protection is the practice of safeguarding buyers of goods and services, and the public, against unfair practices in the marketplace. Consumer protection measures are often established by law. It's a crucial right which enables buyers to get their money back in case of getting bad products or bad quality services. The seller/manufacturer/service providers must indemnify the consumer for any injury, damages and financial loss caused due to their act or negligence. Consumer protection makes markets work for both businesses and consumers. Consumers need to be able to obtain accurate, unbiased information about the products and services they purchase. This enables them to make the best choices based on their interests and prevents them from being mistreated or misled by businesses.

8.6 CONSUMER PROTECTION ACT RELATING TO LIFE INSURANCE AND INSURANCE CLAIMS

Consumer Protection Act 1986 was repealed by the Consumer Protection Act 2019 (Hereinafter referred to as Act) to protect and promote consumer rights and to deal with Unfair Trade Practices, Misleading Advertisements and all those areas which are violative of Consumer Rights. (1)A complaint in relation to any goods sold or delivered or agreed to be sold or delivered or any service provided or agreed to be provided may be filed with a District Forum by— (a)the consumer to whom such goods are sold or delivered or agreed to be sold or delivered or such service provided or agreed to be provided ...

The Duty requires firms to act to deliver good outcomes for retail customers. Firms must act in good faith towards customers, avoid causing them foreseeable harm, and enable and support them to pursue their financial objectives. So, as “services” defined under Section 2(1)(o) includes banking, insurance and if there is deficiency in service in the matter of banking/insurance, etc., subject to the fact that he is a consumer under Section 2(1)(d), remedy is always available to such a consumer to invoke the jurisdiction of the Act, 1986.

An Act to provide for better protection of the interests of consumers and for that purpose to make provision for the establishment of consumer councils and other authorities for the settlement of consumers' disputes and for matters connected therewith. According to

the Act, a consumer's definition is who: buys goods or hires any service. uses the goods or hires any service with the approval of any buyer or service provider. uses goods and services to earn a livelihood by self-employment. To establish a legal framework for the achievement of a consumer market that is fair, accessible, efficient, sustainable and responsible, To promote fair business practices, To protect consumers from unfair, unreasonable and/or improper trade practices.

This Act is regarded as the 'Magna Carta' in the field of consumer protection for checking unfair trade practices, 'defects in goods' and 'deficiencies in services' as far as India is concerned. It has led to the establishment of a widespread network of consumer forums and appellate courts all over India. The Consumer Protection Act, 1986, is a law in India that safeguards the interests of consumers. It establishes consumer rights and provides a framework for redressal of consumer grievances through the setting up of consumer courts and forums at national, state, and district levels. The act provides comprehensive protection to consumers against various unfair practices and substandard goods/services. Special consumer forums are set up at the district, state, and national levels to hear complaints and provide speedy resolutions.

The main objectives of the Consumer Protection Act are to provide a mechanism for prompt action on complaints, protect customers, etc. The Consumer Protection Act (CPA) was enacted in 1986 to protect the rights and interests of consumers against any fraud or unfairness. The Consumer Protection Act of 2019 replaced it. Consumer protection is the practice of safeguarding buyers of goods and services, and the public, against unfair practices in the marketplace. Consumer protection measures are often established by law. Coverage of items : This act is applicable on all products and services . Compensatory nature of provisions as it compensates the consumer for the losses . It is applicable to all types of goods and services unless specifically exempted by the Central Government . We have the Indian Contract Act, the Sale of Goods Act, the Dangerous Drugs Act, the Agricultural Produce (Grading and Marketing) Act, the Indian Standards Institution (Certification Marks) Act, the Prevention of Food Adulteration Act, the Standards of Weights and Measures Act, etc. which to some extent protect.

An insurance claim is a formal request to your insurance provider for reimbursement against losses covered under your insurance policy. Insurance is a financial agreement between you and your insurer. You have to pay a fixed premium. Underinsurance means the policyholder does not have sufficient coverage for the loss or damage, which may lead to financial hardship. If the policyholder is underinsured and the property is damaged in any way, the insurance payout may not be enough to cover the replacements or repair costs.

The claimant must submit the written intimation as soon as possible to enable the insurance company to initiate the claim processing. The claim intimation should consist of basic information such as policy number, name of the insured, date of death, cause of death, place of death, name of the claimant. A claim form is the document that tells your insurance company more details about the accident or illness in question. This will help them determine if the expenses you are claiming for are covered under your insurance plan or not, so the more information on this form the better. Health insurance claims are primarily of two types, cashless and reimbursement claims. Out of the two, cashless claims are the one which is preferred by customers.

An insurance claim is a formal request by a policyholder to an insurance company for coverage or compensation for a covered loss or policy event. The insurance company validates the claim (or denies the claim). If it is approved, the insurance company will issue payment to the insured or an approved interested party on behalf of the insured.

Insurance claims cover everything from death benefits on life insurance policies to routine and comprehensive medical exams. In some cases, a third party is able to file claims on behalf of the insured person. However, in the majority of cases, only the person(s) listed on the policy is entitled to claim payments.

- An insurance claim is a formal request by a policyholder to an insurance company for coverage or compensation for a covered loss or policy event.
- The insurance company validates the claim and, once approved, issues payment to the insured or an approved interested party on behalf of the insured.
- For property-casualty insurance, such as for your car or home, filing a claim can cause rate hikes to your future premiums

8.7 SUMMARY

The Consumer Protection Act, implemented in 1986, gives easy and fast compensation to consumer grievances. It safeguards and encourages consumers to speak against insufficiency and flaws in goods and services. If traders and manufacturers practice any illegal trade, this act protects their rights as a consumer. This law allows for the establishment of an authoritative body called the Central Consumer Protection Authority or CCPA. This body examines the unfair practices in trade and advertisements that provide misleading information, and other such illegal or unethical aspects.

Consumer rights can be defined as the right to safety, the right to be informed, the right to choose, and the right to be heard. These rights were meant to ensure consumers' fair treatment and that they had the information they needed to make informed decisions about the products and services they bought. The Consumer Protection Act, 1986 is a major legislative milestone enabling an otherwise inert consumer to stand up against unfair trade practices and substandard products or services. Consumer Protection is a term given to a practice wherein we need to protect the consumer from the unfair practice, educating them about their rights and responsibilities and also redressing their grievances.

8.8 KEY WORDS

Right to safety. Right to assured, Right to be heard, Right to be informed, Consumer Protection.

8.9 SELF ASSESSMENT QUESTIONS

1. Discuss the importance of Policy Claims
2. Explain the concept of problems in Claim settlement
3.Discuss the concept of Consumer Protection Act

8.10 REFERENCE BOOKS

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2. A Directory of Voluntary Consumer Organisations in India (1993), Ahmedabed CERC.
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LESSON -9
LIFE INSURANCE AND MIDDLEMEN

Learning Objectives

- To understand the objectives and key aspects of IRDAI
- To Know the scope of IRDAI
- To Learn the other Agencies
- To Identify the Framework Mediators in Life Insurance Agency

Structure

9.0 Introduction
9.1 Key areas covered by the IRDA rule
9.2 IRDAI Act
9.3 Objective of IRDA
9.4 Importance of IRDA in the Insurance Sector in India
9.5 Functions of IRDA
9.6 Role of IRDA
9.7 Understanding the Role of IRDA in Indian Insurance Sector
9.8 Difference between IRDA and SEBI on Their Functions
9.9 Types of Insurances Regulated by the IRDAI
9.10 General Insurance
9.11 Individual Agency
9.12 Corporate Agency
9.13 Insurance Brokers
9.14 Summary
9.15 Key words
9.16 Self Assessment questions
9.17 Suggested Readings

9.0 Introduction

The RDAI stands for the Insurance Regulatory and Development Authority of India. The insurance business in India is regulated by them, and they supervise the functioning of Life Insurance and General Insurance companies that are operating in the country.

IRDAI has set various rules and regulations for the operation of the insurance industry. Its sole objective is to defend the interest of the policyholders and ensure the growth and evolution of the insurance industry holistically. IRDAI regularly issues notices to insurance companies in case there are any changes in the rules and regulations. It leads the insurance companies to foster efficiency in the conduct of the insurance business and control the rates or any other charges related to insurance.

The IRDA rule comprises a set of guidelines, regulations, and norms that govern various aspects of the insurance industry. These rules are formulated to establish a robust framework for insurers, intermediaries, and policyholders.

9.1 Key areas covered by the IRDA rule:

Licensing & Registration

The IRDA regulates the licensing and registration of insurers, intermediaries, and insurance agents. It sets the eligibility criteria, qualifications, and capital requirements for obtaining

licenses in the insurance business.

Policyholder Protection
The IRDA places significant emphasis on safeguarding the interests of policyholders. It mandates insurance companies to maintain a high standard of service, transparency in policy terms and conditions, and timely claim settlements. The rule also establishes guidelines for policy-related disclosures and resolves grievances through an integrated grievance redressal mechanism.

Solvency Margin
The IRDA rule mandates insurers to maintain a solvency margin, ensuring their financial stability and ability to fulfill policyholder claims. The solvency margin is the excess of assets over liabilities, and it acts as a buffer to protect policyholders' interests.

Product Approval
Insurance products need to be approved by the IRDA before being introduced in the market. This ensures that the products meet the required standards, are suitable for the target customers, and offer reasonable terms and conditions.

Investment Guidelines
The IRDA specifies guidelines on investment activities by insurers, ensuring prudential investment practices and risk diversification. These guidelines help insurers manage their investment portfolios responsibly, reducing the potential risks associated with investments.

Market Conduct And Anti-Fraud Measures
The IRDA rule promotes fair market conduct, prohibiting fraudulent activities, misrepresentation, and unfair trade practices. It establishes mechanisms to detect and deter fraudulent behavior, safeguarding the industry's integrity and building trust among consumers.

9.2 IRDAI Act
The IRDAI Act provides a complete regulation of the insurance sector in India (all the insurance business in India is regulated by IRDAI). The IRDAI plays a key role in the development of regulatory mechanisms of insurance in the insurance sector.

A committee was established by the Government of India to examine the structure of the insurance sector and to advocate revisions to the rules and regulations to make it more effective and efficient.

IRDAI was presented in the parliament in 1999. The bill was discussed and debated before it finally became the Insurance Regulatory and Development Authority of India (IRDAI) Act of 1999.

9.3 Objective of IRDA:
The main objective of the Insurance Regulatory and Development Authority of India is to enforce the provisions under the Insurance Act. The mission statement of the IRDA is:

- To protect the interest and fair treatment of the policyholder.
- To regulate the insurance industry in fairness and ensure the financial soundness of the industry.

- To regularly frame regulations to ensure the industry operates without any ambiguity.

9.4 Importance of IRDA in the Insurance Sector in India:

The insurance industry in India dates back to the early 1800s and has grown over the years with better transparency and focus on protecting the interest of the policyholder. The IRDA plays an integral role in emphasizing the importance of policyholders and their interest while framing rules and regulations. Here are the important roles of the IRDA:

- To protect the policyholder's interests.
- To help speed up the growth of the insurance industry in an orderly fashion, for the benefit of the common man.
- To provide long-term funds to speed up the nation's economy.
- To promote, set, enforce and monitor high standards of integrity, fair dealing, financial soundness and competence of the insurance providers.
- To ensure genuine claims are settled faster and efficiently.
- To prevent malpractices and fraud, the IRDA has set up a grievance redress forum to ensure the policyholder is protected.
- To promote transparency, fairness and systematic conduct of insurance in the financial markets.
- To build a dependable management system to make sure high standards of financial stability are followed by insurers.
- To take adequate action where such high standards are not maintained.
- To ensure the optimum amount of self-regulation of the industry.

9.5 Functions of IRDA:

Below are the important functions of the IRDAI in the insurance industry in India:

- Grant, renew, modify, suspend, cancel or withdraw registration certificates of the insurance company.

- Protecting the interests of the policyholder in matters concerning the grant of policies, settlement of claims, nomination by policyholders, insurable interest, surrender value of the policy and other terms and conditions of the policy.

- Specify code of conduct, qualifications and training for intermediary or insurance agents.

- Specify code of conduct for loss assessors and surveyors.

- Levying fees and charges for carrying out the provisions of the Act.

- Undertaking inspection, calling for information, and investigations including an audit of insurance companies, intermediaries, and other organizations associated with the insurance business.

- Regulate and control insurance rates, terms and conditions, advantages that may be offered by the insurance providers.

9.6 Role of IRDA

1. IRDAI issues a certificate of registration to the life insurance company and also renews, modifies, withdraws, suspends, and cancels the registration.

2. The regulatory body secures the policyholder's interests in areas like assigning of policy, nomination by policyholders, insurable interest, settlement of insurance claim, surrender value of the policy, and other terms and conditions applicable to an insurance contract.

3. It specifies the requisite qualifications, code of conduct, and practical training required for insurance intermediaries and agents.

4. IRDAI ensures that the code of conduct is followed by surveyors and loss assessors.

5. The autonomous body promotes efficiency in the conduct of the insurance business.

6. It also promotes and regulates professional organizations connected with the insurance and reinsurance business.

7. It levies fees and other charges for carrying out the purposes of the IRDAI Act.

8. IRDAI carries out functions like inspection, conducting inquiries and investigations, including an audit of the insurers, insurance intermediaries, and other organizations involved with the insurance business.

9. The rates, advantages, terms, and conditions that may be offered by insurers with respect to the general insurance business are also controlled and regulated by the regulatory body.

10. It also specifies the form and manner in which books of account should be maintained, and the statement of accounts should be rendered by insurers and insurance intermediaries.

11. IRDAI monitors the investment of funds by insurance companies and governs the maintenance of the margin of solvency.

12. It also judges the disputes between insurers and intermediaries or insurance intermediaries.

13. It supervises the functioning of the Tariff Advisory Committee.

14. IRDAI specifies the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause (f).

15. It specifies the percentage of life insurance and general insurance business to be undertaken by the insurer in the rural or social sector.

16. With so many roles, the IRDAI maintains the standard of the industry and takes measures to eliminate insurance fraud.

9.7 Understanding the Role of IRDA in Indian Insurance Sector

Many of you might have heard the term "IRDA". It is nothing but the abbreviation of the Insurance Regulatory and Development Authority. The Authority acts as the regulator of the insurance industry in India and oversees the functioning of the Life Insurance and General

Insurance companies operating in the country. The main objective of the IRDA is to protect the interests of the policyholder and regulate the insurance industry. To know the various functions and the role of IRDA in the Indian insurance sector, read on to learn about the apex body of insurance providers in India.

9.8 Difference Between IRDA and SEBI on Their Functions:

Different industries or sectors are regulated by an apex body. They frame rules and regulations, monitor the functions of companies and ensure that they protect the stakeholders. Hence, the apex body for the insurance sector is the IRDA or Insurance Regulatory and Development Authority. As for SEBI or Securities Exchange Board of India, it regulates securities and commodity sectors in the country. Below is the comparison between IRDA and SEBI:

IRDA	SEBI
Regulates the insurance industry	Regulates the securities and commodity industry
Established in 1999	Established in 1992
Protects the interests of insurance policyholders	Protects the interests of investors in securities
Grant certificate of registration to insurance companies to issue insurance policies.	Grant certificate of registration to stockbrokers, bankers, sub-brokers to issue deeds.
Frames rules and regulations under the Insurance Regulatory and Development Authority Act	Frames rules and regulations under the Securities and Exchange Board of India Act

9.9 Types of Insurances Regulated by the IRDAI

The **regulatory framework of insurance** covers the two major types. These are life and general insurance. The regulating authority covers these types and provides for the policyholder's interests. Read below the various types.

Life Insurance

Life insurance provides one's family with financial aid. It happens when the person passes away or faces a disability. Their family gets this amount to fulfil their financial needs. A person can get this insurance with regular premiums or a lump sum payment. It becomes necessary when there's only a sole earner. Read below the various insurance under this type.

- **Term plans:** This life insurance policy is for a specific period. The person's family will receive the claim amount if they pass during that period. However, they won't get anything if the person survives past the policy term.

- **Endowment Policy**: This policy also covers a specific period. The holder's family

gets the money if they pass within that period. But, this policy will pay the money to the holder if they survive after maturity.

- **Unit-linked Insurance Policies**: These policies use the premium in two parts. It goes to the policy and to investments. A part is invested in equity or debt. The family receives the total amount after the holder's death.

- **Money-back Policies**: These policies offer the holder a part of the claim throughout the period. It is the survival benefit. The holder gets the balance after the maturity period. The family gets the entire amount if they die.

- **Retirement Policies**: These policies provide fixed pension sums after one retires. The family gets the entire claim if they die.

9.10 General Insurance

The **regulatory framework of insurance** also covers non-life policies. These general policies cover other risks than life. It may be for travel, gadgets, property, health, etc. Read below the various types covered by the regulatory framework of insurance.

- **Health Insurance**: These policies cover the policyholder's medical costs. It can be testing, hospitalization, or other bills.
- **Motor Insurance Policies**: These insurance policies cover vehicles. People can claim damages and repair cars or bikes. The insurance business becomes liable to pay the costs.
- **Property Insurance Policies:** One can take insurance for their home or other property. It helps cover the costs if there are any damages. It can be due to theft, fire, loss, etc.
- **Travel Insurance**: These travel policies cover expenses when one travels. It can be for medical bills, baggage loss, flight delays, etc.
- **Gadget Insurance**: These policies are for expensive gadgets. One may take insurance for their phone or laptop to cover damages or repair costs.

9.11 Individual Agency

An individual agent represents an insurance firm and sells insurance policies to customers through the individual agency distribution channel for insurance products. The individual agent is self-employed and receives commissions from the insurance plans they sell.

At an independent agency, marketing mostly entails establishing and maintaining connections with potential clients. The insurance agent needs to establish oneself as a reliable and informed source of information. They might promote themselves by way of word-of-mouth, networking with friends and relatives, and involvement in neighbourhood events.

Also, the agent may advertise their services using a variety of marketing tools like brochures, flyers, and business cards. To reach a larger audience, they might use online advertising and social media.

The agent is in charge of selling insurance plans to clients in terms of distribution. They often visit with prospective clients to learn about their insurance needs and present them with options for plans that satisfy those needs. The representative will go over the features and advantages of the policy, address any queries the client may have, and assist the client in completing the application.

After the policy is sold, the agent is in charge of maintaining it and continuing to service the client. This can entail managing claims, responding to inquiries regarding the policy, and implementing any necessary policy adjustments.

Both independent and captive or exclusive agents fall under this category. Independent agents may work for a variety of insurance companies and earn commission as a result. On the other hand, there are captive agents that work solely for one particular insurance company and promote their products.

Seven Reasons to Choose an Independent Agent
1.They give you a choice: Independent agents represent a wide range of insurance providers with various levels of coverage and cost possibilities. Most typically represent five to eight different insurance providers. You don't have to accept a quote from a certain business, and you don't have to spend a lot of time completing numerous online forms to compare quotes. Agents may frequently find a better bargain for your insurance than you might find by looking on your own thanks to their contacts and market expertise.

2. They are licensed experts: Independents can provide straightforward explanations of the intricacies of insurance, assisting you in making deft choices. They make
a living by determining the insurance needs of their clients and matching them with the insurer best able to cover those needs at a cost the client can pay.

3. They are personal advisers: Agents ensure sure you are appropriately covered in addition to finding you cheap prices. Your agent, who works with you face-to-face, transforms into your personal advisor and takes the time to pay attention to your needs.

4. They are your advocate: Your agent can act as your advocate when dealing with the insurance company if you have a billing or claim issue or need to adjust your coverage.

5. They are right around the corner: Your neighbours are independent agents. They appreciate your interest in your neighbourhood and are aware of both its advantages and disadvantages. They frequently take an active role in the community by sponsoring young sports teams, supporting neighbourhood businesses, assisting educational institutions, and participating in monthly Chamber of Commerce meetings.

6. They offer one-stop shopping: With the carriers they work with, independent agents may frequently fulfil all of your insurance requirements for vehicle, house, renter's, and business coverage. Many also provide life and health insurance.

7. They are consultants for a lifetime: Periodically, independent agents examine your insurance.
Whether you're changing from renting an apartment to buying a home, establishing a business, getting married, remodelling your home, adding a young driver to your auto policy, or looking to insure that retirement condo, they are there to support you through all the transitions in your life.

9.12 Corporate Agency

A Corporate Agency, like a bank or a retail establishment, is appointed by an insurance

company to sell insurance policies on its behalf through the corporate agency distribution channel for insurance products. The corporation sells insurance products on behalf of the insurance provider and receives commissions for doing so.

Promoting insurance goods to the clientele of the corporate entity is marketing at a corporate agency. For the purpose of assisting the corporate entity in the sale of insurance policies, the insurance company may offer training and marketing assistance. By offering insurance policies as a package deal or cross-selling insurance to clients who buy other goods or services, the corporate entity can market insurance products by leveraging its current brand and customer base.

The insurance firm may also use direct marketing strategies, such as delivering email or direct mail campaigns to the clientele of the corporate entity. In order to draw in new clients, they might also employ digital marketing strategies like search engine optimization or social media advertising.

The business body is in charge of selling insurance plans to its clients in terms of distribution. At the point of sale, such as a bank branch or the website of a retail business, they often present insurance plans in either a physical form or a digital format. The business entity may have a separate team for selling insurance or they may incorporate the sale of insurance plans within their current customer service duties.

After the policy is purchased, the insurance provider is in charge of maintaining it and giving the client ongoing support. The corporate entity may aid with customer support tasks like responding to general inquiries regarding the policy or assisting clients in filing a claim. Nonetheless, resolving questions and claims relating to policies ultimately falls under the purview of the insurance carrier.

To sum up, corporate agency is a marketing and distribution channel for insurance goods that makes use of a corporate entity's client base and brand to sell insurance policies on the company's behalf. While the insurance business is in charge of servicing policies, answering customer questions about them, and dealing with claims, the corporate entity is in charge of marketing and selling insurance policies. Either a physical form or a digital format. The business entity may have a separate team for selling insurance or they may incorporate the sale of insurance plans within their current customer service duties.

9.13 Insurance Brokers

Insurance brokers serve as a bridge between customers and insurance firms, serving as a distribution channel for insurance products. The best insurance policies to meet their demands are sought after by insurance brokers on behalf of their clients.

The marketing process for an insurance brokerage entails establishing and maintaining connections with potential customers. The broker needs to establish oneself as a reliable and knowledgeable source for information about insurance. They might promote their services through networking, word-of-mouth, and involvement in neighbourhood events. Additionally, they might advertise their services using a variety of marketing tactics like leaflets, brochures, and business cards.

To get the greatest coverage for their clients in terms of distribution, insurance brokers consult with a number of different insurance providers. They ask clients about their insurance requirements and preferences, then investigate the policies provided by various

insurance providers to determine which one is the most appropriate. After that, the broker will show the client their options and assist them in choosing the one that best suits their needs.

After the policy is purchased, the insurance broker keeps serving as a go- between for the client and the insurance provider. The broker may explain the client's policy to them, respond to any inquiries they may have, and help with any problems that arise that are related to the insurance, such claims.

The majority of the time, the insurance firms that work with insurance brokers pay them a commission. As their payment is based on the cost of the policy sold, this remuneration structure encourages brokers to discover the best coverage for their clients.

Categories of Insurance Brokers

There are five categories of Insurance Brokers which have been listed as follows:

1. Direct Broker (Life)

2. Direct Broker (General)

3. Direct Broker (Life & General)

4. Reinsurance Broker

5. Composite Broker.

Direct Broker

A registered insurance broker with India's Insurance Regulation and Development Authority (IRDA) is simply referred to as a direct broker. For soliciting and arranging insurance business for his clients with insurance located in India, the direct broker requests compensation or levies a fee. Additionally, he offers risk management services, claim consulting, and other services of a similar nature that are permitted by the IRDAI (Insurance Brokers) Rules, 2018.

What are the functions of Direct Brokers?

Following are the functions that an insurance broker needs to perform:

- To obtain details of client's business and risk management philosophy;

- To familiarize himself with client's business and underwrite information which can be explained to an insurer and others;

- To render advice on appropriate insurance claims and terms;

- To maintain detailed knowledge of available insurance markets, the ones who are applicable; To submit quotes received from insurers for consideration of a client;
- Provide requisite underwriting information required by an insurer in assessing risk to decide the pricing terms and conditions for cover;

- Act in a prompt manner on client's instructions and provide written

acknowledgements and progress reports; To assist clients in paying premium u/s 64VB of Insurance Act, 1938;

- To assist in negotiation of claims;

- To maintain proper records of claims;

- To assist in opening of e-insurance accounts; To assist in issuing e-insurance policies;
- Any other function which the authority may specify.

Reinsurance Brokers

Reinsurance Brokers are included in the various subcategories of insurance brokers. A registered insurance broker with India's Insurance Regulation and Development Authority (IRDAI) is a reinsurance broker. For soliciting and arranging re-insurance business for his clients with insurers or reinsurers with reinsurers who are located either in India or overseas, the reinsurance broker requests compensation or levies a fee. Additionally, he offers risk management services, claim consulting, and other services of a similar nature that are permitted by the IRDAI (Insurance Brokers) Rules, 2018.

What are the functions of Reinsurance Brokers?

Following are the functions that a Reinsurance broker needs to perform:

The reinsurance broker must be familiarized with the client's business and its risk retention philosophy; Maintain proper records of the insurer's business so that the same can be used to assist the reinsurer(s)
or other;

- To render advice based on technical data on the reinsurance covers which is available in the international markets of insurance and reinsurance;

- To maintain a database of available reinsurance markets which includes solvency ratings of the individual reinsurers;

- To render risk management services for the purpose of reinsurance; Select or recommend a reinsurer or a group of reinsurers;
- To negotiate with a reinsurer on behalf of client;

- To assist in case of commutation of reinsurance contract placed by them;

- Act in a prompt manner on client's instructions and provide written acknowledgements and progress reports;

- Collect and remit premiums and claims/refunds within the time as agreed upon; Maintain proper records of claims;
- Assisting in negotiations and settlement of claims;

- To exercise diligence and due care at the time of selecting reinsurers and international insurance; brokers with regard to their respective security rating and establish respective responsibilities at the time of engaging their services;

- To create market capacity and facility for stresses, new and existing businesses and asset class for and from both direct insurers and reinsurers;

- Rendering preliminary loss advice within a reasonable period of time;

- Separate norms have to be followed for both Inward and Outward business based on the nature of business.

A. Inward business
1. The broker needs to have specific knowledge of the country whose business is being offered in terms of political stability, tax laws, local regulations, economic position etc.

2. Introducing new business/ products on the basis of reinsurers' business plan and risk appetite.

B. Outward business
1. Market credibility and rating of the insurer:

Ensuring prompt collection and remittance of funds, following up for funds before the due dates for settlement from cedant to reinsurer and from reinsurer to cedant.

To comply with the relevant laws and other requirements of local jurisdiction at the time of arranging insurance/ reinsurance for clients/ insurance companies that based outside India.

Any other function which the authority may specify.

9.14 Summary
The RDAI stands for the Insurance Regulatory and Development Authority of India. The insurance business in India is regulated by them, and they supervise the functioning of Life Insurance and General Insurance companies that are operating in the country. IRDAI has set various rules and regulations for the operation of the insurance industry. Its sole objective is to defend the interest of the policyholders and ensure the growth and evolution of the insurance industry holistically. IRDAI regularly issues notices to insurance companies in case there are any changes in the rules and regulations. It leads the insurance companies to foster efficiency in the conduct of the insurance business and control the rates or any other charges related to insurance. The IRDA rule comprises a set of guidelines, regulations, and norms that govern various aspects of the insurance industry. These rules are formulated to establish a robust framework for insurers, intermediaries, and policyholders.

9.15 Key words
Term plans: This life insurance policy is for a specific period. The person's family will receive the claim amount if they pass during that period. However, they won't get anything if the person survives past the policy term.

Motor Insurance Policies: These insurance policies cover vehicles. People can claim damages and repair cars or bikes. The insurance business becomes liable to pay the costs.

Property Insurance Policies: One can take insurance for their home or other property. It helps cover the costs if there are any damages. It can be due to theft, fire, loss, etc.

Travel Insurance: These travel policies cover expenses when one travels. It can be for medical bills, baggage loss, flight delays, etc.

Gadget Insurance: These policies are for expensive gadgets. One may take insurance for their phone or laptop to cover damages or repair costs.

Health Insurance: These policies cover the policyholder's medical costs. It can be testing, hospitalization, or other bills.

9.16 Self Assessment questions

1. Briefly Explain the Role of IRDI?
2. Discuss the Types of Insurances Regulated by the IRDAI?
3. Examine the Importance & functions of IRDAI?
4. Explain the Life Insurance & General Insurance?

9.17 Suggested Readings

1. G. S. Pande, Insurance - Principles and Practices of Insurance, Himalaya Publishing.
2. C. Gopalkrishna, Insurance - Principles and Practices, Sterling Publishers Private Ltd.
3. G. R. Desai, Life Insurance in India, MacMillan India.
4 . M. N. Mishra, Insurance Principles and Practices,Chand & Co, New Delhi.
5. M.N.Mishra, Modern Concepts of Insurance, S.Chand& Co.
6. P.S. Palandi, Insurance in India, Response Books - Sagar Publications.
7. Taxman, Insurance Law Manual.
8. https://www.irdai.gov.in
9. https://www.policybazaar.com
10. Web resources suggested by the Teacher concerned and the College Librarian including reading material

Dr. Shaik Mohammad Rafi

LESSON -10
LIFE INSURANCE SERVICES AND REGULATORY FRAMEWORK

Learning Objectives

- To understand the objectives and key aspects of life insurance services and regulatory framework
- To know the scope of life insurance services
- To Learn the Forms of life insurance services and regulatory framework To Study the Determinants of life insurance services and regulatory framework
- To Identify the Perspectives of life insurance services and regulatory framework

Structure

10.0 Introduction
10.1 The Insurance Act, 1938
10.2 Registration of Insurance & Reinsurance Companies
10.3 Appointment of MD/WTD/CEO
10.4 Restriction On The Common Directorship
10.5 Requirement of Solvency Margin
10.6 Summary
10.7 Key words
10.8 Self Assessment questions
10.9 Suggested Readings

10.0 Introduction

Insurance business, essentially, involves financial protection against unforeseen events arising out of known risks affecting lives and properties of individuals and groups of individuals. Those seeking such protection are called Insureds or policyholders and those offering such protection are referred to as Insurers. The process of such protection, that is Insurance, thus requires payment of consideration money, called premium, by the policyholder/Insured for buying the Insurance and collection/maintenance of requisite funds, out of such premiums, by the Insurer to be able to indemnify the Insured in the event of an unforeseen event arising out of an insured risk, called 'Claim', taking place. The unforeseen events (also referred to as 'perils' in insurance parlance) against which the protection of insurance is sought, include fire, flood, earthquake, storm, typhoon, cyclone, etc., and some of these events could be catastrophic in nature, requiring the insurers to pay out huge amounts of claims to the affected insureds, threatening the very existence and solvency of the insurer. And, every insurer has to remain in a state of readiness to face such situations on perpetual basis as occurrence of such catastrophes cannot be predicted with any degree of certainty. The insurers manage their funds and reserves accordingly, while, at the same time, sharing large part of their actuarially estimated liabilities with global reinsurers, to minimize/limit their exposure within their capacity.

Apart from managing the catastrophic losses and protecting its solvency while facing the catastrophic losses at any point of time, an insurer is also required to manage its day to day affairs, including pricing of its products, distribution of its product, commission structure of its distributors (agents, brokers etc.), facing the competition in the market while aiming the requisite growth, management expenses for efficient servicing of the business necessary for the growth, investment of policyholders' funds, fair and just payment of claims to the

claimant policyholders, and judicious declaration of dividends to the shareholders, in such a manner that the insurer is able to survive and grow in a solvent manner at all times, protecting the bonafide interests of its policyholders.

Availability of adequate insurance protection to its citizen is an objective that every government of the country aspires for welfare of its citizens, since the tool of insurance enables unlocking of individual reserve capital for productive purposes, while, at the same time, the investible funds available with the insurers serve to provide requisite capital for growth of industry and other segments of the economy. Presence of a healthy and strong insurance market and continuous growth thereof is of vital importance to economic growth of a country.

This, in turn, brings the role and responsibility of the State to create, and maintain, an appropriate Statutory and regulatory environment for the Insurance Sector that, on one hand, seeks to protect the interests of the policyholders, and, on the other hand, builds a system of requisite checks and balances for orderly, healthy, and solvent growth of the insurers and reinsurers.

In this Lesson we shall be studying about the statutory and regulatory environment created in India for the Insurance Sector, with particular reference to the role & powers of the regulator, and the regulations/statutory provisions governing the registration of insurers/reinsurers, Appointment of MD/WTD/CEO, Restriction on the common directorship, Advance receipt of Premium, Prohibition on Rebates, Requirement of Solvency Margin of Insurers.

10.1 The Insurance Act, 1938

While Life Insurance business in modern India had commenced in the beginning of the 19th century, with the establishment of the Oriental Life Insurance Company in 1818 in Calcutta leading to the presence of around 20 Life Insurance Companies by the end of the 19th century, the General Insurance Business has its roots in the establishment of Triton Insurance Company in 1850 in Calcutta, though the growth of general insurance business picked up only in the early 20th century with the birth of National Insurance Company in 1906 in Calcutta (the oldest general insurance Company surviving in the Country as on date) followed by the Indian Mercantile Insurance Company in 1907.

By the end of the first decade of the 20th century, the number of players in the insurance market in India had grown substantially to warrant statutory regulation by the State for an orderly and healthy conduct of business and growth of the market. And accordingly, initial attempts in this direction were made by the government by enacting the Indian Insurance Companies Act and Provident Insurance Act in1912. However, soon both these legislations were found to be inadequate to serve the purpose they were meant for, and, in 1938, the government brought in a new comprehensive legislation on Insurance, known as the Insurance Act, 1938.

The Insurance Act, 1938 that received its assent on 26th February, 1938, and came into force on 01-07-1939 is surviving till date having been amended 28 times since inception. The first major amendment to the Insurance Act, 1938 was brought in 1968, the next one in the year 2000 vide the IRDA Act, 1999 effective from 19.04.2000, and the latest major amendment vide The Insurance Laws (Amendment) Act, 2015 effective from 26-12-2014.

While a detailed study or discussion on the Insurance Act, 1938, as amended till date, may neither be necessary nor feasible within the scope of this Study Course, it is advisable for the student to have an overall view and perspective of certain important provisions of this Act, and this is what we propose to do in this part of the Study Course.

Spread over Seven Parts, the Insurance Act, 1938 has 154 Sections, as under:

- Part I – Preliminary (S. 1 to 2B) – 4 Sections
- Part II – Provisions Applicable to Insurers (S.2C to 64) – 98 Sections
- Part IIA – Life Insurance & General Insurance Councils (S.64C to 64R) – 12 Sections
- Part IIB – Tariff Advisory Committee & Surveyors (S.64ULA & UM) – 2 Sections
- Part IIC – Solvency Margin, Advance Premium (S.64V to VC) – 4 Sections
- Part IVA – Reinsurance (S.101A to C) – 3 Sections
- Part V – Miscellaneous (S.102 to 120) – 31 Sections

Part I of the Insurance Act, apart from describing the Short title, extent and commencement, deals with Definitions, Interpretation of certain words and expressions & Appointment of Authority of Insurance.

Part II of the Insurance Act, 1938 contains, inter alia, provisions regarding:

S. 2C: Prohibition of transaction of insurance business by certain persons;

S. 2CB: Properties in India not to be insured with foreign insurers except with the permission of Authority;

S.3: Certificate of registration for the particular class of insurance business;

S.6: Requirement as to Capital;

S.10: Separation of accounts and funds;

S.11&12: Accounts, balancesheet & Audit;

S.13, 14 & 15: Actuarial report, Records & Returns;

S.21, 22 & 25: Powers of IRDAI & Returns' publication;

S.27: Investment of Assets;

S.29: Prohibition of Loans to managers etc.;

S.31B: Power to restrict payment of excessive remuneration;

S.32A: Prohibition of common officers and requirement as to whole time officers;

S.32B: Insurance business in rural or social sector;

32C: Obligations of insurer in respect of rural or unorganized sector and backward classes;

32D: Motor TP Risk Obligations;

S.33 & 34: Power of Investigation & Directions by the Authority;

S.34B: Power of Authority to remove managerial persons from office;

S.34C: Power of Authority to appoint additional directors;

S.34D: Sections 34B and 34C to override other laws;

S. 34H: IRDAI’s Powers for Search & Seizure;

S.35 & 37A: Amalgamation of Insurers;

S. 38 & 39: Assignments & Nominations of Policies;

S. 40, 40B & 40C: Limits of Expenses of Insurers;

S.41: Prohibition of rebates;

S.42: Appointment of insurance agents;

S.42A: Prohibition of insurance business through principal agent, special agent and multilevel marketing;

S. 42D, 42E & 43: Intermediary & Insurance Intermediary;

S.45: Policy not to be called in question on ground of misstatement after three years;

S.48A: Insurance agent or intermediary or insurance intermediary not to be director in insurance company;

S.50: Notice of options available to the assured on the lapsing of a policy;

S.51: Supply of copies of proposals and medical reports;

S.52: Appointment of Administrator by the Authority & his powers;

S.53: Winding up by NCLT;

S.54: Voluntary winding up – restrictions;

S.58A: Schemes for partial windingup of insurance companies.

Part IIA of the Insurance Act, 1938 contains, inter alia, provisions regarding:

S.64C & 64E: Life Insurance Council & General Insurance Council;

S.64J: Functions of EC of LI Council;

S.64L: Functions of EC of GI Council.

Part IIB of the Insurance Act, 1938 contains, inter alia, provisions regarding:

S.64UM: Surveyors or Loss Assessors.

Part IIC of the Insurance Act, 1938 contains, inter alia, provisions regarding:

S.64V & VA: Sufficiency & Valuation of Assets & Liabilities;

S.64VB: No risk to be Assumed without advance Payment of Premium; S.64VC: Restrictions on the Opening of New Place of Business.

Part IVA of the Insurance Act, 1938 contains, inter alia, provisions regarding: S.101A: Obligatory Cession under Re-Insurance;

S.101C: Examination of reinsurance treaties by the Authority.
Part V of the Insurance Act, 1938 contains, inter alia, provisions regarding: S.102: Penalty for general default in complying with or violating this Act; S.105C: Authority's Power to Adjudicate;

S.110: Appeal to Securities Appellate Tribunal;

S.110C: Authority's Power to call for any information from the insurer;

S.114, 114A & 116: Powers of central Govt. & IRDAI to make Rules & Exemptions.

Some of the more more important provisions of the Insurance Act, 1938 shall be discussed in greater detail in this Lesson later on.

10.2 Registration of Insurance & Reinsurance Companies
As per Section 3 of the Insurance Act, 1938, no person can carry on any class of insurance business in India unless he has obtained a certificate of registration for the particular class of insurance business from IRDAI as per its Regulations. The Regulations made in this behalf by the IRDAI are in exercise of the powers conferred on it by various Sections of the Insurance Act, 1938 and the IRDA Act, 1999.

The first such Regulations, known as the Insurance Regulatory and Development Authority of India (Registration of Indian Insurance Companies) Regulations, 2000, were notified by it under Section 114A of the Insurance Act, 1938 read with section 26 of the Insurance Regulatory and Development Authority Act, 1999 and came in to force with effect from 19.07.2000. These Regulations stood the test of time for over 20 years, having undergone 8 amendments in between, including the major amendment (7th amendment) dated 22.02.2016 following the 2015 amendment to the Insurance Act, 1938, that increased the FDI

limit in Insurance Sector from 26% to 49%.

However, once the FDI in Insurance Sector was increased from 49% to 74% in May, 2021, these Regulations required repeal and replacement by fresh set of Regulations in this regard so as to address the situation arising from such increase in the FDI and safeguard the interests of policyholders as well as reflect the provisions accompanying such increase in the FDI more effectively. It was also felt that to promote growth of insurance sector and to promote ease of doing business it was necessary to simplify the process of registration of Indian insurance companies.

Accordingly, in exercise of the powers conferred on it by Section 114A of the Insurance Act, 1938, section 3, section 3A and section 6A of the Insurance Act, 1938 and section 26 of the Insurance Regulatory and Development Authority Act, 1999, the IRDAI, vide Notification dated 5th December, 2022, published the Insurance Regulatory and Development Authority of India (Registration of Indian Insurance Companies) Regulations, 2022 (hereinafter referred to as the 2022-Regulations), repealing the existing Regulations of 19.07.2000. In what follows in this Section, we shall be discussing some of the salient provisions of these 2022-Regulations.

The 2022-Regulations on Registration of Indian Insurance Companies, apart from defining terms like Foreign Investors, Foreign Promoter, Indian Investors, Indian promoter, Investors, Key Management Person, Preliminary Expenses, PE Fund, Promoter, Shareholding Pattern, SPV and Transfer of Shares, in so far as these are used in compliance of the Regulations, contain provisions on the following main issues:

Permissible Classes of Insurance Business for which requisition for registration application may be made (Reg. 3);

Disqualifications for Applicant (Reg. 4); Procedure for registration (Reg. 5); Compliance Requirement (Reg. 6); Manner of calculation of equity capital held by foreign promoter and foreign investor (Reg.7); Requirement of Resident Indian citizenship for Directors, Key Management Persons (Reg.8); Requirements for foreign investment exceeding forty-nine percent (Reg. 9); Annual Fee (Reg. 10); Issue of duplicate certificate (Reg. 11);

Suspension or Cancellation of Certificate of Registration (Reg. 12); Power to issue clarifications (Reg. 13); Interpretation (Reg. 14).

Out of these, we consider it desirable to describe here in some detail the procedure for Registration of an Indian

Insurance/Reinsurance Company as provided for in Regulation 5.

As per Regulation 5, the first stage in the process pf Registration is obtaining a No-objection Certificate from the Authority. No company or co-operative society can be incorporated in India with a name that contains words ‘insurance’ or ‘assurance’ or ‘reinsurance’ without obtaining a No-objection Certificate from the Authority. The No-objection Certificate issued to the applicant shall be valid for a period of 6 months (unless extended by a further period of 3 months) within which the applicant shall file application for issuance of requisition for registration application i.e. Form IRDAI/R1.

The second stage is the R-1 stage at which the Authority, upon receipt of application for issuance of Form IRDAI/R1 and after examining the matters considered relevant to its satisfaction, shall issue the Form IRDAI/R1 which shall be valid for a period of three months (unless extended by a further period of 3 months) within which the applicant shall submit the duly filled Form IRDAI/R1 to the Authority for its consideration. Along with the Form IRDAI/R1, the applicant is required to submit a copy of The certificate of incorporation issued by Registrar of Companies in case of a company, a certified copy of the Memorandum of Association and Articles of Association, where the applicant is a company and incorporated under the Companies Act, 2013 or a certified copy of the legislation of Parliament setting up the statutory body to carry on insurance business, the name, address and the occupation of the directors of the promoter and the applicant, a certified copy of the annual report of promoter(s) for up to the last five years, as applicable, a certified copy of the shareholders' agreement, as applicable, between promoter(s) and investor(s) of the applicant, Projection of business for five years duly approved by the Board of Directors of the applicant along with a certificate from a fellow actuary that the projections are reasonable and workable, Proof in support of payment of non-refundable fee of rupees five lakh along with applicable taxes towards processing the form IRDAI/R1 through any of the recognized modes of electronic fund transfer.

While processing the Form IRDAI/R1, the Authority shall take into account such matters as may be considered relevant including the general track record of conduct and performance of each of the promoters and investors in the fields of business or profession they are engaged in, the record of conduct and performance of the directors and persons in management of the promoters, investors and the applicant, the financial strength of the promoters, investors and the applicant, the capital structure of the promoters, investors and the applicant, the sources of meeting the capital requirements of the applicant, shareholding pattern of the applicant and its promoter(s), the ability of the applicant and its promoters to meet the obligation to provide life insurance or general insurance or health insurance to the persons residing in the rural sector, workers in the unorganized sector or informal sector or for economically vulnerable or backward classes of the society and other categories of persons specified by the Authority, the ability to meet the obligation to underwrite insurance business in third party risks of motor vehicles as specified by the Authority, the planned infrastructure of the applicant, the proposed business expansion plan for five succeeding years, including establishment of place of business in rural areas, to effectively carry out the insurance business, and other relevant matters for carrying out the provisions of the Act.

After examining the matters considered relevant and upon its satisfaction, The Chairperson of the Authority, shall issue the "R1" Approval subject to the conditions as may be specified in the said approval letter. Along with the said approval letter, the applicant shall be issued the application for registration i.e. Form IRDAI/R2. The "R1" approval shall be valid for a period of three months from the date of the said approval (unless extended by a further period of 3 months), within which the applicant shall submit duly filled Form IRDAI/R2 for consideration of the Authority.

The third stage is the R2 Approval stage. At this stage, the application in the Form IRDAI/R2 as per the specified format is submitted by the Applicant along with an affidavit by the applicant and its promoters that the paid-up share capital of the applicant, after deducting the preliminary expenses, shall be adequate to comply with the requirements of Capital as per section 6 of the Act, a statement indicating the shareholding pattern of the applicant as on the date of the application, an affidavit by the managing director or chief

executive officer or whole-time director of the promoters and the investors of the applicant certifying that the holding of foreign paid-up equity capital, referred to in sub-clause (b) of clause (7A) of Section 2 of the Act, is calculated in accordance with Indian Insurance Companies (Foreign Investment) Rules, 2015 read with these Regulation and does not exceed seventy four percent of the total paid-up capital of the applicant, in case the applicant has foreign investment, an affidavit by the Managing Director or Chief Executive Officer or Whole-Time Director and the Promoter(s) of the applicant certifying that the requirement of regulation 8 shall be complied with, in case the applicant has foreign investment exceeding forty nine percent, an affidavit by the Managing Director or Chief Executive Officer or Whole-Time Director and the Promoters of the applicant certifying that the requirement of regulation 9 shall be complied with, a certified copy of the standard forms of the applicant and statements of the assured rates, advantages, terms and conditions to be offered in connection with insurance policies together with a certificate by an actuary in case of life insurance business that such rates, advantages, terms and conditions are workable and sound, a certified copy of the Memorandum of Understanding or Management Agreement or Shareholders Agreement or Voting Rights Agreements or any other agreements in whatsoever form entered into, between the promoters and the investors, if any, or amongst the promoters as a whole including copies of the support or comfort letters exchanged between the parties, a certificate from a practicing chartered accountant or a practicing company secretary certifying that all the requirements relating to registration fees, equity share capital, foreign investment limits and other requirements of laws for the time being in force including the Act have been complied with by the applicant, apart from proof in support of payment of non-refundable fee of rupees five lakh along with applicable taxes towards processing the Form IRDAI/R2 through any of the recognized modes of electronic fund transfer.

Upon completion of the processing of the Form IRDAI/R2 but prior to its approval by the Authority, the applicant is also required to submit evidence of applicant having received equity share application money in accordance with section 6 of the Act and complied with conditions of R1 approval granted by the Authority and an affidavit by the applicant, promoters and the investors that upon grant of Certificate of Registration, the said share application money shall be converted into paid-up equity share capital of the applicant.

While processing the form IRDAI/R2, the Authority takes into account the matters, as may be considered relevant, including the nature of insurance products proposed to be offered by the applicant, the level of actuarial, accounting and other professional expertise within the management of the applicant, the organizational structure of the applicant to carry on all functions in respect of the insurance business including management of the investments within its own organization, whether the applicant is eligible, and in its opinion, is likely to meet effectively its obligations imposed under the Act, the financial condition of the promoters, investors and the general character of the management of the applicant are sound, the volume of business likely to be available to, and whether the capital structure and earning prospects of the applicant will be adequate, the interests of the general public will be served if the certificate of registration is granted to the applicant in respect of the class of insurance business specified in the application, that the applicant has complied with the provisions of sections 2C, 5 and 31A of the Act and has fulfilled all the requirements of these sections applicable to it, and all other relevant matters for carrying out the provisions of the Act.

After examining the matters considered relevant and upon its satisfaction, the Authority, at its

discretion, issues the "R2" Approval subject to the conditions as may be specified in the said approval letter.

The fourth stage is the R3 stage that is Grant of Certificate of Registration. After examining the matters considered relevant and upon its satisfaction, the applicant may be registered as an insurer for the class of business for which the applicant is found suitable and the chairperson of the Authority may grant the applicant the Certificate of Registration in Form IRDAI/R3 subject to the conditions as may be specified therein.

Once the Certificate of Registration under these Regulations has been granted, the applicant is required to commence insurance business, for which it has been authorized, within 12 months from the grant of Certificate of Registration. In case, the applicant fails to commence business within the stipulated time, the certificate of registration shall not be valid after expiry of stipulated time. However, in case the applicant is not in a position to commence the insurance business within the specified period of 12 months, it can before the time limit expires, seek an extension from the Authority through a written application highlighting the reasons for not being able to commence business within the specified period of 12 months, and requisite extension of time can be granted by the Authority but not beyond 24 months from the date of grant of Certificate of Registration.

An applicant aggrieved by the decision of the Authority, at any stage under these regulations, may appeal before the Securities Appellate Tribunal as per the provisions of the Act.

10.3 Appointment of MD/WTD/CEO

The Insurance Act, 1938 confers upon the Authority vast powers in relation to appointment of Managing Directors (MDs), Whole Time Directors (WTDs) and Chief Executive Officers (CEOs).

Section 34A requires any provision relating to the appointment, reappointment, termination of appointment or remuneration of a managing or wholetime director, or of a manager or a chief executive officer, by whatever name called, whether that provision be contained in the insurer's memorandum or articles of associations, or in an agreement entered into by him, or in any resolution passed by the insurer in general meeting or by his Board of Directors not to have effect unless approved by the Authority. It further states that no appointment, reappointment or termination of appointment of a Managing or WholeTime Director, or a manager or a Chief Executive Officer, by whatever name called, shall have effect unless such appointment, reappointment or termination of appointment is made with the previous approval of the Authority.

Section 34B vests in the Authority the Power to remove managerial persons from office. As per Section 34B, where the Authority is satisfied that in the public interest or for preventing the affairs of an insurer being conducted in a manner detrimental to the interests of the policyholders or for securing the proper management of any insurer it is necessary so to do, it may, for reasons to be recorded in writing, by order, remove from office, with effect from such date as may be specified in the order, any director or the chief executive officer, by whatever name called, of the insurer. Of course, no such order shall be made unless the director or chief executive officer concerned has been given a reasonable opportunity of making a representation to the Authority against the proposed order.

Further, Section 34C speaks of the Power of Authority to appoint additional directors. As per this Section. if the Authority is of opinion that in the public interest or in the interest of an insurer or his policyholders it is necessary so to do, it may, from time to time, by order in writing, appoint, in consultation with the Central Government with effect from such date as may be specified in the order, one or more persons to hold office as additional directors of the insurer, subject to that the number of additional directors so appointed shall not, at any time, exceed five or one-third of the maximum strength fixed for the Board by the articles of association of the insurer, whichever is less.

It is important to note that the powers of the Authority under Section 34B and 34C have overriding effect upon anything to the contrary contained in this regard in the Companies Act, 2013, or any other law for the time being in force or in any contract or any other instrument.

10.4 Restriction on the Common Directorship

Protection of the interests of the policyholders is at the heart of the Insurance Act, 1938 and the IRDA act, 1999. In congruence with this obligation, the Insurance Act has Section 32A, Sections 48A and Section 48B incorporated therein.

Section 32A prohibits a managing director of an insurer carrying on life insurance business from being a managing director of any other insurer carrying on life insurance business or of a banking company or of an investment company, without the permission of the Authority, which may permit such managing director to be a managing director of any other insurer carrying on life insurance business for the purpose of amalgamating the business of the two insurers or transferring the business of one insurer to the other.

Section 48A mandates that no Insurance agent or intermediary or insurance intermediary (or, director therein) can be a director in insurance company unless the Authority decides to permit him to be on the Board of an insurance company subject to such conditions or restrictions as it may impose to protect the interest of policyholders or to avoid conflict of interest.

Further, Section 48B prohibits an insurer specified in sub-clause (b) of clause (9) of section 2 (that is “a statutory body established by an Act of Parliament to carry on insurance business”) and carrying on life insurance business from having a common director with another such insurer. However, it also allows the Authority, for such period, to such extent and subject to such conditions as it may specify, to exempt from the operation of this prohibition,

(a) any insurer, who is a subsidiary company of another insurer, or

(b) two or more insurers, for the purpose of facilitating their amalgamation or the transfer of business of one insurer to the other.

10.5 Requirement of Solvency Margin

Solvency of an insurer is sine qua non to protecting the interests of the policyholders, and Part II-C of the Insurance Act, 1938 is concerned with this subject. In particular, Section 64V and Section 64VA provide broad directions to these provisions, while leaving detailed Regulations in this regard to be framed by the Authority. For ascertaining the solvency of an

insurer, proper valuation of its assets and liabilities is a must and Section 64V tells us the way for such valuation. As regards the assets, it says that the same shall be valued at value not exceeding their market or realizable value and certain assets may be excluded by the Authority in the manner as may be specified by the regulations made in this behalf while a proper value is required to be placed on every item of liability of the insurer in the manner as may be specified by the regulations made in this behalf.

By solvency, we essentially mean the sufficiency (excess) of assets over liabilities. Section 64VA specifies the manner in which such solvency or sufficiency of assets of an insurer over its liabilities is required to be measured and maintained. Broadly, it provides as under:

(1) Every insurer and re-insurer to maintain, at all times, an excess of value of assets over the amount of liabilities of, not less than fifty per cent of the amount of minimum capital as stated under section 6 and arrived at in the manner specified by the regulations. An insurer or re-insurer, as the case may be, who does not comply with this stipulation, is deemed to be insolvent and may be wound-up by the court on an application made by the Authority.

(2) The Authority, by way of regulation made for the purpose, has specified a level of solvency margin known as control level of solvency on the breach of which the Authority shall take action against the insurer unless the Authority is satisfied that either by reason of an unfavorable claim experience or because of a sharp increase in the volume of new business, or for any other reason, compliance with the stipulated level of solvency shall cause undue hardship to the insurer, in which event, it may direct that for such period and subject to such conditions as it may specify, the stipulated provisions shall apply to that insurer with such modifications but such modifications shall not result in the control level of solvency being less than what is stipulated under (1) above.

(3) If, at any time, an insurer or re-insurer does not maintain the required control level of solvency margin, he shall, in accordance with the directions issued by the Authority, submit a financial plan to the Authority, indicating a plan of action to correct the deficiency within a specified period not exceeding six months. The Authority shall propose modifications to the plan, if the Authority considers the same inadequate, and in such an eventuality, the Authority shall give directions, as may be deemed necessary, including direction in regard to transacting any new business, or, appointment of an administrator or both.

(4) An insurer or re-insurer, as the case may be, who does not comply with the above provisions is deemed to have made default in complying with the requirements of this section.

(5) The Authority is entitled at any time to take such steps as it may consider necessary for the inspection or verification of the assets and liabilities of any insurer or re-insurer, or for securing the particulars necessary to establish that the requirements of this section have been complied with as on any date, and the insurer or re-insurer, as the case may be, shall comply with any requisition made in this behalf by the Authority, and in the event of any failure to do so within two months from the receipt of the requisition, the insurer or re-insurer, as the case may be, shall be deemed to have made default in complying with the requirements of this section.

(6) Every insurer is required to furnish to the Authority return giving details of solvency margin in such form, time, and manner including its authentication as may be specified by the regulations.

The Authority, as required and empowered by the Act in this behalf, has framed Solvency Regulations both for Life Insurers and General Insurers, as under:

Insurance Regulatory and Development Authority of India (Assets, Liabilities, and Solvency Margin of Life Insurance Business) Regulations, 2016, notified on 13th April, 2016, and effective from 1st April, 2016.

Insurance Regulatory and Development Authority of India (Assets, Liabilities, and Solvency Margin of General Insurance business) Regulations, 2016 notified on 7th April, 2016 and effective from 1st April, 2016, which has been further amended by notification dated 6th December, 2022.

10.6 Summary

In this Lesson we shall be studying about the statutory and regulatory environment created in India for the Insurance Sector, with particular reference to the role & powers of the regulator, and the regulations/statutory provisions governing the registration of insurers/reinsurers, Appointment of MD/WTD/CEO, Restriction on the common directorship, Advance receipt of Premium, Prohibition on Rebates, Requirement of Solvency Margin of Insurers.

10.7 Key words

IRDAI: The Insurance Regulatory and Development Authority of India is an autonomous and statutory body under the jurisdiction of Ministry of Finance, Government of India. It is tasked with regulating and licensing the insurance and re-insurance industries in India.

Appointment: Appointment can also mean the placing, or appointing of, someone into an unelected position.

Insurance: Insurance is a means of protection from financial loss in which, in exchange for a fee, a party agrees to compensate another party in the event of a certain loss, damage, or injury. It is a form of risk management, primarily used to protect against the risk of a contingent or uncertain loss.

10.8 Self Assessment questions

1. Briefly Explain the Role of IRDI?
2. Discuss the Types of Insurances Regulated by the IRDAI?
3. Examine the Importance & functions of IRDAI?
4. Explain the Life Insurance & General Insurance?

10.9 Suggested Readings

1. G. S. Pande, Insurance - Principles and Practices of Insurance, Himalaya Publishing.
2. C. Gopalkrishna, Insurance - Principles and Practices, Sterling Publishers Private Ltd.
3. G. R. Desai, Life Insurance in India, MacMillan India.
4 . M. N. Mishra, Insurance Principles and Practices,Chand & Co, New Delhi.
5. M.N.Mishra, Modern Concepts of Insurance, S.Chand& Co.
6. P.S. Palandi, Insurance in India, Response Books - Sagar Publications.

7. Taxman, Insurance Law Manual.
8. https://www.irdai.gov.in
9. https://www.policybazaar.com
10. Web resources suggested by the Teacher concerned and the College Librarian including
reading material

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