Unit-2

LIFE INSURANCE

Introduction:

Life Insurance is one of the most popular and important forms of insurance. Life insurance is insurance on human Life. Man's life being uncertain, he is prone to meet immature death, accident, disability, old age etc. In such conditions life insurance provides the best source to the family by providing funds to lessen the economic uncertainty. The life insurance is taken out with double purposes - protection against the risk and investment. Life Insurance being a contract for a long period, it provides protection and acts as a sure investment. Life Insurance is a contract for payment of a sum of money to theperson on the happening of the event insured against. Usually the insurance contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or at the unfortunate death if it occurs earlier. In other words, it is the civilized world's partial solution to the problems caused by death. In short, life insurance helps in two ways: premature death, which leaves dependent families to fend for itself and old age without visible means of support.
The present unit attempts to introduce the concept of Life Insurance, nature of life insurance and various products of the life insurance.

Meaning and Nature Life Insurance

The concept of life insurance is based on two fundamental elements of 1) 'Death Cover' and 2) 'Survival Benefits'. According to the former element, in the event of the death of an insured within the specific period, his family members are liable to get the promised amount by the insurance company and according to the later element, if the insured survives after the specific period the insurance company undertakes to pay him amount of Insurance. Though, life insurance can not avoid one's death, at least it tries to minimize the economic burden, to some extent, of the family members by taking risk of the insured.

DEFINITIONS:

Insurance Act 1938 - *"Life Insurance business means the business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is assured on death (except death by accident only) or the happening of any contingency dependent upon human life and any contract which is subject to payment of premiums for a term dependent on human life."*
J.H. Magee - *"Life insurance contract embodies an agreement in which broadly stated, the insurer undertakes to pay a stipulated sum of money upon the death of the insured' or at some designated time to a designated beneficiary"*
R.S. Sharma – " *Life insurance contract may be defined whereby the insurer, in consideration of a premium paid either in lump sum or in periodical installments ,*

undertakes to pay an annuity or a certain sum of money either on death of the insured or on the expiry of certain number of years.”

“A contract of life insurance is that in which one party agree to pay a given sum of money upon the happening of a particular event contingent upon duration of human life in consideration of the immediate payment of a smaller sum or certain equivalent periodical payments by another. “

NATURE OF LIFE INSURANCE

The analysis of above definitions explains the nature of insurance as follows.

1. Life Insurance is a Contract

Life Insurance is a contract between two parties i.e. insurer and insured by which the insurer, in consideration of insurance premium, agrees to pay the certain amount to the insured against certain probable unexpected incidence. In life insurance, insurance company pay certain sum of money on the death of the insured person or if insured is alive, paid to them the amount of premium with interest and bonus.

2. Cooperative device

All for one and one for all is the basis for cooperation. A life insurance is a good example of cooperative device to spread the loss caused by a specific event. Insurance is based on the principle of mutual help. Under this arrangement persons exposed to same risks come together and create a common fund and compensate the person who has actually suffered the loss. In other words, life insurance is a cooperative mechanism wherein large number of persons comes together. They have similar risk and share the loss by contributing a small amount in the form of premium. Thus, it is cooperative device which is helpful to society to protect the family, if the policy holder dies before maturity date of the policy.

3. Large number of Person –

Life insurance mechanism works on the principle of large number of insured persons. Insurance is spreading of loss over a large number of persons. The persons involved in life insurance collect the amount in the form of premium and such amount is paid to persons who actually suffer the risk.

4. Sharing of risk :

Life insurance is a social and economic device. It share the financial loss occurred caused by unexpected incidence between the public who are exposed to risk. The death of the insured, illness, disable due to accident etc. may cause a tremendous loss to the insured. Under life insurance mechanism this risk shared amongst all the insured in the form of premium. Life insurance provides financial help to dependents of insured, if he dies before the maturity date.

5. Uncertainty:

The event to be insured must be uncertain and unforeseen. However, In life insurance even though death of insured person is certain its timing is uncertain. Hence life insurance is also a legal contract.

6. Payment of claim:

In case of life insurance, the contingency i.e. death or the maturity of the policy

will certainly happen. In such case insurer is liable to pay the policy amount on the death of the insured or on the expiry of the term whichever is earlier. If insured dies before date of maturity of the life policy, sum assured will receive by the legal heir or nominee of the policy holder.

7. Insurable interest –

The interest of the insured in the subject matter of insurance is called as insurable interest. In the life insurance the life of the person is the subject matter. In life insurance contract the insurable interest should exist at the time of taking insurance. Husband and wife, other relatives e.g. father, mother, independent son or daughter etc., partners, Debtors and Creditors, trustee etc. can hold Insurable Interest.

8. Life insurance is not an Indemnity contract-

Though life insurance is a contract, it is not a contract of indemnity. Because the loss caused by the death cannot be calculated in terms of money nor money is a compensation for loss of one's life. Life insurance contracts are an exception to the principle of indemnity. He can also take life policies of any amount as the loss of death can not be measured in monetary terms.

9. Protection to family :

Life insurance protects the families from the economic hardship, if insured dies before the maturity of policy. It is the basic principle of the life insurance to save a person from uncertain future incidents such as premature death, old age, accident etc.

10. Life Insurance is not a charity but business :

Life insurance is a business which provides financial protection to the life of insured from unforeseen event. However, insurance company collect the amount of premium as a consideration form insured for the cost of risk so covered. Charity is a payment without claiming anything in return.

11. Investment of Saving –

It is the differential characteristic of the life insurance. Life insurance combines the element of protection and investment. There is no any other mechanism or device, which involves both the elements of protection and investment. Though the insured is interested in protecting his life against risk of premature death, he also wants to save or invest some amount for fulfillment of future needs . Life insurance provides assurance to meet future financial needs particularly arises due to old age, premature death or accident or any unforeseen events.

Life Insurance Products: OR TYPES OF LIFE INSURANCE POLICIES

The life insurance companies have introduced different policies to meet different needs of different people. The social and economical conditions of different classes of the society are never equal or same. The occupations, risks in occupations, income, economical needs, expectations, priorities and difficulties are relatively different by person to person. Hence, the different schemes need to be introduced.
A person who wants to buy an insurance product has to consider the various factors such as the amount of sum assured, amount of premium, source of income, type of risk, maturity time and circumstances at the time of maturity etc. He can select one of best product from life insurance products available in the market. Therefore, insurance companies offer various types of life insurance products by considering different needs and situation of the insured.
There are five basic types of life insurance products are offered by insurance companies such as Whole Life Policy, Endowment Life Insurance policy, Term Insurance Policies, Pension and Annuities and Unit Linked Insurance Plans. However, in actual practice, some of the kinds are brought together to make more attractive schemes. As well, by charging extra premiums, supplementary benefits are extended. In addition to these basic products, various plans are available suiting the requirement of the society.

The following chart shows the various types of life insurance policies or products offer by the insurance companies

Types of Life Insurance Policies/ Products	
1. Whole Life Policies	The policies by which sum assured is paid to the family members of the insured after his death. The premiums are to paid during the whole life of insured.
2. Endowment Policies	The policies that offer sum assured to the insured if he survives a particular term and if he dies before that term to his legal heirs.
3. Term Policies	The policies that offer sum assured on the death of the insured during the specified period.
4. Pension and Annuities	Policies that promise to pay a given amount periodically to the annuitant, during his life time, starting immediately or from a future date.
5. Unit linked Insurance plans	A combination of insurance plan & investment plan

1. Whole Life Policies:

It is clear from the name of this policy is issued for whole life of insured. In whole life policy the assured is covered for his entire life and the sum assured becomes payable to the beneficiary on the death of the assured. The amount of policy i.e. sum assured is paid to the nominee or legal heir, only after the event of insured's death. Thus, the insured can not get the amount of policy during his life time. However, in exceptional case some insurers pay the sum assured when the insured completes say 100 years. While some other insurers waive further payment of premium after say 35 years or when the assured attains a certain age like 75. This type of life insurance product is most suitable for persons of all age groups who want to protect their families from financial setback, if it occurs due to premature death of the insured.

Whole Life Plan:

Particular	Minimum	Maximum
Entry age	18 Years (18 Last birth day)	60
Sum assured	30000	No Limit
Term	Not applicable	Not applicable
Mode of Payment	Monthly, Quarterly, Half yearly or Yearly (Salary saving scheme also available	
Maximum premium payment	80 years or 40 years from date of commencement whichever is later	

Benefits:

i) **Survival benefits:** Nil

ii) **Death benefits :** Sum assured + Accrued Bonus+ Terminal Bonus (if policy in force minimum 15 years before death of the insured)

Features of Whole Life Policy:

1. The whole life policy covers the whole life of the assured. It means the term of the policy is not fixed.
2. The sum assured is payable only on death of the policy holder and not during his life-time.
3. The premiums are required to be paid until the death of the policy holder.
4. Some insurance companies waive further payment of premium after 35 or 40

years or after the policy holder reaching the age of 75 or 80 years.
5. The premiums, as are to be paid for a long term, the rate of premium is low, hence, this is supposed to be the cheapest kind of policy.

6. When the assured pays premiums at least for three years and discontinues paying further premiums, the policy automatically becomes paid-up and after his death, paid-up value is paid to his legal heirs.
7. Mode of payment of premium is monthly, quarterly, half yearly or yearly (Salary saving scheme also available)
8. Loan facility on policy is not available

Advantages of Whole Life Policy

1. Whole Life policy is convenient and useful for the person who wants to make provisions for his dependent family members after his death.
2. One can take out this policy of large amount at low premium.
3. The beginners of job / occupation can beneficially avail of this kind of policy. The beginning their income being low they can not afford policies of higher premiums.
4. This plan is helpful to make provision of payment of estate duty on the property after death of insured person.

Disadvantages of Whole Life Policy :

1. Premiums are to be paid for life time.
2. Paying premiums in old age becomes difficult.
3. Insured has not paid sum assured in his life time. So, generally, people are not interested to take whole life policies.
4. This kind of policy is not useful, to meet the needs, such as, education or marriage expenditure of children,
5. This plan fails to consider the old age and reduction in earning capacity of insured.

2. Endowment Policies

This is the most popular kind of life insurance policy. By taking endowment policies, the assured enjoys the benefit of obtaining sum assured after expiry of certain period in his life time or if he dies before the expiry of endowment period. In other words, it is the type of life insurance contract under which the sum assured to be paid either at death or after maturity of the policy whichever is earlier. The premium under endowment policy is higher than whole life policy. The mode of

payment of premium is same as like whole life policy i.e. yearly, half yearly, quarterly and monthly. However, single premium policies also available.
Endowment life insurance product is an ideal combination of both the family protection and investment for future life. It is suitable for all peoples who want to protect their families from a financial risk as well as to make provision for old age. Under this policy holder paid the premium throughout the policy term or the death of the insured whichever is earlier. Insured taken out the policy for a specific term and the sum assured is paid insured if he is survival at the date of maturity of policy or paid to the legal heirs if insured dies before date of maturity.
Endowment policy may issued with profits or without profits. The policy may paid up if at least three years premium have been paid.

Benefits:

i) **Survival benefits :** Sum assured + Fixed Assured Bonus + Bonus
ii) **Death benefits :** Sum assured + Accrued Bonus.

ENDOWMENT PLAN

Particular	Minimum	Maximum
Entry age	18 Years (18 Last birth day)	60
Sum assured	500	No Limit
Term	Not applicable	30 to 35 yeras
Mode of Payment	Monthly, Quarterly, Half yearly or Yearly (Salary saving scheme also available	
Maximum premium payment	60 years from date of commencement	
Policy loan available	No	

Features of Endowment Policy

1. The policy holder decides the insurance amount and term of the policy, e.g. insurance policy for Rs.10 lakh for a period of 25 years. This period is called as endowment period.
2. The premium is to be paid upto the endowment period or upto the death of the assured whichever is earlier.
3. The term of paying premiums can be selected lesser than the term of the policy.
4. At the time of expiry of the policy, if the assured survives, he can receive the full amount of sum assured together with assured bonus.
5. If insured dies before the expiry of endowment period the insurance amount is paid to his heirs.
6. After payment of premiums at least for three years and then discontinuing, payment of further premiums, the policy automatically becomes paid up for less amount.
7. Endowment plan is the combination of investment and protection.

Advantages of Endowment Policy

1. It is more beneficial to the persons belongs to middle class and salary earners, as payment of premium can be linked with salary.

2. Regular and compulsory savings is the main advantage of endowment policy. When the assured pays the premiums for the selected period, he gets this amount after the completion of this period. With the help of this amount he can meet his various needs.

3. With savings, the insured can make provision for his family. If the assured dies before the selected period, the insurance amount is paid to his heirs.

4. In consideration with his present age and age at the time of retirement, the assured can select the period of his policy and thus can make provision for his retirement.

5. By purchasing this kind of policy, one can make provision for education and marriage of his children, construction of house, etc.

6. The assured does not require to pay the premiums for "life time as in case of the whole life policy. Therefore, there is no burden of paying premiums in old age.

Disadvantages of Endowment Policy

1. The premium is to be paid at higher rate than that for Whole Life Policy.

2. The insurance amount received after the completion of endowment period may not be utilized for proper purpose.

3. The insurance amount as is obtained during life time, economical protection for family may not be provided. The assured will have to make different provision for it.

3. Term Insurance Plans:

Term insurance is a short term plan. Under this plan the sum assured is payable only on the death of the life assured. That means if the insured person alive till the completion of date of specific policy term, nothing is payable to insured. Thereafter the contract of term insurance automatically comes to the end. The premium is paid through out the term or till the death of the insured whichever is earlier. It is the cheapest type of insurance product. Generally the persons who want to protect his family for a short duration by paying fewer amounts as a premium is prefer such type of plans. This policy can not entitle surrender value nor will any loan be granted.

In the following cases term insurance plans are useful.

1. The person who needs extra protection for a short period

2. Key men or key persons insurance for a specific period

3. Young businessman or industrialist who wants to sustain from unforeseen events during early period of the business.

4. Parents can take such policy for education or marriage of son and daughter

Benefits :

i) **Survival benefit** : Not applicable

ii) **Death Benefit** : Total sum assured.

Term Insurance Plan

Particular	Minimum	Maximum
Entry age	18 Years (18 Last birth day)	60 Years
Sum assured	50,000	10,00,000
Term	6 , 12 , 18 months	NA
Mode of Payment	single premium	
Maximum premium payment	62 years	
Policy loan available	No	

Features :

1. The sum assured is payable only in the event of death of a insured

2. This plan not covers the principle of investment. It provides only protection to family

3. It is the cheapest type of insurance

4. It is a non medical plan. Any person with in the limit of 62 years age can take policy without any medical examination

5. This policy is always without profit.

Advantages :

1. It is useful to individuals who specially require insurance cover against risk for a specific term

2. Term insurance accomplish aim of protection

3. If death occurs before maturity of term, the sum assured paid to the nominee or legal heirs of the insured

4. Big amount of policy can be taken in low amount of premium.

Disadvantages :

1. This plan not covers the principle of investment. It provides only protection to family

2. There is no any survival benefit. If the insured is alive at the time of maturity of the term plan the sum assured will not give to the insured.

4. Pension and Annuity Plans:

An annuity and pension is a long term investment contract that is issued by an insurance company. It is designed to help protect you from the risk of outliving your income. Through annuitization, your purchase payments (what you contribute) are converted into periodic payments that can last for life. It is a contract, which provides regular and periodical payments for a specific period or for the remaining period of the life. For this purpose annuitant exchange the lump sum payment of money to the insurer. In pension or annuity plan the insurance company assures to pay certain amount periodically up to the death or maturity of the term. The payment of annuity or pension is generally continues up to the life. Hence the rate of premium is determined on the basis of longevity.

Annuity is a system of assured payment from insurance company to annuitant periodically till death of the annuitant or expiry of the policy period. It is most useful to retiring person, who wants to earn fixed sum with less risk. It is also helpful to those who desire to enjoy his investment during his life time and not leave for others.

It is said that when regular life insurance plans stops to serve, the annuity plan start to serve. In other words this plan is opposite to insurance plans.

Nationwide's **annuities are flexible so you can choose one that enables you to:**

- Invest a lump sum or invest over a period of time
- Start receiving payments immediately or at some later date
- Select a fixed, variable or indexed rate of return

An annuity is a contract between annuitant (insured person) and an insurance company in which annuitant make a lump sum payment or series of payments and in return obtain regular disbursements beginning either immediately or at some point in the future. The goal of annuities is to provide a steady stream of income during retirement. An annuity that begins paying out immediately is referred to as an immediate annuity, while those that start at a preset date in the future are called deferred annuity.

DEFINITIONS:

1. D.S.Hansell : " Annuities are a form of person, whereby in return for a certain sum of money the insurer agrees to pay the annuitant an annual amount for a specified period or for the remainder of the annuitant's life."

2. Joseph B. Maclean : "Any contract providing for regular periodic payments for a specified period is an annuity."

3. R.S.Sharma, " A Life annuity may be defined as a contract payment or payments, to pay to the beneficiary , a fixed regular income during a given period."

4. W.A. Dinsdale, "Annuity may be defined as the payment of amounts periodically during the life time of the annuitant in consideration of the payment of an agreed sum to the insurance company."

Types of Annuity :

Annuities are divided in to three main varieties viz., fixed, variable and indexed - that each have their own level of risk and payout potential.

1. Fixed annuities : It pay out a guaranteed amount based on the balance of your account. The downside of this predictability is a modest annual return.

2. Variable annuity: In this case, you can choose from a list of mutual funds that comprise your personal "subaccount." Here, your payments in retirement are based on the performance of investments in your subaccount. You have the opportunity for a higher return, accompanied by greater risk, with a variable annuity.

3. Indexed annuities : Indexed annuities are somewhere in between when it comes to risk and potential reward. You receive a guaranteed minimum payout, although a portion of your disbursements is tied to the performance of a market index.

Features of Annuity:

1. The goal of annuities is to provide a steady stream of income during retirement.
2. When regular life insurance plans stops to serve, the annuity plan start to serve
3. Annuitant deposits a lump sum in one or more installments
4. This contract is generally entered for own benefit of the annuitant
5. The rate of premium for annuity is calculated on the basis of longevity of the annuitant
6. It is just opposite to insurance plans

Advantages:

1. It is most useful to retiring person, who wants to earn fixed sum with less risk.
2. It is also helpful to those who desire to enjoy his investment during his life time and not leave for others.
3. Generally this plan is preferred by persons those who have no dependents
4. Annuity is a guaranteed periodic sum of money till the survival of the annuitant
5. The payment of annuity is being made yearly, half yearly, quarterly or monthly
6. It does not require medical examination. It means annuity is a non-medical plan

7. When life insurance plans stops to serve, the annuity plan start to help the annuitant up to his survival
8. It gives protection against living for longer period.

Disadvantages :

1. It is not beneficial to the persons who have loving dependents
2. It is not helpful to the dependents after the death of the annuitant
3. It means the person who dies earlier not get much benefit
4. It does not give protection against early death of the annuitant as insurance plans.

5. Unit linked Insurance Plans (ULIPs)

Under Unit linked Insurance Plan the investment is made subject to risk associated with capital market. Such investment risk is borne by the policy holder hence; insured should make investment choice by considering his risk attitude and need. In order to make life insurance products more attractive and popular among the public the insurance companies have launched unit-linked policies.
In India the Unit Trust of India, was the first to introduce a unit-linked Insurance Plan in 1971. Birla Sun Life was the first private company to launch a unit linked insurance products. Then it was followed by a number of other private companies like Om Kotak Mahindra, ICICI Prudential, SBI Life Insurance etc. Under public sector LIC launched its first unit linked offer 'Bima Plus.'
Unit linked insurance policies are not a pure insurance product but they are a hybrid product combining the insurance cover and capital market instrument. It is a life policy which provides risk cover as well as investment option to policy holder such as stocks, bonds or mutual funds. Under ULIP plan the premium paid by insured is invested in equity, debt or money market.
The policy holder will receive the assured benefits or the value of unit linked investment whichever is higher at the time of maturity of the UIP plan. The amount received under ULIP plan is exempt from Income Tax. ULIP have a minimum lock-in-period of five years. Within lock-in-period policy holder can not withdrawal any amount from this plan, however, after completion of five years he make partial withdrawal.

Definition of ULIPs :

"A Unit Linked Insurance plan (ULIP) is a product offered by insurance companies that unlike a pure insurance policy gives investors the benefits of both insurance and investment under a single integrated plan."

Features of ULIPs

1. Hybrid product : An ULIP is a combination of Insurance Product and Mutual Fund Product. Hence, it is called as hybrid product.
2. Flexibility : ULIPs provide flexibility to choose the sum assured amount of premium, mode of payment, type of fund, switch over the fund, etc.
3. Deductions: As like other insurance plans, premium invested in ULIP plan is considered for deduction u/s 80 C of the Income Tax Act.
4. Transparency : ULIPs are transfurent plans because the customer knows the type of fund in which his money shall be invested and the charges to be deducted.
5. Liquidity : ULIPs provide an option of withdrawing from plan after a few years and liquidate the investment. Alternatively they also allow partial withdraw after completion of lock-in-period. .
6. Lock-in-period : As compared to the tradition insurance plan the term of ULIPs is short. However, minimum lock-in-period is five years.
7. Fund allocation : A part of the premium is invested in capital market installments like equities and debts according to the fund selected by the policy holder; and remaining part is used for providing insurance cover.

Merits of ULIPs

1. Multiple benefits: ULIPs provide multiple benefits to investors like risk cover; long term investment, investment growth etc. integrated in one product.
2. Saving habit: ULIPscreate disciplined and regular saving habit among people through investing small amount.
3. Spread the investment risk: ULIPs spread the investment risk over a large group of investors. They are liable to investor who wishes to avail of the benefit of market linked growth without actually participating in the stock market.
4. Flexibility: ULIPs offer a high degree of flexibility to the plan holders e.g. option to change the plan, top-up the amount of premium/sum assured etc. This flexibility is not available in traditional insurance plans.
5. Partially withdraw facility : In case of emergency the ULIP holder can partially withdraw the amount from his ULIP or quite the plan. Thus investment in ULIPs has liquidity.
6. Income tax deduction: Payment of premium on ULIPs enjoys income tax benefits. The amount received at the time of maturity of ULIP is also tax free.
7. Market linked returns: ULIP gives investors an opportunity to earn market linked returns. The part of the premiums is invested in market linked funds.
8. Mortality cover: as like life insurance plans ULIP also provides mortality cover to the ULIP holder. If policy holder dies before maturity the nominee can claim the amount.

9. Best for long term investment: ULIP is beneficial to the investors who want to invest their amount in long term.

Demerits of ULIPs

1. Less Insurance Cover: ULIP combines insurance plan with investment plan.
It gives a small insurance and only average rate of returns. ULIPs are not preferred by those who wish more insurance covers because it gives very less insurance cover.
2. Expensive : The high rate of commission paid to the agents , advisors and due to other heavy charges such as mortality charges, administration charges ULIPs is quite expensive as compared to other insurance policies and investment plans.
3. Less Return: Mutual funds and investment plans give more returns as compared to ULIPs during a period of 15 years.
4. Not beneficial for short term: ULIPs are not beneficial for short term period.
Their lock in period is 3-15 years. However, in some cases the lock in period is 3 to 5 years.
5. Risky Investment: The amount invested in ULIP is basically related with capital market. Therefore the return on ULIP is depend upon the performance of capital market.Hence the investor should know the risk absorption capacity before deciding to invest in ULIPs.
6. Loan facility: Loan facility is not available on ULIPs.
7. Complicated plan: ULIPs are complicated plan and the common people are not able to understand the nature and terms of these plans.

Guidelines of IRDA

Insurance Regulatory and Development Authority (IRDA) have issued certain guidelines to control the insurance companies in respect of issue of ULIPs. Some of the guidelines and mentioned below.
1. ULIP plans are designed according to life insurance instruments
2. The term of ULIP should not be less than five years.
3. In case of single premium unit linked plan, the sum assured payable on death of the policy holder should be 125 per cent of the single premium.
4. In case of non-single premium plans the sum assured on death should be five times the annualized premium or half the annualized premium multiplied by the term of the policy. However, ULIP holder free to choose whichever is beneficial.
5. The insurance companies should invest 75 per cent of the funds collected under unit-linked plans in approved securities and not more than 25 per cent in other securities.

Summary :

Life Insurance is one of the most popular and important forms of insurance. Life insurance is insurance on human Life. Life Insurance is a contract for payment of a sum of money to the person on the happening of the event insured against. Usually the insurance contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or at the unfortunate death if it occurs earlier. Though, life insurance can not avoid one's death, at least it tries to minimize the economic burden, to some extent, of the family members by taking risk of the insured.

According to Insurance Act 1938 - "Life Insurance business means the business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is assured on death (except death by accident only) or the happening of any contingency dependent upon human life and any contract which is subject to payment of premiums for a term dependent on human life."

Life insurance is contract. It is a cooperative devise. It stands on the principle of large number of person i.e. law of large number. Life Insurance is not a charity but business.

There are five basic types of life insurance products are offered by insurance companies such as Whole Life Policy, Endowment Life Insurance policy, Term Insurance Policies, Pension and Annuities and Unit Linked Insurance Plans. However, in actual practice, some of the kinds are brought together to make more attractive schemes. As well, by charging extra premiums, supplementary benefits are extended. In addition to these basic products, various plans are available suiting the requirement of the society.

Key words :

Life Insurance : An insurance that promises to pay a specific amount on the occurrence of certain event contingent on the life of a policy holder.

Whole Life Policy : A life insurance policy that promises to pay sum assured to the legal heirs / dependents of the assured after his death.

Endowment Policy : A life insurance policy that promises to pay at the end of the specific term OR if the assured dies before the term, to his dependents.

Bonus : A specific share distributed out of the surplus made by the life insurance company to the policyholders.

Insurable interest – The interest of the insured in the subject matter of insurance is called as insurable interest.

Charity- Charity is a payment without claiming anything in return

Annuity -An annuity and pension is a long term investment contract that is issued by an insurance company.

ULIP -Unit linked Insurance Plan under which the investment is made subject to risk associated with capital market.

Procedure of taking Life Insurance Policy

A person who desires to effect a life insurance policy, must follow certain procedure set by the life insurance company. Following are the various stages of this procedure

i) Selection of insurance company

The business of life insurance, at present, has been opened to private sector. Therefore, alongwith Life Insurance Corporation of India, some private companies like HDFC Standard Life, ICICI Prudential, Max New York, Om Kotak Mahindra, Birla Sunlite, SBI Life, ING Vaisya, Bajaj Allianz, Tata AIG, etc, have entered into market. A person desirous of taking a life insurance policy, at first, must select one of these companies.

ii) Filling in a proposal form

Once an Insurance company is selected, the proposer is required to fill in the proposal form. It is a printed document and can be obtained free of cost from the agent or the company. Some companies make such forms available on internet. This proposal form being the basis of insurance contract, the utmost good faith and great care must be taken while filling in the form. The information filled in must be absolutely true and accurate. Any kind of misrepresentation or concealment of relevant information may lead to the cancellation of the contract. The Declaration Form attached in the end of this form is also required to be filled in, which states that the information furnished in the proposal form is true and complete. If the insurance company finds some statement false and irrelevant it can cancel the contract and forfeit all the amount paid on the policy.

In short, the proposal form for taking insurance is an application form to be submitted by the proposer furnishing all the required information in regard to the risk the insurance company is likely to cover.

Such proposal forms generally contain the following details.

- The name of the proposer and his address
- Object of Insurance
- Date of birth, birth place, age, proof of age.
- Sex, nationality.
- Father's name,
- Name of nominee, his address and age, proposer's name,
- In case of minor nominee, the name, address of appointee, proposers' name
- Table and terms of assurance, sum to be insured, whether premiums are payable yearly, half yearly, quarterly or monthly, amount of deposit,
- Present occupation and its nature,
- Name of the present employer, length of service,
- Educational Qualifications,
- Annual income, the sources of income,

- Whether the proposer pays income tax,
- Information regarding previous policies,
- Family background, personal history,
- Information regarding any hereditary, disease, admission to hospital,
- Physical disability, accident, injury, operations etc.
- Health condition
- Addiction to liquor, tobacco, drugs etc.
- Whether treatments on Hepatitis or AIDS are in continuation,
- The height and weight of the proposer (For non-medical insurance)

If the proposer is a female, she has to furnish extra information such as husband's name, occupation, annual income, details of his policies, delivery, abortion, caesarian, the date of last menstruation etc.

Declaration by the proposer

After furnishing the above stated information, the proposer has to make a declaration which includes the following details.

i) That the information filled in the proposal form is true and complete and no relevant information is concealed. If some statement is found false or incorrect, the contract of insurance be held void and the amount paid be forfeited to the insurance company of which the proposer is aware.

ii) The proposer also declares that the insurance company is fully free to make inquiries into information regarding his health or employment from the person or institute, it desires.

iii) The proposer further agrees that if some changes in his occupation or financial position take place, some adverse incident takes place in regard to his health, from the date of submission of proposal to the time before the issue of first premium receipt, he will inform same to the Insurance company in writing, so that the company may reconsider the terms of acceptance. If such information is not furnished the insurance contract shall be void.

Care to be Taken While Filling in the Proposal Form

1) The proposer, after filling in the proposal form, must sign it in the presence of a witness.

2) When the proposer is illiterate, the thumb impression of his left hand is to be attested by a third person, he should declare that he explained the meaning of the questions in proposal form to the proposer in his mother tongue, and the answers given by him are filled in truthfully, that the answers were read for him and understood by him.

3) Proof of Age

The proposer has to submit a proof of his age along with the proposal form, because the premium is computed according to the age. The following proofs of age are acceptable by the insurance company.

4) Medical Examination

After submitting the proposal form and the proof of age, the proposer is required to undergo a medical examination through one of the approved doctors of the

insurance company. The doctor examines the proposer with particular reference to heart and lungs, measures his height, chest, abdomen, weight, examines his teeth, tongue, eyes, ears, throat, blood pressure, physical structure, the present health condition, habits etc. and prepares his report. The doctor has to verify the information filled in by the proposer in relation to previous illness, accident or surgery etc. In case of female proposer, the doctor makes note on certain points, like, breast cancer, pregnancy, uterus / overy conditions, caesarian, etc. The medical examination is necessary for assessment of the proposer's physical risk. In certain cases, a special medical examination is also necessitated.

5) Confidential Report of Agent

After the medical examination, the agent's confidential report is submitted to the company. The report contains details relating to the personal history of the proposer, indicating how long and how well the agent knows the proposer. He has to state any unfavourable information regarding the proposer's health, character, habits etc. If he does not have the first hand information,he must get it from some reliable source. The business of life insurance involves the moral risk which is greater. Hence, it is to be ascertained,whether the proposer has proposed for insurance of large amount beyond his financial ability, whether his age allows him to take such insurance of large sum, though the previous policy is in continuation and proposal for another insurance of large sum is made. In such cases, it is the duty of an agent to submit a confidential report stating all the information in regard to the above points.

6) Scrutiny of the Proposal

The insurance company, scrutinizes the information furnished by the proposer in the proposal form, the agent's, confidential report and the medical report and then decides whether to accept the proposal or not. It ascertains whether the details stated regarding proposer's age, health condition, income, habits are true and correct and do not contradict with noted in the agent's report and the medical report. If the proposer is found having caught some serious disease, if need be, an expert opinion of some senior doctor is invited. In case of a female proposer, information regarding her marital and maternal status is scrutinized. Then the proposal is classified as standard, sub-standard and rejected proposal. The standard proposals are accepted at the regular rates of premium and the substandard proposals are accepted at increased rate. The substandard proposals are accepted with due changes. The changes suggested are-proposal be accepted for less amount than proposed, for lower term, for different scheme, at higher rate of premium, by deleting a specific risk or by laying some specific conditions etc.

7) Proposal sanction, Registration and Acceptance letter

The proposer is required to be informed by the company on what conditions his proposal is accepted. His consent to enter the contract of insurance with revised conditions is necessary. Then, the proposal for insurance is recorded in the register book.

8) Payment of Premium

Gene rally, a proposer sends certain amount to the insurance company along with his proposal form. If this amount is sufficient for the first premium, it is transferred towards the first premium. After this payment of the first premium, the risk commences and the proposer becomes insured. The rates of premium differ for different kinds of risks. In case of sub - standard lives, the insurance company charges an extra premium. After completion of all the required, the first premium is adjusted and the receipt against the first premium is sent to the insured. Thus, the contract of insurance is completed and the risk commences.

9) Issue of Policy

This is the last stage in the procedure of effecting a life insurance contract. It is a written document prepared as an evidence of contract of insurance. It contains all the terms and conditions of the insurance contract and is properly stamped according to the sum assured. The policy document is given a specific number which invariably has to be referred to in future correspondence. It bears the seal of insurance company and signature of its officer.

TERMS, CONDITIONS AND PRIVILEGES OF LIFE INSURANCE POLICY

The life insurance policy is an evidence of a written contract between insurer and insured. Hence, the terms, conditions and the subject of insurance are stated in it, by which on what conditions the contract is agreed upon, what benefits and concessions the insured is going to obtain, becomes clear. The terms, conditions and privileges, generally, are classified in the following four categories.

a) Conditions / Terms explaining the nature of insurance contract and its legal consequences

These are - Payment of premium, nomination and assignment, notice, proof of age, commencement of risk, forfeiture of insurance contract, incontestable clause.

b) Terms / Conditions Limitating of scope of insurance. (Restrictive Conditions)

They are -suicide, hazardous occupation, travel, residence and occupation.

c) Conditions and Privileges adding to the benefits of insurance

They are : Days of grace, revival of lapsed policies, non-forfeiture regulations, paid up policies, surrender value, loans, anti-dating, alteration in policy.

d) Conditions / Terms providing extended benefits or supplementary benefits

These include - accident, disability, bonus benefits etc.

a) Conditions/Terms explaining the nature of Insurance contract and its legal consequences

These terms / conditions in the first category are intended for the information of the insured.

These terms / conditions clarify the provisions made in the schedule of the policy. They are as follows.

1) Payment of Premium

As consideration of insurance contract the first premium is to paid. Afterwards, the regular payment of the premium before due date or within the grace period is to be made for the continuation of the policy. Paying premium in time is the duty of the policyholder. The Insurance Company does not need to intimate him in this regard. Yet, the companies send the policyholder a notice, before hand in writing. The premium can be paid in one lump-sum, yearly, half yearly, quarterly or monthly. As well, the premium can be deducted from the salaries. Concession to some extent can be obtained if the premium is paid yearly, half yearly. In the same way, if the sum assured is a large one, some concession in premium is granted. Generally, the

premium is to be paid at the branch where the policy is taken from, either in cash or by cheque. It could be paid to the agent also. At present, due to internet facility, some Insurance companies allow to pay the premium at any branch of the company.

2) Commencement of the Risk

The risk commences from the date of the payment of the first premium or the date of acceptance of Insurance contract, which ever is later. If the policy is issued on certain specific conditions, then the risk begins from the date the condition is fulfilled.

3) Forfeiture in certain events

If the policyholder fails to pay the premiums in time or violates any of the conditions laid down in the document or some statements made in proposal form, personal statement, declaration and other related documents are discovered as false and incorrect, then in accordance with the provisions of law, the insurance policy shall stands cancelled and all claims to any benefit under the policy shall cease and all money if already collected shall be refunded to the insurance company.

4) Proof of Age

The premium of Insurance is charged according to the age stated in proposal form. In case, the actual age is found higher than it was stated in the proposal form, then the premium is computed according to the actual age and the difference between the original premium and the premium for the correct age shall be paid with the half yearly compounded interest. If the policyholder does not pay this amount with interest, it is deducted at the time of final payment of insurance amount and the remaining amount is paid to him or to his heirs. Contrary to this, if the age is found lesser than stated in the proposal form, the excess amount paid by the insured is refunded by the company without interest. In if due to the difference in the correct age and that mentioned in the proposal the proposer stands ineligible for taking certain policy, then the company reserves its rights either to change the scheme of policy or the conditions of it.

Life insurance requires age to be admitted otherwise the claim can not be settled. Hence, the proposer must submit the proof of age along with his proposal for insurance.

5) Nomination

The provision for nomination has been made in Section 39 of Insurance Act 1938. By this, the insured can nominate any person to receive the sum assured, in case he dies before the expiry of the policy.

The following points are to be kept in mind in regard to nomination -

• Nomination can be made at the beginning while filling in the proposal form. The proposer has to name of the person to whom the policy money be paid after his death, his relation to the nominee, the age etc, which, the Insurance company records in the schedule / appendix of the document.

• If the nomination is not made at the time of making proposal for insurance, it

can be made any time after issue of policy. At such time the company records it by endorsement or by attaching a separate piece of paper to the policy.
• The insured person only can nominate. If some one buys insurance in some one's name, that other person has the right to nominate for example, when 'A' buys insurance for 'B' only 'B1 can nominate, not 'A'.
• This nominee is entitled to obtain the insurance amount after the death of policy holder.
• When the nominee is minor, then an appointee should be appointed. Such appointee must give consent for his appointment, by signing the proposal form or on the endorsement on the policy. He can obtain the amount of insurance on behalf of the minor. If this minor becomes major at the time of death of the insured, the appointment of the appointee gets cancelled. If the nominee is minor and yet, the representative is not appointed, then, the insurance amount is paid to the legal heirs of the deceased insured.
• The policy holder has the right to cancel the nomination made before and make another by endorsement.
• When the policy is assigned nomination automatically stands cancelled.
• When the nominees are more than one, the policy amount is payable to them jointly or to the survivor or survivors of them but no specific share for each nominee can be mentioned.
• If the nominee dies after the death of the policyholder, but before the death claim settlement, then the insurance amount becomes the part of policy holder property and goes to his heirs. If the nominee dies before the death of policy holder, then the nomination comes to an end. At such time, another nomination can be made.

6) Assignment of Policy

An insurance Policy is the policyholder's property. Hence, he can transfer the ownership rights of it to someone else. Assignment of insurance policy means transferring all ownership rights and interests in it. Section 38 of the Insurance Act. 1938 deals with the transfer or assignment of life insurance policies. The provisions in this section are.

1) The assignor must be major and otherwise competent to make contract.
2) He must be an absolute owner of the policy
3) Assignment can be made with or without consideration.
4) It can be made by endorsement on the policy itself or by a separate Instrument.
5) The assignor must execute the assignment papers in presence of at least one witness.
6) The endorsement or separate deed of assignment must state the facts of transfer or assignment.
7) The assignor must give a notice of assignment to the insurance company in writing along with endorsement or transfer Instrument.
8) After receiving the notice of instrument, the insurance company records it in its

documents and acknowledges in writing.
9) After assignment, the ownership rights, title, and interests are transfered to the assignee.
10) Assignment of policy should not be contrary to any prevailing law.
11) Assignment can be absolute or conditional. By absolute assignment the assignor loses all his rights, title and interest in the policy and the assignee can deal with the policy in any manner he likes. It can not be cancelled. In case of conditional assignment, in specific situation, the rights to ownership and interests revoke to the assigning person. For example, if the assignor survives after repaying the debts or after the expiry date or the assignee dies before the assignor person the ownership and interests of policy return to the policyholder.
12) If the assignee dies before the receipt of insurance money, but after the death of assignor, then, the amount of insurance is payable to the heirs of assignee.

7) The Incontestable Clause

The dictionary meaning of 'incontestable' is "that can not be disputed.
"According to Section 45 Insurance Act 1938, Section 45, even if the company finds two years after the commencement of the insurance contract that the policy holder had made some untrue and incorrect statements or certain important information had been concealed, the company can not cancell the policy on such ground. The provision of this Act has been made with the purpose of protecting policy holder and his heirs from unnecessary trouble intended by insurance company. Because, many years after the commencement of the policy the insured or his heirs would not be able to explain satisfactorily about the truthfulness and correctness of the statement objected by the company. Nevertheless, if the company succeeded in proving that the policy holder deliberately, with an intention of deception, had done so, then only it can take such action against the policy. In such condition, this Section of the Act will not be applicable

b) Terms / Conditions Limiting / Restricting the Scope of insurance (Restrictive Conditions)

Terms/conditions falling under this category limit or restrict the scope of insurance. They are designed to eliminate certain risks. In other words, the risks which are impossible to be covered by the company are excluded. If some of these risks arise, the company returns the surrender value or specific share from the insurance amount or the amount of premiums paid. The following terms / conditions mainly are included in this category.

1) Suicide

If the policy holder commits suicide within one year after the commencement of policy, the company cancels the contract and no money is paid. However, it does not affect the interest of third party. That's if some other person or institute, by paying due consideration acquires bonfire interest in the policy and completes the assignment papers and the policy holder commits suicide, then the company has to pay to the assignee person / institute. For example, 'K' purchased insurance for Rs.

1,00,000 and four months after, he mortgaged it to a bank and borrowed Rs.20,000 and the very next month he committed suicide. When the bank submits that policy, the insurance company has to pay the bank Rs.20,000. In suicide cases, accident benefits are never extended. If the women having no self-income, commits suicide three years after the commencement of policy, the company does not pay any money.

2) Hazardous Occupation

Some occupations or professions are hazardous, hence, the persons engaged in such occupations are prone to meet dangers. For example, employees working on machines in industry, labours at construction of tall buildings, scientists handling chemicals, labours making explosives, jockey in a horse-race etc. Generally, no restrictions are imposed on account of hazardous occupation but extra premium is charged for the extra risk. The air passenger, if dies in air-crash, then only double benefits of accident and disability are available. No other persons are eligible to such benefits. When some person is engaged in hazardous occupation at the time of taking policy, he has to pay the premium at the increased rate right from the beginning. If a person is not in hazardous occupation at the time of taking policy, but later on he enters, then he has to intimate to the company in this regard. Some companies require that change of occupation to be notified. Otherwise, the policy holder will not be held eligible to obtain accident or other benefits.

3) Travel, Residence and Occupation

To certain extent, the policy holder can be restricted from making journey and stay in foreign countries. However, Life Insurance Corporation of India does not restrict on foreign travel, residence or occupation, doing business in foreign lands.

Except for the hazardous occupation, the policy holder is at the liberty of doing any job or business.

4) War and Air-Flight Risk

The Life Insurance Corporation of India does not lay any restriction in its policy on war risk. In case of air-flight, it covers the risk by charging extra premium. If the policy holder does not wish to pay extra premium, then only he is restricted from air-travel and policy is issued.

C) Conditions / Terms or Privileges adding to the Insurance benefits

If all the terms / conditions and provisions of an insurance contract were decided to be implemented strictly, the policy holder would feel the contract as oppressive and unnecessary. Hence, some terms / conditions are laid down which may offer some concession or privilege to him. They are as follows.

1) Days of Grace

For obtaining protection and for continuation of the policy, the policy holder requires to pay the premiums regularly before the due date. But, he is given some day's concession for payments even after the due date. This period is called ' Grace

Period ' and is of 15 days for monthly mode of payment and for other modes of payment, it is of 30 days. Even if the premium is not paid in the grace period, the Insurance risk continues. If a policyholder dies in this grace period, the company deducts the unpaid premium and the remaining amount is paid. In case of the schemes where premiums are deducted from salaries, the days of grace clause is not enforced. It is assumed that if the employer has deducted the premium from salaries it is as good as paid up. That's the employer is allowed to pay the collected premium late.

2) Revival of Lapsed Policies

When the premiums of the policy are not paid within the due dates, the policy lapses. Such lapsed / discontinued policy can be revived during the life time of the policy holder. But the condition is that the premiums unpaid must be paid before the expiry of the policy within the five years, with the due interest. Generally, when the unpaid premiums are paid and the policy is revived within six months from the last premium paid, the medical examination of the policy holder is not necessary. However, if the period exceeds six months, it becomes obligatory. If the health risk of the policy holder is increased, the company holds the right whether to revive the policy or not. When the company agrees to revive, it can make some changes in the terms/ conditions or can apply some new conditions. At such occasion, the policy holder, either has to pay the outstanding premiums with interest in lump sum or the company allows him to pay the equated amount adding it to the premiums payable in the next two years. As well, a concession is given to extend the term of the insurance, instead of paying the outstanding premiums. The Life Insurance Corporation of India has made various schemes of revival of lapsed policies such as, General Revival Scheme, Special Revival Scheme, Revival by Installment Scheme and Loan - cum Revival Scheme.

3) Non - Forfeiture regulation

The insurance companies allow the policy holders enjoy a special concession of saving their policies from forfeiture, even though they have stopped paying premiums. By this, if the premiums for three years are paid and the latter premiums have remained outstanding, the policy stands paid - up and the insurance amount is reduced equal to the paid up amount. Hence, afterwards, the premiums are not required to be paid and the policy holder can obtain accumulated bonus upto the paid - up date, but not after that date.

By another concession, if the premiums are paid at least for three years and the premiums after wards have remained outstanding and the policy holder dies with in six months from the last outstanding- premium, then the company pays all the payable amount, deducting the amount of unpaid premiums. This is known as claim concession. If the premiums are paid for five years, the six month's concession is increased upto one year.

4) Paid-up Value

When the insured discontinues paying premiums, but does not claim for the surrender value, then the policy continues for less amount. The original insurance amount, in such case, is reduced in proportion to the total premiums payable and the premiums paid. This value is called as paid-up value and is paid at the end of the policy term or after the death of a policy holder. The bonus already vested in the policy is added to this paid-up value. The following formula is used for calculating the paid-up value.

$$\textbf{Paid-up Value} = \frac{\textbf{No. of Premiums paid}}{\textbf{No. of Premiums Payable}} \textbf{ X Sum Assured Total}$$

For example, the sum assured is Rs.1,00,000 and the total number of premiums payable is 20, while premiums paid are 10. Then, the paid-up value will be -10/20 X1,00,000 = Rs. 50,000. The amount of bonus also is added to the paid-up value. When a policy is paid-up no future premiums are required to be paid.

For making the policy paid-up at least three years' premiums are to be paid. The paid-up value can be obtained after the expiry date or in case the policy holder dies before the term, then after his death.

5) Surrender Value

Any time before the claim for settlement is made, the policy can be surrendered. The amount received on such surrender is called as surrender or cash value. In this connection, the following provisions are to be considered.

1) When the policy-holder is unable to pay the premiums, he can surrender the policy to the company, get his policy cancelled, and obtain the money immediately in cash.

2) Any policy, on which the three years' premiums are paid, is entitled to obtain surrender value. After surrendering the policy, the surrender value is paid immediately.

3) The surrender value paid is in specific percentage of paid-up value. According to Section 113 of the Insurance Act, 1938, each Insurance company is liable to pay the guaranteed surrender value. This value should not be less than 30% of the premiums paid (excluding the premiums paid in the first year and the extra premiums charged for additional benefits guaranteed.) Some insurance companies offer special surrender value, which is higher than the guaranted surrender value.

6) Anti-dating

Anti-dating of an insurance policy can be effected, i.e., the date of risk can be taken back. It is done, so that the 'proposer should pay lower premium taking advantage of his low age. For this, the date of risk can be taken back upto three

months. For instance a person born on 10th March 1976 bought insurance policy on 10th Nov. 2006, his age at the nearest birthday, i.e. on 10th March 2006, will be of 31 years and he will have to pay the premium accordingly. But if the date of risk is taken three months back, it would be 14th Aug. 2006 and his age at the nearest birthday (10th March 2006) would be 30 years. Due to this facility, the amount of premium would be lower. At such times, the insured has to pay all the premiums of the months dated back. As well, if the anti-dating is to be effected for more than three months, the insured has to pay the interest on the premiums payable of the back dated period. The Life Insurance Corporation of India has provided this facility.

7) Loans

Life Insurance being a contract for long term, the policy holder can not get money for a long time. In the mean time, if the policy holder felt some need for money, the insurance companies can offer loans on the policies. He can take loan either from the insurance company or from a bank by pledging his policy as security.

The following are the conditions for getting loan –

1) It is necessary to pay the premiums for atleast for three years. This facility is not available on ail insurance schemes.
2) Generally, loan sanctioned is 90% of the surrender value.
3) The interest on loan is charged at the rate fixed by the company. This interest is to be paid after six months. In case of non-payment of interest, compound interest is charged.
4) The policy holder has to assign his policy absolutely to the company. The company keeps the policy as security for the repayment of loan and the interest there on.
5) The loan, within the term of the policy, can be repaid fully or partially. Otherwise, the company deducts the outstanding amount with interest from the insurance amount at the end and the remaining amount is paid to the insured / nominee.
6) Loans of small amount are not granted. An insured can borrow loan many times within the term of the policy. While sanctioning additional loan, the outstanding interest, if any is deducted from the loan amount.
7) The method of borrowing loan is simple. One can make an application on plain paper. Loan can be sanctioned in a day.
8) The insurance companies do not demand for recovery. Hence, the policy holder should repay cautiously the loan and interest amount in time.

8) Alterations in Policy

The life insurance policy document contains the terms of the contract and these terms continue to operate throughout the currency of the policy unless modified by mutual consent of the insured and insurer. The insurer can request for the following kinds of alterations in the policy. Sometimes it is necessary to alter the terms of the contract to suit the changed circumstances.

Alteration in insurance scheme / term	Removal of extra premiums
Reduction in sum assured.	Splitting up of policy into two / more policies.
Change in mode of payment of premium	Alteration from without profit policy to with profit policy or vice versa
Alteration in name	Grant for accident benefits.
Change of nominee	Settlement option-obtaining insurance amount in installment
Corrections in policies	

The following points are to be considered in connection with alterations in policy.
1) The policy must be force for the full sum assured.
2) If certain alteration is likely to increase the risk, the company does not agree for. For instance, extension of term, extension of period for payment of premium, getting the scheme transformed into increased risk scheme etc.
3) Alterations are not normally allowed in the first year of the policy unless they do not affect the basic insurance contract like change in address, change in nomination etc.
4) Some alterations are effected by way of endorsement on the policy. If the alternatives are of substantial nature, the old policy is cancelled and a fresh policy is issued. Certain fees are charged, but for making correction of mistakes, no fees are charged.
D) Terms / Conditions extending extra / Supplementary benefits
By these conditions, when the insured pays an extra premium, he is entitled to receive extra benefits along with the original risk cover, which include accident benefits, disability benefits, bonus, etc.

1) Accident benefits

This is one of the important benefits the policy holder can enjoy. In case he happens to die in an accident, the company pays, generally double the insurance amount. The extra premium payable for this is low. The conditions for obtaining accident benefits are:-
- The death should be caused by outward, violent and visible means.
- The death should be caused solely and directly and independently of all other causes from the accident.

- The death should be caused within 180 days or such other period as may have been stipulated in the policy.

The accident benefit would not be payable in the following circumstances.

- When death is caused by intentional self-injury, attempted suicide, insanity, immorality or under the influence of liquor, drugs etc.
- When death is caused due to accident in aviation or aeronautics other than a bonafide air passanger.

When death is caused by injuries resulting from riot, civil commotion, rebellion, war, racing, hunting, mountaineering etc.

- When death is caused due to commiting any breach of law.
- When death is caused by an accident while working in military service, police duty. The LIC pays the accident benefit upto a maximum of Rs.5 lakhs, on all policies taken together on a single life. Some companies have maximum limit of upto Rs.10 lakhs.

2) Disability Benefits

The Life Insurance Corporation of India without charging extra premium offers the disability benefits. When a policy holder sustains serious injury and becomes permanently disable, this benefit is offered. Accordingly, the payment of rest of the premiums is waived. Both, male and female can get this benefit. However, if the policy holders are in hazardous occupation have physical deformity or have adverse personal background, they can not enjoy this benefit. **The nature, limitations and the conditions to be fulfilled to be entitled to obtain this benefits are as follows**.

1) When the policy holder after meeting an accident turns disable and is unable to earn his bread, the premiums payable from the date of disability are waived.
2) This benefit can be enjoyed by only one life on the first insurance of Rs.20,000
3) The policy must be in force for full amount at the time of disability.
4) This benefit can be obtained upto the age of 70 years.
5) The policy holder must submit an evidence regarding disability, to LIC within 180 days from the event.
6) If the claim for disability benefits is proved to have admitted wrongly, the policy holder has to pay the premiums from the date the LIC intimates and the all the waived premiums with prevailing interest rate.

3) Extra disability benefits

When the policy holder, due to the accident sustains permanent disability, then by paying extra premium, he can obtain additional amount equal to sum assured, in installments. Moreover the payment of future premiums is waived. LIC of India has made the following provisions for extra disability benefit.

i) An additional sum equal to the original sum assured shall be paid, in installments over a specified period of years say 10 years.
ii) On the life of a single person, insurance amount eligible to be paid by all companies along with extra amount should not exceed Rs. 50 lakhs.
iii) Premiums payable after disability shall be waived.
iv) Disability should be caused by accident and it should be permanent and absolute. Due to such disability, the policy holder should be in no position then and hence forward to work for making his living, get any remuneration or benefits from any job or work etc.
v) Within 180 days from the date of accident only due to accident (not by any incidental causes) the policy holder should sustain the permanent disability either of the following nature loss of entire sight of both eyes, or in the amputation of both hands at or above the wrists, or in the amputation of both feet at or above ankles, or in the amputation of one hand at or above the wrist and one foot at or above the ankles, shall also be deemed to constitute such disability.
vi) All the details, with satisfactory evidences should be provided within 180 days from sustaining disability and allow for medical examination by the medical

officer appointed by the LIC, in any manner and any times the LIC wishes, before and after admitting the claim.

4) Bonus
The insurance company declares every year bonus on with profit polices. The amount distributed to the policyholders from surplus earned by the company is called as bonus. For enjoying this benefit of bonus, the policy holder has to pay some extra premium. The rate of bonus is declared every year. But instead of paying the amount of bonus in cash, it is credited on the policy and is paid with the insurance claim. There are various ways of paying bonus.

5) Provision of Waiver of premium
According to this benefit the policyholder is not required to pay the further premiums if certain event occurs. This extra benefit is allowed on various policies. However for receiving this benefit some extra premium should be paid, In case the policyholder becomes permanently disable, the payment of further premium is waived immediately. Moreover he gets the full sum assured along with bonus on maturity of the policy. In case of children's deferred plan if the proposer dies during the deferment period no further premiums are required to be paid. The policy contains a privilege of waiver of future premiums if life assured is permanently disabled as a result of accident.

6) Critical Illness Benefit Rider
This a most important and essential rider to be taken by each insured person. This covers critical illness such as heart attack, stroke, cancer, kidney failure, paralysis, loss of sight of both eyes, transplantation of limbs etc. The critical illness benefit is given if the insured survives for more than 28 days from the diagnosis of the illness. It is paid for one serious illness caused during the policy period there are certain terms and conditions applicable for this rider.

SETTLEMENT OF CLAIMS

Settlement of claim means completion of the contract of life insurance. It is regarded as the most important after-sale service in insurance industry. The insurance being a service the settlement ratio becomes the acid test of its good performance. Under life insurance, the policy amount is paid on either occasion, i.e. either on maturity of policy term or on death of insured before expiry of the term. The payment of claim in earlier case is known as Maturity or Survival Claim and that in latter case is known as Death Claim or Pre-mature Claim. The different procedures are followed for both of these claims.

Procedure of Settlement of Life Insurance Claim

(I) Maturity Claim: It is also known as survival claim because the assured is alive till the policy term expires. In such a case the LIC pays the policy amount to the assured. The claim need not be paid to the nominee. However, if the policy is assigned to the third party, the claim is paid to that third party i.e. assignee. The procedure of settling maturity claims is simple and straightforward as described here below.

1. Intimation of Maturity by LIC: Usually, the LIC sends intimation to the policyholder one month before the date of maturity for early disposal of the claim. LIC intimates that the date on which the policy matures and the requests the assured to return the original policy along with the discharge forms.

2. Submission of Original Policy and Discharge Forms: Accordingly, the policyholder submits the original policy, the discharge form and advance stamped receipt along with proof of age (if not already admitted) to the LIC's Divisional Office.

3. Payment: On receiving the above documents, the LIC sends the crossed cheque of policy amount. Generally, the care is taken that the policy amount is paid exactly on the date of maturity itself.

(II) Death Claim or Pre-mature Claim: If the insured dies before the expiry of the policy term, the policy amount is paid to his/her nominee/s. It is known as death claim or pre-mature claim. If the policy is assigned to the third party, the claim is paid to that third party. It is to be noted here that if a policy results into claim by death within two years from the date of last revival effected on the basis of short medical report or a declaration of good health, the company will do a thorough and strictly confidential enquiry into the exact cause of death.

Generally, for settlement of death claim, the following procedure is followed.

1. Intimation of death: The person entitled to get the proceeds of the policy (nominee or assignee) has to send a letter intimating the death of policy holder to the Divisional Office of the Life Insurance Corporation of India. The letter must contain the date and cause of death along with the policy number. In order to accelerate the settlement of claim, the insurance policy together with the deed of assignment, if any, should be submitted to the LIC. The claimant has to mention under which

capacity (nominee or assignee), he/she is claiming the policy money.

2. Proof of death: The beneficiary must produce proof of death in the forms made available by the LIC. This proof includes the submission of the claimant's statement, a certificate by the medical attendant who attended the deceased during the last illness, certificate of burial or cremation, certificate of identity, certificate of employer and confidential report by the agent. All these forms must be fully and correctly completed and must be countersigned by a person of known character and responsibility, such as a doctor, a bank manager, a head post master, a gazetted officer, a magistrate, a notary public, a head master, an advocate, president of a village panchayat, etc.

<u>Generally, the following documents are submitted as proof of death of policy holder.</u>

(a) Claimant's Statement: The person who is legally entitled to the policy moneys will have to complete the claimant's statement which contains his name, profession, age, address, relationship to the deceased, details pertaining to the deceased, nature of his illness, complete details of medical consultation or treatment obtained by the deceased during the three years preceding death such as name and address of doctors or hospitals, nature of complaint, dates of consultation or treatment. Finally, the claimant has to declare that the answers to each and all the above questions are full and true in each and every respect.

(b) Medical Attendant's Certificate: This certificate is to be completed by the medical attendant of the deceased policy holder in his last illness. It includes questions relating to the name, address, occupation, and age of the deceased. Along with the primary and secondary causes of death, history of the disease, date when the disease first observed, by whom treated and reported, habits of the deceased (sober and temperate), his treatment by other medical practitioners, medical attendant's association with the deceased, treatment, post-mortem examination report, if any. Further, if the death is due to any unnatural cause such as murder or suicide or drowning or any accident, a certified copy of the Police Inquest Report, The Coroner's Report or a copy of Panchanama is required to be submitted. Besides, a certified extract from the Register of Death maintained by the Municipality, Local Board, Police Patil has to be submitted

(c) Certificate of Burial or Cremation: The dead body is buried or cremated as per the deceased policy holder's religion. The certificate of burial or cremation is to be completed and signed by a person of known character and responsibility who was present at the burial or cremation of body of the deceased. The details like the name of deceased, his/her father's name, occupation and employment, residence, religion, etc. Apart from this, the particulars of burial or cremation have to be furnished such as name and address of place of burial, cremation and the certification that the body which was buried or cremated was that of the policy holder.

(d) Certificate of Identity: This certificate is to be completed and signed by a person of known character and responsibility, who was acquainted with but not

related neither to the deceased policy holder nor the claimant. Such person must have seen the dead body of the policy holder with his own eyes.

(e) Certificate by Employer: This certificate is to be completed by the deceased's last employer. He has to furnish the particulars of deceased policy holder, details of services and information relating to death, such as date of last attended duties, first complain of illness, record of absence from duty during last three years of service, nature of leave availed of (casual, privilege, sick), the name of the person who informed him of deceased's death.

3. Agent's Confidential Report: After receiving the above five forms, the agent is requested to make careful inquiries into the matter at once and to submit the report. Agent's confidential report is intended to provide a confirmation of the death of the assured, date and place of death, cause of death, circumstances of death, source of information etc. Agent's report is essential to prove that the claim is bonafide.

4. Proof of Age: If the age of the assured has not been admitted earlier, one of the standard proofs of age has to be provided. The following proofs of age are generally accepted by LIC: (i) Certified extract from municipal or other records made at the time of birth. (ii) Certificate of Baptism or certified extract from family Bible if it contains age or date of birth. (iii) Certified extract from School or College records if age or date of birth is stated therein (iv) Certified extract from Service Book in the case of government employees (v) Horoscope prepared at the time of birth or soon thereafter.

5. Proof of Title: No proof of title is necessary, if a nominee is designated in the policy or if the policy is validity assigned. However, the proof of title is required only when the policy has not been duly assigned or no nominee was appointed by the deceased during his life time. Under these circumstances, the claimant will be required to produce satisfactory evidence of title to the property in the insurance policy of the deceased from a competent court of law. It may be—
(i) A probate of the Will, if the deceased has left a Will
(ii) Letter of Administration,
or (iii) A Succession Certificate, issued under Indian Succession Act of 1925. When there are conflicting claims, the LIC may, under Section 47 of the Insurance Act, pay the amount of the claim to the Court and the claimant may obtain the payment by directly applying to the Court.

6. Discharge Form: Immediately after complying with all the formalities, the insurance company issues a discharge form, which is to be filed and signed by the claimant.
7. Payment: On receiving the form of discharge, the LIC makes payment by a crossed and order cheque on any of its bankers nearest to the claimant's station. In certain cases, payments can be made through M.O., at the risk and account of the beneficiary, but in no case, payment is made in cash.

Summary

The life Insurance is associated with man's life. By life insurance contract, the insured is entitled to obtain the sum assured after the specific term or if he dies before that, his dependents obtain it. Hence, after his death, his dependent family receives a financial security. If he survives after the maturity of the policy, he is at the advantage in old age, children's education, marriages etc. By paying some extra premiums, he can avail of the extra benefits like accident benefit etc. Due to this, the scope of life insurance widens. Life insurance being a contract for a long term, it involves risk cover, as well as investment, too.

'Life Insurance has acquired a very vital important place in man's life. It provides economical protection for old age, saves money compulsorily, becomes a means of investment, gives tax reliefs, enables to fulfil one's duty towards children, cares for illness, accidents, disabilities, etc. It arranges for repayment of loans, facilitates with loans in the times of necessities. Hence, it is rightly said -"Life Insurance has no substitute." The world of commerce and business feels it important, because it helps them to sustain and continue their business, welfare and employees, insurance on keymen’s lives etc. Life Insurance has performed a very spectacular role in the development of economy. It has greatly contributed by increasing capital supply, financing Infrastructure, giving impetus to industrialization etc. It has fulfilled its social responsibility by providing social security at concessional rates to 88 the weaker sections, socially and economically, such as farmers, landless labours, workers, artisans etc. It has provided social stability and security to the society.

Every person who desires to take an insurance policy must know how the company works. At present in our country, LIC of India and other private companies are in the business. The procedure of effecting insurance contract may differ a little from company to company. However, generally it comprises of selection of the company, filling in of a proposal form, presenting proof of age, medical examination, if needed, confidential report by agent, scrutinee of documents, decision on the proposal, informing the proposer, payment of first premium and issuance of policy-are the main stages. While taking an insurance, a desirous person must select the proper plan after, comparatively studying various plans of the companies, extra benefits, amount of premium etc, should get information regarding the conditions of policies from the agent, which are classified into four categories. Recently, the insurance companies have offered many riders for enhancing the usefulness of policies. But for this, little extra premium is to be paid. Under life insurance, along with personal insurance a group insurance also can be effected. Many people working together in a company / institute can take a single policy, which offers equal cover to all. The premiums of such insurance are paid either by the employer or the group, employees or group members.

The life insurance contract comes to an end after the claim is settled. In life

insurance, maturity claim and death claim occur. The maturity claim is made after the expiry of term of the policy while death claim is made in the event of death of a policy holder, before the terms. The settlement of maturity claims is very simple, but for death claims, many documents are required. The insurance company scrutinizes severely, ascertains every matter and then the claims are settled.

Key words

Life Insurance : An insurance that promises to pay a specific amount on the occurrence of certain event contingent on the life of a policy holder.

Maturity Claim : A claim made by the assured for obtaining the sum assured after the expiry of term of the policy.

Death Claim : A claim made for receiving sum assured after the death of assured.

Surrender Value : Amount obtained from the insurance company in cash on surrendering the policy before the expiry of its term.

Paid-up Value : It is the reduced sum assured on discontinuation of payment of premiums. Paid-up value is paid on maturity of the policy.

Nomination : A facility to name a person to whom the policy money should be paid after the death of a policyholder.

Assignment : The process of transferring the rights, title and interest of the policyholder in the policy by taking consideration to other person.

Rider : Extra benefits / cover received by a policyholder by paying extra premium.

Anti-Dating : A facility of dating the policy back for requiring to pay less premium.

Loyalty Addition : Extra amount paid along with sum assured for continuation of policy for specific period.

Bonus : A specific share distributed out of the surplus made by the life insurance company to the policyholders.

EXTRA READING:-

CLASSIFICATION OF LIFE INSURANCE POLICY

1. Whole life insurance policy

Whole life insurance policy is defined as an insurance in which the insured person pays the premium in the installment basis for full duration of his/her life. After the death of insured, his/her nominee receives the insured amount.

There are 3 types of whole life insurance policy

- **Ordinary whole life insurance policy.** In this policy, insured person has to pay the premium to his/her concerned insurance company till his/her death. The insured person can't utilize the insured amount because this amount will be returned after his/her nominee
- **Limited premium whole life insurance policy:** Under this policy, the insured person has to pay the premium for limited time and the insured amount will be returned after the death of insured person to his/her nominee
- **Convertible whole life insurance policy:** It is that type of policy which can be converted to endowment life insurance policy after a certain time. It is suitable for those people who have lower income at present, and they hope for increment in income in the near future.

2. Endowment life insurance policy

It is defined as that type of insurance in which the insured person pays the premium for a certain time and after certain time they receive insured amount. If she/he dies before the insured period his/her nominee receives the insured amount. Generally endowment life insurance policy is done for 10, 15 20 years and more. The insured has to pay the premium either till the end of insured period or till the death of insured which ever is earlier.

- **Ordinary endowment life insurance policy:** Under this policy, time will be fixed for a certain period and insured person have to pay either till the end of insured period or till his/her death. If he/she dies earlier before insured period, his/her nominee receive the amount. And if she/he is alive than himself/herself go and receive the amount.
- **Joint endowment life insurance policy:** In this policy, two or more persons are involves s the insured person. The premium amount should be paid till the insured person's death like in ordinary endowment life insurance policy.
- **Double endowment life insurance policy:** Under this policy, the insured person receives double of the insured amount is she/he is alive till the end of the maturity time. If she/he dies before the insured person his/her nominee receive only single insured amount.
- **Pure endowment life insurance policy:** Under this policy, insured person receive the insured amount after the certain time when he/she is alive. If the insured person dies before the end of maturity time the insurer becomes free from its liability.

3. **Term life insurance policy**

Straight term life insurance policy: Under this policy premium is paid as lump sum money. The insured time maturity period is not more than 2 year. Therefore, it is known as temporary term life insurance policy. If the insured person dies before the insured period his/her nominee receives the insured amount. But if he/she is alive then he/she doesn't receive anything.

- **Straight term life insurance policy:** Under this policy premium is paid as lump sum money. The insured time maturity period is not more than 2 year. Therefore, it is known as temporary term life insurance policy. If the insured person dies before the insured period his/her nominee receives the insured amount. But if he/she is alive then he/she doesn't receive anything.
- **Renewal term life insurance policy:** Under this period the insurance can be renewed after the maturity of the insured period. Second rate of premium may be higher than the first-rate of premium. Because the age of the person also increases with renew of insurance. It doesn't need a new health report or any sort of gent report for renewal.
- **Convertible term life insurance policy:** It is generally done for 5, 6 or 7 years like term life insurance policy. If the insured person want to convert this insurance policy in whole life insurance policy and endowment life insurance policy it can easily be converted.

4. **On the basis of profit distribution**

- **With profit policy:** Under this policy the insured person receive the insured amount with the profit of insurance company. In other words if the insured person dies before the term of insured period his/her nominee receive only insured amount not the profit o the company. But if he/she is alive then with the amount of premium the portion of profit of the insurance company is also received by the insurer.
- **Without profit policy:** Under this policy the insured person doesn't receive the insured amount with the profit of insurance company. In other words if the insured person dies before the term of insured period or remains alive till the end his/her nominee or himself/herself receive only insured amount not the profit o the company.

5. **On the basis of number of insured**

- **Single life insurance policy:** Under this policy there is only one individual as an insured person. In other words, the life of a single person is done insurance. Single life insurance policy is applied in whole life insurance policy, endowment life insurance policy and term life insurance policy.
- **Joint/ multiple life insurance policy:** Under this policy two or more than 2 people are involved as husband and wife, partners of partnership firm and other people may conduct the joint life insurance policy. It may be applied in whole life insurance policy and endowment life insurance policy.

6. **On the basis premium payment**

- **Single premium life insurance policy:** Under this policy, insured person pay the premium to the insurance company at the beginning in the lump sum amount. There is no

tension to pay the premium timely later on. It is mostly used in that case when a person wins a lottery.

- **Regular premium life insurance policy:** under this policy the insured person pay the premium up to his/her death for a certain time. In other words, the insured person pays the premium to insurance company regularly or timely.
- **Limited payment premium life insurance policy:** under this policy the insured person pay the premium up to his/her death for a certain time. The time is however less than the insured period.

7. On the basis of payment of insured mount

- **Lump sum payment policy:** Under this policy the insured person receives the total insured amount. Even all premiums have not been paid total insured amount is received by the nominee of the insured person and if the total amount has been paid she/he receives the total insured amount himself or herself.
- **Installment payment policy:** Under this policy, the insured person and nominee receive the insured amount in the installment basis. It is useful to those individual who are old and lump sum mount may be misused.

Advantages of life Insurance Policy in India

1. **Death Benefits**

Life insurance enables individuals to protect themselves and their families, in case of any unfortunate happening in the life of the insurer. The insurer pays an amount equivalent to the sum assured as specified in the contract along with applicable bonuses. This is know as the death benefit.

2. **Investment Components**

Certain whole life insurance policies offer two-pronged benefits of both insurance and investment. While one half of your premium is paid toward insurance, the other half is invested in equity, debt or combinations of both. You get the best of both worlds with a protective covering as well as high returns on your investments. You can make the most of this component by investing in funds that align with your investment horizon and risk appetite. Certain policies allow you to switch between funds as per your evolving goals. The Invest 4G plan offered by Canara HSBC Oriental Bank of Commerce gives you the option of choosing from a range of 7 unit-linked funds and 4 different portfolio management options as per your preference.

3. **Maturity Benefits**

Life insurance policies can also double as a savings instrument by offering maturity benefits. If the insured survives the policy term and no claims have been made, the total premiums paid are returned at the time of maturity of the policy. In this manner, your life insurance plan can have a savings component, while also offering a protective cover.

4. **Tax Benefits**

Under the umbrella of Section 80C of the Income Tax Act (ITA), individuals can reduce their tax liabilities by investing in specific instruments. Term insurance is one of them. Under section 80C, the premium paid for your life insurance policy is eligible to attain a maximum tax deduction for up to Rs. 1.5 lakh. In addition to this, under Section 10(10D), any payouts you receive from your insurance policy are completely tax-free (provided your premium does not exceed 10% of your Sum Assured, annually). If you have opted for a health-related rider, such as a critical illness or surgical care rider, you can also avail tax deductions under 80D of the ITA.

5. **Coverage Against Liabilities**

To fulfill your dreams and attain your goals, you may have required a certain amount of financial support – in the form of loans, mortgages and other types of debt. Be it student loans or credit card debt, dealing with such liabilities can be a source of great financial strain, without a steady stream of income. While you may have the funds to pay off a part of your loans now, your family may find it difficult to manage such liabilities in the event of your unfortunate demise, owing to the loss of income. Thus, taking a life insurance policy ensures that your family has the financial means to steadily meet your loan and mortgage repayments, even in your absence.

6. **Riders**

You can opt for riders to enhance your life insurance coverage. A number of riders, ranging from Critical Illness to Accidental Total Permanent Disability are available and help protect you and your loved ones against instances wherein your life cover may not come into play.

Life insurance and life insurance plans are an absolute necessity today. life insurance is a risk minimization and protection tool that can help insured and their dependents in multiple ways while dealing with a variety of life events. By understanding the key features and benefits of a life insurance policy, you can make an informed decision.

IMPORTANT TOPICS TO BE READ / STUDIED FROM YOUR TEXT BOOK i.e. “ THEORY & PRACTICE OF INSURANCE By:- M.ARIF KHAN.

1. Terms & Conditions of the Policy Pg.388
2. Computation of the PREMIUM .. .. .. Pg. 435
3. Mortality Table .. .. .. Pg. 425

REFERENCE & CREDITS

1. Various educational Websites.
2. https://indiafreenotes.com/
3. https://bbamantra.com/bba-notes/

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