Insurance

Standard XI

Study Material

Student Handbook

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Preface

The BSE Institute Ltd. is the wholly owned subsidiary of BSE Limited. BSE Institute Ltd. inherits from BSE the knowledge and insights into the capital markets industry, garnered over the past 140 years.

BSE Institute Ltd. has the distinct advantage of being at the centre of action — the financial hub of India, one of the world's most rapid emerging markets. This has helped us provide insights into the unique functions of this world. Emerging markets such as the BRIC countries — Brazil, Russia, India, and China — can entice and intimidate. However, the first-hand experience of our faculty and subject matter experts in dealing with the realities of this market enables us to appreciate how organizations, entrepreneurs, and investors identify and respond to these new challenges and opportunities.

Hence, our programs are designed to help learners develop an actionable framework to delve into key aspects like:

- Identifying which market institutions are working, and which institutions are missing?
- Which parts of our business model can be adversely affected by these institutional voids?
- How can we build competitive advantage based on our ability to navigate institutional voids?
- How can we profit from the structural reality of emerging markets by identifying opportunities to fill voids, serving as market intermediaries?

Our commitment to being at the forefront of the current and evolving practice of business has led to programs that reflect the realities of the marketplace.

Case studies replicate actual business situations and are taught so that students must work together to make difficult decisions under typical management conditions, including a lack of complete information, complex trade off situations and time pressure.

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Learning Objective – Unit I

LOCATION	DURATION-20 HOURS			
INSURANCE OFFICE AND CLASSROOM	SESSION-1 CONCEPT OF INSURANCE			
	Learning Outcome	**Knowledge Evaluation**	**Performance Evaluation**	**Teaching and Training Method**
	After studying this topic, the learner would be able to know about the meaning of insurance & its significance in the day to day life.	1. Meaning of Risk 2. Financial Implications of Risk	1. Explain the concept of risk in different facets of life 2. Explain the Financial implications of risk	Classroom teaching
	SESSION -2 NEED FOR INSURANCE			
	After going through this topic learners would be able to acquaint about the importance and its necessity in today's scenario of uncertainty	1. Insurance- Mechanism of Covering Risk 2. Need for Insurance	1. Explain how Insurance meets the objective of mitigating the effect of losses in case the event resulting in loss occurs.	Classroom teaching
	SESSION – 3 BRIEF HISTORY OF INSURANCE INDUSTRY IN INDIA			
	1. Enactment of Insurance Act, 1938			
	After studying this topic the learners would be able to come to know about the Enactment of Insurance Act, 1938, its applicability & features.	1. Historical background and emergence of Insurance in India 2. Enactment of Insurance Act 1938	1. Explain the history of Insurance 2. Explain evolution of Insurance in India. 3. Explain the rational behind enactment of Insurance Act 1938.	Classroom teaching
	2. Nationalization of Life Insurance Companies in 1955			
	After studying this topic the learners would be able to come to know about the Nationalization of life Insurance	1. Concept the rationale behind nationalization of Insurance. 2. Effect of nationalization of Life Insurance	1. Explain the rationale behind nationalizatio n. 2. Explain the effect of	Classroom teaching

	companies & the objectives & logic behind nationalisation.	Companies	nationalization on Life Insurance in India	
	3. Nationalization of General insurance Companies in 1972			
	After studying this topic the learners would be able to come to know about the Nationalization of General Insurance companies & the objectives & logic behind nationalisation.	1. Concept the rationale behind nationalization of Insurance. 2. Effect of nationalization of General Insurance Companies	1. Explain the rationale behind nationalization. 2. Explain the effect of nationalization on General Insurance in India 3. Explain the setting up of General Insurance Corporation	Classroom teaching
	4. Malhotra Committee Report – Opening up of Insurance sector to Private Companies in 2000			
	After studying this topic the learners would be able to come to know about recommendation of the Malhotra Committee & its applicability in the insurance sector.	1. Liberalization in Insurance Sector 2. Setting up of Malhotra Committee 3. Recommendations of Malhotra Committee	1. Explain the concept of Liberalization in Insurance Sector 2. Explain the recommendations of Malhotra Committee	Classroom teaching
	5. Setting up of Insurance Regulatory and Development Authority in 1999			
	After studying this topic the learners would be able to come to know about the essence of setting up of IRDA 1999 & its objectives	1. Insurance Regulatory Authority 2. Mission statement and objectives of IRDA	1. Explain that IRDA is the regulatory body for Insurance Sector in India. 2. Explain the premise behind setting up a Regulatory Body 3. Explain the objectives of IRDA.	Classroom teaching

UNIT 1

INTRODUCTION

OBJECTIVES

At the end of the session you will be able to understand:

- Risk
- Financial Implications of Risk
- Insurance—Mechanism of Covering Risk
- Need for Insurance
- History of Insurance in India
- Nationalization of Insurance Sector
- Liberalization in Insurance Sector
- Regulatory Body for Insurance Sector

STRUCTURE

1.1. Risk
1.2. Financial Implications of Risk
1.3. Insurance—Mechanism of Covering Risk
1.4. Need for Insurance
1.5. History of Insurance in India
1.6. Nationalization of Insurance Sector
1.7. Liberalization in Insurance Sector
1.8. Regulatory Body for Insurance Sector
1.9. Summary
1.10. Key Words
1.11. Self Assessment Questions

1.1. Risk

Risk is an integral part of life. It can be defined as a probability or threat that amounts to:

- ➢ Damage
- ➢ Injury
- ➢ Liability
- ➢ Loss

due to occurrence of a negative event that may be caused because of internal factors or external factors.

Illustration

A. You are walking on the road on way to your home. There is a reasonable possibility that you will reach home safely. However there could be a possibility that you may be hit by a vehicle. This could result in a minor injury, a major injury or even death. Thus there is a risk while you are walking on the road. However the risk will result into damage only if the accident happens. Thus accident is an event which results into damage.

B. You are leading a healthy life. There is reasonable possibility that you will keep on leading a healthy life till you die. One day you are diagnosed of Cancer. Apart from shortening the span of life it may result into heavy expenditure on medical treatment. Thus life of a person is always at risk.

1.2. Financial Implications of Risk

In the event of damage due to the happening of an untoward event there would be a financial loss apart from other damages associated with the same.

Such Financial loss could occur in any of the following manner:

A. In case the event results into the death of a person there could be a loss of earnings for his family especially if he was the earning member.

B. In case of injury to a person, resulting in temporary or permanent disability, the financial loss could be on account of both medical expenditure and loss of earning due to disability.

C. In case of loss or damage of a property, movable or immovable, the financial loss will be the amount required to replace or repair the said property, as the case may be.

1.3. Insurance—Mechanism of Covering Risk

Insurance is a mechanism by which the person exposed to the potential risk, arising out of the events beyond his control, transfers the financial loss; in part or in full to a third party.

The party which transfers the potential loss is termed as the 'Insured' and the party which indemnifies or undertakes to compensate the other party of such potential loss is termed as 'Insurer'

The Insurer provides the coverage for the potential financial loss for a fee or a consideration which is called the 'Premium'.

Thus Insurance is a special type of contract between the Insurer (the Insurance Company) and the Insured (the client) wherein:

A. The client agrees to pay a premium to the Insurance Company. Such premium may be a fixed amount payable as a single payment or it may be paid as periodical payments. This will depend upon the type of Insurance and the terms thereof.

B. In lieu of the payment of such premium the Insurance Company agrees to make some payment to the client or bear the costs of the client due to financial loss incurred on the occurrence of certain events.

For example, in vehicle insurance, the Insurance Company pays the cost of repairing the vehicle if it is damaged in an accident.

1.4. Need for Insurance

The basic function of Insurance is to provide protection against a financial loss resulting from the occurrence of an event.

This function is generally carried out by a Insurance Company. The Insurance Company provides for various types of Insurances to different people in consideration of a premium. These premiums are collected by the Insurance Companies and are utilized to provide compensation to those who have suffered the loss.

The benefits or advantages of Insurance can be outlined as follows:

A. Peace of Mind

When the consumers take an insurance policy they can achieve peace of mind. They would have a comfort level if they know that in case of happening of an untoward incident; at least the financial loss incurred by them would be compensated.

B. Asset Protection

The objective of taking a policy in respect of a property or an asset is to protect the same. This would be applicable in respect of assets such as homes, vehicles, jewelry and other valuable tangible items.

In case an insurance policy is taken the Insurer will replace or repair these assets if they are damaged, lost or destroyed.

C. Physical Protection

Certain type of Insurance Policies is designated in such a manner that they protect the body.

In the event that a person is injured, disabled or otherwise physically harmed these insurances will compensate for those damages.

D. Income Protection

Certain Insurance policies are designed in such a manner that they protect an individual's ability to earn a living.

If for some reason the person is no longer able to continue with gainful employment these policies can be structured to replace a majority of lost income of the said person.

E. Lifestyle Protection

In the event of death of a person, his next of kin suffer the most especially if the person who died was the sole or the major income earner.

In such a case a Life Insurance Policy would provide funds to the next of the kin who would be able to maintain partly, if not fully, the lifestyle or at least meet their basic needs.

1.5. History of Insurance in India

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance.

1818 saw the **advent of life insurance business in India** with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834.

In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency.

This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business.

In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies.

In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business.

The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd., was set up. This was the first company to transact all classes of general insurance business.

1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.

1.6. Nationalization of Insurance Sector

By early 1970s, there were about 100 Indian insurers carrying on the general insurance business in India.

Malpractices and mismanagement had crept into the management of these companies. Some insurance companies either liquidated or cheated the policy holders. There were complaints of falsification and denial of claims, interlocking of funds and other malpractices by many insurance companies.

To protect public funds, the government started considering nationalization of the Insurance Industry.

An Ordinance was issued on 19th January, 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

In 1971, as a prelude to nationalization of the general insurance industry, the Govt. of India took over the management of all private general insurance companies.

In the year 1972 General Insurance Business was nationalized. The main objective of this nationalization was to channelize the insurance funds for the benefit of the community at large.

With the enactment of General Insurance Act 1972, General Insurance Corporation of India (GIC) was set up as a Holding Company. It had four subsidiaries: New India, Oriental, United India and National Insurance Companies.

GIC was responsible for broad policy matters that could affect the general insurance industry in India. The company did not offer any direct insurance policies except the aviation insurance policies of Air India, Indian Airlines, Hindustan Aeronautics and Crop insurance.

Thus General Insurance business was primarily conducted by the four subsidiaries of GIC. Apart from the four subsidiaries, GIC set up the GIC Asset Management Company to manage the GIC Mutual Fund, GIC Housing Finance, and Export Credit Guarantee Corporation.

1.7. Liberalization in Insurance Sector

Although Indian Economy started opening up both to private sector and to foreign investment in the year 1991, Insurance sector still remained the domain of Govt. of India.

However the Government realized that there was a need to bring reforms in the Insurance Sector in case this sector has to evolve.

With a view to bring reforms in the Insurance Sector the Central Government formed Malhotra Committee headed by former Finance Secretary and RBI Governor R.N. Malhotra in the year 1993.

Thus the Malhotra committee was set up with the objective of complementing the reforms initiated in the financial sector. The reforms were aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms.

In 1994, the committee submitted the report and some of the key recommendations included:

A. Structure

- **a.** Government stake in the insurance Companies to be brought down to 50%.
- **b.** Government should take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as independent corporations.
- **c.** All the insurance companies should be given greater freedom to operate.

B. Competition

- **a.** Private Companies with a minimum paid up capital of Rs.1bn should be allowed to enter the sector.
- **b.** No Company should deal in both Life and General Insurance through a single entity.
- **c.** Foreign companies may be allowed to enter the industry in collaboration with the domestic companies.

d. Postal Life Insurance should be allowed to operate in the rural market.

e. Only one State Level Life Insurance Company should be allowed to operate in each state.

C. Regulatory Body

a. The Insurance Act should be changed.

b. An Insurance Regulatory body should be set up.

c. Controller of Insurance- a part of the Finance Ministry- should be made independent

D. Investments

a. Mandatory Investments of LIC Life Fund in government securities to be reduced from 75% to 50%.

b. GIC and its subsidiaries are not to hold more than 5% in any company (there current holdings to be brought down to this level over a period of time)

E. Customer Service

a. LIC should pay interest on delays in payments beyond 30 days.

b. Insurance companies must be encouraged to set up unit linked pension plans.

c. Computerization of operations and updating of technology to be carried out in the insurance industry.

The committee emphasized that in order to improve the customer services and increase the coverage of insurance policies, industry should be opened up to competition. But at the same time, the committee felt the need to exercise caution as any failure on the part of new players could ruin the public confidence in the industry. Hence, it was decided to allow competition in a limited way by stipulating the minimum capital requirement of Rs.100 crores.

The committee felt the need to provide greater autonomy to insurance companies in order to improve their performance and enable them to act as independent companies with economic motives. For this purpose, it had proposed setting up an independent regulatory body- The Insurance Regulatory and Development Authority

1.8. Regulatory Body for Insurance Sector

The body or the authority that regulates Insurance Sector in India is 'Insurance Regulatory and Development Authority of India (IRDA).

IRDA is an autonomous apex statutory body which regulates and develops Insurance Industry in India. It was constituted by a special Act of Parliament called Insurance Regulatory and Development Authority Act 1999.

The Mission Statement or the Objectives of IRDA are:

A. To protect the interest of and secure fair treatment to policyholders

B. To bring about speedy and orderly growth of the insurance industry (including annuity and superannuation payments), for the benefit of the common man, and to provide long term funds for accelerating growth of the economy;

C. To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates;

D. To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery.

E. To promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players;

F. To take action where such standards are inadequate or ineffectively enforced

G. To bring about optimum amount of self-regulation in day-to-day working of the industry consistent with the requirements of prudential regulation

The composition of the Authority IRDA is a ten member body consisting of:

- A Chairman
- Five whole time members
- Four part time members

Recently in the year 2015 the limit of Foreign Investment in Insurance Business has been increased from 26% to 49% something that was under discussion for more than a decade. Also global re insurance companies have been able to set up branches in India, something that was not allowed earlier.

1.9. Summary

- Risk is an integral part of life. It can be defined as a probability or threat that amounts to damage, injury, liability or loss due to occurrence of a negative event.
- In the event of damage due to happening of an untoward event there would be a financial loss apart from other damages associated with the same.
- Insurance is a mechanism by which the person exposed to the potential risk, arising out of the events beyond his control, transfers the financial loss; in part or in full to a third party.
- The party which transfers the potential loss is termed as ‘ Insured’ and the party which undertakes to compensate the other party of such potential loss is termed as ‘ Insurer’
- The Insurer provides the coverage for a fee or a consideration which is called the ‘ premium’
- In India Insurance has a deep rooted history.
- Life Insurance Sector was nationalized in the year 1956 and this resulted in the formation of Life Insurance Corporation of India.
- In the year 1972 General Insurance business was also nationalized & General Insurance Corporation of India was set up as the Holding Company of four subsidiaries carrying out general insurance business
- Insurance Sector was liberalized & privatized with the enactment of ‘Insurance Regulatory & Development Authority Act 1999. IRDA was set up as a Regulatory body for Insurance Sector.

1.10. Key Words

a. Risk
b. Insurance
c. Insured
d. Insurer
e. Premium
f. Life Insurance

g. General Insurance
h. IRDA
i. Liberalization
j. Privatization

1.11. Self Assessment Questions

A. Fill up the Blanks

a. Foreign Direct Investment in Insurance Sector is allowed upto ______ %

b. The full form of IRDA is __________

c. After nationalization the Company that carried out Life Insurance Business is called ___________________

d. IRDA was constituted by a special Act of Parliament called _______________.

e. In the year 1972 _______ Insurance Business was nationalized.

Answer Key: a) 49%. ; b) Insurance Regulatory & Development Authority; c) Life Insurance Corporation of India; d) Insurance Regulatory & Development Authority Act e) General

B. True or False

a) IRDA is constituted under Companies Act 1956.

Correct/ Incorrect

b) IRDA is a fifteen member body comprising of a Chairman, Ten whole time members and four part time members.

Correct/ Incorrect

c) With a view to bring reforms in the Insurance Sector the Central Government formed Tandon Committee headed by former Finance Secretary and RBI Governor.

Correct/Incorrect

d) With the enactment of General Insurance Act 1972 General Insurance Corporation was set up as a Holding Company. It had four subsidiaries which carried out general insurance business.

Correct/ Incorrect

e) Under liberalization global re insurance companies have been able to set up branches in India.

Correct/ Incorrect

Answer Key: a) Incorrect b) Incorrect c) Incorrect d) Correct e) Correct.

C. Match the following

S.No	Section A	Section B
1	IRDA	49%
2	Malhotra Committee	Premium
3	Foreign Direct Investment in Insurance Sector	Holding Company
4	Consideration	Regulatory Authority
5	General Insurance Corporation of India	Reforms

Answer Key

Section A	Section B
1	4
2	5
3	1
4	2
5	3

D. Answer in brief

a. Explain the need for Insurance

b. Write short note on history of Insurance

E. Answer in Detail

a. Explain the mission statement of IRDA

b. Explain the recommendation made by Malhotra Committee for reforms in Insurance Sector.

Learning Objective – Unit II

LOCATION	DURATION-20 HOURS			
INSURANCE OFFICE AND CLASSROOM	**SESSION-1 Present Organizational set-up of Insurance Companies in India – L.I.C. and Private Companies with foreign joint ventures, selling Insurance through Agents and Banks**			
	Learning Outcome	**Knowledge Evaluation**	**Performance Evaluation**	**Teaching and Training Method**
	After studying this topic the learners would be able to know about the present organizational structure of Insurance companies & their ventures with foreign companies. It will also enable the learners to have an insight about the difference between selling of insurance through agents & banks	1. Structure of Life Insurance Corporation 2. Structure of Life Insurance Companies in Private Sector	1. Explain the structure of Life Insurance Corporation of India 2. Explain the structure of Life Insurance Companies in Private Sector	Classroom teaching, PPTs
	SESSION -2 Objectives of Life Insurance – Protection and Investment			
	After studying this topic the learners would be able to know about the objectives of life insurance and its advantages in terms protection & investment.	1. Objectives of Life Insurance. 2. Advantages of Life Insurance	1. Explain the objective of taking life insurance cover 2. Explain the advantage of Life Insurance	Classroom teaching, PPTs
	SESSION – 3 Different types of Life Insurance Policies – Chief characteristics and similarity			
	After studying this topic the learners would be able to know about the different types of life insurance policies and their distinct features and similarities.	Different types of Life Insurance Policies 1. Term Insurance 2. Whole Life Insurance 3. Endowment Plans 4. Children Policies 5. Annuity/	Explain different type of Life Insurance Policies: 1. Term Insurance 2. Whole Life Insurance 3. Endowment Plans 4. Children Policies 5. Annuity/	Classroom teaching, PPTs

		Pension Plans 6. Unit Linked Insurance Plans	Pension Plans 6. Unit Linked Insurance Plans	
	SESSION – 4 Basic Pre-requites for Life Insurance – Insurable Interest and utmost Good Faith			
	After studying this topic the learners would be able to know about the essentials for getting a life insurance policy in terms of Interest & utmost good faith.	1. Principal of Utmost Good Fain	Explain the Principal of Utmost Good faith in Life Insurance	Classroom teaching
	SESSION – 5 Procedure for taking a policy			
	1. Selection of the Plan			
	After studying this topic the learners would be able to know about the features of various policies suiting their requirement	1. Different types of Life Insurance Plans	1. Explain how to identify the requirement of type of Life Insurance Policy 2. Explain the criteria for selecting the appropriate policy	Classroom teaching, special talk by insurance experts/agents
	2. Consultation of Premium table			
	After studying this topic the learners would be able to know about the features of various policies along with the amount of premium associated with the plan.	1. Premium as a consideration for taking Life Insurance	1. Explain the concept of Premium 2. Explain One Time Premium and periodical premium payments. 3. Explain the criteria for determination of Premium	Classroom teaching, special talk by insurance experts/agents
	3. Filling up of Proposal Form			
	After studying this topic the learners would be able to know the contents of a proposal form and how a proposal Form is filled up	1. Concept of Proposal Form. 2. Filling up of Proposal Form	1. Explain importance of proposal for. 2. Enumerate the care to be taken in filling up the	Classroom teaching, special talk by insurance experts/agents

			Proposal Form.	
	4. Document regarding proof of age			
	After studying this topic the learners would be able to know the essential documents required for getting a policy	1. Importance of age in Life Insurance Policies. 2. Proof of Age	1. Explain the importance of age in Life Insurance Policies 2. Enumerate the documents that should be given as proof of age.	Classroom teaching
	5. Important clauses of the Policy – eg. Suicide Clause			
	After studying this topic the learners would be able to know the different clauses which are pertinent to that specific policy	1. Importance of Suicide Clause	1. Explain the term suicide. 2. Explain the denial of claim in case of Suicide	Classroom teaching
	6. Nominations			
	After studying this topic the learners would be able to know the procedure for selecting a nominee for that policy	1. Concept of Nomination of Life Insurance Policies 2. Procedure of Nomination	1. Explain the concept of Nomination of Life Insurance Policies. 2. Explain the procedure of nomination of Life Insurance Policies.	Classroom teaching

UNIT 2

LIFE INSURANCE

OBJECTIVES

At the end of this session you will be able to understand:

- Organizational Structure of Life Insurance Business in India
- Selling of Insurance through Agents and Banks
- Objectives and Importance of Life Insurance
- Types of Life Insurance Policies
- Procedure of taking Life Insurance

STRUCTURE

2.1. Organizational Set Up

2.2. Selling Life Insurance through Agents & Banks

2.3. Objectives of Life Insurance

2.4. Advantages of Life Insurance

2.5. Types of Life Insurance Policies

2.6. Principle of Insurable Interest and Utmost Faith

2.7. Suicide Clause

2.8. Procedure of taking Life Insurance Policy

2.9. Nomination

2.10. Summary

2.11. Key Words

2.12. Self Assessment Questions

2.1. Organizational Set Up

The insurance industry of India consists of 52 insurance companies of which 24 are in life insurance business and 28 are non-life insurers.

Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Accordingly there 23 Companies in Private Sector that are carrying out Life Insurance Business.

a. Life Insurance Corporation of India

Life Insurance Corporation of India, the sole Public Sector Company carrying out Life Insurance Business in India, was established by a special Act of Parliament called Life Insurance Corporation Act. This Act was enacted by the Parliament on the 19th of June 1956.

The main objective of setting up Life Insurance Corporation was to spread the message of Life Insurance in the Country and to mobilize and channelize the savings of Public at Large which could be used for nation building. It was aimed at spreading awareness of Life Insurance in rural areas so that maximum lives may be insured at a reasonable cost.

Organizational Structure of LIC (as on 31/3/2010)

Life Insurance Corporation has its Central Office in Mumbai and 8 Zonal Offices in different parts of the country. Under Zonal Offices are Divisional offices followed by Branches and satellite offices. LIC also has three branches in territories outside India.

Apart from the above LIC has three International Branches as follows:

- Mauritius
- United Kingdom
- Fiji

Life Insurance Corporation also operates in Overseas Insurance Market through Joint Ventures as follows:

- Life Insurance Corporation International B SC (C) registered in Baharin
- Ken India Assurance Company registered in Nairobi.
- Life Insurance Corporation (Nepal) Limited registered in Kathmandu.
- Life Insurance Corporation (Lanka) Limited registered in Colombo.
- Saudi India Company for Cooperation in Insurance registered in Riyadh.
- Life Insurance Corporation (Mauritius) Offshore Ltd. registered in Port Louis, Mauritius is a Joint Venture Company between LIC of India and GIC of India.

A representative office has also been recently established in Singapore.

b. Life Insurance Companies in Private Sector

As of now there are 23 insurance companies in the Private Sector carrying out Life Insurance business. These are as follows:

Sr. No.	Name of Insurance Company
1.	Bajaj Allianz Life Insurance Company Limited
2.	Birla Sun Life Insurance Company Limited
3.	HDFC Standard Life Insurance Company Limited
4.	ICICI Prudential Life Insurance Company Limited
5.	ING Vysya Life Insurance Company Limited
6.	Max New Life Insurance Company Limited
7.	PNB Metlife Insurance Company Limited
8.	Kotak Mahindra Old Mutual Life Insurance Company Limited
9.	SBI Life Insurance Company Limited
10.	TATA AIA Life Insurance Company Limited

11.	Reliance Life Insurance Company Limited
12.	Aviva Life Insurance Company Limited
13.	Shriram Life Insurance Company Limited
14.	Sahara India Life Insurance Company Limited
15.	Bharti AXA Life Insurance Company Limited
16.	Future Generali India Life Insurance Company Limited
17.	IDBI Fortis Life Insurance Company Ltd
18.	Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited
19.	AEGON Religare Life Insurance Company Limited
20.	DLF Pramerica Life Insurance Company Limited
21.	Star Union Dai- Ichi Life Insurance Company Limited
22.	India First Life Insurance Company Limited
23.	Edelweiss Tokio Life Insurance Company Limited

Foreign Direct Investment upto 49% is allowed in Insurance Companies.

2.2. Selling Life Insurance through Agents & Banks

i. An agent is a person who represents a principal, who can be another person or a company, and act on the principal's behalf. An insurance agent represents the insurance company and an insurance broker represents the insurance applicant—both must be licensed by the state in which they conduct business.

The main duty of agents and brokers is to sell insurance. They also explain the benefits of insurance, and give their insured information as to what is covered and what isn't. They may also provide service after a loss, informing the insured what steps need to be taken to have the claim paid.

The insurance company is responsible for the acts of its agents, and it can be assumed by the insurance applicant that any information or payment of money to the agent will be

received by the insurance company—not necessarily so for the broker, because the broker represents the insurance client, not the company

ii. Reserve Bank of India and Insurance Regulatory and Development Authority of India (IRDA) have come up with the idea that banks can sell products of multiple insurance companies, unlike in the past when they were selling only one life product and one non-life product from a single insurance company. This is also known as bancassurance where insurance companies sell their products through banks. Quite popular in Europe, this concept is new in India.

The rationale behind the decision

Insurance companies can use the vast network of the banks to push their products in areas where they have no presence. Banks have about 120,000 branches across the length and breadth of the nation. This will help insurance companies cut the cost and banks to earn extra revenue as commission.

Secondly, banks have a presence. The physical presence of it builds trusts in customers, unlike individual brokers who may change places often. This is psychological in nature, but plays an important role in sales of products.

2.3. Objectives of Life Insurance

Life Insurance is a financial cover for a contingency or risk linked with human life such as loss of life by death, disability, accident, retirement etc. Thus the risk to human life is due to natural factors or causes related to various types of accidents. When human life is lost or a person is disabled permanently or temporarily there is a loss of income to the entire household.

It is not possible to value human life rather it would be more appropriate to say that it is beyond any value. However a method to determine loss would be to assess the same on the basis of loss of income in the future years, also known as Human Life Value.

Thus Life Insurance policies provide for a definite amount of money to be paid by the Insurer in the event the Insured dies during the term of the policy.

Thus the essential features of life insurance can be summed up as under:

- It is a contract relating to human life.
- There need not be an express provision that payment is due on the death of a person.
- A definite agreed money known as premium needs to be paid for starting a Life Insurance Contract/Policy.
- The contract provides for payment of lump sum money
- The amount is paid at the expiration of a certain period or on the death of a person.

2.4. Advantages of Life Insurance

Life Insurance provides dual benefits to the persons taking such insurance. These dual benefits are savings and security.

The following factors explain as to why this investment tool should be a part of one's financial plans.

A. Risk Cover

Life is today full of uncertainties. In this scenario Life Insurance ensures that the loved ones of the Insured continue to enjoy good quality of life against any unforeseen circumstances

B. Planning Life Stage Needs

Life Insurance not only provides for financial support in the event of untimely death but also acts as a long term investment. One can meet one's goals, be it children's education, their marriage, building one's dream home or planning a relaxed retired life.

C. Habit of Saving

Life Insurance is a long term contract where as policy holder one has to pay a fixed amount at specified periods. This builds the habit of Long term savings. Regular Savings over a

long period ensures that a decent corpus is built to meet various needs at different stages of life.

D. Safety of Investment

The investment made in Life Insurance is quite safe as Life Insurance is a highly regulated sector. The body that regulates Insurance Sector in India is called IRDA (Insurance Regulatory and Development Authority)

E. Liquidity

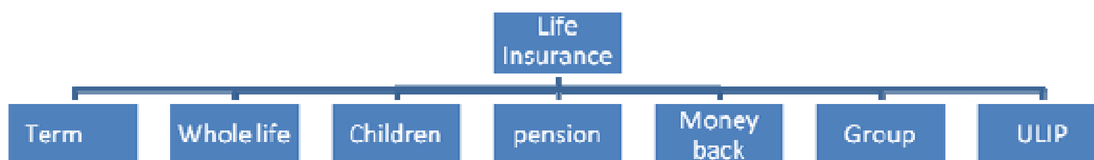
Life Insurance provides good liquidity to the Policy Holder as they have the option of taking loan against their policy. Thus when there is an urgent need of funds, the insured can avail the facility of loan against his policy which will, however, depend upon the surrender value of the Policy.

F. Tax Benefits

The premiums paid for life insurance policies and the amounts received in the event of death or on maturity of the said policy attract tax benefits.

2.5. Types of Life Insurance Policies

As per the above discussion it becomes apparent the Life Insurance is required for both protection and investment purposes. Based on the primary objective and benefits, life insurance products are of the following types:



- Traditional plans like term insurance, endowment, money back, etc.
- Unit linked insurance plans

Let’s discuss each of them in detail.

A. Term Insurance

Term Insurance is the simplest form of life insurance. It pays only if death occurs during the term of the policy, which is usually from one to 30 years. Most term policies have no other benefit provisions.

Thus the features of Term Insurance Plan are as follows:

- It is a pure life cover i.e. in the event of death of the insured the sum assured is paid to the family (beneficiaries).
- In case the insured survives the policy term, there is no return of premium.
- There is no investment component in a term plan

Example

Mr. X took a term insurance plan from ABC Life Insurance Co. Ltd. for a period of 20 years and sum assured of Rs.10lacs. In the event of his death, Rs.10lacs would be paid to Mrs. X. If Mr. X survives the term, there will be no return of premium.

B. Whole Life Insurance

Under this policy premiums are paid throughout life and the sum insured becomes payable only at the death of the insured. The policy remains in force throughout the life of the assured and he continues to pay the premium till his death. This is the cheapest policy as the premium is to be paid till the death of the Insured. This is the cheapest policy as the premium charged is the lowest under this policy. This is also known as 'ordinary life policy'. This policy is suitable to persons who want to make bequeathments for charitable purposes and to provide for their families after their death.

C. Endowment Plans

An endowment policy is a saving linked Insurance policy with a specific maturity date.

Under this policy the sum assured becomes payable if the assured reaches a particular age or after the expiry of a fixed period called the endowment period or at the death of the assured whichever is earlier. The premium under this policy is to be paid up to the maturity of the policy i.e. the time when the policy becomes payable. Premium would be little higher in case of this policy than the whole life policy. This is a very popular policy these days as it serves the dual purpose securing the family and /or saving for the retirement.

D. Children Policies

These types of policies are taken on the life of the parent/children for the benefit of the child. By such policy the parent can plan to get funds when the child attains various stages in life. Some Insurers offer waiver of premium in case of unfortunate death of the parent/proposer during the term of the policy.

E. Annuity/ Pension Plans

When an employee retires he no longer gets his salary while his need for a regular income continues. Retirement benefits like Provident Fund and gratuity are paid in lump sum which are often spent too quickly or not invested prudently with the result that the employee finds himself without regular income in his post - retirement days. Pension is therefore an ideal method of retirement provision because the benefit is in the form of regular income. It is

wise to provide for old age, when we have regular income during our earning period to take care of rainy days. Financial independence during old age is a must for everybody.

This issue of having regular income during old age is taken care off by Annuity Policies.

It is a policy under which the insured amount is payable to the assured by monthly or annual instalments after he attains a certain age. The assured may pay the premium regularly over a certain period or he may pay the premium regularly over a certain period or he may a lump sum of money at the outset. These policies are useful to persons who wish to provide a regular income for themselves and their dependents.

F. Money Back Policies

Money Back Plan is a special type of Life Insurance Policy. Under this policy the money comes back to the Life Insured after specified intervals of time as Survival Benefits.

However if the Life insured dies during the term of the policy then the death benefit will be paid to the nominee and the policy would be terminated and no further money would be paid to him at regular intervals.

Thus a money back policy is an endowment policy with liquidity benefit. The maturity benefit comes in instalments instead of Lump Sum at the end of the term of the policy. These benefits received at regular intervals are called Survival Benefits. Each installment is a percentage of sum assured. The remaining bit comes from maturity benefit at the end of the term of the policy.

Illustration

Bhakt Sethi has opted for a **Money Back Life Insurance Policy**. His plan has a Sum Assured of 5 lakhs for a policy term of 25 years. He would need to pay premiums for 25 years. And he would get back a part of the Sum Assured at regular intervals. For example, for a policy of 25 years, he would get 15% of Sum Assured after the 5th, 10th, 15th and 20th year of the policy i.e. he gets 15 X 4 = 60% of the Sum Assured as Survival Benefit. On Maturity of the policy he would get the remaining 40% of the Sum assured.

G. Group Insurance

Group insurance refers to the life insurance protection to group of persons. Opting for group insurance provides the advantage of a standardized cover to the group at competitive rates. They are suitable for large part of population who cannot afford individual life cover. Further members of an eligible group who otherwise cannot be insured can benefit through group insurance. Once the conditions of group insurance are satisfied, members can get life insurance at significantly lower rates compared to individual policies.

The group may consist of employees, doctors, lawyers, credit societies etc. A group insurance scheme can be either

a. **Contributory scheme** – In this case the premium on the group life insurance policy is paid by both the employer and the employee.

b. **Non-Contributory scheme –** In this case premium is paid by the employer or the main agency fully.

H. Unit Linked Insurance Plan

Unit linked insurance plans (ULIPs) aim to serve both the protection and investment objectives of investing. ULIP's are subject to capital market risks.

2.6. Principle of Insurable Interest and Utmost Faith

A. Principle of Insurable Interest

One of the essential ingredients of a Insurance Contract is that the insured must have insurable interest in the subject matter of the contract.

A person is supposed to have Insurable Interest in something when the loss or damage to that thing would cause the person to suffer financial or any other kind of loss. Thus insurable interest means that the Insured must stand to suffer a direct financial loss if the event against which the insurance policy is taken does actually occur.

The insurable interest is generally established by ownership, possession or direct relationship. For example people have insurable interest in their own houses and vehicles and not in neighbor's houses and certainly not that of strangers.

For an insurance company the insurable interest is the basic reason for issuing a legal insurance cover to an insured (or the beneficiary) as it gives legal right to enforce an insurance claim.

There are four essential components of Insurable interest:

i. There must be some property, right, interest, life, limb or potential liability which is capable of being insured.

ii. Any of the above i.e. property, right, interest etc must be subject matter of insurance.

iii. The insured must have a formal or legal relationship with the matter which is the subject of insurance.

iv. The relationship between the insured and the subject matter of insurance must be recognized by law.

In Life Insurance everyone is considered to have an insurable interest in his own life and that of his spouse

B. Principle of Utmost Good Faith

In the case of a contract both the parties to the contract are required by law to observe good faith.

However, in general transactions, say a transaction where a person has gone to a store to buy some products, the buyer is supposed to satisfy himself about the features of the product that he is buying. The seller is supposed to disclose all material facts about the product and also the facts so disclosed should not be misleading. However the is not obliged to disclose each and every fact of the product. This casts a responsibility on the buyer to satisfy himself about the quality and other features of the product.

If after the purchase of the product the buyer is not satisfied by it, he does get a legal right to go back to the seller and return the goods. Now the discretion is with seller whether to accept the goods or not. The seller would be well within his right to refuse the return of goods on the contention that the buyer had satisfied about the quality and other relevant features of the product before buying the product.

This principle is known as Principle of ‘Caveat Emptor’ which means that let the buyer beware. This principle is applicable to all commercial contracts.

However Insurance Contracts are different from General Contracts. While general contracts work on the principle of ‘simple good faith’ insurance contracts work on the principle of ‘utmost good faith’. The principle of utmost good faith is also known as Principle of Uberrima Fides’.

Let us now see as to why the insurance contracts must follow the principle of utmost good faith and not simple good faith.

i. In an insurance contract the seller is the Insurer and the buyer is the insured. In this case the buyer or the insured has the full knowledge of the property being insured and the seller is ignorant about it. This is a situation which is opposite of a general purchase contract. In a general purchase contract it is the seller who would have full knowledge and details of the property and not the buyer.

Thus in case of insurance contracts the seller would be dependent upon the buyer to provide complete information about the property. In view of this there is a need of utmost good faith of the insurer on the insured that the later has provided full information of the property.

It could be argued here that the insurer has the option to examine the property. But such examination may not bring forth all facts and especially the history of the property.

ii. Insurance is an intangible product. It cannot be seen or felt. It is simply a promise on the part of the Insurer to make good the loss incurred by the insured if and when it occurs.

Hence, while the insured must disclose all information about the property for which he is seeking insurance. It is also the duty of the Insurance Company not to make any false promises during negotiation.

2.7. Suicide Clause

A Life Insurance policy is rendered void, if the Life Assured commits suicide (whether sane or insane at the time) at any time or after the date on which the risk under the policy has commenced but before the expiry of one year from the date of commencement of the policy.

2.8. Procedure of taking Life Insurance Policy

The procedure for taking out a Life Insurance Policy is as under:

A. Fill a proposal form providing information such as his name, age, occupation, medical history, particulars regarding his health and that of his parents, the amount he wishes to be insured for, the type of policy, the rate and mode of premium and name of the nominee.

B. Submit proof of age (horoscope, passport, adhar card, birth certificate, and baptism certificate for Christians, high school certificate, service book).

C. Obtain an 'Age admission certificate' from the Insurance Company

D. A medical examination by Insurer's-approved doctors. The doctor's report is sent directly to the Insurer. This step is often bypassed for someone very young or if the insured amount is very small.

E. After the medical report, the Insurer’s agent's confidential report is submitted to obtain impartial information about the individual.

F. An assessment of risk is made based on the information obtained. If the life proposed is found insurable, then the Insurer accepts it and sends an acceptance letter along with a premium notice stating the amount of the premium payable and the due date.

G. On and from the date of payment of the first premium, the risk of the Insurer commences on the life proposed and he/she becomes life insured. However, in case of certain policies, the risk commences from a later date. Once the risk commences, Insurer becomes liable to pay the full amount of insurance in the event of happening of the insured event.

H. The signed and stamped original policy documents are dispatched to the individual.

I. Proof of age can be submitted at the time of filling the proposal or anytime till the claim is made though it is normally taken at the time of filling the proposal form.

2.9. Nomination

A. Meaning:

Nomination means nominating a person to receive the benefits of a Life Insurance Policy. The person so nominated is called the Nominee.

The nominee has the right to receive the amount assured in the event of the death of the Insured

The nominee need not necessarily be a relative or a Legal Representative of the assured and can be changed at the choice of the policy holder any number of times.

B. How is Nomination effected:

Nomination can be done at the inception of the policy by providing details of nominee in the proposal form. However, if the nomination is not done at the inception of the policy, the

policyholder can nominate at a later date. This nomination has to be effected by giving notice in a prescribed form to LIC and getting it endorsed on policy bond.

C. Who Can Nominate

Nomination can be done only by a policyholder who is a major holding Policy Bond in his own name.

D. What are rights of a Nominee

Under Nomination, the Nominee gets only the right to receive the policy money in the event of the death of the policyholder. Nomination does not pass on the property in the policy. If nominee dies when the policyholder is still surviving then the nomination would be ineffective. Nomination has no effect if the policyholder is surviving. If Nominee dies after the death of the policyholder but before receiving policy money, then also Nomination becomes ineffective and money can be claimed only by the legal heirs of the policyholder.

E. How can Nomination be cancelled

A nomination can be changed or cancelled either by an endorsement at the back of the policy or by making a will. In the case of change or cancellation by a will, notice of such cancellation or change would be required from the executors of the will after the death of the insured. In case of change or cancellation through endorsement, it should be notified to the LIC for registration in its records

2.10. Summary

- Life Insurance is a financial cover for a contingency or risk linked with human life such as loss of life by death, disability, accident, retirement etc.
- Insurance Industry of India consists of 52 insurance companies of which 24 are in Life Insurance Business and 28 are in non life insurance.
- Among Life Insurers Life Insurance Corporation of India (LIC) is the sole public sector company
- Accordingly there are 23 companies in private sector that carry out Life Insurance Business.
- Life Insurance Corporation has its Central Office in Mumbai & 8 Zonal offices in different parts of the country.
- LIC also has 3 international branches.
- Insurance is generally sold through agents. An insurance agent represents the insurance company.
- There are various types of Life Insurances such as Term Insurance, Whole Life Insurance, Endowment plans, Children Policies, Annuity Plans etc.

2.11. Key Words

- Nomination
- Agent
- Broker
- Bancassurance
- Public Sector
- Private Sector

2.12. Self Assessment Questions

A. Fill up the blanks

a. Life Insurance Corporation of India was established by special _______ of Parliament.

b. There are ________ insurance companies in Private Sector carrying out Life Insurance Business.

c. An insurance agent represents the ____________ Company & Insurance Broker represents the insurance ____________.

d. The method to measure loss due to death of a person would be to assess the same on the basis of ___________ of income in the future years also known as Human Life Value.

e. Life Insurance Policies provide for a ______ amount of money to be paid to the Insurer in the event the Insurer dies during the term of the policy.

Answer Keys : a) Act, b) 23 c) insurance, applicant d) loss e) definite

B. True or False

a. LIC operates in India only & has no international branches.

Correct/ Incorrect

b. A company cannot act as an agent.

Correct/ Incorrect

c. Insurance can also be sold through by Banks

Correct/ Incorrect

d. There are various advantages of Life Insurance apart from risk cover

Correct/ Incorrect

e. Under Term Insurance the insurance amount is paid only if the insured dies during the term of insurance.

Correct/ Incorrect

Answer Key: a) Incorrect b) Incorrect c) Correct d) Correct e) Correct

C. Choose the Correct option

a. A nomination can be changed or cancelled either by ________ at the back of the policy or by making a will.

i. Stamping
ii. Declaration
iii. Endorsement
iv. Coverage

b. The principal of Utmost Good Faith is also known as Principal of _______________ Fides.

i. Alikiza
ii. Uberrima
iii. Genuine
iv. Paramecia

c. Under the principle of Insurable interest the relationship between the insured & the subject matter of insurance must be recognized by _______________

i. Act
ii. Insurance Company
iii. Insured
iv. Law

d. Under nomination the nominee gets the right to receive the policy money in the event of death of the policy holder. Nomination does not pass the ________ in the policy.

i. Leverage
ii. Property
iii. Hierarchy
iv. Legacy

e. The form to be filled up by the applicant desiring to take insurance is called ___________ form.

i. Indemnity
ii. Identity
iii. Proposal
iv. Insurance

Answer Key : a) Endorsement b) Uberrima c) Law d) Property e) Proposal

D. Match the Following

S.No	Section A	Section B
1	Whole Life Insurance	Retirement Benefits
2	Endowment Plan	Application
3	Annuity Plan	Saving Linked Insurance
4	Life Insurance	Through out life
5	Proposal Form	Contract relating to human life

Answer Key

Section A	**Section B**
1	4
2	3
3	1
4	5
5	2

E. Answer briefly :

a. Explain the rights of a nominee.

b. Explain the objectives of selling Life Insurance through agents

c. Explain the constitution of Life Insurance Corporation of India.

F. Answer in detail :

a. Explain different type of Life Insurance Policies

b. Explain the procedure of taking Life Insurance Policy

Learning Objective – Unit III

LOCATION	DURATION-20 HOURS			
INSURANCE OFFICE AND CLASSROOM	**SESSION- 1: Concept of Annuity**			
	Learning Outcome	**Knowledge Evaluation**	**Performance Evaluation**	**Teaching and Training Method**
	After studying this topic the learners would be able to know the meaning of annuity& its usefulness	a. Concept of Annuity	Explain the Concept of Annuity	PPTs
	SESSION 2: Objectives of Annuity			
	After studying this topic the learners would be able to know the objectives of annuity	a. Objective of Annuity	Explain the objectives of Annuity	Classroom teaching
	SESSION 3: Procedure followed for obtaining Annuities			
	After studying this topic the learners would be able to identify the steps to be followed for obtaining an annuity	a. Steps to be followed in taking Annuity Policy	Explain the steps to be taken in taking Annuity Policy	Classroom teaching, PPTs
SESSION 4: Meaning of unit linked Insurance Policies				
	After studying this topic the learners would be able to understand the meaning & essential features of unit linked insurance policies.	a. Essence and Features of ULIP	Explain the essence and features of ULIP	Classroom teaching
	SESSION 5: Procedure for Obtaining Unit Linked Insurance Policies			
	After studying this topic the learners would be able to identify the steps to be followed for obtaining unit linked insurance policies	a. Factors to be considered in selecting Unit Linked Insurance Plans	Explain the factors to be considered in selecting Unit Linked Insurance Plans	Classroom teaching, PPT's

UNIT 3

ANNUITIES AND UNIT LINKED INSURANCE

OBJECTIVES

At the end of this session you will be able to understand:

- Understand the concept and importance of Annuities
- Understand the concept of Unit Linked Insurance Plans
- Difference between ULIP and Traditional Insurance
- Mechanism of ULIP
- Factors for selecting ULIP

STRUCTURE

3.1. Annuities—Meaning
3.2. How does Annuity Work
3.3. Types of Annuities
3.4. ULIP—Concept
3.5. Comparison between ULIP and Traditional Insurance Plans
3.6. Mechanism of ULIP
3.7. Deductions/ Charges of Fund Manager
3.8. Factors for Selecting ULIP
3.9. Summary
3.10. Key Words
3.11. Self Assessment Questions

3.1. Annuities—Meaning

An annuity is an insurance product that pays out regular income. It is often used as part of a retirement portfolio.

In particular, annuities are popular with individuals who want to receive a steady income stream post-retirement

3.2. How does Annuity Work

- The individual begins making a lumpsum investment in the annuity plan
- The annuity then makes payments to the individual on a future date or a series of dates. The period of payment could be monthly, quarterly, annually or even a lumpsum payment.
- The income payout is determined by a number of factors including the tenure of annuity
- The income depends on whether he has opted for a guaranteed payout (fixed annuity) or a payout stream determined by the performance of the annuity's underlying investments (variable annuity)

3.3. Types of Annuities

There are essentially two ways in which the individual receives the annuity payout:

- **Immediate annuity** – he begins to receive payments soon after the initial investment. This is ideal for someone approaching retirement age.
- **Deferred annuity** –it accumulates money as opposed to paying out annuity regularly. Deferred annuity can be converted into immediate annuity based on the individual's preference.

3.4. ULIP-- Concept

Unit linked policy was introduced in the 1960's and is famous in many countries around the world. ULIP is an abbreviation for Unit Linked Insurance Policy.

The unit link policy works both as an insurance cover and an investment option. Accordingly ULIP is a life insurance policy which provides a combination of risk cover and investment. In this type of insurance the policyholder purchases units at their net asset values. Unit linked insurance plans allow for part of the fund for an insurance cover, and the other part of the fund to be invested in any number of qualified investments, such as stock, bonds or mutual funds.

Thus in ULIP the dynamics of the capital market have a direct bearing on the performance of the ULIPs. In a ULIP policy, the investment risk is generally borne by the investor. .

3.5. Comparison between ULIP and Traditional Insurance Plans

The comparison between ULIP and traditional Insurance plans is as follows:

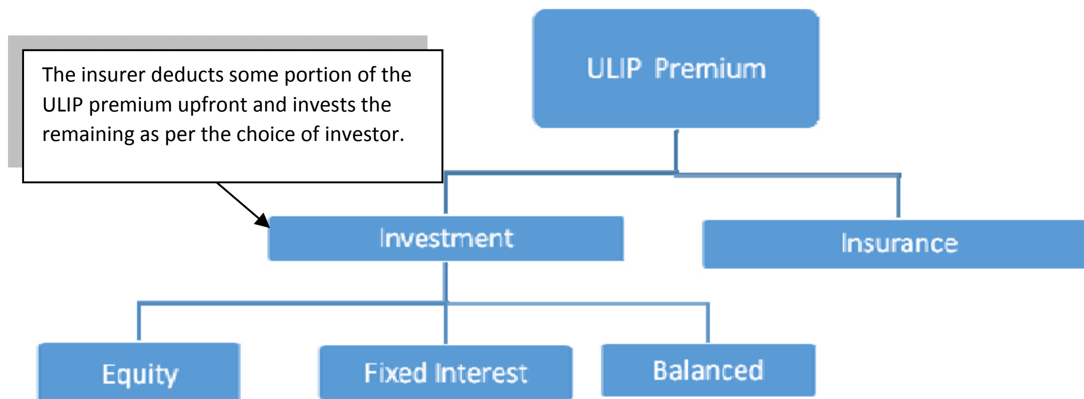
Feature	**ULIP**	**Traditional Insurance Plan**
Choice of Investments	**ULIP** means a "Unit Linked Insurance Plan." It combines the characteristics of a mutual fund and life insurance product. Part of the premium goes into buying life insurance cover while the remaining part of the premium is invested in an asset class (Equity/Debt), based on the choice of the Policy Holder. Asset class investment is made after deduction of known charges.	Traditional Plans do not provide any option to the Policy Holder to choose between various asset classes and the investments are made solely at the discretion of the insurance company.

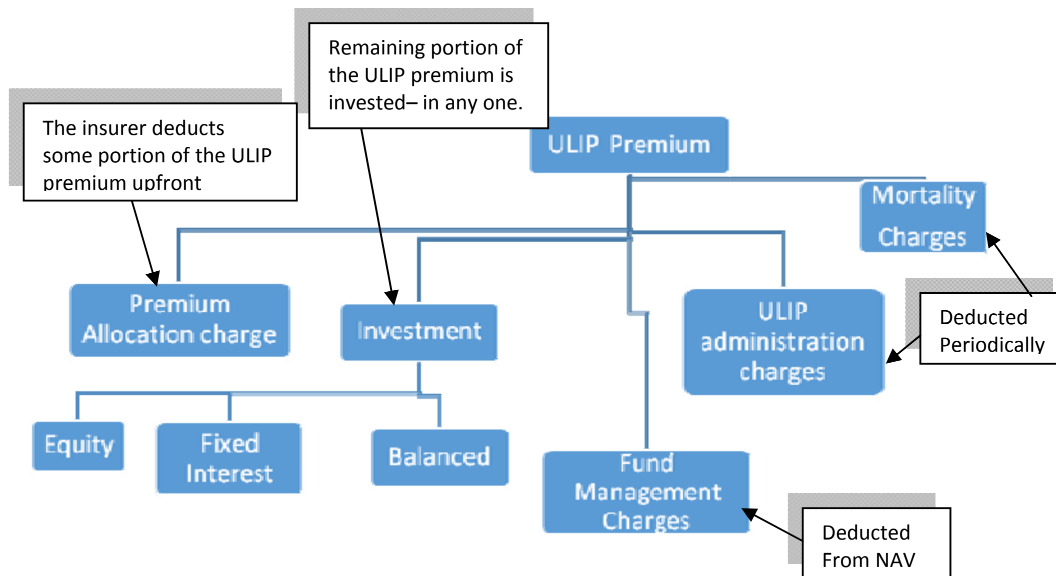
Flexibility	The policyholder can also switch the units between the available funds in a unit-linked life insurance product based on prevailing market conditions	Such option is not available in traditional insurance plans
Transparency	In a unit-linked life insurance product, before investing an individual should know the various charges upfront. The amount after deduction of applicable charges called “Residual Amount” is finally invested in the fund chosen by the policyholder. Also, the current investment value of the funds invested is readily available to the policyholders in form of Net Asset Value (NAV), as this is declared regularly by an insurance company	In traditional plans, the policyholder is completely unaware about the class of assets in which funds are invested
Risk	Risk entirely on Policy Holder	Considered to be risk free

3.6. Mechanism of ULIP

It is significant that we understand how our money gets invested once we purchase a ULIP– ULIP as we know is a market linked insurance plan. In a ULIP, the premium amount after deduction of charges is invested into different funds. The insurer will assess the age, health and income of the investor. The insurer also takes into consideration the needs of the investor in terms of depends and life style and the type of risk the investor is ready to take in terms of investments before suggesting the type of ULIP to invest in. In ULIP there are options to select from Equity funds, Debt funds or fixed interest funds, balanced funds, etc. Once this is decided the contract is signed.

Then the amount of premium to be paid is decided and the amount of life cover wanted from the ULIP is decided, the insurer deducts some portion of the ULIP premium upfront. This portion is known as the Premium Allocation charge, and this charge varies from product to product. The rest of the premium is invested in the fund or mixture of funds chosen by you. Mortality charges and ULIP administration charges are later deducted on a periodic basis - mostly monthly by cancellation of units, whereas the ULIP fund management charges are adjusted from NAV on a daily basis.





The investment is denoted as units and is represented by the value that it has attained called as Net Asset Value (NAV). The policy value at any time varies according to the value of the original assets at that time.

Since the fund of your choice has an original investment – either in equity or debt or a combination of the two – your fund value (the investment) will reflect the performance of the original asset classes.

On the death of the insured the sum insured or the market value of the investment (fund value), whichever is higher, is paid. On maturity of the plan the fund value is payable.

3.7. Deductions/ Charges of Fund Manager

The charges that are debited under ULIP are as follows:

- Premium Allocation Charge
- Fund Management Charge
- Mortality Charge
- Policy Administration Charge
- Surrender/ Discontinuance Charge
- Redirection Charge
- Partial withdrawal charge
-

3.8. Factors for Selecting ULIP

There are a wide range of ULIPs that are available and it becomes very difficult to make the right choice in selecting ULIP. Some of the factors that should be considered in selecting ULIP are as follows:

A. Understanding the Concept of ULIP

One should understand the concept of ULIP thoroughly. Read all literature, material available on web sites and brouchers circulated by Insurance Company and try to understand the constraints and benefits of the plan that you are selecting.

B. Focus on your requirements and risk profile

Understand all the charges levied on the product over its tenure, not just the initial charges. A complete charge structure would include the initial charges, the fixed administrative charges, fund management charges and mortality charges.

C. Examine the performance of the plan

Compare the performance of the plan with benchmark indices like BSE Sensex or Nifty in the past two or three years to get a better idea about the performance. Ensure that you can easily get information about your NAV when you need it. Thoroughly understand the flexibility and redemption conditions of an ULIP.

D. Compare ULIP Products of different Insurance Companies

Compare products of different insurance companies in terms of premium payments, cost structure, performance of the scheme (equity as well as debt schemes), additional facilities such as top-up premium and free switch between different fund options, flexibility in terms of increasing or decreasing protection, reporting structure and flexibility in redemption.

E. Know about the Insurance Company

Last but not least, insure with a brand you can trust to honor its commitment and service in accordance to your requirements

3.9. Summary

- An annuity is an insurance product that pays out regular income.
- Annuity is often used as a part of investment portfolio.
- Under annuity an individual begins by making a lump sum investment in an annuity plan. The annuity then makes payment to an individual on a future date or series of dates.
- There are two types of annuities viz. immediate Annuity & deferred annuity.
- Unit Linked Policy was introduced in the year 1960. This type of policy works both as an insurance & an investment plan.

3.10. Key Words

- Annuity
- Retirement Portfolio
- Immediate Annuity
- Deferred Annuity
- Unit Linked Policy
- Net Asset Value (NAV)

3.11. Self Assessment Questions

A. Fill up the Blanks

a. Annuities are popular with individuals who want to receive a steady income stream post ________

b. An individual begins an annuity by making ___________ investment in an annuity plan.

c. The insurance policy which provides a combination of risk cover & investment is called ___________
d. In ULIP the premium amount after deduction of ______________ is invested in different funds.
e. The investment is ULIP is denoted in __________

Answer key: a) retirement b) lump sum c) ULIP d) charges e) units.

B. True or False

a. An annuity is an insurance product in which lump sum payment is received by the insured at the end of the term of the annuity policy.

Correct/ Incorrect

b. Under ULIP a part of the funds are invested in a number of qualified investments such as stocks, bonds or mutual funds.

Correct/ Incorrect

c. Traditional Insurance plans do not provide any option to the Policy Holder to choose between various asset classes.

Correct/ Incorrect

d. ULIP is risk free & there is no risk on the policy holder.

Correct/ Incorrect

e. Under ULIP the value of the policy varies according to the value of the original asset at that time.

Correct/ Incorrect

Answer key: a) Incorrect b) Correct c) Correct d) Incorrect e) Correct

C. Match the following:

S.No	Section A	Section B
1	Premium Allocation Charge	Risk Free
2	Investment	Deferred Annuity
3	Traditional Insurance Plan	Deduction
4	Accumulation	NAV
5	Net Asst Value	ULIP

Answer Key:

Section A	Section B
1	3
2	5
3	1
4	2
5	4

D.Choose the correct option

a. In annuity plans the income payout is determined by a number of factors including the _________ of annuity.
   i. Expiry
   ii. Determination
   iii. Termination
   iv. Tenure

b. In annuity the income depends upon whether the insurer has opted for ________ annuity or ________ annuity
   i. Static, Flexible
   ii. Periodic, Flexible
   iii. Fixed, Variable
   iv. Underestimated, Overestimated

c. In ULIP the dynamics of _______ markets have a direct bearing on the performance of ULIP
   i. Money
   ii. Trading
   iii. Capital
   iv. Manufacturing

d. ULIP is worked out on the basis of age , ________ and income of the investor.
   i. Assets
   ii. Wealth
   iii. Liabilities
   iv. Health

e. In ULIP there are options to select from Equity Funds, Debt Funds, __________ funds etc.

i. Transitional

ii. Traditional

iii. Balanced

iv. Periodic

Answer Key : a) Tenure b) Fixed, Variable c) Capital d) Health e) Balanced

E. Answer in Brief

a. Explain how annuity works.

b. Explain the two types of annuities

c. Draw a comparative statement between ULIP & Traditional Insurance Plan.

F. Answer in detail

a) Explain the mechanism of ULIP

b) Enumerate the factors to be considered in selecting ULIP

Learning Objective – Unit IV

LOCATION	DURATION-20 HOURS			
INSURANCE OFFICE AND CLASSROOM	**SESSION- 1: Lapse of the Policy due to Non-Payment of Premium**			
	Learning Outcome	**Knowledge Evaluation**	**Performance Evaluation**	**Teaching and Training Method**
	After studying this topic the learners would be able to know the consequences of non – payment of premium	Consequences of Non payment of premium	Explain the consequences of non-payment of premium	Classroom teaching
	SESSION 2: Revival of the Lapsed Policies			
	After studying this topic the learners would be able to know the procedure for revival of lapsed polices	Circumstances in which lapsed policies can be revived	Explain the process of revival of Lapsed Policies	Classroom teaching
	SESSION 3: Surrender of the Policy – Payment of surrender value			
	After studying this topic the learners would be able to know the procedure for surrender of polices	1. Concept of Surrender of Policies 2. Process of Surrender of Policies	1. Explain the concept of Surrender of Policies. 2. Explain the process of surrender of policies	Classroom teaching
SESSION 4: Assignment of the Policies				
	After studying this topic the learners would be able to know the procedure for assignment of polices	1. Concept of assignment of Policies 2. Procedure of Assignment of Policies	1. Explain the concept of Surrender of Policies. 2. Explain the process of surrender of policies.	Classroom teaching
	SESSION 5: Assignment of the Policies			
	After studying this topic the learners would be able to know the procedure for assignment of polices	1. Concept of assignment of Policies 2. Procedure of Assignment of Policies	1. Explain the concept of assignment of Policies 2. Explain the procedure of assignment of Policies	Classroom teaching,

UNIT 4

POST ISSUE MATTERS

OBJECTIVES

At the end of this session you will be able to understand:

- Lapse of Policy
- Revival of Lapsed Policy
- Surrender Value of Policy
- Assignment of Policy
- Procedure of Claim under Life Insurance Policies

STRUCTURE

4.1. Lapse of Policy
4.2. Revival of Lapsed Policy
4.3. Surrender Value of Policy
4.4. Assignment of Life Insurance Policies
4.5. Procedure of Settling Claims
4.6. Summary
4.7. Key Words
4.8. Self Assessment Questions

4.1. Lapse of Policy

In case of Regular/ Limited premium policies the premium is payable by the policyholder at regular intervals during the premium paying term. The premium payment term and frequency is shown on the policy certificate.

The company allows a grace period of 30 days for quarterly, half yearly and yearly frequency and 15 days for monthly frequency. A regular/ limited premium policy lapses if the premium is not paid on the due date and during the grace period. If a policy is not in the premium holiday period it is necessary to pay premium on the due date or during the grace period.

Depending on the terms and conditions mentioned in the policy document, life cover and other benefits payable under the policy cease or are reduced once the policy is lapsed/ paid up, however, the policyholder will continue to have the benefit of investment in the respective unit funds.

4.2. Revival of Lapsed Policy

If the policy has lapsed due to non-payment of premiums within the due date, the terms and conditions of the policy contract are rendered void, till the policy is revived..

A lapsed policy has to be revived by payment of the accumulated premiums with interest as well as giving the health requirements as required. Various types of revivals are as follows:

A. Ordinary Revival

If the revival of the policy is effected within 6 months from the due of the first unpaid premium no personal statement of health is required and the policy is revived on collection of delayed premium along with interest.

B. Revival on Non medical basis

For revival of the policy on Non medical basis the amount to be revived should not exceed the prescribed limit of non medical assurance taken by the life assured.

C. Revival on medical basis

If a policy cannot be revived under ordinary revival on non medical basis it can be revived with medical requirements. The medical requirements will depend on the amount to be revived.

4.3. Surrender Value of Policy

Surrender Value is the amount payable to the policyholder by the Insurer, if he/she decides to exit the policy before maturity period. In case of Life Insurance Corporation of India Surrender value is payable to the policyholder only after 3 full years premiums are paid to the insurance company

Guaranteed Surrender Value is the amount guaranteed by the insurance company to the policyholder in case of termination of the policy before maturity

4.4. Assignment of Life Insurance Policies

A. Meaning of Assignment of Policies

Assignment is a means whereby the beneficial interest, right and title under a policy get transferred from the assignor to the assignee. Assignor is the policyholder who transfers the title and 'Assignee is the person who derives the title from the assignor.

B. When can assignment be made

Assignment can be made only after acquiring the policy. Assignment can be done only for consideration- for money or money's worth or good, moral and meritorious consideration like, love and affection

C. How is the Policy assigned

Assignment can be done by mere endorsement on the policy or by a separate duly stamped deed. Assignment can be done by the proposer, policyholder, or the absolute assignee

D. What are the essential features of assignment

Assignment can be done by mere endorsement on the policy or by separate duly stamped deed. Assignment can be done by the proposer, policyholder, or the absolute assignee

E. What are the essential features of assignment

- The person assigning the policy must have absolute right or interest vesting in him in respect of the policy.
- The assignor must be a major and competent to enter into a contract.
- The assignor must not be subject to any legal disqualification.
- Assignment must be supported by consideration which may be a valuable consideration in money or a good and moral consideration (love and affection one may have towards his spouse or children).
- A life insurance policy from LIC may be assigned only after a period of five years.

4.5. Procedure of Settling Claims

The settlement of claims is a very important aspect of service to the policyholders. Hence, the Corporation has laid great emphasis on expeditious settlement of Maturity as well as Death Claims.

The procedure for settlement of maturity and death claims is detailed below :

A. Maturity Claims:

a. In case of Endowment type of Policies, amount is payable at the end of the policy period. The Branch Office which services the policy sends out a letter informing the date on which the policy monies are payable to the policyholder at least two months before the due date of payment. The policyholder is requested to return the Discharge Form duly completed along with the Policy Document. On receipt of these two documents post dated cheque is sent by post so as to reach the policy holder before the due date

b. Some Plans like Money Back Policies provide for periodical payments to the policyholders provided premium due under the policies are paid up to the anniversary due for Survival Benefit. In these cases where amount payable is less than up to Rs.60,000/-, cheques are released without calling for the Discharge Receipt or Policy Document. However, in case of higher amounts these two requirements are insisted upon.

B. Death Claims

The death claim amount is payable in case of policies where premiums are paid up-to-date or where the death occurs within the days of grace. On receipt of intimation of death of the Life Assured the Branch Office calls for the following requirements:

Claim form A – Claimant's Statement giving details of the deceased and the claimant.

- Certified extract from Death Register (Death Certificate)
- Documentary proof of age if age is not admitted.
- Evidence of the title of the deceased life if the policy is not nominated or assigned.
- Original Policy Document.

The following additional forms are called for if death occurs within three years from the date of risk or from date of revival/reinstatement.

Claim Form B – Medical Attendant's Certificate to be completed by the Medical Attendant of the deceased during his/her last illness

Claim Form B1 – if the life assured received treatment in a hospital

Claim form B2 – to be completed by the Medical Attendant who treated the deceased life assured prior to his last illness.

Claim Form C – Certificate of Identity and burial or cremation to be completed and signed by a person of known character and responsibility

Claim form E – Certificate by Employer if the assured was employed person.

Certified copies of the First Information Report, the Post-mortem report and Police Investigation Report if death was due to accident or unnatural cause

These additional forms are required to satisfy the Insured on the genuineness of the claim, i.e., no material information that would have affected our acceptance of proposal has been withheld by the decease at the time of proposal.

Glossary

Accident - An unforeseen, unintended event.

Agent - A person who sells insurance policies.

Annuitant - A person who receives the payments from an annuity during his or her lifetime.

Annuity - A contract in which the buyer deposits money with a life insurance company for investment. The contract provides for specific payments to be made at regular intervals for a fixed period or for life.

Annuity certain - An annuity that provides a benefit amount payable for a specified period of time regardless of whether the annuitant lives or dies.

Annuity period - The time span between the benefit payments made under an annuity contract.

Application - A form to be filled out with personal information that an insurance company will use to decide whether to issue a policy and how much to charge

Beneficiary - The person, people, or entity designated to receive the death benefits from a life insurance policy or annuity contract.

Cancellation - Termination of an insurance policy by the company or insured before the renewal date.

Cash surrender option - Nonforfeiture option that specifies the policy owner can cancel the coverage and receive the entire net cash value in a lump sum.

Cash value - The amount of money the life insurance policy owner will receive as a refund if the policy owner cancels the coverage and returns the policy to the company. Also called "cash surrender value."

Certificates of coverage - Printed material showing members of a group health benefit plan the benefits provided by the group master policy.

Churning - This can occur when an agent persuades a consumer to borrow against an existing life insurance policy to pay the premium on a new one.

Claim - A policyholder's request for reimbursement from an insurance company under a home insurance policy for a loss to property.

Claimant - A person who makes an insurance claim.

Complaint - A written communication primarily expressing a grievance against an insurance company or agent.

Complaint history - Information collected or maintained by the Texas Department of Insurance (TDI) relating to the number of complaints received against a particular insurer, agent, or premium finance company and the disposition of the complaints.

Comprehensive coverage (physical damage other than collision) - Pays for damage to or loss of your automobile from causes other than accidents. These include hail, vandalism, flood, fire, and theft.

Conditional receipt - A premium receipt given to an applicant that makes a life and health insurance policy effective only if or when a specified condition is met.

Contestable period - A period of up to two years during which a life insurance company may deny payment of a claim because of suicide or a material misrepresentation on an application.

Contingent beneficiary - Another party or parties who will receive the life insurance proceeds if the primary beneficiary should predecease the person whose life is insured.

Contract - In most cases, an insurance policy. A policy is considered to be a contract between the insurance company and the policyholder.

Conversion privilege - The right to change (convert) insurance coverage from one type of policy to another. For example the right to change from an individual term insurance policy to an individual whole life insurance policy

Death benefit - Amount paid to the beneficiary upon the death of the insured.

Deferred annuity - An annuity under which the annuity payment period is scheduled to begin at some future date.

Declarations page - The page in a policy that shows the name and address of the insurer, the period of time a policy is in force, the amount of the premium, and the amount of coverage.

Effective date - The date on which an insurance policy becomes effective.

Expiration date - The date on which an insurance policy expires.

Extended term insurance option - A policy provision that provides the option of continuing the existing amount of insurance as term insurance for as long a period of time as the contract's cash value will purchase.

Grace period(s) - The time - usually 31 days - during which a policy remains in force after the premium is due but not paid. The policy lapses as of the day the premium was originally due unless the premium is paid before the end of the 31 days or the insured dies.

Grievance procedure - The required appeal process an HMO provides for you to protest a decision regarding medical necessity or claim payment. Insurance companies also may have grievance procedures.

Indemnity plan - A health plan that allows you to go to any physician or provider you choose, but requires that you pay for the services yourself and file claims for reimbursement. (Also known as fee-for-service.)

Insurable interest - Any financial interest a person has in the property or person insured. In life insurance, a person´s or party´s interest - financial or emotional - in the continuing life of the insured.

Insured - The person or organization covered by an insurance policy.

Insurer - The insurance company.

Lapse - The termination of an insurance policy because a renewal premium is not paid by the end of the grace period.

Liability - Responsibility to another for one´s negligence that results in injury or damage.

Loss - The amount an insurance company pays on a claim.

Paid-up - This event occurs when a life insurance policy will not require any further premiums to keep the coverage in force.

Paid-up additions - Additional amounts of life insurance purchased using dividends; these insurance amounts require no further premium payments.

Peril - A specific risk or cause of loss covered by a property insurance policy, such as a fire, windstorm, flood, or theft. A named-peril policy covers the policyholder only for the risks named in the policy. An all-risk policy covers all causes of loss except those specifically excluded.

Personal property - All tangible property (other than land) that is either temporary or movable in some way, such as furniture, jewelry, electronics, etc.

Policy - The contract issued by the insurance company to the insured.

Policy loan - An advance made by a life insurance company to a policy owner. The advance is secured by the cash value of the policy.

Policy owner - The person or party who owns an individual insurance policy. This person may be the insured, the beneficiary, or another person. The policy owner usually is the one who pays the premium and is the only person who may make changes to a policy.

Policy period - The period a policy is in force, from the beginning or effective date to the expiration date.

Premium - The amount paid by an insured to an insurance company to obtain or maintain an insurance policy.

Premium load - An amount deducted from each life insurance premium payment, which reduces the amount credited to the policy.

Rated policy - A policy issued at a higher premium to cover a person classified as a greater-than-average risk, usually due to impaired health or a dangerous occupation.

Refund - An amount of money returned to the policyholder for overpayment of premium or if the policyholder is due unearned premium.

Reinstatement - The process by which a life insurance company puts a policy back in force after it lapsed because of nonpayment of renewal premiums.

Renewal - Continuation of a policy after its expiration date.

Underwriter - The person who reviews an application for insurance and decides if the applicant is acceptable and at what premium rate.

Underwriting - The process an insurance company uses to decide whether to accept or reject an application for a policy.

4.6. Summary

- In case of regular/limited premium policies the premium is payable by the policy holder at regular intervals during the premium paying terms.
- Such policy lapses if the premium is not paid on due date & during the grace period.
- Depending on the terms and conditions mentioned in the policy document, life cover & other benefits payable under the policy cease or are reduced on the lapse of the same.
- A lapsed policy can be revived by payment of accumulated premium with interest as well as giving the health requirement as required.
- Surrender value is the amount payable to the policyholder by the Insurer if he/she decides to exit the policy before maturity.
- Assignment is a means whereby the beneficial interest, right and title under the policy gets transferred from the assignor to the assignee.

4.7. Key Words

- Lapse
- Revival
- Non payment of premium
- Surrender Value
- Assignment
- Claims

4.8. Self Assessment Questions Fill up the Blanks

A. Fill up the Blanks

a. The insurance company allows a grace period of ______ days for quarterly, half yearly & yearly frequency premium.

b. In case of ordinary revival of lapsed policy no personal _______ statement is required.

c. In case of Life Insurance Corporation of India surrender value is payable to the policy holder only after ______ full years premiums are paid to the insurance company.
d. Assignment of insurance policy can be done by mere endorsement on the policy or by duly _________ deed.
e. Claim Form B2 is to be completed by _________ attendant who treated the deceased life assured prior to his last illness.

Answer keys : a) 30 b) health c) 3 d) stamped e) medical

B. True or False

a. In case of Life Insurance Policy the grace period allowed for payment of premium in case of monthly frequency premium is 25 days.

Correct/ Incorrect

b. A Lapsed policy can be revived by paying outstanding premium only & no other amount has to be paid.

Correct/ Incorrect

c. If a Life Insurance Policy has lapsed due to non payment of premium within the due date the terms & conditions of the policy contract are rendered void till the policy is revived.

Correct/ Incorrect

d. Guaranteed Surrender Value is the amount guaranteed by the Insurance Company to the policy holder in case of termination of policy before maturity.

Correct/ Incorrect

e. The person who transfers the title in the policy is called ‘ Assignee’

Correct/ Incorrect

Answer key: a) Incorrect b) Incorrect c) Correct d) Correct e) Incorrect

C. Match the following

S.No	Section A	Section B
1	Surrender Value	Transfer of Property
2	Non Payment of Premium	Death Certificate
3	Assignment	Amount paid to beneficiary on death
4	Extract from death register	Termination
5	Death Benefit	Lapse

Answer key

Section A	Section B
1	4
2	5
3	1
4	2
5	3

D. Choose the correct option

a. **T**he process an insurance company uses to decide whether to accept or reject an application for insurance is called _______

i. Processing
ii. Approval
iii. Underwriting
iv. Sanction

b. The process by which a Life Insurance Company puts a policy back in force after it has lapsed because of non payment of premiums is called ________

i. Reimbursement
ii. Refurbishment
iii. Reinstatement
iv. Relife

c. The policy that is issued at a higher premium to cover a person classified as a greater than average risk, usually due to impaired health as a dangerous occupation is called ___________

i. Risky Policy
ii. Rated Policy
iii. Premium Policy
iv. Pre Calculated Policy

d. The contract issued by the insurance company to the insured is called ______

i. Agreement
ii. Policy
iii. Arrangement
iv. Insurance Document

e. An advance made by life insurance company to the insured is called __________

i. Debt
ii. Policy Loan

iii. Credit Facility
iv. Credit Loan

Answer Key : a) Underwriting b) Reinstatement c) Rated Policy d) Policy e) Policy Loan.

E. Answer in Brief

a. Explain the meaning and process of assignment of life insurance policies
b. Explain the term Surrender Value of Poliy.

F. Answer in detail

a) Explain the manner in which Lapsed Policy may be revived
b) Explain the procedure of settlement of claims under Life Insurance Policies