Chapter 1: Introduction to Insurance

The origins of modern commercial insurance business as practiced today can be traced to Lloyd's Coffee House in London.

In 1912, the **Life Insurance Companies Act** and the **Provident Fund Act** were passed to regulate the insurance business. This Act made it compulsory that premium-rate tables and periodical valuation of companies be certified by an actuary.

The Insurance **Act 1938** was the first legislation enacted to regulate the conduct of Insurance business in India. This Act continues to be in force.

Nationalisation of life insurance: Life insurance business was nationalised on 1st September 1956 and the **Life Insurance Corporation of India (LIC)** was formed.
Nationalisation of non-life insurance: In 1972, the non-life insurance business was also nationalised and the **General Insurance Corporation of India (GIC) and its four subsidiaries** were set up.

Malhotra Committee and IRDA: In 1993, the Malhotra Committee was setup to explore and recommend changes for development of the industry including the reintroduction of an element of competition.

Insurance Regulatory and Development Authority (IRDA) was set up in April 2000 as a statutory regulatory body both for life and non-life insurance industry.

Currently, there are 24 life insurance companies – LIC and 23 private life insurance companies operating in India.

The **ASSET** may be **physical** (like a car or a building) or **non-physical** (like name and goodwill) or **personal** (like one's eyes, limbs and other aspects of one's body).

Risk: The chance of loss or damage to the asset is called as **risk**.
Peril: The cause of the risk event is known as **peril**.

Burden of risk refers to the costs, losses and disabilities one has to bear as a result of being exposed to a given loss situation/event.

Primary burden of risk consists of losses that are actually suffered by households (and business units), as a result of pure risk events. These losses are often direct and measurable and can be easily compensated for by insurance. Fire in a factory and loss of goods can be estimated.

Secondary burden of risk consists of costs and strains that one has to bear merely from the fact that one is exposed to a loss situation. Even if the said event does not occur, these burdens have still to be borne.

The need for setting aside reserves as a provision for potential losses in the future is a secondary burden of risk. **Insurance is a method of risk transfer.**

How to handle secondary burden of risks: Set aside a reserve fund to meet such an eventuality. - Transfer the risks to Insurance Company. Insurance is only one of the methods by which individuals may seek to manage their risks.

Risk avoidance: One may not venture outside the house for fear of meeting with an accident or may not travel at all for fear of falling ill when abroad.

Risk retention: One tries to manage the impact of risk and decides to bear the risk and its effects by oneself. This is known as self-insurance.

The measures to reduce chance of occurrence are known as '**Loss Prevention**'. The measures to reduce degree of loss are called as **Loss reduction.**

Risk retention through self-financing involves self-payment for any losses as they occur.

Risk transfer is an alternative to risk retention. Risk transfer involves transferring the responsibility for losses to another party.

Insurance Vs Assurance: Insurance refers to protection that **might** happen whereas Assurance refers to protection against an event that **will** happen.

Pooling refers to collecting numerous individual contributions (known as premiums) from various persons. These persons have similar assets which are exposed to similar risks. This pool of funds is used to compensate the few who might suffer the losses as caused by a **peril**.

Insurance may be considered as a process by which the losses of a few, who are unfortunate to suffer such losses, are shared amongst those exposed to similar uncertain events / situations. Insurance is a method of sharing the losses of **a 'few' by 'many'.**

There are 400 houses in a village, each valued at Rs. 20,000

Every summer, there are fire accidents. On an average, four houses get burnt

The occurrence of the fire accidents works out to 1% of the value of the houses

The total loss due to the fire accidents comes to Rs. 80,000

All the 400 owners come together and contribute Rs. 200 each. The common fund pooled is Rs. 80,000

This amount of Rs. 80,000 is sufficient to compensate the loss to the extent of Rs. 20,000 each to the four affected house owners.

The cost of risk would increase in direct proportion with both probability and amount of loss.

Insurance Regulatory and Development Authority is the regulator for the insurance industry in India.

Before acceptance of a risk, insurers arrange survey and inspection of the property to assess the risk for rating purposes.

Chapter 2 : What Life Insurance Involves

The elements of life insurance business include asset, risk, principle of mutuality and the life insurance contract.

Prof. Hubener devised the concept of Human Life Value (HLV).The **HLV concept** considers human life as a kind of property or asset that earns an income. It measures the value of human life based on an individual's expected net future earnings.

Net earnings means income a person expects to earn each year in the future, less the amount he would spend on self. It thus indicates the economic loss a family would suffer if the wage earner were to die prematurely. These earnings are capitalised, using an appropriate interest rate to discount them.

Thumb rule to measure HLV: Divide the annual income a family would like to have, even if the bread earner was no longer alive, with the rate of interest that can be earned.

Example: Mr. Rajan earns Rs. 1,20,000 a year and spends Rs. 24,000 on himself. The net earnings his family would lose, were he to die prematurely, would be Rs. 96,000 per year. Suppose the rate of interest is 8% (expressed as 0.08). HLV = 96000/0.08 = 12,00,000

Typical Risks faced by people are: dying too early, Living with disability, Living too long.

General Insurance Policies are usually **contracts of indemnity.** Indemnity means that after the occurrence of an event like fire, the insurer can assess the exact amount of loss and pays compensation only to the amount of loss. No more or no less.

Life Insurance contracts are known as Life Assurance Contracts. The amount of benefit to be paid in the event of death has to be fixed at the beginning itself. An assured sum is paid to the nominees of the insured when he dies.

In General insurance contracts, the risk event protected against is uncertain. In Life insurance, the risk event protected, i.e. death is certain, but the time of death is uncertain. Thus it provides protection against the risk of premature death.

In general insurance, the probability of happening of the event does not increase with time. In life insurance the probability of happening of the event (death) increases with age.

Mortality is related to age and hence young people who are less likely to die are charged lower premiums as compared to old people.

The **level premium** is a premium fixed such that it does not increase with age but remains constant throughout the contract period.

This means that premiums collected in early years would be more than the amount needed to cover death claims of those dying at these ages, while premiums collected in later years would be less than what is needed to meet claims of those dying at the higher ages. The level premium is an average of both. This means that the excess premiums of earlier ages compensate for the deficit of premiums in later ages.
Reserve: The Premiums collected in early years of the contract are held in trust by the insurance company for the benefit of its policyholders is called Reserves. An insurance company keeps this reserve to meet the future obligations of the insurer.

Life Fund: The excess amount also creates a fund known as the "Life Fund". Life insurers invest this fund and earn an interest.

The **level premium** has two components. (1) **term or protection component**, premium needed to pay the cost of risk (2) **cash value element** that constitutes the saving element.

Two ways to reduce risk in financial markets: **Mutuality and diversification**.

Diversification	**Mutuality**
Funds are spread out among various assets. Placing eggs in different baskets.	Funds of various individuals are combined (Placing all eggs in one basket.
Funds flow from one source to many destinations.	Funds flow from many sources to one.

Life insurance contracts involve both risk cover and a savings element. This makes it a financial product like other products in the financial market. Life insurance in fact has been less a protection product and more a way of holding wealth.

Term insurance does not have a savings element associated with it.

Chapter 3: Legal Principles of Insurance

A contract is an agreement between parties, enforceable at law. The provisions of the Indian Contract Act, 1872 govern all contracts in India, including insurance contracts.

An insurance policy is a contract entered into between two parties, viz., the company, called the **insurer**, and the policy holder, called the **insured** and fulfils the requirements enshrined in the Indian Contract Act, 1872.
The elements of a valid contract are:

Offer and Acceptance	There must be an agreement based on a lawful offer made by person to another and lawful acceptance of that offer made by the latter.
Consideration	Consideration means "something in return" (quid pro quo). It can be cash, kind, an act or abstinence. It can be past, present or future.
Capacity to Contract	Consideration means "something in return" (*quid pro quo*). It can be cash, kind, an act or abstinence. It can be past, present or future.
Legality of Purpose	The object of the agreement must not be illegal or unlawful.
Consensus *ad idem*	Both parties to the contract should have same understanding of the transaction.
Free Consent	There should be free consent without any coercion or influence while entering into a contract.

Coercion involves pressure applied through criminal means.

Undue influence - When a person who is able to dominate the will of another, uses her position to obtain an undue advantage over the other.

Insurance Contracts – Special Principles

Life insurance is a contract under the Indian Contract Act, 1872. Apart from the essential elements of a contract, insurance contracts also abide by special principles mentioned herein.

Principle of Utmost good faith: "A positive duty voluntarily to disclose, accurately and fully, all facts material to the risk being proposed, whether requested or not."

Example: David made a proposal for a life insurance policy. At the time of applying for the policy, David was suffering from and under treatment for Diabetes. But David did not disclose this fact to the life insurance company. David was in his thirties, so the life insurance company issued the policy without asking David to undergo a medical test. Few years down the line, David's health deteriorated and he had to be hospitalised. David could not recover and died in the next few days. A claim was raised on the life insurance company. Hence the insurance contract was declared null and void and the claim was rejected.

Material fact has been defined as a fact that would affect the judgment of an insurance underwriter in deciding whether to accept the risk and if so, the rate of premium and the terms and conditions.

Examples of material information: Own medical history, family history of hereditary illnesses, habits like smoking and drinking, absence from work, age, hobbies, financial information like income details of proposer, pre-existing life insurance policies, occupation etc. If utmost good faith is not observed by either party, the contract may be avoided by the other.

Duty of disclosure: In the case of life insurance contracts, the duty to disclose is present throughout the entire period of negotiation until the proposal is accepted and a policy is issued.

If the policy is in a lapsed condition and the policy holder seeks to revive the policy contract, at the time of such revival, he has to disclose all facts that are material and relevant, as though it is a new policy.

Once the policy is accepted, there is no further need to disclose any material facts that may come up during the term of the policy.

Non-Disclosure may arise when the insured is silent in general about material facts because the insurer has not raised any specific enquiry. It may also arise through evasive answers to queries raised by the insurer.
Misrepresentation is of two kinds: **Innocent Misrepresentation** relates to inaccurate statements, which are made without any fraudulent intention. **Fraudulent Misrepresentation** refers to false statements that are made with deliberate intent to deceive the insurer or are made recklessly without due regard for truth.

Principle of Insurable Interest: Insurable Interests is the Basis of Contract.

The existence of 'insurable interest' is an essential ingredient of every insurance contract and is considered as the legal pre-requisite for insurance.

Subject matter of insurance relates to property being insured against, which has an intrinsic value of its own.

Subject matter of an insurance contract is the insured's financial interest in that property. It is only when the insured has such an interest in the property that he has the legal right to insure. The insurance policy in the strictest sense covers not the property per se, but the insured's financial interest in the property.

In gambling, one could win or lose; but in a fire one can have only one consequence – loss to the owner of the house.

Insurable Interest according to common law: Self, husband, wife, children and assets.

In life insurance, insurable interest should be present at the time of taking the policy.

In general insurance, insurable interest should be present both at the time of taking the policy and at the time of claim.

It also exists between the following people on the basis of contract: Employer – Employee, Credit – Debtor, partner & surety.

Proximate cause is defined as the active and efficient cause that sets in motion a chain of events which brings about a result, without the intervention of any force started and working actively from a new and independent source.

Applicability of proximate cause in life insurance contracts:

Since life insurance provides for payment of a death benefit, regardless of the cause of death, the principle of proximate cause would not apply. In cases of life insurance contracts with accident benefit rider, it becomes necessary to ascertain the cause - whether the death occurred as a result of an accident. The principle of proximate cause would become applicable in such instances.

Indemnity and Life Insurance: Life insurance works on the concept of "**Sum assured**" and not on the "**Principle of indemnity".** It is applicable only to General Insurance contracts.

Chapter 4: Financial Planning

Financial planning is:

- a process of identifying one's life's goals, translating these identified goals into financial goals and managing one's finances in ways that will help one to achieve those goals.
- It involves assessing one's net worth, estimating future financial needs, and working towards meeting those needs through proper management of finances.
- Financial planning takes into account one's current and future needs, one's individual risk profile and one's income to chart out a roadmap to meet these anticipated needs.

Individual's goals may be: S**hort term**: (Buying an LCD TV) or **medium term** (Buying a house) pr **long term** (Education or marriage of one's child or post retirement provision).

Life Stages

Stage	Economic State	Role	Priorities
Learner [20 -25]	Child/student	Enhancing knowledge and skills	Meeting the high costs of education
Earner [25 onwards)	Young, unmarried	Employed	Asset creation and taking care of dependent parents
Partner [marriage at 28 - 30)	Young, married	Married (wife employed or housewife)	Building up family – building up assets and buying consumer durables for the family
Parent [28 to 35]	Married with young children	Having one or more children	Taking care of children's education and their health
Provider [35 to 55]	Married with growing children	Children as teenagers	Investing in children's higher education
Empty Nester [55 to 65]	Pre-retirement stage	Children grown up and settled in life	Taking care of own needs – especially health needs
Retirement – twilight years [60 and beyond]	Retirement stage	Retirement from work	Addressing the living needs of the future of self and spouse

Savings may be considered as a composite of two decisions.

i. **Postponement of consumption:** an allocation of resources between present and future consumption

ii. **Parting with liquidity** (or ready purchasing power) in exchange for less liquid assets.

If we look at the above life cycle, we would see that three types of needs can arise. These give rise to

three types of financial products.

Enabling Future Transactions: For meeting a range of anticipated expenditures.

Specific Transaction Needs: These needs are related to specific life events, which require a commitment of resources. Example: Making provision for higher education / marriage of dependents.
General transaction needs: Amounts set aside from current consumption without being earmarked for any specific purposes – these are popularly termed as 'future provisions'

Meeting Contingencies: Contingencies are unforeseen life events that may call for a large commitment of funds. These are not met from the current income and hence need to be pre-funded. Examples: Death, disability or unemployment leading to loss of income

Wealth Accumulation: These needs arise from the desire to accumulate wealth by way of prudent investments in favourable market conditions.

Three types of products in the financial market:

Transactional products	Bank deposits and other savings instruments enable one to have adequate purchasing power with liquidity at the right time and the right quantum.
Contingency products like insurance	These provide protection against large losses that may be suffered in the event of sudden unforeseen events.
Wealth accumulation products	Shares, high yielding bonds or real estate are examples of such products. Here, the investment is made with a view to make more money.

One's investment style also changes to keep pace with the risk profile.

Risk Profile	Investment style
Aggressive	Accumulation
Progressive	Consolidation
Secured	Spending
Conservative	Gifting

The longer the time period of our investments, the more they will multiply.
When is the best time to start financial planning?

Elements of financial planning include:

- Investing - allocating assets based on one's risk taking appetite,
- Risk management,
- Retirement planning,
- Tax and estate planning, and
- Financing one's needs

Financial planning should ideally start the moment you earn your first salary.

Purpose of Cash Planning: 1. Manage income and expending flow, establish a reserve of liquid assets, meet emergency needs. 2. Create and maintain systematically a surplus of cash for capital investment.

Steps for cash planning:

Step 1: Set your goals and Prepare a budget.

Step 2: Analyse the expenses and income flows over the last six months; Categorise expenses into fixed and variable expenses ; Try to reduce variable expenses, as you may not have control on fixed expenses.

Step 3: Predict future monthly income and expenses over the whole year; Design a plan for managing cash flows

Insurance Planning: This involves constructing a plan of action to provide adequate insurance against such risks. The task here is to estimate how much insurance is needed and determining what type of policy is best suited.

Investment Parameters:

Risk Tolerance: It is a measure of how much risk someone is willing to take in purchasing an investment. Risk tolerance varies with age and time.

Time Horizon: It is the amount of time available to attain a financial objective.
Longer the time horizon, the less concern is there about short-term liability.

Liquidity: Ability to convert the investment into liquid cash.

Marketability: It is the ease with which an asset can be bought or sold.

Diversification: It is the ease with which an asset can be bought or sold.
Tax Considerations: Many investments confer certain income tax benefits. One may like to consider the post-tax returns of various investments.

Selection of appropriate investment vehicles based on the above parameters:

- Fixed deposits of banks / corporates,
- Small savings schemes of post office,
- Public issues of shares,
- Debentures or other securities,
- Mutual funds
- Unit linked policies that are issued by life insurance companies etc.

Retirement Planning: Retirement planning involves three phases

- **Accumulation:** Accumulation of funds is done through various kinds of strategies to set aside money for investment with this purpose.
- **Conservation:** Conservation refers to the efforts made to ensure that one’s investments are put to hard work and that the principal gets maximised during the individual’s working years.
- **Distribution:** Distribution refers to the optimal method of converting principal (which we may also call the corpus or a nest egg) into withdrawals / annuity payments for meeting income needs after retirement.

Tax planning is done to determine how to gain maximum tax benefit from existing tax laws.

Inflation is a rise in the general level of prices of goods and services in an economy over a period of time.

Shares can be categorised under wealth accumulation products.

Life insurance can be categorised under contingency product.

Bank deposits can be categorised under transactional products.

Individual with an aggressive risk profile is likely to follow wealth accumulation investment style.

Chapter 5 – Life Insurance Products I

Life insurance is a product that is intangible. A life insurance agent has the responsibility to enable the customer to understand the features of a particular life insurance product, what it can do and how it can serve the customer's unique needs.

Protection against the loss of economic value of an individual's productive abilities is the primary purpose behind a life insurance product.

Life insurance products also offer savings and investment.

A life insurance policy, at its core, **provides peace of mind and protection to the near and dear ones of the individual** in case something unfortunate happens to him. The other role of life insurance has been as a vehicle for saving and wealth accumulation. In this sense, it offers safety and security of investment and also a certain rate of return.

Rider in Life Insurance: A rider is a provision typically added through an endorsement, which then becomes part of the contract.

- Insurance riders are additional benefits added to insurance policies
- Insurance rider is a clause added to the base plan by paying an extra premium
- Insurance riders are options that allow the individual to enhance risk cover as per the terms and conditions of the policy

Types of Riders:

Accidental Death Benefit (ADB) Rider: In the event of the death of the insured due to an accident, this rider provides for an additional amount over and above the normal sum insured, as specified at the time of taking the rider.

Critical Illness Rider: This rider provides payment of a specified amount on the diagnosis of a critical illness

Term Rider: This rider can be used to enhance the death cover amount in a policy at a nominal cost. Suppose an individual wants a savings policy like an endowment policy or money-back policy. Along with this, the individual also wants to increase the death cover without buying a separate term insurance policy. Then he/she can choose this rider.

These riders may be availed of by the policyholder by opting for them and paying an additional premium for the purpose.

All Life Insurance plans have two basic elements:

Death benefit: Provides for the benefit being paid on the death of the insured person during the term of the policy.

Survival Benefit: Provides for the benefit being paid on survival of a specified period

Insurance Products:

Term Insurance Plans: Term Insurance Plans are examples of temporary assurance. Here, the protection is available for a temporary period.

The term can range between one year and 40 years. There is no savings or cash value element accruing to the insured. **The plan only provides death benefit and there is no survival benefit.**

Variants of Term Plans:

Decreasing Term Assurance: Death benefit decreases in amount with the term of coverage. The premium payable each year, however, remains at level.

Mortgage Redemption: Death amount corresponds to the decreasing amount owed on a mortgage loan. Typically in such loans, each equated monthly instalment (EMI) payment leads to a reduction of the outstanding principal amount. The insurance may be arranged such that the amount of death benefit at any given time equals the balance of principal owed.

Credit Life Insurance: Designed to pay the balance due on a loan, if the borrower dies before the loan is repaid. Like mortgage redemption, it is usually decreasing term assurance.

Increasing Term Assurance: Provides a death benefit, which increases along with the term of the policy. Premium generally increases as the amount of coverage increases.

Term Insurance with Return of Premiums: The plan leaves the policyholder with the satisfaction that he/she has not lost anything in case he/she survives the term. Obviously the premium paid would be much higher than that applicable for an equivalent term assurance without return of premiums.

Normally a term insurance policy covers only death. However, when it is purchased with a disability protection rider on the main policy and if someone were to suffer such a catastrophe during the period of term.

Convertible term insurance policies allow a policyholder to change or convert a term insurance policy into a permanent plan like “Whole Life” without providing fresh evidence of insurability.

The unique selling proposition **(USP)** of term assurance is its low price.

Whole Life Policies: A whole life policy is a good plan for one who is the main income earner of the family and wishes to protect the loved ones from any financial insecurity in case of premature death. **Whole life policies are also term plans.**

A whole life policy is a good plan for one who is the main income earner of the family and wishes to protect the loved ones from any financial insecurity in case of premature death.

Endowment Assurance Plans: Endowment Assurance comes with both the death benefit and the survival benefit. The contract is a combination of decreasing term insurance and an increasing investment element. Shorter the policy term, larger is the investment element.

People buy endowment plans as a sure method of providing security in the old age or for meeting specific purposes like having an education fund at the end of, say 15 years or a fund for meeting marriage expenses of one's daughters

Variants of Endowment Plans:

Money Back Policy: A Money Back Policy for 20 years may provide for 20% of the sum assured to be paid as a survival benefit at the end of 5, 10 and 15 years. The balance 40% need to be paid at the end of the full term of 20 years. Full death protection is available.

Par and Non-Par Schemes: The term "Par" implies policies, which are participating in the profits of the life insurer.

"Non- Par", represents policies, which do not participate in the profits.

Participating (Par) or With-Profit Policies: Unlike without profit or guaranteed plans, these plans have a provision for participation in profits. With-profit policies have a higher premium than others.

Reversionary bonuses are declared as a proportion of the sum assured (e.g. Rs. 70 per thousand sum assured) and are payable as additional benefits on a reversionary basis (at the end of the tenure of the policy, by death or maturity or surrender).

Terminal bonuses: These are contingent upon the life insurer earning some windfall gains and are not guaranteed.

IRDA's New Guidelines for Traditional Products

Death Cover: New traditional products will have a higher death cover.

For **single premium policies,** it will be 125% of the single premium for those below 45 years and 110% of single premium for those above 45 years.

For **regular premium policies**, the cover will be 10 times the annualised premium paid for those below 45 years and seven times for others.

Minimum Death Benefit will be at least the amount of sum assured and the additional benefits (if any).

For **participating policies** the bonus is linked to the performance of the fund and is not declared or guaranteed before. But, the **bonus once announced becomes a guarantee**. It is usually paid in case of death of the policyholder or maturity benefit. This bonus is also called **reversionary bonus**.

Bonus/Additional Benefits as specified in the policy and accrued till date of death shall become payable on death if not paid earlier.

In case of **non-participating policies**, the return on the policy is disclosed in the beginning of the policy itself.

Term insurance can be bought as a stand-alone policy as well as a rider with another policy.

In decreasing-term insurance, the premiums paid remain constant over time.

The higher the premium paid by you towards your life insurance, the higher will be the compensation paid to the beneficiary in the event of your death.

Chapter 6: Life Insurance Products II

One of the principal purposes of saving and investing is to achieve inter-temporal allocation of resources, which is both efficient and effective.

Inter-temporal allocation means allocation across time.

Effective allocation implies that sufficient funds are available to satisfy successfully the various needs as they arise in different stages of the life cycle.

Limitations of Traditional Insurance Products

- Savings or cash value component is not well defined. It is determined by assumptions about mortality, interest rates, expenses and other parameters set by the life insurer, which can be arbitrary.
- It is not easy to ascertain what would be the rate of return on these policies until the time when the contract ends.
- The method of arriving at surrender value is not visible.
- The yields on these policies may not be as high as can be obtained from more risky investments.

Advantages of Non-traditional plans:

Unbundling: This trend involves the separation of the protection and saving elements. Consequently, this results in the development of products, which stress on protection or savings, rather than a vague mix of both.

Investment linkage
The second trend was the shift towards investment-linked products, which linked benefits to policyholders with an index of investment performance. The new products like unit-linked plans implied that life insurers had a new role to play. They were now efficient fund managers with the mandate of providing a high competitive rate of yield, rather than mere providers of financial security.

Transparency: Unbundling also ushered greater visibility in the rate of return and in the charges made by the companies for their services. All these were explicitly spelt out and could thus be compared

Non-standard products: The fourth major trend has been a shift from rigid to flexible product structures. This is also seen as a move towards non-standard products. When we speak of non–standard, it is with respect to the degree of choice, which a customer can exercise with respect to designing the structure and benefits of the policy.

Non-Traditional Plans:
Universal life insurance policy was introduced in the United States in 1979. It quickly grew to become very popular by the first half of the eighties.

As per the IRDA Circular of November 2010, "All Universal Life products shall be known as Variable Insurance Products (VIP)."

Features of Universal Life

1. Flexible premium

2. Flexible premium amount

3. Flexible death benefit amounts

4. Unbundling of pricing factors

Flexible Premium: Policyholder within limits can decide the amount of premiums., make additional premiums, skip premium payments.
Partial withdrawal: Make partial withdrawals from the cash value that was available.
Adjustment of death benefits: Death benefits could be adjusted and the face amounts could be varied.

In India, as per the IRDA norms, there are only two kinds of non-traditional savings life insurance products that are permitted.

1. Variable insurance plans 2. Unit-linked insurance pla

Variable Insurance Plans:

This policy was first introduced in the United States in 1977. Variable life insurance is a kind of "Whole Life" policy.

Variable life insurance is a permanent life insurance policy.

Premium payments are fixed and not flexible with variable life insurance

The principal difference in traditional whole life policies is in the investment factor.

Traditional Cash Value Policy	Variable Life Insurance Policy
Traditional cash value policy has a face amount that remains level throughout the policy term. The cash value grows with premiums and interest earnings at a specified rate. Assets backing the policy reserves form part of a **general investment account.** In this account, the insurer maintains the funds of its guaranteed products. These assets are placed in a portfolio of secured investments. The insurer can expect to earn a steady rate of return on the assets in this account.	Assets representing the policy reserves of a variable life insurance policy are placed in a **separate fund.** This fund does not form part of its general investment account. This is a policy in which the cash values are funded by separate accounts of the life insurance company. Death benefits and cash values vary to reflect investment experience. The policy also provides a minimum death benefit guarantee for which the mortality and expense risks are borne by the insurance company. The premiums are fixed as under the traditional whole life policy.

Variable life policies have become the preferred option for those who:

- Want to keep their assets invested in an assortment of funds of their choice
- Want to benefit directly from favourable investment performance of their portfolio
- Must be able and willing to bear the investment risk on the policy

- Are knowledgeable with equity or debt investments and market volatility

Unit Linked Insurance Plan (ULIP) is a product offered by insurance companies. Unlike a pure insurance policy, ULIP gives investors the benefits of both insurance and investment under a single integrated plan. ULIP is basically a combination of insurance and investment.

ULIPs are suitable for those:

- Who wish to monitor their investments closely
- Whose investment horizon is medium to long-term

In ULIP, the premiums paid by the policyholders are invested in funds chosen by them. This is done after deducting the allocation charges and administration charges and for providing insurance cover.

ULIP's are transparent with regards to their term, expenses and savings components.
The value of each unit of a fund is determined by dividing the total value of the fund's investments by the total number of units.

Chapter 7 – Pension and Annuities

The basic objective of pension is to provide individuals with an income during old age when they are retired and no longer at work. These people have been working and earning an income during the productive years of their lifetime.

Pensions may be said to represent the flip side of life insurance. They provide protection against the financial consequences that may arise when the individual lives too long and thus outlives one's financial resources.

The basic contingency associated with pensions is that of post-retirement income security.

Difference between Insurance plans and pension plans

Life Insurance products provide protection against the financial consequences of early and premature death. Pension products provide protection against financial consequences arising when an individual lives too long and outlives one's financial resources.

In life insurance, the basic contingency covered is that of mortality. In case of pension, it is post-retirement income discontinuity.

In life insurance, premium payments result in creation of a capital sum known as sum assured. In case of pension, a capital sum which we call a corpus that gets liquidated in part of whole through its conversion into a stream of regular income payments.

Types of Pension Plans

Public pensions are provided by the State. It is the State's responsibility to ensure that all citizens receive a minimum income during retirement. The schemes are publicly managed with mandatory membership. The schemes are typically funded on **'Pay As You Go'** **(PAYG)** basis.

Occupational pensions have been set up by employers for the benefit of their employees.

Personal pensions are plans designed to provide an old age income. These are marketed by market providers, like life insurers and other financial institutions.

A personal pension is typically offered and purchased in the form of an annuity contract. This contract is between the insurance company or other pension provider and an annuitant. The pension provider pools and invests these contributions, whose principal and investment earnings lead to the creation of a **corpus**.

An **annuity** is a series of regular payments from an annuity provider to an individual, referred to as the annuitant.

Annuities are often described as the 'reverse' of life insurance. Under a life insurance contract, the insurer starts paying on the death of the insured. However, under an annuity contract, the insurer usually stops paying on the death of the annuitant.

The period during which the insurer makes annuity payments, is referred to as liquidation period.

Amount of annuity payable depends on principal sum of money, investment period, rate of return and duration of annuity payments.

In an ordinary annuity payments are made or received at the end of each period.

Life Annuity: Provides periodic benefit payments during the lifetime of the annuitant.

Pure Life Annuity: The benefit payment would cease with the death of the annuitant.

Annuity Certain: Periodic payments are unrelated to lifetime of the annuitant. They are payable for a certain stated period of time regardless of whether the individual lives or dies meanwhile.
Fixed Benefit Annuity: The insurer guarantees a defined amount of monthly annuity benefit for each rupee applied to purchase an annuity.

Variable Benefit Annuity: The value of the amount accumulated in the annuitant's name and the monthly benefit payable fluctuates with the performance of the account in which the fund is placed.

Annuities can be either immediate or deferred annuities.

• **Immediate annuities** vest (become payable) immediately after they have been purchased with a lump sum. The annuity payments commence at the end of the month, quarter, half-year or year as per the features of the policy/option exercised by the policyholder

• **Deferred annuities** are paid for in advance. The annuity purchase price may paid lump sum paid at the commencement before annuity is due to vest (be paid). Alternatively, deferred annuities may be bought by paying instalments over a series of years before vesting date

Every pension is an annuity in the sense that it involves a regular stream of income payments. However, not every annuity is **a pension**.

Let us understand the replacement income risk with the help of an example given here.

Santosh, aged 40 years earns a salary of Rs. 50,000 a month. Given that his income and expenditure are expected to rise @ 5% per year, he expects his final salary at the age 60 years to be around Rs. 1,32,665 (50000 x $(1.05)^{20}$).

The replacement income he needs after retirement at the age 60 years would amount to more than two and half times what he earns at the age 40. Santosh is worried whether he would have savings that would be anywhere close to this amount.

If his company had provided him an occupational pension scheme, it could have solved his problem, at least in part.

Example: Consider a fixed deposit with a bank for Rs. Ten lakhs, which gives interest @ 12% per annum, payable monthly which yields a periodic payment of Rs. 10, 000 per month. In what respect does it differ from a pension, which also provides a periodic payment.

Chapter 8 – Health Insurance Policies

Health insurance can simply be defined as a contract between the insurer and the insured wherein the insurer agrees to pay hospitalisation expenses to the extent of an agreed sum insured in the event of any medical treatment arising out of an illness or an injury.

A health insurance policy generally covers the basic costs in case of hospitalisation due to any accidents/diseases/ illnesses which do not form a part of the permanent exclusions of the policy.

Health insurance can be used to address the risk of morbidity.

As per IRDA regulations issued in February 2013, 30 days grace period is allowed beyond the expiry date of the policy, for renewal.

The expenses covered under health insurance usually include:

- Cost of room / bed
- Boarding expenses
- Nursing expenses
- Doctor's fees
- Diagnostic tests
- Operation theatre charges and
- Expenses related to surgical appliances and the like

Inpatient: Insured who undergoes treatment after getting admitted in the hospital

Outpatient: Insured who undergoes treatment without getting admission/staying in the hospital

Day care centre: With the advancement of technology and medical science many complicated surgical procedures have been simplified and do not require more than a day's stay in the hospital or less than 24 hours at times; for e.g., lithotripsy, cataract etc. The Centre where such procedures are carried out is known as day care centre.

Primary care can be described as the first point of contact for people seeking healthcare.

Third Party Administrators (TPA): Any person who is licensed under the IRDA (Third Party Administrators - Health Services) Regulations, 2001 by the Authority, and is engaged, for a fee or remuneration by an insurance company, for the purposes of providing health services.

Network provider: Hospitals or health care providers enlisted by an insurer or by a TPA and insurer together to provide medical services to an insured on payment by a cashless facility.

Portability: Right accorded to an individual health insurance policyholder (including family cover), to transfer the credit gained for pre-existing conditions and time bound exclusions, from one insurer to another insurer or from one plan to another plan of the same insurer, provided the previous policy has been maintained without any break. Moving between policies of the same company itself has been excluded.

Pre-existing conditions: These refer to manifestation or occurrence of illness/injury for which treatment was required during a pre-determined time. These can be covered after a certain waiting period.

Senior citizen: It means any person who has completed sixty or more years of age as on the date of commencement or renewal of a health insurance policy.

Health plus Life Combo Products: They mean products which offer the combination of a life insurance cover from a life insurance company and a health insurance cover offered by non-life and/or standalone health insurance company.

There are certain waiting periods (usually 48 months) with regard to pre-existing diseases (PEDs), some specific illnesses like cataract, some procedures like hysterectomy etc., for a defined period which usually range from one year to four years.

There are insurers, who cover HIV positive persons. A few also offer non-allopathic treatment up to a percentage of sum insured. Most of the insurers offer a wide variety of products.

Domiciliary hospitalization: This generally refers to medical treatment for a period exceeding three days for such illness/ injury which in the normal course would require treatment at the hospital/ nursing home, but was actually taken whilst confined at home in India under any of the following circumstances namely:

- The condition of the patient is such that he/ she cannot be removed to the hospital
- The patient cannot be removed to hospital/ nursing home for lack of accommodation therein

Family floater policies: Family floaters usually cover husband, wife and two children. Some policies cover more than two children, parents and parents in law as well. The coverage for the entire family is limited to the sum insured opted for. The total premium payable for family floater policies is less than the total premium payable for non-floater policies where separate sums insured are applicable for each family member.

Health Insurance policy can be obtained by an individual for himself, his/her family, or by a group.

Cash-less facility: A facility extended by the insurer to the insured where the payments, of the costs of treatment undergone by the insured are directly made to the network provider by the insurer to the extent pre-authorisation approved.

To avail the benefit of cashless facility, insurers issue an **identification card to** the insured within 15 days from the date of issue of a policy, either through a TPA or directly. The validity of the card coincides with the term of the policy and would be renewed from time to time. Insurers may issue a smart card instead of an identity card.

If the insured does not opt for cashless settlement, he has to pay directly to the hospital. The bills have then to be submitted to the insurer/ TPA and the claims will be reimbursed.

Free look period of 15 days from the date the documents are received by the customer. During this period, the customer can decide whether or not to continue with the policy.

30 days grace period is allowed beyond the expiry date of the policy, for renewal. Life time coverage on all policies made mandatory.

All health policies are to have a provision for nomination.

There has to be standardisation of customer information summary.

A one page summary of benefits, terms and conditions has to be issued for each product.

Group health insurance policy is available to groups/ associations/ institutions/ corporate bodies, provided they have a central administration point and are subject to a minimum number of persons to be covered. The group must belong to a category that is approved.

Group includes family floaters and any policy with more than one insured person.

Chapter 9 – Application of Life Insurance

Life insurance does not merely seek to protect individuals from premature death. It has other applications as well. It can be applied to the creation of trusts with resultant insurance benefits; it can be applied for creating a policy covering key personnel of industries and also for redeeming mortgages.

Married Women's Property Act

Section 6 of the Married Women's Property Act, 1874 provides for security of benefits under a life insurance policy to the wife and children. Section 6 of the Married Women's Property Act, 1874 also provides for creation of a Trust.

It lays down that a policy of insurance effected by any married man on his own life, and expressed on the face of it to be for the benefit of his wife, or of his wife and children, or any of them, shall ensure and be deemed to be a trust for the benefit of his wife, or of his wife and children, or any of them, according to the interest so expressed, and shall not, so long any object of the trust remains, be subject to the control of the husband, or to his creditors, or form part of his estate.

Each policy will remain a separate Trust. Either the wife or child (over 18 years of age) can be a trustee.

The policy shall be beyond the control of court attachments, creditors and even the life assured.

The claim money shall be paid to the trustees.

The policy cannot be surrendered and neither nomination nor assignment is allowed.

It is important to appoint a trustee for administration of the Trust property, being the benefits under the life policy. By creating a Trust to hold the insurance policies, the policyholder gives up his rights under the policy and upon the death of the life insured. The trustee invests the insurance proceeds and administers the Trust for one or more beneficiaries.

Term life insurance policy purchased under Section 6 of MWP Act is beyond the reach of court attachments and creditors.

Key man Insurance: An insurance policy taken out by a business to compensate that business for financial losses that would arise from the death or extended incapacity of an important member of the business.

The policy's term does not extend beyond the period of the key person's usefulness to the business.

- Key man insurance policies are usually owned by the business and the aim is to compensate the business for losses incurred with the loss of a key income generator and facilitate business continuity.
- Keyman insurance does not indemnify the actual losses incurred but compensates with a fixed monetary sum as specified on the insurance policy.

- Keyman is a term insurance policy where the sum assured is linked to the profitability of the company rather than the key person's own income.

A key person can be anyone directly associated with the business whose loss can cause financial strain to the business. For example, the person could be a director of the company, a partner or someone with specific skills or knowledge which is especially valuable to the company.

Mortgage Redemption Insurance (MRI) :

It is an insurance policy that provides financial protection for home loan borrowers.

It is basically a decreasing term life insurance policy taken by a mortgagor to repay the balance on a mortgage loan if he/she dies before its full repayment.

It can be called a loan protector policy.

This plan is suitable for elderly people whose dependents may need assistance in clearing their debts in case of the unexpected demise of the policyholder.

The policy bears on surrender value or maturity benefits. The insurance cover under this policy decreases each year unlike a term insurance policy where insurance cover is constant during the policy period.

Chapter 10 - PRICING AND VALUATION IN LIFE INSURANCE

The term **premium** denotes the price that is paid by an insured for purchasing an insurance policy.

The rates that are printed in these tables are known as "Office Premiums". They are typically level annual premiums which need to be paid every year. They are in most cases the same throughout the term and are expressed as an annual rate.

The **rebate for sum assured** is offered to those who buy policies with higher amounts of sum assured.

Rebate for mode of premium: Premiums can be on annual, half yearly, quarterly or monthly basis. More frequent the mode, more the cost of service.
Half-yearly or yearly premiums thus enable a saving in administrative costs as compared to quarterly or monthly modes. In the yearly mode, the insurer can utilise this amount during the entire year and earn interest on it. Insurers encourage half yearly or annual premium payments by paying some rebate.

Rebate is not a factor in determining life insurance premium

Standard life: Group of insured individuals who are not subject to any significant factors that would pose an extra risk.

Ordinary Rates: the rates charged on standard life individuals.

Sub-standard life: If a persons suffering from certain health problems like heart ailments or diabetes, which can pose a hazard to the life.

Extra charges: Insurers impose an extra premium by way of a health extra on substandard lives.

Mortality is the first element in premiums. It is determined by using a "Mortality Table", which gives us an estimate of the rate of mortality for different ages.

Higher the mortality rate in the mortality table, higher the premiums would be. Higher the interest rate assumed, lower the premium

Net Premium: The discounted present value of all future claim liabilities gives the “Net Single Premium”. From the net single premium, we can get the “Net Level Annual Premium”. It is the net single premium which is levelled out so as to be payable over the premium paying term.

Gross premium is the net premium plus an amount called loading.

Guiding Principles for determining Amount of Loading

Adequacy : The total loading from all policies must be sufficient to cover the company’s total operating expenses.

Equity: Expenses and safety margins etc. should be equitably apportioned among various kinds of policies, depending on type of plan, age and term etc. The idea is that each class of policy should pay for its own costs, so that to the extent possible, one class of policy does not subsidise the other.

Competitiveness: The resulting gross premiums should enable the company to improve its competitive position. If the loading is too high, it would make the policies very costly and people would not buy.

Life insurers have to incur various types of operating expenses including:

- Agents training and recruitment,
- Commissions of agents,
- Staff salaries,
- Office accommodation,
- Office stationery,
- Electricity charges,
- Other miscellaneous etc.

The typical loading to a net premium would have three parts

i. A percentage of premiums
ii. A constant amount for each ‘1000 sum assured’ (or face amount) which is added to net premium
iii. A constant amount per policy

Lapse: Means that the policyholder discontinues payment of premiums.

Withdrawals: The policyholder surrenders the policy and receives an amount from the policy’s acquired cash value.

Lapses can pose a serious problem because they typically happen within the first three years with highest incidence being typically in the very first year of the contract. Life insurers incorporate a loading in anticipation of leakages that may arise as a result.

Gross premium = Net premium + Loading for expenses + Loading for contingencies + Bonus loading.

Surplus = Assets - Liabilities

Bonus: Bonus is paid as an addition to the basic benefit payable under a contract.

The most common form of bonus is the **reversionary bonus**. They are called ‘Reversionary’ bonuses because the policyholder only receives them when the contract becomes a claim by death or maturity.

Simple Reversionary Bonus: This is a bonus expressed as a percentage of the basic cash benefit under the contract. In India for example, it is declared as amount per thousand sum assured.

Compound Bonus: Here the company expresses a bonus as a percentage of basic benefit and already attached bonuses. It is thus a bonus on a bonus. A way to express it may be as @ 8% of basic sum assured plus attached bonus.

Terminal Bonus: This bonus attaches to the contract only on its contractual termination (by death or maturity). The bonus is declared only for claims of the ensuing year without any commitment about subsequent years (as in case of reversionary bonuses). Thus the terminal bonus declared for 2013 would only apply to claims that have arisen during 2013-14 and not for subsequent years.

Terminal bonuses depend on the time duration of the contract, and increases as the duration increases. Thus the terminal bonus for a contract that has run for 25 years would be higher than one which has run for 15 years.

ULIP premium comprises of policy allocation charge, investment risk premium and mortality charge.

Chapter 11 – Documentation – Proposal Stage

Prospectus: A prospectus is a formal legal document used by insurance companies that provides details about the product. The prospectus used by a life insurance company should state the following, under each of its plans of insurance:

i. The terms and conditions
ii. Scope of benefits – guaranteed and non-guaranteed
iii. The entitlements
iv. The exceptions
v. Whether the plan is participative or non-participative

Proposal Form: The insurance policy is a legal contract between insurer and the policyholder.

Agent’s report: The agent is the primary underwriter. All material facts and particulars about the policyholder, relevant to risk assessment, need to be revealed by the agent in his / her report. Matters of health, habits, and occupation, income and family details need to be mentioned in the report.

Medical examiner’s report: In many cases, the life to be insured has to be medically examined by a doctor who is empaneled by the insurance company. Details pertaining to physical features like height, weight, blood pressure, cardiac status etc. are recorded and mentioned by the doctor in his report called the medical examiner’s report.

Non-Medical Report: Proposals that are underwritten and accepted for insurance without calling for a medical examination.

The medical examiner’s report is required typically when the proposal cannot be considered under non-medical underwriting because the sum proposed or the age of the proposed life is high or there are certain characteristics which are revealed in the proposal, which call for examination and report by a medical examiner.

Moral hazard report: Moral hazard is the likelihood that a client's behaviour might change as a result of purchasing a life insurance policy and such a change would increase the chance of a loss. For this purpose, the company may require that a moral hazard report has to be submitted by an official of the insurance company.

Age Proof: The risk of mortality in life insurance increases with age. Hence age is a factor that insurance companies use to determine the risk profile of the life to be insured. Premiums are charged according to age proof. Valid age proofs may be standard or non-standard.

Standard age proofs

Some documents considered as standard age proofs are:

- School or college certificate
- Birth certificate extracted from municipal records
- Passport
- PAN card
- Service register
- Certificate of baptism
- Certified extract from a family bible if it contains the date of birth
- Identity card in case of defence personnel
- Marriage certificate issued by a Roman Catholic church

Non-standard age proofs

- Horoscope
- Ration card
- An affidavit by way of self-declaration
- Certificate from village panchayat

Anti-Money Laundering (AML): Money laundering is the process of bringing illegal money into an economy by hiding its illegal origin so that it appears to be legally acquired.
Know your customer(KYC) is the process used by a business to verify the identity of their clients.

KYC Documents:

i. Photographs
ii. Age proof
iii. Proof of address – driving license, passport, telephone bill, electricity bill, bank passbook etc.
iv. Proof of identity – driving license, passport, voter ID card, PAN card, etc.
v. Income proof documents in case of high-value transactions

Free-look period: Suppose a person has purchased a new life policy document and, on examining the conditions are not what he/she wanted. The policyholder has the option to cancel the policy within 15 days from the date of receiving the policy document. Premium is refunded after deducting some expenses and charges.

Chapter 12: Documentation – Policy Stage

First Premium Receipt: An insurance contract commences when the life insurance company issues a first premium receipt (FPR). **The FPR is the evidence that the policy contract has begun.**

The first premium receipt contains the following information:

i. Name and address of the life assured
ii. Policy number
iii. Premium amount paid
iv. Method and frequency of premium payment
v. Next due date of premium payment
vi. Date of commencement of the risk
vii. Date of final maturity of the policy
viii. Date of payment of the last premium
ix. Sum assured

Policy Document: It is evidence of the contract between the assured and the insurance company. It is not the contract itself.

The standard policy document typically has three parts:

Policy Schedule	Name of the insurance company Some specific details for the particular policy like: Policy owner's name and address Date of birth and age at last birthday Plan and term of policy contract Sum assured Amount of premium Premium paying term Date of commencement, date of maturity and due date of last premium Whether the policy is with or without profits Name of the nominee Mode of premium payment – yearly; half-yearly; quarterly; monthly; The policy number The insurer's promise to pay. This forms the heart of the insurance contract The signature of the authorised signatory and policy stamp The address of the local Insurance Ombudsman
Standard Provisions	The second component of the policy document is made up of standard policy provisions, which are normally present in all life insurance contracts, unless specifically excluded. Some of these provisions may not be applicable in the case of certain kinds of contracts, like term, single premium or non-

	participating (in profits) policies. These standard provisions define the rights and privileges and other conditions, which are applicable under the contract.
Specific Provisions	These are provisions that are specific to the individual policy contract. These may be printed on the face of the document or inserted separately in the form of an attachment.

Chapter 13 – Documentation – Policy Conditions

Grace Period: The "Grace Period" clause grants the policyholder an additional period of time to pay the premium after it has become due. The standard length of the grace period is one month or 31 days.

If premium is paid within the grace period, it is considered as payment on time. There is no penalty payable in such cases.

The days of grace may be computed from the next day after the due date is fixed for payment of premium.

Policy Lapse – Scenario 1

The insurance policy lapses on the following two grounds:

- The policyholder does not pay premium on due date/within the grace period
- He wants to discontinue the policy after a certain period of time

Ramaswamy has taken a life insurance cover of Rs. 5 lakhs for 15 years in the year 2009. He has paid all his premiums on the due date. Unfortunately, he dies of a sudden heart attack before making the premium payment for 2013. However, the grace period was still there. What happens in such a scenario? Will his family get the death benefit?

A policy is not considered to have lapsed during the grace period and a premium paid within the grace period is a payment made on the due date.

The premium has to be paid on the dates specified in the policy. These dates are called **"due dates".**

If the policyholder dies during the grace period, the insurer will deduct the outstanding premium from the death benefit and pay the balance to his family.

Policy Lapse Scenario 2:

Ramaswamy has taken a life insurance cover of Rs. 5 lakhs for 15 years in the year 2009. So far, he has paid all his premiums on the due date. Unfortunately, he dies of a sudden heart attack. The premium payment did not happen even after the grace period for 2013. Will the insurance company pay the death benefits?

In this case, the policy is considered to be lapsed. The insurance company is not under any obligation to pay the death benefit to Ramaswamy's family.The only amount payable would be whatever is applicable under the non-forfeiture provisions.

Lapse – Restatement and Revival

Raj took a policy worth Rs. 5 lakhs. He paid his premiums regularly for two years. He was all excited about his only daughter’s marriage that he forgot about his policy. Only after a long period of time did he realise that his policy had lapsed. If Raj had been a little more cautious, he would have reaped the benefits!

Does a policyholder intentionally let an insurance policy lapse? In most cases, it is not so. It may be because of any one of the two reasons:

- Negligence/oversight on the part of the policyholder
- Temporary financial difficulty

When a policy lapses, neither the insurer nor the insured benefits. Hence, the insurer takes all possible steps to bring the policy back into existence. This process is called “Revival”, which is the opposite of lapse. A revival is as important as a new policy proposal.

The general underwriting formalities will be carried out at the time of revival of the policy such as:

- Assessment of risk at the time of revival
- Risk should be the same as the original sum assured less paid-up value on the date of lapse

The underwriter has the option to:

- revive as per the original policy terms
- revive the modified terms
- decline the revival

Continued good health is necessary for revival.

Revival is often more advantageous because buying a new policy would call for a higher premium rate based on the age the insured has attained on the date of revival

Type	**Condition**	**What should be done?**
Ordinary Revival	Done when the policy has acquired surrender value	• Payment of arrears of premium with interest • Submission of declaration of good health or some other evidence of insurability like a medical examination
Special Revival	When the policy has run for less than three years and has not acquired minimum surrender value (that is, the accumulated reserves or cash value is insignificant) but the period of lapse is large, say the policy is coming up for revival after	It is as though a new policy has been written, whose date of commencement is within two years of the original date of commencement of the lapsed policy. The maturity date shall not exceed the original stipulated period as applicable to certain lives at

	a period of one year or more since the date of first unpaid premium.	the time of taking the policy.
Loan cum Revival	Only for policies that have acquired surrender value as on date of revival	This is not revival but involves two types of transactions. ✓ The simultaneous granting of a loan ✓ Revival of the policy
Instalment Revival	When the policyholder is not in a position to pay arrears of premium in lump sum and neither can the policy be revived under special revival scheme The arrears of premium in such case would be calculated in the usual manner as under an ordinary revival scheme. A condition may be imposed that there should be no outstanding loan under the policy at the time of revival.	Depending on the mode of payment (quarterly or half-yearly), the life assured may be required to pay one half-yearly or two quarterly premiums. The balance of arrears to be paid would then be spread so as to be paid with future premiums on premium due dates, during a period of two years or more, including the current policy anniversary year and two full policy anniversaries thereafter.

Non-Forfeiture Provisions

When a policy lapses, the policyholder has several choices under the Insurance Act. These are known as non-forfeiture options.

The options are:

- Eligibility of surrender value
- Making the policy paid up
- Keeping the policy in force through premiums advanced from the surrender value
- Providing term insurance cover from the surrender value

The law in India, thus provides that if premiums have been paid for at least **three consecutive years,** there shall be a guaranteed surrender value. If the policy has not been surrendered, it shall subsist as a policy with a reduced paid-up value. The policy provisions usually provide for a more liberal surrender value than that required by law.

Surrender Value

Let us understand how the surrender value of a life insurance policy is calculated.

- ✓ Life insurers normally have a chart that lists the surrender values at various times. The chart also gives the method that will be used for calculating the surrender values
- ✓ The formula takes into account the type and plan of insurance, age of the policy and the length of the policy premium-paying period

Sometimes, the actual amount of cash one gets in hand on surrender may be different from the surrender value amount prescribed in the policy. Why?

This is because the following items may cause additions or subtractions from the surrender value:

- ✓ Paid-up additions
- ✓ Bonuses or dividend accumulations
- ✓ Advance premium payments
- ✓ Gaps in premiums
- ✓ Policy loans

The amount the policyholder ultimately receives is the net surrender value. Surrender Value is a percentage of paid-up value.

Surrender Value arrived as a percentage of premiums paid is called Guaranteed Surrender Value.

The policy loan is usually limited to a percentage of the policy's surrender value (say 90%).

Insurers usually charge interest on policy loans, which are payable semi-annually or annually. If the interest charges are not paid, they become part of the policy loan and are included in the loan outstanding.

What will happen if the policyholder does not pay the interest on loan and also the future premium amounts after taking the loan?

In such a scenario, the policy becomes lapsed. When no new premiums are forthcoming, a situation can arise where the amount of outstanding loan plus unpaid interest (the total debt) becomes greater than the amount of policy's cash value.

What will the insurer do if the outstanding loan plus unpaid interest becomes greater than the amount of cash value of the policy?

The insurer will foreclose the contract. Notice is to be given to the policyholder before the insurance company resorts to foreclosure. The policy is terminated and subsisting cash value is adjusted to loan and interest that is outstanding. Any excess amount may be paid to the policyholder.

Nomination: Nomination is a process, which enables the settlement of claims in an easy way.

This is the place where the life assured proposes the name of the person(s) to whom the sum assured should be paid by the insurance company after his/her death.

The life assured can nominate one or more than one person as nominee(s).

Where more than one nominee is appointed, the death claim will be payable to them jointly, or to the survivor or survivors. No specific share for each nominee can be made. Nominations made after the commencement of the policy have to be intimated to the insurers to be effective.

Nomination can be done either at the time the policy is bought or later.

Note: Nomination only gives the nominee the right to receive the policy monies in the event of the death of the life assured. A nominee does not have any right to the whole (or part) of the claim.

Where the nominee is a minor, the policyholder needs to appoint an appointee.

The appointee needs to sign the policy document to show his or her consent to acting as an appointee. The appointees lose their status when the nominee reaches majority age. The life assured can change the appointee at any time. If no appointee is given, and the nominee is a minor, then on the death of the life assured, the death claim is paid to the legal heirs of the policyholder.

Assignment of Life Insurance Policy Under Section 38 of Insurance Act, 1938

An insurance policy is a property. It can be sold, mortgaged, charged, gifted or bequeathed.

In India, the assignment is governed by Section 38 of the Insurance Act. On execution of the assignment, the assignee gets all rights, title and interest in respect of property assigned and becomes the owner of the policy, subject to the provision that the assignee **cannot have a better title than the assignor.**

This last provision is very important. It means simply that the assignee would not be eligible to get a claim that for some reason is rejected to the assured. Assignment requires that the parties be competent to contract and are not subject to legal disqualifications.

The policyholder is the **assignor** and on whom the policy is assigned is the **assignee.**

Types of Assignments

There are two types of assignments.

Absolute Assignment	All rights, title and interest, which the assignor has in the policy are transferred to the assignee without reversion to the former or his/her estate in any event. The policy, thus vests absolutely with the assignee. The latter can deal with the policy in whatever manner he or she likes, without the consent of the assignor.
Conditional Assignment	Conditional assignment provides that the policy shall revert to the life assured on his or her surviving the date of maturity or on death of the assignee.

Conditions for Valid Assignment

i. The person executing it (the assignor) must have absolute right and title or assignable interest to the policy being assigned

ii. It is necessary that the assignment be supported by valuable consideration, which may include love and affection

iii. It is imperative that the assignment is not opposed to any law in force. For example, the assignment of a policy to a foreign national residing in another country may contravene exchange control regulations

iv. Assignee can do another assignment, but cannot do nomination because assignee is not the life assured

The assignment has to be in writing and must be signed and attested by at least one witness.

The fact of transfer of title has to be specifically set forth in the form of an endorsement on the policy. It is also necessary that the policyholder must give notice of the assignment to the insurer.

Unless such notice in writing is received by the insurer, the assignee would not have any right of title to the policy.

Reassignment of Policy

An assignee may reassign interest in the policy to the policyholder/life assured during the currency of the policy. On such reassignment, the latter may be advised to execute a fresh nomination or assignment for expeditious settlement of the claim.

Again, in the case of conditional assignment, the title to the policy would revert to the life assured in the event of death of the assignee. On the other hand, if the assignment were absolute, the title would pass to the estate of the deceased assignee.

Aspects	**Nomination**	**Assignment**
What is nomination or assignment?	Nomination is the process of appointment of a person to receive the death claim.	Assignment is the process of transferring the title of the insurance policy to another person or institution.
When can claim for the nomination of assignment be done?	Nomination can be done either at the time of proposal or after the commencement of the policy.	Assignment can be done only after commencement of the policy.
Who can make the nomination or assignment?	Nomination can be made only by the life assured on the policy of his/her own life.	Assignment can be done by owner of the policy either by the life assured if he/she is the policyholder or the assignee.

Where is it applicable?	It is applicable only where the Insurance Act, 1938 is applicable.	It is applicable all over the world, according to the law of the respective country relating to transfer of property.
Does the policyholder retain control over the policy?	The policyholder retains the title and control over the policy and the nominee has no right to sue under the policy.	The policyholder loses the right, title and interest under the policy until a reassignment is executed and assignee has a right to sue under the policy.
Is a witness required?	Witness is not required.	Witness is mandatory.
Do they get any rights?	Nominee has no right over the policy.	Assignee gets full right over the policy and can even sue under policy.
Can it be revoked?	Nominee can be revoked or cancelled at any time during the policy term.	The assignment once done cannot be cancelled, but can be reassigned.
In case of minor:	In case the nominee is a minor, an appointee has to be appointed.	In case the assignee is a minor, a guardian has to be appointed.
What happens in case of the nominee's or assignee's death?	In case of nominee's death, the rights of the policy revert to the policyholder or to his/her legal heirs.	In case of conditional assignee's death, the rights on the policy revert to the life assured, based on the terms of assignment. In case of the absolute assignee's death, his legal heirs are entitled to the policy.
What happens in case of death of the nominee or assignee after the death of the life assured and before the payment of the death claim?	In case the nominee dies before the settlement, the policy amount will be payable to the legal heirs of the life assured.	In case the assignee dies before the settlement, the policy amount is payable to the legal heirs of the assignee and not the life-assured, who is the assignor.
Can creditors attach the policy?	Creditors can attach the insurance policy, which has a	Creditors cannot attach the policy, unless the assignment is shown to have been made to

	nomination in it.	defraud the creditors.

Alteration

Example 1:

I have taken a life insurance policy of Rs. 10 lakhs. I have a quarterly premium payment. Now, I want to change it to annual premium. Is it possible?

Example 2:

In the insurance policy I have taken, the sum assured is Rs. 5 lakhs. Now, I want to increase the sum assured to Rs. 10 lakhs. Is it possible?

Insurers allow alterations in the policy after the policy has been issued.

Normally, alterations may not be permitted during the first year of the policy. However, there are certain exceptions. Alterations are permitted for change in the mode of premium or for those which are of a compulsory nature – like change in name or / address; readmission of age, in case it is proved higher or lower; request for grant of double accident benefit or permanent disability benefit and so on.

Impacts of Alterations

Alterations require the approval of the underwriters as some may lead to increase in risk.

Change in sum assured to a higher side will increase the risk. Therefore, the underwriter has to go through the underwriting process again.

Alterations make the given two impacts on the insurer.

Alterations that do not affect risk	• Change of address • Change of mode of payment of premium • Change in nominations • Conversion of “without profit” policy into “with profit” and vice versa • Change one policy into two or more with smaller sum assured
Alterations that affect risk	• Change in the plan • Change in the term of policy • Change in the sum assured

Chapter 14: Underwriting

Underwriters assess the risks and make premium calculations based on the extent and level of risks. These exercises are done so as to:

i. Prevent anti-selection or selection against the insurer

ii. Classify risks and ensure equity among risks

An “Underwriter” carries out the process of assessing the risk of each person to be insured. He then decides on the grant of policy.

Role of underwriters: Underwriters assess risks and make premium calculations based on the assessed risks.

Risks are assessed based on:

Physical Hazards:	**Moral Hazards:**	**Occupational Hazards:**
• Age • Sex • Build • Physical conditions • Physical impairments • Personal history	• Intentions of the person to be insured	• Nature of job • Place and work conditions

Insurance policies cannot be issued without the decision of the underwriter. This is because insurance works on the principle of “sharing” and “pooling of risks”.

If the risk is wrongly assessed, the premium charged would not be correct. A lower premium affects the solvency of the **fund.**

Fund: Income from the life insurance business, including earnings from investments, is kept in a fund called Life Insurance Fund.

Equity Among Risks

The term “Equity” means that applicants who are exposed to similar degrees of risk must be placed in the same premium class. We have already seen how life insurers use a mortality table to determine the premiums to be charged.

The mortality table represents the mortality experience of standard lives or average risks.

Risk classification

Standard Life	This class of risk consists of those whose anticipated mortality corresponds to the standard lives represented by the mortality table.
Preferred Risks	These are the ones whose anticipated mortality is significantly lower than standard lives. Hence, they could be charged a lower premium.
Sub-Standard Lives	These are the ones whose anticipated mortality is higher than the average or standard lives. But they are still considered to be insurable.

	They may be accepted for insurance with higher (or extra) premiums or subject to certain restrictions.
Declined Lives	These are the ones whose impairments and anticipated extra mortality are so great that they cannot be provided insurance coverage at an affordable cost.

Selection Process

Selection of insurance applicants is done at two levels.

- Filed Level – Primary Level
- Underwriting Level – Department Level

Primary underwriting: It includes information gathering by an agent or company representative to decide whether an applicant is suitable for granting insurance coverage. The agent plays a critical role as a primary underwriter. He is in the best position to know the life to be insured.

Many insurance companies may require the agents to provide Confidential reports containing specific information, Opinion and recommendations of the prospect and Moral hazard report

Underwriting at the Department Level

- The second level of underwriting is at the department or office level.
- Underwriters of insurance companies take up the responsibility of underwriting policies at the department level.
- Such underwriting involves specialists and persons who are proficient in this work. They consider all relevant data on the case and decide whether or not to accept a proposal for life insurance and on what terms.

There are two methods of underwriting.

Judgmental method	**Numerical Method**
Under this method, subjective judgment is used, especially when deciding on a case that is complex.	Under this method, underwriters assign positive rating points for all negative or adverse factors and negative points for any positive or favourable factors. The total number of points so assigned will decide how much Extra Mortality Rating (also called EMR) has been given. Higher the EMR, more substandard the life is. If the EMR is very high, insurance may even be declined.

Acceptance at Ordinary Rates (OR): This rating indicates that the risk is accepted at the same rate of premium as would apply to an ordinary or standard life. If the person to be insured does not have any adverse features affecting the mortality, then the risk is considered to be **normal, standard, first class** or **average life.** In such cases, the premium charged would be as per tabular rates.

Acceptance With an Extra Premium: This is the most common way of dealing with the large majority of sub-standard risks. It involves charging an extra over the tabular rate of premium.

The underwriter has to decide whether to give an insurance cover to someone who has acute diabetics.

Acceptance with a Lien on the Sum Assured: A lien is a kind of hold, which the life insurance company can exercise (in part or whole) on the amount of benefit it has to pay in the event of a claim.

Example 1: It may be imposed in case the life proposed for insurance has suffered and recovered from certain diseases like TB. Lien implies that if the life assured dies from a specified cause (for example relapse of the TB) within a given period, only a decreased amount of death benefit may be payable.

Example 2: Proposals are also accepted with a “lien” in case of occupational hazards. Ex. Formula car racer who wants an insurancecover of Rs. 15 lakhs. In such case:

- The risk is not standard
- The risk is expected to wear off in some years, in this case, say 5 years
- Hence, this does not justify an increase in premium

The underwriter accepts the proposal with a lien. In such a case, the SA is reduced during the “lien period”. This means that if anything happens within the first 5 years of the policy, the sum assured would be paid only Rs. 7 lakhs and not the full sum assured of Rs. 15 lakhs.

Acceptance With a Restrictive Clause: For certain kinds of hazards, a restrictive clause may be applied. Such a clause limits the death benefit in the event of death under certain circumstances.

For example, if the person to be insured is a married female, the underwriting process is different. If it is a 15 years policy, the restriction will be for the period of pregnancy and risk will be excluded.

Decline or Postpone: Finally, a life insurance underwriter may decide to decline or reject a proposal for insurance. This would happen in case of certain health or other features, which are so adverse that they considerably magnify the incidence of the risk.

Example: An individual, who suffers from cancer and has little chance of remission, would be a candidate for rejection.

Non-Medical Underwriting

The case for non-medical underwriting lies in the finding that medical examinations bring out adverse features only in a small proportion (say one tenth) of the cases. The rest can be found out from the answers given in the proposal or the proposed life’s leave records and other documents.

Non-medical cases have restrictions usually with regard to limits on:

1. Age
2. SA
3. Plan
4. Nature of employment

Conditions for Non-Medical Underwriting

Let us see some of the conditions for non-medical underwriting.

1. Only certain categories of females, like working women, may be eligible.

2. Upper limits on sum insured may be imposed. For example, any case having a sum assured beyond five lakhs may be subject to a medical examination.

3. Age at entry limits may be imposed – for example, anyone above 40 or 45 years of age has to compulsorily get a medical examination done.

4. Restriction being imposed with regard to certain plans of insurance. Term insurance, for example, may not be allowed under non-medical category.

5. Maximum term of insurance may be limited to 20 years up to age 60.

6. Non-medical insurance may also be allowed to certain specific categories of individuals. For instance, employees of reputed firms who have put in one year of service. These companies have proper leave records and may also have periodic medical examinations.

Female Underwriting: The underwriting norms for female lives are different from that of male lives. Hence, the female community will be accepted with a 'clause', whereas it will not be so in case of men.

This is because there are:

- More pregnancy related deaths, especially in remote areas
- Deaths due to domestic violence
- Record of frauds

Moral Hazard: The following raise suspicion on the intent of the individual and the consequent moral hazard.

- A proposal is submitted at a branch located far away from the place of residence of the proposed insured.

- A medical examination is done elsewhere even when a qualified medical examiner is available near one's place of residence.

- The proposal is made on the life of another without having clear insurable interest, or when the nominee is not the near dependent of the life proposed.

Occupational hazards can emanate from any of the three sources:

1. Accident Hazards: Certain kinds of jobs expose one to risk of accident. like circus artistes, scaffolding workers, demolition experts and film stunt artistes.

2. Health Hazards: When the nature of the job is such that it gives rise to a possibility of medical impairment – for example, rickshaw pullers are exposed to toxic or carcinogenic fumes.

Lifestyle and habits are terms, which cover a wide range of individual characteristics, example: Smoking and use of tobacco, Drinking alcohol & Substance abuse like drugs or narcotics, sedatives and other similar stimulants.

Medical Underwriting: Medical factors influencing the underwriters decision:

Family History: Hereditary diseases, average longevity of family etc.,

Personal History: Personal history refers to past impairments of various systems of the human body that the life to be insured has suffered from.

Personal Characteristics: body build, physical impairments etc.,

Killer diseases are cardio vascular diseases affecting heart and blood systems, leading to cardiac arrest and heart attacks, diseases relating to respiratory system and cancer, renal ailments and so on.

Degenerative Diseases: Diseases of the heart and kidney failure, increase with age and become high at older ages.

Chapter 15: Claims

A claim is a demand that the insurer should make good the promise specified in the contract.

Under a life insurance contract, a claim is triggered by the happening of one or more of the events covered under the insurance contract. While in some claims, the contract continues, in others, the contract is terminated.

Let us take the same example with slight changes in the terms of the policy.

Krishna Kumar has taken a life cover of Rs. 2 lakhs with a critical illness benefits rider. Unfortunately, he suffers first-degree burns in a fire accident. He has to undergo skin grafting surgery.

Now a claim arises as a specified event under the terms of the policy has occurred

Claims are of two types. Death Claim and Survival Claim.

A death claim arises only upon the death of the life assured whereas survival claims can arise by one or more events.

Examples of events triggering survival claims are:

i. Maturity of the policy;
ii. Instalments payable on reaching milestones under money-back policy;
iii. Critical illnesses covered under the policy as a rider benefit,
iv. Surrender of the policy by either the policyholder or assignee.

Let us look at the different risks covered under life insurance with different plans.

Insurance plan	Risk covered

Term / whole life / endowment policy	Life of the policyholder
Endowment policies with riders	Permanent disability benefits: Loss of limbs, eye sight, hearing, speech and so on Critical illness cover: Medical expenses for treatment of cancer, cardiac surgeries, stroke, kidney failure, major organ transplant, fire burns, total blindness and so on Double Accident Benefit: Death occurring due to accident

Ascertaining Claim Event

Let us look at how claim events are ascertained at different stages.

Type of claim	Occurring event
Survival claim	Events to occur as per the terms of the policy
Maturity claims / Money Back instalments	They are based on dates which are determined at the beginning of the contract itself.
Surrender value payments	Based decision of the policyholder to cancel or withdraw the contract
Critical illness claims	Based on the medical and other records provided by the policyholder in support of his claim.

Claims Occurring during the Policy Term

Survival Benefit Payments: Periodical payments are made by the insurer to the insured at specified times during the term of the policy. The policy bond is returned to the policyholder bearing an endorsement of payments made after each survival benefit instalment.

Example: Ranjith has a money back policy of Rs. 1 lakh for 25 years. He received the first payment of survival benefit 4 years ago.

Surrender of Policy: The policyholder opts for a premature closure of his policy. This is a voluntary termination of the policy contract.

A policy can be surrendered only if it has acquired paid-up value. The amount payable to the insured is the surrender value. This is usually a percentage of the premiums paid. There is also a minimum guaranteed surrender value (GSV). However, the actual surrender value paid to the insured is more than the GSV.

Example: Vimal Varma has a life insurance policy of Rs.1 lakh for 15 years. He has paid the premiums for 5 years. Now he wants to discontinue with the policy, as he is moving out of country.Vimal Varma decides to surrender his policy and take the surrender value.

Rider Benefit: A payment under a rider is made by an insurance company on the occurrence of a specified event according to the terms and conditions. Under a critical illness rider, in the event of diagnosis of a critical illness, a specified amount is paid as per terms. The illness should have been covered in the list of critical illnesses specified by the insurance company.

Under hospital care rider, the insurer pays the treatment costs in the event of hospitalisation of the insured, subject to terms and conditions.

The policy contract continues even after the rider payments are made.

Example: Krishna Kumar has taken a life cover of Rs. 2 lakhs with a critical illness benefits rider.Unfortunately, Krishna Kumar suffers first-degree burns in a fire accident. He has to undergo skin grafting surgery. The claim has arisen as the specific event under the terms of the policy has happened.

Claims Occurring After Policy Term: The following claims occur after the policy term:

Maturity Claim: The insurer promises to pay the insured a specified amount at the end of the term, if the insured survives the plan's entire term. This is known as a maturity claim.

Example: Anmol Sharma has taken a life insurance policy of Rs. 1 lakh for 10 years in June 1998. His policy matured in 2008 May. He received his maturity claim of Rs. 1 lakh and the accrued bonus amount.

Payment of Maturity Value

The maturity value of the policy depends upon the type of policy taken by the policyholder.

Type of policy`	Maturity value
Participating plan	Sum assured plus accumulated bonuses less dues such as outstanding premium and policy loans and interests thereon
Return of premium plans	Premiums paid over the plan period
Unit Linked Insurance Plans (ULIPs)	Fund value
Money Back plans	Maturity claims minus the survival benefits already paid to the policyholder

Verification before Making Maturity Claims

The insurer has to be convinced that all the conditions and requirements for settlement of claim have been complied.

- Check whether all premiums have been received

- Check whether any loan is taken and payment of interest and principal
- Calculate bonus amount, if any
- Check whether the policy has been assigned

Death Claim: The procedure for settling a death claim is relatively complex as compared to maturity claims.

In the case of death claims, the insurer gets intimation from the dependents or nominees of the insured who died. The insurer takes further course of action in settlement of the same.

If the insured expires during the term of his/her policy, accidentally or otherwise, the insurer pays the sum assured plus accumulated bonuses, if participating, less dues like outstanding policy loan and premiums plus interest thereon respectively.

The death claim is paid to the nominee, assignee or legal heir, depending on the situation.

A death claim marks the end of the contract because of death of policyholder.

The insurer takes action in a death claim after a demand is made. However, for a maturity claim, no demand from the policyholder is required.

Types of Death Claim

A death claim may arise:

- Early (less than three years policy duration) or
- Non-early (more than three years)

Early Claim : Claim arising out of early deaths within three years from the policy commencement calls for more scrutiny. Insurance companies have to investigate the facts relating to such early deaths.

Verifications before Payment of Death Claims

The insurer will check the following details:

Proof of death	Death certificate, if admitted in hospital Certificate of cremation/burial Police report, post mortem report and so on, if death is due to accident Report from a person who attended the funeral of the policyholder
Receipts of all premiums paid	Check whether all premiums have been paid until the time of death claim. If not, the outstanding payment will be deducted from the final settlement amount.

Entitlement of accident benefits	Check whether there is any accident benefit riders attached to the policy. For example, there are policies with DAB (Double Accident Benefit) and policies without DAB.

Forms to be Submitted for Death Claims

The beneficiary needs to submit certain forms to the insurer to facilitate processing of the claim. They are:

- Claim form by nominee
- Certificate of burial or cremation
- Treating physician's certificate
- Hospital's certificate
- Employer's certificate
- Certified court copies of police reports like First Information Report (FIR), Inquest Report, Post-Mortem Report and Final Report are required in case of death by accident
- Death certificate issued by municipal authorities as proof of death

Repudiation of Death Claim: While processing a claim, the insurer may detect that the proposer has made incorrect statements or has suppressed material facts relevant to the policy. Then, the contract becomes void. All benefits under the policy are forfeited. Example: The claim may be repudiated, if the age is found to be different.

However, this penalty is subject to **Indisputability Clause Section 45** of the Insurance Act, 1938.

This clause states that if a policyholder suppressed material facts, at any time up to 2 years from issuance of policy, repudiation can be done by insurer if material facts in proposal are false.

Presumption of Death: The Indian Evidence Act provides for presumption of death in cases where an insured person has not been heard of for 7 years. In this case, court orders to the effect that the person has been missing for 7 years should be obtained. On submission of the court order, the insurance company will process the claim.

It is necessary that premiums should be paid until the court decrees presumption of death. Insurers may, as a matter of concession, waive the premiums during the seven-year period.

Claim Procedure for Life Insurance Policy

A life insurance policy shall state the primary documents to be normally submitted by a claimant in support of a claim.

On receiving a claim, a life insurance company shall process the claim immediately. If there are any queries or requirement of additional documents, these shall be raised at one time and not in a piece-meal manner. This should be done **within a period of 15 days** of receipt of the claim.

A claim under a life policy shall be paid or be disputed giving all the relevant reasons. This should be done **within 30 days** from the date of receipt of all relevant papers and clarifications required.

In case of investigations and disputes, the insurance company shall complete such investigation at the earliest. This should be done not later **than 6 months (180 days)** from the time of lodging the claim.

Where a claim is ready for payment but the payment cannot be made due to any reasons of a proper identification of the payee, the life insurer shall hold the amount for the benefit of the payee. Such an amount shall earn interest at the rate applicable to a savings bank account with a scheduled bank (**effective from 30 days** following the submission of all papers and information).

Where there is a delay on the part of the insurer in processing a claim for a reason other than the one covered by sub-regulation (iv), the life insurance company shall pay interest on the claim amount at a rate, which is **2% above the bank rate** prevalent at the beginning of the financial year in which the claim is reviewed by it.

Chapter 16 – Regulatory Aspects

The prime purpose of insurance regulation is to protect the policyholder. The policyholders pay money and buy the insurance policy. They should be assured that the insurance policy they bought will be honoured by the insurance company.

Insurance and Regulatory and Development Authority (IRDA) is the insurance regulator in India. The basic objective of IRDA is to protect the interest of policyholders and to regulate, promote and ensure the orderly growth of the insurance industry.

The IRDA was incorporated as a statutory body in April 2000.

The key objectives of IRDA include:

- Promoting competition to enhance customer satisfaction with competitive premiums
- Regulating orderly growth of the insurance sector
- The Life Insurance Council was constituted under Section 64 A of the Insurance Act, 1938. It functions through the executive committee and several sub-committees and includes all life insurance companies in India. It develops and coordinates all discussions on behalf of the industry with the government, IRDA and the public.
- In other words, LI Council is the face of the insurance industry.

General Insurance Council represents the collective interests of the non-life insurance companies in India.

Tariff Advisory Committee (TAC) was established by Section 64 U of the Insurance Act, 1938.

The function of TAC is to regulate the rates and other terms and conditions offered by non-insurance companies. TAC is also the data repository of non-life insurance companies.

Recruitment, Training and Licensing of Agents:

Mandated minimum qualification of an agent	The applicant must have: Passed Standard XII examination

	For rural areas (Having population of less than 5000), passed class X or equivalent.
Pre-recruitment practical training	Must undergo 50 hours of practical training from an approved Life Insurance Institute Must undergo 75 hours of practical training in case of composite licence
Examination	Post training, must take examination conducted by III (Insurance Institute of India) or any other approved examination body
Issue of licence	Licence will be issued by the insurance company after ascertaining of compliance of all the requirements
Ethics and code of conduct	The agent is constantly bound by the ethics and code of conduct
Renewal of licence	The licence is valid for three years The applicant needs to undergo 25-hour renewal training (35 hours in case of composite licence) from an approved institution
Cancellation of licence	The designated officer of the insurance company may cancel the licence if the agent suffers from any of the disqualifications

Chapter 17 – Life Insurance Agency as Career

An agent is one who works on behalf of a principal. An Insurance Agent is a person engaged by the insurer to procure new business. He gets his remuneration by way of commission.

An Insurance Agent is a person who:

Is engaged by the insurer to procure new business
Is representing the insurance company and works on its behalf
Is paid commission as remuneration for the duties done by him

Corporate Agents: IRDA (Licensing of Corporate Agents) Regulations, 2002 provides for appointment of corporate agents such as companies, firms and co-operative societies.

Brokers: An insurance broker represents the insured and generally does not have any contractual agreement to exclusively serve any one insurance company.

Bancassurance: The term ‘Bancassurance’ refers to the collaboration between banks and insurers to distribute insurance products to the same customers or customer base.

Direct Marketing: This is where the company directly markets to customers through its own sales force which is made up of employees of the company. They may get a regular salary and incentives, based on their sales performance.

Direct marketing may involve various approaches such as:

i. Telemarketing (through call centres for instance), Mail marketing, Internet and web-based marketing and Work site marketing.

Persistency of Individual Agents: Persistency during a period has been defined as "proportion of policies remaining in force at the end of the period out of the total policies in force at the beginning of the period." Persistency refers to the amount of business that insurance companies are successful in retaining without lapse or surrender of the policy. It can be calculated as follows:

Persistency = Number of policies remaining in force at the end of the year / Total number of policies in force at the beginning of the year

Methods to Maintain High Persistency: High persistency ratio can be maintained by:

- Flexibility in premium payment by clients
- Constant reminder of due premium dates
- Continuous contact with clients
- Effective policy servicing

Through an agency career, apart from the scope to earn high incomes, an insurance agent can also attain a tremendous job satisfaction and social respect if one's job is done in an ethical and professional manner

- Qualities that would contribute to success in the career as an insurance agent or advisor include:
  - Fire in the belly
  - Positive self-image
  - Being a self-starter
  - Ability to relate and communicate with people
- A good salesman should have two basic qualities: empathy and ego drive
- Four major areas of unethical behaviour have been identified in the insurance sector:
  - Misrepresentation
  - Illustrations
  - Replacement
  - Advice
- The IRDA has prescribed a code of ethics and market conduct for agents
- IRDA has laid down the regulations for recruitment, training and licensing of insurance agents
- Effective from September 2012, a standard proposal form has been adopted by all life insurers for all individual policies. This is based on the draft exposure guidelines issued by IRDA in June 2012
- The agency function consists of two distinctive tasks:

- Building a relation with the customer – which inspires trust and confidence

- Providing expert financial advice to the customer – which enables the latter to meet his or her needs for insurance in the most appropriate manner

- IRDA has decided to implement guidelines strictly from 1st July 2014.

Chapter 18 – Life Insurance Selling Process

Two points that distinguish selling life insurance and selling other products:

i. Firstly, it is said that 'life insurance is sold, not bought'. In case of other products, the prospect has a need for the product and initiates the enquiry. In the case of life insurance, typically, the salesperson has to go to the prospect and induce the need to buy.

ii. Secondly, in life insurance, unlike other products, one is not selling a tangible product but an idea. It is a promise that would be realised only in the future.

Salespersons should adhere to a well-defined sales process with clearly sequenced steps as below:

1. Build up list of prospects
2. Quantify the list of prospects and rearrange the list
3. Fix appointment with the prospects
4. Gather information and do a need analysis
5. Prioritize needs
6. Recommend appropriate solutions
7. Handle objections if any
8. Sales follow through
9. Policy Delivery
10. After sales service

- Selling as a profession refers to the act of inducing a commercial transaction. This is done by inducing the purchase of a product or service. Such an act is carried out with the intent of earning remuneration

- Insurance agents are salespersons who seek to induce members of the community to buy insurance contracts written by the insurance company that they represent

- Prospecting is the process of gathering names of people, who can be approached for a sales interview

- Target markets for prospecting include:

    - Immediate group

    - Natural market

    - Centres of influence

  - References, introductions and testimonials
  - Other service providers
- A professional, efficient method of selling on a group basis includes conducting seminars and events
- An easy and viable means of reaching out to prospects on a mass scale include emails, newsletters, personal websites or blogs, social networking websites and so on
- "Qualified" prospects are those people:
  - Who can pay for insurance,
  - Who can pass the company underwriting requirements,
  - Who have one or more needs for insurance products and
  - Who can be approached on a favourable basis.
- During a sales interview with the prospect, the agent should do a need gap analysis
- In need gap analysis, we engage in a process of gathering detailed information about the prospect’s insurance requirements. This is to identify and determine the assets and perils for which there is inadequate coverage
- After completing the sales interview successfully, the agent should design a solution based on the prospect’s needs and present the solution
- The agent may handle client objections using the LAPAC (Listen, Acknowledge, Probe, Answer and Confirm) approach
- Closing a sale involves persuading the prospect to buy immediately. While closing, the agent may use the ‘implied consent’ method or offer alternatives to the prospect
- Once the sale is closed, the agent should do a sale follow-through and deliver the policy
- Service on the part of the agent is an integral element of the sales cycle. For commitment to service, it is necessary to have a structured programme for maintaining contact with our clients

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Chapter 19 – Customer Service

The role of customer service and relationships is far more critical in the case of insurance than in other products. This is because, insurance is a service and very different from real goods. The sale of insurance is quite different from the sale of a consumer product or a consumer durable. Similarly, the purchase of insurance is different from that of a purchase of car.

- The role of customer service and relationships is far more critical in the case of insurance than in other products

- A well-known model on service quality (named “SERVQUAL”) would give us some insights. It highlights five major indicators of service quality:
    - Reliability
    - Responsiveness
    - Assurance
    - Empathy
    - Tangibles
- The secret to the success of leading sales producers in the life insurance industry is their commitment to serving their customers
- Customer lifetime value may be defined as the sum of economic benefits that can be derived from building a sound relationship with a customer over a long period
- The insurance agent needs to be a personal financial planner and advisor. In addition to these, he/she also needs to be an underwriter, a designer of customised solutions and a relationship builder. He/she needs to thrive on building trust and long-term relationships, all rolled into one
- The agent has a crucial role to play at the time of claim settlement. It is his/her task to ensure that the details of claim are immediately informed to the insurer. He/she has to support any claim investigation that may be necessary to expedite the process
- Soft skills relate to one’s ability to interact effectively with other workers and customers, both at work and outside. The elements that promote trust include:
    - Attraction
    - Being present
    - Communication

Communication may take place in several forms:

- Oral
- Written
- Non-verbal
- Using body language

- The agent can make a great first impression on the client by:
    - Being on time always
    - Presenting himself or herself appropriately
    - Always having a warm, confident and winning smile
    - Being open, confident and positive
    - Being genuinely interested in the other person
- Active listening involves:
    - Paying attention
    - Demonstrating that you are listening
    - Providing feedback
    - Not being judgemental
    - Responding appropriately

Chapter 20 – Grievance Redressal Mechanism

Importance of Customer Protection: Insurance agents are the representatives of the insurance company as far as the policyholders are concerned. They are the link between the insured and the insurer. It is hence essential that insurance agents understand the importance of customer protection measures.

Insurance agents must carry out their functions honestly and in a transparent manner. They must always act in the best interests of their customers. Good customer relations are important for the following reasons:

- Insurance agents become popular for their service and are thus recommended to others by their existing customers
- Losing a customer would mean loss of additional income to the agent
- Good customer service goes a long way in promoting the role of an agent as a customer's representative in the insurance company

Objectives of the Insurance Ombudsman

The Insurance Ombudsman was created in November 1998 by the Government of India to resolve the grievances of insurance customers. It was started as a means of protecting the interests of the insured and maintaining the confidence in the insurance system.

The main objectives of the Ombudsman are:

- Ensuring speedy resolution of claims and disputes
- Resolution of complaints in a cost effective, impartial and efficient manner
- Allowing the insured to approach the Ombudsman for any unresolved complaints

IRDA has launched an Integrated Grievance Management System (IGMS), which acts as a central repository of insurance grievance data and as a tool for monitoring grievance redressal in the industry.

Consumer disputes redressal agencies are established in each district and state and at national level.

As far as insurance business is concerned, the majority of consumer disputes fall into categories such as delay in settlement of claims, non-settlement of claims, repudiation of claims, quantum of loss and policy terms, conditions and so on.

The Ombudsman, by mutual agreement of the insured and the insurer can act as a mediator and counsellor within the terms of reference.

If the dispute is not settled by intermediation, the Ombudsman will pass award to the insured, which he thinks is fair, and is not more than what is necessary to cover the loss of the insured.