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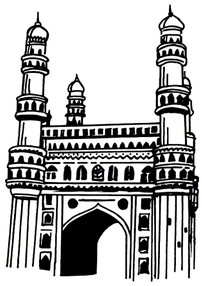

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## 1.1 Life Insurance

**Q1. Write about life insurance.**

*Ans :*

The life insurance contract provide elements of protection and investment after getting insurance, the policyholder feels a sense of protection because he shall be paid a definite sum at the death or maturity. Since a definite sum must be paid, the element of investment is also present. In other words, life insurance provides against pre-mature death and a fixed sum at the maturity of policy. At present, life insurance enjoys maximum scope because each and every person requires the insurance.

Life insurance is a contract under which one person, in consideration of a premium paid either in lump sum or by monthly, quarterly, half yearly or yearly installments, undertakes to pay to the person (for whose benefits the insurance is made), a certain sum of money either on the death of the insured person or on the expiry of a specified period of time.

### 1.1.1 Meaning of Life Insurance

**Q2. What do mean by life insurance?**

*Ans :*

Life insurance could be a contract for payment of a total of cash to the person assured (or failing him/her to the person entitled to receive the same) on the happening of the event insured against. Sometimes the contract provides for the payment of associate degree quantity on the date of maturity or at nominal dates at periodic intervals or on unfortunate death, if it happens earlier. Among different factor the contract additionally provides for the payment or premium sporadically to the corporation by the assured. Life assurance is universally acknowledged to be an establishment that eliminates "risks", subbing definitely for uncertainty and is available to the death or of total permanent incapacity of the wage earner. By and huge, life assurance is civilization s partial answer to monetary uncertainties caused by untimely death.

### AIMS of LIC

Life Insurance Corporation of India has come into force with the following aims:

1. To assure full protection to the policy holder.
2. To encourage & mobilize public savings.
3. Effective utilization of those savings in different forms of investments for national & economic development.
4. To create liquidity position in public.
5. To motivate saving habits in public.
6. Provisions for old age and tax concession.

## 1.1.2 Evolution of Life Insurance

### Q3. Explain the evolution of life insurance.

*Ans :*

Life Insurance Policies and Life Insurance Plans have been around in India for as long as they have been around anywhere else in the world. In 1956, when the government nationalized the insurance sector by combining about 250 Indian life insurance companies to form a single firm, the Life Insurance Corporation (LIC) of India became the sole provider. This nationalization by the centre to channel more resources towards various national development programmes and give insurance market penetration a boost to protect the interests of the policy holders from failures which were the result of mismanagement resulted in the transformation of competitive segment to highly regulated monopoly. The nationalization also led to more effective mobilization of funds to enable capital to be allocated to various development projects.

In 1991, the Government implemented the New Industrial Policy, under which the Indian economy was opened up to foreign investment and sectors such as banking and finance were reformed. With the passage of the IRDA Act the Indian Life insurance industry was liberalized in 2000 with the objective of once again increasing competition in the industry and to tap the vast potential that this rapid growing market has to offer.

First year premium for single as well as regular life insurance policies offered by LIC and private players witnessed dynamic growth during the early 2000s — from less than 200 billion INR in 2002 to nearly 900 billion by 2009. This intense competition has also forced the different life insurance players to improve their underwriting and risk management abilities. This has greatly benefitted policyholders and Life insurance companies have been quick to recognize the larger need for structured retirement plans, and the potential of long-term fund management.

Several unit linked insurance plans (ULIPs) have been introduced by private players and this has helped them to compete with LIC and also create a customer base of individuals who are willing to opt for these plans for purely investment & tax saving purposes. More than half of the premium income of private companies in the life insurance segment is contributed by these unit-linked plans. Traditional policies like term products and endowment based products form a relatively small proportion of the insurance market.

With the growing popularity of term insurance in India, spending on insurance is on a growth trajectory in India. However, the relatively high population growth rate has been slowing down the improvement of insurance density in India.

In 2006, a milestone occurred when India's insurance penetration nearly doubled to 4.10% before marginally declining to 4.00% in 2007. However, when compared to other countries, the life insurance market in India is still.

### 1.1.3 Growth of Life Insurance

**Q4. What is growth of life insurance?**

*Ans :*

It was a time when India was trapped between two worlds – the one dead and the one struggling to take birth. The princely states were crumbling and new states and enterprises were taking shape. The past had certainly collapsed but not many agreed with the foresight of the visionaries. In such scenario a swift but sure decision to nationalize life insurance in India was taken in the year 1956 to save the insuring public from the morbidity and rampant malpractices of some life insurer of that time and energize the new India that was emerging. The tiny flame that was kindled on the 1st September 1956 has provided Indians the warmth of security and care for almost six decades and is all set to enter the second half of the century.

The year 1956 bought along a defining moment in India s social engineering attempts and marked the beginning of a new base in the history of Life Insurance of India that was conceived in a genuine spirit of service to people. The Life Insurance Corporation of India, born on the 1st September that year, is now in its fifty seventh year if service. Almost six decades that stands today as narratives of many glorious achievements have not been without turmoil and troubles. When the Corporation started its journey as a merged entity, there were a number of formidable problems. Beginning from establishing a unified organizational structure to achieving emotional integration of staff absorbed from offices of erstwhile life insurers – there were problems that had no readymade answers. But the valiant efforts of LICians, over generations, succeeded in effectively surmounting every impediment and today the Corporation can, with pride, look back upon the magnificent achievements.

LIC s past has been great. In competitive era the path to progress traverses through the customer s heart. The West may have suddenly waked – up to Relationship Marketing coupled with professionalism only can satisfy today s discerning customer. LIC has remarkably improved its customer servicing in the past few years – it settle about two claims every second – but let the numerical expressions and comparison delight economists and financial experts.

The growth of Life Insurance Corporation of India is a saga of faith – the faith of LIC's founder, DR. C.D.Desmukh, that nationalization of life insurance would script an era of wider coverage and ethical practices – the faith of the first generation of LICians, who struggled against all odds but were sure of laying a firm foundation – the faith of the next generations of LICians who not only built a strong structure but added newer chapters of achievement with every passing phase, and most important of all, the faith of LIC s policyholders who have ensured LIC s market leadership even after re-entry of private companies in the Indian insurance market.

In the year 1956 i.e. in the initial year of LIC, the corporation had 5 Zonal offices, 33 divisional offices and 212 branch offices, apart from its corporate office. As the life insurance contracts are normally long term contracts and for the payment of the policies, it requires a variety of services and that is why the need was felt in the later years to expand the operations and commence new branch offices at each district headquarters. Re – structuring of corporation took place and many new branch offices were opened up. As a result of this, servicing functions of corporation were transferred to the branches, and all these branches were made responsible for accounting units also. It proved miraculous with the performance of the corporation. It is visible from the new business of LIC which reached to about Rs. 200.00 crores in 1957 and the corporation already crossed total new business of Rs. 1000.00 crores only in the year 1960 – 70, and it took only next 10 years to LIC to cross Rs. 2000.00 crores mark of new business. With re – structuring process happening in the early 1980s, by the end of the year 1985 – 86, LIC had already crossed marvelous Rs.7000.00 crores sum assured on new business through new policies.

At present the corporation functions with 2048 fully computerized branch offices, 109 divisional offices, 8 zonal offices, 992 satellite offices apart from the corporate house situated at Mumbai. Wide Area Network of corporation covers its 109 divisional offices and connects all the branches through a Metro Area Network. To offer an on – line premium collection facility in selected cities, LIC has tied up with many Banks and Service Providers. LIC s ECS and ATM premium payment facility is an additional advantage to customer convenience. Apart from on – line Kiosk and IVRS, info Centers have been commissioned at Mumbai, Ahmadabad, Bangalore, Chennai, Hyderabad, Kolkata, New Delhi, Pune and many other cities. LIC has introduced its SATELLITE SAMPARK OFFICES (SSO) with a vision to provide easy access to its policyholders. The satellite offices are smaller, leaner and closer to customers reach. The digitalized records of the satellite offices will facilitate servicing from anywhere and many other conveniences in the future course of time.

Even in the liberalized situation of Indian insurance, LIC continues to be the dominant life insurer and is moving faster on a new growth and it is surpassing its own past records. LIC has issued more than one crores policies during the year 2004. It has already crossed the 20 milestone of issuing 1,01,32,995 new policy by 15th October, 2005, registering a healthy growth rate of almost 16.67% over the corresponding period of the previous year.

### 1.1.4 Principles of Life Insurance

**Q5. What are the principles of life insurance?**

*Ans :*

The following are the principle of insurance:

**1. Principle of Uberrimae fidei (Utmost Good Faith)**

According to this principle, the insurance contract must be signed by both parties (i.e insurer and insured) in an absolute good faith or belief or trust. The person getting insured must willingly disclose and surrender to the insurer his complete true information regarding the subject matter of insurance. The insurer's liability gets void (i.e legally revoked or cancelled) if any facts, about the subject matter of insurance are either omitted, hidden, falsified or presented in a wrong manner by the insured. The principle of Uberrimae fidei applies to all types of insurance contracts. According to this principle, it is the reciprocal duty of the insurer and the insured have to disclose all the relevant facts.

**2. Principle of Insurable Interest**

The principle of insurable interest states that the person getting insured must have insurable interest in the object of insurance. A person has an insurable interest when the physical existence of the insured object gives him some gain but its non-existence will give him a loss. In simple words, the insured person must suffer some financial loss by the damage of the insured object.

**3. Principle of Indemnity**

Indemnity means security, protection and compensation given against damage, loss or injury. According to the principle of indemnity, an insurance contract is signed only for getting protection against unpredicted financial losses arising due to future uncertainties. Insurance contract is not made for making profit else its sole purpose is to give compensation in case of any damage or loss. The principle of indemnity applies mainly to property, liability and other non-life insurance business, where the exact amount of compensation is not known in advance.

**4. Principle of Contribution**

Principle of Contribution is a corollary of the principle of indemnity. It applies to all contracts of indemnity, if the insured has taken out more than one policy on the same subjeet matter. According to this principle, the insured can claim the compensation only to the extent of actual loss either from all insurers or from any one insurer. If one insurer pays full compensation then that insurer can claim proportionate claim from the other insurers. According to this principle insurance policy is designed to provide compensation only for such losses that are caused by perils, which are stated in the policy.

### 5. Principle of Subrogation

Subrogation means substituting one creditor for another. Principle of Subrogation is an extension and another corollary of the principle of indemnity. It also applies to all contracts of indemnity. According to the principle of subrogation, when the insured is compensated for the losses due to damage to his insured property, then the ownership right of such property shifts to the insurer.



### 6. Principle of Causa Proxima (Nearest Cause)

Principle of Causa Proxima (a Latin phrase), or in other words, the Principle of Proximate (i.e Nearest) Cause, means when a loss is caused by more than one causes, the proximate or the nearest or the closest cause should be taken into consideration to decide the liability of the insurer. The principle states that to find out whether the insurer is liable for the loss or not, the proximate (closest) and not the remote (farest) must be looked into.

## 1.2 Life Insurance Organizations in India

**Q6. What are the major life insurance organizations in India?**

*Ans :*

**Major Insurance Players in India**

There are two types of insurance players

I) Life Insurance

II) Non Life Insurance

Following major players in life Insurance sector;

**1. Bajaj Allianz Life Insurance Company Limited**:

It was incorporated on 12th March 2001 and get certificate of registration on 3rd April 2001. It is a joint venture between Bajaj Auto Limited and Allianz AG of Germany. It conduct life insurance business in India.

**2. Birla Sun Life Insurance Company Limited** :

It is a joint venture between Aditya Birla Group Sun life Corporation of U.S.

**3. HDFC Standard Life Insurance Company Limited**

It is a joint venture between HDFC and Standard life. The company was incorporated on 14th August 2000.

**4. ICICI Prudential Life Insurance Company Limited**

It is a joint venture between ICICI Bank Limited and Prudential of UK. The company has paid up capital of Rs. 230 Crores. The was incorporated on 26th November 2000 and it started its operation on 19th December 2000. Company offers wide range of products for Individual, Investors and Corporate.

**5. Life Insurance Corporation of India Limited**

Life Insurance Corporation of India Limited was established in 1956. it has 7 zonal and 100 divisional offices and 204 branches. It is the dominate leader in life insurance business in India.

**6. Tata AIG Life Insurance Company Limited**

It is a joint venture between Tata Group and AIG of America. The company has paid up capital of Rs. 185 Crores.

**7. SBI Life Insurance Company Limited**

It is a joint venture between SBI and Cardiff S.A. France. The company has paid up capital of Rs. 250 Crores.

**8. OM Kotak Mahindra Life Insurance Company Limited**

It is a joint venture between Kotak Mahindra Finance Limited and Old Mutual Public Ltd. The company has paid up capital of Rs. 150 Crores.

**9. Max New York Life Insurance Company Limited**

It is a joint venture between Max India Limited and New York life. The company has paid up capital of Rs. 250 Crores.

**10. ING Vyasya Life Insurance Company Limited**

It is a joint venture between ING, Vyasa bank and GMR Group. The company has paid up capital of Rs. 110 Crores.

**11. AVIVA Life Insurance Company Limited**

It is a joint venture between Dabur India and CGU, a Wholly subsidiary AVIVA Public Limited Company (PLC). The company has paid up capital of Rs. 110 Crores.

**12. AMP Sanmar Assurance Company Limited**

It is a joint venture between AMP and Sanmar Group.

**II) Following major players in Non life Insurance sector**

**1. Bajaj Allianz General Insurance Company Limited** :

It was incorporated on 19th September 2000 and get certificate of registration on 2nd may 2001. It is a joint venture between Bajaj Auto Limited and Allianz AG of Germany. It conduct general insurance business (Including health insurance business) in India. Its paid up capital is Rs. 110 Crores

**2. ICICI Lombard General Insurance Company Limited**

It is a joint venture between ICICI Bank Limited and Lombard Canada Limited (Oldest property and casualty insurance company in Canada). ICICI Lombard offer a wide range of retail and corporate general insurance customized product.

**3. IFFCO – TOKIO General Insurance Company Limited**

It is a joint venture between IFFCO and Tokio marine & fire Insurance Company Limited, Japan. Its paid up capital is Rs. 100 Crores. It is among India's top three private sector general insurance companies. The company offer a wide range of unique customized policies .

**4. National Insurance Company Limited**

National Insurance Company Limited was incorporated in 1906 and nationalized in 1972. Company carry out general insurance business. 1972, 22 foreign companies and 11 Indian Insurance Companies were amalgamated with National Insurance Company Limited as a subsidiary of General Insurance Corporation of India . Then in 2002, the company was de linked from General Insurance Corporation of India and now working as independent company. Company offers a wide variety of products and also carrying out reinsurance and foreign operations

### 5. New India Assurance Company Limited

New India Assurance Company Limited was incorporated in 1919 and was nationalized in 1972. Company carry out general insurance business. In 2002, the company was de linked from General Insurance Corporation of India and now working as independent company. Company offers a wide variety of products and also carrying out reinsurance and foreign operations

### 6. Oriental Insurance Company Limited

Oriental Insurance Company Limited was incorporated in 1947 as a subsidiary of Oriental Government Security Life Assurance Company Limited. In 1956 Oriental Insurance Company Limited becomes subsidiary of LIC. On 13th May 1971, Government of India took over the management of all general insurance companies in India, then in 1973, General insurance business was nationalized and General Insurance company came under the General Insurance Corporation of India . Then in 2002, the company was de linked from General Insurance Corporation of India and now working as independent company. Company offers a wide variety of products and also carrying out reinsurance and foreign operations. The Company head office is in New Delhi

### 7. United India Insurance Company Limited

It was one of the subsidiary General Insurance Corporation of India, In 2002, the company was de-linked from General Insurance Corporation of India and now working as independent company. Company offers a wide variety of products such as sports insurance, mediclaim policy, T.V. Policy , Floriculture Insurance, Agricultural Insurance etc. The Company head office is in Chennai

### 8. Tata AIG General Insurance Company Limited

It is a joint venture between Tata Group and AIG (American International Group Inc.). Its paid up capital is Rs. 125 Crores. It is the first Indian Insurance company which offers a comprehensive policy to cover various risks in the IT sector. Other products offered are property, casualty, marine, director and officers liability, accident, health, home owners and automobiles insurance

**9. Royal Sundaram General Insurance Company Limited**

Royal Sundaram General Insurance Company Limited is a joint venture between Royal and Sun Alliance Insurance and Sundaram Finance Limited. It started its operations from March 2001.

**10. Cholamandalam General Insurance Company Limited**

Cholamandalam General Insurance Company Limited is promoted by Chennai based Murugappa group. The Company has capital of Rs. 105 crores.

**11. Reliance General Insurance Company Limited**

It is one of the fastest growing general insurance company in India. Reliance General Insurance Company Limited is a subsidiary of Reliance Capital. It provide insurance coverage to all categories of people and offers a wide range of insurance products. The company has a unique features covering customers centric products, multiple distribution channels and new modern technology.

**12. Export Credit Guarantee Corporation of India Limited**

Export Credit Guarantee Corporation of India Limited was established in 1957 by the Government of India. It function under the administrative control of the Ministry of Commerce, Government of India. The main objective was to strengthen the export promotion campaign by insuring the risk associated with exporting on credit. It is the fifth largest credit insurer of the world in term of coverage of national exports. The paid up capital of the company is Rs. 500 Crores.



## 1.3 Competition and Regulation of Life Insurance

**Q7. Explain the competition in Indian life insurance industry.**

*Ans :*

The Insurance Sector in India started in 1818 with the commencement of Oriental Life Insurance Company. But later in 1824, the company had a breakdown and it stopped operating. In 1829, another company called the Madras Equitable Life Insurance Society began its operations in Madras. In the year 1870, the foreign insurance companies like Royal Insurance, Liverpool and London Globe Insurance started its functioning in India under the British Insurance Act, 1870. This resulted in great competition between the foreign insurance companies and Indian insurance companies like Oriental Assurance .Company and the Bombay Mutual Life Insurance Society. .

However, from the period of independence, life insurance industry of India has gone through from major changes and tough competition. The Life Insurance Corporation (LIC) of India maintain the competitive advantage and had complete control over the Indian life insurance market, since its established. But, with the entry of new Indian and foreign insurance companies in industry after liberalization, LIC position is fluctuating. The new market players are introducing innovative life insurance plans and trying to provide efficient services to attract customers. Competition among companies motivating the Indian as well as foreign companies to introduce new strategies of attracting Indian customers. Advertisements through internet, television, ratio etc. are the modes of highlighting life insurance plans of these companies. As a result, all these strategies and development in India life insurance industry enhancing the general awareness about life insurance plans and their benefits to Indian citizens.

Addition to this, the intensed and heavy competition exists in Indian life insurance industry is due to two reasons i.e., price and quality.

### A) Price Competition

There exists a strict competition among the insurance companies in terms of price of the product. The companies that offer products at low price and premium can gain substantial market share & competitive advantage over the other companies. Agents have no role and control in determining the price except in some cases where the commission of agent is based on the final premium. The price competition between agencies is nothing but the price competition between the companies they work for. Price competent agents work for the companies with price based marketing strategies. Price of the insurance product comprises of production cost and a margin. The common costs associated with insurance products are,

1. Loss adjustment expenses and losses
2. Acquisition expenses
3. Administration expenses
4. Taxes
5. Profit and contingency allowances.

**1. Loss adjustment expenses and losses**

The major component of production cost include losses. These costs can be reduced by emphasizing more on underwriting aspects. The price depends on the nature of individual or product and the degree of possibility to transfer the risks to insures the higher the risk the more will be the premium and vicevers.

**2. Acquisition Expenses**

Acquisition expenses also have a significant effect on setting the premium. These expenses include commission to agents. Higher will be the premium if the agent commission is high.

**3. Administrative Expenses**

Administrative expenses incur while providing the product to the customers. They are fixed costs and it's impact on premium differ based on the insurer's efficiency i.e., quality of work force, volume of premium and fixed costs, overhead expenses etc.

**4. Taxes and Other Allowances**

Taxes and allowances for profit and contingencies also have a substantial effect on the level of premium to same extent.

The analysis of common cost of the insurance companies can determine the premium structure. An insure and who can efficiently reduce these cost can definitely reduce the price / premium and can gain substantial market share.

**B) Quality Competition**

Intensified competition in terms of quality exists at 2 levels ie., at company level and at agency level. At the company level quality competition among the insurer occur in terms of extent of coverage and other services associated with the product. At agency level the quality include the services offered by him. It is the insured's interest whether to avail the services of agent or not. If he is willing to use agency services then the cost will be higher than that of purchasing directly from the company. As the additional cost involved is the commission to the services provided by the agent. The services include,

- Identification of needs of customers
- Advising the coverage amount
- Assistance in the selection of insurer and in processing claims for losses.

The clients think that benefits will be more if they pay high premium and on utilisation of advise of broker. As the insurers have different levels of underwriting services and the distribution systems, the level of prices also differ which facilitate them to offer wide range of products at different prices to meet different segments of customers.

### 1.3.1 Insurance Regulatory and Development Authority (IRDA)

**Q8. Explain the insurance regulatory and development authority (IRDA).**

*Ans :*

In order to provide better insurance cover to citizens and also to augment the flow of long-term sources of financing infrastructure, the government reiterated its announcement of 1996 in its budget speech, 1998, to open up the insurance sector and also set up a statutory IRDA. The IRDA Act was enacted in 1999 to provide for the establishment of the IRDA to protect the interests of policy holders, to regulate, promote and ensure orderly growth of the industry and for matters connected therewith/incidental thereto and also to amend the Insurance Act, 1938, the LIC Act, 1956, and the General Insurance Business (Nationalization) Act, 1972.

**Composition of IRDA**

The IRDA would consist of a chairperson and not more than nine members of whom not more than five would be full-time members, to be appointed by the government from amongst persons of ability, integrity and standing who have knowledge/experience of life insurance/general insurance/actuarial service, finance/economics/ law/ accountancy/administration/any other discipline which in the opinion of the government would be useful to it. Between the chairperson and the full-time directors, at least one person each is required to have knowledge/experience of life, general insurance or actuarial science respectively.

### Features of the IRDA Act

Following are the salient features of IRDA Act:

i) IRDA shall consist of a Chairman, not more than five whole-time members and not more than four part-time members. The members are expected to have knowledge or experience in life insurance, general insurance, actuarial science, finance, economics, law, accountancy, administration, or any other useful discipline.

ii) IRDA shall have the duty to regulate, promote, and ensure orderly growth of the insurance and re-insurance business. IRDA can issue a certificate of registration, renew, modify, withdraw, suspend, or cancel such registration.

iii) Protection of policy-holders' interest, maintaining quality in professional workforce and intermediaries of the industry by regulating and developing professional bodies; undertaking inspection, investigation, inquiries, and audit of any one who touches the business of insurance, control, and regulate rates, advantages and terms of insurance, setting and ensuring compliance of accounting norms, regulating investment of funds, margins and solvency norms, arbitrating internecine stakeholder disputes, supervising Tariff Advisory Committee and setting-out prudential ratios of the business.

iv) IRDA is empowered to levy fees and other charges for attaining its own objectives. The CAG is empowered as usual to audit the finances of IRDA.

The government can decide what a policy matter is for IRDA and can give directions on such policy matters. The government can also suspend the authorities of IRDA for a period not exceeding six months if the directions of GOI are not complied with. In such eventuality, GOI will appoint a person as the Controller of Insurance to carry-out the directions related to insurance sector.

### Role of IRDA

Following are the role of IRDA:

i) To protect the interest of and secure fair treatment to policyholder.

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

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

iv) To ensure that insurance customers receive precise, clear, and correct information about products and services and make them aware of their responsibilities and duties in this regard.

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

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

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

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

**Duties/Powers/Functions of IRDA**

Under Section 14 of the IRDA Act, the authority's duty is to regulate, promote and to ensure an orderly growth of the insurance and the re-insurance business. Under sub-Section 1 of Section 14 of the IRDA Act, the authority has the following duties and responsibilities:



**i) Registration:** Issuance of certificate of registration, or to renew, modify, withdraw, suspend or cancel such registration.

**ii) Protection:** Protection of the interests of policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions in contracts of insurance.

**iii) Qualification:** Specifying the requisite qualifications, code of conduct and practical training for insurance intermediaries and agents.

**iv) Code of Conduct:** Specifying the code of conduct for surveyors and loss assessor.

v) **Efficiency:** Promoting efficiency in the conduct of the insurance business.

vi) **Professionalism:** Promoting and regulating professional organizations connected with the insurance and re-insurance business.

vii) **Fees:** Levying fees and other charges for carrying out the objectives of this act.

viii) **Information:** Calling for information from, undertaking inspection of, and conducting enquiries and investigations, including audit of the insurers, intermediaries, insurance intermediaries and other organizations connected with the insurance business.

ix) **Terms of Business:** Control and regulation of the rates, advantages, terms and conditions that may be offered by insurers for general insurance, business not so controlled and regulated by the Tariff Advisory Committee under Section 64U of the Insurance Act, 1938 (4 of 1938).

x) **Books of Accounts:** Specifying the form and the manner in which books of account shall be maintained, and statement of accounts shall be rendered by insurers and other insurance intermediaries.

xi) **Funds Investment:** Regulating investment of funds by insurance companies.

xii) **Margin of Solvency:** Regulating the maintenance of margin of solvency.

xiii) **Adjudication:** Adjudication of disputes between insurers and intermediaries or insurance intermediaries.

xiv) **Supervising:** Supervising the functioning of the Tariff Advisory Committee.

xv) **Premium Income:** Specifying the percentage of the premium income going into finance schemes for promoting and regulating professional organizations pursuing assurance business.

xvi) **Rural and Social Insurance:** Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector.

xvii) **Others:** Exercising other powers as may be prescribed.

### Insurance Advisory Committee

The IRDA may constitute a 25-member Insurance Advisory Committee (IAC) to represent the interest of commerce, industry, transport, agriculture, consumer forum, surveyors, agents, intermediaries, including brokers, consultants and loss assessors, organizations engaged in safety and loss prevention, research bodies and employees' associations in the insurance sector, to advise it on matters relating to making regulations by it and on such other matters as may be prescribed.

### Other Regulatory Developments

The following are a few new features of the regulatory regime/rule introduced by the IRDA:

i) Insurance agents are governed by the Licensing of Insurance Agents Regulations 2000 and the Licensing of Insurance Regulations (amendment) 2002. Importany, to ensure professional standards, the IRDA has mandated minimum educational qualifications for all agents, together with training and examination requirements.

ii) Through a Government of India Notification dated 11 November 1998, the Insurance Ombudsman was created to address grievances of the insured customers and protect the interest of policyholder. Twelve Ombudsmen have been appointed across the country to expedite disposal of complaints. They have jurisdiction in respect of personal lines of insurance where the contract value does not exceed INR 20 lac. The Ombudsman is bound to pass a judgment within three months from the receipt of the complaint. It should be noted that the system is monitored and operated through a governing body of insurance council comprising of representatives of insurance companies. The IRDA deals with other disputes that fall outside the Ombudsman's jurisdiction.

iii) Policyholder protection was enhanced through the enactment of the Protection of Policyholders' Interests Regulations, 2002. It stipulates the responsibility of insurance companies to spell-out clearly the terms and conditions of insurance policies as well as other details. For example, in life insurance, details of any riders attaching to the main policy have to be given to the policyholder.

## 1.4 Types of Life Insurance Policies

**Q9. What are the types of Life Insurance Plans?**

*Ans :*

The Researcher, found the different types of Life Insurance Plans in the market. As we know that Life Insurance is important for everyone to protect family incase of their demise the insured money will save their family for educating their children and marriage etc. According to your needs, one can choose Life Insurance Scheme of any form.

**1. Term Insurance Policy**

This policy is pure risk cover with the insured amount will be paid only if the policy holder dies in the period of policy time. The intention of this policy is to protect the policy holder's family incase of death. For example, a person who takes term policy of Rs.500000 for 20 years, if he dies before 20 years then his family will get the insured amount. If he survive after 20 years then he will not get any amount from the insurance company. It is the reason why term policies are very low cost. So, this type of policy is not suitable for savings or investment.



**2. Whole Life Policy**

As the name itself says, the policy holder has to pay the premium for whole life till his death. This policy doesn't address any other needs of the policy holder. Because of these reasons this kind of policy is not very popular or insurance company not suggesting to take this policy.

**3. Endowment Policy**

It is the most popular Life Insurance Plans among other types of policies. This policy combines risk cover with the savings and investment. If the policy holder dies during the policy time, he will get the assured amount. Even if he survives he will receive the assured amount. The advantage of this policy is if the policy holder survives after the completion of policy tenure, he receives assured amount plus additional benefits like Bonus, etc. In this kind of policy, policy holder receives huge amount while completing the tenure. In addition to the basic policy, insurers offer various benefits such as double endowment and marriage/ education endowment plans. The cost of such a policy is slightly higher but worth its value.

### 4. Money Back Policy

Money Back Policy is to provide money on the occasions when the policy holder needs for his personal life. The occasions may be marriage, education, etc. Money will be paid back to the policy holder with the specified duration. If the policy holder dies before the policy term, the sum assured will be given to his family. A portion of the sum assured is payable at regular intervals. On survival the remainder of the sum assured is payable.

### 5. Annuities and Pension

An annuity is a series of periodic payments. An annuity contract is an insurance policy, under which the annuity provider (insurer) agrees to pay the purchaser of annuity (annuitant) a series of regular periodical payments for a fixed period or during someone's life time.

In an annuity, the insurer agrees to pay the insured a stipulated sum of money periodically. The purpose of an annuity is to protect against risk as well as provide money in the form of pension at regular intervals. Over the years, insurers have added various features to basic insurance policies in order to address specific needs of a cross section of people.



### 6. ULIPs

Unit linked insurance plan (ULIP) is life insurance solution that provides for the benefits of risk protection and flexibility in investment. The investment is denoted as units and is represented by the value that it has attained called as Net Asset Value (NAV). The policy value at any time varies according to the value of the underlying assets at the time.

In a ULIP, the invested amount of the premiums after deducting for all the charges and premium for risk cover under all policies in a particular fund as chosen by the policy holders are pooled together to form a Unit fund. A Unit is the component of the Fund in a Unit Linked Insurance Policy.

### 7. Joint Life Insurance

Two or more lives can be covered under one policy. Such policies usually cover married couples or partners. The SA is paid on the death of any of the insured persons during the term or at the end of the term. Some plans also provide payment of S.A. on the death of one life and the policy is continued to cover the second life till maturity without payment of further premium.

In the case of joint life insurances:

- A joint life declaration is necessary to create a joint interest in the policy.
- In case of partnership insurance, the partnership deed will be examined to ascertain the nature of financial interest of each partner.
- Each life will be underwritten separately.
- Bonuses accrue on the single basic SA only.

**8. Childrens Plans**

In these plans, risk on the life of the insured child will begin only when the child attains a specified age. Practices vary widely. The time gap between the date of commencement of the policy and the commencement of risk is called the 'Deferment Period'. If the child is 6 years old when the policy is taken and insurance is to begin when the child is 15 years old, the deferment period is 9 years. The date on which the risk will commence, at the end of the deferment period, is called the 'Deferred Date'. The deferred date will be a policy anniversary. Ages are reckoned as next birthday, nearest birthday or last birthday, as per the practice of the insurer.

There is no insurance cover during the deferment period. If the child dies during the deferment period, the premiums will be returned. Risk will commence automatically on the deferred date, without any medical examination. The main advantage of these plans is that the premium would be relatively low (age of the child at commencement) and cover will be obtained irrespective of the state of health of the child.

## 1.4.1 Term life Insurance Policy / Plan

**Q10. Discus about term life insurance policy plan.**

*Ans :*

A term insurance policy is the oldest form of policy. It is the pure and basic form of insurance. It is a life insurance where the entire premium paid goes towards covering the risk of death during a certain period of time. Here the insurer makes the payment only if the life assured dies within the "term" of the policy. In the case of a term life insurance contract the sum assured is payable only in the event of death during the term. In case of survival, the contact comes to an end at the end of term. Since only death risk is covered, the premium is low and the contract is simple. The premium is paid throughout the term of policy or till the prior death of the life assured.

**Features of Term Insurance**

Following are the features of term insurance:

1. Term insurance is valid only for a particular period of time. The period varies depending on the policy.
2. Term insurance is relatively inexpensive when compared to permanent life insurance.
3. Term insurance policies have a provision for renewability.
4. Insurance company allows the policyholders to convert their term insurance policies to permanent life insurance policies.
5. In term insurance policies, premiums are not fixed. A company can revise the premiums of this policy, based on certain factor.

**Advantages of Term Insurance**

Following are the advantages of term insurance:

1. A person having low income can provide for meeting family obligations at low cost.
2. Persons on the thresholds of new careers or business can avail of term insurance policies to save on costs, so that they can utilize their balance income or capital for developing their career or business.
3. Persons, who have invested substantially in new ventures by borrowing at heavy interest rates or mortgaging their property, can cover the risk of serious loss to the investment through term insurance at low, premium.
4. It is useful as supplement to endowment or whole life policies with a view to get higher risk cover.
5. In modem business indemnifying loss to business, due to the death of the key person responsible for the running for the business, can be done through term insurance plan.
6. It is useful to those who need extra protection for a short duration.

### Disadvantages of Term Insurance

Following are the disadvantages of term insurance:

1. Term insurance provides coverage only for a limited period of time, although some term policies can be renewed indefinitely.
2. Premium rates are guaranteed only until the end of the term. Depending on the policy, premiums may be level for a period of 1, 5, 10, 15, 20, 25, or 30 years and then cease without any renewal option, or offer continual renewals at a higher premium rate.
3. Deteriorating health can trap insurer in a policy with rapidly increasing premiums.

### Term Insurance Products

Following schemes are covered under term insurance products:

**1. Two Year Temporary Assurance Policy**

This policy caters to the individuals who specifically require insurance cover against risk for a short-period of two years, e.g., persons who are required to go on tours for instance for a year or so.

**2. Convertible Term Assurance Policy**

This plan of assurance is designed to meet the needs of those who are initially unable to pay the larger premium required for a whole life or endowment assurance policy, but hope to be able to pay for such a policy in the near future. This plan would be found useful also in cases where it is desired to leave the final decision as to the plan to a later date when, perhaps a better choice could be made.

**3. Anmol Jeevan-I**

Life Insurance Corporation Of India's Anmol Jeevan-I (Plan No. 164) is a unique plan of assurance, by far the cheapest policy to buy; cheaper than even a whole life policy to start with. Anmol Jeevan-I is a pure term cover provides only life cover unlike endowment and money back policies which have a built-in saving element too. It is a pure Term insurance plan which provides maximum risk with minimum possible premium.

**4. Amulya Jeevan-I:**

In case of unfortunate death of the Life Assured during the term of the policy, Sum Assured is payable, provided the policy is kept in force. **Maturity Benefit:** Nil.

### 1.4.2 Whole Life Insurance Policy /Plan

**Q11. Discus about whole life insurance policy plan.**

*Ans :*

As the name suggests, the whole life insurance policies are intended to provide life insurance protection over one's lifetime. It is a long-term insurance plan. The essence of whole life insurance is that it provides for payment of the assured amount upon the insured's death regardless of when it occur. It means that the sum assured is payable only to the beneficiary on the death of the insured. It is an ordinary and cheaper type of life insurance policy. Under these policies, the payment of the assured sum is a certainty in contrast to the term insurance contracts. Only the time of payment of the assured sum is an uncertainty.

Whole life policies can be either participating type or non-participating type. Participating type policies are those which are entitled to a share in the distributable surplus (profits) of the life insurance company, whereby the cash value of the policy can go up, with the announcement of bonus/dividend. Non-participating policies have the same benefit throughout the life of the policy.



**Features of Whole Life Insurance**

Following are the features of whole life insurance:

1. Whole life assurance provides insurance coverage for life.
2. In this insurance, the premiums will never increase.
3. The death benefit is guaranteed as the policyholder knows exactly how much the policy will pay upon claim.
4. This policy is perfect for people who think long-term and wish to have a plan that is not subject to investment gains or losses.
5. The policyholder can surrender the policy at any time in the future and the current cash value of the policy will be returned to him.
6. The participating whole life insurance policy has the opportunity to earn dividends.

**Advantages of Whole Life Insurance**

1. It provides economic security to the dependents of assured.
2. It helps to discharge the liabilities after the death.

3. The premium rates are lower in comparison to other policies.

4. Permanent, lifetime insurance coverage.

5. Premiums that are guaranteed never to increase.

**Disadvantages of Whole Life Insurance**

1. More expensive than term life insurance.

2. Less flexible than universal life insurance.

3. Whole life policies can be extremely complicated and there are subtle differences between policies.

4. Whole life policies have a “surrender period”: A length of time that you must keep your money with the insurance company before withdrawing it.



**Whole Life Insurance Products**

Whole life insurance products includes following schemes:

**1. Whole Life Policy**

This plan is mainly devised to create an estate for the heirs of the policy-holder as the plan basically provides for payment of sum assured plus bonuses on the death of the policy-holder.

**2. Whole Life Policy - Limited Payment**

This is the best form of life assurance for family provision since it enables the Life Assured to pay all the premiums during the ordinarily vigorous and most productive years of life. He need not pay any premium in the later stages of life if and when his conditions might become adverse.

**3. Whole Life Policy - Single Premium**

This is the best form of life assurance for family provision since it enables the life assured to pay the premium during the ordinarily vigorous and most productive years of life, relieving him from the necessity of making payments later in life when they might become a burden.

**4. Jeevan Anand**

This plan is a combination of endowment assurance and whole life plans. It provides financial protection against death throughout the lifetime of the life assured with the provision of payment of a lumpsum at the end of the selected term in case of his survival.

**5. Jeevan Tarang**

This is a with-profits whole of life plan which provides for annual survival benefit at a rate of 5½ per cent of the Sum Assured after the chosen accumulation period. The vested bonuses in a lumpsum are payable on survival to the end of the accumulation period or on earlier death. Further, the Sum Assured, along with loyatly additions, if any, is payable on survival to age 100 years or on earlier death.

## 1.4.3 Endoment Life Insurance Policy /Plan

**Q12. Discus about endoment life insurance policy plan.**

*Ans :*

**Endowment Insurance**

These are the most commonly sold policies. These policies assure that the benefits under the policy will be paid on the death of the life insured during the selected term or on his survival to the end of the term. Hence the assured benefits are payable either on the date of maturity or on death of the life insured, if earlier.

The endowment plan is a mix of a term insurance and pure endowment. An endowment insurance plan stipulates that a specified sum assured would be paid if the life assured dies within the term selected or survives that term. The death benefit is paid by term assurance and the survival benefit is paid by the pure endowment. This is the most popular form of life assurance since it not only makes provision for the family of the life assured in the event of this early death, but also assures a lumpsum at any desired age. The premium is higher in endowment policies. In other words, endowment insurance is a type of life insurance contract which provides for the sum assured to be paid either at death or after a fixed number of years, whichever comes first. The assured when affecting a policy selects the number of year.

### Features of Endowment Insurance

Following are the features of endowment insurance:

1. With profit and a without profit plans are available under this policy.
2. In this policy, bonus for the full-term is payable on the date of maturity or in the event of death, whichever is earlier.
3. Premiums can be limited to shorter-term or can be paid as single premium under this policy.
4. In this policy, premiums cease on death or on expiry of term, whichever is earlier.
5. This policy is suitable for the people of all ages and social groups.
6. In this policy, the sum assured is payable either on survival to the term or on death occurring within the term.

### Advantages of Endowment Insurance

The advantages of endowment life insurance are:

1. It provides life insurance protection together with a large savings and investment element.
2. It has surrender values, loan values and paid-up values.
3. Non-forfeiture privileges are included.
4. It is flexible in that the term of the policy can be chosen to meet the financial need (when it arises) of the policyholder, whatever the reason for the need may be.

### Disadvantages of Endowment Insurance

The disadvantages include:

1. It only provides protection for a specified period.
2. The premium payable is usually much higher than that of whole life insurance or term insurance.
3. It does not have the renewability (a few companies do provide renewable endowment policies subject to a maximum issue age) or convertibility option available in term insurance.

### Endowment Insurance Products

Following schemes are included in the endowment insurance products:

#### 1. Endowment Assurance Policy

This policy not only makes provisions for the family of the life assured in event of his early death, but also assures a lumpsum at a desired age. The lumpsum can be reinvested to provide an annuity during the remainder of his life or in any other way considered suitable at that time.

#### 2. Endowment Assurance Policy - Limited Payment

Just as in the case of limited payment whole life polices, here, too, the payment of premium can be limited either to a single payment or to a term shorter than the policy.

#### 3. Jeevan Mitra (Double Cover Endowment Plan and Triple Cover Endowment Plan)

This is an endowment assurance plan that provides greater financial protection against death throughout the term of plan. It pays the maturity amount on survival to the end of the policy term.

#### 4. Jeevan Anand

This plan is a combination of endowment assurance and whole life plans. It provides financial protection against death throughout the lifetime of the life assured with the provision of payment of a lumpsum at the end of the selected term in case of his survival.

#### 5. New Janaraksha Plan

This is an endowment assurance plan that provides financial protection against death throughout the term of plan. It pays the maturity amount on survival to the end of the term.

#### 6. Jeevan Saathi (A joint Life Plan)

This is an endowment assurance plan issued on the lives of husband and wife. The plan provides financial protection against death of both the lives. It pays the maturity amount on survival of one or both the lives to the end of the policy term.

### 1.4.4 ULIP

**Q13. Explain about unilinked policy.**

*Ans :*

Unit linked insurance plan (ULIP) is life insurance solution that provides for the benefits of risk protection and flexibility in investment. The investment is denoted as units and is represented by the value that it has attained called as Net Asset Value (NAV). The policy value at any time varies according to the value of the underlying assets at the time.

In a ULIP, the invested amount of the premiums after deducting for all the charges and premium for risk cover under all policies in a particular fund as chosen by the policy holders are pooled together to form a Unit fund. A Unit is the component of the Fund in a Unit Linked Insurance Policy.

ULIPs generally offer a choice of 4 funds namely

1. **EQUITY FUND -** also called Growth Funds where the majority of the portfolio consists of investments in shares/stocks traded in Stock Market.
2. **DEBT FUND -** Also called Bond Funds where the investments are primarily in government debt and Govt. guaranteed securities like gilts or corporate bonds.
3. **MONEY MARKET FUND -** also called Cash Funds or Liquid Funds where investments are largely in short-term Money Market instruments like Treasury Bills, Commercial Paper etc.
4. **BALANCED FUND -** this fund offers a mix of Equity and Debt Fund.

**Features iof ULIPs**

ULIPs offer incredible features and benefits to customers and hence are great investment tools especially in today's fast-paced world where returns matter as much as security. Here are a few highlighting features of unit linked insurance plans that make these instruments stand out among a host of investment options.

**A) Flexibility**

ULIP schemes offer flexibility that is not just applicable to one aspect of the policy but is comprehensive in nature. Following are the kinds of flexibility that you get to avail with your ULIP schemes.

- **Life cover can be chosen**

  Life cover that comes with the insurance part of ULIPs can be chosen by customers depending upon their financial capabilities.

- **Premium amount can be changed**

  After a certain period of time, almost all ULIPs provide their customers option to change the premium amount. This amount can either be increased or decreased by customers depending upon their current financial status. Top-up facility is also offered by most ULIP schemes so that customers who want to maximize their gain can invest higher additional amounts whenever they want.

- **Riders can be opted for**

  Riders are additional benefits that can be availed by paying a marginally higher premium. Examples of such riders are a critical illness rider, major illness rider etc. ULIPs allow customers to avail additional optional riders for added benefits and enhanced protection.

- **Fund option can be chosen**

  ULIPs are insurance policies where a part of your money is put into an investment avenue like mutual funds, stocks, bonds etc. Most insurance providers offer customers the flexibility to choose the fund type in which they want their money to be invested. These funds range from aggressive to conservative variants so as to cater to the need of almost all kinds of customers.



**B) Transparency**

Transparency is one of the key features of ULIPs. Unlike other investment tools, ULIPs offer high flexibility to customers and hence they control their ULIP policies to a good extent. Clear benefits and features, illustrative brochures and free-look period make sure that customers are doubly sure before they start investing in their ULIP schemes.

**C) Liquidity**

ULIP schemes offer liquidity to customers depending upon the insurance provider from which they have been availed. Most insurance companies offer a lock-in period of 3 or 5 years after which customers are free to make either full or partial withdrawals.

**D) Multiple Benefits out of a Single Scheme**

The best feature of ULIPs is that these policies offer not juts insurance benefit but also an avenue for people to grow their money through investment in shares and funds. This investment tool is ideal for customers who have a lower risk appetite but want to grow their money, nonetheless.

**E) Tax Benefits**

ULIPs offer not only protection and returns but also tax exemption under section 80C of the Income Tax Act for life insurance and health insurance plans and under section 80D for life insurance and critical illness riders. Also, ULIPs are a great way to save in a disciplined way and to also ensure growth of the saved amount.

**F) Risk mitigation**

Since ULIPs invest money in various funds and also offer protection, these products are low-risk investment tools. These policies are great for customers who wish to avail the advantage of market growth without actually participating in the stock market.

## 1.4.4.1 Unitlinked with or without profit policy

**Q14. Write briefly about with or without profit policies.**

*Ans :*

**With Profit Policies**

With profit policies allow policy holders to participates in the profits or surplus of insurance companies (Insurer) in the form of bonus and divident payments. These type of policies are also called as 'Par policies' or 'policies with participation in profits' or 'participating policies'. The premium under this policy is higher than non-participating policies.

The various sources of surplus or profit can be of the following types,

1. **Mortality**

   There will be addition in the surplus funds of insurance company, if the actual mortality is less than the assumed one at the time of premium calculation.

2. **Interest**

   There will be addition in the surplus funds of insurance company if there is a excess of interest earned by the insurance company over the assumed rate of premium calculation.

**3. Office Expenses**

Effective management of activities may reduce the office expenses which get added to the surplus funds.

**4. Other Sources** Surrender, lapses, alteration etc.

### Types of With Profit Policies

The whole life insurance policy is the only type of with profit policy or participating policy because under this policy dividend is paid to the policy holders. The main reason behind this is in most cases of mutual life insurance company, the whole life insurance policy owners are the owners of the company. As a result, they have the right to participate in the profitability. Therefore, it is similar as how a owner of shares which are publicly traded has the right to participate in the profits of public company through price growth and dividends.

### Without Profit Policies

Without profit policies does not provide the right to participate in the surplus earning of a insurance company. Because of this reason it is also called as 'Non-participating' or 'Non-par' policies. The premium under these policies is very low compare to participating policies.

### Types of Without Profit Policies

The types of without profit policies are as follows,

**1. Term Life Insurance Policy**

The term life insurance policy is considered as a without profit or non-participating policy. The reason behind this is, the term life insurance is rented life insurance policy. The owners of this policy will not owned this policy for rest of their lives. However, one more reason is that, the term life insurance policy does not have a cash value.

**2. Unit Linked Life Insurance Policy**

Universal life insurance policies are the non-participating policies because the owners of policies are not the owner of life insurance company. They are already paid interest on their cash value and are not eligible for dividend payments.

**3. Endowment Life Insurance Policies**

These policies have the features of both i.e., it is with profit policy in some case and without profit policy in some cases.

## 1.5 Customer Evaluation

**Q15. Write in detail about customer evaluation.**

*Ans :*

An insurance policy is considered as mandatory to cover the risk of loss associated with life or property. In today's uncertain world, no one can predict what will happen in the next moment. Insurance policies are usually for a longer period and it is not possible for an insured to change the insurance contract during the policy period, once it is signed by the parties. So, it is essential for a customer to choose an insurance policy correctly.

Insurance customer takes into consideration various factors before purchasing an insurance policy. The customer behavior at purchase point can be understood from the various factors he/she considers while purchasing a policy. The various factors considered by customer are,

**1. Customer's Needs**

The needs of customers may differ from person to person. Customer purchases that insurance policy which suits his/her need. For example, customer who want to save money for their childrens education, would like to purchase insurance for children's education. Apart from insurance for children's education, insurance for children's marriage, insurance for safety life after retirement, insurance for medical treatment in older days are the different needs which a customer may have.

**2. Savings**

In case of countries where majority of the people belong to middle-class families prefer savings and investment.

They would like to save and invest in those insurance policies which give high returns and more tax benefits.

**3. Age**

Age is one of the important factors influencing the purchase decision of an insurance customer. People belonging to age group 1 year to 18 years prefer to take insurance for education and marriage purpose. People belonging to age group of 18 years to 25 years are self dependent and prefer to take insurance policy for security and savings purpose. People of 35 years to 45 years age group give priority to short-term insurance policies. People who belong to age group 46 and above focus on family security and purchase an insurance policy accordingly.

**4. Policy Premium**

The amount of premium to be paid by a policy holder will have direct effect on his/her purchase behavior. A customer prefers to purchase that insurance policy the premium of which is within the budget of customer.

**5. Background of Insurance Company**

A customer after selecting an insurance policy to be purchased, tries to check the background of an insurance company with which he/she is going to sign an insurance contract. Customers check the web-site of insurance company to know the background and performance of the company.

**6. Claim Settlement Ratio**

Customers also consider claim settlement ratio of an insurance company before purchasing a policy. Based on the average number of claims settled by an insurance company, the customer tries to analyse the possibility of settlement of his/her claim in future.

**7. Understanding the Policy Features**

Last but not the least, customers understand the policy features carefully before purchasing a policy. Policy term, premium amount, maturity date and insurance charges come under the features of insurance policy.



## 1.6 Policy Evaluation

**Q16. Explain in detail about Policy Evaluation.**

*Ans :*

In the present business environment, people research and comparing every thing before purchasing. Whether it may be house-hold product or it may be any insurance policy. However, evaluation of insurance policy is necessary for every individual because every insurance policy has its own benefits, premiums, conditions and drawbacks. Therefore, in order to fulfill the requirements, insurance policies should be carefully evaluated.

The policies can be evaluated based on certain parameters like premium, sum assured, tenure, period, benefits etc. Some of the basic requirement which must be evaluated in any life insurance policy are as follows,

1. **Cost of Policy**

   The life insurance policy should be cost effective. However, cheapest policy does not mean that it provide all the benefits which a policy holder requires.

2. **Convenience of Policy**

   The policy should be selected based on the convenience. It should not be bought in emergency. Time should be taken to learn, understand and compare different policies of different companies.

3. **Customer Service of Policy**

   It is very important for policy seeker to evaluate and verify the customer service facility of a life insurance policy and company. As how the service is provided to the customers of a policy holder. For example, Erstwhile life insurance company provide 24 x 7 customer service facility and e-mail support.

4. **Settlement of Policy Claims**

   Claim is the key factor of every policy i.e., wheather it may be life insurance policy of non-life insurance policy. The efficiency of a life insurance company can be evaluated by understanding and checking settlement procedure of claims. If the company is providing immediate claims then it would be considered as good company otherwise bad company.

   The Insurance Regulatory and Development Authority (IRDA) stated that, when there is no investigation required for losses suffered, then settlement of claim should be processed by insurance companies within 30days.

5. **Financial Position**

   A policy can be evaluated by verifying the financial position of life insurance company. If the financial position of company is good then it will offer good insurance policies with plenty of benefits. For this purpose IRDA has provided some safeguards to ensure the insurance companies are efficiently funded.

**Policy Illustrations**

Policy illustrations are the comparison tables which shows the information and structure of life insurance policies. They are just the patterns of policies which includes changes in premium outlays, cash-value accumulation etc. These illustrations can be used to compare one policy with another policy.

The following tables shows the comparison factors of term, endowment and Unit Linked Insurance Plans (ULIPs) which will help an individual to evaluate the policies of different companies based on these factors,

**Factors for Term Life Insurance Policy**

| | |
|---|---|
| 1. Amount of Premium | Select a policy that offers a higher cover at the best price |
| 2. Death Benefit | Compare plans with relative premium for additional death benefits like lump sum + monthly income/ increasing income to the nominee. |
| 3. Additional Benefits | It is advisable to cherry pick the policy that has additional benefits like inbuilt terminal illness rider, options to increase life cover at key milestones, accidental cover, etc. |
| 4. Ratio of Claim | A higher claim ratio generally refers to an efficient claim settlement process. |

**Factors for Evaluating ULIPs**

| | |
|---|---|
| 1. Amount of Premium | Flexibility to pay the premium in a monthly/ quarterly mode as well as top-up premiums. |
| 2. Basic Features/Benefits | Compare policies for benefits like:<br>(a) Competitive load structure<br>(b) Bonus units after fixed years<br>(c) Option for choosing riders<br>(d) Flexibility of choosing sum assured<br>(e) Option of paying premium for few years, but receiving life cover for the entire tenure |

**Factors For Evaluating Endowment Life Insurance Policy**

| | |
|---|---|
| 1. Amount of Premium | Select an endowment policy with characteristics that meet your needs and affordability. |
| 2. Basic Features/Benefits | Compare policies for benefits like:<br>(a) Guaranteed returns on maturity (which is also based on the performance of the company)<br>(b) Rider benefits<br>(c) Bonus benefits<br>(d) Loan facility benefits |
| 3. Death Benefit | Select a policy with additional death benefits like accrued bonus, terminal bonus, etc. |
| 4. Maturity Benefit | Select a policy with the highest maturity benefit. |

## 1.7 Group Insurance Policies

**Q17. Write about Group Insurance.**

*Ans :*

As the name suggests, group insurance is a product designed to provide life insurance to a group of people under a single master policy. A group insurance policy can be taken by any group of people, big or small, that comes together for any reason, apart from that of specifically benefitting from an insurance scheme. A group policy extends to anyone irrespective of their age, gender, profession, social background and such factors. Group insurance is not limited to only employer-employee groups, but is extended to other homogenous groups too.

**Functions of group Insurance**

Group life policies are similar to individual life policies and can be classified on the basic functions that they serve. These are explained below:

1. **Gratuity**

   On completion of five years in an organisation, employees are entitled to gratuity. A group gratuity insurance policy provides a company with an investment option to build a pool of funds that can be used to pay off the gratuity amounts.

2. **Superannuation**

   A group superannuation scheme serves as a retirement plan wherein the amount that is accumulated over the employment term is released upon retirement.

3. **Term**

   On death of any of the members of the group, this kind of group plan pays the sum assured (SA) to the family of that particular member.

4. **Savings**

   A group savings insurance policy can be used as a savings tool for the members to accumulate wealth along with life insurance.

5. **Credit protection**

   This type of insurance policy is usually offered by banks or lenders. The plan covers any outstanding loan amount that may be due after the death or disability of the loanee.

**Benefits of group insurance**

The various benefits offered by group insurance are as follows:

**1. Default insurance cover**

Group insurance plans provide "auto-cover" to the member or employee simply by virtue of being part of that particular group or organisation. This provides at least a basic cover to those without any other insurance cover. It is essential, however, to have an individual insurance plan to ensure you are covered even if you leave the group.

**2. Employer benefit**

In many cases, employer gets tax benefits and, in certain cases, members of the group can avail of tax benefits. For instance, Sarva Shakti Suraksha, the micro-insurance product offered by Bajaj Allianz, covers non employer-employee groups.

**3. Ease in premium payment**

The payment of the premium is not missed as it is deducted from the employee's salary, thereby leading to continuity of cover as long as you are part of that group.

**4. Employee welfare**

Group life insurance serves as an employee welfare plan, as well as an employee retention plan, since it provides not only for the employee but his/her family.

**5. Experienced fund management**

In case of group gratuity and superannuation plans, it is possible that in a certain year, the gratuity to be paid could be high, resulting in unplanned outflow of funds. In order to create a pool efficiently, experienced fund management from insurance companies is beneficial.

## 1.7.1 Features of Group Insurance Schemes

**Q18. What are the features of Group Insurance Schemes ?**

*Ans :*

1. The most important requirement is that the group must not have been formed for the purpose of taking advantage of this scheme. The group must have some other bonding. Entry into or exit from the group must be for reasons other than

the availability of cover under the scheme. Also, there must a minimum number of members in the group. Twenty five would be considered adequate. In cases, the members would be in hundreds.

2. The individual beneficiary will not choose the amount of insurance cover. The amount will be determined on criteria, which are applied uniformly to all the members of the group. For example, the cover may depend on age or years of membership or income (in the case of employees) or rank. If the criterion is of age or rank, then all individuals of the same age or rank will get the same cover. If the criterion is of income, the cover can be a fixed multiple of income. The income, depending on output, may be a suitable criterion, when the group consists of say, farmers or beedi workers or milkmen supplying milk to a dairy.

3. The inclusion of members in the scheme also is a matter on which the member will have no choice. Everybody fulfilling specified criteria, will have to compulsorily join the group. Usually, when the scheme is being introduced for the first time, the existing members will be given a choice of joining or not joining the scheme. The choice, to be made within a specified period, will be final. In other words, if a member opts not to join, he cannot change his mind later. These are methods to avoid adverse selection.

4. Individual lives are not separately assessed for risks. The underwriting or selection is of the group as a whole. The health, morals or habits of any particular individual are not scrutinized.

5. The premium under a group insurance policy will change from year to year. This is so because the number of persons covered would change because of exits (deaths retirements, resignations) and new entrants. The amount of cover will also vary because of changes in age, income etc., of existing members.

6. The premium may also change according to the mortality experience of the group. If the experience is better than originally expected, the benefit of the favourable experience would be passed on to the policyholder, by way of reduction of premium. This system is called ‘profit sharing’.

## 1.7.2 Importance of Group Insurance Schemes

**Q19. Explain the Importance of Group Insurance Schemes.**

*Ans :*

Group insurance has changed the picture of the whole insurance industry. Because of different insurance products, it has been a blessing for both the employers and employees. It offers an element of certainty to employees by comforting the people affected by ill health, disability, unemployment and even premature death, etc., at an affordable price. Following are the benefits of group insurance to both employees and employers.

### A) Benefits to Employees

Employees have been the major gainers of group insurance, which has increased the scope of employee benefit manifold.

**(a) Low Cost:** The major benefit derived by the employees under the group insurance is the low cost of policy as compared to the individual insurance policy. This is feasible due to large number of employees under the same insurance policy that ultimately reduced the administrative costs.

**(b) Employee Benefit Plan:** Group insurance is the most popular employee benefit plan. A large section of the working class is found to be unable to obtain an individual insurance policy for oneself/ one's spouse/ family because of its high cost. Thus, it depends solely on the employer to fund its insurance policy.

**(c) Flexibility:** The concept of group insurance is applicable to all sectors of society and industry. This aspect of group insurance has made it popular among different groups like trade associations and etc.

**(d) Tax Deductions:** As the benefits are received in the form of group insurance policy, the employee under the group can avail the benefits of tax deductions by contributing to the group insurance policy.

### B) Benefits to The Employers

Group insurance has become an essential employee benefit, and has helped employers in not only improving the productivity of employees but also employee morale in the organisation.

**(a) Retention:** Many organisations provide group insurance to its employees in the form of an additional benefit to retain them for a longer period. Group insurance benefit not only increases the retention ratio among the employees, but also their productivity and morale.

**(b) Public Image:** An organisation can always promote its public image through group insurance schemes and thus attract the major productive cream of the market.

**(c) Tax Benefits:** By providing the group insurance benefit plan, whether contributory or non-contributory to the employees, the employer can avail tax deductions under the taxation rules.

**(d) Size of the Organisation:** Group insurance is beneficial to all types of organisations, irrespective of size and number of employees.

## 1.7.3 Eligibility Conditions in Group Insurance

**Q20. What is the Eligibility conditions in group Insurance ?**

*Ans :*

Group insurance specifies certain eligibility standards for employees, which would ultimately help both the employer and employee. There are certain underwriting considerations, which are applicable to all types of group insurance. Following are the major eligibility considerations.

**1. Stability**

There must be a steady flow of people through the group, only then expenses like the administration can be controlled. To avoid a large turnover, which can increase the cost of group insurance, the newly hired employees can be asked to go through a probationary period before joining group insurance.

**2. Determination**

The insurance company has to decide the method of determining the benefits in a way that individual selection both by the employer and the employee does not generate conflicts. Thus, the employer needs to determine a formula or a specific level of salary or position that forms the basis for determination of benefits.

**3. Purpose of Existence**

The most fundamental principle of group insurance is that it should not be solely for the purpose of obtaining the benefits of group insurance. Ex, a group formed by cancer patients. An "employer- employee" relationship should be in existence so as to obtain the benefits of group insurance.

**4. Administration**

In case of underwriting the insurance company requires co-operation from the employer for carrying out certain administrative activities and also sharing the cost of such expenses. It is, therefore, essential that the employer is willing to play his part in the success of the group insurance schemes.

**5. Determination of Eligibility**

There are certain eligibility' conditions, like going through a probationary period that need to be fulfilled. Apart from this, certain group insurance schemes may also limit the eligibility to full time employees or permanent employees only.

**6. Premium**

The most important thing to be determined in group insurance scheme is whether the plan would be contributory or non- contributory. If contributory, then what would be the proportion of both the employer and the employee? Certain insurance companies may limit the contribution level of the employees so as not to burden them financially.

**7. Composition**

This is another important factor to be considered in underwriting. The age, sex and income of the employee also play an important role in determining the premium and the claims. Like, if a large number of employees are in their old age, then it would result in increased mortality rates.

**8. Industry**

In underwriting, the nature of the industry to which the group belongs is also very important for it influences the very health of the employees like in the case of cement industry, the employees are being highly vulnerable to respiratory problems. Hence, the life and health insurance rates are based on the occupational hazards and the turnover rate in the industry.

**9. Geographical Location**

Geographical location would influence medical claims to a great extent. For example, medical claims may be less in western India while it could be more in eastern India. Similarly, geographically scattered employees pose more administrative problems and in turn increase the administrative expenses. It is also necessary to check if the employer has proper facilities to service the policy owners.

**10. Persistency**

It is not possible for any insurance company to recover the initial administrative expenses like initial high commissions, etc. Therefore, the policy must be in force for a minimum period of 4-5 years so that the insurance company can recover its initial expenses. It is, therefore, important to know the time period for which the group insurance would be functioning as an "employer benefit" in the organisation or how frequently the employer is known to change the insurance companies.

## 1.7.4 Types of Group Insurance Schemes

**Q21. What are types of group insurance schemes?**

*Ans :*

**Group Insurance Products**

The standard group insurance products generally offered by Life insurance companies are:

1. Group Term Life Insurance Schemes
2. Group Savings Linked Insurance Schemes.(GSLI)
3. Group Credit Life Insurance and
4. Group Health Insurance
5. Group Dental Insurance
6. Worldwide Travel Group Insurance
7. Group Term Disability Insurance
8. Group Leave Encashment Scheme
9. Group Insurance Scheme in lieu of EDLI
10. Social Security Scheme
11. Voluntary Retirement Scheme
12. Group Gratuity Scheme
13. Group Superannuation Scheme

### 1.7.4.1 Super Annuation Schemes

**Q22. Write about Group Superannuation Scheme and types.**

*Ans :*

The Group Superannuation Scheme is designed as a pension scheme to the employees after their retirement from active service. The employer alone or jointly arranged with the employees can finance this scheme.

A decreasing group insurance cover that is in direct conjunction with superannuation benefits can also be provided under the scheme. Group Superannuation schemes are of two types:

1. **Money Purchase Scheme**

   The contributions under the Money Purchase Scheme are based generally on a percentage of the salary. The accumulated value of such contributions is utilised to purchase the pension benefits.

2. **Benefit Purchase Scheme**

   The employer fixes the amount of pension in advance. And the amount is generally related the amount of salary drawn by the employee at the time of exit. The insurance company determines the contributions payable for the funding of pension benefits.

   The different types of pensions available are pensions payable for life. These are guarantees for periods of 5 or 10 or 15 or even 20 years and thereafter for life or in a joint life form for the last survivor. The pension payable for life includes return of purchase price on the death of the pensioner.

### 1.7.4.2 Group Gratuity Schemes

**Q23. Write about Group Gratuity Scheme.**

*Ans :*

Gratuity is one of the statutory liabilities incurred by almost all employers and accrued to their employees. Gratuity is calculated by the number of years of service rendered by the employee for his employer.

Since this liability accrues on an annual basis, from the point of view of sound accounting practice, it is desirable to provide for this liability before the profits are determined. Based on actuarial principles, the Group Gratuity Scheme provides a highly scientific method for funding gratuity liability incurred by the employer towards his employees. From the point of view of sound accounting practice, it is desirable to provide for this liability before the profits or losses are determined for the annual balance sheet at the end of the financial accounting year. The most attractive feature of the Group Gratuity Scheme is that the insurance cover due to every employee, in event of his or her premature death, to his or her dependents becomes substantially higher and they (the dependants) are entitled to significantly higher benefits.

Funding of the gratuity benefits can also be made on the basis of Cash Accumulation, under which the fund is accumulated at an attractive rate of interest. Attractive tax advantages are also available to employers as well as their employees.

## 1.8 Computation of Premiums



**Q24. Explain the Concept of Premium.**

*Ans :*

**Premium**

Premium is an amount paid periodically to the insurer by the insured for covering his risk.

In an insurance contract, the risk is transferred from the insured to the insurer. For taking this risk, the insurer charges an amount called the premium. The premium is a function of a number of variables like age, type of employment, medical conditions, etc. The actuaries are entrusted with the responsibility of ascertaining the correct premium of an insured. The premium paying frequency can be different. It can be paid in monthly, quarterly, semiannually, annually or in a single premium.

**Life Insurance Premium**

Life insurance premium is the recurring or one-time payment you make towards your life insurance policy. A life insurance policy is valid only if your pay the premiums on time and according to the insurer’s guidelines. In general, you have the option to choose the frequency of premium payments such as monthly, quarterly, half-yearly, yearly, or single premium. A factor of this premium is paid out as sum assured when the benefits of the policy get activated.

The premium for life insurance policies varies according to chosen plans as well as the credentials of the applicant. Usually, a younger, healthier individual will likely be quoted lower premium than a person touching his/her 50s. Similarly, a non-smoker will get preferential premium rates whereas a smoker is likely to be quoted a higher amount. There are various variables that play a part in determining your premium amount, and making your own calculations can only take you so far. This is where life insurance premium calculators come into play.

## 1.8.1 Types of Premium

**Q25. What are the Types of Premium ?**

*Ans :*

In Life Insurance, premium refers to the payments made by the insured towards the promise made by the insurer i.e. when the insurer (Life Insurance Provider) makes a promise to pay a customer a certain sum of money in the event of a specified happening, the policyholder pays a specified amount (called the premium) as consideration of the promise.

There are various types of premium in Life Insurance :

**1. Risk Premium**

As the name suggests, risk premium refers to the part of the payment that covers the underlying risk borne by the insurer. In case of life insurance, this would be the mortaility risk (or the risk of death of the insured).

**2. Net or Pure Premium**

It is the premium calculated after taking into account the interest likely to be earned by the insurer.

**3. Premium Loadings**

Loadings are the incremental increases over the net or pure premium that an insurer does to cover for expenses like sales/sourcing or policy administration. It could also be loaded on account of bonus payouts that the insurer expects to make.

**4. Level Premium**

Since the actual risk of the insured person varies with each passing year, the annual premium if re-calculated every year would result in an increasing outflow as premium payments. To counter this, Insurance companies sell policies with level premiums (premium payout stays constant through out the term)

**5. Single Premium**

If the policy is purchased by someone who is not sure of his future ability to pay the premiums, the customer can opt for a single-premium payment option. Herein the payment is paid only once throughout the life cycle of the plan.

## 1.8.2 Factors Considered in Calculating Premium

**Q26. What are the factors considered in Calculating Premium ?**

*Ans :*

A great way to help and protect your loved ones, is with Life Insurance which can be a huge investment as well. A lower premium paid can yield to a good amount of savings over a period of few years. Life insurance premiums are based on a number of factors, and it can be quite tedious for a few people to understand why and what the charges are, and why they pay a rate that may not be the same as another. There are some factors that many insurance companies consider when pricing their policies, there factor may not be within your control. But the life choices you make, can also lead to the factors that can affect your Life Insurance premium.

The factors that affect your premium towards Life Insurance are:

**1. Age**

This is an obvious and not surprising factor that affects your Life Insurance premium, the age of the policyholder. If you're young the rates will be lower in comparison to someone older. The possibility of a young individual contracting a life threatening disease or to pass away in their youth is very unlikely. The insurance companies believe that you'll make many premium payments before they have to write a cheque for your family.

**2. Gender**

Insurance companies aren't against gender equality, but they believe there is a different life expectancy for different genders. As per the studies and statistical findings, women are believed to live 5 years more than men at the minimum. Therefore affecting the premium they pay, making them pay the premium for a larger period of time but at lower rate which is a plus point for the women.

**3. Smoking**

Smoking puts the policyholders at higher risk of all ailments, so if you're a smoker that that's as good as raising a red flag to the insurance companies. Most smokers pay a premium twice as much as non - smoker does, thus affecting the premium to a huge extent.

**4. Medical history**

There's isn't much one can do with the gene pool they come from. If a policyholder has a medical history of serious illnesses like cancer, heart diseases, or any other, then that makes them susceptible to get these from a hereditary perspective. Which increases the individual's premium by a larger margin than if their gene pool wasn't.

**5. Health records**

You as the policyholder will also need to provide your own health records. These records will ensure that you don't have any chronic diseases or potential health issues and keep your premium also in check instead of making a difference to it.

**6. Drinking**

Drinking of alcohol is injurious to health in more ways than one. If you as the policyholder are a heavy consumer of alcohol this can affect your premium at higher insurance rates. Insurance companies ensure to ask the applicant if they are smokers or drinkers.

**7. The Policy**

The policy itself also affects the premium you pay, the longer the tenure of the policy the larger the amount of the benefit at the time of death, since you're paying it for that period of time. Short term policies are more expensive that long term.

**8. Profession**

Your profession also plays an important role in the premium you end up paying, any policyholder working in the mining industry, oil and gas, fisheries or any other dangerous profession increases the premium amounts you pay for the policy you decide to take.

**9. Lifestyles Choices**

Many insurers have a higher premium for people who love to takes risks for the thrill of it. Like speeding cars, climbing treacherous mountains or other high risk activities. Thereby increasing your premium to substantially more than other.

**10. Obesity**

Obesity is another factor that affects your premium as a policyholder, being obese can lead to a number of health problems like Osteoarthritis, High Blood Pressure, Cancer, Stroke, Coronary Heart Disease, causing overall health problems in the future and also increases your rates.

How these factors affect your rates of premium is dependent on the insurance company and the way they treat these factors and the combination of them. For example: having a history of cancer in your family and still being a smoker can affect your rate in more than one way or being obese and having a history of heart disease also affects your rates of premium. Every insurance policy is based on each individual and premiums are calculated on the insurance company's rules of rating.



## 1.9 Premium Calculations

**Q27. Explain about Premium Calculations.**

*Ans :*

The following illustrations are based on certain assumptions with regard to practices of insurers. These assumptions are specified at the appropriate places. While making calculations for any policy, the practices of that insurer must be conformed to.

**Step 1**

Find out tabular premium i.e. Premium quoted in published premium rates for given age (nearer, next or last birthday as the case may be) for the relevant plan and term. This premium is per thousand sum assured. Assume that the figure is Rs. 45.60

**Step 2**

Deduct adjustment for large sum assured, if applicable. Assuming that the insurer allows rebates as follows

Rebate per thousand S.A

| | |
|---|---|
| Rs.25,000 - Rs.49,999 | Rs.1/- |
| Rs.50,000 - Rs.99,999 | Re.1.50/- |
| Rs.1,00,000 and over | Rs. 2/- |

If this is a policy for Rs.75000 SA, the premium would be Rs. 44.10 (45.60 less 1.50)

**Step 3**

Make adjustment for mode of payment of premium. Assuming that the insurer provides rebates of 1% for yearly mode and that the mode proposed in this case is yearly, the premium would decrease by 1% of 44.10 or Rs.0.44, making the premium Rs. 43.66

**Step 4**

Add Extras. Assuming that the Extras in this case are Rs. 1.50 per thousand for occupational hazard and Rs.2 per thousand for supplementary benefits, the total addition is Rs. 3.50 making the total premium Rs. 47.16

**Step 5**

Multiply by **SA** (Rs.47.16 × 75) equals Rs. 3537.00

**Note :**

If the adjustment of **1%** for mode is made before the adjustment for SA, the deduction would have been 0.46, instead of 0.44. The difference can be significant, if the insurance is for a large SA. Insurers would clarify how they want it to be done

The above calculation was made for yearly mode of premium. Therefore, the figure of 3537 is the premium to be charged. If however, the mode was quarterly, then the annual premium worked out by the above method, will have to be divided by 4 to determine the quarterly instalment premium.

In the calculation shown in the earlier paragraph, the final figure arrived at has no paise. If there are paise in the final figure, they may be (i) ignored or (ii) rounded off to the next higher integer, or (iii) rounded off to the nearest integer or (iv) rounded off to the nearest 50 paise or any other adjustment as the insurer may practice.

## 1.10 Rebates

**Q28. What do you mean by rebates? And mode of rebates and large sum assured rebates?**

*Ans :*

**Rebates**

Rebate is the amount paid for reduction, return or refund on what has been already contributed or paid. In a insurance policy, rebates can be of different types like, yearly, half-yearly, quarterly and monthly. Rebates are usually differ from plan to plan. It is very important to deduct permissible rebate for mode of payment of premium and sum assured for insurance.

**Mode of Rebates**

There are four types of modes of rebates which are used in the calculation of insurance premium. They are as follows,

1. Yearly mode of rebates
2. Half yearly mode of rebate
3. Quarterly mode of rebate
4. Monthly mode of rebate.

When the premium are paid on yearly or half-yearly basis, then there will be saving of administrative expenses compared to quarterly mode of rebate. In yearly and half-yearly modes, the insurer issues less number of notices, collection receipts and consequential entries. Thus, administrative cost get reduced. However, in monthly mode, the extra premium is to be charged by insurer to cover additional administrative expenses.

This is summarised below,

(i) When less number of premium installment are there, then higher will be the amount and more will be the f& discount.

(ii) When more number of premium installment are there, then less will be the amount and discount.

$$\text{Premium} = \text{Sum Assured} \times \frac{\text{Rate of Premium}}{1000}$$

However the mode of rebate (Payments) for yearly, half-yearly, quarterly and monthly are listed below,

1. Yearly - 3% less than the table rate
2. Half-yearly - 1.5% less than the table rate
3. Quarterly - Nil
4. Monthly - 5% more than the table rate (it is to be added).

**Large Sum Assured Rebates**

Large sum assured rebates are made for high sum assured or amount. However, every insurance company follow different rates but the oldest and popular insurance company, Life Insurance Corporation (LIC) follows the following discount structure,

(a) ` 25,000 - ` 49,999, ` 1 less than tabular premium.

(b) ` 50,000 and above, ` 2 less than tabular premium.



## 1.10.1 Premium Loading

**Q29. What is loading and premium loading? Explain its calculation with example.**

*Ans :*

**Loading**

Loading is the costs of an insurance policy. It is a type of cost which includes selling and administrative costs like, marketing cost, employees salaries, cost associated with brokers, agents and premium taxes. Cost of capital is also one of the component of loading which is more difficult to understand. The cost of capital is a kind of reserves which enable the insurance company (insurer) to pay unexpected by higher claims. In this case, loading include a amount which covers the transactions costs associated with making these assets available to insurance company. Addition to this, it also include higher tax cost to the investor associated with such investment. The loading is usually expressed in percentages of premium, which is referred as premium loading factor.

**Premium Loading**

The premium loading refers to the margin which is require by a insurance company (Insurer) for covering up the overhead expenses and generating appropriate profit. It is calculated by using following formula,

$$\text{Premium Loading Factor} = 1 - \frac{\text{Expected loss}}{\text{Premium}}$$

## 1.10.2 Rider Premiums - Computation of Benefits

**Q30. What do you mean by rider benefits and rider premium? What are the benefits of riders?**

*Ans :*

**Rider Benefits**

An optional benefit available to the policy holder at an additional cost is known as rider benefit. In the pre-liberalisation period, the benefits under the products are predefined and offered as packages. Based on that, customers has to choose the plan according to his requirements. However, now a days the basic trend is the basic plan which is offered with add on benefits to match with the exact needs of the customer. The add on benefits with additional costs are defined as riders benefits.

**Rider Premium**

The extra premium paid to receive extra benefit from insurance policy is known as rider premium. Extra premiums are usually paid to compensate the extra risk or to secure extra disability or death benefits. The rider premium will be added after the calculation of actual premium. It is the last factor which is to be added in premium amount for availing extra benefits.

**Benefits of Riders**

Following points highlights the benefits of riders,

1. It increases the value of the insurance policy.
2. It can be availed only if the insurance premium for the basic benefits is being paid.
3. It will be stopped when basic premium of sum assured get stopped.

4. In some cases, it can be availed upto certain age of the insured.
5. It can be added to the insurance policy from the Date of Commencement (DOC) of the policy.
6. It also can be added from the policy anniversary based on the Date of Application (DOA).
7. It is the extra benefit to the insured which come with small premium payments. Such a premium is paid as extra premium for availing extra benefits.

## 1.10.3 Surrender Value and Paid up Value

**Q31. What is Surender Value and Paid-up Value?**

*Ans :*

**1. Surender Value**

The term surrender value refers to the amount of money which the insurer agrees to pay in case the life assured decides to surrender his policy before its maturity. It is said that the policyholder wishes to surrender his policy to the insurer and gives up his claim on it. Surrender of policy indicates termination of the contract of insurance.



The amount of surrender value is determined on the basis of actual premium paid and the number of years the policy has been in force. Surrender value increases with each payment of premium. Payment is to be made against the full and final discharge of insurer's liability under the contract.

**The calculation of surrender value involves the following steps :**

(a) Calculate duration elapsed under the policy. This duration will be equal to data of calculation of surrender value less date of commencement to be rounded off to the nearer half year. In other words, The elapsed duration is calculated by deducting date of commencement of policy (DOC) from the date of First Unpaid Premium (FUP) i.e., Paid-up Duration = Date of FUP - DOC

(b) Calculate the paid up value, inclusive of vested bonus under with profit plans.

(c) Ascertain from the tables the appropriate surrender value factor per Rs. too/ - paid-up value, corresponding to plan, duration elapsed and original term.

(d) Surrender Value = Paid-up $\times$ Surrender value Factor / 100.

According to Life Insurance Corporation of India, a policy acquires surrender value only after payment of two or three years premium. Thus, the policy is required to have run for three years before it acquires surrender value. In this regard, some Insurance companies guarantee a minimum surrender value of 40 per cent of the total premium paid.

**2. Paid-up Value**

If a policyholder discontinues the payment of premium after atleast two years premiums have been paid and subsequent premium is not paid, the policy does not become void, but continues as a paid-up policy. According to Insurance Act, it is defined as the policy paid up for an amount bearing the same proportion to the arttount of original sum assured which the number of premiums paid bears to the total number of premiums payable under the policy as a whole

i.e., Paid-up Value

$$\frac{\text{No. of Premium Paid}}{\text{No. of Premium Payable}} \times \text{Sum Assured}$$

The amount (claim) would be available to the life on maturity or on death whichever is earlier. In case of participating policy, it is assured that bonus or profits will be added to the paid-up value, but future gains or profits are not entitled to such policy.

***Note :*** If this figure is less than the guaranteed surrender value, latter is payable.

# Short Question and Answers

**1. What is Life insurance.**

*Ans :*

The life insurance contract provide elements of protection and investment after getting insurance, the policyholder feels a sense of protection because he shall be paid a definite sum at the death or maturity. Since a definite sum must be paid, the element of investment is also present. In other words, life insurance provides against pre-mature death and a fixed sum at the maturity of policy. At present, life insurance enjoys maximum scope because each and every person requires the insurance.

Life insurance is a contract under which one person, in consideration of a premium paid either in lump sum or by monthly, quarterly, half yearly or yearly installments, undertakes to pay to the person (for whose benefits the insurance is made), a certain sum of money either on the death of the insured person or on the expiry of a specified period of time.



**2. Write about Principle of Indemnity.**

*Ans :*

Indemnity means security, protection and compensation given against damage, loss or injury. According to the principle of indemnity, an insurance contract is signed only for getting protection against unpredicted financial losses arising due to future uncertainties. Insurance contract is not made for making profit else its sole purpose is to give compensation in case of any damage or loss. The principle of indemnity applies mainly to property, liability and other non-life insurance business, where the exact amount of compensation is not known in advance.

**3. What is the Composition of IRDA.**

*Ans :*

The IRDA would consist of a chairperson and not more than nine members of whom not more than five would be full-time members, to be appointed by the government from amongst persons of ability, integrity and standing who have knowledge/experience of life insurance/general insurance/actuarial service, finance/economics/ law/ accountancy/administration/any other discipline which in the opinion of the government would be useful to it. Between the chairperson and the full-time directors, at least one person each is required to have knowledge/experience of life, general insurance or actuarial science respectively.

**4. What is Term Insurance Policy.**

*Ans :*

This policy is pure risk cover with the insured amount will be paid only if the policy holder dies in the period of policy time. The intention of this policy is to protect the policy holder's family incase of death. For example, a person who takes term policy of Rs.500000 for 20 years, if he dies before 20 years then his family will get the insured amount. If he survive after 20 years then he will not get any amount from the insurance company. It is the reason why term policies are very low cost. So, this type of policy is not suitable for savings or investment.

**5. What is Endowment Policy.**

*Ans :*

It is the most popular Life Insurance Plans among other types of policies. This policy combines risk cover with the savings and investment. If the policy holder dies during the policy time, he will get the assured amount. Even if he survives he will receive the assured amount. The advantage of this policy is if the policy holder survives after the completion of policy tenure, he receives assured amount plus additional benefits like Bonus, etc. In this kind of policy, policy holder receives huge amount while completing the tenure. In addition to the basic policy, insurers offer various benefits such as double endowment and marriage/ education endowment plans. The cost of such a policy is slightly higher but worth its value.



**6. Define ULIPs.**

*Ans :*

Unit linked insurance plan (ULIP) is life insurance solution that provides for the benefits of risk protection and flexibility in investment. The investment is denoted as units and is represented by the value that it has attained called as Net Asset Value (NAV). The policy value at any time varies according to the value of the underlying assets at the time.

In a ULIP, the invested amount of the premiums after deducting for all the charges and premium for risk cover under all policies in a particular fund as chosen by the policy holders are pooled together to form a Unit fund. A Unit is the component of the Fund in a Unit Linked Insurance Policy.

### 7. What is Group Insurance and Types?

*Ans :*

As the name suggests, group insurance is a product designed to provide life insurance to a group of people under a single master policy. A group insurance policy can be taken by any group of people, big or small, that comes together for any reason, apart from that of specifically benefitting from an insurance scheme. A group policy extends to anyone irrespective of their age, gender, profession, social background and such factors. Group insurance is not limited to only employer-employee groups, but is extended to other homogenous groups too.

**Group Insurance Products**

The standard group insurance products generally offered by Life insurance companies are:

1. Group Term Life Insurance Schemes
2. Group Savings Linked Insurance Schemes.(GSLI)
3. Group Credit Life Insurance and
4. Group Health Insurance
5. Group Dental Insurance
6. Worldwide Travel Group Insurance
7. Group Term Disability Insurance
8. Group Leave Encashment Scheme
9. Group Insurance Scheme in lieu of EDLI
10. Social Security Scheme
11. Voluntary Retirement Scheme
12. Group Gratuity Scheme
13. Group Superannuation Scheme

**8. What is Premium ?**

*Ans :*

Premium is an amount paid periodically to the insurer by the insured for covering his risk.

In an insurance contract, the risk is transferred from the insured to the insurer. For taking this risk, the insurer charges an amount called the premium. The premium is a function of a number of variables like age, type of employment, medical conditions, etc. The actuaries are entrusted with the responsibility of ascertaining the correct premium of an insured. The premium paying frequency can be different. It can be paid in monthly, quarterly, semiannually, annually or in a single premium.

**9. What is mode of Rebates?**

*Ans :*

Rebate is the amount paid for reduction, return or refund on what has been already contributed or paid. In a insurance policy, rebates can be of different types like, yearly, half-yearly, quarterly and monthly. Rebates are usually differ from plan to plan. It is very important to deduct permissible rebate for mode of payment of premium and sum assured for insurance.

**Mode of Rebates**

There are four types of modes of rebates which are used in the calculation of insurance premium. They are as follows,

1. Yearly mode of rebates
2. Half yearly mode of rebate
3. Quarterly mode of rebate
4. Monthly mode of rebate.

**10. What is Rider Benefits ?**

*Ans :*

An optional benefit available to the policy holder at an additional cost is known as rider benefit. In the pre-liberalisation period, the benefits under the products are predefined and offered as packages. Based on that, customers has to choose the plan according to his requirements. However, now a days the basic trend is the basic plan which is offered with add on benefits to match with the exact needs of the customer. The add on benefits with additional costs are defined as riders benefits.

**11. What is Surender Value in insurance ?**

*Ans :*

The term surrender value refers to the amount of money which the insurer agrees to pay in case the life assured decides to surrender his policy before its maturity. It is said that the policyholder wishes to surrender his policy to the insurer and gives up his claim on it. Surrender of policy indicates termination of the contract of insurance.

The amount of surrender value is determined on the basis of actual premium paid and the number of years the policy has been in force. Surrender value increases with each payment of premium. Payment is to be made against the full and final discharge of insurer's liability under the contract.

**12. Write about Paid-up Value.**

*Ans :*

If a policyholder discontinues the payment of premium after atleast two years premiums have been paid and subsequent premium is not paid, the policy does not become void, but continues as a paid-up policy. According to Insurance Act, it is defined as the policy paid up for an amount bearing the same proportion to the arttount of original sum assured which the number of premiums paid bears to the total number of premiums payable under the policy as a whole

i.e., Paid-up Value

$$\frac{\text{No. of Premium Paid}}{\text{No. of Premium Payable}} \times \text{ Sum Assured}$$

The amount (claim) would be available to the life on maturity or on death whichever is earlier. In case of participating policy, it is assured that bonus or profits will be added to the paid-up value, but future gains or profits are not entitled to such policy.

# Choose the Correct Answer

1. Which one of the following does not belong to the main products of life insurance? [d]

   (a) Term (b) Whole life

   (c) Endowment (d) Personal accident insurance

2. Which one of the following does not belong to the major general insurance private sector companies in India? [b]

   (a) Reliance General Insurance (b) The Oriental Insurace Company

   (c) Bajaj Allianz General Insurance (d) Royal Sundaram Alliance Insurance

3. When was Life Insurance sector nationalised? [c]

   (a) 1947 (b) 1951

   (c) 1956 (d) 1959

4. When was the General Insurance Council formed? [c]

   (a) 1955 (b) 1956

   (c) 1957 (d) 1958

5. When was the Insurance Regulatory and Development Authority constituted?[b]

   (a) 1971 (b) 1999

   (c) 2001 (d) 2005

6. IRDA stands for. [b]

   (a) Indian Rural Development Authority

   (b) Insurance Regulatory and Development Authority

   (c) Insurance Rural Development Authority

   (d) Insurance Revenue Development Authority

7. provide the benefit to insured to claim from the insurer any loss incurred due to the negligence of third party. [c]

   (a) Principle of utmost good faith (b) Principle of contribution

   (c) Principle of subrogation (d) Principle of indemnity

8. The amendments made by IRDA in which of the following acts, [c]

   (a) GICAct, 1972 (b) LIC Act, 1956

   (c) Both (a) and (b) (d) MRTP Act

9. The main purpose of is to prevent gambling and minimize the moral hazard.[c]

   (a) Subrogation (b) Utmost good faith

   (c) Insurable interest (d) Proximate cause

10. The facts that should not be disclosed by insured are, [d]

   (a) Facts that minimize the risk (b) Facts relating to public knowledge

   (c) Facts waived by insurer (d) All the above

# Fill in the Blanks

1. LIC stand for ________
2. PLI stand for ________
3. ULIPs stand for ________
4. Example of LIC plan ________
5. Type of Health insurance ________
6. ________ is the pooling of for feitous losses by the transfer of risk of insured to insurer.
7. The process of identification and classification of the risks involved in insurance program is called ________
8. The price paid by the policy holder for the insurance policy is referred as ________.
9. The insurance that pays death benefits to the beneficiaries after the death of the insured is known as ________
10. IRDA plays a role of a ________ for the insurance industry in India.



**ANSWERS**

1. Life Insurance Corporation
2. Postal Life Insurance
3. Unit linked policy
4. Money Back policy
5. Group Health Insurance
6. Insurance
7. Underwriting
8. Premium
9. Life insurance
10. Regulator

| UNIT II | **Settlement of Claims Risk & Underwrittings and Financial Planning & Tax Saving:** Settlement of claims: Intimation Procedure, documents and settlement procedures.Underwriting: The need for underwriting – Guiding principles of Underwriting – Factors affecting Insurability – Methods of Risk Classification – Laws affecting Underwriting. Financial Planning and taxation: Savings – Insurance vis-à-vis- Investment in the Units Mutual Funds, Capital Markets – Life Insurance in Individual Financial Planning – Implications in IT treatment. |
|---|---|

## 2.1 Settlement of Claims : Intimation Procedure, Documents and Settlement Procedures

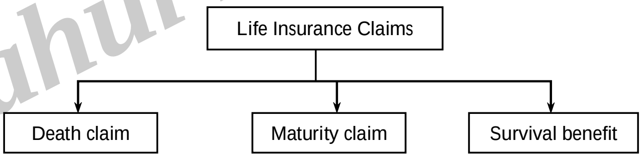
**Q1. What do you mean by claim? What are the different types of Life insurance Claims ?**

*Ans :*

Claim refers to the demand made by an insured or beneficiary to the insurer to make payment of insurance policy benefits

**Types of Life Insurance Claims**

The insurance claims are divided into three types.




The basic necessity for settlement of claim arises on death of the policy holder or maturity of policy.

**A) Death Claim**

The death claim arises on the death of the policy holder. Death can be natural, accidental or a suicide. Death claim is further classified as,

**(i) Premature Claim**

In case of premature claim, insured person dies within three (3) years from the date on which insurance policy is taken.

**(ii) Other Claim**

In case of other claim, insured person dies after three (3) years from the date on which insurance policy is taken.

**B) Maturity Claim**

The essential features of maturity claims are listed below,

1. A maturity claim is payable according to the conditions of the contract on the completion of the policy term period, if the insured person is alive till the maturity date.
2. This claim includes the assured sum, vested bonuses and other specified money. Any debt or charge under the policy such as outstanding premia and loans will be deducted from the assured sum.
3. When it comes to proof of title, settlement of maturity claims is quite easy as the policy money is paid directly to the insured person itself.
4. The insurance company will make payment to the absolute assignee in case of an absolute assigned policy.
5. Policy holders are informed in advance about the maturity date by the insurers. The insurers also send the discharge form to the policy holders and request them to return the discharge form signed, duly stamped and enclosed with the documents such as,
   (i) The policy document
   (ii) Age proof (if age is not admitted yet)
   (iii) In case if an assignment is made, the stamped document of assignment should also be submitted.



**C) Survival Benefit Payment**

Some policies such as money back policies allow the insured person for the survival benefit before the full term policy expires. Settlement of the survival benefit is less complicated when compared to settlement of maturity claim.

The procedure for settlement of survival benefit is as follows,

1. Insurer intimates the policy holder in advance about the money back policies and sends a discharge voucher.
2. The policy holder returns the documents duly stamped and signed and witnessed with the original policy document for necessary approval.
3. The gross amount is nothing but the installments of the sum of money assured payable.
4. After subtracting the outstanding premium, outstanding loan, interest etc., from the gross amount, the net amount will arrive.

**Q2. What do you mean by claim settlement? Explain the procedure in settlement of claim on death of insured.**

*Ans :*

### Claim Settlement

Claim settlement means paying back the money by the insurance company to the insurance policy holder. A claim is said to be settled when the policy holder duly receives the money which is due to him by the company according to the terms and conditions of policy. The process of claim settlement directly reflects the efficiency and effectiveness of the company. A company which correctly and successfully settles down the claims of clients achieves trustworthiness and loyalty. While the insurance companies which involve litigations in claim settlements owes bad reputation in the market.

Claim settlement of an insurance policy usually takes place in two circumstances,

A) On death of policy holder.

B) On maturity of insurance policy.

### A) Procedure for Settlement of Claim on the Death of Policy Holder

In case of death of policy holder, the following procedure is followed and the claim is settled down,



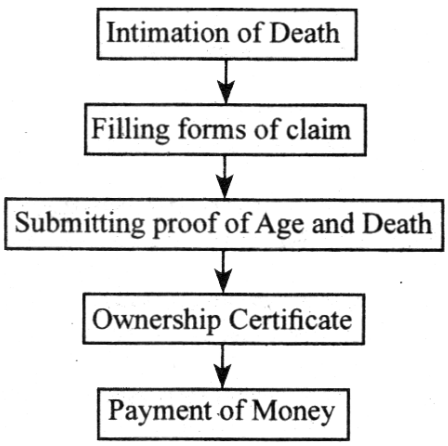



**Figure: Procedure for Settlement of Claim on Death of Policy Holder**

**1. Intimation of Death**

The process of claim settlement basically starts with intimating about the death of policy holder (insured) to the respective office of LIC from where the policy was being purchased. The intimation letter should include the following details, full name of the insured, policy number, date and place of death and so on. The letter must be forwarded by the correct nominee, assignee or the close relative of policy holder. The relationship between the person sending the intimation letter and the insured should also be mentioned.

**2. Filling Forms of Claim**

Soon after receiving the intimation letter, the official authorities would send certain claim forms to the nominee. These forms need to be duly filled up in a prescribed format and should be returned back to the authorities within the specified time period.

**3. Submitting Proof of Age and Death**

In addition to sending letter of death intimation and filled up forms, it is also required to submit the proof of age and death to the concerned officials. For submitting the proof of age, school certificate, birth certificate or citizenship card might be used. And for proof of death, death certificate from hospital or from municipality might be submitted. If necessary, it is also required to submit the statement of doctor who was giving treatment to the insured and the certificate from hospital in which the insured got treatment for the illness.

**4. Ownership Certificate**

Certificate of ownership is needed in case when there is no valid nominee or assignee mentioned in the policy. It can be a succession certificate, letters of probate and the similar kind.

**5. Payment of Money**

After successfully completing all the steps, the money is paid to the right person i.e., nominee. The LIC company sends a cheque in the name of nominee which can be withdrawn anytime. A form of discharge is also sent by the company in order to acknowledge the receipt of the policy amount.

## B) Procedure for Settlement of Claim on the Maturity of Insurance Policy

The settlement of maturity claim follows a simple procedure. The procedure gets started soon after the completion of maturity period of a life insurance policy. Prior to the claim settlement, discharge form is sent by the divisional head of the LIC to the policy holder before two months of maturity date. After receiving the filled in discharge form, claim settlement takes place. The procedure of maturity claim settlement include three main steps as follows,

### 1. Intimation of the Maturity

The first step in the claim settlement is intimation about the maturity to the policy. The divisional officer of the LIC is responsible for intimating the insured about the maturity before two months of maturity date. The insured is asked to fill the discharge form which is sent along with the intimation and submits the required documents. The documents includes the original document of policy, age proof of the insured and the assignment or reassignment deed of the policy. In case where the intimation is not received, the policy holder should approach the concerned branch enquiring about the copy of intimation.

### 2. Submission of Required Documents

Soon after receiving the intimation letter from the company, the policy holder must forward the following documents to the given address,

i) **Filled up Discharge Form :** Discharge form is issued by the divisional head along with intimation letter. The insured has to duly fill up and sign this letter and forward the same to LIC's branch.

ii) **Original Document of Policy :** Every policy holder is given an original document of the life insurance policy. In case if this document is lost then an indemnity bond with reliable surety needs to be sent.

iii) **Receipts of Premium Paid :** The receipts which acknowledges the payment of premium regularly must be submitted.

iv) **Proof of Age :** Proof of age is also required in settlement of maturity claim. If it is not submitted then it must be sent along with the discharge form. Proof of age can be either a Birth Certificate of insured, High school certificate or any other document given by the authorized body.

v) **Other Documents :** Any other document demanded by the corporation should be submitted.

vi) **Payment of Money :** After successfully receiving the required documents from policy holder, the corporation would send an account payee cheque to the insured. The amount of money would be \according to the terms and conditions of policy selected. The procedure of claim settlement would come to an end after duly paying the claim amount to the insured.

## 2.1.1 Managing Claims and Losses

**Q3. How to managing claims and losses in insurance?**

*Ans :*

Handling claims is also a social responsibility of insurance company. In case of life the job is not complex as with property liability where losses are have higher frequency, predominance of partial losses and uncertainty of quantum of loss.

Claims management is the basic goal of the insurance industry. It means to settle the losses of the insurer and the differences between the insurer and the insured. Claims management is more than just settling the losses with money. Insurance companies have claim settlement representatives to carry-out this task. An insurance company should pay for the claim reasonably. Rejection of undeserved claims also falls under claims settlement. Claim management is the function of an insurance adjuster. There are various such adjusters working in the insurance industry.



**Objectives of Claims Settlement**

The basic objective of claims settlement includes:

**1. Confirmation of a Covered Loss**

The insurer should make sure that the claim to be covered had actually occurred or not. The insurer should check, if the applicant of a life or property insurance is eligible to claim it.

**2. Reasonable and Timely Payment of Claims**

The claims settlement should be fair and without any delay. If the applicant's reasonable claim is rejected, it may defy the main objective of insurance. It may also affect the insurer's reputation.

3. **Personal Support to the Insured**

Apart from the legal responsibilities as per the contract, the insurer should help the insured personally in some cases. **For example,** an insurer should help the insured to find a temporary house, if there is any natural hazard.

**Types of Claims Adjustors**

The person who adjusts a claim is known as a claims adjustor. The major types of adjustors include the following:

1. **Agent**

An agent often has authority to settle small first-party claims upto some maximum limit. The insured submits the claim directly to the agent, who has the authority to pay upto some specified amount.

2. **Company Adjustor**

A company adjustor can settle a claim. The adjustor is usually a salaried employee who represents only one company. After notice of the loss is received, the company adjustor will investigate the claim, determine the amount of loss, and arrange for payment.

3. **Independent Adjustor**

An independent adjustor can also be used to settle claims. An independent adjustor is a person who offers his or her services to insurance companies and is compensated by a fee. The company may use an independent adjustor in certain geographical areas where the volume of claims is too low to justify a branch office with a staff of full-time adjustor.

4. **Adjustment Bureau**

An adjustment bureau can be used to settle claim. An adjustment bureau is an organisation for adjusting claims that is supported by insurers that use its services. Claims personnel employed by an adjustment bureau are highly trained individuals who adjust claims on a full-time basis.

5. **Public Adjustor**

A public adjustor can be involved in settling a claim. A public adjustor, however, represents the insured rather than the insurance company and is paid a fee based on the amount of the claim settlement.

## 2.2 Underwriting

**Q4. Write about underwriting.**

*Ans :*

Underwriting can be termed "assumption of liability". It means signing an insurance policy and thereby becoming liable in the face of a specified loss. Underwriting involves the selection of policyholders after thoroughly evaluating all hazards, establishing prices and then determining the terms and conditions of the insurance policy.

The underwriting framework of a company plays a major role in determining the company's standing in the market. The underwriter must aim to generate profits and minimize losses through a well-balanced underwriting policy. One aspect that the underwriter must always bear in mind is that the underwriting must neither be too strict nor too lenient. If the acceptance criteria are very stringent, then the insurer will miss out on several acceptable businesses and may even face losses because of the expenses involved in cancelling business that the marketing person might have initially agreed to. This can be remedied by including enough conditions to make the risk acceptable. On the other hand, if the acceptance criteria are too liberal, the insurance company may face substantial losses and be forced to withdraw from a given line of business.

Once the risk involved is deemed acceptable, underwriting then fixes the rate of premium, and subsequently, all other terms involved. There are certain guiding objectives and principles that the underwriter must follow.



**Objectives of Underwriting**

Underwriting has three-fold objectives:

1. Producing a large volume of premium income that is sufficient to maintain and enlarge the insurance company's operations and to achieve a better spread of the risk portfolio;
2. Earning a reasonable amount of profit on insurance operations;
3. Maintaining a profitable book of business (by ensuring underwriting profits) - that contains all the policies that the insurer has in force.

### 2.2.1 Need for underwriting

**Q5. What is the Need for underwriting?**

*Ans :*

Underwriting is the process through which an insurance company decides whether or not to issue the requested insurance and if yes,based upon what terms and conditions. Thus, the concept of underwriting plays a significant role in the private and voluntary insurance markets. It facilitates the insurance organization in the following ways,

**1. Helps in Risk Pooling and Fair Pricing**

Under any insurance plan, all the insured members contribute to a common money pool. From this money pool amount, the insurance company pays to any insured member who suffers losses against the item insured.

Underwriting helps the insurance firm to objectively and correctly determine the expected loss potential and accordingly arrive at a "Fair Price" which the insurance company should charge to the insured members.

**2. Ascertaining Group and Individual Insurance Plans**

Underwriting is needed by insurance firms, to create a balanced individual insurance plan and group insurance plan. Incase of group insurance, the whole group is insured, thus underwriting is carried out to ascertain the fair or optimal contribution which need to be made by every group member. Similarly, under the group insurance policy, the insured individual need to contribute insurance premium which should sufficiently cover the expected loss potential.

**3. Need in Case of Private Insurance Market**

Underwriting plays an important role in case of private insurance markets and not in case of social insurance or made compulsory by the government. This is because in case of government mandated insurance participation every insured member would contribute a fixed amount of premium irrespective of his expected loss potential. For example if government mandated life insurance policy states that every member should contribute rupees 1000 insurance amount a 20 years old employee would contribute the same amount, eventhough the probability of death is more in case of the 65 yeas employee.

## 2.2.2 Guiding principles of Underwriting

**Q6. What are the guiding principles of underwriting?**

*Ans :*

Insurance is a concept of creation of a fund of premiums collected from various persons by pooling all of their risks, from which the financial losses of those few who suffer from the insured perils are compensated. The theory of probability, which can predict with a certain degree of precision, the possibility of a certain event occurring that can give rise to a claim provided there is sufficient data on past experience, is invariably the basis on which the concept of underwriting rests.

It follows that a prudent underwriter will necessarily have to build up data on claims lodged and this has to be done on a continuous basis. Further this data base has to be separately compiled for each of the different insurance portfolios – Fire, Marine & Miscellaneous. Having put this practice in place, he should follow certain basic principles before accepting a risk.

The principles that guide an underwriter before accepting a risk are:

1. **Selecting insureds that fit the company's underwriting**

   Standards only those insureds whose actual loss experience does not exceed the loss experience assumed in the company's rating structure will be selected. The rate is based on a low loss ratio. For example, if the expected loss ratio is 20 percent and a rate is set accordingly, only those insureds will be selected, who can meet the required criteria, so that the actual loss ratio for the group will not go beyond 20 percent.

2. **There should be proper balance within each rate**

   Classification the underwriter must be able to group insureds in such a way that the average rate in the group is enough to pay for all claims and expenses. Therefore, units with similar loss- producing features are placed in the same class and charged the same rate, ensuring that a below average insured is compensated for by an above average insured.

3. **Charging equitable rates**

   The rates that apply to one group should not be charged to another group as well. This would mean that one group is unduly subsidizing another group. For example, in the case of life insurance, charging the same premium rate for people in the age group of 20-25 years and those in the age group of 50-55 years will result in the younger lot subsidizing the older people. This amounts to overcharging and the younger persons will then look out for some other insurance company that has a more equitable system.

### 2.2.3 Factors affecting Insurability

**Q7. What are the Factors affecting Insurability?**

*Ans :*

In deciding whether to issue insurance [selection], and if so, on what terms and conditions and at what price [classification], life insurance companies examine several factors to achieve and ensure that rates should be adequate, equitable and not excessive to insureds for insurance coverage. Life insurance underwriting factors are:

**1. Age**

Expected future mortality is highly correlated with chronological age. So age is a key factor in determining the rate an individual is to be charged for life insurance. But it is rarely a selection factor. Proof of age is required only at the time of immediate annuity purchase.

**2. Gender**

Is rarely used as a selection factor, but it is routinely used as classification [rate setting] factor with respect to individual life insurance.

**3. Medical aspects**

1. **Physical condition:** The determinants of physical condition are build [includes weight, height and distribution of the weight], nervous, digestive, cardiovascular, respiratory, or genitourinary systems, and glands of internal secretion etc., which reveal an average expected mortality rate.

2. **Personal history :** Individual's health record, habits, driving violations, and amount of insurance already owned bear his or her expected mortality.

3. **Family history :** Transmission of characteristics by heredity is also important for classification of insureds.

4. **Tobacco use :** Using tobacco in any form is an important risk factor by itself, causes expected future mortality to be worse than the average, and is a warrant for separate classification.

5. **Alcohol and drugs :** Excessive alcohol use is associated with higher than standard mortality.

**4. Occupation**

The occupation may present environmental hazard [exposure to violence], the physical conditions [persons who work in close, dusty, or poorly ventilated quarters] risk from accident [professional automobile racers, professional divers Because of this, ratings have been reduced or eliminated for many occupations.

## 2.2.4 Methods of Risk Classification

**Q8. What are methods of risk classification?**

*Ans :*

**Methods of Risk Classification**

Risk can be classified through following two methods in Insurance.

**1. Judgement or Assessment method**

In Judgement or Assessment method, the insurer studies all the features of the life to be insured based on the material information placed before him, draws a mental picture and brings into play all his knowledge and experience to determine terms of acceptance of the risk. The company has to depend upon the combined judgement of those in the medical, actuarial, and other departments who are qualified for this work.

The judgement method functions effectively when there is only one unfavourable factor to consider or where the decision is simply either to accept the application at standard rates or reject it entirely. Where multiple factors are involved or a proper substandard classification needed, this method is not found useful.

It also requires the use of highly skilled personnel for proper risk appraisal. The method also cannot ensure uniformity in the decisions by the same persons at the same or different times. Besides it is a time consuming process.

To overcome the weaknesses of this method, life insurance companies evolved the other method viz., Numerical Rating Method.

## 2. Numerical Rating method

Under this method, each factor of insurability is compared with medico actuarially prepared standard and deviations are measured in terms of extra debit or credit points. Adverse features attract debit points while favorable ones are given credit points. The sum total of debit ratings of all factors give the extra mortality of a particular life (risk).

Thereafter total extra mortality ratings are matched with standard charts and converted into monetary value which is called the extra premium. It is on the basis of numerical ratings that underwriter classifies the risk and decides the terms of acceptance of risks.

Merits of Numerical Rating Method

1. Numerical rating method enables direct usage of the results of various Medico-Actuarial investigations.
2. Numerical rating method reduces the operation of subjective factor in underwriting risks to the minimum.
3. Numerical rating method helps the insurers to evolve a uniform underwriting procedure and classify risk in identical groups.
4. Numerical rating method facilitates building up of new statistics on the basis of which the basic ratings are continuously reviewed in the light of up to date trends in insurance medicine.
5. Numerical rating method ensures that no factor is overlooked.
6. Numerical rating method makes possible uniform assessment either by several underwriters or the same underwriter at different times.
7. Numerical rating method enables business to be handled with greater speed.

### Limitations of Numerical Rating Method

While the numerical rating method has all the above advantages, it is not without limitations. One of the limitations that it suffers from is that it cannot be extended to assess the occupational hazard and the extra risk resulting from certain standard impairments such as the following:

1. Defects and deformities such as amputated arms and legs, partial or total blindness and deafness, cleft palate, club foot, etc.

**2. Standard impairments such as hydrocele, bleeding piles, Caesarean section, etc.**

In such cases, the total extra would be obtained by adding the extra premium wherever applicable for the health/physical impairment as per the numerical rating method to the extra premium for occupation and / or other standard impairment if any.

## 2.2.5 Laws affecting Underwriting

**Q9. Discuss in brief the various laws effecting underwriting.**

*Ans :*

There are various laws which effect underwriting by the insurance firms. The main aim of these laws is to protect the consumer against fraudulent practices by insurance companies. The important laws affecting underwriting of life and health insurance in the U.S. A are discussed below.

**1. FCR Act**

The FCR Act (Fair Credit Reporting) Act requires the insurer companies to notify the individual member that he has the right to get the nature and scope of the investigation.

The FCR Act states that,

(i) The insurance company disclose all the consumers information it has collected, along with the source.

(ii) In case of a rejected underwriting decisions, the insurer need to provide detailed reason about the rejection.

(iii) If the consumer is not satisfied with the reason, a reinvestigation need to be carried on free of cost for the consumer.

**2. NAIC Act**

The National Association of Insurance Commissioners Privacy Protection Act advocates for the protection of the consumer's privacy. The act prohibits the insurance companies against conducting fake interviews for the client to collect information.

**3. Unfair Discrimination Laws**

This law prevents insurance firms against unfairly charging higher fee, premium or provide lesser benefit to consumers of a specific class. It advocates same rules and regulations for consumers in a same condition.

**4. Unfair Gender Discrimination**

The U.S supreme court decision in the 1983. Norries case proved that insurance companies can not go for gender base pricing.

**5. Unfair Discrimination Based Upon Mental or Physical Health**

The law prohibits an insurance companies from refusing or limiting insurance cover for a physically or mentally impaired consumer. Solely based on the improvement.

**6. Unfair Discrimination Based on Sexual Preferences**

The U.S law prohibits the insurance company against enquiring about a consumer sexual preferences in connection to life insurance or health insurance underwriting.

**7. HIPAA**

The Health Insurance Probability and Accountability Act (1996) aims to increase access and transferability of health care insurance for the consumers. This is performed through,

(a) Preventing discrimination of the ensured and their family members depending upon the health status.

(b) Limiting about what all can be included and excluded in the preexisting conditions.



## 2.3 Financial Planning and Taxation : Savings

**Q10. What is financial planning? What is the role of life insurance policies in financial planning?**

*Ans :*

**Financial Planning**

Financial planning refers the process of determining whether and how an individual can meet life goals through the proper management of financial resources.

**Role of Life Insurance Policies in Financial Planning**

Life insurance is a good investment tool which is comparatively simple, affordable and caters to the different stages of the individual's lifecycle. In the present scenario, any one can purchase any kind of insurance policy based on his requirement. However, individuals can adopt a pure protection plan at an early stage which is most affordable or at a later stage which gives the opportunity of earning higher returns. There are various insurance policies which may be related to specific education policies which ensure that your child's education is not compromised in case of an unfortunate situation (death) and there are also some policies related to retirement and pension policies.

It is a fact that insurance is considered as an important element of any sound financial plan. Because there are different types of insurance policies which help to protect one person and his loved ones in different ways. For example protection against accidents, illness, disability and death etc.

The following are the common areas under which a life insurance policy plays a significant role in financial planning,

**1. Mortgage Payment**

In most cases mortgage is considered as one of the higher expenses like, Payments, taxes, insurance and interest. Because of this reason, large number of individuals plan for long-term financial commitments. However, there will be one question arised from this situation that, if one person get died tomorrow, could his family is able to pay such a huge expenses without your income. In such situation, life insurance policy can help such persons's family by providing a lump sum amount to pay off mortgage debt.

**2. Funerals Payments**

If one person is having a life insurance policy in his financial plan to cover the funeral cost on his death, then such life insurance policy will support his family to cover up the funeral costs, prevent his family from draining their emergency savings and stopping them to take out a loan at this very difficult time.

**3. Educational Payments**

If one person is saving very less amount for his child's education while he is alive, but it will be a problem for his child if that person suddenly died. In order to provide some coverage to his children, that person can purchase a life insurance policy which will be a gift of education by factoring educational expenses into your life insurance policy's death benefit. As such, his children can bear the educational cost with benefits of such insurance.

**4. Caring for a Special needs Child or Aging Parents**

Life insurance policies plays a significant role in a financial plan of person if he have a special child or aged parents that depend on his financial support. Without the resources to provide for their continual care, family members will be forced to take on a stressful and lifelong financial burden. In such situation, life insurance cover can provide the financial support needed for such dependents after the death of that person.

**Q11. What do you mean by taxation ? Explain the tax saving through insurance policies.**

*Ans :*

**Taxation in Insurance**

Taxation refers to the practice of a government collecting money from its citizens to pay for public services. In insurance sector taxation is also plays a crucial role because now a days insurance business are on high peaks. Insurance companies are earning higher profits compare to other business companies. Therefore, the taxation of life insurance business in India is currently governed by Section 115 B, Section 44 and the First Schedule of the Income Tax Act, 1961.



**Tax Saving Through Insurance Policies**

Tax saving or tax-planning is an crucial element of financial planning. If it is planned properly, it will help individuals not only in meeting financial goals but it also help in saving tax from this process. Tax saving for life, health and pension insurance policies are as follows,

**1. Tax Savings for Life Insurance Policy**

Life insurance policies consist of various policies like, term policies, money back policies, whole life policies, Unit Linked Insurance Plans (ULIPs) and so on. For the purpose of saving tax, all these are treated equally by the Income Tax department. Tax saving can be done by purchasing any of these policies. The premiums paid on these policies can be used for availing tax deduction and hence boost tax saving options.. The following are some details regarding tax deduction on life insurance policies,

The deductions claimed will be added back to income and taxed accordingly if policies are surrendered or terminated before 5 years of commencement. Thus, life insurance plays a major role as a tax saving investment option, by providing various plans which could be the sources of tax saving.

The ICICI Prudential Life Insurance policies provide tax benefits to its applicants in following stages,

**Stage 1: Entry Advantage**

Individual receive tax benefits on your premium payments under section 80C of Income Tax Act, 1961 (life insurance), 80CCC Income Tax Act, 1961 (pension) and Section 80D Income Tax Act, 1961 (health).

**Stage 2: Earnings Advantage**

Individual's investment with ICICI will receive the potential to grow and is not currently taxable.

**Stage 3: Exclusive Switching Advantage**

Individual can switch between equity, debt and balanced funds anytime and these switches are not taxable.

**Stage 4: Exit Advantage**

Individual receive a tax free Maturity Benefit (the payout you receive when your policy ends) subject to conditions of Section 10 or 1OD of the Income Tax Act, 1961.



**2. Tax Savings for Health Insurance Policy**

Health insurance policy also offers tax benefits to individuals. It offers Insurance premium up to ? 20,000 for senior citizens and ? 15,000 for others which is eligible for tax benefit. For example, if an individual pays ? 15,000 as premium on his own policy and ? 20,000 for his parent( senior citizen) he can claim tax benefit of? 35,000 (? 15,000 + 20,000). Therefore, it is considered as efficient tax saving investment plan for a individual.

**3. Tax Savings for Pension Policy**

Pension plans or annuity plans are another form of life insurance with a different end objective. While life insurance is used to protect the family of a individual after his death, pension is designed to provide benefits for the individual and his family even when he alives. It is also a best plan for tax saving for individual's income.

### 2.3.1 Insurance vis-a-vis-Investment in the Units Mutual Funds, Capital Markets

**Q12. What is mutual fund? What are the types, advantages and disadvantages of Mutual funds.**

*Ans :*

Mutual Fund is a type of collective investment method by which many people pool their money in a fund and invest in various securities like stock, bonds or cash investments. Every mutual fund has a fund manager or investment advisor so it is also called as managed funds. In world's top stock markets collective investments holds a major share because of its flexibility. Depends on the objective of the funds like long term growth and low risk factor or high income growth with high risk factor or low growth rate and stability of principal, fund manager invests in respective fields on behalf of shareholders. For individual investors it is very easy type of investment because someone else manages their funds, take care of accounts and invest money over many different available securities.

**Types of Mutual Funds**

Mutual fund schemes may be classified on the basis of its structure and its investment objective.

1. **By Structure**

   a) **Open-ended Funds**

   An open-end fund is one that is available for subscription all through the year. These do not have a fixed maturity. Investors can conveniently buy and sell units at Net Asset Value ("NAV") related prices. The key feature of open-end schemes is liquidity.

   b) **Closed-ended Funds**

   A closed-end fund has a stipulated maturity period which generally ranging from 3 to 15 years. The fund is open for subscription only during a specified period. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the stock exchanges where they are listed. In order to provide an exit route to the investors, some close-ended funds give an option of selling back the units to the Mutual Fund through periodic repurchase at NAV related prices. SEBI Regulations stipulate that at least one of the two exit routes is provided to the investor.

**c) Interval Funds**

Interval funds combine the features of open-ended and close-ended schemes. They are open for sale or redemption during pre-determined intervals at NAV related prices.

**2. By Investment Objective**

**a) Growth Funds**

The aim of growth funds is to provide capital appreciation over the medium to long- term. Such schemes normally invest a majority of their corpus in equities. It has been proven that returns from stocks, have outperformed most other kind of investments held over the long term. Growth schemes are ideal for investors having a long-term outlook seeking growth over a period of time.

**b) Income Funds**

The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures and Government securities. Income Funds are ideal for capital stability and regular income.

**c) Balanced Funds**

The aim of balanced funds is to provide both growth and regular income. Such schemes periodically distribute a part of their earning and invest both in equities and fixed income securities in the proportion indicated in their offer documents. In a rising stock market, the NAV of these schemes may not normally keep pace, or fall equally when the market falls. These are ideal for investors looking for a combination of income and moderate growth.

### d) Money Market Funds

The aim of money market funds is to provide easy liquidity, preservation of capital and moderate income. These schemes generally invest in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money. Returns on these schemes may fluctuate depending upon the interest rates prevailing in the market. These are ideal for Corporate and individual investors as a means to park their surplus funds for short periods.

### e) Load Funds

A Load Fund is one that charges a commission for entry or exit. That is, each time you buy or sell units in the fund, a commission will be payable. Typically entry and exit loads range from 1% to 2%. It could be worth paying the load, if the fund has a good performance history.

### f) No-Load Funds

A No-Load Fund is one that does not charge a commission for entry or exit. That is, no commission is payable on purchase or sale of units in the fund. The advantage of a no load fund is that the entire corpus is put to work.

## 3. Other Schemes



**Tax Saving Schemes :** These schemes offer tax rebates to the investors under specific provisions of the Indian Income Tax laws as the Government offers tax incentives for investment in specified avenues. Investments made in Equity Linked Savings Schemes (ELSS) and Pension Schemes are allowed as deduction u/s 88 of the Income Tax Act, 1961. The Act also provides opportunities to investors to save capital gains u/s 54EA and 54EB by investing in Mutual Funds.

## Advantages and Disadvantages of Mutual Funds

## Advantages

### 1. Flexibility

The investments pertaining to the Mutual Fund offers the public a lot of flexibility by means of dividend reinvestment, systematic investment plans and systematic withdrawal plans.

### 2. Affordability

The Mutual funds are available in units. Hence they are highly affordable and due to the very large principal sum, even the small investors are benefited by the investment scheme.

### 3. Liquidity

In case of Open Ended Mutual Fund schemes, the investors have the option of redeeming or withdrawing money at any point of time at the current rate of net value asset.

### 4. Diversification

The risk pertaining to the Mutual Funds is quite low as the total investment is distributed in several industries and different stocks.

### 5. Professional Management

The Mutual Funds are professionally managed. The experienced Fund Managers pertaining to the Mutual Funds examine all options based on research and experience.

### 6. Potential of Return

The Fund Managers of the Mutual Funds gather data from leading economists and financial analysts. So they are in a better position to analyze the scopes of lucrative return from the investments.

### 7. Low Costs

The fees pertaining to the custodial, brokerage, and others is very low.

### 8. Regulated for Investor Protection

The Mutual Funds sector is regulated by the Securities Exchange Board of India (SEBI) to safeguard the rights of the investor.

## Disadvantages

### 1. Dilution

Even though diversification reduces investment risk it dilutes returns. A mutual fund is a portfolio of number of assets. So the returns of a fund are the average return of securities in the portfolio.

2. **Management Fees**

Some part of our investment (usually 1% to 2% annually) goes towards the management fees. Apart from this there are sales commissions and redemption fees.

**Note:** As per the recent SEBI directive entry load is waived off even if our buy order goes through a dealer/broker.

3. **No Guaranteed Returns**

Returns from mutual fund investments are not guaranteed though they are managed by professionals. Most of the mutual funds don't beat their benchmarks.

4. **No Control Over Decisions**

We don't have any control over the investment decisions. The manager takes all decisions on securities buying and selling.

5. **Regulations**

Though strict regulations are to ensure safety of investor's money they don't allow free trading which may result in less returns. I will try to cover SEBI general rules on mutual funds in coming posts.

6. **Inefficiency of Cash Reserves**

Mutual funds maintain huge cash reserves to meet redemptions at same time. These cash reserves could be a combination of cash in bank, cash equivalent highly liquid money market instruments. So some part of the money is inefficient which could have been invested to get more returns.

7. **Taxes**

If the money you invest in Mutual Fund earns a profit, you will be required to pay the taxes on the dividend received by you. You have to pay the taxes even if you make your money reinvest in Mutual Fund.

**Q13. Explain the how insurance and mutual funds related.**

*Ans :*

**Insurance and Mutual Fund**

The concept of mutual fund is used in building Unit Linked Insurance Policy (ULIP) which is type of life insurance policy. However, the structure and working pattern of ULIP is different from mutual funds. Most of the insurance companies try to position their products as mutual funds in the market but it is very difficult for insurance products to deliver those benefits as provided by mutual funds. In mutual funds, the investment amount is decided by the fund houses and under ULIPs. The premium contribution is decided by the policy holder and also it varies based on the term of policy.

ULIPs provided dual benefits i.e., one side it provide insurance cover and on other side it allow to earn return through investment. Thus, insurance companies also floats funds like mutual funds institutions in order to gather investors. Insurance companies invest this money in assets like stock and bonds due to which it sounds like a mutual funds because of such investment.

The major difference between ULIPs and mutual fund is that ULIPs provide life coverage which a mutual fund does not provide to the investors. However, the common thing which is there between these two investments that both are exposed investors to market risks and maintain professional fund managers to manage the assets of investors.

Following table show the differences between ULIP's and mutual funds,

| | Basis | Mutual Fund | ULIPs |
|---|---|---|---|
| 1. | Nature | It is a investment. | It is a investment and insurance cover. |
| 2. | Tax | For this, only Equity Linked Saving Schemes (ELSS) gives tax deductions. | For this, tax is charged as section 80c of income tax Act, 1961. |
| 3. | Lock Period | One can withdraw funds within 1 year only 1% fund value will be deducted for early withdrawals. | Minimum lock period is 5 years. No one can with -draw before this period, |
| 4. | Fund Charges | Fund charges will be 2.5% on this. | Fund charges will be 1.35% on this. |

**Q14. Explain the concept of investment of insurance companies in capital market.**

*Ans :*

Capital market is a market under which money is provided for periods longer than a year. Most of the insurance companies invest their money in capital markets which they collected through premiums and income from investments. They invest major part of their funds in government, semi-government and government approved securities followed by industrial securities. During the period 1990-2016, the investment in industrial securities has increased from 10- 25% respectively.

Most of the capital market deals for insurance companies are still basically financial driven. However, in order to strengthen their capital position, companies can raise equity or debt. The insurance sector of India is capable of raising substantial amounts of equity in the market.

Recently, insurance companies started using risk securitization techniques for transferring insurance risk to the capital markets. In addition, the capital markets will have the potential to help the insurance market by providing additional capacity which is above the limit provided by re-insurance market.

The various insurance companies which are investing in capital market are as follows,

1. **Life Insurance of India (LIC)**

   LIC is one the largest life insurance company in India which has total assets of ` 23 trillion. The LIC has highest number of policyholders and the largest premium based the state-run insurer grew faster than the industry in terms of first year premiums in financial year 2016-17.

   According to Insurance Regulatory and Development Authority of India (IRDA) during financial year 2016- 17, the life insurance industry of India total income from first premium increased to ` 1.75 trillion. During 2017, the LIC's first year premium collection was ` 1.24 trillion which contributes 71% of total industry collection.

2. **SBI Life Insurance**

   SBI Life Insurance hitted the capital market on September 2017 by ` 8,400 crores. The reported profit of SBI during financial year 2016-17 was ` 954.65 crores.

## 2.3.2 Life Insurance in Individual Financial Planning

**Q15. Explain the process of life insurance in individual financial planning?**

*Ans :*

While selecting a life insurance plan, every individual need to verify its financial position because based on his financial capability only he can pay the premiums of life insurance policies. As such individual financial planning becomes necessary in life insurance.

Individual financial planning is the process of managing individual's money to achieve financial objectives of him and his family. However, inorder to achieve financial objectives successfully, a systematic financial planning is required which fits the life insurance policies. This process consists of six steps, which are as follows,

**Step-1: Collection of Information**

In this step qualitative and quantitative information is collected. For example, information may be related to individuals assets, liabilities, income and expenditure, investment, life styles, economic position, family background etc.

**Step-2: Establishment of Objectives**

The 2nd step is most crucial in the process of individual financial planning process because in this step the objectives of the process will be established. These objectives are categorized into short-term and long-term objectives which may cover living standards of the family, quality eduction for the children, health security, retirement benefits etc.

**Step-3: Information Analysis**

In this step, the information which is collected from individual like qualitative and quantitative information will be analyzed.

**Step-4: Development of Plan**

In this step, an effective plan is developed with the help of gathered information (Step-1), objectives which is established (Step-2) and analyzed information (Step-3).

**Step-5: Implementation of Plan**

In this step, an effectively developed plan is implemented.

**Step-6: Monitoring and Reviewing of Plan**

This is the last step in the. process of individual financial planning. In this step the information is monitored and reviewed in a sophisticated manner.

## 2.3.3 Implications in IT treatment

**Q16. Explain the implication of income tax of life insurance companies.**

*Ans :*

The taxation of Indian life insurance companies is regulated and governed by sections 115B, section 44 and first schedule of Income tax Act, 1961.

The section 115B of Income Tax Act, 1961 states that,

1. The income tax shall be aggregate of amount generated from the total income of assessee which consist of any profits and gains from the business.
2. The income tax amount shall be calculated at the rate of 12.5% on the profits and gains of life insurance business which consist of total income.

After this statements, two changes has been brought up. In one, the rate of tax will be 12.5% on calculated profit and gains of life insurance business and other one is normal corporate tax rate on the net income on the funds of shareholders after excluding the profits from life insurance business.

According to Section 80D of Income Tax Act, 1961, Section 10( 1OD) says that any moneys received under a life insurance policy will not constitute 'income' under the Income Tax Act chargeable to Tax in the year of receipt. There is no limit of payment of

(i) Refund of premiums

(ii) Surrender value

(iii) Loans

(iv) Survival benefit

(v) Maturity claim

(vi) Death claim, etc.



These amounts need not be shown as income in the tax returns filed. But the premiums paid under section 80 DD, if refunded, are treated as income chargeable to tax.

**Taxation on Insurance Premium**

The maturity proceeds from the single premium life insurance policy will be tax-free only if the minimum sum assured throughout the policy term remains at least 10 times of the single premium paid. However, if the sum assured on single premium life insurance policies is 1.25 times of the premium amount, then the maturity proceeds will be taxable. For example: when the premium is ` 10,000, the life cover (sum assured) should be ` 1 00,000 for the maturity proceeds to be tax-free. If, say, the sum assured is ` 12,500 or ` 90,000, the policy loses the tax benefit under Section 10 (10D). Therefore, make sure the sum assured is at least 10 times the premium amount.

If this condition is not satisfied then the complete maturity which is proceeds fully taxable in the year of receipt. It has to be shown as income while filing income tax return. The only exception in this case is the proceeds from life insurance policy arising due to the death of the policyholder are exempt from tax irrespective of the level of the premium.

Addition to this, the insurer is supposed to deduct tax at source i.e. TDS on such payments. According to section 194DA of the Income Tax Act, 1961, any sum received by an insured or Indian resident from an insurer under a life insurance policy shall be subject to TDS of 1 percent if the maturity proceed is not exempted under Section 10(10D), i.e., on policies where the sum assured is less than 10 times the premium amount.

**Taxation on Annuity or Pension Plans (Sec. 80CCC)**

According to Section 80CCC of Income Tax Act, 1961, contributions-made towards annuity plans available with any of the Life Insurance Companies for receiving pension from the fund can be considered for tax benefit. The maximum Tax deduction allowed under this section is ` 1.5 Lakhs.

**Taxation on Medical Insurance Premium (Sec. 80D)**

According to Section 80D of Income Tax Act, 1961, upto ? 30,000 can be deducted towards the medical insurance premium for senior citizens (above 60 years) and upto ` 25,000 can be deducted towards medical insurance of self and dependents (spouse & children).

Additionally, a deduction of up to ` 25,000 towards medical insurance premium of parents (father/mother/both) is available. If both the parents (Father & Mother) are senior citizens, then the deduction allowed is up to ` 30, 000.

# Short Question and Answers

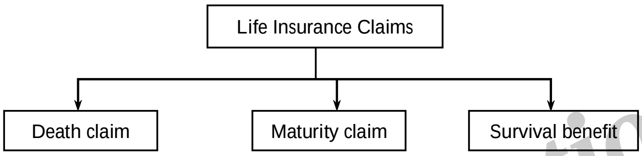
**1. What do you mean by claim?**

*Ans :*

Claim refers to the demand made by an insured or beneficiary to the insurer to make payment of insurance policy benefits

**Types of Life Insurance Claims**

The insurance claims are divided into three types.




The basic necessity for settlement of claim arises on death of the policy holder or maturity of policy.

**2. What is Death Claim ?**

*Ans :*

The death claim arises on the death of the policy holder. Death can be natural, accidental or a suicide. Death claim is further classified as,

**(i) Premature Claim**

In case of premature claim, insured person dies within three (3) years from the date on which insurance policy is taken.

**(ii) Other Claim**

In case of other claim, insured person dies after three (3) years from the date on which insurance policy is taken.

**3. What is Claim Settlement?**

*Ans :*

Claim settlement means paying back the money by the insurance company to the insurance policy holder. A claim is said to be settled when the policy holder duly receives the money which is due to him by the company according to the terms and conditions of policy. The process of claim settlement directly reflects the efficiency and effectiveness of the company. A company which correctly and successfully settles down the claims of clients achieves trustworthiness and loyalty. While the insurance companies which involve litigations in claim settlements owes bad reputation in the market.

**4. What is the process of Intimation of Death ?**

*Ans :*

The process of claim settlement basically starts with intimating about the death of policy holder (insured) to the respective office of LIC from where the policy was being purchased. The intimation letter should include the following details, full name of the insured, policy number, date and place of death and so on. The letter must be forwarded by the correct nominee, assignee or the close relative of policy holder. The relationship between the person sending the intimation letter and the insured should also be mentioned.

**5. What is Intimation of the Maturity ?**

*Ans :*

The first step in the claim settlement is intimation about the maturity to the policy. The divisional officer of the LIC is responsible for intimating the insured about the maturity before two months of maturity date. The insured is asked to fill the discharge form which is sent along with the intimation and submits the required documents. The documents includes the original document of policy, age proof of the insured and the assignment or reassignment deed of the policy. In case where the intimation is not received, the policy holder should approach the concerned branch enquiring about the copy of intimation.

**6. What is Underwriting?**

*Ans :*

Underwriting can be termed "assumption of liability". It means signing an insurance policy and thereby becoming liable in the face of a specified loss. Underwriting involves the selection of policyholders after thoroughly evaluating all hazards, establishing prices and then determining the terms and conditions of the insurance policy.

The underwriting framework of a company plays a major role in determining the company's standing in the market. The underwriter must aim to generate profits and minimize losses through a well-balanced underwriting policy. One aspect that the underwriter must always bear in mind is that the underwriting must neither be too strict nor too lenient. If the acceptance criteria are very stringent, then the insurer will miss out on several acceptable businesses and may even face losses because of the expenses involved in cancelling business that the marketing person might have initially agreed to. This can be remedied by including enough conditions to make the risk acceptable. On the other hand, if the acceptance criteria are too liberal, the insurance company may face substantial losses and be forced to withdraw from a given line of business.

**7. What is Taxation in Insurance?**

*Ans :*

Taxation refers to the practice of a government collecting money from its citizens to pay for public services. In insurance sector taxation is also plays a crucial role because now a days insurance business are on high peaks. Insurance companies are earning higher profits compare to other business companies. Therefore, the taxation of life insurance business in India is currently governed by Section 115 B, Section 44 and the First Schedule of the Income Tax Act, 1961.

**8. What is Mutual Fund?**

*Ans :*

Mutual Fund is a type of collective investment method by which many people pool their money in a fund and invest in various securities like stock, bonds or cash investments. Every mutual fund has a fund manager or investment advisor so it is also called as managed funds. In world's top stock markets collective investments holds a major share because of its flexibility. Depends on the objective of the funds like long term growth and low risk factor or high income growth with high risk factor or low growth rate and stability of principal, fund manager invests in respective fields on behalf of shareholders. For individual investors it is very easy type of investment because someone else manages their funds, take care of accounts and invest money over many different available securities.

# Choose the Correct Answer

1. "A contract that pledges payment of an agreed upon amount to the person (or his/her nominee) on the happening of an event covered against" is technically known as [b]

   (a) Death coverage (b) Life insurance

   (c) Savings for future (d) Provident fund

2. Which of the following is the regulator of insurance sector in India? [c]

   (a) RBI (b) AMFI

   (c) IRDA (d) SEBI

3. The insurance companies collect a fixed amount from its customers at a fixed interval of time. What is it called? [c]

   (a) Instalment (b) Contribution

   (c) Premium (d) EMI

4. The Caregiver Insurance Company chose to write insurance for risk in many different locations. It found that this was an effective way to balance premiums with losses and expenses. Selecting risk in this manner is called [b]

   (a) diversity of type of risk. (b) diversity of location.

   (c) volume. (d) risk concentration.

5. Full Coverage Insurance Ltd. issues policies on behalf of other insurance companies and charges them a fee for the use of its name. This arrangement is an example of, [b]

   (a) unearned premium reserves.

   (b) fronting.

   (c) a reciprocal insurance exchange.

   (d) insurance pools.

6. Different types of life insurance claims are [d]

   (a) Death claim (b) Maturity claim

   (c) Survival Benefit (d) All the above

7. There are steps involved in death claim procedure. [c]

   (a) 6 (b) 7

   (c) 5 (d) 4

8. Unnatural causes of death includes. [c]

   (a) Suicide (b) Accident

   (c) Both (a) and (b) (d) Old age

9. Underwriting helps in risk pooling and [a]

   (a) Fair Pricing (b) Waiver of Premium

   (c) Guaranteed Purchase Option (d) Accelerated Benefit's Rider

10. FUP stands for [d]

   (a) Fixed Unpaid Premium (b) Full Unpaid Premium

   (e) Final Unpaid Premium (d) First Unpaid Premium

# Fill in the Blanks

1. Type of claim ________.
2. Type of death claim ________ .
3. First step in death claim settlement ________.
4. IRDA stand for ________.
5. ________ refers to the demand made by an insured or beneficiary to the insurer to make payment of insurance policy benefits.
6. ________ refers to the practice of a government collecting money from its citizens to pay for public services.
7. Taxation on Annuity or Pension plans is discussed under ________.
8. If an insured dies before expiry of term of policy then it results in ________.
9. If a person is not heard for 7 years and found missing then court issue decree of ________.
10. Under IRDA regulations, insurer must take decision within ________ of receiving claim papers whether to accept or reject a death claim.



## ANSWERS

1. Death
2. Premature claim
3. Information of death
4. Insurance Regulatory and Development Authority
5. Claim
6. Taxation
7. Section 80CCC
8. Death Claims
9. Presumption of Death
10. 30 days.

# FACULTIES OF COMMERCE

**B.Com. III – Semester (CBCS) Examination**

## Model Paper - I

# PRACTICE OF LIFE INSURANCE

**(Common Paper for General / Computers / Computer Applications / Advertising / Foreign Trade / and Tax Procedure Courses)**

**Time : $1^1/_2$ Hours]** **[Max. Marks : 40**

### PART - A (2 × 5 = 10 Marks)

**[Short Answer Type]**

**Note: Answer any two of the following questions not exceeding one page each.**

**ANSWERS**

1. What are the types of group insurance ? **(Unit - I, SQA - 7)**
2. What is claim settlement ? **(Unit - II, SQA - 3)**
3. Write about Paid-up Value. **(Unit - I, SQA - 12)**
4. What do you mean by claim? **(Unit - II, SQA - 1)**

### PART - B (2 × 15 = 30 Marks)

**[Essay Answer Type]**

**Note: Answer all the questions in not exceeding 4 pages each.**

5. (a) What are the types of life insurance policies in India ? **(Unit - I, Q.No. 9)**

OR

(b) Discuss about life insurance organizations in India. **(Unit - I, Q.No. 6)**

6. (a) Discuss about claim settlement procedure and documents in life insurance. **(Unit - II, Q.No. 2)**

OR

(b) What is the role of financial planning in life insurance ? **(Unit - II, Q.No. 10)**

# FACULTIES OF COMMERCE

### B.Com. III – Semester (CBCS) Examination

### Model Paper - II

## PRACTICE OF LIFE INSURANCE

**(Common Paper for General / Computers / Computer Applications / Advertising / Foreign Trade / and Tax Procedure Courses)**

**Time : 1$^1/_2$ Hours] [Max. Marks : 40**

### PART - A (2 × 5 = 10 Marks)

**[Short Answer Type]**

**Note: Answer any two of the following questions not exceeding one page each.**

| | | |
|---|---|---|
| | | **ANSWERS** |
| 1. | Write about surrender value ? | **(Unit - I, SQA - 11)** |
| 2. | What is underwriting ? | **(Unit - II, SQA - 6)** |
| 3. | What is Premium ? | **(Unit - I, SQA - 8)** |
| 4. | What is taxation of insurance? | **(Unit - II, SQA - 7)** |

### PART - B (2 × 15 = 30 Marks)

**[Essay Answer Type]**

**Note: Answer all the questions in not exceeding 4 pages each.**

5. (a) What is meaning of premium? How to calculate the premium in insurance ? **(Unit - I, Q.No. 24 & 27)**

OR

(b) Explain the growth and principles of life insurance. **(Unit - I, Q.No. 4 & 5)**

6. (a) Explain the process of life insurance in individual financial planning. **(Unit - II, Q.No. 15)**

OR

(b) What is underwriting ? Explain the need for underwriting. **(Unit - II, Q.No. 4 & 5)**

# FACULTIES OF COMMERCE

**B.Com. III – Semester (CBCS) Examination**

## Model Paper - III

## PRACTICE OF LIFE INSURANCE

**(Common Paper for General / Computers / Computer Applications / Advertising / Foreign Trade / and Tax Procedure Courses)**

**Time : $1^1/_2$ Hours] [Max. Marks : 40**

### PART - A (2 × 5 = 10 Marks)

**[Short Answer Type]**

**Note: Answer any two of the following questions not exceeding one page each.**

| | | **ANSWERS** |
|---|---|---|
| 1. | Define ULIPs. | **(Unit - I, SQA - 6)** |
| 2. | What is intimation of maturity? | **(Unit - II, SQA - 5)** |
| 3. | What is Endowment Policy. | **(Unit - I, SQA - 5)** |
| 4. | What is Mutual Fund? | **(Unit - II, SQA - 8)** |

### PART - B (2 × 15 = 30 Marks)

**[Essay Answer Type]**

**Note: Answer all the questions in not exceeding 4 pages each.**

5. (a) What is group insurance ? What are the special features of group insurance ? **(Unit - I, Q.No. 17 & 18)**

OR

(b) What is ULIP ? Explain about unit linked with, without profit policies ? **(Unit - I, Q.No. 13 & 14)**

6. (a) What are the guiding principles of underwriting ? **(Unit - II, Q.No. 6)**

OR

(b) Explain the how insurance and mutual funds related. **(Unit - II, Q.No. 13)**

# OSMANIA UNIVERSITY

## FACULTIES OF COMMERCE

**B.Com. IV – Semester (CBCS) Regular Examination**

**May/June - 2019**

## PRACTICE OF LIFE INSURANCE

**(Common Paper for General / Computers / Computer Applications / Advertising / Foreign Trade / and Tax Procedure Courses)**

**Time : $1^1/_2$ Hours]** **[Max. Marks : 40**

### PART - A (2 × 5 = 10 Marks)

**[Short Answer Type]**

**Note: Answer any two of the following questions not exceeding one page each.**

**ANSWERS**

1. Endowment Plan **(Unit - I, SQA-5)**
2. Riders Benefit **(Unit - I, SQA-10)**
3. Difference between Mutual Fund and ULIPs **(Unit - II, Q.No. 13)**
4. Underwriting **(Unit - II, SQA-6)**

### PART - B (2 × 15 = 30 Marks)

**[Essay Answer Type]**

**Note: Answer all the questions in not exceeding 4 pages each.**

5. a) Explain the concept of Premium. What are the types of Pemium? **(Unit - I, Q.No. 24, 25)**

OR

b) What is Group insurance? Explain the eligibility conditions required in Group Insurance that help both the employer and employees. **(Unit - I, Q.No. 17, 20)**

6. a) What is Claim Settlement? Explain the procedure in claim settlement on maturity of Insurance Policy. **(Unit - II, Q.No. 2)**

OR

b) What is Financial Planning? Explain the role of Life Insurance Policies in Financial planning. **(Unit - II, Q.No. 10)**

## OSMANIA UNIVERSITY

## FACULTIES OF COMMERCE

**B.Com. II Year - IV Semester (CBCS) Examination**

**May/June - 2018**

## PRACTICE OF LIFE INSURANCE

**(Common Paper for General / Computers / Computer Applications / Advertising / Foreign Trade / and Tax Procedure Courses)**

**Time : 1$^1/_2$ Hours]** **[Max. Marks : 40**

**PART - A (2 × 5 = 10 Marks)**

**[Short Answer Type]**

**Note: Answer any two of the following questions not exceeding one page each.**

**ANSWERS**

1. Briefly describe the principles of insurance. **(Unit-I, Q.No. 5)**

2. Describe the regulatory mechanism available for insurance.

*Ans :*

Regulations or regulatory mechanism are usually imposed to control the activities of any business or industry

(i) Indian Insurance Act, 193 8.

(ii) Insurance Regulatory and Development Authority (IRDA).

(iii) Life Insurance Corporation (LIC) Act, 1956.

(iv) General Insurance Business (Nationalization) Act, 1972.

(v) Insurance Ombudsman.

3. Distinguish between investment and insurance.

*Ans :*

Following are the difference between investment and insurance,

| Basis | Investment | Insurance |
|---|---|---|
| Meaning | Investment is the amount invested by a person for earning more money or profit. | Insurance is a contract in which as sum of money in the form of premium is paid by the insured person for getting protection against any losses. |
| Purpose | Its main purpose is to earn higher returns. | It main purpose is to get protected from sudden losses or injuries. |
| Risk | Risk is very high in investment but, higher the risk, more will be the returns | Risk depends on the nature of the insurance policy. Risk is very high in case of life insurance products. |

4. Explain the documents required for claim settlement.

*Ans :*

- Claim form duly filled & signed
- Policy Copy
- Death certificate - Notarized/ Attested by a gazetted officer, if applicable
- F.I.R - Notarized/ Attested by a gazetted officer
- Police Final charge sheet/ Court Final order - Notarized/ attested by a Gazetted Officer - if applicable - notarized/ Attested by a gazetted officer
- Spot and/or Inquest Panchnama - Notarized/ Attested by a gazetted officer
- Post Mortem Report - Notarized/ Attested by a gazetted officer, if applicable
- Viscera Analysis Report/ Chemical analysis report/ Forensic Science Lab report notarized/ Attested by gazetted officer, if applicable
- Other Document as per Case details - Copy of Treatment papers; if hospitalized, Website Links/ Newspaper cuttings, Other references
- If claim amount is more than 1lakh, AML Documents - Pan Card Copy, Residence Proof, 2 Passport size colour photos of claimant
- Cancel Cheque with NEFT Mandate form - duly filled in by the claimant and bank

**PART - B (2 × 15 = 30 Marks)**

**[Essay Answer Type]**

**Note: Answer all the questions in not exceeding 4 pages each.**

5. (a) Describe the various types of life insurance policies. **(Unit-I, Q.No. 9)**

OR

(b) Explain the meaning and issues involved in calculation of life insurance premium. **(Unit-I, Q.No. 24, 27)**

6. (a) Describe the types of claims, intimation procedure and documents required in claim settlement. **(Unit-II, Q.No. 1, 2)**

OR

(b) What do you understand by underwriting? Describe the need for and the guiding principles of underwriting. **(Unit-II, Q.No. 4, 5, 6)**

# MAHATMA GANDHI UNIVERSITY

## FACULTIES OF COMMERCE

### B.Com. II Year - IV Semester (CBCS) Regular Examination

### March/April - 2018

## PRACTICE OF LIFE INSURANCE

**Time : 2 Hours]** **[Max. Marks : 40**

### SECTION - A (4 × 5 = 20 Marks)

Answer the following in short

1. LIC of India
2. Annuities
3. Surrender Value
4. Claim

### SECTION - B (2 × 10 = 20 Marks)

Answer the following Essays

5. (a) Explain the growth of insurance business in India.

OR

(b) What factors re considered in calculating premium in Life Insurance?

6. (a) Describe the process of getting insurance policy in Life Insurance.

OR

(b) What is Claim? When can a claim be made?