Dr.Babasaheb Ambedkar Open University

DIN
DIPLOMA IN INSURANCE

Block

3

Life (Personal) Insurance - 1

Unit –11
Basic Understanding of Life Insurance Business **04**

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Premium **17**

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PUBLISHER :
Shri S. H. Barot
(I/C. Director & Registrar.)
Dr.Babasaheb Ambedkar Open University, Dafnala. Ahmedabad.
August, 2004 (Print)

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Printed by : Shree Neminath Printers, Shahibaug, Ahmedabad. Mobil : 9825042651

Unit :11 : Basic Understanding of Life Insurance Business

Introduction:

Insurance business is finding more and more scope for its business. Its scope is enlarging day by day. The reason for that is the new inventions and its adverse effects. Due to new inventions, the life and the assets of the person has become full of risk. Moreover, everyone is taking more and more risk in their businesses and life with the expectation of maximum return. Due to this high level of risk it may possible that the person may lose his life or assets. So due to these reasons, now a days, the concept of insurance has become wider. Every one is now trying to cover the insurable risk by taking insurance cover. In that way some of the risk of the business and life can be covered and no worries can be left for the same. Then after the person will have to take care of only of those risks which are not insurable. The scope of insurance cover has widened gradually and it is covering many things now a days. Mainly there are two types of insurances, which includes general insurances and life insurance.

Structure of the Chapter:

11.1 Objectives

11.2 Life Insurance Business

11.3 Life Insurance Contracts

11.4 Good Faith

11.5 Insurable Interest

11.6 Exercise

11.1 Objectives:

By the end of this chapter, the student will learn about

- Basic understanding of life insurance business
- Contracts under life insurance business

11.2 Business:

No one knows the future. Life of every person is uncertain. Life insurance is related with the life of human being. There is always uncertainty regarding the future of any person. Moreover, persons are taking risk every time in the expectation of more and more return. It may possible that due to this risk or due to any natural causes the life of the person may be in trouble. The concept of the Life insurance is developed because of the uncertainty in the life of the human being. Life insurance safe guard against the adverse outcomes if in any way the life of the person is in

trouble. Students must be clear that the insurance cover can not stop what is already decided to be happen by the God but it can certainly help against the losses that has occurred to the person or his family members due to loss of any person or organ of the body.

There must some sort of risk, so that insurance can be taken. If there is no risk, there is no need for the insurance. But moreover, all risks are not insurable. In order to be insurable, the risk must be capable of financial measurement, there must be sufficient number of similar risks, the risk must be capable of statistical estimation. It must not be against public policy, and there must be insurable interest in the property to be insured/risk to be covered.

So, in simple words, the life of the insured is full of risk due uncertainty regarding future course of actions and so there is need to take insurance cover for saving life and even old age.

11.3 Contracts:

An insurance can be taken by creating contracts in between insured and insurance company. A life insurance contract is a contract and so it can be created only if all the essentials specified in the Contract Act, is complied with. A contract may be defined as an agreement between two or more parties to do or to abstain from doing an act, with an intention to create a legally binding relationship.

In India, the Indian Contract Act, 1872 governs commercial contracts. Insurance is a specialized type of contract, in that, apart from the usual essentials of a valid contract like

- Offer and acceptance
- consideration
- capacity to contract
- legality of object.

The contract should also be capable of performance and both parties should have an intention to create legal relationship. The parties agreeing to something without intention to create legal relationship is no contract at all and is not binding. The above given principles are applicable to all types of contracts whether insurance or not but for the insurance contracts there are certain other principles which must be adhere to. Insurance contracts are subject to additional principles, viz. Principle of utmost good faith & Principle of insurable interest. The parties must have the utmost good faith that no one will try to defraud the other. There must also be the insurable interest, if there is no insurable interest than it is termed as wagering agreement. These apply to both life and non-life classes of Insurance.

In simple words, life insurance contracts being contract must fulfil all the necessary conditions of Contract Act. Moreover, they have to follow the principles of good faith and insurable interest, necessary under insurance contract.

11.4 Good Faith: A Need

In general terms, good faith means the activity done should be with the good intension and not with the malafide intension, means when a person is taking insurance, it must be for the good purpose and not for the purpose of cheating any one. Utmost good faith can therefore be defined as a positive duty to disclose accurately and fully all facts material to the risk being proposed whether requested or not. The human life is affected by numerous circumstances. The past events also affect the insurance taken. If the person is previously meet with accident and was badly injured may affect the life of the insured. As for insurance contacts, the product sold is intangible. It cannot be seen or felt. Moreover, most of the facts relating to health, habits, personal history, family history are known to one party only, the proposer. The insured is the person who can be aware of this matters and who can disclose it to the insurer if he intends to. The insurer can know most of theses facts only if the proposer decides to disclose these facts. It is true that the underwriter can have the assistance of medical report for life insurance proposal. Yet there may be certain aspects which may not be brought out one by the best medical examination. History of past serious sicknesses, operations, injuries can be suppressed. Some of theses affect the life expectancy of the proposer. Hence these constitute material information from the underwriter's point of view. Non-disclosure of such facts would put the insurer as well as the community of policyholders at a disadvantage. What is a material fact ? Every circumstance is material, which would influence the judgement of a prudent insurer in fixing the premium or determining whether he will take the risk. Therefore, facts regarding age, height, weight, build, previous medical history, smoking / drinking habits, operations, non-disclosure of earlier insurance, 'hazardous' occupation must be disclosed.

The insured party thus have to truly disclose all the material facts to the insurer so that the terms and condition which can be finalized is appropriate and as per the prevailing condition. It is for these reasons that the law imposes a greater duty on the parties to an insurance contract than in the case of other commercial contracts. This duty is one of utmost good faith. It is the duty of the assured to make a full disclosure to the underwriter, without being asked. In a contract of insurance, there is an implied conditions that each party must disclose every material fact known to him.

There are certain circumstances, which need not be disclosed, For example : (1) Facts which every one I supposed to know. (2) Facts of common knowledge. (3) Facts which lessen the risk. (4) Facts which could be reasonably discovered, by reference to previous policies, records of which are available in the insurer. If a lapsed/paid up policy is revived or a surrendered policy is policy is reinstated, there would be a fresh duty to disclose all material facts at the time when the policy is reinstated;

Many times the insured wants to take the undue benefit from the insurer and does not disclose the correct facts to the insurer. The breach of Utmost good faith arises due to misrepresentation or non-disclosure. The breach of utmost good faith occurs when misrepresentation was substantially false, and must be concerned with facts which are material to the acceptance or assessment of the risk, and this must

have induced the other party to enter into a contract. Non-disclosure should be within the knowledge of the first party and should not be known to the second party and must be calculated to induce the other party to enter into contract on its own terms.

In life insurance contracts, there is a written proposal, which contains a declaration by the proposer that all the statement in the proposal form are true in every respect. Thus the proposer is bind by the declaration in the policy form and if any untrue statement be contained therein, the insurer would be entitled to treat the contract as null and void and forfeit all the moneys paid therefore. Such declaration made by the proposer is to be treated as warranties given by the proposer which must be complied in toto.

In simple words, an insurance cover should be taken by the insured in good faith and he must disclose all material information, necessary for the purpose of insurance contracts.

11.5 Insurable Interest: A Need

Insurable interest means any type of the interest in taking the insurance. In simple words, insurable interest means a person taking insurance must suffer if he is not taking insurance due to the loss of assets or lifes. The Insurance Act, 1938 does not define insurable interest. However it is one of the essential condition of the contract that there must be some interest of both the parties in the contract. Insurable interest is said to exist when the person insuring stands to lose if the event insured against occurs. The courts in India have consistently held that insurance on the life of a person, in which the person affecting the insurance has no interest, is void as a wagering contract under Sec. 30 of the Indian Contract Act. Insurable Interest is thus a legal pre-requisite for insurance.

A person can take insurance for himself or any other person if and only if he has insurable interest. The person cannot take the insurance of the person in which he is not interest. Thus if he does so he is just doing so without any interest and the same is treated as wagering agreement. It is presumed that a person has insurable interest in his own life to an unlimited extent. In case of his untimely death, his estate or family would lose to the extent of the future accumulation of income, which he hopes to make during his normal span of life. It is not easy to compute with any degree of certainty what the future earnings of a person would be. Insurers take into account a proposer's capacity to pay premiums and his need for insurance, while granting the sum insured. Of course, it can be presumed that the insurance which one cannot afford can be kept up by financing by some other person, in which case there will be not insurable interest. Spouses have insurable interest in each other. If members of families are in business together or there are some other financial relationship, insurable interest arises as a result of such financial involvement. Partners can insure each other's lives, because they stand to lose in the event of death of any of them. A creditor may lose financially if a debtor dies before repaying a loan. His interest would be limited to the outstanding loan with outstanding interest. Employer has insurable interest in the life of employees, so long as the employment contract continues. Group Insurance taken out by the employer is also based on the same principle.

In simple words, when a person is taking insurance, he must have some insurable interest in it, means he must suffer if he would not have taken insurance.

11.6 Exercise:

1. Give basic understanding of life insurance business?
2. Explain the concept of good faith in insurance business?
3. Explain the concept of insurable interest in insurance business?

Unit :12 : Policies Under Life Insurance

Introduction:

In India, different types of people living with different earnings, different culture, different needs etc. Insurance companies issues various types of policies time by time which satisfy needs for different class of people. Up to now, many insurance policies have been issued by the insurance companies. During this chapter, an attempt is made to make the students aware of different types of policies.

Structure of the Chapter:

12.1 Objectives:

12.2 Types of Plans Under Life Insurance:

12.3 With Profit And Without Profit Policies:

12.4 Individual and Group Policies:

12.5 Whole Life Products:

12.6 Convertible Term Insurance Plan:

12.7 Interest Sensitive Products:

12.8 Combination Plans:

12.9 Joint Lives Policies:

12.10 Types of Annuities:

- **12.10.1 Immediate Annuity:**
- **12.10.2 Deferred Annuity:**

12.11 Insurance And Women, Children And Handicapped:

12.12 Certain Allied Conditions of The Policy:

12.13 Policy Options:

12.14 Guaranteed Additions:

12.15 Exercise:

12.1 Objectives:

By the end of this chapter the student will learn about:

- Different types of plans under insurance
- Conditions for different types of policy
- Policy options

12.2 Plans:

Up to now, various types of plans have been issued under life insurances. Life Insurance provides wide verity for insuring the life of the person. Life Insurance products are sold as 'Plans of Insurance'. Term plan and Pure Endowment plans are the two basic plans. The insurance policies are bought for covering risk of death or to meet the living expenses at old age. The plans of the Life Insurance look after both the issues for which the insurance is bought.

Mainly we can bifurcate these policies in whole life plans and endowment plans. Whole life plan covers such plans in which the premiums have to be paid until death and the sum assured becomes payable immediately after death. In respect of whole life plan the insured find it difficult to meet the premium payment requirement after the superannuation age of 58 to 60. Thus the premium cannot be paid and the policies will become paid up for reduced amount or will lapse thus depriving his family of the benefit of full sum assured. Moreover, the sum assured under whole life policy becomes payable only on death of the life assured. Thus the insured required the money during it old age for living. The insurance amount will be received only after the death. The result is that the whole life plans are not popular, even though they provided more cover (as compared to endowment assurance) in relation to the premium. Endowment assurance plans, with its many variations have been popular right from the early days of Indian Insurance Industry. The most popular among them is Endowment with profits.

In simple words, there are various policies issued by insurance companies upto now but we can bifurcate them mainly in life plan and endowment plan. Under the life plan policy, premium is paid upto the end of the life and sum assured becomes payable only after the death of the person where as reverse the case in endowment policy.

12.3 With Profit and Without Profit Policies:

There are two types of policies are being offered by considering bonus. They are 'with profit' and 'without profit'. 'Without Profit' policies are not entitled to bonus. 'With profit' policies participate in bonus for which they have to pay a little extra premium. 'With profit' policies are more popular because of possibility of getting increasing bonus every year.

In simple words, with profit policies contains the element of bonus where as without profit policy do not contain the element of bonus.

12.4 Individual and Group Policies:

LIC provides two type of polices. First one is for the single individual while the second one is for the group of individuals. There are two options available for taking insurance, it can be offered to individual or to a group of the persons. Insurance may be offered either to an individual or to the group of the persons. Life insurance policy may include single individual or a couple or to a mass. LIC has a Joint Life Assurance Plan on the lives of business partners and a Joint Life Survivor Annuity on the lives of husband – wife. Against that we have group policies, where

under a group of individuals would be subjected to the process of group selection, group classification and group underwriting. The group insurance is to insure the group of persons. The sum assured under group insurance is not selected or fixed by the individual himself but it is determined for the entire group by a pre-arranged formula. Premium is calculated for the group, to be revised every year, on the basis of the date of new entrants and exits to be submitted every year by the employer.

The logical corollary of group insurance is mass insurance, short of social insurance, which may be for every person in the country. The LIC of India has been operating as an agency of Government of India, has announced some mass insurance schemes. Notable among them are Group insurance of socially weaker sections of the society, Rural Group Life Insurance Schemes and the Landless Agricultural Group Insurance.

In simple words, insurance can be offered to three categories of the people namely an individual, a couple and a group.

DIFFERENT POLICIES

12.5 Whole Life Products:

The policy is decided based on the duration of the premiums payment of the policy. The premium payable is for the whole life or for the limited period of time. In respect of whole life the premium are payable upto the death or age of 80 to 85 whichever is earlier. While in respect of the limited period of time it is payable for the limited period as agreed at the time of taking the policy.

In simple words, in whole life products, two options available, keeping in mind the payment of premium, one is premium payment for limited span and second premium payment for whole life.

12.6 Convertible Term Insurance Plan:

This policy contains convertibility in its nature. This policy as its name suggests, can be converted into an endowment/ whole life type of contract at the end of selected term of 5, 6 or 7 years. During this period this is treated as a Term assurance. This policy is useful to those whose earnings being less today which cannot afford to pay higher premiums in the initial years. Convertible Whole Life is an improved version of the earlier plan. The initial term is for 5 years at the end of which the life assured has to exercise option of converting it into endowment assurance. If he does not do this before the expiry of 5 years the assurance shall continue as whole life limited payment policy only. Under pure Term Assurance Plan, if death of the life assured does not take place within the selected term, the assurance comes to an end on completion of the term. Premiums collected already are not refunded. However a variation of this plan can be devised by refunding all the premiums collected, if life assured survives the term. In effect it means that the interest earned on the premiums is utilized to keep the policy in force as well as to grant a free term cover for a few years beyond completion of the term, even though the premiums collected are refunded.

In simple words, initially, this policy is issued for specific term but later on it is converted in to whole life plan.

12.7 Interest Sensitive Products:

The insurance in the early stage was not seen as the investment opportunity but was looked upon only as the insurance cover. However the insurance is now given the good return by way of bonus on the investment of the policy of the person. Persons are making savings out of their earnings and invest this savings to get some sort of reward in terms of interest but they even have the options to utilize the saving for taking insurance cover. Persons are more interested in reward. But earlier this insurance cover were just protecting the life of the persons and it were not offering any kind of interest to the policy holders and so they were less popular among those who were looking for interest over and above risk coverage. So, considering this factors interest sensitive products were issued. The purpose of the saving by any person is to invest the savings somewhere and get interest on it. From the interest point of view the insurance policies are not so much popular but still due to expectation of the insured certain policy contains benefits related to interest. The products of the life insurance are sold less and the objection encountered by life insurance salesmen is "In Life Insurance returns are not good". Related to interest sensitiveness is the objection of inflation. Since the value of rupee is falling, due to inflation, the sum assured today may be 'zero' after say 20 or 25 years. But this applies to all types of savings and not only to life insurance. However, insurers are aware of this problem and strive to bring out plans. Which try to compensate, the low return by allowing a periodical return of a portion of the sum assured, without reducing the death cover either during the initial years of the policy or towards the end of the policy term, such as money back policy in which certain amount of money will be refunded at the end of certain period. Investment oriented policyholder, can take advantage then of current investment climate and put such refund money in high interest bearing investments.

We can thus say that interest sensitive products cater to the "investing" instinct of the policyholders. Since he gets periodical repayments of the sum assured there is no necessary to grant loan within the surrender value of the policy. Hence loans are not granted under such policies.

12.8 Combination Plans:

This type of policy can be denoted as hybrid policies which contains the characteristics of endowment and whole life policy. The life insurer has to cater to the needs of different types of customers. The endowment plan and the whole life plan are the two different plans, it becomes necessary to combine these elements in one single policy, so as to satisfy the needs of certain policyholders, who would like to be covered for maximum death risk, with not much provision for maturity' element. Here the basic sum assured becomes payable on maturity, but on death double the sum assured becomes payable. In case of accidental death, one more sum assured falls to be paid.

In simple words, this type of policy covers the benefits of both the policies, whole life policy and endowment policy.

12.9 Joint Lives Policies:

Sometimes the policies are not taken for the individuals but it may be taken for the two or more persons jointly. Generally such type of insurance are taken for husband and wife, life of partners, the group insurance policies.

The important points to be noted in case of joint lives insurance are:

- A joint life declaration is necessary to create a joint interest in the policy.
- In case of partnership insurance, partnership deed will have to be examined to ascertain the nature of financial interest of each partner.
- Each life has to be underwritten separately.

12.10 Types of Annuities:

To get the protection at the old age the insurance company has evolved the plan of annuity, in which the fixed amount of installment will be paid to the insured at the end of the certain period. Annuities are totally reverse to the life insurance. Annuities start where life insurance ends. In annuity contract. a person agrees to pay to the insurer a specified capital sum, may be, by installments, in return for a promise from the insurer to make a series of payments to him so long as he lives. In respect of the life insurance contract, the insurer starts paying upon the death of the insured and under an annuity contract, the insurer stops paying upon the death of the annuitant. This type of plan is to provide the regular inflow of the income in the old age of the insured. In actual practice however, there are many variations of the annuity-contracts to suit the needs of different types of annuitants. In fact, annuitants are supposed to exercise self-selection. Therefore, medical examination of annuitants is not insisted upon. The concept of annuity was evolved against the risk of living too long.

In simple words, the annuities being offered by the insurance companies are totally different from the life insurance.

Different types of annuity plans are:

12.10.1 Immediate Annuity:

As the name itself suggest the payment of annuity will be started immediately after the payment of lump sum amount called purchase price to the insurer. The insured will get return in form of monthly/ quarterly/ half-yearly/ yearly annuity. The first installment starts at the end of the month. quarter, half - year or the year as the case may be. The annuity can be paid for 5, 10, 15, 20 or 25 years certain and thereafter during the life of the annuitant. If he dies during the selected term, remaining annuity installments for the remaining part of the selected term will be paid to the nominee or legal heirs.

In simple words, here first the full payment of annuity amount is done by the insured to the insurance company and in return he immediately gets annuity amount on month, quarter or half year wise.

12.10.2 Deferred Annuity:

Here initially when annuity is purchased only a token is paid say an installment of premium and after certain period annuity payment starts after a lapse of selected period.

12.11 Insurance and Women, Children and Handicapped:

Insurance business is working in the society and so being a part of the social responsibility, it will have to take care of each and every members of the society. So, it covers not only man but also women, children and also the handicapped are also covered by the insurance companies. Here in India, women of different classes and different regions are related in different manner with the insurance business. The approach to insurance on the lives of females is one of caution, because of some traditions of crime against women in many backward regions of the country. Moral hazard is suspected in many situations. Educated and working women are nowadays, treated on par with men. Women who do not have any income of their own would seem to have no need for insurance.

Insurance for children and handicapped are explained in the following paragraph. There are many plans for children. Most of them are of the deferred insurance kind, where the risk on the life of the insured child will begin some time after commencement. The LIC allows risk coverage from as early an age as 7 in some plans. Physically handicapped persons are insured and some extra premium may be charged in these cases which includes loss of both arms, deaf in both ears, blind in both eyes etc. Partially handicapped persons are mostly accepted without extra premium except in certain plans.

12.12 Allied Conditions of The Policy:

Premium on the policy is decided mainly on the basis of the age of the person and so the age of the person should be properly produced along with the necessary proofs. The age must be properly indicated because premium of the policy is decided on the basis of the age of the assured. Assured has to submit proof of this age to the satisfaction of the insurer before it can entertain any clam under the policy. If age proof is produced by the assured subsequent to the issue of policy and if the age is found to be lower, the excess premium collected by the insurer will be refunded without interest. If the age is proved higher, the assured should pay difference in premium with interest or else the difference will remain as a debt on the policy claim.

The premium of the insurance policy is to be paid within the due date given, but however the insurer provides the "Days of Grace" for the payment of premium. The grace period give is one month in case of where the premium is payable quarterly, half yearly and year and 15 days in case of monthly premiums without the payment of any interest or penalty. The premium will be accepted within the grace

days and the policy will not lapse. If the death of the insured occurs during the grace period than the sum payable will be reduced to the extend of the unpaid premium.

Another privilege that is granted to the life assured is that where at least 3 full years' premiums have been paid and if subsequent premium not paid, in case of death of the assured within 6 months from the due date of first unpaid premium, the full sum assured is payable after deducting the unpaid premiums with interest. Where the premiums are of the current year of the policy are deducted from the claim amount. This benefit is known as "Claim concession". If the premiums are paid for five years or more, the claim concession is extended for a period of one year.

The policy of the insurance is of the utmost faith and the insured have to make correct and full disclosure of the facts to the insurance company. If the insured does not do so and if the same has been discovered that the statements made by the insured are not true and full than all the benefits under the policy cease and all moneys get forfeited. However, if the policy is in force for the two years, it cannot be disputed on the ground of misrepresentation or concealment, unless it is intentional, material and fraudulent.

There is an extra benefit given to the assured that due to any reason if he is not able to pay the amount of policy and so policy lapses then the policy holder can revive the policy before the end of 5 years from the date of first premium paid. If the assured fails to pay the premium in time the policy lapses. However, the assured is given the privilege to revive the policy. The lapsed policy can be revived during the lifetime of the assured, but within a period of 5 years from the date of first unpaid premium and before the date of maturity. The assured will have to pay all the arrears of the premium together, with interest along-with evidence of continued good health.

There is an extra benefit available for permanent disability of the policy holder. It provides that in the event of assured becoming totally and permanently disabled before age 70, the premium on the contract will be waived from sum assured upto Rs.20,000/- This benefit is applicable to all the policies and is called the 'Permanent disability Benefit'. The disability must be the result of an accident and must be total and permanent and such that there is neither at that time nor at any time thereafter any work, occupation or profession that the life assured can ever sufficiently do or follow to earn or obtain wages, compensation or profit.

12.13 Policy Options:

Some options are granted to the life assured depending upon the type of policy. Some of the options listed below are:

This option is related with the premium payment mode. Every policyholder is given the option to choose the premium payment mode. The frequency of payment of renewal premium can be yearly, half-yearly, quarterly or monthly. He is also given the option to change the mode of payment.

This option is related with the conversion of the policy. The Convertible Term Assurance plan gives the life assured, the option to convert the policy at the

end of the specified term either into a limited payment life policy or endowment assurance policy without under going medical examination.

This option is also related with the conversion of the policy. The Convertible Whole Life provides the option to life assured to convert the policy at the end of 5 years from without profit whole life policy into endowment policy either with or without profits. Due to such conversion the extra premium is required to be paid by the insured. This option is available without under going medical examination.

Here option is available to the proposer either to continue the policy or to get the amount out of it on the deferred date. Under Childern's Deferred Assurance plans. the proposer can exercise the option on deferred date either to continue the policy or to have cash option available

Under various plans of life insurance, there is a provision for payment of the claim proceeds by yearly, half-yearly, quarterly or monthly installments spread over a specified period of years. The life assured can exercise this option either at the commencement or at any time during the currency of the policy.

12.14 Additions:

"Guaranteed additions" as the word itself means that some addition is made at the guaranteed rate. Under certain without profit plans, provided in the policy is in full force, the sum assured gets enhanced at the specified guaranteed rate at the end of each year. The 'Guaranteed Additions' which are made in the policy will be payable with the sum assured.

12.15 Exercise:

1. What is individual insurance and what is group insurance?
2. Explain combination plans?
3. Write a short note for interest sensitive products?
4. Explain different types of annuity?
5. What types of insurance policies issued for woman, children and handicapped?
6. What are the allied conditions of policy under the insurance?

Unit : 13 : Premium

Introduction:

In insurance business, insurance companies reduce the risk of the insurer, but as the insurance business creates a contractual liability, some consideration must be received by the insurance company as reward or as return. Return or reward for the insurance companies are in the form of premium. Determination of amount of premium is difficult task.

Structure of the Chapter:

13.1 Objectives

13.2 What is Premium?

13.3 Premium Waiver Benefits

13.4 Proposal Forms

13.5 First Premium Receipt

13.6 Renewal Premium Receipt

13.7 Policy Contract

13.8 Endorsements

13.10 Other Insurance Documents

13.11 Exercise

13.1 Objectives:

By the end of this chapter, the students will learn about

- o Meaning of premium
- o First premium receipt and renewal premium receipt
- o Premium waiver benefits
- o Proposal forms

13.2 What is Premium?

The insurance is the contract and the premium is the consideration given by the insured to the insurer against insurance policy. Premium is the price paid by the insured for purchasing the insured product which is the plan & term of assurance for the sum assured chosen by him. The insured will pay premium at the commencement and at periodical intervals as specified in the contract. 'Premium' is thus a very important factor in the insurance business. The determination of the premium is important factor from the point of view of the insurer. The main points considered at the time of determination of the premium is , age of the insured, terms of policy,

sum assured. The due considerations are, the amount required to meet the risk of death for given age for a period of one year is risk premium is also considered. Moreover, in other factors, interest factor is also taken into account, administrative expenses and unexpected contingencies are also considered. These premiums are found in the published table of premium rates. LIC's premiums are computed and published on Annual Basis and per thousand sum assured basis.

So in simple words, premium may be taken as the reward which the insurance company is getting from various insured. Calculation of premium is a difficult task, premium includes the amount of risk taken by insurance company, weighted for their administrative expenses and other contingencies.

For example, if it is expected that out of 10,000 persons at a specified age, one is likely to die within one year, the mortality rate at that age is said to be 0.01%. The risk premium chargeable for persons at that age would be Rs.0.10 p. for every Rs.1,000 sum assured. If the person's health is not standard, he would be charged more. This is a very simple illustration, to explain the concept of risk premium. In actual practice there are considerations, which make the calculations more complex. For example, when a policy has a term of 20 years, the risk premium would vary for each of 20 years, but would have to be built into a uniform premium that remains constant for 20 years. The uniformity would imply that a higher premium than necessary for the risk, is collected in the early years, which can earn interest for some time. Such requirements are difficult to understand unless one takes a course in actuarial science. But agents must understand the concept as explained above.

Generally the annual and half yearly premium are very less compared to quarterly or monthly premiums. This is because of the lower administrative cost such as premium notice etc. Once the yearly premium are received they can be utilized to earn the interest income. Hence, it is usual to allow rebates on yearly and half-yearly mode of payments. For monthly mode of payment, by the same logic, extra loading is to be charged to cover-up additional administrative expenses involved.

Where the sum assured is large, fixed costs, as also those variable costs which do not depend upon the sum assured, get reduced when expressed as per Rs.1000/- sum assured, for example policy preparation charges, do not vary according to SA However the commission varies.

13.3 Waiver Benefits:

Collection of the premium can be waived under following situations.

- Under Children's Deferred Assurance plans, the usual condition is that if the proposer dies during the deferment period, the premiums must continued to be paid. But these premiums are deemed to have been waived, if the proposer secures this benefit by paying additional premium.

- The policy contains a privilege of waiver of future premiums, if life assured is permanently disabled as a result of accident.

- Surrender Value -

Surrender value in simple words, can be treated as the amount which an insured will get even if there is no contingency. An insured takes the insurance policy with two reasons, First to assure the life and seconds to get return by investment of savings. Benefits under insurance become payable on a contingency, But if no contingency has happed then still the insured get certain amount if all premiums have been paid for at least three consecutive years. Such amount is known as surrender value. Surrender value includes the premium paid and the portion of the bonus accrued to it. Moreover, additions will be made for any subsisting bonus already attached to the policy.

The Guaranteed Surrender Value and Special Surrender Value.

LIC grants a guaranteed surrender value which is not less than 30% of the total amount of premiums paid (a) excluding first year's premium (b) extra premiums if any (c) accident benefit premium if any. Special surrender value differs from case to case. Insures normally offer special surrender value, which is more liberal than the guaranteed surrender value. The surrender value factor depends upon the duration elapsed and the total term. As the duration elapsed increases, surrender value increases.

13.4 Forms:

Insurance contract is a contractual liability and for that purpose there must be a contract in between insurer and insured. The first phase of life insurance cover includes the submission of the proposal forms. In Life Insurance, it is usual to obtain a printed, standardized proposal form. This is to be completed by the proposer in his own handwriting & signed in the presence of a witness. If someone else has filled in the proposal form, the person filling the proposal form has to declare that he wrote the answers to the questions as dictated by the proposer, these were read out to him and he had understood the answers. If the language of the questions and answers differ, the declarant would have to declare that the questions were explained to the proposer in his own mother tongue and the answers were written only after understanding the questions fully. If the proposer is illiterate, the left thumb impression has to be attested by a third party, who has to give a declaration that the questions were explained to him in vernacular and answers dictated by him were recorded truthfully and were read out to him and were understood him. The importance of this procedure must be clearly understood. The proposal form is the basis of the contract and contains a declaration at the end which states that all the statements therein are true in every respect and if any untrue averment be contained therein, the insurer will be entitled to declare the contract as null and void and forfeit the moneys already paid. The policy documents also makes a reference to this factor. The proposal form thus becomes. the most significant document in life insurance contract. The questions in the proposal form relate to (a) the name and address of the proposer. (b) occupation, (c) age or date of birth (d) Plan- Term. (e) Sum assured. The occupation of the life to be assured would determine the possibility of occupation extras and special form. (g) Mode of payment. Age is an important factor in underwriting and determining the premium, Age will have to be admitted on the basis of age proof submitted. If the proposer is a female, additional questions will

have to be answered. The personal statement gives history of illness / accidents / operations undergone, present state of health, basic medical measurements (in case of non-medical business). Some of these statements have to be corroborated by the medical examiner, if the medical examination has been done. Personal statement would also give details of family history. Moral hazard will have to be examined. Female lives have to answer additional questions in the proposal from and personal statement, to be supported by relevant questions in medical report, if any.

Apart from the proposal form, the other important documents are

- the personal statement containing personal and family history details.
- agents report or similar report from higher ranking official.

Medical report.

- special questionnaires relating to occupation.
- proof of age.

In simple words, proposal forms can be treated as the first document to be submitted by insured to the insurer and which will contain the full details regarding the insured and it can be treated as the basic document for the purpose of creating insurance contract.

13.5 Receipt:

After submission of the proposal forms it will be assessed by the insurance company and it may take any of the following decisions and in such circumstances if the proposal is accepted then the insured will pay first premium and the receipt of such premium shall be taken as acceptance of risk.

After submission of the proposal form, when the underwriter studies the proposal form, personal statement, medical report (if any) and special reports, if obtained, and the Agent's Report, he takes a decision in respect of that proposal in any one of the following ways.

- To decline the proposal, in which case a declinature letter would be issued.
- To postpone consideration for a specified time of 3/ 6/12 months or 2 years or in which case postponement letter will be issued.
- To accept the proposal on modified terms, in which case consent letter for revised terms and / or balance premium will be called. Risk will be assumed when all requirements are complied with.
- To accept the proposal as proposed at ordinary rates in which case risk will be assumed from the current date or from an earlier date, within the same financial year, if so desired.

- To drop the proposal, being not in line with accepted financial norms.
- To call for further requirements, when proposer will be informed accordingly.

The proposal if accepted by the underwriter, the deposit paid with the proposal will be adjusted against the first premium. If the whole of the first premium is not paid than the notice is issued for the payment of the same. The insurer will assume the risk only after payment of the first premium. First Premium Receipt, which is dated, gives the essential particulars of policy, such as policy number, date of commencement of risk, date of maturity, date of last payment of premium, premium amount, mode, name and address of the life assured. The fact that the first premium has been received, adjusted and risk assumed is specifically stated. The due date of the next premium due is also stated.

13.6 Renewal Premium Receipt:

All the other premium paid after the payment of the first premium is called the renewal premium. The renewal premium dues at the certain interval as opted by the insured party. The renewal premiums are to be paid on due date or on or before the grace period allowed. If the renewal premium is received after the grace period is already over, interest for late payment will have to be collected. The renewal premium receipt is issued when the payment is received for the renewal premium. Evidence of good health may also be necessary in some case. Renewal receipt is evidence of receipt of renewal premium and hence continuance of risk up to the next premium due date.

13.7 Contract:

When the contract of the insurance is finalized than the Policy is prepared which is the proof that the contract is finalized. It contains the terms and condition of the contract and the policy is signed by the competent authority. The policy is stamped as per the requirement of Indian Stamp Act. Generally the terms and conditions of the policy are standardized. The policy contains the mutual obligation of the payment of premium and the payment of sum assured. The policy states the condition and privileges and make schedule which gives the essential particulars of the policy including premium and sum assured and the endorsement a part of policy.

13.8 Endorsements:

The policy contract is generally standardized and so it contains only those conditions which are applicable in general. The specific conditions are stated in endorsements. Many times the changes are required due to some reasons in the terms and condition of the policy in such case the endorsements is required. Nomination made subsequent to the issue of the policy are to be made on the back of the policy itself. During the currency of the policy, alterations may be effected due to various reasons – such as change in age, name, plan – term, sum assured, mode etc. These will be effected by way of separate endorsements placed on and kept attached to the policy.

13.9 Notices

Renewal notice can be taken as the reminder to the policy holders about the renew of the policy. An insurer is not legally bound to remind policyholders about premium due. Yet in practice insures send renewal notices regularly. In olden days, renewal notice had to be presented to the Branch offices, along with the premium. Renewal notices were not sent, if the policy had lapsed, Presently renewal premium can be paid merely by quoting the policy no.

13.10 Bonus Notices / Intimations

Bonus can be treated as the extra benefit for the policy holders. Life Insurance companies declare bonus as a result of the surplus disclosed in the periodical valuations of their assests and liabilities. There are various ways of distributing the surplus on the LIC. This surplus is allotted to with profit policyholders at different rates. Terminal Bonus is also declared for those policies which become claims after completing 15 years, as 'in-force' policies. Bonus notices are not sent to individual policyholders because it is highly expensive and time consuming. The vested bonus is recorded by the computer.

13.11 Exercise:

1. What is meant by premium?
2. Write a note about first premium receipt and renewal premium receipt?
3. write a note about premium waiver benefits?
4. What are the major contents of proposal forms?
5. Write a note on endorsement?