Open Vocational Education Programme

Diploma in Insurance Services

3

PRACTICE OF LIFE INSURANCE

Designed & Developed
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Diploma in Insurance Services

PRACTICE OF LIFE INSURANCE

CONTENTS

Dear Learner,

Welcome to the National Institute of Open Schooling!

By enrolling with this institution, you have become a part of the family of the world's largest Open Schooling System. As a learner of the National Institute of Open Schooling's (NIOS) Vocational Programme, I am confident that you will enjoy studying and will benefit from this very unique School and method of training.

Before you begin reading your lessons and start your training, there are a few words of advice that I would like to share with you. We, at the NIOS, are well aware that you are different from other learners. We realize that there are many of you who may have rich life experiences; you may have prior knowledge about trades and crafts that are part of your family's legacy; you may have a sharp business sense that will make you fine entrepreneur one day. Most importantly, you have the drive and motivation that has made you enroll with this institution, which believes in the spirit of freedom. Yes, we are aware that you have many positive aspects in your personality, which we respect and relate to them.

During the course of your study, NIOS will treat you as the manager of your own learning. This is why your course material has been developed keeping in mind the fact that there is no teacher to teach you. You are your own teacher. Of course, if you have a problem, we have provided for a teacher at your Accredited Vocational Institution (AVI). I would advise you that you should always be in touch with your AVI for collection of study material, examination schedules etc. You should also always attend the Personal Contact Programmes and practical/ Training sessions held at your study centres. These will give you the necessary hands on training that is very essential to master a vocational course.

Studying for a vocational course is different from any other academic course. Here, while the marks obtained in the examination will indicate your grasp on your subject knowledge, your real achievement will be when you are able to apply your vocational skills in the market. I hope that this skill-based learning will help you perform your tasks better .This course of One year duration Diploma Course in Insurance Services developed by leading experts of Insurance sector. It is a multi-skilled programme, which will expose you to a variety of skills in Insurance sector. We hope that you will find it useful. On behalf of NIOS, I wish you the very best for a bright and successful future.

Dr. S. S. Jena
Chairman
National Institute of Open Schooling

Dear Learner,

In the fast expanding world of activities, learning new skills has become a necessity. Learning and re-learning has become essential for all. In such an environment, vocational education has assumed great importance. Vocational education, as a stream of education, promotes skill development and training of youth and directs them towards meaningful employment.

In keeping with the needs of the Learners, NIOS conducts Vocational Education Programmes in many areas through distance mode. These programmes include Agriculture, Business & Commerce, Home Science, Engineering & Technology, Computer Science, and Health & Paramedical. The Courses offered in these areas are aimed at providing self employment & wage employment opportunities for NIOS learners.

Diploma in Insurance Services is a One year Diploma course in Insurance Services. This course has been developed with the help of many leading experts of Insurance Sector. The course syllabus is designed keeping in view the requirements of the insurance sector.

This is multi-skilled programme, which will expose you to variety of skills. It includes Business Environment, Principles of Insurance, Life Insurance, General Insurance and Legal framework. This will help in identifying learner's preference for future vocation. We are confident that this course will prove to be beneficial to you.

We wish you all the best in your future career.

Dr. K. P. Wasnik
Director (VE)
National Institute of Open Schooling

Dear Learner,

This programme is specially for all those who are school dropouts and have started small enterprises, want to work in the Insurance sector as a skilled workforce and contribute substantially to the progress of India.

The multi-skill content with hands-on experience of this programme stimulates the intellect by going through concrete operations and then abstracting the concepts. At the same time by giving a variety of skills usable in everyday life, allowing them to form their preferences and know their aptitudes thus enabling them to choose a career. It also improves their self-image and gives them confidence and hope for the future.

The Insurance sector has completed its full circle in the year 2000, i.e. Private sector to Public sector and now back to Private sector. After 44 years, the monopoly of Life Insurance Corporation is no more and after 27 years four Public Sector general Insurance companies lost their monopoly. As on date there are 50 life and general insurance companies and few are queue to get license.

These insurance companies need trained manpower to be present on all India basis. To cater the needs of the insurance industry NIOS has designed a course namely "Diploma in Insurance Services" for the students who have minimum qualification of 12th standard.

I*n this module the student will be made familiar with life insurance segment.*

It is very vast subject but the chapters of this module are limited to various life insurance products with their features, advantage and disadvantage. The method of calculating the premium amount for different products vis-a vis the various benefits which can accrue to the life insurance products.

We hope that this programme will help you to carve an niche in your career and play an important role in the society.

With best wishes.

Dr. Ajay Garg
Senior Executive Officer
(Business & Commerce)
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ACKNOWLEDGEMENT

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Notes

2

INSURANCE DOCUMENTS

2.0 INTRODUCTION

Documents are necessary to evidence the existence of a contract. In life insurance several documents are in vogue. The documents stand as a proof of the contract between the insurer and the insured. The major documents in vogue in life insurance are premium receipt, insurance policy, endorsements etc.

2.1 OBJECTIVE

After going through this lesson you will be able to

- Recall the various documents used in life insurance
- Learn the utility of each document.

2.2 NEED FOR INSURANCE DOCUMENTATION

Life insurance is a legally enforceable contract between two parties both of whom are legally qualified to contract. It is therefore, necessary that the terms and conditions of the agreement must be suitably documented in a manner that would make it clear that both parties to the contract are Ad-idem i.e., of the same mind. Ad-Idem means that both the parties understand the same thing in the same sense or are of the same mind on the same subject. There must be consensus or Ad-Idem between the parties to the contract.

This is possible provided all the terms and conditions, rights and duties - privileges and obligations are properly documented in terms which can be clearly interpreted in a court of law. Between two human beings sometime silence means an

acceptance. But as the insurer is a legal personality entitled to contract verbal discussion between parties to the contract is not possible and hence there is a need for documentation.

Insurance is also a contract of utmost good faith and enforced only in the distant future. It is therefore necessary that the declarations made by both the parties should be put in black and white for future reference. Any suppression, willful and material shall make the contract void. The insured, therefore, has a duty to declare all that he knows about himself, his health, his financial status in answering questions contained in the proposal form and other ancillary documents which may be required by the insurer.

We shall discuss in this chapter the various kinds of documents which become necessary at three stages of a policy –

(1) at the stage of proposal, which if accepted result into a policy,

(2) during the duration of the policy where several alterations may become necessary

(3) at the end of the policy contract when insurer pays the final claim.

2.2.1 Documents needed at the stage of the proposal

2.2.2 Proposal form is the basic format which is filled in by the proposer who wants to take an insurance policy. It can be defined as **the application for insurance.**

A proposal form has three portions

(1) The first gives **details about the proposer**, his name, address, occupation, the details about the type of insurance that he wants to take and the name of the nominee to whom the money is payable in case the policyholder does not survive to take the maturity amount.

(2) The second portion relates to the **details of the insurance policy** that the proposer already possesses, the present health conditions and the personal history of his health, any sickness or accident he might have had.

This is a detailed questionnaire and the proposer is expected to reply to each question truthfully and honestly. A female proposer has to reply to certain additional questions specific to her gender.

(3) The last portion of the proposal form relates to the **declaration.** Through this declaration, the proposer

(i) affirms the veracity of the statements made in the proposal form in replying to the question

(ii) affirms that he/she has not suppressed, misrepresented or concealed any fact which may be material to the risk

(iii) agrees that this declaration along with the proposal form shall form the basis of the contract and if any information is found to be false the contract will be null and void thus reinforcing the principle of "Uberimma Fides" (Utmost good faith).

(iv) further agrees to take the insurance on the terms and conditions decided by the insurer.

The proposer further agrees to keep the insurer informed of any changes in the position relating to his health or his occupation between now and the issuance of the first premium receipt.

It is thus clear that after the insurer has issued the first premium receipt, the contract is said to have concluded and thereafter the insurer has no right to change the terms of the contract.

However, the insurer has a right to offer any term and condition before the final acceptance of the insurance. For example, in case of a female proposer, the insurer may not agree to accept the risk of the childbirth. In case of certain hazardous occupation like commercial pilots, the insurer may like to exclude the risk to life due to such occupation.

In case of certain deformity, the risk of accident can be excluded. These exclusions of risks are not normal terms of the policy contract and therefore have to elicit consent of the proposer. In case of a substandard health, the insurer may like to accept a reduced risk during the first one or two years of the insurance. The consent of the insured is a must for such limitations to be imposed.

All such special conditions or riders are mentioned in the policy either by an endorsement or attachment to the document. If the insurer has taken a Convertible Whole Life Plan which is to be converted to an endowment plan after 5

years, the necessary condition is endorsed on the policy.

The terms and conditions as mentioned in the policy along with such endorsements as made at the back of the policy govern the insurance contract and are open to be interpreted by a court. However it may be noted that agents confidential report and the medical examination (confidential) report are not part of the contract for insurance.

INTEXT QUESTIONS 2.1

1. What are the different stages where documentation is required?

2 Define Proposal Form.

There are certain other documents which may be required at the proposal stage.

2.2.3 Age proof

Age is an important factor in deciding the quantum of premium against a policy. The document proving the age, i.e. age proof must be reliable and the insured has to undertake as to its truthfulness. An insurer accepts these documents as standard age proof -

1) Certified extract from municipal records, recorded at the time of birth.
2) Certificate of baptism or extract from Family Bible
3) Extract from school or college records.
4) Extract from service register in case of employees - Government or semi government or such other reputed institutions which insist on conclusive evidence of age at the time of recruitment.
5) Identity card issued by Defence department.
6) Marriage certificates issued by Roman Catholic Church.
7) Domicile certificate.
8) Passport.

Non-standard age proofs are those which are comparatively less reliable and therefore the insurer accepts them with a pinch of salt. In other words the insurer takes certain precautions before accepting such age proofs as final.

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For example, such age proofs are examined by a senior officer and not accepted as a matter of routine. Another safeguard is to offer a reduced term of policy so that the policy matures at a comparatively early age. The maximum age of maturity may be fixed at a lower age. The insurer even may charge an extra premium to compensate for the possible understatement of age in such age proof.

Such non–standard age proofs are (1) Horoscope, (2) service records of employers other than those mentioned above (3) ESI card, (4) Marriage Certificate in case of a Muslim proposer., 5) Elders Declaration, 6) Self Declaration, 7) Driving Licence, 8) Certificate issued by village panchayat, 9) Electoral role, 10) Ration card.

Age proof is insisted upon for completion of propsoal if the declared age of the proposer is less than 20 or more than 50 or if the sum proposed is quite high, say above one lakh.

2.2.4 Proof of income

This document may become necessary whenever the sum proposed is very high. Normally a sum proposed which is seven to eight times of the declared income is acceptable for insurance. But proposals do come to the insurer when the known source of income of the proposer is much less compared to the amount of insurance desired. A service holder normally does not face this problem as his sources of income are verifiable.

In case of business people, the assessed income is at times much less compared to what is a desirable income for the amount of insurance desired. In such cases the insurer at times calls for assessed income tax returns, or Chartered Accountant's certificate etc. Such precautions are necessary to eliminate the possibility of moral hazard.

2.3 DOCUMENTS NEEDED DURING THE CONTINUANCE OF THE POLICY:

2.3.1 First Premium Receipts and Renewal Premium Receipts

The First Premium Receipt (FPR) is the **confirmation of insurance**. This document is important as it gives the date of assumption of the risk but its value is nil once the policy document has been issued.

2.3.2 Policy Contract

Policy document is a detailed document and it is the **Evidence of the insurance contract** which mentions all the terms and conditions of the insurance. The insured buys not the policy contract, but the right to the sum of money and its future delivery. The insurer on its part promises to pay a sum of money, provided of course the insured keeps its part of promise of paying the installments of premium as scheduled.

The pre-amble to the insurance contract makes the above statement clear and states that this policy is issued subject to the conditions and privileges printed on the back of the policy. The endorsements placed on the policy shall also be part of the policy and it also makes a reference to the proposal form saying that that the statements given in the proposal form are the basis of the contract.

The schedule which is printed on the policy document identifies the office which has issued the policy. It states the name of the policyholder, the date of commencement of the policy, an identification number of the policy called policy number. This number is extremely useful for making any reference to the insurer relating to this policy. This shall avoid needless delay.

Beneficiary's name is also mentioned along with address.

It is necessary to check that it is correct and any mistake should be immediately pointed out for correction. A mistake in the address may misdirect the premium notices and any other future correspondence. It also states the name of the nominee and the date upto which premium has to be paid. The schedule goes on to mention, the type of policy, on the happening of which, the sum assured is payable and to whom it is payable. It of course also mentions when and how long the premium is to be paid.

The policy document is signed by an official of the insurer and dated and stamped as per the provision of the Stamp Act to make it a completely legally enforceable document.

2.3.3 Renewal Premium Receipts

Though it is the duty of the insured to pay the renewal premium on the due date the insurer sends a renewal premium notice to the insured out of courtesy and on receiving the

Notes

premium issues a renewal premium receipt **(RPR)** which is an important document and has to be preserved as it is the only documentary proof that the due payment has been made.

2.3.4 Endorsements

Life insurance policy being a long term contract, it is quite likely that the conditions may so change over the time that an alteration or change in the policy conditions may be required. The insurers normally permit such changes which are in the interest of the policyholders and also simultaneously do not adversely affect the insurer's interest.

It has to be noted however, that the insurer is not authorized to make any change in the conditions of the policy during its continuance except such which has been agreed to in the beginning of the policy. An insurance policy, in this sense is called an unilateral contract.

All such alterations as are discussed hereafter are effected by endorsements on the policy document.

The following alterations are not permitted.

(1) Alterations during the first year,

(2) Alteration from one class of assurance to another where the premium scale is reduced.

(3) Alteration to another plan which is more risk oriented.

(4) Increase in sum assured in the same policy.

The following alterations are allowed

1) Limiting the premium paying period, but date of maturity remaining unaltered;

2) Change in the mode of payment of premium e.g. Half-yearly to yearly or half-yearly to quarterly;

3) Alteration due to age admission, if required, has to be compulsorily done;

4) Alteration or correction in the name of the assured/ nominee;

5) Bringing the policy under salary savings scheme;

6) Replacing a limiting clause by an extra premium. For example the first pregnancy clause can be replaced by an one time extra premium of Rs.5/- per thousand;

7) An extra premium imposed for specific impairment or occupational reasons can be removed or reduced. For example, an extra premium imposed for hernia or hydrocele can be removed after surgical operation. Similarly, an occupational extra premium can be removed, if there is change in occupation to a less hazardous one. However an occupational extra premium cannot be imposed, after the policy has been issued, even if the policyholder takes up a more hazardous job.

All such alterations are effected by an endorsement on the back of the policy or by a separate memo which becomes a part of the policy.

2.3.5 Duplicate policy :

A policy document is a valuable document and can be used for mortgage etc. Loss of policy document does not absolve the insurer from the liability of payment of policy proceeds when the claim arises. The claim can be settled on the claimants, furnishing an indemnity bond jointly with one surety.

If a policy is irrevocably lost, a duplicate policy can be issued, after following a certain procedure. The insurer satisfies itself of the circumstances leading to loss. Being so satisfied the insurer insists upon an advertisement in a news paper, production of an indemnity bond and payment of policy preparation charges and there after a duplicate policy is issued. The duplicate policy is stamped “Duplicate Policy”.

2.3.6 Nomination:

Generally nomination is made at the time of taking a policy. In case it is not done, it is possible to make nomination subsequently by an endorsement on the policy. It is also possible to change a nomination subsequently by an endorsement. After marriage, such change in nomination is normally required.

2.3.7 Assignment

An assignment of a policy in favour of another person or institution can be effected by an endorsement on the policy. Re-assignment can also be done by a subsequent endorsement on the same policy.

Notes

As a nomination is automatically cancelled due to an assignment, after re-assignment, it is necessary to make a fresh nomination.

2.3.8 Renewal Notice

Keeping the policy in force is in the interest of the policyholder and also of the insurer. The insured loses the valuable protection that the life assurance policy ensures. The insurer loses because without the renewal premium coming, the heavy expenses which it incurs in the beginning of a policy cannot be compensated. Every insurer will, therefore, take all possible actions to reduce policy-lapses and if lapsed, to get the policy revived.

An insurer therefore sends out regular premium notices even though it is not a legal requirement.

1) Premium notice is usually sent before the due date of the premium. An insurer is not legally obliged to send a premium notice. It is a matter of courtesy and greatly helps the life assured for timely payment of premium.

2) Premium default notice : This notice is sent within 3 months after the due date reminding the policyholder to pay the premium to prevent the policy-lapses.

3) Issue of Final lapse notice : If the premium is not paid within six months of the due date, and the policy is allowed to lapse, this notice is issued to the policyholder requesting him to revive the policy to restore the full insurance cover.

4) Intimation to agent : Agent being vitally concerned with the continuance of a policy, he is also suitably informed every time so that he can contact the policyholder for payment of the premium.

INTEXT QUESTIONS 1.2

1. What is FPR?
2. What is endorsement?
3. When can a duplicate policy be issued?.

2.4 SUMMARY

Life insurance being a legally enforceable contract, needs to be documented with details of the rights and obligations of

the parties to the contract. Proposal form duly filled in and signed by the proposer is the first document which forms the basis of the contract.

Every time, the insured pays the premium, he receives a premium receipt. The premium needs to be paid in time, non-payment of premium leads to policy-lapses. Re-instatement of the cover is called revival of the policy.

If the policy is not revived, the policy can become a paid up policy for a reduced sum assured under certain conditions.

The policy document mentions in detail all the rights and obligations of the policyholder. The agent is advised to explain the various provisions of the policy to the policyholder.

The wordings in the policy document are of technical nature and hence the need for explaining. If there are certain endorsements on the policy, that need to be explained too.

It needs to be explained that the policy is a valuable document and needs to be kept in safe custody and in the knowledge of the close relatives.

2.5 TERMINAL QUESTIONS

1. Which document evidences the contract of insurance?
2. Which document records any changes in life insurance contract?
3. Discuss the contents of Proposal Form
4. Which are the standard age proofs?
5. Why income documents are required to take a policy?
6. What alterations are not allowed in the policy?
7 Discuss the provisions of sending renewal notices.
8 Which are non-standard age proofs?

2.6 OBJECTIVE TYPE QUESTIONS

1. Which one of the following statements is correct?
   a. The policy is the basis of the insurance contract.
   b. The proposal is the basis of the insurance contract.
   c. Both (a) and (b) statements are correct.

d. Both (a) and (b) statements are wrong.

2. Which one of the following statements is correct?

   a. The proposal must be written by the proposer himself/ herself.

   b. The proposal can be written by the Agent.

   c. Both (a) and (b) statements are correct.

   d. Both (a) and (b) statements are wrong.

3. Which one of the following statements is correct?

   a. The information in the proposal form is used for underwriting.

   b. Wrong information in the proposal form can nullify the insurance contract.

   c. Both (a) and (b) statements are correct.

   d. Both (a) and (b) statements are wrong.

4. Which of the following are confidential and will not be given to the proposer?

   a. The medical report.

   b. The agent's confidential report to the insurer.

   c. The medical referee's advice.

   d. All the above.

5. Which one of the following statements is correct?

   a. FPR is the evidence of the insurance contract.

   b. The medical report is the basis of the insurance contract.

   c. Both (a) and (b) statements are correct.

   d. Both (a) and (b) statements are wrong.

6. Which one of the following statements is correct?

   a. The FPR is proof of commencement of risk.

   b. Risk does not commence till the policy is signed.

   c. Both (a) and (b) statements are correct.

   d. Both (a) and (b) statements are wrong.

7. If a policyholder applies for cancellation of policy soon after he receives the FPR

a. The full premium will be refunded.

b. The full premium after some small deduction will be refunded.

c. The policy will be treated as lapsed from the next premium due date.

d. He will be debarred from taking any further insurance policies.

8. Which one of the following statements is correct?

a. FPR is cash receipt.

b. Renewal Premium cannot be paid without the renewal notice.

c. Both (a) and (b) statements are correct.

d. Both (a) and (b) statements are wrong.

9. Which one of the following statements is correct?

a. IRDA has prescribed proposal forms for all insurers.

b. Renewal premium cannot be paid without the renewal notice.

c. Both (a) and (b) statements are correct.

d. Both (a) and (b) statements are wrong.

10. Which one of the following statements is correct?

a. If policy document is lost the insurance contract becomes void.

b. The family history appears in the personal statement.

c. Both (a) and (b) statements are correct.

d. Both (a) and (b) statements are wrong.

2.7 ANSWERS TO INTEXT QUESTIONS

2.1

1. At the time of taking the policy, For any endorsement and at the time of claim
2. Proposal form means where all the particulars of an individual are provided to the insurance company to underwrite the policy.

2.2

1. The First Premium Receipt (FPR) is the confirmation of insurance
2. Endorsement means any alteration in the policy.
3. Insurer insists upon an advertisement in a news paper, production of an indemnity bond and payment of policy preparation charges and there after a duplicate policy is issued.

2.8 ANSWERS OBJECTIVE TYPE QUESTIONS

1. b	2. d
3. c	4. d
5. d	6. b
7. b	8. a
9. d	10. b

Glossary

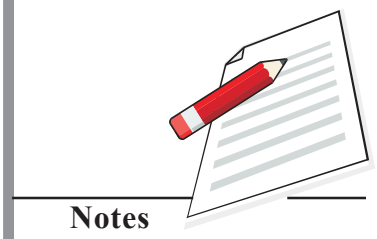
Proposal form is the basic format which is filled in by the proposer who wants to take an insurance policy.

First Premium Receipt is the confirmation of a concluded insurance contract.

Policy document is the evidence of the insurance contract and is a detailed document which mentions all the terms and conditions of the insurance

Duplicate Policy If a policy is irrevocably lost, a duplicate policy can be issued, after following a certain procedure. The insurer satisfies itself of the circumstances leading to loss. Being so satisfied the insurer insists upon an advertisement in a news paper, production of an indemnity bond and payment of policy preparation charges and there after a duplicate policy is issued. The duplicate policy is stamped "Duplicate Policy".

Assignment - An assignment of a policy in favour of another person or institution can be effected by an endorsement on the policy. Re-assignment can also be done by a subsequent endorsement on the same policy.



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LIFE INSURANCE UNDERWRITING

3.0 INTRODUCTION

Life Insurance Underwriting is the process of accepting the proposal of the customer based on the guidelines formulated by the insurance company. The insurance companies codify a set of procedures which must be followed before accepting any new business. When a new proposal comes to the insurance company its underwriting department scrutinizes the proposal whether or not it fulfills the criteria laid down by the company. If they find any lacunae they ask the agent to get it corrected. It is not that one can get whatever cover one wants. The issue of policy depends on income of the insured and whether he has the capacity to pay the premium over the years. Once the underwriters are satisfied that all the conditions have been fulfilled they go ahead to accept the premium and issue the policy. **Underwriting can be defined as the decision making process during which the company decides whether to insure or not and if yes at what rate**.

3.1 OBJECTIVE

After going through this lesson you will be able to

- Recall the various underwriting procedures
- Remember the points to be considered while examining a proposal

3.2 LIFE INSURANCE IN OPERATION - FROM PROPOSAL TO POLICY

Since life insurance is a financial contract, and a long-term contract and that a contract which may come to be executed

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when one of the parties to the contract may not exist and may be called upto a court of law in case of dispute in future, it is essential that all the terms and conditions of the contract must be clearly understood and put in writing legibly.

Looking at the importance of the contract combined with the raised expectation of a benefit which is still in the womb of a promise, unstinted trust should be created in the mind of the insured so that he remains confident of its benefit and continues to perform his part of the duty during the continuance of the contract.

The proposal form, as prescribed by the insurer for the type of insurance that the prospect has agreed to buy, must be appropriately selected. The proposer, must go through the proposal column by column, appreciate the meaning and importance of each information sought and fill it up legibly and completely.

Hyphens and obliques, dittos and blanks should be avoided as they are likely to be misunderstood or can be misused. An incomplete proposal leads to further queries and in the process a lot of valuable time and effort is wasted.

While different insurance companies will have different formats for the proposal form the points on which information is sought, are substantially the same.

Wherever medical report is required, the medical examiner is required to endorse the answers to the questions relating to personal history and personal health as stated in this form. If no medical report is required, the life proposed has to give additional information about his physical measurements as required.

However, most insurers insist upon medical reports only in cases where either the sum assured is very high, or the life proposed is beyond certain age limit or the plan of insurance carries a lot of risk element. We shall discuss these points later on in this chapter. However it is sufficient to state here that a medical report has to be given by a company approved medical examiner.

Medical examination has to be conducted at a well-equipped clinic. A lady life has to be examined by a lady doctor only. The medical examiner should not be related to the life proposed

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and the report should be submitted confidentially to the insurer who pays for the medical examination. However, if the prospect decides ultimately not to go ahead with the completion of the proposal, he bears the cost of the medical examination and the initial deposit is refunded less this cost.

Every insurance company has its own policy as to the need for the medical report and therefore company rules must be consulted before taking the life proposed to the doctor.

The insurer may also ask for special reports like X-ray, ECG, Blood Sugar Test etc. after examining the proposal. There are also standard rules for obtaining these reports depending upon age at entry, sum under consideration or personal history of illness etc. These circumstances are provided in the company manual.

The cost of these special reports is initially paid by the prospect but it is reimbursable by the insurer, after the proposal is completed. The rates of payment for these reports are fixed by the insurers in advance and these reports are confidential and are the property of the insurer irrespective of who ultimately pays for those reports.

A host of other documents are required depending upon special need. While the prospect has the obligation to disclose all information about himself relating to his health, habit and occupation, the agent has the responsibility of being circumspect, see the overall posture of the prospect, to note any obvious physical deformity, appearance and physical environment of his residence or work place to know about his financial standing.

The amount of Insurance should commensurate with the income. Too much of insurance may mean a propensity to die early either due to an undisclosed disease or suicide, due to financial problem or family circumstances. Technically this is called moral hazards, which can be uncovered by diligent enquiries made about the prospect by the agent.

Personal statement regarding health declaration- This statement is required at the time of revival of a policy either with or without a medical report depending upon the duration of policy-lapses and physical condition of the life assured. However if there is a delay in completing the proposal say 3 months to one year, the insurer may ask for a statement in the prescribed form.

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Queries regarding occupation - This statement gives a complete picture regarding the extent of hazard, if the life to be assured is engaged in any hazardous occupation like electrical industry or mining or chemical industry etc.

If a policy is to be taken under Married Women's Property Act 1874, to secure the policy money against all other claimants to the estate, prescribed forms are used depending upon the number of beneficiaries and trustees.

For the revival of a children's policy, a separate health declaration is required. Special statements are required, if the proposal has to be financed by a HUF for the benefit of one of its members. If the insurance is to be taken on the life of a key functionary in a company - what is called Keymans' policy, a separate questionnaire is to be filled in by an authorised person of the company.

INTEXT QUESTIONS 3.1

1. Define Underwriting.
2. When is a health declaration made?
3. When are medical tests needed to be done?

3.3 CLASSIFICATION OF RISKS

The Life Insurance underwriting involves classification of risks affecting the policyholders. The factors that affect risk on the life of an individual is known as hazard. The hazard may be classified as

1) Physical
2) Occupational
3) Moral

3.2.1 Physical hazard

The physical hazard that affects a human life are as follows:-

a) **Age** - The probability of death increases as the age increases. So the premium also increases with the age.

b) **Sex** - The female lives have different underwriting consideration due to various factors such as employment, child birth etc.

Notes

c) **Built** - The built of person indicates whether a person is healthy or not. The height, weight and chest measurements helps to find out whether the person is suffering from any ailment or not. Height and weight must be given after taking actual measurement. This gives an idea of the body built. In fact, most insurers publish a chart of desirable height and weight which even medical practitioners follow. This is a product of medico-actuarial study. While writing the height and weight, do not quote from the build-chart. Write the actual measurement only.

d) **Physical Condition** - The Physical condition of the person helps to decide about the premium.

e) **Physical Impairments** - Blindness, deafness and other conditions which are not illness or degenerative are hazards affecting the probabilities of death.

f) **Personal History** - Personal history of illness affects the prognosis. Some diseases leave their mark and may relapse or weaken the resistance. Hence a detailed information regarding present and past illness relating to different body systems is called for. Let it be noted that any affirmative answer regarding any past or present disease does not mean decline of a life cover or extra premium. Most of the common diseases are either ignored or the insurers may advise for a waiting period of 3 to 6 months.

But correct answer must be given so that the insurance cover remains indisputable and security, which is the object of insurance, is guaranteed. Mention the exact disease and the duration if the answer is in the affirmative. Give details of the treatment received. Bodily deformity or previous accident are also important information. Alcohol, drugs are bad for health and habit forming. This is a risk which an insurer would like to avoid unless it is of casual nature. Some insurers treat non-smokers as better than standard lives.

g) **Insurance history** - The next question relates to the insurance history of the proposer. If at any time earlier, any proposal for revival has been declined or considered with certain conditions like extra premium, the underwriters would like to know the reason thereof in order to eliminate the possibility of concealment of any material fact relating to personal history.

Notes

h) **Family History** - Family history is another important source of information for the insurer to have a prognosis about the prospect's life. Prognosis as opposed to diagnosis, is a long term estimation about the longevity of the prospect. The children of parents who live to a very ripe old age are supposed to live long.

Diabetes, blood pressure, insanity etc are some of the problems which run in a family. Family members sometimes get infected if some close relatives suffer from infective diseases like tuberculosis. Aids of course is a dread which all insurers would like to avoid. A correct information as far as possible about the family history should be given. Of course, what is not known cannot be declared.

3.2.2 Occupational hazard

We have already explained else where that the nature of occupation has an impact on the life style of the insured. A hazardous occupation calls for special treatment by the insurer either by charging an extra premium or excluding the risk of death due to such hazard. The insurer normally lists out occupations on the basis of the hazard and mentions the special treatment expected.

There is a social angle to this problem of occupational hazard. People working in mines, on electricity poles, or insanitary condition like stone crushers or road cleaning are normally the socially disadvantaged people doing a great service to society. While facing the hazard of their occupation, should they be penalised by paying a higher premium or exclusion of the risk?

Name and address of the present employer is useful for contact and also to appreciate his social standing. Similarly information regarding education, annual income, sources of income and whether the prospect is an income tax payee indicate his social and financial status.

Whenever the proposer is employed in armed forces, his physical health is assured to be excellent. There is a provision for regular medical examination and the army people are categorised on grounds of health. The army personnel can insure without any medical examination for a very high sum assured, a benefit which is not available to the general public.

3.2.3 Moral hazard

As we have said earlier too much insurance may lead to moral hazard. Insurer, therefore, would like to know how much insurance he is having or going to have. Therefore insurance policies taken through separate proposals or revival of a lapsed policy are important information for undertaking life risk.

3.2.4 Previous Insurance policies

A detailed list of all previous policies has to be provided along with their present status so that the underwriter is able to know the total life cover that this proposer has taken and proposes to take. No insurer would like that anybody should take a fresh insurance immediately after surrendering the previous policy.

As we have explained elsewhere this is bad for all concerned. IRDA has also provided in the agents regulation that no agent shall advise a prospect to take a fresh insurance, if the previous policy has been terminated within a period of six months. Concealment of this fact may affect the validity of the insurance policy.

3.4 FEMALE LIFE

Certain special questions are asked to female proposals relating to pregnancy, and previous history of miscarriages if any. These questions are health related and therefore correct information is relevant to the insurer. Pregnancy is considered an extra risk and particularly first pregnancy. Underwriter takes extra care to cover this risk.

Information relating to husband are important to know about the financial standing of the family vis-a-vis his total insurance. It is true that in case of an insurance proposal on a male life, such questions about wife are not called for. Probably it is a vestige of our social conditions which are extremely important for an insurer.

If husband is insurable and not sufficiently insured, the underwriter would like to know why the wife is proposing for a sum which is higher than that of her husband. It is particularly important if wife has no independent income. Of course if the wife is educated and has her own source of income, inadequate insurance of husband is not very material.

Notes

3.5 PROPOSAL FORM

That this form has to be filled in with utmost care needs no emphasis for this form is the basis of life insurance contract. All the answers must be given completely and legibly and no ambiguity is to be left. All answers should be preferably given in block letters for clarity's sake. The complete address with pin code must be written. If the present address is different from the permanent address, both should be mentioned. Insurance being a long-term contract, one never knows the position say 20 or 30 years hence. A paid up policy is likely to be forgotten.

Sometimes the family members are not aware of the insurance being taken by the breadwinner, who may become victim of a sudden accident. Instances are not unknown when the insurance company traces the life assured through his permanent address which may be in a rural area, where some relatives are staying.

Occupation must be clearly stated so that the nature of the job performed becomes clear. Business, engineer, operator, service etc. are too vague terms to indicate the hazards involved. Of course whenever, special hazard is involved in the occupation, requisite form must be filled in. Any concealment or non-disclosure in this area may lead to the insurance contract being declared void.

3.6 AGE PROOF

Date of birth is important, for premium rate is age dependent. A proposal signed by a minor is invalid. In case of a minor, the risk starts only on attainment of a certain age. Amount of annuity instalment is based upon age and is not much concerned with health. In case premium waiver benefit is desired on a proposal of minor life, proposer's life risk is taken and therefore age proof is a must.

Hence it is advisable that an acceptable and genuine proof of age should accompany the proposal for life insurance. Sometimes proposal is acceptable under certain conditions with an undertaking to submit the age proof at a later date. But such situations should be avoided as non-compliance of the undertaking may lead to various avoidable complications in case of unexpected death of the life assured. Generally school certificate and passport are considered acceptable proofs of age.

3.7 SELECTION OF PLAN AND TERM

The plan should be carefully selected taking into consideration the special need of the life to be insured. A plan well selected generates lot of goodwill for the company which means a lot more business, a lot more income.

Term of course means the period of the plan after which it matures for payment. Here again the need of the proposer alone is to be considered. Term also determines the rate of commission to the agent, but this is of no consideration while canvassing insurance plan and term.

3.8 OBJECTS OF INSURANCE

Objects of insurance can be family provision or old age provision etc. Irrespective of what is stated here, the payment of claim money is decided by the nature of the plan of insurance purchased. There are plans specially designed to provide for the marriage of the female child, maintenance of a handicapped child, a child's insurance to give him the benefits of lower premium etc. Therefore the object stated must match the plan selected.

An endowment plan benefits the family in case of early death of the insured, when the claim money is paid in a lump sum. In case of maturity also, the money is paid in lump sum. However, it is also possible to opt for instalment payment of the lump sum money, in the shape of a pension if option is so exercised in good time, say one year in advance. It is called "settlement option".

A danger inherent in lump sum settlements is though it is most flexible in the hands of the receiver, that the money may be mismanaged, poorly invested or spent foolishly. The surviving beneficiaries of the family need a guaranteed income rather than cash. Of course it is possible to purchase an annuity policy with the cash amount available, even if no such advance arrangement has been made.

3.9 SUM PROPOSED

This is the amount insured and is paid as claim money either on death or maturity along with bonus or guaranteed addition etc. as per the conditions of the policy. As stated earlier, life insurance is not a contract of indemnity and therefore, the claim amount is not related to the financial status of the life

Notes

assured. It is therefore, advised, while deciding the sum proposed, a proper estimate on lines of Human Life Value theory should be made.

In case, the prospect finds it difficult to pay the required premium for a certain sum assured, which is proper, the agent can select a plan, which permits high sum assured with a low premium like a convertible whole life policy. Alternatively he may keep in continuous contact with the life insured to sell him additional insurance, whenever, his financial situation improves.

In any case, everybody needs a review of his insurance cover from time to time at least for two reasons - One - the income goes up along with the liability in course of time. Two-the continuous inflation in the market, reduces the money value of the insurance over time and therefore additional insurance has to be purchased, at least every five years, to maintain the value of sum assured, at the original rate planned for.

For example, the sum assured of one lakh taken today may find it worth only if compared in terms of its purchasing power ten years from now. The problem is, that as people pay more for goods and services and as their income and wages rise, they often do not increase the life insurance protection to compensate for the other changes. An agent would do well to appreciate this for continuous business.

3.10 ACCIDENT BENEFIT

This part refers to the double accident and permanent disability benefit and for this a small extra premium is charged. We will discuss this benefit a little later. But first let it be known that there is a normal provision for disability benefit allowed in all policies for free and the benefit relates to the waiving of all future premium after the total permanent disability has been caused due to an accident as defined hereafter within stipulated period of the accident and provided the policy is in force.

The Double Accident and Permanent Disability benefit has two parts - one relating to death due to accident and second permanent disability suffered due to such accident.

The benefit payable on the death of the life assured is an additional sum equal to the sum assured, provided the policy was in force at the time of accident and the bodily injury has

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been sustained directly due to an accident caused by an outward, violent and visible means and the death has been caused solely, directly and independent of all other intervening causes, within the stipulated period, due to the bodily injury.

Thus the above definition of accident excludes self injury, attempted suicide, insanity, immorality or when the life assured is under the influence of any liquor, drug etc. The injury suffered by a person while flying in any capacity other than as a passenger without any duty on board is also excluded. So also injury caused during riots, civil commotion, war, mountaineering etc. or while the life assured is committing any breach of law or while in the employment of the armed forces or navigation.

As a general rule, whenever an extra premium is charged due to the hazardous nature of occupation this benefit is excluded, in case the death or disability occurs due to such occupation. So also life assured with physical impairment. The children, male or female are not granted such benefit. Normally an exclusion clause is inserted in the policy document in all such cases.

The permanent disability benefit is the payment of a sum equal to the sum assured, in monthly instalments spread over a period of years. However, if the policy becomes a claim either due to death or maturity, before the expiry of specified years, the balance instalments are paid with the claim.

The second benefit in case of permanent disability in the way of waiving the payment of future premium to the extent of a sum assured specified.

To be eligible for the aforesaid benefit the disability must be the consequence of an accident as defined above and must be total and permanent. In other words the disability must completely disable the life assured from following any occupation or profession in order to earn his livelihood. The insurer must be informed about the happening of this disability with such proof as required and the insurer has a right to examine the disabled person through a medical examiner. However any wrong payment on this count is recoverable by the insurer.

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3.11 MODE OF PAYMENT OF PREMIUM

This is an important aspect of selling life insurance because the immediate sacrifice of cost burden to the policyholder can be regulated by selecting carefully the mode of instalment payment. In the prospectus, the insurer prints only annual premiums and if the mode of payment is chosen yearly, a rebate in premium is allowed.

In case the mode selected is half-yearly lesser rebate is allowed. Quarterly rate is exactly one fourth of the published annual rate. Monthly instalments invite 5 % extra. The reason is the higher administrative cost to account for more frequent payments.

Many prospects may find it difficult to pay annual premium in one go. Resistance to sale becomes less, if payment amount can be divided in a number of instalments. However, there is a danger of forgetting such frequent payment causing policy to lapse. It is in the interest of the agent and of the policyholder to ensure that the policy does not lapse due to non-payment of premium.

Modes of payment like payment by bank on a scheduled date or loan from P.F. A/C are other alternatives. For those who are in secured jobs with reputed companies including government, payment of premium through salary savings scheme is possible. In such a case the insurer and the employer enter into an agreement whereby the employer agrees to deduct the premium from the salary of the insured employee who accordingly authorises the employer for the deduction and the employer remits a consolidated amount with a demand note to the insurer.

However this mode of premium payment is not free of its complications. The employer as a third party is involved in payment of premium and thereby keeping the policy in force. If for some reason which may be anything from non-payment of salary to negligence or misappropriation or financial problem of the employer the instalment of premium does not reach the insurer and the claim arises there is a real problem leading to misery and litigation.

In Salary Savings Scheme for keeping the policy in force utmost vigilance on the part of the agent and policyholder is the price to be paid for. From time to time, it has to be assured that

Notes

premium is being deducted from salary regularly and it is sent to the insurer with clear identification of each policyholder with policy number and salary number.

Every employer is given a Paying Authority Code at the time of entering into the contract. Similarly each employee has a salary roll number or a badge number by which he is identified by his employer and the department must have a code number for immediate identification. At the time of the proposal a special form in the form of a letter addressed to the employer is signed by the insured employee authorising the employer to deduct the premium from his salary and remitting to the insurer every month.

He undertakes not to revoke this authority to the employer. This authority should be irrevocable just to ensure that insurance premium must get paid regularly without any interruption, which may mean lapse of risk. This scheme has the great advantage of being uninfluenced by the temptation to spend the money if the money comes in hand.

3.12 DECLARATIONS

At the end of the proposal, the proposer makes three declarations which make the answers in the proposal the basis of the insurance contract:

1. The proposer guarantees as to the truthfulness of the information so far it is within his knowledge. Thus the foundation of the basic principle of "utmost good faith" is laid and the breach of it makes the contract void.

2. The proposer authorises the doctor to divulge all information known to him about the health and habit to the insurer whenever necessary. Thus a doctor giving such information to the insurer at any time, either at the time of proposal or at the time of claim, cannot be held guilty of divulging any confidential information.

3. The third declaration relates to a period between the date of signing the proposal and acceptance of the risk by the insurer. This is a period during which the underwriter has not yet seen the proposal and has, therefore, not undertaken any risk. Any unfavourable incident during this period shall, therefore, materially affect the decision.

Notes

The proposal is to be signed in the presence of a witness because that is the legal requirement to enter into a contract. Normally agent should sign as a witness as that is the proper way. If the proposer has signed in a language other than the one in which the questions have been asked in the proposal form, he must declare that he has understood the questions and has answered in his own language.

The person who has explained the questions must also endorse for having done so. However, if the proposer is illiterate and puts his thumb impression, similar declaration is required both by the proposer and the person who has explained the questions. Under no circumstance, the agent should write the answers in the proposal form in his own hand. It is prohibited in the Agents Regulation, 2000.

Section 41 of the Insurance Act states that offer or acceptance of any rebate other than what is permitted in the company prospectus is an offence. However we hope, this provision of law becomes really effective.

Whenever the proposer has to be medically examined by an authorised doctor, the doctor signs the proposal as a proof of having read the proposal form duly filled in. The life proposed signs to establish his identity. The proposal form duly filled in is the basis of contract and no amount of care taken to fill it up is too much. It is rightly compared with the rituals which a couple goes through at the time of marriage. An elaborate ritual is necessary to realise the importance of the relationship. Insurance, establishes a lifetime relationship.

INTEXT QUESTIONS 3.2

1. When is a declaration made?
2. Types of accident benefit.
3. Modes of payment of premium.

3.13 ADVANCE PAYMENT OF PREMIUM

The Sec. 64VB of the Insurance Act 1938 reads as follows : -

1. No insurer shall assume any risk in India in respect of any insurance business on which premium is not ordinarily payable outside India unless and until the premium payable is received by him or is guaranteed to

be paid by such person in such manner and within such time as may be prescribed or unless and until deposit of such amount as may be prescribed, is made in advance in the prescribed manner.

2. For the purpose of this section, in the case of risks for which premium can be ascertained in advance, the risk may be assumed not earlier than the date on which the premium has been paid in cash or by cheque to the insurer.

   Explanation - where the premium is tendered by postal money order or cheque sent by post, the risk may be assumed on the date on which the money order is booked or the cheque is posted, as the case may be.

3. Any refund of premium which may become due to an insured on account of cancellation of a policy or alteration in its terms and conditions or otherwise shall be paid by the insurer directly to the insured by a crossed order cheque or by postal money order and a proper receipt shall be obtained by the insurer from the insured, and such refund shall in no case be credited to the account of the agent.

4. Where an insurance agent collects a premium on a policy of insurance on behalf of an insurer, he shall deposit with or despatch by post to, the insurer, the premium so collected in full without deduction of his commission within 24 hours of the collection excluding bank and postal holidays.

Life insurance is a contract legally enforceable. No contract is complete without the consideration money and premium is the consideration money against which the insurer promises to fulfill its obligation. As at the beginning of the insurance contract, the insurer incurs certain expenses such as medical test and other administrative expenses, it is necessary that some advance deposit should be made along with the submission of the the proposal form. Life Insurance Corporation of India has fixed certain minimum deposit depending upon the amount of sum assured and the agent is made responsible for its collection.

Normally any insurer expects that the advance deposit should be equal to the first premium subject to a certain minimum.

Notes

If the proposal is accepted, this deposit is adjusted towards the first premium. If the proposer is not willing to complete the proposal for any reason like the policy is rated, i.e., an extra premium is charged, the insurer normally returns the balance amount of this initial deposit after deducting the minimum amount spent towards medical expenses, to the insured and such refund shall in no case be credited to the account of the agent.

Here however, the most important fact is that non-completion of proposal and return of the deposit to the proposer means total futility of the agents' effort. When we buy anything, we pay for it. That is the normal procedure and it is so with life insurance. The agent while canvassing the proposal must make it a point to collect the total first premium after convincing him that the premium is the necessary price to be paid for the benefit of insurance.

The agent being the first underwriter should be able to know whether the insurer will accept the risk at normal rate or with an extra loading. If the insurer is charging an extra premium, it must be for valid reasons and the proposer should be willing to bear this extra expense.

The most compelling reason for getting cash with the application is the matter of putting the insurance in force. A proposal which is acceptable to the insurer and is accompanied with full first premium carries the protection from the date of application. This is a vital consideration for the insured and the beneficiary, since the applicant has no guarantee that he or she shall survive long enough to see the policy issued.

There are too many cases on record where the applicant has died between the date of application and the issue of policy. Even though the advance deposit does mention that this payment does not amount to insurance cover, most insurance companies, would pay the claim, if no other requirements are due from the applicant and the proposer has died after completing all formalities leading to the completion of the proposal.

3.14 SUMMARY

The proposal form is the first document filled in and signed by the proposer with all relevant information. The insurer considers these information and accepts the risk, with suitable

conditions. The proposer replies to all the questions honestly and truthfully lest the claim when it arises is not paid. These information relate to his own personal health and family history. Age proof is important. He must nominate somebody to receive the claim when he is no more.

Accident benefit is a rider which is available on payment of a small extra premium. While accepting proposal of insurance from a female life who is not self-earning, the insurer is more circumspect. Agents' confidential report helps the insurer to select a good life for insurance.

Advance payment of premium is a must for the insurer to even consider an insurance proposal. The agent plays important role from the time of canvassing a proposal to the date of payment of claim whenever it arises.

3.15 TERMINAL QUESTIONS

1. Classify the various kinds of risk.
2. What special considerations are required in case of female lives?
3. What are the contents of proposal form?
4. Why object of insurance is necessary?
5. Discuss the various modes of payment of premium.
6. Why premium needs to be piad in advance?
7. Why signing of declaration by proposer is important?

3.16 OBJECTIVE TYPE QUESTIONS

1. What is proposal?
   a. A request for an insurance cover.
   b. An offer to enter into a contract.
   c. Both a request and an offer to enter an insurance contract.
   d. None of the above.
2. Moral hazard may be suspected in cases where
   a. The life to be insured is old.
   b. The insurance is for a very large sum insured.
   c. In the both the cases.
   d. None of the above cases.

Notes

3. Under the system of non–medical underwriting
   a. There is no restriction on age.
   b. There is no restriction on sum assured.
   c. Only some towns are covered.
   d. There is restriction on both the Sum assured & age.

4. Which one of the following statements is correct?
   a. An underwriter charges extra premium for physical hazards.
   b. An underwriter charges extra premium for moral hazards.
   c. Both (a) and (b) statements are correct.
   d. Both (a) and (b) statements are wrong.

5. Which one of the following statements is correct?
   a. The underwriter assesses the risk.
   b. No policy can be issued without underwriter decision.
   c. Both (a) and (b) statements are correct.
   d. Both (a) and (b) statements are wrong.

6. Which one of the following statements is correct?
   a. Underwriting is done only when there is a medical examination.
   b. Medical examination is necessary before a policy can be issued.
   c. Both (a) and (b) statements are correct.
   d. Both (a) and (b) statements are wrong.

7. Which one of the following statements is correct?
   a. Underwriters are more cautions while considering cases on female lives.
   b. Underwriting are more cautions while considering cases of educated women.
   c. Both (a) and (b) statements are correct.
   d. Both (a) and (b) statements are wrong.

Notes

8. Which one of the following statements is correct?

   a. Working women are treated at par with men.

   b. Educated women are treated at par with men.

   c. Both (a) and (b) statements are correct.

   d. Both (a) and (b) statements are wrong.

9. Financial underwriting is done to evaluate

   a. The probability of the policy lapsing in future.

   b. The possibility of moral hazard.

   c. Both (a) and (b) statements are correct.

   d. Both (a) and (b) statements are wrong.

10. Which one of the following statements is correct?

   a. Underwriting standards are changing.

   b. The underwriting standards of all insurers are the same.

   c. Both (a) and (b) statements are correct.

   d. Both (a) and (b) statements are wrong.

3.17 ANSWERS TO INTEXT QUESTIONS

3.1

1. Underwriting is the process of accepting the proposal of the customer based on the guidelines formulated by the insurance company.

2. This statement is required at the time of revival of a policy either with or without a medical report depending upon the duration of lapsation and physical condition of the life assured.

3. The medical test is required when either the age of prosper or sum insured is high.

3.2

1. At the end of the proposal form the insured makes declaration.

Notes

2. Double Accident and Permanent Disability benefit
3. Yearly, Half-yearly, Quarterly and Monthly (Salary Saving Scheme)

3.18 ANSWERS TO OBJECTIVE QUESTIONS

1. c	2. c
3. d	4. a
5. c	6. d
7. a	8. c
9. b	10. a

Notes

4

PREMIUM AND BONUS

4.0 INTRODUCTION

A insurance policy needs to be bought. This comes at a price which is known as premium. Premium is the consideration for covering of the risk of the insured. The insured agrees to pay premium for a particular period based on the sum insured chosen and in return the insurer agrees to pay the sum insured along with bonus accrued under the policy either on death of the policyholder or on maturity of the policy.

Premium needs to be paid in advance and regularly to keep the policy in force. The Insurers share their profit with the insured by giving bonus under the policies. The amount of bonus is given along with the final maturity amount.

4.1 OBJECTIVE

After going through this lesson you will be able to

- Learn the meaning of consideration
- Recall the methods of computation of premium
- Understand the meaning of bonus

4.2 INSURANCE PREMIUM

Premium is the consideration money that a policyholder has to pay in lieu of the benefit that the insurer promises to confer on the happening of the scheduled eventuality. Insurance is a contract and the policyholder /insured and the insurer are the two parties to the contract. Both parties have rights and obligations. Premium forms the obligation on the part of the insured.

Notes

4.1.1 Modes of payment of premium

The premium can be paid at one time, when it is called a single premium. It can also be paid in instalments i.e. yearly, half–yearly, quarterly or monthly. Single premiums are rare except in pension plans. Tabular premiums are given in yearly mode. Half–yearly, quarterly and monthly mode instalment is obtained by dividing the tabular premium by 2 or 4 or 12. However before going for this division, one has to allow for certain rebates which are allowed at different rates for different modes under different plans. Insurers allow some rebate on the premium for yearly and half–yearly mode. However this rebate varies from plan to plan.

The instalment premium for quarterly mode is exactly one fourth of the tabular premium. However for monthly mode, an extra addition of 5% to the tabular premium is made before dividing the tabular premium by 12. Premium can also be paid through salary savings scheme which is in fact a monthly mode but for this, no extra is charged.

Premium is always payable in advance. The rebate for yearly and half-yearly mode is given because the insurer earns interest on the advance payment and also because the administrative expenses are reduced because of lesser frequency of issuing renewal premium notices and receipts and maintaining the record.

Similarly rebate is also permitted for large sum assured and these rebates differ from plan to plan.

4.1.2 Important elements in computation of Premium

There are three important elements in the computation of premium. They are (1) mortality, (2) expenses of management, (3) expected yield on its investment.

1. Mortality

The mortality tables are prepared by the insurers on the basis of their experience over a number of years. Though the rate of mortality increases with the increase in age, all insurers charge a level premium which remains constant over the entire duration of the policy term. It is the actuarial science which provides the method to assess such increasing risk and convert it into a level premium.

This prediction or estimation of mortality is true for a very large group of insured people and not for any individual insured. Thus the small premium charged from the total group is used to pay a big sum assured to the unfortunate few who die early. It is also called pooling of resources. Insurance is also known to be a co–operative action.

2. Expenses of management

Any insurer has to incur expenses for conducting the insurance business. These expenses are not of constant nature. They keep on increasing due to inflationary market conditions. Huge expenses are incurred for procurement of new business, for payment of commission to the agent and other incidental expenses like preparation of policy document etc.

Expense is also incurred for servicing of the policies, e.g. collection of renewal premium, valuation to determine bonus payable, payment of Survival Benefit and Death claim and Maturity Benefit etc.

3. Expected yield on investment :

As the above two elements go to increase the premium rate, the expected yield on investment of the collected endowment component of premium goes to reduce the premium rate. However, as the future yield cannot be determined exactly, it is necessary for a prudent insurer to keep a reserve to take care of unexpected fall in the rate of yield.

4.1.3 Risk, Net/Pure Premium

4.1.4 Risk Premium

The pure premium needed to cover the expected risks but with no allowance for expenses, commission or contingencies is to be made. Thus the cost to meet the risk of death for one year at a particular age is known as risk premium. The risk premium is based on the probabilities of death at various ages.

4.1.5 Net Premium or Pure Premium

A net premium is the premium calculated on the basis of the valuation assumptions to provide the contractual benefits at outset. Its calculation only allows explicitly for interest and mortality. Thus the net premium covers the risk factor as well as interest earned on investment of fund by the insurers.Net premium is always less than the risk premium.

Notes

4.1.6. Loading

As explained before the administrative expenses of the insurer have to be borne out of the premium received from the insured. The amount added to the pure premium to cover the administrative expenses is known as loading. When these expenses are added to the net/pure premium it becomes the **gross premium/office premium** which is actually charged from the customer.

4.1.7 Level Premium

Premium keeps on increasing as the age increases and this is the natural premium paying system but it is impractical because the insurer cannot ask the insured to pay extra premium every year and moreover in the latter years the cost of insurance would become unaffordable resulting in lapse of policies. In view of this insurers charge a level premium and the cost is distributed evenly over the period during which premiums are paid. The premium remains the same, and is more than the actual cost of protection in the earlier years of the policy and less than the actual cost in the latter years. The excess paid in the early years builds up the reserve.

4.1.8 Actuarial Valuation

As discussed before premium is calculated based on some assumptions. The experience in future may not be exactly as assessed. So the process of checking the validity of assumptions from time to time is known as actuarial valuation. The main objects of conducting the valuations being:-

Future projections to be made on the basis of past experience

- Determine the long term consequences.
- The analysis should always be as thorough as the information allows and not based on superficial appearances.
- Using Mathematical modeling for handling the interactions of probability and investment return.
- ¨Further experience should be fed back to aid the subsequent development of the model and the assumptions.
- In India the Insurance Act requires actuarial valuations to be done every year.

4.1.9 Calculation of Age

The rate table as published by Insurers gives the rate of premium per thousand sum assured, for different ages nearer birthday. The tabular premium is also different for different premium payment terms. In case of whole life policies, as the premium has to be paid for the whole life, the premium is mentioned only for various ages nearer birthday.

Age nearer birthday means that if the actual age is upto 21 years 5 months 29 days the age for the purpose of calculation of premium is to be treated as 21 years only. However if the age is 21 years 6 months or more it is to be taken as 22 years. In other words if the age is 21 years 11 months and 29 days the age is taken as 22 years.

The method for calculation of age is explained by an example:

	Day	**Month**	**Year**
Date of calculation	21.	08.	2000
Date of birth	02.	01.	1964
	19.	07.	36

Age is 36 years 7 months and 19 days. Therefore the age last birthday is 36, the age nearer birthday is 37 and the age next birthday is also 37.

Another example:

	Day	**Month**	**Year**
Date of calculation	02.	03.	2000
Date of birth	19	09	1964
	13	05	35

Age is 35 years 5 months and 13 days. Therefore the age last birthday is 35, the age nearer birthday is 35 and the age next birthday is 36.

4.1.10 Calculation of premium

Calculation of premium is done after the underwriting decision has been taken. The underwriting decision is taken after an evaluation of the longevity taking into consideration all such factors which are supposed to influence the proposer's life span. It can be a decision where the risk is taken at ordinary

rates. In otherwords only the premium rates as they appear in the rate table are applicable, after allowing for rebates on account of mode of payment and large sum assured.

This can be explained with an example:

Age nearer birthday	-	30 years
Plan of assurance	-	Endowment with profit
Term of assurance	-	20 years
Sum assured	-	Rs. 5,000
Mode of payment of premium	-	Half–yearly.

Tabular premium per thousand sum assured as given in the manual for agents is Rs.53.19 for age 30 and Term 20 years. Rebates allowed are 1.5% for half–yearly mode and there is no rebate for sum assured below Rs 25000/=

Tabular premium	Rs.53.19
Rebate for Half-yearly mode	Rs.0.79
	Rs.52.40
Adjustment for S.A. 5000	Nil
Balance	Rs.52.40

Yearly premium for SA Rs.5000 (Rs.52.40x5)=Rs.262.00

Half-yearly premium = Rs.262/2 = Rs. 131.00

If the mode of payment in the above example would have been yearly, we would have reduced Rs.53.19 by 3% i.e. Rs.1.60. Had the mode been quarterly, we would not need any adjustment. Similarly if the mode of payment would have been monthly, we would have increased the tabular premium of Rs.53.19 by 5%.

Similarly if the sum assured would have been Rs. 25000, we would reduce Rs.52.40 by Rs.1/- before multiplying it with the sum assured, i.e. Rs. 25 only and not Rs. 25,000 as the tabular premium is for a sum assured of Rs. 1,000. Similarly if the sum assured would be Rs. 50,000 or more, we would reduce Rs. 52.40 by Rs.2/- before multiplying it by the sum assured, as explained above.

The underwriting decision is always not as simple as is shown in the above example. The underwriting decision may impose many riders, because of which the premium gets increased. These riders may be

(1) due to the extra benefits wanted by the proposer e.g. accident benefit, premium waiver benefit etc.

(2) due to extra risk perceived by the underwriter on the basis of health, occupation or even for reasons of sex.

Let us explain the effect of these riders on the premium by an illustration -

Plan of assurance -	Endowment assurance with profit
Term of assurance	20 years
Mode	Half-yearly
Age nearer birthday	45 years
Sum assured –	Rs. 20,000

Double Accident benefit – Yes @ Rs 1/= per 1,000

Calculation : - Tabular premium for age 45,

Term 20 yrs is	Rs.52.19
Adjustment for Hly. Mode @ 1.5%	0.78
Balance	Rs. 51.41
Less adjustment for S.A. Rs. 20,000/-	Nil
	Rs. 51.41
Annual premium for Rs. 20,000 SA i.e. (Rs. 51.41 x 20)	Rs. 1028.20
Add extra for Double accident benefit which is Rs.1/- per thousand for Rs. 20,000	Rs. 20.00
Annual premium for Rs. 20,000 with DAB	Rs. 1,048.20
Half-yearly instalment premium	Rs. 524.10
Rounded upto the nearest rupee	Rs. 524.00

The rates of extra premium for the extra benefits like double accident benefit or premium waiver benefit are given in the manual or prospectus issued by the insurer. The extra for premium waiver benefit depends upon the age of the proposer and is to be waived in case of the death of the proposer either due to disease or accident. This is normally applied to an insurance proposal on the life of a child. Extra premium on account of health and occupation is decided by the underwriter and is mentioned in the underwriting decision.

Notes

These extra premiums are charged in order to take care of the extra mortality expected in this group of life on account of substandard health or hazardous occupation. Imposing a lien - constant or decreasing for a limited period of one year or six month is another way to deal with the perceived problem of extra mortality. During the lien period, the liability of the insurer is reduced.

In case of joint life plan, there are two lives with two different ages. In order to calculate premium, we need a mean age. There is a table provided in the manual to find the mean age, depending upon the difference in the two ages.

Sex extra is generally levied for those ladies who have not yet undergone a full time delivery and who are not expected to go to a qualified doctor at the time of delivery. Once this extra is paid, this risk of child birth is accepted. However such extra is not levied where the lady in question is educated and belongs to a well to do family and is therefore expected to have the delivery with the help of a qualified lady doctor.

Persons who are physically handicapped, such as blind by one eye, disabled due to polio etc. are denied the benefit of double accident benefit even if it is asked for.

However over the years, insurers have softened their stand, while considering proposals on the life of such physically and socially disadvantaged persons. This may not be an acceptable position strictly on medico actuarial considerations, but social considerations also have their impact. Since the sum assured in such cases is very small, these small deviations from strict actuarial consideration are acceptable.

4.1.11 Computation of extra premium

Mortality as explained above relates to the death rate of a very large group of people of different ages over a long period of time. These people are usually selected people, who are also called standard lives. A separate mortality study is done for people who are rated substandard. In other words these rated people suffer from some disease or other physical deformity because of which the expected mortality rate for these people would be higher than what is expected of standard lives.

This special study by actuarial method thus leads to an estimation of extra premium which shall adequately take care of the extra mortality in this substandard group. In view of

such study, extra premium is imposed on people suffering from diabetes or blood pressure etc. It is true that in view of the progress made in the medical science, these diseases are gradually not considered as dreadful as they used to be. Most insurers, therefore, keep on updating their experience relating to mortality of different groups and revise the rates of extra premium also.

4.1.12 Rider premiums

There are also extra premiums, for conferring extra benefits, to the insured. For example, a prospect wants to get double the sum assured, in case of a death due to accident. This benefit is allowed by charging an extra premium.

The insurers usually charge extra premium for riders attached to the policy. One can opt to take death benefit five or even ten times of the basic sum assured and may pay for such extra term rider benefit.

Suppose a Life Insurance Company is providing the following riders

- Term Cover
- Accident Death Benefit

The extra premium for Term cover rider is Rs.400 and the Accident benefit is Rs.300. The premium under the policy is Rs. Rs. 2,050. So the premium payable by the insured will be Rs. Rs. 2,050 + Rs. 300 + Rs. 400 = Rs. 2,750.

Thus the rider premiums are payable separately under the policy.

4.3 PREMIUM CALCULATION FOR ULIP POLICIES

In case of ULIP policies the premium is generally fixed in the multiples of say Rs.500 or Rs.1,000 with some minimum amount say Rs. 5,000 or Rs. 10,000. In case of ULIP policies premium may be paid as a single premium or as regular premium over a period of years.

The premium that insurers collect is subject to the deduction of following charges:-

1. **Mortality Charges** - This is the charge for insuring the life of policyholder. The charge depends upon the sum assured you have chosen.

2. **Fund Management Charges** – This is a fee charged for managing your investments
3. **Administration Charges** - This is the charge for handling paper work and other miscellaneous back office expenses.
4. **Switching Charges** – Charges for switching fund option.
5. **Riders Charges** - These are additional benefits which one can opt for, for a charge. Riders are not free. The charges increase based on the riders choosen.
6. **Surrender Charges** - This is the charge to surrender and close the policy prior to its maturity.
7. Premium Allocation Charge : **This is the charge deducted from each and every premium paid towards agent commission and other marketing and initial expenses.**

The charges are generally higher in the first year and get reduced over the term of the policy.

Now suppose a insurance company fixs Rs.10,000 as premium for a policy. From this premium deduction and allocation of units may be as follows:-

Sum Assured : Rs.50,000 – Regular Premium Policy for 5 years

Premium: Rs. 10,000

Charges Deducted :	
Mortality charges	Rs.180
Fund Management Charges:	Rs.750
Administration Charges:	Rs.1000
Riders Charges:	Rs. 500
Premium Allocation Charges:	Rs.2000
Total Charges	Rs.4430

Now the company deducts the charges of Rs. 4430 from the premium of Rs. 10,000 which comes to Rs.5570. The balance amount is used to purchase units of the fund which the policyholder chooses. Now say the policyholder wants to invest in growth Fund whose NAV is Rs.18.21 on a particular date.

The company will allocate 305.87 units to the policyholder (5570/18.21). This unit value will fluctuate and will depend on the performance of the stock market.

Usually since the payout for agents commission is higher in first year the allocation in units is less. It gradually increases. Say in next year the premium allocation charges are only Rs.250 then total cost comes to Rs.2680. The remaining Rs.7320 will be used to purchase the units for the policyholder.

INTEXT QUESTIONS 4.1

1. Define Level Premium, Office Premium, Net Premium, Rider Premium

4.2 BONUS

A bonus is usually an addition to the contractual benefits under a with-profit life assurance contract. It arises either because of explicit loading in the premiums or because a company's actual experience has been better than what it had assumed in pricing the contract.

All policies are not entitled to bonus, only with–profit–policies are entitled to bonus which is added to the sum assured every year. The rate of bonus addition depends upon the profit that the insurance company makes. For the benefit of participating in bonus the insurers resort to bonus loading which can be quite a substantial amount of the total premium.

The Insurance Act, 1938 stipulates that 90% of the surplus declared after the actuarial valuation has to be distributed amongst the with–profit policyholders.

4.2.1. Reversionary Bonus

Bonus added to the benefit of a with–profit policyholder throughout the life of the policy. The benefit is not guaranteed in advance, but once added to the benefit, it is guaranteed. A reversionary bonus is one which will increase benefits payable in the future. Regular bonus are normally reversionary. Insurers also sometimes declare special reversionary bonus.

4.2.2. Interim Bonus

Bonus is normally declared on a valuation date say for 31.3.2007 the valuation may be declared sometimes in October 2007. In case of policies which result into claim after 31.3.2007 but before the declaration of the bonus would not get the benefit of the bonus. Hence to resolve such situation companies declare interim bonus for policies which become claims during two valuation dates.

Notes

As any premium rate decided today, remains constant for the entire duration of the policy which can be upto 50 years or more, the insurer normally takes a very conservative outlook and provides for substantial reserves to take care of any adverse deviation from the originally assumed standard.

Terminal Bonus- This is a one time bonus declared by some companies for policies which have run for 15 years or more. In simpler words it can be said it is a loyalty bonus.

Bonus under ULIP Policies.

In case of Unit Linked Plans the policyholders get the fund accumulated in their account. The NAV of the fund multiplied by the number of units, the policyholder has, is known as Fund Value. In ULIP policies, the policyholders are not entitled to bonus. As in endowment policies these kind of policies are not entitled to bonus. However, the company may pay the policyholder a loyalty bonus at the end of the policy.

INTEXT QUESTIONS 4.2

1. Define Interim Bonus.
2. Define Reversionary Bonus.

4.3 SUMMARY

Premium is a consideration money for the benefit of a lump sum payment by the insurer on the happening of a specified event. The amount of premium is dependent upon age of the prospect, the policy conditions, the term etc. Premium is calculated separately in each case when a proposal is submitted. For extra benefits, extra premium is charged.

The basic premium is, however, decided on the basis of three factors - mortality, expenses and yield on investment. While mortality and expenses increase the premium, investment yield reduces the premium.

All life insurance companies charge level premium i.e. the same premium through out the duration of policy. This practice leads to the generation of some surplus in the initial period of the policy. Hence a portion of this surplus can be paid to a policyholder if he wants to surrender the policy before the maturity date.

4.4 OBJECTIVE TYPE QUESTIONS

1. Which one of the following statement is correct?
   a. The premium under a life insurance policy may be paid monthly
   b. The premium under a life insurance policy may be paid annually
   c. Both (a) and (b) statements are correct.
   d. Both (a) and (b) statements are wrong
2. Which one of the following statement is correct?
   a. The sum of all the premium paid will be more than the Sum Assured.
   b. The sum of all the premium paid will be less than the Sum Assured.
   c. Both (a) and (b) statements are wrong.
   d. Both (a) and (b) statements are correct.
3. Which one of the following statement is correct?
   a. The annual premium is equal to the SA divided by the term of the policy
   b. The annual premium increases as the term of the policy increases
   c. Both (a) and (b) statements are correct.
   d. Both (a) and (b) statements are wrong.
4. Premium depends upon?
   a. Age of the person to be insured.
   b. Family history of the person to be insured.
   c. Medical history of the person to be insured.
   d. All of the above.
5. Which one of the following statement is correct?
   a. The premium collected in the early years is less than what is required.
   b. The premium collected in the early years is more than what is required.

Notes

c. The premium collected in early years is exactly what is required.

d. All the above statements are correct.

6. The net premium will be

a. Less than the risk premium.

b. More than the risk premium.

c. Calculated by adding expenses to the risk premium.

d. More than the pure premium.

7. When interest rates fall, the tabular premium rates are likely to

a. Increase.

b. Decrease.

c. Remain the same.

8. The premium is loaded because of

a. Interest likely to be earned.

b. Likely expenses.

c. Likely claims.

d. Age of the insured person.

9. The policyholder is concerned with the

a. Office premium.

b. Pure premium.

c. Net premium.

d. Risk premium.

10. The reason for charging level premiums is

a. Risk increases as age increases.

b. It is convenient to the policyholder.

c. It is convenient to the insurer.

d. All the above reasons.

4.5 ANSWERS TO INTEXT QUESTIONS

4.1

1. Level premium means the same amount of premium is paid during term of the policy. It does not change with increase of expenses every year.
2. Office premium means the management expenses plus pure premium.
3. Net Premium means the risk premium.
4. Rider premium means additional premium to cover the extra risk.

4.2

1. Interim bonus means the bonus declared by the company between two valuation dates.
2. Reversionary Bonus means that the bonus will accrue but will be paid on the maturity or death of the policyholder.

4.6 ANSWERS TO OBJECTIVE TYPE QUESTIONS

1. c	2. c
3. d	4. d
5. c	6. a
7. a	8. b
9. a	10. d

Notes

5

POLICY CONDITIONS

5.0 INTRODUCTION

Life Insurance is a contract between two parties i.e. insurer and the insured. This contract is governed by certain rules and regulations which is must for an enforceable contract. In this lesson we shall discuss the various policy conditions that apply to contracts of life insurance. Policy conditions must be strictly adhered to. Here both parties must follow the principle of utmost good faith. The policy conditions apply at the time of taking the policy, continues during the duration of the cover and ends with the final settlement of claim under the policy. If the policy conditions are not followed either at the time of taking the policy or some material fact is not disclosed or some information is suppressed at the time of making a claim the insurance company may not honour the claim under the policy.

5.1 OBJECTIVE

After going through this lesson you will be able to

- To learn the various conditions applicable to life insurance contract
- Recall the procedures to be followed to adhere to the conditions.
- Understand the regulation in vogue.

5.2 POLICY CONDITIONS

5.1.1 Age proof and dating back

Age is the basis for determining premium. Lower age means less premium and higher age means higher premium.

Therefore, the proposer must submit reliable proof of age to the insurer at the time of the proposal itself. Normally the following age proofs are considered reliable :-

1. School & transfer certificate or its certified extract.
2. Certified extract from municipal record.
3. Certificate of Baptism or extract from family bible.
4. Extract from service of Govt. quasi-government or reputed public limited companies where age is recorded on the basis of some standard age proof.
5. Passport.
6. Identity Card of defence personnel.
7. Marriage certificate in case of Roman Catholics.

Extracts of the original certificate has to be signed by the proposer himself. As a general rule, in the plans where the risk element is high, standard proof is insisted upon and so also for children's insurance where without age proof, proposal cannot be completed.

5.1.2 Sub-standard age proofs

Substandard age proofs are service records where age is recorded by declaration, ESI cards, marriage certificate of Muslims, elder's declaration, self declaration etc. which are scarcely accepted and if and when accepted, the insurer restricts the plan and/or term, sum assured and may charge an extra premium to compensate for any probable understatement of age.

5.1.3 Dating back

The commencement of a policy can be dated back within the financial year to give the benefit of lower age. In dating back , the insurer has nothing to lose, for no risk can extend backwards, dating back of children deferred assurance sometimes becomes necessary so that the child attains majority on the date of vesting, i.e., when the child owns the policy. If the policy is dated back within 3 months, no interest is charged. So also dating back to lean months like April and May are allowed interest free. But in the plans which promise to pay high rate of guaranteed addition, interest may be charged on date backing at a high rate. However these details

Notes

depend upon each insurer and they may devise their own set of rules in this regard.

Sometimes proposals are accepted with an undertaking to submit proof of age at a later date.

5.3 DAYS OF GRACE

Premium is required to be paid on the due date but insurer allows a period of grace and if the payment is made within this period it will be considered as having been paid on the due date.

The days of grace are one month but not less than 30 days in all modes of payment except monthly where the days of grace are reduced to 15 days. During the days of grace, the policy remains in force and the claim is payable if the death occurs even if the due premium has not yet been paid. If the premium is not paid during the days of grace the policy lapses.

This grace period constitutes a privilege to the policyholder. The grace period may be allowed depending upon the discretion of the insurer.

5.4 REVIVAL OF DISCONTINUED OR LAPSED POLICIES

A policy lapses in the event of non-payment of the premium by the insured. Usually a lapsed policy can be revived within a period of 5 years. The amount of arrear premium along with the compounded interest over a period of 5 years becomes so exorbitant that it becomes financially preferable to go for a new policy instead of reviving the old policy.

If the period lapsed is within six months, the policy can be revived by payment of arrear premium with interest only.

After a period of six months, but within 5 years, the policy can be revived by payment of arrear premium with due interest with such other evidence of health and habits as required by the insurer.

The revival conditions may differ depending upon the policies of the insurers.

5.5 REVIVALS

A life insurance policy is a long term contract. The insured is obliged to continue to pay the instalment of premium on the

due date to keep the policy in force. There is a grace period for each mode of payment, say of 30 days for all modes except monthly mode where the grace period is reduced to 15 days.

If the due premium is not paid on the due date or even during the grace period, the policy is said to have lapsed. Lapse of a policy means cessation of coverage. However it is possible to revive the policy with total coverage within a certain period.

Revival of a policy means reviewing the policy *de novo* by the insurer. Every insurer will have its own rules in respect of revival of policy.

Revival is a renovation of a policy half-way. Supposing a policy is for 20 years and it has lapsed say after paying 10 years of premium, it is understandable that half the sum assured has already been paid for. Revival of this policy effectively means reviving the risk of only of balance 50% of the sum assured. This revived sum assured is always less than original sum assured and higher by the paid up sum assured. The paid up sum assured is arrived at by dividing the original sum assured by the term of the policy and multiplying it by the period for which the premium stands paid. Say the term of a policy is 20 years, the sum assured, Rs. 10,000 and 10 years premium have been paid, the paid up value is Rs. 10,000 x 10/20 = Rs. 5,000. Thus the sum assured to be revived is Rs. 5,000.

This sum to be revived is important, because being less than the original sum assured, the requirements for medical report etc. may be much less than what was required while taking the original policy. It is also true that age has increased in the meantime and, therefore, some requirements may be still needed.

To cite an example of procedure of revival of policies we shall discuss hereunder the schemes for revival offered by LIC taking into consideration the financial situation of the policyholders :

(1) Ordinary Revival Scheme

The arrear premiums are paid with interest along with other medical requirements, if any.

(2) Special Revival Scheme

It is meant for those policyholders who cannot pay all the

Notes

arrear premiums, but are interested to revive the policy. In this scheme, the date of commencement of the policy is shifted to the date of revival. A necessary condition for this revival is that the policy should not have lapsed for more than two years and it must not have acquired a paid up value.

However, as the date of commencement is advanced, it means a higher age and, therefore, the instalment premium is changed accordingly. The term normally remains the same and the maturity date shifts unless the maturity age goes beyond what is permissible under the plan. In that case, the term is reduced to keep the maturity age within the limit. This privilege of special revival can be allowed only once during the duration of the policy.

The procedure for revival is very simple. The insurer makes all the changes in the policy document by an endorsement. The policyholder however has to pay at least one instalment of premium to cover the risk upto next due date.

(3) Revival by paying arrear premium in instalment :-

This scheme is useful for those who cannot pay arrear premiums in one lump sum and who do not satisfy the basic condition of special revival scheme. For example the policy might have already acquired a paid up value. It is very much like ordinary revival scheme except that in this case, the arrear premium with interest is paid in instalments along with the current premium say-within two years. After having paid the increased premium for the stipulated period the instalment shall be reinstated to its original amount.

(4) Revival with loan Scheme

As is clear from the name this scheme involves two steps -one reviving the policy, two granting a loan. Loan is calculated assuming that the premium has been paid upto the date of revival and thereafter this amount is adjusted towards the arrear premium. However, if this loan amount falls short of the required arrear premium with interest, the balance is payable by the policyholder. Thus while the policy gets revived, it gets loaded with a loan which needs to be repaid with interest or else this is deductible from the claim as and when it arises.

(5) Survival cum Revival :-

As it is known from its name, if the policyholder has taken a

money back policy and it has lapsed, LIC would revive the policy from the money which was due to the policyholder as survival benefit.

INTEXT QUESTIONS 5.1

1. What is Revival.?

2. Till what period policy can be revived?

5.6 NON-FORFEITURE REGULATION

If the premium has been paid for a minimum period of 3 years and subsequent premium is not paid, the policy does not become totally void. It becomes paid up to a reduced sum assured. This reduction in sum assured is in proportion to the actual period for which premium has been paid compared to the total period for which the premium was payable.

Some insurance companies have a system called automatic premium loan option. If this option is accepted the policy does not get automatically paid up on stoppage of payment of premium. The policy is kept in force by an automatic withdrawal of premium money out of the surrender value of the policy and the outstanding premium gets paid as long the surrender value lasts. As this withdrawal is treated as a loan with interest, in course of time, the loan and interest totally exhausts the present value of the policy and the policy value becomes zero. However this policy can be revived in the meantime.

Another option used by companies to exercise the non–forfeiture clause is the extended term insurance where a term insurance policy is issued against a single payment equivalent to the surrender value for the initial sum insured.

5.7 HAZARDOUS OCCUPATION

As to occupation it is worth noting that though insurer charges extra premium, if the proposer is engaged in hazardous occupation and removes such extra premium, if such occupation is given up, it does not charge any extra premium to such policyholders who after having taken the insurance takes up a hazardous job. In fact, no policyholder is required to keep the insurer informed of the change in occupation during the continuance of any insurance policy.

Notes

INTEXT QUESTIONS 5.2

1. What are the ideal age proofs?
2. What do you mean by substandard age proof?
3. What is the usual grace period?

5.8 NOMINATION AND ASSIGNMENT

Nomination

Transfer of property through nomination without the hassle of any other transfer deed, is an important special privilege given to the policyholder under Sec.39 of the Insurance Act. The owner of the policy, when taking an insurance on his life, can nominate a beneficiary to whom the claim amount is payable by the insurer in case the insured is no more. Payment to the nominee as named in the proposal and incorporated in the policy document is a sufficient and valid discharge for the insurer.

It is true that nominee should be a close relative who has an insurable interest in the insured person. In other words, he should stand to gain in his existence and harmed by his death. If a nominee is a person other than a close relative with insurable interest, the insurer may ask for clarification and may refuse to accept the risk, as the moral hazard is suspected in such a case. Of course, it is possible to nominate a charitable institution of one's liking.

Besides the relation between a husband and a wife, insurable interest is not presumed to exist, unless specifically explained. Thus while nomination is a special privilege, it needs to be exercised wisely. Nomination can be changed during the duration of the policy by a specific endorsement on the policy document. It generally becomes necessary if the life insured is not married while taking the policy and, therefore, may nominate his/her parents. After marriage nomination can be changed in favour of the spouse by making a special application.

It shall be clear that in case insurance policy is taken on the life of another person, say a child, nomination is not required immediately, for the proposers can claim the money on the death of the minor life assured. However, after the child attains

majority, he owns the policy and therefore, he has a right to make a nomination.

When life insurance is taken under Married Women's Property Act 1874 no nomination is required. However in the special addendum, the name of the beneficiary along with the name of the Trustees is mentioned. Similarly in a joint life plan a nominee is not required, as the survivor is entitled to the policy money.

The nominee should be a major, because he alone can give a valid discharge to the insurer on receiving the claim money. If, however, the nominee is a minor, an appointee, who must be a major and a close confident, should be appointed to receive the money on behalf of the child and he should hold this money in trust for the benefit of the ultimate beneficiary. Signature of the appointee is obtained in the proposal form as a proof of his consent.

We shall discuss assignment here and also discuss how assignment is different from nomination.

Life insurance is a property and like any other property it can be transferred, mortgaged or dealt with in any other manner. Assignment is a method by which the owner can transfer the ownership of the property to anybody else for valuable consideration or natural love and affection. Sec 38 of the Insurance Act 1938 provides the rule and conditions for assignment of an insurance policy.

A policy can be transferred by an endorsement on the policy or by a separate deed. A written notice should be given to the insurer about the assignment so that the insurer is aware of the assignment and makes the payment to the assignee as and when any payment becomes due. In the absence of such a notice, the insurer can not be held responsible if it has made the payment to the insured or his nominee. However, if at any time before the actual payment, the fact of assignment comes to the notice of the insurer, he cannot ignore the assignment.

Assignment is a complete transfer of ownership of the policy to the assignee who now acquires the right to dispose off the policy in any manner he likes including surrendering the policy. The assignee must be a major and must not be disqualified by law. There must be a consideration for

Notes

assignment, e.g., taking a loan. Assignment for love and affection is also considered valid. Assignment should not be against law, e.g. against foreign exchange regulations. Assignment must be in writing, properly signed and witnessed.

Assignment can be conditional with the condition that the policy ownership shall revert to the assured, in case he survives till maturity. A policy can be assigned to a charitable institution and such assignment can be either absolute or conditional.

Assignment once done cannot be cancelled by the assignor. The position can be retrieved only by a re–assignment by the assignee on the policy or on a stamped paper.

Thus nomination and assignments are two simple methods provided by the Insurance Act to deal with the property i.e. Life insurance policy, without going through the hassles of succession certificate and other formalities through court of law.

Let us now consider the points that differentiate a nomination from an assignment.

Nomination

1) Nomination can be done at the time of the proposal
2) Nomination can be done only by an endorsement on the policy — not by a separate deed.
3) Life assured alone can nominate.
4) Nomination does not take away the ownership and therefore, life assured can change the nomination any time he likes.
5) Nomination does not need a consideration.
6) Nomination need not be witnessed.
7) Nomination has to be notified to the insurer so that the nominee's interest is protected.
8) Nominee has no right to the policy money so long the life assured is alive.
9) On the death of the nominee, nomination becomes invalid.
10) A nominee merely receives the money on behalf of the beneficiaries. He does not own it.
11) The creditor can get the policy attached.

12) Nomination is automatically cancelled by a subsequent assignment.

Assignment

1) Assignment is not possible at the time of proposal, as he has not yet acquired any property which can be transferred.
2) Assignment is possible both by endorsement or a separate deed.
3) Assignment is possible by the owner who can be an assignee also.
4) Assignment cannot be cancelled without the assignees consent.
5) Assignment has to be for a consideration unless it is for love and affection.
6) Assignment must be witnessed.
7) Notice of assignment is required so that the latter assignee gets a priority over the earlier assignee.
8) The assignee is the owner of the policy and can give a valid discharge to the insurer even if the assured is alive.
9) On the death of the assignee, his successors inherit the right to the policy.
10) The assignee is the owner of the property which is the insurance policy.
11) A creditor of the life assured has no right to an assigned policy.
12) An assignee can further assign the policy.

5.9 PROHIBITION OF REBATE

Section 41 of the Insurance Act, 1938 states:

1) No person shall allow or offer to allow, either directly or indirectly, as an inducement to any person to take out or renew or continue an insurance in respect of any kind of risk relating to lives or property in India, any rebate of the whole or part of the commission payable or any rebate of the premium shown on the policy, nor shall any person taking out or renewing or continuing a policy accept any rebate, except such rebate as may be allowed in accordance with the published prospectuses or tables of the insurer.

Notes

2) Any person making default in complying with the provisions of this section shall be punishable with a fine which may extend to five hundred rupees.

Section 45 of the Insurance Act: No policy of life insurance effected before the commencement of this Act shall after the expiry of two years from the date of commencement of this Act and no policy of life insurance effected after the coming into force of this Act shall after the expiry of two years from the date on which it was effected, be called in question by an insurer on the ground that a statement made in the proposal for insurance or in any report of a medical officer, or referee, or friend of the insured, or in any other document leading to the issue of the policy, was inaccurate or false, unless the insurer shows that such statement was on a material matter or suppressed facts which it was material to disclose and that it was fraudulently made by the policyholder and that the policyholder knew at the time of making it that the statement was false or that it suppressed facts which it was material to disclose.

5.10 PAID UP VALUE & SURRENDER VALUE

When a policyholder due to any reason stops payment of future premium during the term of the policy he certainly loses the cover of life risk for the future. But what happens to the money he has already paid?

Paid up Value

If the premium has been paid for 3 full years, this money as per the terms and conditions of the policy does not get forfeited. The policy is said to get automatically "paid up". **Paid up** is a technical expression of a position where the money paid is not forfeited. This is the amount which is to be paid on the maturity of the policy or earlier death of the policyholder. This amount is a reduced sum assured exactly in proportion to the term for which premium is paid compared to the term for which premium was payable.

Say for example this policy was for a sum assured of Rupees one lakh for a term of 20 years. If the premium payment has been stopped after payment of 10 years' of premium the paid up value is equal to Rs. 1 lakh x 10 : 20 = Rs. 50,000. If the premium is paid for 5 years, the paid up value is Rs. 1 lakh x 5 : 20 = Rs. 25,000. This money along with the accrued bonus

is payable only on maturity or death, if earlier. If it is with-profit policy, the bonus which has already accrued during the period when the policy was in force remains attached to it and is paid along with the paid- up value. However a policy is not entitled to any bonus after it gets paid up.

Now if the policyholder wants to get out of the contract altogether and wants the refund of the total money, he is not clearly entitled to the total money. A lot of it has already been used to pay the death claim to the people who have died in the meantime. The initial expense incurred by the insurer was quite heavy and while computing the premium, the provision for expense was spread over the entire period of the policy.

All these have to be recovered out of the deposited premium. The bonus declared is payable only on death or maturity and is technically called 'Reversionary Bonus'. Therefore, only the present value of this bonus is now payable.

Surrender Value

The value which is now payable on cancellation of the policy contract is called the Surrender Value. This is much less than the paid up value for the reasons as explained above.

The surrender value is payable provided the policy has acquired a paid up value and the policy acquires a paid up value only if a minimum of three years premium has been paid. This limit of three years has been kept because the initial huge expenses incurred for the procurement of policy and after paying for the deaths, do not leave much to be paid, before three years.

Guaranteed surrender value

The Insurance Act, 1938 provides for a guaranteed surrender value. The guaranteed surrender value has been defined as follows - If the policy premium has been paid for three years, the minimum surrender value allowable under this policy is equal to 30 percent of the total amount of premium paid excluding the premium for the first year and also additional premium for accident benefit etc. The cash value of any existing vested bonus addition will also be allowed.

Though this is the guaranteed amount payable as surrender value as per the Insurance Act 1938 what is actually paid is the special surrender value which is arrived at by multiplying

Notes

the paid up value by the surrender value factor. The surrender value factor is a schedule of factors or ratios, which is dependent upon the duration of the period elapsed between the date of commencement and the date of payment of surrender value. The larger the period elapsed, larger is the factor. This factor is multiplied with the paid up value amount to arrive at the special surrender value factor.

The special surrender value is more than the guaranteed surrender value.

5.11 COMPUTATION OF PAID-UP VALUE & SURRENDER VALUE

We will explain this with an example :

Sum assured	-	Rs.75,000/-
Plan	-	Endowment with–profits
Term	-	15 years
Date of commencement	-	28.11.1978
Mode	-	Yearly
Due date of last premium paid	-	28.11.84

Date of calculation of surrender value - 1.10.84.

Calculation :

Term of the policy - 'x'	=	15 years
Sum assured	=	Rs.75000
Number of premiums paid - 't'	=	28.11.1984 28.11.1978 0.0. 6 years and add 1 advance premium
Total number of premiums paid	=	7

Paid up value $= \frac{Rs.75,000 \times 7}{15} = Rs.35,000$

Vested bonus against the policy for the six years on the sum assured of Rs. 75,000 is equal to Rs.11,160/-.

Thus the total paid up value is Rs.35000 + Rs.11160 = Rs.46160/-

This paid up value is payable only on maturity or death of the policyholder, if earlier.

The special surrender value is wanted on	1.10.1984
Therefore the duration which has lapsed on	01.10.1984
	(-) 28.11.1978
	03.10.2005

The surrender value factor as per the special surrender value chart published for duration 5 year and term 15 years is 58%.

Therefore the surrender value

$$= \frac{Rs.\,46{,}160 \times 50}{100} = \text{Rs.}26772.80$$

Thus irrespective of the amount of premium paid by the policyholder, the paid up value is decided by the duration for which premium has been paid compared to the term for which premium was payable. And the surrender value factor is determined by the duration which has lapsed from the date of commencement to the date on which the surrender value payment is demanded compared to the original term of the policy taken by him.

5.12 LOAN UNDER POLICY

Loan is a privilege which is allowed provided it is mentioned in the policy conditions. Generally loan is permissible in all savings oriented polices like endowment plans. But in such plans, where survival benefit is paid during the duration of the policy benefit of loan payment is not permitted as the reserve is depleted due to these payments. That is why in money back plans, loan benefit is not permitted.

Loan amount is generally 90% of the surrender value. This percentage increases gradually during the last 3 years of the policy duration. In case the policy has been paid up, only 85% of the surrender value is available for loan.

Now consider the position where a policy had been made paid up i.e. no more premium is being paid. Now the policyholder has taken a loan against this paid up policy or the policy has been made paid up subsequent to the taking of the loan. Loan carries the obligation to pay interest at a certain rate. It is,

Notes

therefore, quite likely that this loan amount due to the addition of interest amount which is not being paid over a period of time shall overtake the admissible surrender value particularly because no more premium is being paid against this policy.

Under such a condition, the policy is surrendered to loan. The policyholder has been granted a loan and he is neither paying the premium nor the interest against the loan. The liability against loan has become more than the surrender value. The insurer therefore, takes what is called "fore closure action". Before taking a fore—closure action, the policyholder is notified to the effect that if he does not pay the outstanding interest on or before a specific date, the policy would be written off and the surrender value of the policy shall be adjusted against the loan and the outstanding interest and the balance, if any, shall be paid. However, if the policyholder pays the outstanding interest, the fore closure action can be avoided.

5.13 CLAIM CONCESSION

In death cases where the policyholders expire after continuously paying premium for 3 years the insurance company makes payment of full sum assured, subject to the deduction of unpaid premiums with interest till the date of death and unpaid premiums falling due before the next anniversary of the policy within a period of six months or one year from the date of the first unpaid premium.

For example Mr Santosh took a life insurance policy for Rs.1 lakh on 1.1.2005. After making payment for 3 years he died on 4.3.2008. His premium was due in February. Here Insurance company makes him the payment of Rs. 98500 after deducting the premium amount due from Mr Santosh. The premium was Rs. 1500.

INTEXT QUESTIONS 5.3

1. What is a paid up policy?
2. Define Surrender Value.

5.14 SUMMARY

Age is the basis for determining premium. Lower age means less premium and higher age means higher premium, everything else, like table being the same. Therefore, the

proposer must submit reliable proof of age to the insurer at the time of the proposal itself.

The days of grace are are one month but not less than 30 days in all modes of payment except monthly where the days of grace are reduced to 15 days. During the days of grace, the policy remains in force and the claim is payable if the death occurs and the due premium has not yet been paid

Revival is a need whenever the policy has lapsed for non-payment of premium. The process of revival is kept easy subject to necessary caution.

Assignment is a procedure to transfer the ownership of the policy, which is a property, to another for a consideration. It is free of normal hassles usual to transfer of property.

The value which is now payable in cancellation of the policy contract is called the Surrender Value.

Loan can be taken against some life insurance Policies. Policyholder may make the interest payment to the insurer and if he wishes the loan and interest gets deducted from the final benefit payable to him.

5.15 TERMINAL QUESTIONS

1. List the various documents accepted as valid age proofs.
2. What is the procedure of dating back of policies?
3. What are the rules regarding revival of a policy?
4. What is the difference between Nomination and Assignment?
5. Differentiate between paid up and surrender value.
6. What is the procedure for taking loan under a policy?

5.16 OBJECTIVE TYPE QUESTIONS

1. Which one of the following statement is correct?
   a. Age is material information and may affect the terms of underwriting.
   b. If age is found to be different, the only effect is on the premium rate.
   c. Both the above statements are correct.

Notes

d. Both the above statement are wrong.

2. Age is material for underwriting because it affects?

   a. The amount of premium.

   b. The decision to call for medical examinations and tests.

   c. The plan that can be offered.

   d. All the three factors above.

3. Which one of the following statement is correct?

   a. Age is important for the underwriting to consider the need for medical tests.

   b. Age is material to decide on the plan that can be offered.

   c. Both (a) and (b) statements are wrong.

   d. Both (a) and (b) statements are correct.

4. Which one of the following statement is correct?

   a. In the case of SSS policies, the grace period is one month.

   b. If the due date is 27th February the grace period ends on 26th March.

   c. Both (a) and (b) statements are correct.

   d. Both (a) and (b) statements are wrong.

5. The premium was due on 15th July and 16th August is a Sunday?

   a. The grace period will end on 14th August (Friday).

   b. The grace period will end on 15th August (Saturday).

   c. The grace period will end on 17th August (Monday).

   d. The grace period will end as per the discretion of the insurer.

6. The monthly premium was due on 24th February in a leap year (Tuesday).

   a. The grace period will end on 9th March (Tuesday).

   b. The grace period will end on 10th March (Wednesday).

   c. The grace period will end on 11th March (Thursday).

   d. The grace period will end on 24th March (Wednesday).

7. Which one of the following statement is correct?
   a. If death occurs in grace period, the premium due is waived.
   b. The date of payment of premium is the date on which the cheque is cleared.
   c. Both (a) and (b) statements are correct.
   d. Both (a) and (b) statement are wrong.
8. Which one of the following statement is correct?
   a. Premium have to be paid by cash or cheque.
   b. Premium can be paid electronically.
   c. Both (a) and (b) statements are correct.
   d. Both (a) and (b) statements are wrong.
9. Which one of the following statement is correct?
   a. A premium paid within the grace period is payment made on the due date.
   b. A policy is not considered to have lapsed during the days of grace.
   c. Both (a) and (b) statements are correct.
   d. Both (a) and (b) statements are wrong.
10. Which one of the following statement is correct?
   a. When a policy lapses, the policyholder loses everything.
   b. When a policy lapses, some benefits are protected.
   c. Both (a) and (b) statements are correct.
   d. Both (a) and (b) statements are wrong.

5.17 ANSWERS TO INTEXT QUESTIONS

5.1

1. Revival means the renew of lapse policy which has been lapsed due to non-payment of premium.
2. With in 5 years the policy can be revived.

5.2

1. Ideal age proof means the proof which is acceptable by the insurer.

2. Substandard age proofs are service records where age is recorded by declaration, ESI cards, marriage certificate of Muslims, elder's declaration, self declaration etc which are scarcely accepted and if and when accepted, the insurer restricts the plan and/or term, sum assured and may charge an extra premium to compensate for any probable understatement of age.

3. It depends upon the mode of payment and varies from 15 days to 30 days

5.3

1. **Paid up** is a technical expression of a position where the money paid under the policy is not forfeited.

2. The immediate payment of paid up value is known as surrender value.

5.18 ANSWERS TO OBJECTIVE TYPE QUESTIONS

1. a	2. a
3. d	4. d
5. c	6. b
7. d	8. c
9. c.	10. b

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6

GROUP INSURANCE

6.0 INTRODUCTION

The life insurance policy can be issued to individual as well as to groups. We have already discussed the various plans available for individuals in lesson 1 under life insurance products. Group insurance follows certain norms for issue of policies to a similar group of people. Under group insurance policy a large number of people are covered under a single policy. These types of policies are generally taken by companies for their employees or clubs for their members and so on.

6.1 OBJECTIVES

After going through this lesson you will be able to

- Understand the meaning of Group Insurance
- Recall the types of Group Insurance Policies
- List out the special features of each policy

6.2 GROUP INSURANCE VS. INDIVIDUAL INSURANCE

Individual insurance is a contract between the individual and the insurance company, called the insurer. The decision to insure is voluntary and the terms on which the insurance age cover is granted, depend upon the appraisal of risk in respect of the individual by the insurer.

Group insurance, on the other hand, is one contract covering a group of lives. The terms of the contract of insurance cover depend upon the characteristics of the group as a whole.

A master policy is issued as evidence of contract between the insurance company and another legal entity, which may be

Notes

an employer, trustees, or an association. The master policy defines the group of lives to be covered, benefit it confers, the amount of contribution to be paid and other conditions and privileges of the participating group members.

It is a group selection process and not a selection of individual life. It is recognized that every group will contain some proportion of substandard lives but group underwriting assumes that the insurer is able to reasonably assess the overall risk from the general nature of the group. The group is supposed to be homogeneous and contain sufficient numbers so that the number of claims by death can be reasonably estimated on the basis of the average.

The amount of cover is determined on the basis of a formula and is not decided by individuals forming the groups. Insurance on the lives of all members upto a limit called "Free Cover limit" is granted on the basis of simple rules of insurability. 'Simple rules of insurability' means not being absent from duty on ground of sickness on the date of effecting insurance. Free cover limit does not mean free of insurance premium. It is free to the extent that no evidence of health is called for.

As a result of mass administration and simple underwriting practice it becomes a low cost insurance cover for a group. However, the premium rates are adjusted periodically on the basis of experience. This is called "Experience Rating". For medium and big sized groups, sharing of profits on the basis of actual experience is a normal feature. If surplus is generated over a period of years after taking into account the premium collected and the benefit conferred, the rate of premium can be reduced in the future years. If on the other hand it results in continuous loss, the premium is rated up.

6.3 CHARACTERISTICS OF A 'GROUP': -

(i) It should be homogeneous by nature of occupation. Therefore members of a social club, a political party or religious establishment cannot constitute a group for insurance purpose.

(ii) Insurance must be incidental i.e, the group must not be formed mainly for the purpose of obtaining insurance.

(iii) The group must have a single central administrative machinery to act on behalf of all members.

(iv) The group should be such that there is a steady stream of new entrants from year to year, so that the group is not stagnant and is not likely to lapse as a result of depletion of members. This requirement also ensures that over a period of time, the average age of the group does not become so high as to render it completely uninsurable.

(v) Another important requirement is that a large proportion of the eligible members of the group should join the group scheme. This would insure that no adverse selection is exercised against the insurance company and the proportion of impaired lives is not unduly high.

(vi) A minimum size of the group is generally prescribed.

6.4 DIFFERENT TYPES OF GROUPS:

6.4.1 Employer-Employee Group :-

In this case the employer takes out the master policy for the benefit of its employees and a trust is formed normally to administer the scheme. At times the employer takes such group insurance to meet the statutory need. The examples are Employee's Gratuity Benefits, Employees Deposit Linked Insurance Schemes.

The scheme can be contributory or non-contributory or jointly contributed by the employer and employees. In the scheme, where the employees do not contribute and the employer bears the total cost, all eligible employees must join the scheme. If however, the scheme is contributory i.e. either employees alone or jointly with the employer finance the scheme, a high level of participation of the eligible employees at commencement and compulsory participation of all new employees, thereafter, is essential.

6.4.2 Creditor - Debtor group :-

The master policy is taken out by the creditors to cover the outstanding amount of loans granted to the debtors. In case of the death of a debtor, the claim amount would be applied towards repayment of loan outstanding in his/her name. Here the creditor may be an employer, an organization giving housing loans, a cooperative credit society, a credit card company etc.

Notes

6.4.3 Professional group :-

These may be association of professionals like doctors, lawyers, accountants, engineers, journalists, pilots, insurance agents etc.

6.4.4 Other groups :-

There may be other forms of groups which may be considered eligible for group insurance, i.e. cooperative societies, welfare funds, members of resident society, bank depositors etc. The group should have a reliable identity and should have been formed for some purpose other than group insurance.

Now a days, many nodal agencies, such as central and state government departments and welfare organizations are being allowed to take group insurance schemes covering some specific groups of weaker sections of the society. Examples of such schemes are the Landless Agricultural Labourers Group Insurance Scheme (LALGI) implemented through the state governments, IRDP Loaner's Group Insurance Scheme implemented through District Rural Development Agencies (DRDAs), milk producers group Insurance scheme, implemented through milk cooperatives etc.

INTEXT QUESTIONS 6.1

1. Define a Group.
2. List Different types of group.

6.5 GROUP GRATUITY SCHEME

Provision of the Gratuity Act, 1972, as amended from time to time

The provisions of Gratuity Act, 1972 makes it obligatory on the part of the Employer employing ten or more persons to pay gratuity to an employee on the termination of his employment after he has rendered continuous service for not less than five years @ 15/26 days wages for every completed year of service or part thereof over 6 months subject to maximum of Rs.3,50,000/- :

a) On his superannuation

b) On his retirement or resignation or

c) On his death or disablement due to accident or disease (completion of 5 years however is not necessary in case of death or disablement)

6.5.1 Need for funding gratuity liability

The gratuity whether payable in terms of the Gratuity Act or as per the service rules of the employer if he offers better benefits, is an increasing liability not only on account of increase in number of years of service put in by the employee but also on account of increase in salary and amendments to the statute. As such business acumen and sound accounting principles desire that the liability should be funded in the year in which it arises, by setting aside adequate funds under an approved Trust Fund. The Group Gratuity Scheme being marketed by Insurers has been approved under Part C of the fourth Schedule of the Income Tax Act, 1961, to assist the employer to fund the gratuity liability with the following distinct advantages:

6.5.2 Benefits to the employer

(i) Tax Benefits: 100% payments made to insurer are treated as management expenses under section 36 (ii) (v) of the Income Tax Act, 1961. Further the yield available on the contribution is not taxable under section 10 (25) (iv) of the Income Tax Act, 1961.

(ii) Statutory liability is booked year to year thus reflecting the true picture of the Profit and Loss of the Organisation.

(iii) Gratuity payment can be made without affecting the business finances.

(iv) High yield depending on the size of the fund.

(v) The Actuarial valuation to assess the gratuity liability is made free of cost.

6.5.3 Benefits to the employees

(i) Gratuity payments are secured.

(ii) In case of death of an employee, insurer pays enhanced gratuity, i.e. a gratuity an employee would have earned on his retirement based on his last drawn salary.

6.6 GROUP SUPERANNUATION SCHEME

Progressive entrepreneurs have come to acknowledge that key

Notes

men who are pillars of any organisation, have vast avenues open to them, particularly in todays context of liberalised Indian economy. In order to retain his keymen and to attract better talent, the employer offers competitive remuneration and perks, and value additions in the form of Insurers Group Superannuation Schemes.

6.6.1 Need for superannuation scheme

To provide regular income to an employee after retirement. With continuous improvement in longevity the economic problem of old age is now as serious as the calamity of premature death. Retirement benefits received in lump sum are frittered away and not invested prudently, as a result the post retirement life without financial security and regular income may become an unbearable burden.

6.6.2 Who pays contribution

Either the employer (upto 27% of wages including contribution to P.F.) or both employer and employee.

6.6.3 Pension Schemes are basically of two types :

(i) Benefit purchase (Defined Benefit) Scheme, where the amount of pension and other benefits are defined in the Rules of the scheme and the contribution required to finance the benefits are determined after actuarial valuation.

(ii) Money purchase (Defined Contribution) Scheme, where the contribution rates or amounts in respect of the members are defined in the Rules of the scheme. Ultimate benefits will depend upon accumulation of the contribution actually made from time to time.

6.6.4 Benefits to the employer

- ❖ Retain key personnel.
- ❖ Attract better talent for organisational growth.
- ❖ Extend tax free perquisites to employees and win their loyalty and boost their morale.
- ❖ Employers get 100% tax benefits on contributions to superannuation fund.
- ❖ High Return on contribution.

6.6.5 Benefits to the employees:

- ❖ Regular income after retirement with a variety of options to suit individual need.
- ❖ Tax free compulsory savings.
- ❖ Tax rebate under section 80C if contribution made by employee.

6.6.6 Pension options to suit individual need

- ❖ Pension payable for guaranteed period 5, 10 or 15 years and there after for life.
- ❖ Pension payable for life (with or without return of capital).
- ❖ Joint Life Pension (with or without return of capital).

6.6.7. Other option

- ❖ Commutation of Pension (1/3 if entitled to Gratuity, 1/2 otherwise)
- ❖ On leaving service, immediate pension if eligible as per policy rules.
- ❖ Deferred pension if desired.
- ❖ Transfer of Equitable interest as per rules

6.6.8 Subsidiary benefits (Optional)

CATEGORY/

DESIGNATION	**MAXIMUM INSURANCE COVER**		
GROUP SIZE	**25-99**	**100-499**	**500+above**
A Sr.Executives	1,75,000	2,50,000	3,50,000
B Middle Management	1,25,000	2,00,000	2,50,000
C Clerical/Supervisor	80,000	1,25,000	1,75,000
D Sub Staff	40,000	60,000	80,000

Risk cover Group Insurance Scheme in conjunction with Superannuation Scheme can be offered if group size is 10 or more. The insurance cover relates to 2 months salary for each year of future service subject to a maximum of upto Rs.3 Lacs depending on the size of the Group.

6.7 GROUP SAVINGS LINKED INSURANCE SCHEME

The Central and State Governments had formulated an

Notes

insurance-cum-savings scheme nomenclature. Group Insurance Scheme for the benefit of Central & State Government employees. However the employees of Public Sector, Quasi Govt. Undertakings, Universities, autonomous bodies such as Municipalities, Zilla Parishads etc. were not covered under the Govt. Scheme.

The Life Insurance Corporation of India designed the Group Saving Linked Insurance Scheme for the above sectors as detailed below:-

6.7.1 Objectives of the scheme

- To provide low cost-life insurance.
- Inculcate saving habits so that nominal amount compulsorily set aside during the service period grows into a sizeable fund of savings and accrued interest compounding yearly, which on retirement acts as a cushion for financial security.
- In the event of untimely death during service period, the insurance amount with accumulated saving assist the bereaved family to tide over the financial crisis.

6.7.2 Insurance cover

Depends on designation and size of group as under:

6.7.3 Premium

It is decided on the basis of group size and the occupation of the group.Premium has two components i.e. Risk Premium and Savings Premium.Risk Premium is utilized to offer life cover and the Savings Premium is accumulated in members account.

6.7.4 Tax benefit

Total monthly contribution entitled to Income Tax rebate under Section 80C.

Receipts of saving accumulation/insurance amount are tax free.

6.7.5 Benefits

In case of resignation/retirement: The accumulated savings with interest @ 11% compounding yearly will be paid.

In case of unfortunate death during the service: The insurance amount together with accumulated savings and interest will be paid to the beneficiary.

6.7.7. Other conditions:

Membership: 75% of total staff strength or minimum 25 whichever is more.

Insurability condition : Not absent from duty on grounds of medical/ sick leave at the time of introduction of the scheme.

Payment of premium: Monthly contribution to be deducted from salary and remitted by the employer.

6.7.8 Accident benefit:

Double accident benefit can be allowed to the extent of the SA for an extra premium @Rs.0.75 per thousand SA per annum. Double Accident cover under all group schemes taken together should not exceed Rs.1.5 Lacs.

6.8 GROUP INSURANCE SCHEME IN LIEU OF EDLI

All employers to whom the Employees' Provident Fund and Misc. Provision Act 1952 applies have a statutory liability to provide Life Insurance benefit to all their employees by subscribing to Employees Deposit Linked Insurance (EDLI) Scheme. Under the scheme as amended with effect from 24th June,2000 the insurance benefit is equal to the average balance to the credit of the deceased employee in the Provident Fund during the last 12 months, provided that where such balance exceeds Rs.35,000, insurance cover would be equal to Rs.35,000 plus 25% of the amount in excess of Rs.35,000 subject to a maximum of Rs.60,000. Thus if the length of service is not adequate and/ or the salary is low the average balance may be substantially low and the benefit to the employee's family is either inadequate or non-existent.

The contribution @ 0.51% of each employee's salary is payable by the Employer to the Provident Fund Authorities.

6.8.1 Comparison of EDLI scheme of P.F. with group insurance scheme of LIC

In EDLI Scheme of P.F. each employee is covered for an amount equivalent to average balance in P.F. account during the preceding 12 months and the maximum cover of Rs.35,000/- is given if average balance in P.F. A/c is Rs.65,000/- or more.

In Group Insurance Scheme of LIC, each employee is insured for a minimum sum assured of Rs.11,000/- to Rs.37,000/- depending upon the current salary and service put in from day one irrespective of the balance in P.F. account.

6.8.2 Cost of premium

The cost is always more in EDLI Scheme of P.F. because it is linked to the wage bill and any increase in wage bill will lead to increase in premium. Cost borne by the employer may not be useful to the employees due to meagre balance in their P.F. account.

Under LIC's Group Insurance Scheme, the cost is always less since it is not linked with wage bill, but depends on age of the employees covered under the scheme, and the insurance cover.

6.8.3 Double Accident Benefit

There is no provision for any Double Accident Benefit under the EDLI Scheme of P.F. Department. Whereas under LIC's Group Insurance Scheme Double Accident Benefit can be availed by paying additional premium of 0.75 paise per thousand sum assured. In this case double the sum assured will be paid in case of accidental death.

6.8.4 Claim settlement

Under LIC's Group Insurance Scheme the claim settlement is simple and prompt and is settled on the strength of death certificate duly forwarded by the employer confirming the death but this is not so in P.F. Scheme, since the payment depends on the reconciliation of all the accounts of the members and hence the delay.

6.9 GROUP INSURANCE SCHEME

Group Insurance Schemes are generally term insurance schemes renewable every year and are offered to homogenous and identifiable groups at a very low cost. Progressive employers use it as tool to retain experienced and trained staff and executives in their employment thus reducing the turn over. Group Insurance Scheme provides tax benefits both to the employer and the employees.

The object of various Group Insurance Schemes is to provide for a fixed sum assured on death of a member covered under

the scheme and is offered under One Year Renewable Term Assurance Plan.

6.9.1 Premium chargeable:

Group (Term) Insurance Scheme is at present offered under One Year Renewable Group Term Assurance Plan (OYRGTA). Every year on Annual Renewal date the premium is charged depending upon the changes in size and age distribution of the age group.

6.9.2 Different Schemes:

Group (term) Insurance Scheme has a number of varieties . The Scheme may provide for a uniform cover to all members of the group or graded covers for different categories of members, cover for all amounts of outstanding housing loans or vehicle advances, or some other benefits (e.g., life cover to supplement pension or PF benefits in case of death). The schemes may have add-ons like Double Accident Benefit, Critical Illness Benefit, Disability Benefit etc.

6.9.3 General features of various Group Insurance Schemes:

1. **Premium:** The premium under such scheme may be wholly paid by the employer or the Nodal Agency. However, the scheme may be contributory i.e. the members may also contribute.
2. **Double Accident Benefit:** Double Accident Benefit, i.e. payment of double the sum assured on death due to accident (without permanent disability benefit), may be allowed under Group Insurance Schemes for an extra premium.
3. **Eligibility :** For Group Insurance Scheme in lieu of EDLIS the insurability condition is that the employee should be a member of the Provident Fund Scheme of the employer. For other GI Schemes of employer-employee groups the insurability condition is that the member should not be absent on ground of sickness on the entry date. For all non-employer-employee Group Schemes the basic insurability condition is that the member should be in good health on the date of entry.

When a claim arises, the particulars of the respective member are to be intimated together with the claim form and death certificate.

Notes

6.10 GROUP LEAVE ENCASHMENT SCHEME

The Council of the Institute of Chartered Accountants of India have issued Accounting Standard (AS-15) relating to the Accounting for Retirement Benefits in the Financial Statements of the Companies. It has thus, become necessary for the companies to ascertain their various types of accrued liabilities on an appropriate basis and provide for the same in the books by debiting to the Profit & Loss Account each year.

The said scheme of the Life Insurance Corporation of India has been designed to assist the employers to meet with the provisions of these Accounting Standards. The salient features of the scheme are as under:

1) The funding will be done under the Cash Accumulation Plan i.e. a Running Account shall be maintained in respect of the scheme. All contributions (excluding Term Insurance Premium) shall be credited to this account and all claims settled (except insurance cover) shall be debited to the Running Account. Interest shall be credited as at 31st March every year at a rate to be declared by LIC under the Cash Accumulation Plan.

2) A Group Insurance cover of a flat Sum Assured subject to a minimum of Rs.5000/- and maximum of Rs.25,000/- per employee will be provided.

3) Claims in respect of Leave Encashment shall be settled as per the Rules of the Scheme on the exit of the employees. Where such exit is due to death of the employee, an additional amount of insurance cover shall also be paid to the nominee of the employee.

6.11 GROUP MORTGAGE REDEMPTION ASSURANCE SCHEME

'Group Mortgage Redemption Assurance Scheme', is a Group Insurance Scheme for the borrowers of housing/vehicle loans from financial institutions where loan is recovered under EMI. Under the scheme, the premium is payable in a single installment covering a decreasing life cover. Insurance cover every year will be almost equal to the loan outstanding at the anniversary date of each borrower.

Under the scheme, the premium depends upon:

1. Age (nearer Birthday) at entry of the member into the scheme.
2. Outstanding loan amount at entry date.
3. Term of loan.
4. Schedule of repayment.
5. Rate of interest with which the loan was availed.

Any borrower may become member of this scheme. The minimum term of assurance is 3 years. Existing borrowers can join the scheme with certain conditions within 6 months of the commencement of scheme.

In case of death of the member during the coverage period, life cover on the anniversary date preceding the date of death is payable. The claim proceeds are used to square off the outstanding loan.

6.12 SUMMARY

Group insurance is a contract of insurance with a company, or association covering a group of people who are engaged in the similar occupations. The group should be such that there would be continuous flow of new members while old members would retire. Individual members do not have to sign any papers and the benefit would be available uniformly to the entire group.

There could be a variety of group schemes, some relating to the legal requirements and some voluntary. The Group Gratuity Scheme is one such scheme in which the legal liability of gratuity to ones employees can be insured by the employer with the insurer. Similarly superannuation liability of any employer can be met by ensuring it through a Group Superannuation Scheme. Group Savings Linked Insurance Scheme is intended to provide low cost life insurance and inculcate a habit of savings in the employees and provide insurance benefit to the family in case of untimely death.

Thus, Group insurance can be designed to meet a variety of needs of a group indeed of an individual. The benefits paid through group insurance enjoy the Income Tax benefit similar to the individual insurance schemes.

Notes

6.13 TERMINAL QUESTIONS

1. What are the characterstics of a group?
2. Elucidate different types of groups
3. Differentiate between individual and group insurance.
4. Discuss the features of Group Gratuity Scheme
5. Discuss the features of Group Superannuation Scheme
6. Discuss the features of Group Savings Linked Insurance Scheme.

6.14 OBJECTIVE TYPE QUESTIONS

1. State which one of the following statement is correct.
   a. In group insurance, a single policy is issued covering many persons.
   b. A master policy covers servants of a master.
   c. Both the statements above are correct.
   d. Both the statement above are wrong.
2. State which one of the following statement is correct.
   a. In group insurance, there is only one proposal to insure many.
   b. In group insurance, there is only one policy covering many.
   c. Both the statements above are correct.
   d. Both the statement above are wrong.
3. State which one of the following statement is correct.
   a. In group insurance, the proposal is made by the employer.
   b. In group insurance, proposals are made by each of the insured.
   c. Both the statements above are correct.
   d. Both the statement above are wrong.

4. State which one of the following statement is correct.

   a. Group insurance covers a large number of persons in the policy.

   b. Group insurance is relatively cheaper than individual insurances.

   c. Both the statements above are correct.

   d. Both the statement above are wrong.

5. State which one of the following statement is correct.

   a. A bank can take out a group policy for its account holders.

   b. A finance company can take out a group policy for those taking loans from it.

   c. Both the statements above are correct.

   d. Both the statement above are wrong.

6. State which one of the following statement is correct.

   a. The amount of cover in a group policy is chosen by individual members.

   b. The amount in a group of cover for each member is fixed by the terms of the policy.

   c. Both the statements above are correct.

   d. Both the statement above are wrong.

7. State which one of the following statement is correct.

   a. A master policy is issued in a group insurance policy.

   b. Each member in a group policy pays the premium directly to the insurer.

   c. Both the statements above are correct.

   d. Both the statement above are wrong.

8. Which of the following is true for a group policy.

   a. Copies of the master policy are given to all members by the insurer.

b. The group has to be formed exclusively for the purpose of insurance.

c. Entry into the scheme and exit out of it, is at the option of the members.

d. The amount of the cover is determined by the scheme.

9. State which one of the following statement is correct.

a. A trade union can take out a group insurance policy for its members.

b. The cover for an employee can be equal to his age multiplied by a fixed number.

c. Both the statements above are correct.

d. Both the statement above are wrong.

10. State which one of the following statement is correct.

a. A group insurance contract is between the insurer and the insured persons.

b. The extent of insurance cover is chosen by each individual member.

c. Both the statements above are correct.

d. Both the statement above are wrong.

6.15 ANSWERS TO INTEXT QUESTIONS

6.1

1. Group insurance is a contract covering a group of lives.
2. Employer-employee group ,Creditor - Debtor groups, Professional groups.

6.16 ANSWERS TO OBJECTIVE TYPE QUESTIONS

1.	a	2.	c
3.	a	4.	c
5.	c	6.	b
7.	b	8.	d
9.	c	10.	d

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7

CLAIMS AND SETTLEMENT

7.0 INTRODUCTION

The Insurance Policy is taken by the consumers to compensate them in the event of happening of an unforeseen event. It is a hedge against unavoidable circumstances. In general insurance the loss is payable only on happening of some specific event. If the insured does not suffer any loss no claim is paid to him. The premium is charged on yearly basis and no accumulation takes place. However the scenario is different in case of life insurance. If the insured dies during the policy period he gets the sum assured along with the bonus accrued under the policy if any. If the insured survives the policy period he gets the maturity amount accrued under the policy. In this lesson we shall learn the various aspects in settlement of life insurance claim.

7.1 OBJECTIVES

After going through this lesson you will be able to

- Learn the various categories of claim
- Enlist the documents required in settlement of claim
- Recall the process of claim settlement
- Remember the guidelines issued by IRDA in respect of claim settlement

7.2 CLAIM SETTLEMENT

Payment of claim is the ultimate objective of life insurance and the policyholder has waited for it for a quite long time and in some cases for the entire life time literally for the

Notes

payment. It is the final obligation of the insurer in terms of the insurance contract, as the policyholder has already carried out his obligation of paying the premium regularly as per the conditions mentioned in the schedule of the policy document. The policy document also mentions in the schedule the event or events on the happening of which the insurer shall be paying a predetermined amount of money (S.A.).

There may be three types of claim in life insurance policies–

1. Survival Benefit Claim
2. Maturity Benfit Claim
3. Death Benefit Claim

We shall discuss hereunder the details of each category of claims.

7.2.1 Survival Benefit :

Survival benefit is not payable under all types of plans. It is payable in endowment or money back plans after a lapse of a fixed period say 4 or 5 years, provided firstly the policy is in force and secondly the policyholder is alive.

As the insurer sends out premium notices to the policyholder for payment of due premium, so it sends out intimation also to the policyholder if and when a survival benefit falls due. The letter of intimation of survival benefit carries with it a discharge voucher mentioning the amount payable.

The policyholder has merely to return the discharge voucher duly signed along with the policy document. The policy document is necessary for endorsement to the effect that the survival benefit which was due has been paid.

The survival benefit can take different forms under different types of policies.

7.2.2 Maturity Claim

It is a final payment under the policy as per the terms of the contract. Any insurer is under obligation to pay the amount on the due date. Therefore the intimation of maturity claim and discharge voucher are sent in advance with the instruction to return it immediately.

If the life assured dies after the maturity date, but before receiving the claim, there arises a typical problem as to who is

entitled to receive the money. As the policyholder was surviving till the date of maturity, the nominee is not entitled to receive the claim.

The policy under such conditions is treated as a death claim where the policy does not have a nomination. The insurer in such a case shall ask for a will or a succession certificate, before it can get a valid discharge for payment of this maturity claim.

In case the policy has been taken under Married Women's Property Act, the payment of maturity claim has to be made to the appointed trustees, as the policyholder has relinquished his right to all the benefits under the policy. It is for this relinquishment of right that the policy money enjoys a privileged status of being beyond the bounds of creditors etc.

If the maturity claim is demanded within one year, before the maturity it is called a discounted maturity claim. This amount is much less than the maturity claim.

7.2.3 Death Claim

If the life assured dies during the term of the policy, the death claim arises. If the death has taken place within the first two years of the commencement of the policy, it is called an early death claim and if the death has taken after 2 years, it is called a non early death claim.

INTEXT QUESTIONS 7.1

1. When the maturity claim is payable?
2. When the death claim is payable?

7.3 CLAIM DOCUMENTS & FORMS AND SETTLEMENT PROCEDURE

We will discuss in this section the insurance documents necessary at the time of the final payment. The final payment may relate to the maturity or death claim payment.

7.3.1 The documents required for payment of maturity claim :

(i) Age proof, if age is not admitted.

(ii) Original policy document for cancellation.

Notes

(iii) In case assignment is executed on a separate paper, that document has to be surrendered.

(iv) Discharge form duly executed.

(v) Indemnity bond in case the policy document is lost or destroyed, duly executed by the policyholder and a surety of sound financial standing.

7.3.2 The documents required for payment of a death claim.

(i) An intimation of death by the nominee or a near relative.

(ii) Proof of age if not already admitted.

(iii) Proof of death.

(iv) Doctor's certificate who attended the deceased during his last illness.

(v) Identity certificate from a reputable person who saw the body of the deceased life assured.

(vi) Certificate of cremation or burial from a reputable person who attended the funeral.

(vii) An employer certificate if any, of the deceased.

If the policy has been assigned validly or if there is a valid nomination in the policy document, no further proof of title to the policy money is necessary. In other cases, the satisfactory evidence of title to the estate of the deceased is required from competent court of law. e.g.

(i) A probate of the will, if a will has been executed by the deceased life assured.

(ii) A succession certificate if no will has been left.

(iii) A certificate from the Administrator General, if the total amount of the estate left does not exceed Rs. 2,000/-.

In case there is a rival claim court's prohibitory order may be required to prevent the insurer from making the payment to the nominee as mentioned in the policy document.

7.3.3 In case the life assured has disappeared

Under Indian Evidence Act, 1872, Section 108, a person who has disappeared is presumed to be dead only if he has not been heard of for 7 years by those who would naturally have heard of him, if he had been alive.

The claimant has to produce the decree of the court to the effect that the assured should be presumed to be dead.

The legal heirs are required to keep on paying the premium payment till such court order is received failing which the policy will be treated as a paid up policy.

7.3.4 In case the premature death claim

In case of a premature death claim, i.e. a death within two years of the commencement of the policy, the insurer asks from claimant documents in order to eliminate the possibility of any suppression of a material fact at the time of submitting the proposal.

(i) Hospital treatment details where the assured was hospitalised.

(ii) Certified copies of postmortem report

(iii) The police investigation report if death is due to an accident or unnatural cause.

INTEXT QUESTIONS 7.2

1. What is the meaning of age not admitted?

2. What is succession certificate?

7.4. PROCEDURE OF CLAIM SETTLEMENT

7.4.1 Maturity Benefit

If the policyholder lives through the duration of the policy and becomes eligible to get the maturity value it is called the settlement of a maturity claim. As the policyholder is alive, the nomination is of no significance. Age is normally admitted at the stage of the proposal. If it has not been admitted for some reason, it is necessary to submit the age proof before the payment of the maturity value.

Much before the date of maturity the insurer sends the claim discharge voucher which has to be returned duly signed and witnessed along with the policy document for payment of the maturity value.

7.4.2 Death Claim

In case of the death of the policyholder at anytime during the duration of the policy, the claim amount becomes payable to

Notes

the nominee mentioned in the policy document. The nominee or the nearest relative shall send an intimation of death of the policyholder to the insurer stating therein the fact of death, the date of death, cause of death and the place of death along with the policy number.

Insurer deals with the death claim differently on the basis of the duration or the policy. If the policyholder has died within two years of the commencement of the policy, i.e., acceptance of risk which may be different from the date of commencement if the policy has been dated back it is treated as "early or premature claim" and if the death has occured after 2 yrs of the commencement, it is treated as normal death claim.

In a normal death claim, that is if the life assured has died after two years of the commencement of risk, the insurer, on being intimated about the death of the policyholder, calls for the age proof, if not earlier admitted, the original policy document and proof of death. The proof of death can be a certificate from the municipal authorities under which cremation has taken place, or other local body like death registry. The claimant generally is required to fill in a form giving certain routine information about his title to the policy money and the information relating to death, which is normally called a claimant's statement.

7.4.3 Premature claim

It is a premature claim if the death has occurred within two years from the commencement of the policy or the date of last revival, or medical examination. The insurer takes certain precautions before making payment under such a premature claim.

It wants to satisfy itself that it is a genuine case i.e., the correct policyholder has died and that the cause of death does not go back to a date prior to the commencement of the policy. The duration of last illness is of vital importance to eliminate any fraudulent intention. Last medical attendants' certificate, hospital report, burial certificate, employees' leave record, if he was an employee in a reputed firm etc, are the different records examined and normally a senior officer is deputed by the insurer to make on the spot investigation, through neighbours, colleagues or doctor of the locality.

As the revival of the policy is a *de novo* contract of insurance, the insurer would like to verify whether the statement contained in the declaration of good health given at the time of revival is correct. If such a statement is proved fraudulent relating to a material fact, the claim, may be rejected. Life insurance is a contract of utmost good faith and good faith has to be observed, not only at the time of the proposal, but also at the time of the revival of the policy whenever it is done.

In case there is a rival claimant to the insurance money, the insurer can get a valid discharge by paying to the nominee. The rival claimant can approach a court of law which may order to stop the payment till the case is finally disposed of.

However if there is no nomination under the policy, the insurer shall await a valid title through either a will or a probate as a letter of administration or a succession certificate. It may take quite sometime to get such certificate from the court and in the meantime the family may suffer. A good agent therefore shall ensure that there is a valid nomination or assignment.

If there is an assignment, the policy money is paid to the assignee. If there is a reassignment of the policy, it is necessary that a fresh nomination is done, as assignment invalidates the existing nomination. However, if there is a nomination in favour of the insurer for taking any loan, the nomination is said to be unaffected subject to the claim of the insurer.

If the premature death has been due to an accident, it is necessary to get a police inquiry report in lieu of the attending physician certificate. Suicide, if it has taken place within one year of the beginning of the risk, exempts the insurer from the liability of the payment of the claim. The propensity to commit suicide is a moral hazard and is not expected to continue beyond one year.

If the policyholder disappears and he has not been heard of for 7 years by those who would naturally have heard of him, if he had been alive, he is presumed dead as per Sec 108 of the Indian–Evidence Act, 1872. However, it is necessary to keep the policy in force during this period by payment of the due premiums on the due dates.

7.4.4 Claim concession

Normally, a death claim becomes payable so long as the policy is kept in force by payment of due premium. In other words if

Notes

the payment of premium is stopped and the grace period expires and if the death occurs thereafter the policy is treated as lapsed or paid up depending upon whether the premium has been paid for less than 3 yrs or 3yrs & more. Under a lapsed policy no claim is payable. In case of a paid up policy, only the paid up value is payable.

However, some companies provide certain concessions with regard to the claim payment, if the policy has run for 3 yrs or more:

1. If the premiums under a policy have been paid for a minimum period of three full years, and the life assured has died within 6 months from the date of the first unpaid premium insurer pays the full sum assured instead of the paid up value and only the unpaid premiums for the policy year are deducted from the claim amount.

2. This concession is extended to a period of twelve months and the full sum assured is paid if the life assured dies within one year from the due date of the first unpaid premium, provided the premiums have been paid for a minimum period of 5 years subject to deduction of the unpaid premiums for the policy year.

7.4.5 Ex Gratia claim

When a policy has not acquired paid up value and claim concession rules are not applicable, nothing is payable in case of death. However some insurers relax the rules in favour of the claimant.

If the premiums have been paid for more than 2 years and

(a) the death occurs within three months from the first unpaid premium, full sum assured with bonus, if any, is payable ;

(b) if the death occurs after 3 months, but within 6 months, half the sum assured is paid ;

(c) if the death occurs within one year from first unpaid premium, notional paid up value is paid.

Under the first condition, the unpaid premium with interest for the policy year of death will be deducted from the claim and no deduction is made in the other two conditions.

7.5 CLAIM SETTLEMENT OPTIONS

Most claims are paid in single lump sum. In case of a small sum assured, this lump sum payment may become necessary for immediate needs. (However, where the sum assured is large the amount if paid in instalments would be a valuable aid to the family maintenance). It is surprising that adequate attention is not paid to this aspect of the settlement options either by the claimant, or by the agent or the insurer.

The settlement options as available are not competitive in interest rates and therefore most claimants probably would not opt for it. Lump sum payments are most likely to be spent much faster leaving the family without the benefit of security. The family in the absence of the breadwinner may not have the foresight and the ability to look to the safety of the capital, rate of return, liquidity and ease of management of money. Many insurance companies world over are facilitating the management of the claim by offering a lot of options to the claimant.

Life insurance can be described as the creation of capital and annuities as a method of distribution of capital. Life insurance companies therefore, can convert this capital into annuity payments as per the needs of the claimant.

An agent would do well to advise the widow in this regard and help her to purchase a suitable annuity policy with this claim amount so that the family can look after itself smoothly for quite sometime. Annuities of various types are available, as has been discussed in the chapter on "Life Insurance Products".

Lump sum payment, let it be remembered, does not offer protection against the creditors of the beneficiary, while the payment through annuity payment does. For beneficiaries, inexperienced in the art of money management receiving guaranteed payments in instalment may be more desirable.

INTEXT QUESTIONS 7.3

1. What is a premature claim?
2. What is an Ex Gratia Claim?
3. Is an insurance company bound to pay Ex gratia Claims?

Notes

7.6 IRDA REGULATION ON POLICYHOLDERS PROTECTION

The Insurance Regulatory and Development Authority has issued the Protection of Policyholders' Interests Regulations, 2002. This regulation states the matters to be stated in the life insurance policy for the protection of policyholders interests. It also lays down the procedure to be adopted towards the settlement of claim under a life insurance policy.

7.6.1. Claims procedure in respect of a life insurance policy

(i) A life insurance policy shall state the primary documents which are normally required to be submitted by a claimant in support of a claim.

(ii) A life insurance company, upon receiving a claim, shall process the claim without delay. Any queries or requirement of additional documents, to the extent possible**,** shall be raised all at once and not in a piece-meal manner, within a period of 15 days of the receipt of the claim.

(iii) A claim under a life policy shall be paid or be disputed giving all the relevant reasons, within 30 days from the date of receipt of all relevant papers and clarifications required. However, where the circumstances of a claim warrant an investigation in the opinion of the insurance company, it shall initiate and complete such investigation at the earliest. Where in the opinion of the insurance company the circumstances of a claim warrant an investigation, it shall initiate and complete such investigation at the earliest, in any case not later than 6 months from the time of lodging the claim.

(iv) Subject to the provisions of Section 47 of the Act, where a claim is ready for payment but the payment cannot be made due to any reasons of a proper identification of the payee, the life insurer shall hold the amount for the benefit of the payee and such an amount shall earn interest at the rate applicable to a savings bank account with a scheduled bank (effective from 30 days following the submission of all papers and information).

(v) Where there is a delay on the part of the insurer in processing a claim for a reason other than the one covered by sub-regulation (4), the life insurance company shall pay interest on the claim amount at a rate which is 2%

Notes

above the bank rate prevalent at the beginning of the financial year in which the claim is reviewed by it.

7.7 SUMMARY

Claim payment relates to the payments made by the insurer to the policyholder or his nominee on happening of the event as mentioned in the schedule of the policy document. In money back plans, survival benefit is paid from time to time to the policyholder. This amount is tax free and comes handy to meet planned events.

The maturity claim is a payment at the end of the term of the policy and is the happiest occasion for the policyholder, for he receives the entire money with certain additions after years of paying the premium.

A death claim payment is the real fulfillment of the purpose of life insurance, for no other instrument of savings can perform this miracle.

The procedure for payment of the survival benefit or maturity claim is rather simple. In case of death claim also the procedure is hassle free unless there is any fraud involved. No life insurance company can afford to create problems for payment of death claim, except at its own peril. A good agent comes to the aid of the widow on such an occasion.

7.8 TERMINAL QUESTIONS

1. List the various types of claims that can be made under life insurance.
2. What are the documents required for settlement of death claim?
3. What are the documents required for settlement of maturity claims?
4. What are the provisions framed for settlement of claims under IRDA Policyholders' Protection Regulations?
5. What is need of giving ex-gratia claims?
6. When are claim concessions offered?
7. What are the claim settlement options available to the insurers?

Notes

7.9 OBJECTIVE TYPE QUESTIONS

1. What is meant by a claim under an insurance policy?
   a. Any demand made by the policyholder on the insurer.
   b. A demand to fulfill the policyholder's obligations.
   c. A demand to fulfill the insurer's obligations.
   d. All the three above.
2. Which one of the following statement is correct?
   a. A request for a loan is considered as a claim.
   b. A request for surrender of the policy is considered a claim.
   c. Both the statements above are correct.
   d. Both the statements above are wrong.
3. Which one of the following statement is correct?
   a. A claim will be paid as soon as the death of the insured is confirmed.
   b. An insurer makes enquiries to establish that death took place.
   c. Both the statements above are correct.
   d. Both the statements above are wrong.
4. Which one of the following statement is correct?
   a. A death claim within two years of commencement is treated as an early claim.
   b. A death claim within two years of revival is treated as an early claim.
   c. Both the statements above are correct.
   d. Both the statements above are wrong.
5. Which one of the following statement is correct?
   a. The insurer waits for a demand before taking action in maturity claim cases.
   b. The insurer takes action in a death claim case after a demand is made on it.
   c. Both the statements above are correct.
   d. Both the statements above are wrong.

6. Which one of the following statement is correct?
   a. Maturity claims are paid to policyholders.
   b. Maturity claims are paid to assignees.
   c. Both the statements above are correct.
   d. Both the statements above are wrong.

7. Which one of the following statement is correct?
   a. The death claim is settled in favour of the nominee in MWP Act cases.
   b. The death claim is settled in favour of the trustee in MWP Act cases.
   c. Both the statements above are correct.
   d. Both the statements above are wrong.

8. Which one of the following statement is correct?
   a. Maturity proceeds are paid to the nominee, if the policyholder dies earlier.
   b. Maturity proceeds are paid to the heirs, if the policyholder dies earlier.
   c. Both the statements above are correct.
   d. Both the statements above are wrong.

9. Which one of the following statement is correct?
   a. No claim is paid unless the original policy is produced.
   b. Claim can be paid even without the original policy, if it is lost.
   c. Both the statements above are correct.
   d. Both the statements above are wrong.

10. Which one of the following statement is correct?
   a. Claims may be paid on the basis of indemnity, if title is not established.
   b. Claims may be paid on the basis of indemnity, if original policy is lost.
   c. Both the statements above are correct.
   d. Both the statements above are wrong.

Notes

7.10 ANSWERS TO INTEXT QUESTIONS

7.1

1. Maturity claim is payable on the maturity of the term of the policy.
2. If the life assured dies during the term of the policy, the death claim arises

7.2

1. Age not admitted means the age proof is not provided at the time of taking the policy.
2. Succession certificate is issued by the Courts where the legal heirs of the deceased are mentioned. .

7.3

1. Premature claim means if the death has occurred within two years from the commencement of the policy or the date of last revival, or medical examination. The insurer takes certain precautions before making payment under such a premature claim.
2. When a policy has not acquired paid up value and claim concession rules are not applicable nothing is payable in case of death. However, some insurers relax the rules in favour of the claimant and the claim paid is known as ex-gratia Claim
3. No the company is not bound to Ex gratia claims.

7.11 ANSWERS TO OBJECTIVE TYPE QUESTIONS

1. d	2. d	3. d
4. c	5. b	6. c
7. b	8. b	9. b
10. c		