UNIT II

LIFE INSURANCE

Life Insurance - Principles of Life Insurance - Contract- Proposal & policy - Assignment & Nomination - Surrender – Title and Claim.

A life insurance policy is a contract with an insurance company whereby the insured promises to pay a uniform rate of premium at fixed interval of time against which the insurer agrees to pay a fixed amount on the happening of the event which may be the death of the insured or expiry of a certain number of years. Thus in exchange for premium payments, the insurance company provides a lump-sum payment, known as death benefit, to the beneficiaries upon the insured's death.

Life Insurance is defined as a contract between the policy holder and the insurance company, where the life insurance company pays a specific sum to the insured family upon his death. The life insurance sum is paid in exchange for a specific amount of premium.

Features of life insurance :

1.Outcome of a contract

2.Payment of premium

3.Payment of sum assured

4.Insurable interest

5.Financial help

6.Encourages saving.

There are two broad categories of insurance:

1.Life Insurance – The insurance policy whereby the policyholder (insured) can ensure financial freedom for their family members after death. It offers financial compensation in case of death or disability.

2.General Insurance – Everything apart from life can be insured under general insurance. It offers financial compensation on any loss other than death. It includes Fire, Motor Vehicle, Accident, Marine Insurance mainly.

Characteristics of Life insurance Contract :

1. Essential Elements of a valid contract
2. Insurable interest
3. Utmost good faith
4. Proximate cause
5. Warranties / terms of policy
6. Assignment and nomination
7. Return of premium
8. Other feature

In life insurance contract the first three features are very important while the rest of them are of complementary nature.

Life Insurance Corporation of India (LIC) : LIC came into existence on 1st July 1956 and began to function on 1st September 1956. LIC gets large amount of insurance premium and has been investing in almost all sectors of the economy, viz, public sector, private sector, co-operative sector, Joint Sector and now it is one of the biggest term-lending institutions in the country. LIC was established to spread the message of Life Insurance in the country and mobilise people's savings for nation-building activities.

Organisation and Management:

LIC with its central office in Mumbai has seven Zonal offices at Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Kanpur and Bhopal. It operates through 100 divisional offices in important cities and 2048 branch offices. It has about 9.88 lakh agents spread over the country. It has also entered the international insurance market with its offices in England, Mauritius and Fiji.

Objectives of LIC:

(i) To mobilise maximum savings of the people by making insured savings more attractive.

(ii) To extend the sphere of life insurance and to cover every person eligible for insurance

(iii) To act as trustees of the insured public in their individual and collective capacities.

(iv) To Promote in all employees and agents of the LIC, the sense of participation and job satisfaction .

(v) To ensure economic use of resources collected from policy holders.

(vi) To conduct business with utmost economy and with the full realization that the money belong to the policy holders.

Activities of LIC:
LIC subscribes to and underwrites the shares, bonds and debentures of several financial corporations and companies and grants term-loans. It maintains a relationship with other financial institutions such as IDBI, UTI, IFCI, etc. for co-ordination of its investment.
LIC is a powerful factor in the securities market in India. It subscribes to the share capital of companies, both preference and equity and also to debentures and bonds. Its shareholding extends to a majority of large and medium sized non-financial companies and is significant in size.
It is no doubt to say that the LIC acts as a kind of downward stabilizer of the share market, as the continuous inflow of fresh funds enables it to buy even when the share market is weak.
Investment Policy:
The investment policy of the LIC of India should bring a fair return to policy holders consistent with safety. Since the funds at the disposal of the LIC are in the nature of the trust money, they should be invested in such securities which do not diminish in value and give the highest possible return.
In other words, principles of safety, yield, liquidity and distribution should be taken into consideration while investing insurance funds. The way in which these funds are invested is a great significance not only to policy holders but also to the entire economy.

Benefits of Life Insurance

1. Risk Coverage: Insurance provides risk coverage to the insured family in form of monetary compensation in lieu of premium paid.

2. Difference plans for different uses: Insurance companies offer a different type of plan to the insured depending on his need for insurance. More benefits come with the more premium.

3. Cover for Health Expenses: These policies also cover hospitalization expenses and critical illness treatment.

4. Promotes Savings/ Helps in Wealth creation: Insurance policies also come with the saving plan i.e. they invest your money in profitable ventures.

5. Guaranteed Income: Insurance policies come with the guaranteed sum assured amount which is payable on happening of the event.

6. Loan Facility: Insurance companies provide the option to the insured that they can borrow a certain sum of amount. This option is available on selected policies only.

7. Tax Benefits: Insurance premium is tax deductible under section 80C of the income tax Act, 1961.

Types of Life Insurance Policies:

1. Term insurance plan: Term insurance plan are those plan that gives life coverage for a specific time period and so is purchased for a fixed period of time, say 10, 20 or 30 years. As these policies don't carry any cash value their policies do not carry any maturity benefits, hence their policies are cheaper as compared to other policies. This policy turns beneficial only on the occurrence of the event. The objective behind the scheme is not to get any amount on the expiry of the policy but simply to ensure the financial future of the investor's dependents.

3.Endowment policy: The only difference between the term insurance plan and the endowment policy is that endowment policy comes with the extra benefit that the policyholder will receive a lump sum amount in case if he survives until the date of maturity. The objective of this policy is to provide an assured sum, both in the event of the policy holders' death or at the expiry of the policy.

3. Unit Linked Insurance Plans (ULIPS): These plans offer policyholder to build wealth in addition to life security. Premium paid into this policy is bifurcated into two parts, one for the purpose of Life insurance and another for the purpose of building wealth. This plan enables to partially withdraw the amount. Unit Linked Insurance Policies are a combination of mutual fund and life insurance.

4. Money Back Policy: This policy is similar to endowment policy, the only difference is that this policy provides many survival benefits which are allotted proportionately over the period of the policy term.The insurance company pays the sum assured at periodical intervals to the policy holder plus the entire sum assured to the beneficiaries in case of the policy holders demise before maturity.

5. Whole Life Policy: Unlike other policies which expire at the end of a specified period of time, this policy extends up to the whole life of the insured. In this type of policy, the policyholder has an option to partially withdraw the sum insured. Policyholder also has the option to borrow sum against the policy. It is a low cost insurance plan where the sum assured is payable on the death of the life insured and premium are payable throughout life.

6.Annuity/ Pension Plan: Also called retirement plans are a fusion of insurance and investment. A portion from the premiums is directed towards retirement corpus, which is paid as a lump-sum or monthly payment after the retirement of the insured. Under this policy, the amount collected in the form of a premium is accumulated and distributed to the policyholder in form of income as annuity or lump sum depending on the instruction of insured.

PRINCIPLES OF LIFE INSURANCE:

Life insurance is based on a number of principles that are tailored to meet market conditions and ensure insurance companies make profits, while offering security policies to insured individuals.

There are broadly four major insurance principles applied in India -

1. Insurable Interest – This principle pertains to the level of interest an individual is expected to have in a particular policy. The interest could be a family bond, a personal relationship and so on. Based on the interest level, an insurance company can choose to accept or reject an application in order to protect the misuse of a policy.

2. Law of large numbers – This is a theory that ensures long-term stability and minimises losses in the long run when experiments are done with large numbers.

3.Utmost Good faith – Purchasing an insurance is entering into a contract between company and individual. This should be done in good faith by providing all relevant details with honesty. Covering any information from the insurance company may result in serious consequences for the individual in the future. This being said, the insurer must explain all aspects of a policy and ensure that there are no unexplained or hidden clauses and that the applicant is made aware of all terms and conditions.

4. Risk & Minimal loss – Insurance is a risky and companies have to do business and make profits keeping in mind the risk factor. The principle of minimal risk states that the insured individual is expected to take necessary action to limit him/her self from any hazards. This includes following a healthy lifestyle, getting a regular health check-up and more.

Procedure for Life insurance contract:

Life policy is based on the principle of utmost good faith. The procedure of filling in the form is quite simple.

1.Proposal: proposal is the first step for entering into a Life Insurance Contract. The proposal form contains the following details:

(a) Name, nationality, permanent residential address, occupation, nature of duties, present employer's name, length of service, previous employment record, father's name in full.

(b) Place of birth, date of birth, proof of age and district of birth.

(c) Term of insurance, nature of insurance, type of policy, amount to be insured, mode of premium payable -yearly, half-yearly, quarterly and monthly.

(d) Personal information regarding height, weight where the life is proposed.

(e) Details of any previous policies whether one or double insurance.

(f) Family history, history of father, mother, brothers, sisters, children.

(g) Information regarding diseases like epileptics, asthma, tuberculosis, cancer, leprosy, etc.
(h)Information regarding previous records of accident, injury, operation diseases.

2.Personal statement:

Along with the proposal form one more printed form is issued by the the L.I.C. called the personal statement. In this form the proposer has to submit his complete medical history and also the health details of his family members. The L.I.C. can cancel the contract in the case of concealment of any relevant fact or if there is any false and wrong information.

3.Medical examination: If the applicant has a family history of disease then the investment procedure is more detailed and description about permanent immunity and other family diseases have to be given including habits, name, income, occupation and salary. A person of normal health almost goes through a medical examination as a matter of formality.

4.Proof of age: The next step after accepting the proposal of a person is to ask him to submit the proof the age. The person who is interested in insuring himself may give this proof by submitting any of the following documents:
A copy of a certificate giving details of the school leaving examination with age or date of birth stated therein; Municipal records; Original horoscope prepared at the time of birth, if no other proof of age is available;

5.Reviewing stage/scrutiny of Reports: after accepting the proposal and other relevant documents from the insured the insurance company will verify all the information given. The acceptance or non-acceptance of the proposal is based on the information submitted by the proposer in the proposal form and personal statement.

6.Acceptance of the proposal: The Life Insurance Corporation accepts the proposal of the insurer on the commitment made by the agent and after taking into consideration the doctor’s medical report. The factors which play a dominating role is the mode of premium, type of policy, the age of the applicant, his health, occupation and habits.Once these factors have been considered and the Life Insurance Corporation’s officers are satisfied, the form is accepted.

7.Payment of premium: When an investor takes a life policy on his portfolio he must pay premium periodically. It may be paid annually, half-yearly, quarterly or monthly. Usually, a period of 30 days is given as grace beyond the due date of payment of premium. The rates of premium are different for different kinds of policies offered as investment.

8.Issue of insurance policy: When all these formalities are completed the L I C sends a life policy to the insured. This document between the company and the insured states the details of the policy.It gives details regarding the age, address, sum assured, type of policy with or without profits, date of maturity, premium, mode of payment of premium, name of person who is entitled to receive the ultimate sum, amount at the termination of the policy, the surrender value of the policy, the settlement of claims of policy and all

other conditions of the contract.The Life Insurance Corporation sends this policy under its seal and signature of its officers. On receiving this policy, the investor begins his investment with the Life Insurance Corporation of India.

Performance of Life Insurance Contract :

The performance of insurance contract has been discussed under following headings:-

(a) Preparation of Policy
(b) Conditions of Policy

(a) Preparation of Policy :

The policy is prepared after formation of the contract. Preparation of policy involves various stages which are of prospectus, filling up of proposal form, construction of policies and alteration in policies. These steps have been discussed as under:

(i) Prospectus : Prospectus is defined as “any notice, circular, advertisement or other invitation, offering to the public for subscription or purchase of any shares or debentures”. The prospectus of a company generally discloses the financial position of the company. The prospectus of a life insurance company is different from other companies. It explains about the different types of policies, privileges and conditions of the policies, procedures of insurance contract and settlement of claims and rules and regulations of insurance contract but the prospectus will be a binding document between the insurer and the insured only when it is referred in the policy.

(**ii) Proposal Form :** There are different types of proposal forms for each type of policy, with and without medical examination, children’s policies, annuities etc. The proposal form includes information pertaining to the amount, kind and term of policy. The proposer has to disclose all the material facts truly and fully in good faith by way of written answers to questions in the proposal form. On the basis of this information the insurer assesses the insurability of the proposer and makes an offer if the proposal is acceptable. The proposer is free to accept or reject the offer and he can bring about a binding contract of insurance by accepting it according to its terms. The proposal form is important because statements in it are the basis of the contract between the parties and their correctness will be declared to be a condition precedent to the validity of the contract.

(iii) Construction of Policies : Policy is the formal document which evidences the contract of insurance which has already been made between the insured and the insurer.

The following points should be noted while constructing the policy:

➢ Any ambiguity in the policy will be construed against the insurer who prepared it so that the insured may obtain the benefit of any reasonable

doubt. This rule stems from doctrine of Contra Proferentem which is a rule of contractual interpretation and is popularly understood as ‘rule of interpretation against the draftsman’.

➢ Where a policy issued is not in conformity with the terms of the contract that has already been made, the insured may require the insurer to rectify it.

➢ Although the policy is not the contract, but only evidence of it. Nevertheless, the contract will normally be interpreted according to the contents of the policy.

➢ The policy should refer to the proposal made by the proposer, payment of the premiums, conditions when sum assured is payable.

➢ If, the policy makes no reference to the prospectus or rules of the company, they cannot be taken into consideration while interpreting the policy.

(iv) Alteration in Policies : The terms and conditions of the policies can be altered during its currency by the mutual consent of the parties. Revival of a policy which has lapsed for non-payment of premium is also an instance of alteration by mutual agreement.

`**b) Conditions of Policy :**

The conditions of life insurance contract are generally governed by the conditions and privileges mentioned on the back of the policies. Since, there are different kinds of policies, the conditions and privileges will vary. The conditions of standard policy are discussed here under:

(**i) Proof of Age :** The premium and sum assured are calculated on the age of the Life Assured as stated in the schedule. So in case the age is found to be higher than the said age the sum assured and the bonus addition will be altered to the amount as would have been secured for the correct age.

(**ii) Forfeiture in Certain Events** :In certain events the policy is determined and all the money paid is forfeited. Some of these events are:

a) When the premiums are not duly paid.

b) Any condition herein contained or endorsed is contravened.

c) Any untrue and incorrect information is in the proposal and declaration.

d) Any material information has been withheld.

(**iii) Days of Grace** :Days of Grace are that period during which the policy does not lapse on the ground of non-payment of premium on the due date. The insurance cover continues uninterrupted during these days even without payment of premium for the current period.

The days of grace in India is one calendar month but not less than 33 days of grace is allowed for payment of yearly, half yearly or quarterly premiums and 15 days in case of monthly premium.

If death occurs within that period and before payment of premium, then the policy will still be valid. However, the grace period for payment of the premium

does not provide free insurance or operate to continue the policy after it expires by agreement of the parties.

(**iv)Premium Notice :**Premium Notice means a notice from the insurer that the premium is or will soon become due.80 It mentions the amount of premium, the due date and days of grace. The insurer is not legally bound to send the premium notice, but as a matter of practice, the insurer sends a premium notice to every insured about a premium falling due on a particular date in the next few weeks.

(v) Payment of Premium:The first premium is the consideration for the insurer's promise; but the subsequent premiums are conditions to continue the contract. In case of non-payment of premium the policy is forfeited.

(vi) Return of Premium : Equity implies a condition that the insurer shall not receive the price of running a risk if he runs none. Where the contract does not come into effect, the insurer is not liable for premium and he has to return the premium to the insured".81 Thus, the insured can claim the return of any premium paid on account of misrepresentation or breach of warranty.

(**vii) Revival of Lapsed Policies :**A lapsed policy can be revived or reinstated at the request of the insured although the insurer will be within his right to decline the revival. When the premium is not paid within the days of grace, the policy lapses, but can be revived during the life time of the life assured, but within a period of five years from the due date of the first unpaid premium and before the date of maturity. Thus revival of lapsed policies is a valuable contractual right and the insurer has no arbitrary or discretionary right to refuse reinstatement if the conditions laid down have been compiled with.

(viii) Non-forfeiture Regulations :The policy conditions provide various safeguards to policyholders, when there is a premium default. These safeguards are called non-forfeiture regulations. If after at least five full years premiums have been paid in respect of a policy, and any subsequent premium is not duly paid, then the policy shall not be wholly void. But the sum assured shall be reduced to such sum as shall bear the same ratio to the full sum assured as the number of premiums actually paid shall bear to the total number of premiums originally stipulated in the policy.

(ix) Guaranteed Surrender Value: Guaranteed Surrender Value is the cash received after surrender of policy after fulfilling above mentioned condition. The policy can be surrendered for cash after the premiums have been paid for at least five years or to the extent of 1/4th of the total number stipulated in the policy, provided such one-fourth exceeds three full years premium.

(x) Policy Loans :Policy loan is a loan issued by an insurance company that uses the cash value of a person's life insurance policy as calculated. The insured' rights to obtain a loan on the security of the policy within its surrender value is also one of the privileges mentioned by some insurers in the policy itself. The insurer has a lien on the proceeds of the policy to the extent of outstanding loans and interest thereon. And if the borrower fails to repay the loan, the money is withdrawn from the insurance death benef

Assignment:
Assignment of life insurance policy is the process in which the policyholder legally transfers the rights of life insurance policy to another person for various reasons. The process of transfer is known as an Assignment. Assignment Clause is expressed in section 38 of the Insurance Act,1938.

The person who assigns the policy, i.e. transfers the rights, is called the Assignor and the one to whom the policy has been assigned, i.e. the person to whom the policy rights have been transferred is called the Assignee. Once the rights have been transferred to the Assignee, the rights of the Assignor stands cancelled and the Assignee becomes the owner of the policy.

There are 2 types of Assignment:

1.**Absolute Assignment**- This means complete Transfer of Rights from the Assignor to the Assignee, without any further conditions applicable.

Eg :Rahul owns 2 Life Insurance policies of value Rs 2 lakhs and Rs 5 lakhs respectively. He would like to gift one policy of Rs 2 lakhs to his best friend Ajay. In that case, he would like to absolutely assign the policy in his name such that the death or maturity proceeds are directly paid to him. Thus, after the assignment, Ajay becomes the absolute owner of the policy. If he wishes, he may again transfer it to someone else for any other reason. This type of Assignment is called Absolute Assignment.

2. Conditional Assignment - This means that the Transfer of Rights will happen from the Assignor to the Assignee subject to certain conditions. If the conditions are fulfilled then only the Policy will get transferred from the Assignor to the Assignee
Eg: Rahul needed a loan for Rs 5 lakhs. to take a loan from ABC bank, he needs to conditionally assign the policy to that Bank .. If Rahul failed to repay the loan, then the bank would surrender the policy and get their money back.
Once Rahul's loan is completely repaid, then the policy would again come back to him. In case, Rahul died before completely repaying the loan, then also the bank can surrender the policy to get their money back. This type of Assignment is called Conditional Assignment.

Nomination:
Nomination is the process by which the policyholder appoints a person or persons to receive policy benefits in case of a death claim. So in case of an eventuality, the life insurance company pays the policy proceeds to the appointed person – called Nominee. Appointment of nominee ensures that the life insurance company knows whom to pay the assured money after the demise of the policyholder.

Differences between Nomination and Assignment:

Parameter	Nomination	Assignment
Source	It is made through mentioning the names of the nominees.	It is made through an endorsement on the contract policy.
Policy Ownership	Policy ownership does not change under nomination, it continues with the policyholder.	It involves transferring rights/ownership from the assignor (policyholder) to the assignee (person/entity).
Purpose	It offers the nominee to avail claim benefits in case of death of the life assured.	The life assured will transfer all his/ her right/ownership of the policy to another person/institution.
Consideration	Nomination does not support consideration.	The assignment might/might not support consideration.
Witness	It is not required in the nomination.	Without a witness, the assignment will be considered invalid.
Right to sue	The nominee cannot sue the policyholder of the policy.	Assignee has the right to sue the assignor of the policy.
Policy Amount	The nominee is entitled to avail the claim benefits in case of death of the life assured	Assignee is entitled to receive the policy money.

Life Insurance Claim Process:

Step 1: Intimation of Claim: The nominee should intimate about the claim in written form to the insurance company as early as possible.

Step 2: Submit Proper Documentation: To get your claim settled easily, it is required that you should submit your relevant documents.

Step 3: Claim Settlement.

Claim Settlement Process:

On the happening of the event, the beneficiary is required to send claim intimation form to the insurance company as soon as possible. Claim intimation should contain details such as Date, Place, and Cause of Death. On successful submission of claim intimation form, an insurance company can ask for additional information about

1. Certificate of Death
2. Copy of Insurance Policy

3. Legal Evidence of title in case insured has not appointed a beneficiary

4. Deeds of assignment

On successful submission of all the document, the insurance company shall verify the claim and settle the same.