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Unit-1

Introduction to Insurance

Index

1.0 Objectives

- To understand the characteristics of insurance.
- To understand the need of insurance.
- To know the economic and commercial significance.
- To understand the utility of insurance as a tool of social security.
- To acquaint with Principles of Insurance
- To understand the Types of insurance
- To know the Insurance Contract and Wagering Contract

1.1 Introduction

An individual and his family or business may be exposed to different risks in his life. Risk is arises due to uncertainty which can not be avoided. Human being does not have any command on uncertainties. Human being can suffer heavy loss itself or to the property due to unforeseen event e.g. death, illness, accident, fire, earthquake etc. These risks may result into financial loss. He wants to compensate the financial loss caused to the property or to the life. Insurance is the mechanism to reduce the loss to property or to the life which occur due to such risk or perils. It is a co-operative device to spread the loss caused by a particular risk over a number of persons. Thus, insurance can not avert the risk or loss but it can be distributed amongst the insured persons.

The first insurance company was formed in the United States in Charles Town (Charleston), South Carolina, in 1732 which underwrites fire insurance. The modern form of insurance has originated in the last three centuries. The first life insurance policy was insured in England in 1583. Lloyds Association, a leading marine insurance company in the world was founded in 1688 in a Coffee House in London run by Edward Lloyds. However the attention of public were attracted towards the necessity of fire insurance and starting of fire insurance business on commercial basis after great fire in London in 1966 which lasted 4 days and destroyed 13000 buildings. In India the concept of insurance was found in Arya Chanakya's Arthshatra. There after the British started insurance business in the modern form by establishing Life and General Insurance companies in India.

1.2 Subject Matter

1.2.1 The Concept of Insurance

The concept of insurance is as old a man kind. Its origin appears simultaneously with the appearance of human society. From the beginning of society protection has remained an important need of human being. The man has always thought of protection of his life, his family, his assets and his earning capacity. The owner of the asset has to suffer heavy loss. Insurance is an arrangement of indemnify the loss or risk caused by the perils to the property. Fire, flood, earthquake, theft are the probable events and are called as 'perils. Risk means the possibility of loss due to the perils which is unforeseen and loss may occur or not. Uncertainty is an important aspect of risk.

Thus, insurance is contract in which persons exposed to similar risks come together and decide among themselves, that the loss of any person due to such risk shall be shared by all persons on some equitable basis.

The concept of insurance can be understood better with the help of following examples.

Assume that there are 10,000 houses in a city and every year 10 houses destroyed by fire. The amount of loss occurs due to fire is Rs. 1,00,000 per house. It means the total estimated loss will be 1,00,000 x 10 = Rs.10,00,000. If this loss is divided into 10,000 house owners, the amount of share of each house owner will be Rs.100. Thus, by contributing a small amount of Rs.100 every year all the 10,000 house owners get protection against the risk of fire.

Definition :

There various definitions of insurance are given by experts. They can be divided into two groups i.e. functional definition and contractual definition. They are as follows;

Functional Definitions

1. **Ghosh and Agrawal** : Insurance is a cooperative form of distributing a certain risk over a group of persons who are exposed to it.

2. **Rock Fell :**Insurance is source of distribution of loss of few persons into many persons.
3. **A.Z.Mayerson** : Insurance is a device for the transfer to an insurer of certain risks of economic loss that would otherwise come by the insured.
4. **Encyclopedia Britannica** : Insurance may be described as a social device whereby a large group of individuals, through a system of equitable contributions, may reduce or eliminate certain measurable risks of economic loss common to all members of the group.
5. **W. Beverideges** : The collective bearing of risk is Insurance.
6. **D.S.Hancsell :** Insurance may be defined as a social device providing financial compensation for the effects of misfortune, the payments being made from the accumulated contribution of all parties participating in the scheme.
7. **Wherry and Newman** : Insurance by lessening uncertainty, frees the individual from same element of risk .

Contractual Definition

1. **E. W. Patterson** : Insurance is a contract by which one party , for a consideration called premium assumes particular risk of the other party and promises to pay him or his nominee a certain or ascertainable sum of money on specified contingency.
2. **Justice Tindall :** Insurance is a contract in which a sum of money is paid to the assured as consideration of insurers incurring the risk of paying a large sum upon a given contingency.

According to functional definition insurance is a system of transferring the risk from one person to a group of persons and distributing the loss arising out of the risk among all the members of the group.

However, the contractual definition explains the nature of contract between the insurer and insured. According to this definition insurance is a contract to pay certain some of money to the insured or his heirs on happening of certain contingent even in the future.

1.2.2Characteristics of Insurance

The analysis of above definitions explains the nature of insurance as follows.

1. Insurance is a Contract

Insurance is a contract between two parties i.e. insurer and insured by which the insurer, in consideration of insurance premium, agrees to compensate the insured against certain probable risks. Since insurance is a contract the provisions of Indian Contract Act viz. proposal, acceptance, consideration, competency of parties lawful object etc. are applicable to insurance contracts as well. It is a contract to pay compensation on the happening of a certain event in the case of fire, marine and general insurance. If there is no loss , no compensation is paid and even no premium is returned to policyholder. But in case of life insurance , insurance company pay certain sum of money on the death of the insured person or if insured is alive, paid to them the amount of premium with interest and bonus.

2. Means of Mutual help/ Cooperative device

All for one and one for all is the basis for cooperation. The insurance is a strong cooperative device to spread the loss caused by a specific event. Insurance is based on the principle of mutual help. Under this arrangement persons exposed to same risks come together and create a common fund and compensate the person who has actually suffered the loss. People individually can not afford to bear the entire loss. But jointly they can get protection by contributing a small amount each to the common fund.

In other words, insurance is a cooperative mechanism wherein large number of persons comes together. They have similar risk and share the loss by contributing a small amount in the form of premium.

3. Large number of Insured Person –

The insurance mechanism works on the principle of large number of insured persons. Insurance is spreading of loss over a large number of persons. Larger the number of persons, lower the cost of insurance and amount of premium. On the other hand, lower the number of persons, higher the cost of insurance and amount of premium.

4. Uncertainty of events:

The event to be insured must be uncertain and unforeseen. It may occur or may not occur, e.g. every property insured for fire risk may be not catches fire Insurance can be taken in case of uncertain events.. In life insurance even though death of insured person is certain its timing is uncertain. Hence life insurance is also a lawful agreement.

5. **Protection of Financial Risk** :

Insurance is a contract to indemnify the financial loss caused to the insured property due to the specific risk during the period of insurance contract. If the insured suffers no loss during this period he is not entitled to receive any amount from the insurer. In other words, insurance is a contract of indemnity and not a contract of profit. The maximum amount of compensation is limited to the actual loss of the property. Thus, the insured can not make any profit out of the loss incurred. In other words an insurer is protected from financial risks which are measured in terms of monetary values. Life insurance contracts are an exception to the principle of indemnity. He can also take life policies of any amount as the loss of death can not be measured in monetary terms.

6. **Based on certain principles and regulated by law** –

Insurance business is regulated by certain act passed by central or state government in every country. The life insurance is regulated by Life Insurance Corporation of India Act 1956 whereas General Insurance is regulated by General Insurance Business (Nationalization)Act 1972 In India Insurance Regulatory and Development Authority (IRDA) is set up in 1999 to regulate the Insurance business in the country. The insurance business is stands upon certain principles such as insurable interest, utmost good faith, indemnity, subrogation, causa-proxima, contribution etc.

7. Sharing and transfer of risk :

Insurance is a social and economic device. It share the financial loss occurred due to unforeseen events between the public who are exposed to risk. Insurance is a plan to bear the risks and financial losses occurs due to unexpected event. The death of the insured, fire losses, marine perils, burglary, fidelity etc. may cause a tremendous loss to the policy holder. The insurance shared this risk amongst all the insured in the form of premium. That means the risk is transferred from one individual (person) to a group of person.

8. Valuation of Risk :

First of all insurance company should evaluate the risk and finalize the amount of premium. Thereafter the insurance company enters into the contract. It is the basis of charging premium which is depends upon the risk. If risk is high the rate of premium becomes high. The risks involved in the subject matter can be evaluated by several methods. The procedure of valuation of risk is different in case of life, fire, marine and accident insurance.

9. Payment of claim at contingency:

The insurance company is liable to pay compensation i.e. claim amount only if certain unforeseen event takes place in case of fire, marine and accident insurance. In other words if the unforeseen event occurs, payment is made to policy holder.If contingency not take place, there is no need to pay any amount of compensation to the insured. In case of life insurance, the contingency i.e. death or the maturity of the policy will certainly happen. In such case insurer is liable to pay the policy amount on the death of the insured or on the expiry of the term whichever is earlier.

10. Insurance is not Gambling or Wagering :

Insurance is a lawful contract. It transfers the risk of one person to group of person. Under insurance contract policy holder paid consideration in the form of premium. The insurance serves indirectly to increase the productivity and converted the uncertainty into certainty. Therefore insurance contract is not a gambling or wagering contract. Persons involved in gambling or wagering bid and expose themselves to risks of losing. There is no chance to convert risks or losses into gains. In the game of gambling there may be either result into profit or loss.

11. Insurance is not a charity but business :

The insurance is a business which provides protection to the life or property from unforeseen event. However, insurance company collect the amount of premium as a consideration form policy holders for the cost of risk so covered. *Charity i*s a payment without claiming anything in return.

1.2.3 :Need of Insurance

Life insurance is an intangible property and its need may not be realized properly by the people / firms. It is, therefore, rightly said that

"Insurance is a subject matter of solicitation." The need and purpose of insurance is explained below.

1. Provide Economic Protection :

Insurance provides economic protection to the people and their property. Events like fire, flood, lightening, earthquake, theft, breakdown in machinery may damage the property and cause financial loss. The primary objective of insurance is to provide protection against the financial loss of property due to specific risks. It should however, be remembered that insurance does not protect the property from any risk nor it can avoid the risk. It can also not reduce the loss. It only indemnifies such financial loss. A fire insurance policy can not prevent the occurrence of fire. It pays the amount of loss caused to the property by fire.

2. Investment:

Another important purpose of life insurance is investment for meeting a person's future needs such as education, marriage of children, provision of income for old age etc. The small amount paid regularly as premium for a certain number of years grows into a large investment in the long run besides providing insurance protection. Thus, insurance helps to generate investment through collection of small amount of premium which fulfills the future economic needs of the people.

3. Tax Benefit :

Besides providing insurance protection to policyholder it also helpful to get income tax relief in proportion of premium payment made during the financial year. So through insurance savings in income tax can be made. Thus, It gives tax rebate to the insured and his tax liability is reduced.

3. Social Security:

In recent years the importance of insurance as a social security device has increased significantly. The state is devising various insurance schemes to provide protection to the economically and socially weaker sections, rural people, farmers, workers and artisans at lower or subsidized premium. The use of insurance as advice of social security has helped the state to maintain social stability and peace reduce the economic burden on the society and discharge its responsibility towards the society.

4. Business Needs:

Business also needs insurance protection. Insurance safeguards the investment in business against various risks, ensures continuity of operations, and thus .gives boost to business growth. It indemnifies the loss of factory buildings, machinery, equipment, inventories and other assets caused by fire, flood, earthquake, theft etc.

It also provides protection against the fraudulent acts, dishonesty or misappropriation of money by the employees. Insurance can also be taken for risks in foreign trade, fluctuations in foreign exchange rates, political instability etc. Thus the economic tensions and fear of loss, discontinuity of the business can be reduced.

5. Cover against uncertainty :

By providing financial support insurance system minimizes uncertainties in business and human life. However, it should be noted that, insurance does not protect the property from any peril or risk nor avoid it. But, insurance only indemnifies the financial loss occur due to unforeseen events. Thus, insurance provides coverage against uncertainties.

6. Provision against unexpected death :

The life of person is full of uncertainties and risk. Due to unforeseen incidents like early death life of person becomes end. Sometimes due to accident life of person becomes non functional through partial or total disabilities. Insurance system makes a provision to help dependents in the form of financial compensation.

7. To generate financial resources :

Insurance generate huge funds by collecting small amount from number of persons i.e. policy holders in the form of regular premium. These funds are invested in government securities, bond and stock. It is also gainfully employed in industrial development and utilized for the economic development of the nation. The employment opportunities can be increased through collective investments.

8. To enhance labour welfare :

Insurance provides financial compensation to the employees or workers getting injured if any unforeseen event takes place at the work place, when they are at work. Insurance plays an important role as a tool to increase labour welfare by making provision for payment of financial assistance as compensation.

9. Medical Support :

Today pattern of life style is changed rapidly. Due to modernization and industrialization the level of environment pollution is increased tremendously. It increases the health risk. Anyone can be a victim of critical illness. However, medical care has become unaffordable. Medical insurance is one of the ways to fulfill different type of health risk. Insurance provides medical support to policy holder through medical insurance policy.

10. Helpful to business organization:

There are chances of loss of business, factory building, vehicles, computers, machinery, equipment's, raw material, finished goods etc. caused by fire, flood, earthquake, theft etc. In such case business organization needs insurance protection. Insurance provides assurance to the business organizations to safeguard the investment against such risk by indemnifying the loss. It is helpful to business organizations to make attention on only on business activities and to enhance the business.

11. Useful to partnership firm :

In partnership firm , if any partner dies, it is the responsibility of other partners to pay share of expired partner to his legal heirs. It may likely to be close down the business. In such case insurance provides the amount of compensation to the legal heirs of deceased partner.

12. Encourages Savings:

Insurance develops a habit of saving among citizens. It encourages to people to make systematic savings through payment of regular premium. The insured get the lump sum amount at the maturity of policy.

1.2.4 The Economic and Commercial Significance of Insurance

The significance of insurance in the life of a person has increased over the years with increase in the risks and uncertainties. The significance of insurance can be discussed through various views like economic, commercial or social. It is as follows;

A) Economic Significance of Insurance

The economic significance of insurance may be explained with the help of following points.

1. Encouragement to saving:

Insurance encourages to people to make systematic savings through payment of regular premium. The regular payment of premium develops a habit of saving among citizens in the country.. The small savings of millions of insured persons results into a huge amount of national savings.

2. Generation of Employment :

Insurance business has a tremendous capacity of generating employment both directly and indirectly in the country. It provides employment to millions of people in administrative and development department. Insurance business generates direct employment in the form of agents, advisors, surveyors, development officers, administrative staff etc.

Besides these direct employment opportunities, the real estate, information technology and other services are also increased due to protection of insurance which enhanced their employment capacity.

3. Infrastructure development:

The development of economy is mostly depending upon development of basic infrastructure such as electricity, water supply, transportation facilities and communication. Insurance companies provide funds to development of these basic needs in the form of share capital, loans and advances. Thus, the rapid development of infrastructural facilities in the country is the output of insurance.

4. **Promotes economic development :**

The investment policies of insurance companies facilitate the speedy economic development of a country. Insurance accelerate the process of economic development through mobilizing domestic savings. It helps to convert accumulated capital into productive investments. Insurance companies invest in the central and state government's securities, public and private sector companies, co-operative sector, industries, corporations etc. Thus, insurance plays important role in sustainable development of the economy.

5. Facilitates agriculture and rural development:

India is an agriculture country. Indian agriculture is mostly depends upon regularity of monsoon. Therefore, there may be losses caused by heavy rain, drought, flood, wind, pests and diseases. Through crop insurance such losses are compensated by insurance . Besides this they can provide protection to the farmers and their assets as like agriculture, poultry, cattle, horticulture, sericulture, agricultural pump sets, farm equipment's etc. Insurance make available the funds for construction of wells and irrigation schemes. Insurance Regulatory and Development Authority (IRDA) has made it obligatory to the insurance company to conduct insurance business to certain extent every year in rural area. Thus, insurance companies can contribute significantly to the development of rural areas.

6. Increase in foreign exchange reserves:

By doing business in various countries, insurance companies can earn valuable foreign currency to the country. It helps to increase the foreign exchange reserves. It facilitates to meet import requirement of the country.

7. Facilitates the development of capital market:

The contribution of insurance companies in the development of capital market in the country is significant. They can invest large amount of funds in state and central governments securities. The insurance companies have started issuing unit linked insurance policies. These schemes provide more attractive benefits to the policy holders. Thus, insurance helps in development of capital market.

B) Commercial Significance of Insurance:

1. Business continuity :

In a partnership firm, if any partner retires or dies, the continuing partner should repay the dues and share of such partner. Insurance helps to pay the share and other due of such partner and remaining partners may continue their business.

Besides, insurance protects the life of persons and their assets against several risks. Losses occur due to unforeseen incidence can be compensated by insurance. Thus, insurance safeguard the business and ensures business stability.

2. Development of Trade and Industry:

The huge funds collected by insurance companies in the form of premium are mobilized to the trade and industrial sector. Insurance companies invest these funds in industrial sector in the form of share capital, loans and advance. It is helpful to traders and industrialist to undertake new projects and enter into new business. It accelerates the trade and industrial development. Besides, the uncertainties in business are reduced considerably by the insurance arrangement. It helps to the business people to reduce difficulty or tension in expanding their business. Thus the business activities get encouragement to go further.

3. Encourages development of aids to trade/ service sector:

Basically, the development of trade and industry is depends upon development of aids to trade such as transport facilities, banks, warehouses, communication etc. Today service sector emerged as a pillar of nation building. The growth of service sector increased with simultaneous development of trade and industry. Insurance helps to develop such aids to trade by giving assurance the payment of compensation if loss occurs due to unexpected incidents. In addition to that insurance provides financial helps to develop these services in the country.

4. Promote foreign Trade :

Insurance plays important role in developing international trade by promoting foreign trade. Generally foreign trade i.e. export trade carried out through marine voyage. In marine transport tremendous risk is involved such as vessel crash, sinking of vessel, robbery, fire, jettison war perils, cargo or vessel seized by enemy etc.. Huge loss may occur due to such perils. Insurance assures to compensate if los occurs and provide protection from these perils. Thus, insurance helps to promote export i.e. foreign trade.

5. Promotes foreign trade:

Insurance encourages foreign trade in a number of ways. It can provide protection against various marine perils, fluctuation in the exchange rate, export risks and loss in air transport etc. Infact marine insurance has been the oldest form of insurance. Most of the foreign trade is conducted through marine transport and is exposed to marine perils and losses.

6. Insurance of Key men/ Key Personnel:

Key men of the business are the assets of the organization. The key man is the man whose capital, experience, goodwill, ability to control, devotion etc. make him the most valuable asset of the business. The absence of such key man may reduce the profit considerably. The experience and ability of key men helps to carry out business efficiently and effectively. By insuring the lives of keymen in business the continuity of business operation can be guaranteed If the keyman running the business, especially in case of proprietary business or other key officers on whom the business depends, die unexpectedly or leave the firm the future of business is endangered. In such case, insurance provide the compensation to the dependents and helps to cover the loss by taking out key men insurance policy.

6. Employee welfare and protection of interest:

According to various labour laws, business firms have to provide provident fund, gratuity, pension and other welfare facilities to employees. In addition to that, the employees are motivated by providing bonus and awarding rewards by the organization. Hence, employer has taking out a group insurance policy of all employees by paying premium on behalf of employee. Insurance mechanism facilitates the prompt payment of these liabilities and protects the interest of the worker.

7. Helps to increase business efficiency:

Business entities are full of risks and uncertainties. There may be chances of losses occur to the property due to damages, fire, accident, theft etc. Insurance provide protection to these property by payment of compensation. It enables to rearrange the business organization. Due to this, the owners of the business are free from the worries of business losses. They can concentrate in business activities and maximization of profit. Thus, insurance helps to increase business efficiency.

9. Provision of Statutory liabilities:

The business entities imposed number of statutory liabilities under various laws e.g. workmen's compensation liability, product liability, professional liability, consumer protection act, corporate social responsibility etc. Adequate provision of these liabilities can be made by taking respective policies. Thus, the business people are free from the tension of discharging these liabilities

10. Reduction of loss Probability:

Insurance can help the insured by suggesting him ways and means of reducing the probability of loss to the assets to be insured. Their technical persons and surveyors inspect the assets before accepting the risk and recommend the precautions to be taken for loss reduction and better functioning. By adopting these measures the insurance premium can be reduced.

11. Increase in the value of assets:

The insurance of assets increases their value as collateral security. Banks and other financial institutes are willing to provide more loans against the security of these assets. Thus, the borrowing capacity of business increases. The risk of loosing money is less in case of these assets.

12. Loss prevention measures:

The insurance not only grants protection against loss of assets due to specific risks but also suggests measures for loss prevention and minimization. In India Loss Prevention Association is set up for this purpose.

1.2.5 Insurance as a Social Security Tool

Insurance is not only a device of individual and business security but also a device of social security. Social insurance is useful for solving various social problems like unemployment, old age, crimes, disability and health care of the aged. Burden of the state to provide relief to unemployment, destitute and aged citizens may be reduced through the insurance arrangement. The large fund of insurance companies can be utilized for society desirable investments, thus, ensuring the utilization of society's fund for social welfare, and wellbeing.

The United Nations Organization's declaration of Human Rights 1948 provides that, "Everyone has a right to a standard of living adequate for the health and well-being of himself and his family". According to this right everyone has entitled to get food, cloth, shelter, medical care and essential social services. They have also right to security in case of unemployment, illness, disability, widowhood and any other causes beyond his control.

The Government of India has also provided article 41 in Indian Constitution regarding social security. Thus, insurance is not only a device of individual and business security but also a device of social security. It works as a social security tool as following.

1. Social Insurance :

The LIC of India has set up Social Security Fund and provided special insurance plans for the benefit of poor and the people having below poverty line. It is also helpful to agriculturist and the persons engaged in unorganized sector. Some of the insurance plans are as,

i. Rural Self Employment Scheme

ii. Rural Group Insurance Scheme

iii. ShikshaSahyogYojana

iv. SarvatrikAarogyaBimaYojana

v. Crop Insurance

vi. Solatium Scheme etc.

2. Protection to wealth :

General Insurance Corporation of India and other private insurance companies provides protection to properties of the society. Insurance is a mechanism of indemnifying the loss occurs due to fire, flood, earthquake, theft and so many other perils. Due to security provided by insurance against such perils peoples are free from worries and they are getting satisfaction and comfort in life. Life insurance provides protection against loss of human wealth. If human material is strong, well-educated and care free, will generate maximum income. Society will have financial security against old age, death, damage and disappearance of his physical wealth and life wealth. The society protects against degradation through prevention of economic losses with the help of insurance.

3. Economic growth of the nation:

Insurance plays important role in development of nation through development of economy by mobilizing domestic savings. Insurance turns accumulated funds into productive investment which is generated through small amount of premium. Sufficient capital available from insurance companies accelerates the production cycle. Insurance enables financial stability and encourages trade and commerce activity. Thus, by providing strong hand and mind, protection against loss of property and adequate capital to produce more wealth insurance create economic growth of the nation.

4. Reduction in Inflation :

Too much circulation of money can increase the inflation in the economy. Insurance withdraw money from society as a domestic savings through premium which reduces the circulation of money. On the other hand insurance provides funds for production which narrow down the inflation gap. Thus, insurance helps to control the inflation which in turn increases the satisfaction level of the society.

1.2.6 Types of Insurance in brief

The insurance contract is classified in to three main types i.e. Personal Insurance, Property Insurance and Guarantee Insurance.

I) Personal Insurance:

When an individual person takes insurance policy of own life then it is called as personal insurance. In broad sense personal insurance is also called as Life Insurance. Under this policy insurer provides insurance cover against unexpected happenings like death, illness and accident. We cannot measure the loss of insured when he dies; hence the principle of indemnity is applicable to this insurance.

The personal insurance classified in-to three types such as Life Insurance, Personal Accident Insurance and Health Insurance.

Life Insurance : In life insurance individual can take the insurance of own life. Any person are having unlimited insurable interest in own life, hence principle of indemnity is notapplicable to life insurance. Life insurance again classified in to two types i.e. whole life policy and endowment life policy.

Personal Accident Insurance : Under personal accident insurance insurer has to pay compensation to insured if he disable to do work due to accident or his nominee after death of insured. The compensation is depending upon percentage of impairment.

Health Insurance: Under health insurance individual can make arrangement of medical expenses, expenses of operation and other expenses of hospitalization. Under this policy insurer undertake the responsibility of payment of the entire amount directly to respective hospitals.

II) Property Insurance :

When individual or any organization can take insurance of his property for compensation of future loss then it is called as Property Insurance. Property insurance is a contract of indemnity. Therefore, principle of indemnity is applicable to this insurance contract. The insured must have insurable interest in such property. The insurer promise to pay loss occurs by insured due to damage of property within the limit of policy amount. However, insurance does not protect the property from any peril nor avoid the peril. Insurance only indemnifies the financial loss occur due to uncertain risks. It is the main objective of the insurance to provide protection against the financial loss due to the perils.

A person can take insurance of office building, house, furniture, domestic products, raw material, plant and machinery, motor vehicle, jewelry, precious goods etc.

III) Guarantee Insurance:

It is new type of insurance. Guarantee insurance is evolved early in the 20th century. After industrial revolution the scope and volume of business transaction are tremendously increased. Most of the businessmen are rely upon employees of the organization. The two classes such as owner and employees are generated in the society. At the same time risk of fraud and dishonesty is increased. Guarantee insurance is an arrangement whereby the insurer agree to indemnify the insured for a fixed amount against loss arising through dishonesty, fraud or a breach of contract. e.g. If borrower not repaid the loan amount of bank, cashier of bank or any credit society or business has misappropriate the cash in such case insurer agree to pay such loss. The guarantee insurance is not against theft, but against the dishonesty of the employee. Hence these two types are completely different from each other.

4. Liability Insurance :

Under liability insurance, a person is liable to a third person owing to provisions of any law or to his employees under an act. The liability insurance covers the risks of third party, compensation to employees under workmen's compensation insurance, liability of the automobile owners if damage to third party due to motor accident. It also covers reinsurances.

Types of Insurance

Personal Insurance Property Insurance Guarantee Insurance Liability Insurance

Life Insurance Fiduciary Credit Privilege

Personal Accident Ins. Health Ins.

Third Party Employees Motor Reinsurance

Fire Marine Automobile Cattle Crop Theft Machinery

I) Check your progress

A) Choose correct alternative from the following

1. Insurance is a ………form of distributing a certain risk over a group of persons who are exposed to it.

   i) Cooperative ii) Corporate iii) Partnership firm iv) Charitable

2. The insurance mechanism works on the principle of ……….number of insured persons.

   i) large   ii) Small   iii) Medium   iv) None of these

3. The UNO declaration of Human Rights 1948 provides that, "Everyone has a right to a standard of living adequate for the health and well-being of himself and his family".

   i) SUMO   ii) UNO   iii) UKNOW   iv) None of these

B) Fill in the blanks

   1. The collective bearing of ……is Insurance.
   2. Insurance is not a ………but business
   3. Health Insurance coming under ………Insurance
   4. Insurance is a device of …………security. True

C) State whether the following statements are True or False.

   1. Insurance is a device for the transfer to an insurer of certain risks of economic loss that would otherwise come by the insured.
   2. Third party insurance is type of guarantee insurance
   3. Insurance provides economic protection to the people and their property.
   4. Insurance can not avoid the perils

1.2.7 Principles of Insurance

The principles of insurance are the set of rules which are applicable to the agreement entered in by insurer and insured. The contract of insurance is based on certain fundamental principles; some of them are common to life, fire, marine and miscellaneous insurance. Fundamental principles of insurance are divided in to two groups i.e. Primary Principles and Secondary Principles. These are discussed as follows.

1.2.7.1 Primary Principles

Primary principles of insurance are the basic principles of insurance. These are the backbone of insurance contract. Generally these principles are existing in all types of insurance contract. These principles are as follows.

1. Principle of Insurable Interest –

Insurable interest means interest of the insured in the subject matter of insurance. Prof. Hansell has defined insurable interest as "a financial involvement in which is able to be insured". It is the basic condition of insurance contract that insured must possess insurable interest in the subject matter of insurance. The insured should have monetary relationship with the subject matter. This monetary relationship must be legally acceptable.

Insurable interest is the pecuniary interest whereby the insured is benefited by the existence of the subject matter and is prejudiced by the death or damage of the subject matter. In other words policy holder (insured) is economically benefited by the survival or the existence of the subject matter and suffers economic loss vice versa. This principle is applicable to all types of insurance contract.

When insurable interest is exist?

Generally, in life insurance contract the insurable interest should exist at the time of taking insurance, while in marine insurance it should exist at the time of indemnification. In case of fire and accident insurance it should exist both the time.

Who can hold Insurable Interest?

Husband and wife - Husband and wife both have unlimited insurable interest in each other's life. They can insure each other. For other relatives the right to insure does not arise e.g. father, mother, independent son or daughter etc. unless some economical interest in each other.

Partners - All partners have a mutual insurable interest in each other. The death of any partner may cause an economical loss to other partner.

Debtors and Creditors – A creditor has a right to insure the life of debtor to the extent of his debt.

Trustee's – Trustee's, attorney, administrator have a right to insure property entrusted to them.

Owner – Legal owner of the property has insurable interest in the said property.

Landlord and tenant – They have insurable interest to the extent of the rent.

Employers and employees – They have insurable interest in each other. Employer has right to insure the key employees as well as employee can insure the life of employer.

2. Principle of Indemnity –

It is important principle of the insurance contract. It is applicable to all types of insurance contract excluding life insurance. Insurance is a contract of Indemnity. Indemnity means a security against loss or compensation for loss. Such compensation will be equal to the loss to the property. In other words the insured can not earn any profit out of this contract. Indemnity restores the policy holder to the same financial position after a loss as he can enjoy immediately prior to the loss. Once the policy holder is indemnified, he has to surrender all his rights relating to damaged property to insurance company.

Methods of Indemnification:

Usually there are three methods of indemnification. They are as follows.

Cash Payment – It is most suitable and user friendly method of payment of loss of indemnity. Under this method actual loss is evaluated and payment in cash is done to the insured.

Replacement / Reinstatement – Generally this method is used in fire insurance. Both the parties prefer to settle the claim through replacement. The insurance company replaces anew part the whole property. This concerns particularly in fire insurance the rebuilding of premises to their former conditions.

Repairs – Under this method with the consent of the policy holder insurance company repairs the damaged part of the property. Generally it is used for repair the motor vehicles.

3. Principle of Utmost Good Faith –

Insurance contract is based upon the mutual trust and confidence between the policy holder and insurance company. Utmost good faith means faith on each other; this means each party to proposed contract is legally responsible to reveal to the other party all material information relating to subject matter. Material information means the information on which the decision of the other party to enter into contract depends. In other words material fact means a fact that would influence the mind of a prudent underwriter in assessing the risk. The policy holder should disclose and provide all the facts to the insurance company otherwise the contract will become invalid.

The responsibility of disclosing all the material information relating to the subject matter lies with insured. Material fact includes the following.

The fact or information which increases the risk of the insurance company.

In case of life insurance, facts about life and health, family history, habits, hereditary disease, risk increases due to profession etc.

In case of marine insurance, possibility of risk due to improper maintenance of ship.

In case of burglary insurance, past history of burglary if any.

However certain facts are not included in material fact which is as follows.

The fact or information which reduces the risk of the insurance company.

The information which includes in the insurance contract.

The information easily obtained by insurance company etc.

4. Principle of Probability –

The theory of probability is the basis of insurance contract. The principle of Probability means the chances of happenings of event and expected amount of loss. Though the chances of incurring loss to any property are depend upon so many factors and rates of premium are fixed in advance by considering these factors. This theory is helpful for understanding the chances of losses and expected amount of losses. In view point of insurance company the law of large numbers is an important law. Probability of happening of certain event is applicable for large number. But very few insured are suffers loss and they get compensation.

5. Principle of Co-operation –

Professor Hansell define insurance is a social device providing financial compensation for the effects of misfortune and the payment being made from the accumulated contributions of all parties participating in the scheme. In other words insurance is a co-operative measure for providing security against losses. The loss occurs due to unfortunate event is divided into group of people. This concept of insurance is also come into existence from ancient period. The loss is compensated through social fund created by collecting money in the form of premium by way of co-operative efforts. It is systematic mechanism of cooperating each other by a group of persons who are expected to loss and actual loss suffered by anyone of them is shared by all in the form of premium.

1.2.7.2 Secondary Principles of Insurance –

Basically insurance contract is the contract of indemnity. Secondary principles are the outcome of the principle of indemnity. It includes the following.

1. Principles of Subrogation –

Subrogation means to exercise for own benefit, all rights and remedies which insured possess against the third party. In other words for own benefit, the insurance company comes to possess all the rights of the insured against the third person as regards the subject matter can be claimed by the insurer after paying the claim.

According to Elelyn Thomas, "It is the right to which one person has to stand in the place of another and avail himself of all the rights and remedies of that other."

This principle is outcome of the principle of the indemnity. It is applicable only when loss to the property is fully compensated. The payment of compensation twice to the owner of the property is avoided. e.g. If motor car of the insured is damaged by accident, insurance company may pay full amount of compensation to Mr. A. In such case insurer will become entitle to all the rights of insured subject matter against third party who is responsible to damage. Insured cannot claim amount for damage from third party and insurance company at a time. If he gets excess amount, it should be return to insurance company.

The right of subrogation may take place in any one of the following way.

Right arising out of tort

Right arising out of contract

Right arising out of salvage

Right arising out of contract

2. Principle of Contribution –

The principle of contribution is applicable when the policy holder takes the insurance from two or more insurance companies on same risk or subject matter. In such case payment towards compensation to insured by insurance company is to be made proportionately. In other words the insurance company can call other insurance company similarly liable to the same insured to share the cost of payment of compensation. This principle ensures equitable distribution of losses between different insurance companies. Under this principle insured cannot be prohibited from taking more policies of the same property or risk with different insurance companies but he is not allowed to make profit by way of double insurance.

For example, Mr. A has taken insurance of his house valued Rs.6 lakh with two companies amounting to Rs. 600000 and Rs. 300000 respectively. House is fully destroyed by fire in such case both the companies compensate the loss by contributing proportionately as Rs. 400000 and Rs. 200000 (i.e. 2:1) respectively and not in fully.

3. Principle of Mitigation of Loss –

The term mitigation means to minimize or take efforts to minimize. This principle place a duty on the policy holder to make every effort and to take all such steps to minimize the loss to the subject matter when unfortunate event take place. In other words under this principle it is the duty of insured to take necessary steps to minimize the loss, as if owner of uninsured property use to take. That means under this principle he is expected to take prudent action to minimize the loss and to save whatever is left. He must to take efforts to save the property from damages in case of accident. If he fails to do so and it is found that he was silent or negligent at the time of unfortunate event, the insurance company can avoid the amount of claim.

4. Principle of CausaProxima –

CausaProxima is the Latin word. It means Proximate Cause i.e. nearest cause. Thus Proximate Cause of loss is that cause which is nearest in effectiveness and not remote cause. At the time of payment of compensation, insurance company consider the cause for loss which is an active cause that lead for mishap and loss occur to subject matter. Generally this principle is used when actual cause of mishap is not find out or cannot be fixed. If there are more than two causes operated at the same time as a cause of loss and real cause is not found, in such case insurance company is liable to pay loss or compensation by considering nearest cause of loss. Generally this principle is used in marine insurance.

Check your progress

A) Choose correct alternative from the following

1. The principle of ……….means the chances of happenings of event and expected amount of loss.

   i) Fife ii) contribution iii) Probability iv) cooperation

2. Under principle of……….insured cannot be prohibited from taking more policies of the same property or risk with different insurance companies but he is not allowed to make profit by way of double insurance.

   i) contribution ii) insurable interest

   iii) Both iv) None of these

3. ………information means the information on which the decision of the other party to enter into contract depends.

   i) Immaterial ii) Fraudulent iii) Material iv) None of these

B) Fill in the blanks

1. ……….Cause of loss is that cause which is nearest in effectiveness and not remote cause..

2. Principle of mitigation of loss place a duty on the policy holder to make every effort and to take all such steps to ………the loss to the subject matter

C) State whether the following statements are True or False.

1. Cash Payment is most suitable and user friendly method of payment of loss of indemnity.

2. A creditor has a right to insure the life of debtor without any limitation

1.2.8 Insurance Contract and Wagering Contract

Meaning of Insurance Contract:

Insurance is a contract between two parties i.e. insurer and insured. In this contract one party (insurer) agree to compensate loss occurred due to perils to other party (Insured) by taking consideration in the form of insurance premium.

Definition – "Insurance is a contract in which a sum of money is paid to the insured person on happening of certain event in case of fire, marine and general insurance. And in case of life insurance to pay certain amount either on death of insured person or on expiry of contract period in consideration of premium".

Nature of Insurance Contract

Insurance is a contract; hence all the provisions of section 10 of Indian Contract Act are applicable to them. Indian Contract Act determines the nature of Insurance is a contract which is as follows.

1. **Two Parties -** In insurance contracts there are two parties i.e. one is insurer (Insurance Company) and another is insured (Policy holder).
2. **Written Agreement** – Any contract is legal when it is in written form. Insurance contract is a written agreement between insurer and insured. The printed proposal form provided by insurer to insured.
3. **Consideration** – Consideration means contract price. In insurance contract, insured person to pay consideration to insurer in the form of premium and insure can accept risk against premium.
4. **Eligibility for contract** – The contract is legal only when the parties involved in the contract are eligible for contract. The insurance company is legal organization and hence it is eligible for contract. That means the insured must be major and not mad or insolvent.
5. **Free Consent** – According Indian Contract Act consent for any contract should be free. It cannot given by forcibly, if to do so, contract may be illegal.
6. **Object of Contract** – The object of the contract must be legal. If object of any contract is illegal then automatically the contract will be illegal.

7. **Recognition by Law** – For recognition of law the contract should be fulfill all the legal formalities which is given in the law.

Difference between Insurance Contract and Wagering Contract:

The difference between insurance contract and wagering contract can be brought out with the help of following points.

1. **Meaning –**

Insurance is a contract in which a sum of money is paid to the insured person on happening of certain event in case of fire, marine and general insurance .And in case of life insurance to pay certain amount either on death of insured person or on expiry of contract period in consideration of premium.

A wagering contract is a contract between two parties in which one party promise to pay money or worth of money on the happening of uncertain event in consideration of the other parties `to pay him if the event does not happen.

2. **Insurable Interest** –

Insurable interest means interest of the policy holder in the subject matter of the insurance. It is mandatory that policy holder (insured) must possess insurable interest in the subject matter of insurance.

In case of wagering contract insurable interest is not present in the subject matter because the happening of the event is uncertain.

3. **Utmost Good Faith** –

Insurance contract is depend upon good faith of insurer and insured. That means utmost good faith is existing in insurance contract.

In wagering contract principle of Utmost Good Faith is not arise.

4. **Consideration** –

The insurance contract is made on the basis of consideration. Here, insured person to pay premium to insurance company as a consideration and company accept the risk.

There is no consideration exists in the wagering contract.

5. **Risk** – In insurance contract risk involved and risk is distributed among so many peoples.

   In wagering contract risk is existed because they are based on uncertain events.

6. **Enforcement by law** –

Insurance contracts are lawful and hence they are enforceable by law. In case of any dispute among insurer and insured, they make sure that it is obeyed.

A wagering contract is illegal and it can not enforceable by law.

7. **Indemnity** –

Insurance Company paid compensation after happening of certain event.

In wagering contract there is no risk or loss hence question of indemnity is not arise.

1.3 Summary

An individual and his business is exposed to several risks in their life. e.g. premature death, accident, sickness, fire, flood, earthquake, theft etc. His income capacity may come to end or reduce for a certain period of time. His business assets and other property may be adversely affected and their working life and income generation capacity is reduced. No amount of precaution can avoid these risks. However, some arrangement can be made to recover the loss arising from their occurrence. Insurance is one of such arrangements and the insurance business has flourished over the years. Insurance business plays a vital role in the economic development of a country. The business significance of insurance also can not be ignored. It also educates the businessmen about loss prevention. Thus, insurance is indispensable for the business.

Insurance is a contract between the insurer and insured by which the insurer in consideration of premium received from the insured, agrees to indemnify the insured against the financial loss caused to the subject matter insured by specific risks during the period of the insurance contract. The provisions of Indian Contract Act are applicable to the insurance contracts. Besides these provisions, some special principles, such as utmost good faith, indemnity and insurable interest apply to insurance contracts.

For getting insurance protection, the risk must be uncertain in nature. If the risk is certain it can not be insured. Insured should not be allowed to make profit from insurance. Insurance is a contract of indemnity and not a contract of wager / gambling. Insurance business is based upon the dual theories i.e. theory of probability and the theory of large numbers which facilitate insurer to estimate the probable loss as accurately as possible. It is a business and not a charitable or philanthropic activity.

Check your progress

A) Choose correct alternative from the following

1. Principle of indemnity is applicable to all types of insurance contract excluding …………….

   i) Fife insurance ii) Fire insurance

   iii) Marine insurance iv) Property insurance

2. Any contract is legal when it is in ………..form.

   i) Oral ii) written iii) Both iv) None of these

3. All partners have a mutual ……….interest in each other

   i) Fund ii) Bank iii) Insurable iv) None of these

B) Fill in the blanks

1. In broad sense personal insurance is also called as ……Insurance.
2. The principle of ………..is applicable when the policy holder takes the insurance from two or more insurance companies on same risk or subject matter.
3. …………means a security against loss or compensation for loss.

C) State whether the following statements are True or False.

1. Insurable interest means interest of the insured in the subject matter of insurance.

2. When individual or any organization can take insurance of his property for compensation of future loss then it is called as Property Insurance.
3. Insurance is a contract of Wagering
4. In insurance contracts there are two parties i.e. one is insurer (Insurance Company) and another is insured (Policy holder).

1.4 Key Words

Insurer – Insurance Company

Insured – Policy holder

Insurable interest - Interest of the insured in the subject matter of insurance.

Subject Matter – Insured Property

Indemnity – Security from loss

Utmost good faith - Faith on each other

Causa Proxima - Proximate Cause, nearest cause

1.5 Answer to self study questions

I) Check your progress

A) Choose correct alternative from the following

1. Cooperative 2. large 3. UNO

B) Fill in the blanks

1. risk 2. charity 3. Personal 4.social

C) State whether the following statements are True or False.

1. True 2. False 3.True 4.True

II) Check your progress

A) Choose correct alternative from the following

1. Probability 2. contribution 3. Material

B) Fill in the blanks

1. Proximate 2. minimize

C) State whether the following statements are True or False.

1. True 2. False

III) Check your progress

A) Choose correct alternative from the following

1. Fife insurance 2. written 3. Insurable

B) Fill in the blanks

1. Life 2. contribution 3. Indemnity

C) State whether the following statements are True or False.

1. True 2. True 3. False 4. True

1.6 Exercises

A) Write short Notes

1. Nature of insurance contract
2. Types of insurance contract
3. Difference between insurance contract and wagering contract
4. Principle of Insurable Interest
5. Principle of Indemnity

B) Essay Type Question

1. What is mean by Insurance contract? Explain the nature of insurance contract.
2. Insurance contract is differ from wagering contract :Discuss
3. State the Primary Principles of Insurance.
4. Explain the Secondary principles of Insurance.
5. What is mean by Insurance? Explain the types of Insurance contract.

1.7 Books for further reading:

1. M. Arif Khan -Theory and Practice of Insurance'
2. Kothari and Bahl - 'Principles and Practice of Insurance'
3. Insurance Institute of India - 'Ayurvima'
4. Dr. Patil V.S. and Dr. Shaha N.V. - 'Insurance'
5. M.N.Mishra, Insurance Principles and Practice, S. Chand & company ltd., New Delhi.
6. C.J.Joshi, Insurance, Phadake Prakashan, Kolhapur.
7. B.N.Belegali, Insurance, Phadake Prakashan, Kolhapur.
8. B.V.Valgade, Dr. Girigosavi, Dr. S.R.Pawar – Insurance, Phadake Prakashan, Kolhapur
9. Dr. Shaha N.V. - 'Insurance' , SIM., Shivaji University, Kolhapur

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Unit-2

Life Insurance

Index

2.0 Objectives

The objectives of this Chapter are to help the students to understand.

- The meaning and nature of Life Insurance
- The information regarding the whole Life Policy and the Endowment Policy
- The information regarding the Term Plans and the Pension and Annuity
- The meaning and concept of ULIP

2.1 Introduction:

Life Insurance is one of the most popular and important forms of insurance. Life insurance is insurance on human Life. Man's life being uncertain, he is prone to meet immature death, accident, disability, old age etc. In such conditions life insurance provides the best source to the family by providing funds to lessen the economic uncertainty. The life insurance is taken out with double purposes - protection against the risk and investment. Life Insurance being a contract for a long period, it provides protection and acts as a sure investment. Life Insurance is a contract for payment of a sum of money to theperson on the happening of the event insured against. Usually the insurance contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or at the unfortunate death if it occurs earlier. In other words, it is the civilized world's partial solution to the problems caused by death. In short, life insurance helps in two ways: premature death, which leaves dependent families to fend for itself and old age without visible means of support.

The present unit attempts to introduce the concept of Life Insurance, nature of life insurance and various products of the life insurance.

2.2 Subject Matter

2.2.1 Meaning and Nature Life Insurance

The concept of life insurance is based on two fundamental elements of 1) 'Death Cover' and 2) 'Survival Benefits'. According to the former element, in the event of the death of an insured within the specific period, his family members are liable to get the promised amount by the insurance company and according to the later element, if the insured survives after the specific period the insurance company undertakes to pay him amount of Insurance. Though, life insurance can not avoid one's death, at least it tries to minimize the economic burden, to some extent, of the family members by taking risk of the insured.

Definitions

Insurance Act 1938 - "Life Insurance business means the business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is assured on death (except death by accident only) or the happening of any contingency dependent upon human life and any contract which is subject to payment of premiums for a term dependent on human life."

J.H. Magee - "Life insurance contract embodies an agreement in which broadly stated, the insurer undertakes to pay a stipulated sum of money upon the death of the insured' or at some designated time to a designated beneficiary"

R.S. Sharma – " Life insurance contract may be defined whereby the insurer, in consideration of a premium paid either in lump sum or in periodical installments , undertakes to pay an annuity or a certain sum of money either on death of the insured or on the expiry of certain number of years."

"A contract of life insurance is that in which one party agree to pay a given sum of money upon the happening of a particular event contingent upon duration of human life in consideration of the immediate payment of a smaller sum or certain equivalent periodical payments by another. "

1.2.2 Nature of Life Insurance

The analysis of above definitions explains the nature of insurance as follows.

1. Life Insurance is a Contract

Life Insurance is a contract between two parties i.e. insurer and insured by which the insurer, in consideration of insurance premium, agrees to pay the certain amount to the insured against certain probable unexpected incidence. In life insurance, insurance company pay certain sum of money on the death of the insured person or if insured is alive, paid to them the amount of premium with interest and bonus.

2. Cooperative device

All for one and one for all is the basis for cooperation. A life insurance is a good example of cooperative device to spread the loss caused by a specific event. Insurance is based on the principle of mutual help. Under this arrangement persons exposed to same risks come together and create a common fund and compensate the person who has actually suffered the loss. In other words, life insurance is a cooperative mechanism wherein large number of persons comes together. They have similar risk and share the loss by contributing a small amount in the form of premium. Thus, it is cooperative device which is helpful to society to protect the family, if the policy holder dies before maturity date of the policy.

3. Large number of Person –

Life insurance mechanism works on the principle of large number of insured persons. Insurance is spreading of loss over a large number of persons. The persons involved in life insurance collect the amount in the form of premium and such amount is paid to persons who actually suffer the risk.

4. Sharing of risk :

Life insurance is a social and economic device. It share the financial loss occurred caused by unexpected incidence between the public who are exposed to risk. The death of the insured, illness, disable due to accident etc. may cause a tremendous loss to the insured. Under life insurance mechanism this risk shared amongst all the insured in the form of premium. Life insurance provides financial help to dependents of insured, if he dies before the maturity date.

5. Uncertainty:

The event to be insured must be uncertain and unforeseen. However, In life insurance even though death of insured person is certain its timing is uncertain. Hence life insurance is also a legal contract.

6. Payment of claim:

In case of life insurance, the contingency i.e. death or the maturity of the policy will certainly happen. In such case insurer is liable to pay the policy amount on the death of the insured or on the expiry of the term whichever is earlier. If insured dies before date of maturity of the life policy, sum assured will receive by the legal heir or nominee of the policy holder.

7. Insurable interest –

The interest of the insured in the subject matter of insurance is called as insurable interest. In the life insurance the life of the person is the subject matter. In life insurance contract the insurable interest should exist at the time of taking insurance. Husband and wife, other relatives e.g. father, mother, independent son or daughter etc., partners, Debtors and Creditors, trustee etc. can hold Insurable Interest.

8. Life insurance is not an Indemnity contract-

Though life insurance is a contract, it is not a contract of indemnity. Because the loss caused by the death cannot be calculated in terms of money nor money is a compensation for loss of one's life. Life insurance contracts are an exception to the principle of indemnity. He can also take life policies of any amount as the loss of death can not be measured in monetary terms.

9. Protection to family :

Life insurance protects the families from the economic hardship, if insured dies before the maturity of policy. It is the basic principle of the life insurance to save a person from uncertain future incidents such as premature death, old age, accident etc.

10. Life Insurance is not a charity but business :

Life insurance is a business which provides financial protection to the life of insured from unforeseen event. However, insurance company collect the amount of premium as a consideration form insured for the cost of risk so covered. Charityis a payment without claiming anything in return.

11. Investment of Saving –

It is the differential characteristic of the life insurance. Life insurance combines the element of protection and investment. There is no any other mechanism or device, which involves both the elements of protection and investment. Though the insured is interested in protecting his life against risk of premature death, he also wants to save or invest some amount for fulfillment of future needs . Life insurance provides assurance to meet future financial needs particularly arises due to old age, premature death or accident or any unforeseen events.

Check Your Progress I

A) Choose the right alternative from the following and fill in the blanks.

1. Life Insurance can __________ the death risk.

   a) avoid b) not avoid c) remove d) postpone

2. …......Insurance business means the business of effecting contracts of insurance upon human life

a) Life b) Fire c) Marine d) Crop

3. Life insurance combines the element of ………and investment.

   a) Accident b) Protection c) Death d) Loss

B) Fill in the blanks

1. Life Insurance is not a ……….. but business
2. Life Insurance is a contract between two parties i.e. ………. and insured
3. The interest of the insured in the subject matter of insurance is called as …………… interest.

C) State true or false

1. Life insurance protects the families from the economic hardship.
2. Life insurance mechanism works on the principle of small number of insured persons.
3. A life insurance is a good example of cooperative device to spread the loss caused by a specific event.

2.2.2 Life Insurance Products:

The life insurance companies have introduced different policies to meet different needs of different people. The social and economical conditions of different classes of the society are never equal or same. The occupations, risks in occupations, income, economical needs, expectations, priorities and difficulties are relatively different by person to person. Hence, the different schemes need to be introduced.

A person who wants to buy an insurance product has to consider the various factors such as the amount of sum assured, amount of premium, source of income, type of risk, maturity time and circumstances at the time of maturity etc. He can select one of best product from life insurance products available in the market. Therefore, insurance companies offer various types of life insurance products by considering different needs and situation of the insured.

There are five basic types of life insurance products are offered by insurance companies such as Whole Life Policy, Endowment Life Insurance policy, Term Insurance Policies, Pension and Annuities and Unit Linked Insurance Plans.

However, in actual practice, some of the kinds are brought together to make more attractive schemes. As well, by charging extra premiums, supplementary benefits are extended. In addition to these basic products, various plans are available suiting the requirement of the society.

The following chart shows the various types of life insurance policies or products offer by the insurance companies

Types of Life Insurance Policies/ Products	
1. Whole Life Policies	The policies by which sum assured is paid to the family members of the insured after his death. The premiums are to paid during the whole life of insured.
2. Endowment Policies	The policies that offer sum assured to the insured if he survives a particular term and if he dies before that term to his legal heirs.
3. Term Policies	The policies that offer sum assured on the death of the insured during the specified period.
4. Pension and Annuities	Policies that promise to pay a given amount periodically to the annuitant, during his life time, starting immediately or from a future date.
5. Unit linked Insurance plans	A combination of insurance plan & investment plan

2.2.2.1 Whole Life Policies

It is clear from the name of this policy is issued for whole life of insured. In whole life policy the assured is covered for his entire life and the sum assured becomes payable to the beneficiary on the death of the assured. The amount of policy i.e. sum assured is paid to the nominee or legal heir, only after the event of insured's death. Thus, the insured can not get the amount of policy during his life time. However, in exceptional case some insurers pay the sum assured when the insured completes say 100 years. While some other insurers waive further payment of premium after say 35 years or when the assured attains a certain age like 75.

This type of life insurance product is most suitable for persons of all age groups who want to protect their families from financial setback, if it occurs due to premature death of the insured.

Whole Life Plan

Particular	Minimum	Maximum
Entry age	18 Years (18 Last birth day)	60
Sum assured	30000	No limit
Term	Not applicable	Not applicable

Mode of Payment	Monthly, Quarterly, Half yearly or Yearly (Salary saving scheme also available)
Maximum premium payment	80 years or 40 years from date of commencement whichever is later

Benefits:

i) Survival benefits: Nil

ii) Death benefits : Sum assured + Accrued Bonus+ Terminal Bonus (if policy in force minimum 15 years before death of the insured)

Features of Whole Life Policy

1. The whole life policy covers the whole life of the assured. It means the term of the policy is not fixed.
2. The sum assured is payable only on death of the policy holder and not during his life-time.
3. The premiums are required to be paid until the death of the policy holder.
4. Some insurance companies waive further payment of premium after 35 or 40 years or after the policy holder reaching the age of 75 or 80 years.
5. The premiums, as are to be paid for a long term, the rate of premium is low, hence, this is supposed to be the cheapest kind of policy.

6. When the assured pays premiums at least for three years and discontinues paying further premiums, the policy automatically becomes paid-up and after his death, paid-up value is paid to his legal heirs.
7. Mode of payment of premium is monthly, quarterly, half yearly or yearly (Salary saving scheme also available)
8. Loan facility on policy is not available

Advantages of Whole Life Policy

1. Whole Life policy is convenient and useful for the person who wants to make provisions for his dependent family members after his death.
2. One can take out this policy of large amount at low premium.
3. The beginners of job / occupation can beneficially avail of this kind of policy.

   The beginning their income being low they can not afford policies of higher premiums.
4. This plan is helpful to make provision of payment of estate duty on the property after death of insured person.

Disadvantages of Whole Life Policy

1. Premiums are to be paid for life time.
2. Paying premiums in old age becomes difficult.
3. Insured has not paid sum assured in his life time. So, generally, people are not interested to take whole life policies.
4. This kind of policy is not useful, to meet the needs, such as, education or marriage expenditure of children,
5. This plan fails to consider the old age and reduction in earning capacity of insured.

2.2.2.2 Endowment Policies

This is the most popular kind of life insurance policy. By taking endowment policies, the assured enjoys the benefit of obtaining sum assured after expiry of certain period in his life time or if he dies before the expiry of endowment period. In other words, it is the type of life insurance contract under which the sum assured to be paid either at death or after maturity of the policy whichever is earlier. The premium under endowment policy is higher than whole life policy. The mode of payment of premium is same as like whole life policy i.e. yearly, half yearly, quarterly and monthly. However, single premium policies also available.

Endowment life insurance product is an ideal combination of both the family protection and investment for future life. It is suitable for all peoples who want to protect their families from a financial risk as well as to make provision for old age. Under this policy holder paid the premium throughout the policy term or the death of the insured whichever is earlier. Insured taken out the policy for a specific term and the sum assured is paid insured if he is survival at the date of maturity of policy or paid to the legal heirs if insured dies before date of maturity.

Endowment policy may issued with profits or without profits. The policy may paid up if at least three years premium have been paid.

Benefits:

i) Survival benefits : Sum assured + Fixed Assured Bonus + Bonus

ii) Death benefits : Sum assured + Accrued Bonus

Endowment Plan

Particular	**Minimum**	**Maximum**
Entry age	18 Years (18 Last birth day)	60
Sum assured	500	No limit
Term	Not applicable	30 to 35 yeras

Mode of Payment	Monthly, Quarterly, Half yearly or Yearly (Salary saving scheme also available)
Maximum premium payment	60 years from date of commencement
Policy loan available	No

Features of Endowment Policy

1. The policy holder decides the insurance amount and term of the policy, e.g. insurance policy for Rs.10 lakh for a period of 25 years. This period is called as endowment period.

2. The premium is to be paid upto the endowment period or upto the death of the assured whichever is earlier.

3. The term of paying premiums can be selected lesser than the term of the policy.

4. At the time of expiry of the policy, if the assured survives, he can receive the full amount of sum assured together with assured bonus.

5. If insured dies before the expiry of endowment period the insurance amount is paid to his heirs.

6. After payment of premiums at least for three years and then discontinuing, payment of further premiums, the policy automatically becomes paid up for less amount.

7. Endowment plan is the combination of investment and protection.

Advantages of Endowment Policy

1. It is more beneficial to the persons belongs to middle class and salary earners, as payment of premium can be linked with salary.

2. Regular and compulsory savings is the main advantage of endowment policy. When the assured pays the premiums for the selected period, he gets this amount after the completion of this period. With the help of this amount he can meet his various needs.

3. With savings, the insured can make provision for his family. If the assured dies before the selected period, the insurance amount is paid to his heirs.

4. In consideration with his present age and age at the time of retirement, the assured can select the period of his policy and thus can make provision for his retirement.

5. By purchasing this kind of policy, one can make provision for education and marriage of his children, construction of house, etc.

6. The assured does not require to pay the premiums for "life time as in case of the whole life policy. Therefore, there is no burden of paying premiums in old age.

Disadvantages of Endowment Policy

1. The premium is to be paid at higher rate than that for Whole Life Policy.

2. The insurance amount received after the completion of endowment period may not be utilized for proper purpose.

3. The insurance amount as is obtained during life time, economical protection for family may not be provided. The assured will have to make different provision for it.

2.2.2.3 Term Insurance Plans:

Term insurance is a short term plan. Under this plan the sum assured is payable only on the death of the life assured. That means if the insured person alive till the completion of date of specific policy term, nothing is payable to insured. Thereafter the contract of term insurance automatically comes to the end. The premium is paid through out the term or till the death of the insured whichever is earlier. It is the cheapest type of insurance product. Generally the persons who want to protect his family for a short duration by paying fewer amounts as a premium is prefer such type of plans. This policy can not entitle surrender value nor will any loan be granted. In the following cases term insurance plans are useful.

1. The person who needs extra protection for a short period
2. Key men or key persons insurance for a specific period
3. Young businessman or industrialist who wants to sustain from unforeseen events during early period of the business.
4. Parents can take such policy for education or marriage of son and daughter

Benefits :

i) Survival benefit : Not applicable

ii) Death Benefit : Total sum assured

Term Insurance Plan

Particular	**Minimum**	**Maximum**
Entry age	18 Years (18 Last birth day)	60 Years
Sum assured	50,000	10,00,000
Term	6 , 12 , 18 months	NA
Mode of Payment	single premium	
Maximum maturity age,	62 years	
Policy loan available	No	

Features :

1. The sum assured is payable only in the event of death of a insured
2. This plan not covers the principle of investment. It provides only protection to family
3. It is the cheapest type of insurance
4. It is a non medical plan. Any person with in the limit of 62 years age can take policy without any medical examination
5. This policy is always without profit.

Advantages :

1. It is useful to individuals who specially require insurance cover against risk for a specific term
2. Term insurance accomplish aim of protection
3. If death occurs before maturity of term, the sum assured paid to the nominee or legal heirs of the insured
4. Big amount of policy can be taken in low amount of premium

Disadvantages :

1. This plan not covers the principle of investment. It provides only protection to family
2. There is no any survival benefit. If the insured is alive at the time of maturity of the term plan the sum assured will not give to the insured

2.2.2.4 Pension and Annuity Plans:

An annuity and pension is a long term investment contract that is issued by an insurance company. It is designed to help protect you from the risk of outliving your income. Through annuitization, your purchase payments (what you contribute) are converted into periodic payments that can last for life. It is a contract, which provides regular and periodical payments for a specific period or for the remaining period of the life. For this purpose annuitant exchange the lump sum payment of money to the insurer. In pension or annuity plan the insurance company assures to pay certain amount periodically up to the death or maturity of the term. The payment of annuity or pension is generally continues up to the life. Hence the rate of premium is determined on the basis of longevity.

Annuity is a system of assured payment from insurance company to annuitant periodically till death of the annuitant or expiry of the policy period. It is most useful to retiring person, who wants to earn fixed sum with less risk. It is also helpful to those who desire to enjoy his investment during his life time and not leave for others.

It is said that when regular life insurance plans stops to serve, the annuity plan start to serve. In other words this plan is opposite to insurance plans.

Nationwide's annuities are flexible so you can choose one that enables you to:

- Invest a lump sum or invest over a period of time
- Start receiving payments immediately or at some later date
- Select a fixed, variable or indexed rate of return

An annuity is a contract between annuitant (insured person) and an insurance company in which annuitant make a lump sum payment or series of payments and in return obtain regular disbursements beginning either immediately or at some point in the future. The goal of annuities is to provide a steady stream of income during retirement. An annuity that begins paying out immediately is referred to as an immediate annuity, while those that start at a preset date in the future are called deferred annuity.

Definitions:

1. D.S.Hansell : " Annuities are a form of person, whereby in return for a certain sum of money the insurer agrees to pay the annuitant an annual amount for a specified period or for the remainder of the annuitant's life."
2. Joseph B. Maclean : "Any contract providing for regular periodic payments for a specified period is an annuity."
3. R.S.Sharma, " A Life annuity may be defined as a contract payment or payments, to pay to the beneficiary , a fixed regular income during a given period."
4. W.A. Dinsdale, "Annuity may be defined as the payment of amounts periodically during the life time of the annuitant in consideration of the payment of an agreed sum to the insurance company."

Types of Annuity :

Annuities are divided in to three main varieties viz., fixed, variable and indexed - that each have their own level of risk and payout potential.

1. **Fixed annuities** : It pay out a guaranteed amount based on the balance of your account. The downside of this predictability is a modest annual return.
2. **Variable annuity**: In this case, you can choose from a list of mutual funds that comprise your personal "subaccount." Here, your payments in retirement are based on the performance of investments in your subaccount. You have the opportunity for a higher return, accompanied by greater risk, with a variable annuity.
3. **Indexed annuities** : Indexed annuities are somewhere in between when it comes to risk and potential reward. You receive a guaranteed minimum payout, although a portion of your disbursements is tied to the performance of a market index.

Features of Annuity:

1. The goal of annuities is to provide a steady stream of income during retirement

2. When regular life insurance plans stops to serve, the annuity plan start to serve
3. Annuitant deposits a lump sum in one or more installments
4. This contract is generally entered for own benefit of the annuitant
5. The rate of premium for annuity is calculated on the basis of longevity of the annuitant
6. It is just opposite to insurance plans

Advantages:

1. It is most useful to retiring person, who wants to earn fixed sum with less risk.
2. It is also helpful to those who desire to enjoy his investment during his life time and not leave for others.
3. Generally this plan is preferred by persons those who have no dependents
4. Annuity is a guaranteed periodic sum of money till the survival of the annuitant
5. The payment of annuity is being made yearly, half yearly, quarterly or monthly
6. It does not require medical examination. It means annuity is a non-medical plan
7. When life insurance plans stops to serve, the annuity plan start to help the annuitant up to his survival
8. It gives protection against living for longer period

Disadvantages :

1. It is not beneficial to the persons who have loving dependents
2. It is not helpful to the dependents after the death of the annuitant
3. It means the person who dies earlier not get much benefit
4. It does not give protection against early death of the annuitant as insurance plans

2.2.2.5 Unit linked Insurance Plans (ULIPs)

Under Unit linked Insurance Plan the investment is made subject to risk associated with capital market. Such investment risk is borne by the policy holder hence; insured should make investment choice by considering his risk attitude and need. In order to make life insurance products more attractive and popular among the public the insurance companies have launched unit-linked policies.

In India the Unit Trust of India, was the first to introduce a unit-linked Insurance Plan in 1971. Birla Sun Life was the first private company to launch a unit linked insurance products. Then it was followed by a number of other private companies like Om Kotak Mahindra, ICICI Prudential, SBI Life Insurance etc. Under public sector LIC launched its first unit linked offer 'Bima Plus.'

Unit linked insurance policies are not a pure insurance product but they are a hybrid product combining the insurance cover and capital market instrument. It is a life policy which provides risk cover as well as investment option to policy holder such as stocks, bonds or mutual funds. Under ULIP plan the premium paid by insured is invested in equity, debt or money market.

The policy holder will receive the assured benefits or the value of unit linked investment whichever is higher at the time of maturity of the UIP plan. The amount received under ULIP plan is exempt from Income Tax. ULIP have a minimum lock-in-period of five years. Within lock-in-period policy holder can not withdrawal any amount from this plan, however, after completion of five years he make partial withdrawal.

Definition of ULIPs :

"A Unit Linked Insurance plan (ULIP) is a product offered by insurance companies that unlike a pure insurance policy gives investors the benefits of both insurance and investment under a single integrated plan."

Features of ULIPs

1. **Hybrid product** : An ULIP is a combination of Insurance Product and Mutual Fund Product. Hence, it is called as hybrid product.
2. **Flexibility :** ULIPs provide flexibility to choose the sum assured amount of premium, mode of payment, type of fund, switch over the fund, etc.
3. **Deductions**: As like other insurance plans, premium invested in ULIP plan is considered for deduction u/s 80 C of the Income Tax Act.

4. **Transparency** : ULIPs are transfurent plans because the customer knows the type of fund in which his money shall be invested and the charges to be deducted.
5. **Liquidity** : ULIPs provide an option of withdrawing from plan after a few years and liquidate the investment. Alternatively they also allow partial withdraw after completion of lock-in-period. .
6. **Lock-in-period** : As compared to the tradition insurance plan the term of ULIPs is short. However, minimum lock-in-period is five years.
7. **Fund allocation** : A part of the premium is invested in capital market installments like equities and debts according to the fund selected by the policy holder; and remaining part is used for providing insurance cover.

Merits of ULIPs

1. **Multiple benefits**: ULIPs provide multiple benefits to investors like risk cover; long term investment, investment growth etc. integrated in one product.
2. **Saving habit**: ULIPscreate disciplined and regular saving habit among people through investing small amount.
3. **Spread the investment risk**: ULIPs spread the investment risk over a large group of investors. They are liable to investor who wishes to avail of the benefit of market linked growth without actually participating in the stock market.
4. **Flexibility**: ULIPs offer a high degree of flexibility to the plan holders e.g. option to change the plan, top-up the amount of premium/sum assured etc. This flexibility is not available in traditional insurance plans.
5. **Partially withdraw facility** :In case of emergency the ULIP holder can partially withdraw the amount from his ULIP or quite the plan. Thus investment in ULIPs has liquidity.
6. **Income tax deduction**: Payment of premium on ULIPs enjoys income tax benefits. The amount received at the time of maturity of ULIP is also tax free.
7. **Market linked returns**: ULIP gives investors an opportunity to earn market linked returns. The part of the premiums is invested in market linked funds.

8. **Mortality cover:** as like life insurance plans ULIP also provides mortality cover to the ULIP holder. If policy holder dies before maturity the nominee can claim the amount.

9. **Best for long term investment**: ULIP is beneficial to the investors who want to invest their amount in long term.

Demerits of ULIPs

1. Less Insurance Cover:ULIP combines insurance plan with investment plan. It gives a small insurance and only average rate of returns. ULIPs are not preferred by those who wish more insurance covers because it gives very less insurance cover.

2. Expensive : The high rate of commission paid to the agents , advisors and due to other heavy charges such as mortality charges, administration charges ULIPs is quite expensive as compared to other insurance policies and investment plans.

3. Less Return :Mutual funds and investment plans give more returns as compared to ULIPs during a period of 15 years.

4. Not beneficial for short term:ULIPs are not beneficial for short term period. Their lock in period is 3-15 years. However, in some cases the lock in period is 3 to 5 years.

5. Risky Investment: The amount invested in ULIP is basically related with capital market. Therefore the return on ULIP is depend upon the performance of capital market.Hence the investor should know the risk absorption capacity before deciding to invest in ULIPs.

6. Loan facility: Loan facility is not available on ULIPs.

7. Complicated plan:ULIPs are complicated plan and the common people are not able to understand the nature and terms of these plans.

Guidelines of IRDA

Insurance Regulatory and Development Authority (IRDA) have issued certain guidelines to control the insurance companies in respect of issue of ULIPs. Some of the guidelines and mentioned below.

1. ULIP plans are designed according to life insurance instruments

2. The term of ULIP should not be less than five years.

3. In case of single premium unit linked plan, the sum assured payable on death of the policy holder should be 125 per cent of the single premium.

4. In case of non-single premium plans the sum assured on death should be five times the annualized premium or half the annualized premium multiplied by the term of the policy. However, ULIP holder free to choose whichever is beneficial.

5. The insurance companies should invest 75 per cent of the funds collected under unit-linked plans in approved securities and not more than 25 per cent in other securities.

Check Your Progress II

A) Choose the right alternative from the following and fill in the blanks.

1. The rate of premium on a whole life insurance policy is _________

   a) higher b) lesser c) equal d) none of these

2. The policy plans whose benefits are based on the performance of funds are called _________ plans.

   a) Term b) Endorsement c) Unit linked d) Whole life

3. Any contract providing for regular periodic payments for a specified period is an……………

   a) Annuity b) Charity c) Ambiguity d) None

4. In ………..life policy the assured is covered for his entire life and the sum assured becomes payable to the beneficiary on the death of the assured.

   a) Endowment b) Term c) whole d) None

B) Fill in the blanks

1. The term of ULIP should not be less than …… years.
2. ………. combines insurance plan with investment plan.
3. Term insurance is a ……….term plan.

C) Whether the following statements are true or false.

1. Endowment policies are the most popular ones.
2. All insurance policies are eligible for obtaining bonus.

3. There are five basic types of life insurance products are offered by insurance companies

2.3 Summary

Life Insurance is one of the most popular and important forms of insurance. Life insurance is insurance on human Life. Life Insurance is a contract for payment of a sum of money to the person on the happening of the event insured against. Usually the insurance contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or at the unfortunate death if it occurs earlier. Though, life insurance can not avoid one's death, at least it tries to minimize the economic burden, to some extent, of the family members by taking risk of the insured.

According to Insurance Act 1938 - "Life Insurance business means the business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is assured on death (except death by accident only) or the happening of any contingency dependent upon human life and any contract which is subject to payment of premiums for a term dependent on human life."

Life insurance is contract. It is a cooperative devise. It stands on the principle of large number of person i.e. law of large number. Life Insurance is not a charity but business.

There are five basic types of life insurance products are offered by insurance companies such as Whole Life Policy, Endowment Life Insurance policy, Term Insurance Policies, Pension and Annuities and Unit Linked Insurance Plans. However, in actual practice, some of the kinds are brought together to make more attractive schemes. As well, by charging extra premiums, supplementary benefits are extended. In addition to these basic products, various plans are available suiting the requirement of the society.

2.4 Key words

Life Insurance : An insurance that promises to pay a specific amount on the occurrence of certain event contingent on the life of a policy holder.

Whole Life Policy : A life insurance policy that promises to pay sum assured to the legal heirs / dependents of the assured after his death.

Endowment Policy : A life insurance policy that promises to pay at the end of the specific term or if the assured dies before the term, to his dependents.

Bonus : A specific share distributed out of the surplus made by the life insurance company to the policyholders.

Insurable interest – The interest of the insured in the subject matter of insurance is called as insurable interest.

Charity- Charityis a payment without claiming anything in return

Annuity -An annuity and pension is a long term investment contract that is issued by an insurance company.

ULIP -Unit linked Insurance Plan under which the investment is made subject to risk associated with capital market

2.5 Answer to check your progress:

Check Your Progress I

A) 1. Not avoid 2. Life 3. Protection

B) 1. Charity 2. ULIP 3. Insurable

C) 1. True 2. False 3. True

Check Your Progress II

A) 1. Lesser 2. Unit Linked 3. Annuity 4. Whole

B) 1. Five 2. Insurer (Insurance Company) 3.

C) 1. True 2. False 3. True

2.6 Exercises

A) Short Answer type questions

1. State the Nature of Life Insurance
2. What is an ULIP?
3. What is the Whole Life Insurance?
4. Explain the merits of endowment policies
5. Explain the merits and demerits of Whole Life Insurance
6. Explain the merits and demerits of Term Plans

B) Broad questions

1. Explain the meaning and Nature of Life Insurance
2. What is the Whole Life Insurance? What are its features, merits and demerits?
3. What is an ULIP? State its merits and demerits.
4. Explain the features , merits and demerits of endowment policies.
5. Explain the merits and demerits of Term Insurance

C) Write short notes

1. Endowment Life Insurance Policy
2. ULIP
3. Whole Life Policy
4. Endowment Life Policy
5. Annuity
6. Term Plans

2.7 Books for additional reading

1. M. Arif Khan - Theory and Practice of Insurance'
2. Kothari and Bahl - 'Principles and Practice of Insurance'
3. Insurance Institute of India - 'Ayurvima'
4. Dr. Patil V.S. and Dr. Shaha N.V. - 'Insurance'
5. M.N.Mishra, Insurance Principles and Practice, S.Chand & company ltd., New Delhi.
6. C.J.Joshi, Insurance, Phadake Prakashan, Kolhapur.
7. B.N.Belegali, Insurance, Phadake Prakashan, Kolhapur.
8. Dr. Shaha N.V. - 'Insurance', SIM., Shivaji University, Kolhapur
9. B.V.Valgade, Dr. Girigosavi, Dr. S.R.Pawar – Insurance, Phadake Prakashan, Kolhapur

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Unit-3

Life Insurance Policy

Index

3.0 Objectives

The objectives of this Chapter are to help the students understand.

- The concept and meaning of Life Insurance
- The importance of Life Insurance from the perspective of an individual, business, and economy
- The procedure of Taking out Life insurance
- The conditions / terms of Life Insurance
- How the claims of Life Insurance are settled.

3.1 Introduction

Life Insurance is one of the most popular and important forms of insurance. Life insurance is an insurance on human Life. Man's life being uncertain, he is prone to meet immature death, accident, disability, old age etc. In such conditions life insurance provides the best source to the family by providing funds to lessen the economic uncertainty. The life insurance is taken out with double purposes - protection against the risk and investment. Life Insurance being a contract for a long period, it provides protection and acts as a sure investment. The business of Life Insurance began in India in 18th century. In the beginning, the British Life Insurance companies dealt in the business limited to citizens of British origin only. In later years, they began to deal with the Indian people by selling them life insurance policies. The first Indian insurance company. Bombay Mutual Life Assurance Society was established in 1870. In 1912, the then contemporary government passed the first Insurance Act, which was replaced by a comprehensive Insurance Act of 1938. This Act was amended in 1950. Finally, the Government of India, nationalized the entire life insurance business in the year 1956 by passing the Life Insurance Corporation Act. Thus, at present, the life business is transacted by the Life Insurance Corporation of India, popularly known as LIC. In 1999, the recommendations made by Malhotra Committee were accepted and' Insurance Regulatory and Development Authority Act' was passed by which today, the business of Insurance has been made open to private companies, too. Hence, along with Life Insurance Corporation of India, some private companies are doing the business in Life Insurance. The present unit attempts to introduce the concept of Life Insurance, its importance, types, conditions and procedure of taking out a life policy and settlement of claims.

3.2 Subject Matter

3.2.1 The Concept and Meaning Life Insurance

The concept of life insurance is based on two fundamental elements of 1) 'Death Cover' and 2) 'Survival Benefits'. According to the former element, in the event of the death of an insured within the specific period, his family members are liable to get the promised amount by the insurance company and according to the later element, if the insured survives after the specific period the insurance company undertakes to pay him amount of Insurance. Though, life insurance can not avoid one's death, at least it tries to minimize the economic burden, to some extent, of the family members by taking risk of the insured. It is extremely impossible for a person or a company to evaluate human life in form of money, though, a certain amount after the death of an insured is promised to be paid and it is really a very great importance.

Definitions of Life Insurance

1) **Insurance Act 1938** - "Life Insurance business means the business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is assured on death (except death by accident only) or the happening of any contingency dependent upon human life and any contract which is subject to payment of premiums for a term dependent on human life."

2) **J.H. Magee** - "Life insurance contract embodies an agreement in which broadly stated, the insurer undertakes to pay a stipulated sum of money upon the death of the insured' or at some designated time to a designated beneficiary"

The features or characteristics of the Life Insurance

1) The life insurance is a contract between the insured and the insurer (Insurance Company). Hence, all the provisions of Indian Contract Act are applicable to it.
2) The life insurance promises to pay a certain amount on occurence of death, physical disability and such event related human life.
3) Life insurance is a contract that promises to pay certain, assured amount. Because no one can evaluate human life, this is not contract of indemnity.
4) It is taken out with two objectives - of protection and investment.
5) By purchasing life insurance, one can make provisions for higher education of his sons and daughters or their marriages.
6) It could be purchased to meet some special needs, such as expenditure incurred on medical treatment, compensation for loss of Income due to illness, physical disability and accident.
7) By purchasing a life insurance policy, one can make provisions for repayment of bank loan or other loans after one's death, saving one's family members from the burden of repaying it.
8) Along with the provisions of Indian Contract Act, the principle of utmost good faith and the principle of insurable interest are also applicable to Life Insurance Contract.

9) Life insurance policy being a personal property of an insured, it can be sold or mortgaged or gifted out.

10) It has a facility of nominating the insured's heir. It is to decide to whom the insurance amount be given after the death of the policyholder. The nomination can be done at the time of submitting proposal form or any time the during currency of the policy.

3.2.2 Importance of Life Insurance

The fast growing industrial development and the revolution in transport and communication system, no doubt have brought in prosperity, but at the same time, these advancements have endangered human life tremendously, have created tensions and uncertainty unprecedentally. The activities of the terrorists and extremists, industrial accidents, transport accidents etc have reduced the security in human life. In addition to the above, the floods, earthquakes, hurricanes and such natural calamities and environmental / ecological imbalance have made life much more uncertain. On one hand, the per capital income is rising, but on the other hand, man's income making capacity is getting reduced. A solution on all these, the life insurance has achieved great importance. The importance of Life Insurance can be explained from the individual's, economy's and in general, the social point of view.

A) From the Individual Person's Point of View

Life Insurance is extremely important from the individual person's point of view. No one today can continue one's life free from anxieties without taking life insurance. It is cent percent true that life insurance has no substitute. By discussing some of the distinct advantages of life insurance, its importance in man's life is enumerated in the following ways.

i) Family Protection

The life of a family is dependent on the bread - earner, the head of the family. Unfortunately, if he dies at an early age, the very support of the family disappears and the surviving dependents have to face many financial difficulties. At such occasions, life insurance provides funds to them immediately after the death of a policy holder, life insurance therefore, is much superior as compared to any ordinary investment, because it offers full protection to the family members after the death of a policyholder.

ii) Old Age Relief

A person by taking a life insurance policy can make provisions for his old age and may lead a life of comfort and happiness. In the nuclear family system today, there is no certainty about that the sons would take care of their old parents. But, the amount of insurance received in old age will certainly prove a great relief. That would make a person self - reliant.

iii) Compulsory Savings

Taking Life Insurance encourages one to economize and save one's hard-earned money compulsorily. When the income is limited and dependents are many, it becomes very difficult to save regularly. Somehow, if some money is saved, it could be expended by momentary inducement. But when a person purchases a life insurance policy, he can easily continue a long term saving plan, by regular payments of premiums. He gets habituated to control his expenditure by force. This kind of saving is unique one, because it provides security against the risk to life.

iv) Provision to meet children's needs

The life insurance companies issue some schemes by which policy holder can make provisions for meeting the needs of his children, like expenditure of their higher education or marriages etc, In a sense, life insurance provides assistance to a policy holder to educate his children and make their bright careers. The marriage expenditure can be met easily.

v) Provision for special needs

In case of emergency needs of the family, the loans can be obtained on the basis of the security of life insurance policy. For instance, if a person, unfortunately becomes physically disable or meets an accident or falls seriously ill, he will have to be admitted to a hospital where he will have to incur a lot of money on medical treatment. During the time, his earning gets reduced for some time or stops permanently. To meet such huge expenditures, buying a life insurance policy is an ideal way of making provisions for.

vi) Tax Relief

On payment of life insurance premium at certain tax relief is given in the assessment of income tax. For computing income tax, the premiums of life insurance are allowed to be deducted from taxable income. When this tax relief is taken into account, it will be found that the insured actually pays much less than what he has to pay against premiums.

vii) Protection against creditors

By effecting a valid assignment of the policy, the sum assured can be protected against the claims of the creditors of the policyholder. In the event of his death, the person who nominated is entitled to the benefits of the policy, as also a Married Women's Property Act Policy, which protects the interests of the wife and children.

viii) Nomination facility

By this facility the policyholder obtains a right to decide to whom the insurance amount be paid after his death. Hence, the nominee can get the insurance amount very easily.

ix) Provision of repaying debts

The loan borrowed for the purpose of constructing a house or some other purpose would be burdensome for the dependents if a person dies before repaying it. In such condition, he can select the amount of insurance policy equal to loans and by pledging it as security with insurance company / bank can reduce the burden of his dependents.

B) From the Business Point of View

Life Insurance serves the business community, like the individual persons, in a various ways.

1) Business Continuation

Life Insurance helps the traders and business partners to avoid possible interruption due to accident and death of one of partners / proprietor or key men and continue their business or before. A sole trader can leave sufficient funds for his business so that after his death his heirs may continue his business without any anxiety. In the same manner, at time of death of a partner, the firm has to pay back his capital, share of goodwill, profit etc. By taking a joint policy on lives of the partners, the problem is solved without putting financial burden on the firm.

2) Insurance of key man

The existence of every business firm depends on some very important persons, technicians, managers, executive directors, etc. Such key-men are responsible, by virtue of their expertise, skill and experience, for the prosperity and development of the firm. Unfortunately, if such a key person dies, it disrupts the work or sometimes the entire business may collapse. Insurance helps the businessman to insure the lives of such key employees and avoid the risks. In case such key employee leaves the business firm, the other able employee could be appointed out of the insurance amount received from the company.

3) Employee Welfare Plans

The business firms have to discharge some responsibilities towards their employees. For example, they have to pay compensation if they met accidents while on work. These are integral parts of social security and labour welfare. The employers can take advantage of life insurance schemes. Usually, group insurance policies are taken, by which the responsibility of paying compensation/other benefits to the employees, is automatically transferred to the insurance company. As the employees are covered under the policies from the risks of death, illness, accident, etc, their sense of gratitude towards the firm increases and they develop respect for it.

4) The Enhancement in Credit Worthiness

When the business firms purchase life insurance policies on the lives of their key - employees, their credit worthiness in banks and other finance institutes enhances. Because, in the event of the death of such employees or their leaving the organizations, the financial Institutes, banks etc. feel secure, due to the protection provided by life insurance. It does not affect the stability or the economic conditions of the organizations.

5) Facilitates Economic Growth

The role performed by life insurance in the economic growth of a country has been extremely significant. By providing huge funds, the life insurance companies can accelerate the process of economic growth. The mobilization of huge resources and their investment in various productive activities leads to industrialization, creation of better infrastructure, provision of funds to companies in private sector etc. In addition to this, by buying shares and debentures of various companies, the growth of share market also can be accomplished.

6) Social Security

The various schemes implemented by the life insurance companies providing protection to weaker sections of the society, the artisans, farmers, landless labours etc. takes care of some of the social problems such as unemployment, old age, disability, premature death and medical care for the aged. In the absence of life insurance, the victims of these calamities would have become burden on the society. Thus, life insurance helps maintain social security and stability.

3.2.3 Procedure of taking Life Insurance Policy

A person who desires to effect a life insurance policy, must follow certain procedure set by the life insurance company. Following are the various stages of this procedure

i) Selection of insurance company

The business of life insurance, at present, has been opened to private sector. Therefore, alongwith Life Insurance Corporation of India, some private companies like HDFC Standard Life, ICICI Prudential, Max New York, Om Kotak Mahindra, Birla Sunlite, SBI Life, ING Vaisya, Bajaj Allianz, Tata AIG, etc, have entered into market. A person desirous of taking a life insurance policy, at first, must select one of these companies.

ii) Filling in a proposal form

Once an Insurance company is selected, the proposer is required to fill in the proposal form. It is a printed document and can be obtained free of cost from the agent or the company. Some companies make such forms available on internet. This proposal form being the basis of insurance contract, the utmost good faith and great care must be taken while filling in the form. The information filled in must be absolutely true and accurate. Any kind of misrepresentation or concealment of relevant information may lead to the cancellation of the contract. The Declaration Form attached in the end of this form is also required to be filled in, which states that the information furnished in the proposal form is true and complete. If the insurance company finds some statement false and irrelevant it can cancel the contract and forfeit all the amount paid on the policy.

In short, the proposal form for taking insurance is an application form to be submitted by the proposer furnishing all the required information in regard to the risk the insurance company is likely to cover.

Such proposal forms generally contain the following details.

- The name of the proposer and his address
- Object of Insurance
- Date of birth, birth place, age, proof of age.
- Sex, nationality.
- Father's name,
- Name of nominee, his address and age, proposer's name,
- In case of minor nominee, the name, address of appointee, proposers' name
- Table and terms of assurance, sum to be insured, whether premiums are payable yearly, half yearly, quarterly or monthly, amount of deposit,
- Present occupation and its nature,
- Name of the present employer, length of service,
- Educational Qualifications,
- Annual income, the sources of income,
- Whether the proposer pays income tax,
- Information regarding previous policies,
- Family background, personal history,
- Information regarding any hereditary, disease, admission to hospital,
- Physical disability, accident, injury, operations etc.
- Health condition
- Addiction to liquor, tobacco, drugs etc.
- Whether treatments on Hepatitis or AIDS are in continuation,
- The height and weight of the proposer (For non-medical insurance)

If the proposer is a female, she has to furnish extra information such as husband's name, occupation, annual income, details of his policies, delivery, abortion, caesarian, the date of last menstruation etc.

Declaration by the proposer

After furnishing the above stated information, the proposer has to make a declaration which includes the following details.

1) That the information filled in the proposal form is true and complete and no relevant information is concealed. If some statement is found false or incorrect, the contract of insurance be held void and the amount paid be forfeited to the insurance company of which the proposer is aware.

ii) The proposer also declares that the insurance company is fully free to make inquiries into information regarding his health or employment from the person or institute, it desires.

iii) The proposer further agrees that if some changes in his occupation or financial position take place, some adverse incident takes place in regard to his health, from the date of submission of proposal to the time before the issue of first premium receipt, he will inform same to the Insurance company in writing, so that the company may reconsider the terms of acceptance. If such information is not furnished the insurance contract shall be void.

Care to be Taken While Filling in the Proposal Form

1) The proposer, after filling in the proposal form, must sign it in the presence of a witness.

2) When the proposer is illiterate, the thumb impression of his left hand is to be attested by a third person, he should declare that he explained the meaning of the questions in proposal form to the proposer in his mother tongue, and the answers given by him are filled in truthfully, that the answers were read for him and understood by him.

3) Proof of Age

The proposer has to submit a proof of his age along with the proposal form, because the premium is computed according to the age. The following proofs of age are acceptable by the insurance company.

Sr. No.	Standard Proofs of Age	Non Standard Proofs
1.	An extract from the Register Book of Gram Panchayat, Municipal Council, Municipal Corporation, made at the time of birth.	The Proofs such as horoscope, the elder's declaration, self -declaration.
2	Certificate of Baptism or certified extract from family Bible if it contains age or date of birth.	
3	A copy of certificate from college, University or School records	
4	Certified copy of the first page of service book of an employee of Government or semi-government institutes and reputed commercial & educational institution.	
5	Proof of Residence, Passport	
6	A marriage certificate issued by Roman Catholic Church	
7	In case of Defence Personnel, the identity card issued by Defence department	

4) Medical Examination

After submitting the proposal form and the proof of age, the proposer is required to undergo a medical examination through one of the approved doctors of the insurance company. The doctor examines the proposer with particular reference to heart and lungs, measures his height, chest, abdomen, weight, examines his teeth, tongue, eyes, ears, throat, blood pressure, physical structure, the present health condition, habits etc. and prepares his report. The doctor has to verify the information filled in by the proposer in relation to previous illness, accident or surgery etc. In case of female proposer, the doctor makes note on certain points, like, breast cancer, pregnancy, uterus / overy conditions, caesarian, etc. The medical examination is necessary for assessment of the proposer's physical risk. In certain cases, a special medical examination is also necessitated.

5) Confidential Report of Agent

After the medical examination, the agent's confidential report is submitted to the company. The report contains details relating to the personal history of the proposer, indicating how long and how well the agent knows the proposer. He has to state any unfavourable information regarding the proposer's health, character, habits etc. If he does not have the first hand information,he must get it from some reliable source. The business of life insurance involves the moral risk which is greater. Hence, it is to be ascertained,whether the proposer has proposed for insurance of large amount beyond his financial ability, whether his age allows him to take such insurance of large sum, though the previous policy is in continuation and proposal for another insurance of large sum is made. In such cases, it is the duty of an agent to submit a confidential report stating all the information in regard to the above points.

6) Scrutiny of the Proposal

The insurance company, scrutinizes the information furnished by the proposer in the proposal form, the agent's, confidential report and the medical report and then decides whether to accept the proposal or not. It ascertains whether the details stated regarding proposer's age, health condition, income, habits are true and correct and do not contradict with noted in the agent's report and the medical report. If the proposer is found having caught some serious disease, if need be, an expert opinion of some senior doctor is invited. In case of a female proposer, information regarding her marital and maternal status is scrutinized. Then the proposal is classified as standard, sub-standard and rejected proposal. The standard proposals are accepted at the regular rates of premium and the substandard proposals are accepted at increased rate. The substandard proposals are accepted with due changes. The changes suggested are-proposal be accepted for less amount than proposed, for lower term, for different scheme, at higher rate of premium, by deleting a specific risk or by laying some specific conditions etc.

7) Proposal sanction, Registration and Acceptance letter

The proposer is required to be informed by the company on what conditions his proposal is accepted. His consent to enter the contract of insurance with revised conditions is necessary. Then, the proposal for insurance is recorded in the register book.

8) Payment of Premium

Gene rally, a proposer sends certain amount to the insurance company along with his proposal form. If this amount is sufficient for the first premium, it is transferred towards the first premium. After this payment of the first premium, the risk commences and the proposer becomes insured. The rates of premium differ for different kinds of risks. In case of sub - standard lives, the insurance company charges an extra premium. After completion of all the required, the first premium is adjusted and the receipt against the first premium is sent to the insured. Thus, the contract of insurance is completed and the risk commences.

9) Issue of Policy

This is the last stage in the procedure of effecting a life insurance contract. It is a written document prepared as an evidence of contract of insurance. It contains all the terms and conditions of the insurance contract and is properly stamped according to the sum assured. The policy document is given a specific number which invariably has to be referred to in future correspondence. It bears the seal of insurance company and signature of its officer

3.2.4 Terms, Conditions and Privileges of Life Insurance Policy

The life insurance policy is an evidence of a written contract between insurer and insured. Hence, the terms, conditions and the subject of insurance are stated in it, by which on what conditions the contract is agreed upon, what benefits and concessions the insured is going to obtain, becomes clear. The terms, conditions and privileges, generally, are classified in the following four categories.

a) Conditions / Terms explaining the nature of insurance contract and its legal consequences

These are - Payment of premium, nomination and assignment, notice, proof of age, commencement of risk, forfeiture of insurance contract, incontestable clause.

b) Terms / Conditions Limitating of scope of insurance. (Restrictive Conditions)

They are -suicide, hazardous occupation, travel, residence and occupation.

c) Conditions and Privileges adding to the benefits of insurance

They are : Days of grace, revival of lapsed policies, non-forfeiture regulations, paid up policies, surrender value, loans, anti-dating, alteration in policy.

d) Conditions / Terms providing extended benefits or supplementary benefits

These include - accident, disability, bonus benefits etc.

a) Conditions/Terms explaining the nature of Insurance contract and its legal consequences

These terms / conditions in the first category are intented for the information of the insured.

These terms / conditions clarify the provisions made in the schedule of the policy. They are as follows.

1) Payment of Premium

As consideration of insurance contract the first premium is to paid. Afterwards, the regular payment of the premium before due date or within the grace period is to be made for the continuation of the policy. Paying premium in time is the duty of the policyholder. The Insurance Company does not need to intimate him in this regard. Yet, the companies send the policyholder a notice, before hand in writing. The premium can be paid in one lump-sum, yearly, half yearly, quarterly or monthly. As well, the premium can be deducted from the salaries. Concession to some extent can be obtained if the premium is paid yearly, half yearly. In the same way, if the sum assured is a large one, some concession in premium is granted. Generally, the premium is to be paid at the branch where the policy is taken from, either in cash or by cheque. It could be paid to the agent also. At present, due to internet facility, some Insurance companies allow to pay the premium at any branch of the company.

2) Commencement of the Risk

The risk commences from the date of the payment of the first premium or the date of acceptance of Insurance contract, which ever is later. If the policy is issued on certain specific conditions, then the risk begins from the date the condition is fulfilled.

3) Forfeiture in certain events

If the policyholder fails to pay the premiums in time or violates any of the conditions laid down in the document or some statements made in proposal form, personal statement, declaration and other related documents are discovered as false and incorrect, then in accordance with the provisions of law, the insurance policy shall stands cancelled and all claims to any benefit under the policy shall cease and all money if already collected shall be refunded to the insurance company.

4) Proof of Age

The premium of Insurance is charged according to the age stated in proposal form. In case, the actual age is found higher than it was stated in the proposal form, then the premium is computed according to the actual age and the difference between the original premium and the premium for the correct age shall be paid with the half yearly compounded interest. If the policyholder does not pay this amount with interest, it is deducted at the time of final payment of insurance amount and the remaining amount is paid to him or to his heirs. Contrary to this, if the age is found lesser than stated in the proposal form, the excess amount paid by the insured is refunded by the company without interest. In if due to the difference in the correct age and that mentioned in the proposal the proposer stands ineligible for taking certain policy, then the company reserves its rights either to change the scheme of policy or the conditions of it.

Life insurance requires age to be admitted otherwise the claim can not be settled. Hence, the proposer must submit the proof of age along with his proposal for insurance.

5) Nomination

The provision for nomination has been made in Section 39 of Insurance Act 1938. By this, the insured can nominate any person to receive the sum assured, in case he dies before the expiry of the policy.

The following points are to be kept in mind in regard to nomination -

- Nomination can be made at the beginning while filling in the proposal form. The proposer has to name of the person to whom the policy money be paid after his death, his relation to the nominee, the age etc, which, the Insurance company records in the schedule / appendix of the document.

- If the nomination is not made at the time of making proposal for insurance, it can be made any time after issue of policy. At such time the company records it by endorsement or by attaching a separate piece of paper to the policy.
- The insured person only can nominate. If some one buys insurance in some one's name, that other person has the right to nominate for example, when 'A' buys insurance for 'B' only 'B[1] can nominate, not 'A'.
- This nominee is entitled to obtain the insurance amount after the death of policy holder.
- When the nominee is minor, then an appointee should be appointed. Such appointee must give consent for his appointment, by signing the proposal form or on the endorsement on the policy. He can obtain the amount of insurance on behalf of the minor. If this minor becomes major at the time of death of the insured, the appointment of the appointee gets cancelled. If the nominee is minor and yet, the representative is not appointed, then, the insurance amount is paid to the legal heirs of the deceased insured.
- The policy holder has the right to cancel the nomination made before and make another by endorsement.
- When the policy is assigned nomination automatically stands cancelled.
- When the nominees are more than one, the policy amount is payable to them jointly or to the survivor or survivors of them but no specific share for each nominee can be mentioned.
- If the nominee dies after the death of the policyholder, but before the death claim settlement, then the insurance amount becomes the part of policy holder property and goes to his heirs. If the nominee dies before the death of policy holder, then the nomination comes to an end. At such time, another nomination can be made.

6) Assignment of Policy

An insurance Policy is the policyholder's property. Hence, he can transfer the ownership rights of it to some one else. Assignment of insurance policy means transferring all ownership rights and interests in it. Section 38 of the Insurance Act. 1938 deals with the transfer or assignment of life insurance policies. The provisions in this section are.

1) The assignor must be major and otherwise competent to make contract.
2) He must be an absolute owner of the policy
3) Assignment can be made with or without consideration.
4) It can be made by endorsement on the policy itself or by a separate Instrument.
5) The assignor must execute the assignment papers in presence of at least one witness.
6) The endorsement or separate deed of assignment must state the facts of transfer or assignment.
7) The assignor must give a notice of assignment to the insurance company in writing along with endorsement or transfer Instrument.
8) After receiving the notice of instrument, the insurance company records it in its documents and acknowledges in writing.
9) After assignment, the ownership rights, title, and interests are transfered to the assignee.
10) Assignment of policy should not be contrary to any prevailing law.
11) Assignment can be absolute or conditional. By absolute assignment the assignor loses all his rights, title and interest in the policy and the assignee can deal with the policy in any manner he likes. It can not be cancelled. In case of conditional assignment, in specific situation, the rights to ownership and interests revoke to the assigning person. For example, if the assignor survives after repaying the debts or after the expiry date or the assignee dies before the assignor person the ownership and interests of policy return to the policyholder.
12) If the assignee dies before the receipt of insurance money, but after the death of assignor, then, the amount of insurance is payable to the heirs of assignee.

7) The Incontestable Clause

The dictionary meaning of 'incontestable' is "that can not be disputed. "According to Section 45 Insurance Act 1938, Section 45, even if the company finds two years after the commencement of the insurance contract that the policy holder had made some untrue and incorrect statements or certain important information had been concealed, the company can not cancell the policy on such ground. The provision of this Act has been made with the purpose of protecting policy holder and his heirs from unnecessary trouble intended by insurance company. Because, many years after the commencement of the policy the insured or his heirs would not be able to explain satisfactorily about the truthfulness and correctness of the statement objected by the company. Nevertheless, if the company succeeded in proving that the policy holder deliberately, with an intention of deception, had done so, then only it can take such action against the policy. In such condition, this Section of the Act will not be applicable

b) Terms / Conditions Limiting / Restricting the Scope of insurance (Restrictive Conditions)

Terms/conditions falling under this category limit or restrict the scope of insurance. They are designed to eliminate certain risks. In other words, the risks which are impossible to be covered by the company are excluded. If some of these risks arise, the company returns the surrender value or specific share from the insurance amount or the amount of premiums paid. The following terms / conditions mainly are included in this category.

1) Suicide

If the policy holder commits suicide within one year after the commencement of policy, the company cancels the contract and no money is paid. However, it does not affect the interest of third party. That's if some other person or institute, by paying due consideration acquires bonfire interest in the policy and completes the assignment papers and the policy holder commits suicide, then the company has to pay to the assignee person / institute. For example, 'K' purchased insurance for Rs. 1,00,000 and four months after, he mortgaged it to a bank and borrowed Rs.20,000and the very next month he committed suicide. When the bank submits that policy, the insurance company has to pay the bank Rs.20,000. In suicide cases, accident benefits are never extended. If the women having no self-income, commits suicide three years after the commencement of policy, the company does not pay any money.

2) Hazardous Occupation

Some occupations or professions are hazardous, hence, the persons engaged in such occupations are prone to meet dangers. For example, employees working on machines in industry, labours at construction of tall buildings, scientists handling chemicals, labours making explosives, jockey in a horse-race etc. Generally, no restrictions are imposed on account of hazardous occupation but extra premium is charged for the extra risk. The air passenger, if dies in air-crash, then only double benefits of accident and disability are available. No other persons are eligible to such benefits. When some person is engaged in hazardous occupation at the time of taking policy, he has to pay the premium at the increased rate right from the beginning. If a person is not in hazardous occupation at the time of taking policy, but later on he enters, then he has to intimate to the company in this regard. Some companies require that change of occupation to be notified. Otherwise, the policy holder will not be held eligible to obtain accident or other benefits.

3) Travel, Residence and Occupation

To certain extent, the policy holder can be restricted from making journey and stay in foreign countries. However, Life Insurance Corporation of India does not restrict on foreign travel, residence or occupation, doing business in foreign lands. Except for the hazardous occupation, the policy holder is at the liberty of doing any job or business.

4) War and Air-Flight Risk

The Life Insurance Corporation of India does not lay any restriction in its policy on war risk. In case of air-flight, it covers the risk by charging extra premium. If the policy holder does not wish to pay extra premium, then only he is restricted from air-travel and policy is issued.

C) Conditions / Terms or Privileges adding to the Insurance benefits

If all the terms / conditions and provisions of an insurance contract were decided to be implemented strictly, the policy holder would feel the contract as oppressive and unnecessary. Hence, some terms / conditions are laid down which may offer some concession or privilege to him. They are as follows.

1) Days of Grace

For obtaining protection and for continuation of the policy, the policy holder requires to pay the premiums regularly before the due date. But, he is given some day's concession for payments even after the due date. This period is called ' Grace Period ' and is of 15 days for monthly mode of payment and for other modes of payment, it is of 30 days. Even if the premium is not paid in the grace period, the Insurance risk continues. If a policyholder dies in this grace period, the company deducts the unpaid premium and the remaining amount is paid. In case of the schemes where premiums are deducted from salaries, the days of grace clause is not enforced. It is assumed that if the employer has deducted the premium from salaries it is as good as paid up. That's the employer is allowed to pay the collected premium late.

2) Revival of Lapsed Policies

When the premiums of the policy are not paid within the due dates, the policy lapses. Such lapsed / discontinued policy can be revived during the life time of the policy holder. But the condition is that the premiums unpaid must be paid before the expiry of the policy within the five years, with the due interest. Generally, when the unpaid premiums are paid and the policy is revived within six months from the last premium paid, the medical examination of the policy holder is not necessary. However, if the period exceeds six months, it becomes obligatory. If the health risk of the policy holder is increased, the company holds the right whether to revive the policy or not. When the company agrees to revive, it can make some changes in the terms/ conditions or can apply some new conditions. At such occasion, the policy holder, either has to pay the outstanding premiums with interest in lump sum or the company allows him to pay the equated amount adding it to the premiums payable in the next two years. As well, a concession is given to extend the term of the insurance, instead of paying the outstanding premiums. The Life Insurance Corporation of India has made various schemes of revival of lapsed policies such as, General Revival Scheme, Special Revival Scheme, Revival by Installment Scheme and Loan - cum Revival Scheme.

3) Non - Forfeiture regulation

The insurance companies allow the policy holders enjoy a special concession of saving their policies from forfeiture, even though they have stopped paying premiums. By this, if the premiums for three years are paid and the latter premiums have remained outstanding, the policy stands paid - up and the insurance amount is reduced equal to the paid up amount. Hence, afterwards, the premiums are not required to be paid and the policy holder can obtain accumulated bonus upto the paid - up date, but not after that date.

By another concession, if the premiums are paid at least for three years and the premiums after wards have remained outstanding and the policy holder dies with in six months from the last outstanding- premium, then the company pays all the payable amount, deducting the amount of unpaid premiums. This is known as claim concession. If the premiums are paid for five years, the six month's concession is increased upto one year.

4) Paid-up Value

When the insured discontinues paying premiums, but does not claim for the surrender value, then the policy continues for less amount. The original insurance amount, in such case, is reduced in proportion to the total premiums payable and the premiums paid. This value is called as paid-up value and is paid at the end of the policy term or after the death of a policy holder. The bonus already vested in the policy is added to this paid-up value. The following formula is used for calculating the paid-up value.

$$\textbf{Paid-up Value} = \frac{\textbf{No. of Premiums paid}}{\textbf{No. of Premiums Payable}} \times \textbf{Sum Assured Total}$$

For example, the sum assured is Rs.1,00,000 and the total number of premiums payable is 20, while premiums paid are 10. Then, the paid-up value will be -10/20 X1,00,000 = Rs. 50,000. The amount of bonus also is added to the paid-up value. When a policy is paid-up no future premiums are required to be paid.

For making the policy paid-up at least three years' premiums are to be paid. The paid-up value can be obtained after the expiry date or in case the policy holder dies before the term, then after his death.

5) Surrender Value

Any time before the claim for settlement is made, the policy can be surrendered. The amount received on such surrender is called as surrender or cash value. In this connection, the following provisions are to be considered.

1) When the policy-holder is unable to pay the premiums, he can surrender the policy to the company, get his policy cancelled, and obtain the money immediately in cash.

2) Any policy, on which the three years' premiums are paid, is entitled to obtain surrender value. After surrendering the policy, the surrender value is paid immediately.

3) The surrender value paid is in specific percentage of paid-up value. According to Section 113 of the Insurance Act, 1938, each Insurance company is liable to pay the guaranteed surrender value. This value should not be less than 30% of the premiums paid (excluding the premiums paid in the first year and the extra premiums charged for additional benefits guaranteed.) Some insurance companies offer special surrender value, which is higher than the guaranted surrender value.

6) Anti-dating

Anti-dating of an insurance policy can be effected, i.e., the date of risk can be taken back. It is done, so that the 'proposer should pay lower premium taking advantage of his low age. For this, the date of risk can be taken back upto three months. For instance a person born on 10^{th} March 1976 bought insurance policy on 10^{th} Nov. 2006, his age at the nearest birthday, i.e. on 10th March 2006, will be of 31 years and he will have to pay the premium accordingly. But if the date of risk is taken three months back, it would be 14th Aug. 2006 and his age at the nearest birthday (10th March 2006) would be 30 years. Due to this facility, the amount of premium would be lower. At such times, the insured has to pay all the premiums of the months dated back. As well, if the anti-dating is to be effected for more than three months, the insured has to pay the interest on the premiums payable of the back dated period. The Life Insurance Corporation of India has provided this facility.

7) Loans

Life Insurance being a contract for long term, the policy holder can not get money for a long time. In the mean time, if the policy holder felt some need for money, the insurance companies can offer loans on the policies. He can take loan either from the insurance company or from a bank by pledging his policy as security. The following are the conditions for getting loan -

1) It is necessary to pay the premiums for atleast for three years. This facility is not available on ail insurance schemes.
2) Generally, loan sanctioned is 90% of the surrender value.
3) The interest on loan is charged at the rate fixed by the company. This interest is to be paid after six months. In case of non-payment of interest, compound interest is charged.
4) The policy holder has to assign his policy absolutely to the company. The company keeps the policy as security for the repayment of loan and the interest there on.
5) The loan, within the term of the policy, can be repaid fully or partially. Otherwise, the company deducts the outstanding amount with interest from the insurance amount at the end and the remaining amount is paid to the insured / nominee.
6) Loans of small amount are not granted. An insured can borrow loan many times within the term of the policy. While sanctioning additional loan, the outstanding interest, if any is deducted from the loan amount.
7) The method of borrowing loan is simple. One can make an application on plain paper. Loan can be sanctioned in a day.
8) The insurance companies do not demand for recovery. Hence, the policy holder should repay cautiously the loan and interest amount in time.

8) Alterations in Policy

The life insurance policy document contains the terms of the contract and these terms continue to operate throughout the currency of the policy unless modified by mutual consent of the insured and insurer. The insurer can request for the following kinds of alterations in the policy. Sometimes it is necessary to alter the terms of the contract to suit the changed circumstances.

Alteration in insurance scheme / term	Removal of extra premiums
Reduction in sum assured.	Splitting up of policy into two / more policies.
Change in mode of payment of premium	Alteration from without profit policy to

	with profit policy or vice versa
Alteration in name	Grant for accident benefits.
Change of nominee	Settlement option-obtaining insurance amount in installment
Corrections in policies	

The following points are to be considered in connection with alterations in policy.

1) The policy must be force for the full sum assured.

2) If certain alteration is likely to increase the risk, the company does not agree for. For instance, extension of term, extension of period for payment of premium, getting the scheme transformed into increased risk scheme etc.

3) Alterations are not normally allowed in the first year of the policy unless they do not affect the basic insurance contract like change in address, change in nomination etc.

4) Some alterations are effected by way of endorsement on the policy. If the alternatives are of substantial nature, the old policy is cancelled and a fresh policy is issued. Certain fees are charged, but for making correction of mistakes, no fees are charged.

D) Terms / Conditions extending extra / Supplementary benefits

By these conditions, when the insured pays an extra premium, he is entitled to receive extra benefits along with the original risk cover, which include accident benefits, disability benefits, bonus, etc.

1) Accident benefits

This is one of the important benefits the policy holder can enjoy. In case he happens to die in an accident, the company pays, generally double the insurance amount. The extra premium payable for this is low. **The conditions for obtaining accident benefits are**

- The death should be caused by outward, violent and visible means.
- The death should be caused solely and directly and independently of all other causes from the accident.

- The death should be caused within 180 days or such other period as may have been stipulated in the policy.

The accident benefit would not be payable in the following circumstances.

- When death is caused by intentional self-injury, attempted suicide, insanity, immorality or under the influence of liquor, drugs etc.

- When death is caused due to accident in aviation or aeronautics other than a bonafide air passanger.

When death is caused by injuries resulting from riot, civil commotion, rebellion, war, racing, hunting, mountaineering etc.

- When death is caused due to commiting any breach of law.

- When death is caused by an accident while working in military service, police duty. The LIC pays the accident benefit upto a maximum of Rs.5 lakhs, on all policies taken together on a single life. Some companies have maximum limit of upto Rs.10 lakhs.

2) Disability Benefits

The Life Insurance Corporation of India without charging extra premium offers the disability benefits. When a policy holder sustains serious injury and becomes permanently disable, this benefit is offered. Accordingly, the payment of rest of the premiums is waived. Both, male and female can get this benefit. However, if the policy holders are in hazardous occupation have physical deformity or have adverse personal background, they can not enjoy this benefit. The nature, limitations and the conditions to be fulfilled to be entitled to obtain this benefits are as follows.

1) When the policy holder after meeting an accident turns disable and is unable to earn his bread, the premiums payable from the date of disability are waived.
2) This benefit can be enjoyed by only one life on the first insurance of Rs.20,000
3) The policy must be in force for full amount at the time of disability.
4) This benefit can be obtained upto the age of 70 years.
5) The policy holder must submit an evidence regarding disability, to LIC within 180 days from the event.

6) If the claim for disability benefits is proved to have admitted wrongly, the policy holder has to pay the premiums from the date the LIC intimates and the all the waived premiums with prevailing interest rate.

3) Extra disability benefits

When the policy holder, due to the accident sustains permanent disability, then by paying extra premium, he can obtain additional amount equal to sum assured, in installments. Moreover the payment of future premiums is waived. LIC of India has made the following provisions for extra disability benefit.

i) An additional sum equal to the original sum assured shall be paid, in installments over a specified period of years say 10 years.

ii) On the life of a single person, insurance amount eligible to be paid by all companies along with extra amount should not exceed Rs. 50 lakhs.

iii) Premiums payable after disability shall be waived.

iv) Disability should be caused by accident and it should be permanent and absolute. Due to such disability, the policy holder should be in no position then and hence forward to work for making his living, get any remuneration or benefits from any job or work etc.

v) Within 180 days from the date of accident only due to accident (not by any incidental causes) the policy holder should sustain the permanent disability either of the following nature loss of entire sight of both eyes, or in the amputation of both hands at or above the wrists, or in the amputation of both feet at or above ankles, or in the amputation of one hand at or above the wrist and one foot at or above the ankles, shall also be deemed to constitute such disability.

vi) All the details, with satisfactory evidences should be provided within 180 days from sustaining disability and allow for medical examination by the medical officer appointed by the LIC, in any manner and any times the LIC wishes, before and after admitting the claim.

4) Bonus

The insurance company declares every year bonus on with profit polices. The amount distributed to the policyholders from surplus earned by the company is called as bonus. For enjoying this benefit of bonus, the policy holder has to pay some extra premium. The rate of bonus is declared every year. But instead of paying the amount of bonus in cash, it is credited on the policy and is paid with the insurance claim. There are various ways of paying bonus.

5) Provision of Waiver of premium

According to this benefit the policyholder is not required to pay the further premiums if certain event occurs. This extra benefit is allowed on various policies. However for receiving this benefit some extra premium should be paid, In case the policyholder becomes permanently disable, the payment of further premium is waived immediately. Moreover he gets the full sum assured along with bonus on maturity of the policy. In case of children's deferred plan if the proposer dies during the deferment period no further premiums are required to be paid. The policy contains a privilege of waiver of future premiums if life assured is permanently disabled as a result of accident.

6) Critical Illness Benefit Rider

This a most important and essential rider to be taken by each insured person. This covers critical illness such as heart attack, stroke, cancer, kidney failure, paralysis, loss of sight of both eyes, transplantation of limbs etc. The critical illness benefit is given if the insured survives for more than 28 days from the diagnosis of the illness. It is paid for one serious illness caused during the policy period there are certain terms and conditions applicable for this rider.

3.2.5 Settlement of Claims

Settlement of claim means completion of the contract of life insurance. It is regarded as the most important after-sale service in insurance industry. The insurance being a service the settlement ratio becomes the acid test of its good performance. Under life insurance, the policy amount is paid on either occasion, i.e. either on maturity of policy term or on death of insured before expiry of the term. The payment of claim in earlier case is known as *Maturity* or *Survival Claim* and that in latter case is known as *Death Claim* or *Pre-mature Claim.* The different procedures are followed for both of these claims.

Procedure of Settlement of Life Insurance Claim

(I) Maturity Claim: It is also known as survival claim because the assured is alive till the policy term expires. In such a case the LIC pays the policy amount to the assured. The claim need not be paid to the nominee. However, if the policy is assigned to the third party, the claim is paid to that third party i.e. assignee. The procedure of settling maturity claims is simple and straightforward as described here below.

1. **Intimation of Maturity by LIC:** Usually, the LIC sends intimation to the policyholder one month before the date of maturity for early disposal of the claim. LIC intimates that the date on which the policy matures and the requests the assured to return the original policy along with the discharge forms.

2. **Submission of Original Policy and Discharge Forms:** Accordingly, the policyholder submits the original policy, the discharge form and advance stamped receipt along with proof of age (if not already admitted) to the LIC's Divisional Office.

3. **Payment:** On receiving the above documents, the LIC sends the crossed cheque of policy amount. Generally, the care is taken that the policy amount is paid exactly on the date of maturity itself.

(II) Death Claim or Pre-mature Claim: If the insured dies before the expiry of the policy term, the policy amount is paid to his/her nominee/s. It is known as death claim or pre-mature claim. If the policy is assigned to the third party, the claim is paid to that third party. It is to be noted here that if a policy results into claim by death within two years from the date of last revival effected on the basis of short medical report or a declaration of good health, the company will do a thorough and strictly confidential enquiry into the exact cause of death. Generally, for settlement of death claim, the following procedure is followed.

1. Intimation of death: The person entitled to get the proceeds of the policy (nominee or assignee) has to send a letter intimating the death of policy holder to the Divisional Office of the Life Insurance Corporation of India. The letter must contain the date and cause of death along with the policy number. In order to accelerate the settlement of claim, the insurance policy together with the deed of assignment, if any, should be submitted to the LIC. The claimant has to mention under which capacity (nominee or assignee), he/she is claiming the policy money.

2. Proof of death: The beneficiary must produce proof of death in the forms made available by the LIC. This proof includes the submission of the claimant's statement, a certificate by the medical attendant who attended the deceased during the last illness, certificate of burial or cremation, certificate of identity, certificate of employer and confidential report by the agent. All these forms must be fully and correctly completed and must be countersigned by a person of known character and responsibility, such as a doctor, a bank manager, a head post master, a gazetted officer, a magistrate, a notary public, a head master, an advocate, president of a village panchayat, etc. Generally, the following documents are submitted as proof of death of policy holder.

(a) Claimant's Statement: The person who is legally entitled to the policy moneys will have to complete the claimant's statement which contains his name, profession, age, address, relationship to the deceased, details pertaining to the deceased, nature of his illness, complete details of medical consultation or treatment obtained by the deceased during the three years preceding death such as name and address of doctors or hospitals, nature of complaint, dates of consultation or treatment. Finally, the claimant has to declare that the answers to each and all the above questions are full and true in each and every respect.

(b) Medical Attendant's Certificate: This certificate is to be completed by the medical attendant of the deceased policy holder in his last illness. It includes questions relating to the name, address, occupation, and age of the deceased. Along with the primary and secondary causes of death, history of the disease, date when the disease first observed, by whom treated and reported, habits of the deceased (sober and temperate), his treatment by other medical practitioners, medical attendant's association with the deceased, treatment, post-mortem examination report, if any. Further, if the death is due to any unnatural cause such as murder or suicide or drowning or any accident, a certified copy of the Police Inquest Report, The Coroner's Report or a copy of *Panchanama* is required to be submitted. Besides, a certified extract from the Register of Death maintained by the Municipality, Local Board, *Police Patil* has to be submitted

(c) Certificate of Burial or Cremation: The dead body is buried or cremated as per the deceased policy holder's religion. The certificate of burial or cremation is to be completed and signed by a person of known character and responsibility who was present at the burial or cremation of body of the deceased. The details like the name of deceased, his/her father's name, occupation and employment, residence, religion, etc. Apart from this, the particulars of burial or cremation have to be furnished such as name and address of place of burial, cremation and the certification that the body which was buried or cremated was that of the policy holder.

(d) Certificate of Identity: This certificate is to be completed and signed by a person of known character and responsibility, who was acquainted with but not related neither to the deceased policy holder nor the claimant. Such person must have seen the dead body of the policy holder with his own eyes.

(e) Certificate by Employer: This certificate is to be completed by the deceased's last employer. He has to furnish the particulars of deceased policy holder, details of services and information relating to death, such as date of last attended duties, first complain of illness, record of absence from duty during last three years of service, nature of leave availed of (casual, privilege, sick), the name of the person who informed him of deceased's death.

3. Agent's Confidential Report: After receiving the above five forms, the agent is requested to make careful inquiries into the matter at once and to submit the report. Agent's confidential report is intended to provide a confirmation of the death of the assured, date and place of death, cause of death, circumstances of death, source of information etc. Agent's report is essential to prove that the claim is *bonafide.*

4. Proof of Age: If the age of the assured has not been admitted earlier, one of the standard proofs of age has to be provided. The following proofs of age are generally accepted by LIC: (i) Certified extract from municipal or other records made at the time of birth. (ii) Certificate of Baptism or certified extract from family Bible if it contains age or date of birth. (iii) Certified extract from School or College records if age or date of birth is stated therein (iv) Certified extract from Service Book in the case of government employees (v) Horoscope prepared at the time of birth or soon thereafter.

5. Proof of Title: No proof of title is necessary, if a nominee is designated in the policy or if the policy is validity assigned. However, the proof of title is required only when the policy has not been duly assigned or no nominee was appointed by the deceased during his life time. Under these circumstances, the claimant will be required to produce satisfactory evidence of title to the property in the insurance policy of the deceased from a competent court of law. It may be--(i) A probate of the Will, if the deceased has left a Will (ii) Letter of Administration, or (iii) A

Succession Certificate, issued under Indian Succession Act of 1925. When there are conflicting claims, the LIC may, under Section 47 of the Insurance Act, pay the amount of the claim to the Court and the claimant may obtain the payment by directly applying to the Court.

6. Discharge Form: Immediately after complying with all the formalities, the insurance company issues a discharge form, which is to be filed and signed by the claimant.

7. Payment: On receiving the form of discharge, the LIC makes payment by a crossed and order cheque on any of its bankers nearest to the claimant's station. In certain cases, payments can be made through M.O., at the risk and account of the beneficiary, but in no case, payment is made in cash.

3.3 Summary

The life Insurance is associated with man's life. By life insurance contract, the insured is entitled to obtain the sum assured after the specific term or if he dies before that, his dependents obtain it. Hence, after his death, his dependent family receives a financial security. If he survives after the maturity of the policy, he is at the advantage in old age, children's education, marriages etc. By paying some extra premiums, he can avail of the extra benefits like accident benefit etc. Due to this, the scope of life insurance widens. Life insurance being a contract for a long term, it involves risk cover, as well as investment, too.

'Life Insurance has acquired a very vital important place in man's life. It provides economical protection for old age, saves money compulsorily, becomes a means of investment, gives tax reliefs, enables to fulfil one's duty towards children, cares for illness, accidents, disabilities, etc. It arranges for repayment of loans, facilitates with loans in the times of necessities. Hence, it is rightly said -"Life Insurance has no substitute." The world of commerce and business feels it important, because it helps them to sustain and continue their business, welfare and employees, insurance on keymen's lives etc. Life Insurance has performed a very spectacular role in the development of economy. It has greatly contributed by increasing capital supply, financing Infrastructure, giving impetus to industrialization etc. It has fulfilled its social responsibility by providing social security at concessional rates to the weaker sections, socially and economically, such as farmers, landless labours, workers, artisans etc. It has provided social stability and security to the society.

Every person who desires to take an insurance policy must know how the company works. At present in our country, LIC of India and other private companies are in the business. The procedure of effecting insurance contract may differ a little from company to company. However, generally it comprises of selection of the company, filling in of a proposal form, presenting proof of age, medical examination, if needed, confidential report by agent, scrutinee of documents, decision on the proposal, informing the proposer, payment of first premium and issuance of policy- are the main stages. While taking an insurance, a desirous person must select the proper plan after, comparatively studying various plans of the companies, extra benefits, amount of premium etc, should get information regarding the conditions of policies from the agent, which are classified into four categories. Recently, the insurance companies have offered many riders for enhancing the usefulness of policies. But for this, little extra premium is to be paid. Under life insurance, along with personal insurance a group insurance also can be effected. Many people working together in a company / institute can take a single policy, which offers equal cover to all. The premiums of such insurance are paid either by the employer or the group, employees or group members.

The life insurance contract comes to an end after the claim is settled. In life insurance, maturity claim and death claim occur. The maturity claim is made after the expiry of term of the policy while death claim is made in the event of death of a policy holder, before the terms. The settlement of maturity claims is very simple, but for death claims, many documents are required. The insurance company scrutinizes severely, ascertains every matter and then the claims are settled.

3.4 Key words

- **Life Insurance** : An insurance that promises to pay a specific amount on the occurrence of certain event contingent on the life of a policy holder.
- **Maturity Claim** : A claim made by the assured for obtaining the sum assured after the expiry of term of the policy.
- **Death Claim** : A claim made for receiving sum assured after the death of assured.

- **Surrender Value** : Amount obtained from the insurance company in cash on surrendering the policy before the expiry of its term.
- **Paid-up Value** : It is the reduced sum assured on discontinuation of payment of premiums. Paid-up value is paid on maturity of the policy.
- **Nomination** : A facility to name a person to whom the policy money should be paid after the death of a policyholder.
- **Assignment** : The process of transferring the rights, title and interest of the policyholder in the policy by taking consideration to other person.
- **Rider** : Extra benefits / cover received by a policyholder by paying extra premium.
- **Anti-Dating** : A facility of dating the policy back for requiring to pay less premium.
- **Loyalty Addition** : Extra amount paid along with sum assured for continuation of policy for specific period.
- **Bonus** : A specific share distributed out of the surplus made by the life insurance company to the policyholders.

3.5 Exercises

A) Choose the right alternative from the following and fill in the blanks.

i) Life Insurance can _________ the death risk.

a) avoid b) not avoid c) remove d) postpone

ii) When the policy is surrendered before the completion of term, the amount received in cash is _________

a) Premium b) Surrender Value c) insurance amount d) bonus

iii) The grace period allowed to pay the monthly premium is of ______ days.

a) 7 b)15 c) 30 d) 5

iv) For making a policy paid-up premiums are to be paid for _____ _ _ years.

a) 2 b) 4 c) 3 d) 5

v) The claim made after the end of the policy term is called ________

a) maturity claim b) death claim

c) accident claim d) disability claim

vi) ________ is a condition that restricts the risk cover.

a) Hazardous occupation　　b) Accidental death

c) Disability benefit　　d) Grace period

B) Say, whether the following statements are true or false.

i) Life insurance is a contract of indemnity.

ii) By making nomination, an insured loses his rights on insurance policy.

iii) For availing of rider, extra premium is to be paid.

iv) Surrender value of a policy is paid after the end of the term.

v) For getting disability benefits, the policyholder must sustain permanent disability.

vi) The insurance policy on sub-standard life is issued by charging extra premium.

vii) All insurance policies are eligible for obtaining bonus.

viii) A life insurance can be taken on any person's life.

ix) A procedure of setting death claims is very simple.

C) Essay type questions

i) Explain the meaning and importance of life insurance.

ii) Describe the procedure of taking a life insurance policy.

iii) Discuss the conditions which explain the nature of life insurance contract.

iv) What is the procedure of settlement of claims in life insurance? Explain.

D) Write short notes

i) Proof of age

ii) Assignment of a life insurance policy

iii) Accident benefits

iv) Disability benefits

v) Days of grace

vi) Revival of discontinued policies

vii) Surrender Value

viii) Paid-up Value

ix) Alterations in insurance policy

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