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FAIRFIELD
Institute of Management & Technology
Managed by 'The Fairfield Foundation'
(Affiliated to GGSIP University, New Delhi)

B.B.A (B & I): 305 **Subject: PRACTICE OF LIFE INSURANCE**

Syllabus

Unit I **Lectures: 14**

Life Insurance: Conceptual Framework, Importance of Life Insurance; Insurance Products, Hedge Against Personal Risk (s), Insurance Products, Alternative to Investment Products,Pension Plans, Investment Plans Insurance Products, Collateral Security in The Rising Hire-
Purchase Market Scenario. LIC Act 1956, Insurance Ombudsman Insurance Products

Unit II **Lectures: 12**

Group Health Insurance and Special Purpose Schemes. Group Insurance Characteristic; Difference between Individual and Group Insurance; GI Schemes in India.

Unit III **Lectures: 14**.

Actuarial Considerations (Demographic, Investment of Funds and Managerial Expenses) in Costing Insurance Products, Theory and Practice of Underwriting: Selection, Loading, Exclusion Clauses and Declining of Proposals Policy Document.

Unit IV **Lectures:12**

Servicing (Alterations and Surrender), Claim Settlement, , Retention Vs. Reinsurance. Catastrophic Bonds, Sources of Surplus and Distribution of Profits, Investments and Revenues

UNIT-1

What Is Life Insurance?

Life insurance in India made its debut well over 100 years ago. In our country, which is one of the most populated in the world, the prominence of insurance is not as widely understood, as it ought to be. What follows is an attempt to acquaint readers with some of the concepts of life insurance, with special reference to LIC. It should, however, be clearly understood that the following content is by no means an exhaustive description of the terms and conditions of an LIC policy or its benefits or privileges. Life insurance is a contract that pledges payment of an amount to the person assured (or his nominee) on the happening of the event insured against.

The contract is valid for payment of the insured amount during:

- The date of maturity, or
- Specified dates at periodic intervals, or
- Unfortunate death, if it occurs earlier.

Among other things, the contract also provides for the payment of premium periodically to the Corporation by the policyholder. Life insurance is universally acknowledged to be an institution, which eliminates 'risk', substituting certainty for uncertainty and comes to the timely aid of the family in the unfortunate event of death of the breadwinner.
By and large, life insurance is civilization's partial solution to the problems caused by death. Life insurance, in short, is concerned with two hazards that stand across the life-path of every person:

1. That of dying prematurely leaves a dependent family to fend for itself.
2. That of living till old age without visible means of support.

Life Insurance Vs Other Savings

1. **Contract of Insurance:**

   A contract of insurance is a contract of utmost good faith technically known as uberrima fides. The doctrine of disclosing all material facts is embodied in this important principle, which applies to all forms of insurance.

   At the time of taking a policy, policyholder should ensure that all questions in the proposal form are correctly answered. Any misrepresentation, non-disclosure or fraud in any document leading to the acceptance of the risk would render the insurance contract null and void.

2. **Protection:**
   Savings through life insurance guarantee full protection against risk of death of the saver. Also, in case of demise, life insurance assures payment of the entire amount assured (with bonuses wherever applicable) whereas in other savings schemes, only the amount saved (with interest) is payable.

Aid to Thrift:

Life insurance encourages 'thrift'. It allows long-term savings since payments can be made effortlessly because of the 'easy installment' facility built into the scheme. (Premium payment for insurance is monthly, quarterly, half yearly or yearly). For example: The Salary Saving Scheme popularly known as SSS provides a convenient method of paying premium each month by deduction from one's salary. In this case the employer directly pays the deducted premium to LIC. The Salary Saving Scheme is ideal for any institution or establishment subject to specified terms and conditions.

Liquidity:
In case of insurance, it is easy to acquire loans on the sole security of any policy that has acquired loan value. Besides, a life insurance policy is also generally accepted as security, even for a commercial loan.

Tax Relief:

Life Insurance is the best way to enjoy tax deductions on income tax and wealth tax. This is available for amounts paid by way of premium for life insurance subject to income tax rates in force.

Assesses can also avail of provisions in the law for tax relief. In such cases the assured in effect pays a lower premium for insurance than otherwise.

Money When You Need It:

A policy that has a suitable insurance plan or a combination of different plans can be effectively used to meet certain monetary needs that may arise from time-to-time. Children's education, start-in-life or marriage provision or even periodical needs for cash over a stretch of time can be less stressful with the help of these policies. Alternatively, policy money can be made available at the time of one's retirement from service and used for any specific purpose, such as, purchase of a house or for other investments. Also, loans are granted to policyholders for house building or for purchase of flats (subject to certain conditions).

Who Can Buy A Policy?

Any person who has attained majority and is eligible to enter into a valid contract can insure himself/herself and those in whom he/she has insurable interest.

Policies can also be taken, subject to certain conditions, on the life of one's spouse or children. While underwriting proposals, certain factors such as the policyholder's state of health, the proponent's income and other relevant factors are considered by the Corporation.

Insurance for Women

Prior to nationalization (1956), many private insurance companies would offer insurance to female lives with some extra premium or on restrictive conditions. However, after nationalization of life insurance, the terms under which life insurance is granted to female lives have been reviewed from time-to-time.

At present, women who work and earn an income are treated at par with men. In other cases, a restrictive clause is imposed, only if the age of the female is up to 30 years and if she does not have an income attracting Income Tax.

Medical and Non-Medical Schemes

Life insurance is normally offered after a medical examination of the life to be assured. However, to facilitate greater spread of insurance and also to avoid inconvenience, LIC has been extending insurance cover without any medical examination, subject to certain conditions.

With Profit and Without Profit Plans:
An insurance policy can be 'with' or 'without' profit. In the former, bonuses disclosed, if any, after periodical valuations are allotted to the policy and are payable along with the contracted amount. In 'without' profit plan the contracted amount is paid without any addition. The premium rate charged for a 'with' profit policy is therefore higher than for a 'without' profit policy.

Key man Insurance

Keyman insurance is taken by a business firm on the life of key employee(s) to protect the firm against financial losses, which may occur due to the premature demise of the Keyman

Importance/ Benefits of life insurance:

- **Tax-advantaged asset leverage:**

  A permanent life insurance policy offers insurance coverage coupled with a cash value component that allows you to accumulate money — tax free. If the policy is held long term, the cash buildup may provide returns potentially exceeding some bonds and other vehicles such as money market accounts. In addition, the owner may be able to withdraw or borrow against the cash value portion of the policy on a tax-free basis to achieve a variety of goals, such as supplementing retirement income.

  Furthermore, given its predictable payout upon the death of the insured, life insurance may provide a meaningful internal rate of return (IRR) when one considers the correlation between the premiums paid and the proceeds received by the beneficiary, which are generally income tax free. The potential IRR may be as high as four percent to seven percent assuming the insured lives to life expectancy. Some newer hybrid life insurance/long-term care insurance policies can help you manage the cost of assisted living or nursing home care later in life.

- **Tax-advantaged wealth transfer**

  Unanticipated taxes can quickly diminish savings or investments, so you may want to consider life insurance as a means to protect some assets from taxes upon your death. For example, life insurance death benefits are generally excluded from income tax to the beneficiary and may be excluded from the taxable estate if the insurance is owned by an Irrevocable Life Insurance Trust (ILIT) from inception.

  As benefits typically exceed the premium you paid, life insurance may be an efficient way to transfer more to your heirs and can ease the tax burden of your estate in many instances. Here's a compelling hypothetical: If an individual hands down $1 million in an individual retirement account (IRA), his beneficiaries might end up with, say, $500,000 of that after income, estate and other taxes are applied. On the other hand, suggests Matthew Curran, Senior Vice President and Director of Insurance for Wells Fargo Wealth Management, that same individual may decide to pull down income from the IRA today and use a portion of the after-tax income to fund a life policy owned by an ILIT. The insurance death benefit can be designed to equal the taxes and expenses inherent in the transfer of the IRA, thus providing his beneficiaries with the full $1 million gift.

- **Liquidity**
  having cash on hand to take care of unexpected expenses or taxes is also an important consideration when constructing a wealth plan. Here, too, life insurance may be indispensible in helping to provide liquidity when you or your heirs need it most. For example, inheritances of cash and property may incur estate and gift taxes, and

beneficiaries of life insurance plans may be able to utilize death benefits to help offset those tax costs.

- **A holistic wealth plan**
  of course, there are other factors to consider, including the cost to purchase the life insurance policy and any pre-qualifications relating to age and health. Also, life insurance should be considered firstly as a form of protection. So it's critical to make sure you have adequate protection before you consider purchasing insurance for other wealth-planning reasons.

  But as you devise your holistic wealth plan, you may want to consider life insurance for its appeal beyond protection. "Wealth planning, wealth building and wealth transfer planning are about [shelter from] taxes and predictability, and life insurance can help play that role in your plan," says Curran. "What other asset can offer you tax efficiency and predictability and more peace of mind?"

- **Additional Resources**

  Insurance can play a key role in your wealth plan. Talk to your relationship manager at Wells Fargo about all of the assets you want to protect as you map out ways to protect your legacy.

Types of Insurance Products - pros and cons

Based on the benefit patterns the traditional Life Insurance products can be categorised into the following types:

- Term Insurance
- Whole Life Insurance
- Endowment Insurance
- Annuities

Term insurance

As the name implies, this provides protection for selected term only. You can take term insurance for a number of years as per your requirement. This is called pure insurance product. The benefit is only paid if the insured person dies. If nothing happens till the term of the insurance, nothing is paid. Term insurance is very misunderstood product because of two reasons. One, insurance agents do not market it well because it doesn't have good commission structure and two, because the very idea of not receiving anything in the end (if the insured person is all well) is not liked by people.

Pros: The advantage of term insurance is very small premium. You can get a life cover of 1 crore by paying just 15000 to 30000 an year. For life cover of 30 lakhs or 50 lakhs, the premium will

be about 10,000 to 15,000 per year.

Cons: There is no benefit if the insurance holder survives.

All insurance companies provide term insurance and the premium varies widely. Insurance seeker must do their own research to get the best available.

Suggestion: Everyone must take it. This is pure insurance.

Whole of Life Assurance

This type of life insurance is to cover the whole life. The protection is provided over one's lifetime. This is of two types: Participating and non-participating. Participating types involve participation of beneficiary in the return of the investment. The beneficiary gets higher or lower shares on profit based on the performance of the fund while non-participating ones get the same benefit over the life.

Pros: The best part of this insurance is that the named beneficiary gets the death benefit and whatever accrues as bonus at the time of death of the insurance holder. The purpose of this policy is to create a corpus for the heirs and ensure that their dependents do not suffer in case of sudden eventuality.

Cons: The insurance holder doesn't get anything. There is no benefit on survival of insurance holder.

There are variants of this insurance type available in the market.

Suggestion: Do it only if you are very risk averse and do not intend to devote time and money in other investments and want to save a corpus for your family.

Endowment Insurance

Endowment insurance is combination of term and whole life insurance. The benefit is provided on the death of the insurance holder within the term or at the end of the term if the insurance holder survives. While this is a good way to generate lump sum cash, this is not the most efficient way. This also has variants like participating and non-participating types.

Pros: The insurance holder is certain to get the sum assured and bonus at the end of the term if he or she survives and the beneficiary gets the benefit of the insurance holder dies.

Cons: The returns on investment in endowment policies are very low in the range of 4% to 6%.

Suggestion: A combination of term insurance with rest of the premium in good mutual fund would beat this product.

Annuities

Annuity is nothing but a series of payments that insurance holder gets after retirement for a fixed period. Annuity is also known as pension plan. The policy holder deposits certain premium over a fixed time and the accumulated sum is used to pay regular pension for the term. The annuity can be paid for the life or for certain years after the pension or annuity commences.

Pros: It is a very good way to ensure you get income when you are no more able to work and

earn.

Cons: The returns are low but this should not be taken as disadvantage. It is better to buy annuity insurance for risk-free certain income and invest in a stable mutual fund for returns.

Finally

There are products like ULIPs in the market. They invest in market and provide better returns but investors have to be ready for long term. Do not expect your money to give you returns immediately. After all, if you can pay insurance premium for 20 years without making any noise, why can't you invest for 20 years in a SIP model which will beat insurance returns any day?

The other important point is not to confuse insurance with investment. The purposes of both are different. Insurance provides a support in case of any eventuality and hence their returns are bound to be much lower. Investment, on the other hand, provides you returns in long term but may not even give you the "assured amount" as promised by insurance companies.

Hedging against the personal risk

A **hedge** is an investment position intended to offset potential losses/gains that may be incurred by a companion investment. In simple language, a hedge is used to reduce any substantial losses/gains suffered by an individual or an organization.

A hedge can be constructed from many types of financial instruments, including stocks, exchange-traded funds, insurance, forward contracts, swaps, options, many types of over-the-counter and derivative products, and futures contracts.

Public futures markets were established in the 19th century[1] to allow transparent, standardized, and efficient hedging of agricultural commodity prices; they have since expanded to include futures contracts for hedging the values of energy, precious metals, foreign currency, and interest rate

WHILE larger pension funds have been making good use of hedge funds in recent years, many of their smaller peers have yet to venture into these investments. However, the changes to Regulation 28 have effectively opened the door to the increased use of hedge funds by pension fund trustees.

Carla de Waal, head of alternative investment solutions at Novare Investments, says the investment that Regulation 28 allows into hedge funds and private equity is a prudent allocation.

"Offshore pension funds make an average 5%-10% allocation to hedge funds and in some cases considerably more. For example, US university endowments have historically taken 20%-35% exposure to alternative investments.

"The local cap gives pension funds enough diversification benefits if they opt to include hedge funds in their portfolios," says Ms de Waal.

At the same time, she says hedge funds should not be seen as a separate asset class. Instead, investors should look at the hedge fund's underlying strategy and use the fund as a risk tool.

"Pension funds have assets such as equities and bonds in their portfolios. The construction is dependent on the asset/liability matching model that the individual pension fund uses," says Ms de Waal.

"However, these long only assets bring with them certain risks into the portfolio and pension funds can use different hedge fund strategies to reduce the specific risks coming into the portfolio.

"In other words, investors should consider their portfolios from a risk perspective and identify where the pockets of risk exist.

"If such a pocket of risk is within the portfolio's equity holdings, for example, they should look at their equity hedge funds as a tool to counter that risk."

Ms de Waal says Regulation 28 is clear about the manner pension funds need to report on their funds and their exposures. From an investment philosophy point of view hedge funds should be viewed within the context of the overall asset class.

"All hedge funds are different and follow different strategies. Therefore, pension fund trustees need someone who has the expertise to be able to analyze exactly what each individual hedge fund brings to the table and whether this will add to the portfolio, reduce risk or diversify risk in a particular area."

She says hedge funds are regarded as assets that tend to be decoupled from traditional investments. When using hedge funds as a risk tool, investors want hedge funds that are uncorrelated when the market is falling.

"However, it is dangerous to assume that all hedge funds are uncorrelated. It really depends on the strategy that is being followed and the underlying instruments being used," says Ms de Waal.

"For example, in 2008 we saw that hedge funds that were invested in small cap stocks were exposed to the risk in that sector and when that sector of the market was hit severely, those hedge funds were not able to protect capital and they fell as well."

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Types of life insurance products

The life insurance policies are of many types. The principal types of policies are discussed below:

(1) Whole life Policy:

Under this policy premiums are paid throughout life and the sum insured becomes payable only at the death of the insured. The policy remains in force throughout the life of the assured and he continues to pay the premium till his death. This is the cheapest policy as the premium till his death. This is the cheapest policy as the premium charged is the lowest under this policy. This is also known as 'ordinary life policy'. This policy is suitable to persons who want to provide for payment of estate duty, make bequeathments for charitable purposes and to provide for their families after their death.

(2) Limited payment life policy:

In the case of whole life policy there is one disadvantage in that the assured must continue to pay the premium even during his old age when he is no more employed. Under the limited payment life policy premiums are payable for a selected number of years or until death, if, earlier. The assured knows how much he will be required to payable only at the how long he lives. The sum

insured becomes payable only at the how long he lives. The sum insured becomes payable only at the death of the insured. It is a suitable policy to meet the family needs.

(3) Endowment policy:

It runs only for a limited period or up to a particular age. Under this policy the sum assured becomes payable if the assured reaches a particular age or after the expiry of a fixed period called the endowment period or at the death of the assured whichever is earlier. The premium under this policy is to be paid up to the maturity of the policy, i.e., the time when the policy becomes payable. Premium is naturally a little higher in the case of this policy than the whole life policy. This is a very popular policy these days as it serves the dual purpose of family and ole age pension.

(4) Double endowment policy:

Under this policy the insurer agrees to pay to the assured double the amount of the insured sum if he lives on beyond the date of maturity of the policy. This policy is suitable for persons with physical disability who are otherwise not acceptable for other classes of assurance at the normal tabular rates. Premiums are to be paid for a selected term of years or until death, if earlier.

(5) Joint Life Policy:

This policy covers the risk on two lives and is generally available to partners in business. Policies are however, issued on the lives of husband and wife under specified circumstances. Sum assured becomes payable at the end of the selected term or on the death of either of the two lives assured, if earlier.

(6) With or without profit policies:

Under the "with profit or participating policies," the policy holder is allowed a share in the profits of the corporation in the form of bonus and it is added to the total sum assured and paid at the time of maturity of the policy. In the case of without profit or non-participating policies, no such profit is allowed. Premium in the first case is higher and is lower in the later case.

(7) Convertible whole life policy:

This policy initially provides maximum insurance protection at minimum cost and offers a flexible contract which can be altered at the end of five years from the commencement of the policy to endowment insurance.

(8) Convertible term assurance policy:

This policy meets the needs of those who are initially unable to pay the larger premium required for a whole life or endowment assurance policy but hope to be able to do so within a few years. It would also enable such persons to take final decision at a later date about the plan suitable for their future needs.

(9) Fixed term (marriage) Endowment policy & education annuity policy:

It is a policy suitable for making provisions for the marriage or education of children. Premiums are payable for a selected term or till prior death. The benefits are payable for selected term or till prior death. The benefits are payable only at the end of selected term. In case of the marriage endowment, the sum assured is paid in lump sum, but in case of the educational annuity, it is paid in equal half-yearly instalments over a period of five years.

(10) Annuities:

It is a policy under which the insured amount is payable to the assured by monthly or annual instalments after he attains a certain age. The assured may pay the premium regularly over a certain period or he may pay the premium regularly over a certain period or he may pay a lump sum of money at the outset. These policies are useful to persons who wish to provide a regular income for themselves and their dependants.

(11) Sinking fund policy:

Such a policy is taken with a view to providing for the payment of liability or replacement of an asset.

(12) Multipurpose policy:

This policy meets several insurance needs of a person – like provision for himself in old age, income for his family and provision for the education, marriage or the start in life of his children. It gives maximum protection to the beneficiaries in the event of the early death of the assured, as it provides:

i) Regular monthly income during the unexpired term;

ii) Additional monthly income for a period of two years from the date of death;

iii) Payment of a part of the sum assured on death and

iv) Payment of the balance sum assured at the end of the selected period

On maturity the assured may get the sum assured in cash, in the form of monthly pension, or an increased sum payable on death. Premiums are payable during the selected term or till death, it earlier

Alternative Investment Products (AIP)

Alternative Investment Products (AIP) provides a streamlined, automated and centralized processing solution to propel the market for alternative investments.

The Alternative Investment Product (AIP) suite of services is a platform that links global market participants — including broker/dealers, fund managers, fund administrators and custodians — to provide one standard end-to-end process for alternative investments such as hedge funds, funds of funds, private equity, non-traded real estate investment trusts (REITs), managed futures and limited partnerships.

AIP standardizes the way the alternative investment industry communicates information about the security and the associated investments. By effectively addressing the manual, risky operational issues that challenge customers, AIP has improved the alternative investment community's scalability through increased efficiencies, reduced operational risk and lowered costs.

Created with the collaboration of industry leaders and modeled after the enormous success of DTCC's Mutual Fund Services, AIP is poised to similarly transform the business of alternative investment products.

The AIP suite of services supports the following:

- Security Master Fund profiles, including offering and redemption periods, liquidity terms, holdbacks, payment instructions, and more
- Initial and subsequent subscriptions processing and settlement
- Redemptions/tender offers processing and settlement
- Exchanges/SWITCHES
- Statement of account or Position reporting and performance
- Valuation reporting
- Activity and distribution reporting and settlement
- Account maintenance
- Payments, including commissions and distributions

The services are accessible through XML, mainframe file transfer or CSV spreadsheet uploads.

Who Can Use This Service
The AIP suite of services is open to participants in the alternative investment space, including current members of NSCC, SEC-registered advisors, CFTC registered commodity pool operators, trading advisors, and SEC registered investment companies, broker/dealers, banks and trusts.

U.S. and non-U.S.-based firms are eligible for membership. Users must sign an AIP membership agreement.

Benefits
For a growing industry that continues to rely largely on manual processing, NSCC's service offers a number of key benefits:

Improves client service

- **Increases efficiency** through automation and standardization of transactions between firms and funds.

- **Eliminates** the need for fax, email, and phone calls for order processing.
- **Lowers risk of errors** with automated information management that minimizes duplication and eliminates gaps in information.
- **Disseminates** position and valuation reports without the need to manually track and manage information in each account.
- **Streamlines reconciliation between counterparties,** providing an accurate picture of a client's account at any given time.

Enhances functionality and reconciliation

- **Global capabilities** include settlement reporting in multiple currencies.
- **A proven network** maintains an audit trail of all data to streamline information management and reconciliation.
- **Automated, straight-through-processes** increase speed of settlement and eliminate delays and redundant paperwork in reconciling transactions.

Provides data integrity and security

- **Centralizes data exchange** over a secure and reliable telecom network with unparalleled business continuity capabilities.
- **Offers improved capacity** for data and trend analysis, management reports and compliance reviews through a robust, automated data environment.

How the Service Works
Firms can initiate the transmission of:

- Financial trade data and customers' registration information
- Purchases and redemptions/tender-offer transactions
- The transfer of shares and monies within the same fund family

Funds can initiate the transmission of:

- Fund profile information
- Redemption and tender-offer transactions
- Commission and fee reporting, including settlement
- Payment information and cash related activities
- Position and performance information on a monthly, weekly or daily basis
- Actual or estimated net asset values for individual securities within a fund family
- The transfer of shares and monies within the same fund family

Participant Numbers and Settlement:

All AIP members need separate participant numbers for the AIP service. However, all NSCC settlement banking and account requirements remain the same. Settlement obligations for

alternative investments will not be netted with other NSCC activity. AIP activity will be settled gross, with debits settled separately from credits

Pension Plans

Pension Plans are Individual Plans that gaze into your future and foresee financial stability during your old age. These policies are most suited for senior citizens and those planning a secure future, so that you never give up on the best things in life.

1. **Jeevan Akshay-VI:**

   It is an Immediate Annuity plan, which can be purchased by paying a lump sum amount. The plan provides for annuity payments of a stated amount throughout the life time of the annuitant. Various options are available for the type and mode of payment of annuities.

   Options Available:

   The following options are available under the plan

- Type of Annuity:
  - Annuity payable for life at a uniform rate.
  - Annuity payable for 5, 10, 15 or 20 years certain and thereafter as long as the annuitant is alive.
  - Annuity for life with return of purchase price on death of the annuitant.
  - Annuity payable for life increasing at a simple rate of 3% p.a.
  - Annuity for life with a provision of 50% of the annuity payable to spouse during his/her lifetime on death of the annuitant.
  - Annuity for life with a provision of 100% of the annuity payable to spouse during his/her lifetime on death of the annuitant.
  - Annuity for life with a provision of 100% of the annuity payable to spouse during his/ her life time on death of annuitant. The purchase price will be returned on the death of last survivor.

You may choose any one. Once chosen, the option cannot be altered.

Mode:

- Annuity may be paid either at monthly, quarterly, half yearly or yearly intervals. You may opt any mode of payment of Annuity..

Salient features:

- Premium is to be paid in a lump sum.
- Minimum purchase price :
  - Rs.100,000/- for all distribution channels except online.
  - Rs.150,000/- for on line sale.
- No medical examination is required under the plan.
- No maximum limits for purchase price, annuity etc.
- Minimum allowed age at entry is 30 years (completed) and Maximum allowed age at entry is 85 years (completed).
- Age proof necessary.

Annuity Rate:

Amount of annuity payable at yearly intervals which can be purchased for Rs. 1 lakh under different options is as under:

Age last birthday	Yearly annuity amount under option						
	(i)	(ii) (15 years certain)	(iii)	(iv)	(v)	(vi)	(vii)
30	7190	7160	6890	5250	7080	6970	6860
40	7510	7440	6930	5610	7310	7120	6890
50	8140	7950	7000	6280	7760	7420	6930
60	9350	8790	7110	7530	8640	8030	7010
70	12080	9830	7260	10220	10560	9370	7130
80	17880	10440	7480	15890	14600	12340	7290

Incentives for high purchase price:

If your purchase price is Rs. 2.50 lakh or more, you will receive higher amount of annuity due to available incentives. In addition of this, for policies sold online, a rebate of 1% by way of increase in the annuity rate shall also be available.

Service Tax:

Service tax, if any, shall be as per the Service Tax Laws and at the rate of service tax as applicable from time to time.
The amount of service tax as per the prevailing rates shall be payable by the policyholder along with the purchase price.

Paid-up value:

The policy does not acquire any paid-up value.

Surrender Value:

No surrender value will be available under the policy.

Loan:

No loan will be available under the policy.

Cooling-off period:

If you are not satisfied with the? Terms and Conditions? of the policy, you may return the policy to us within 15 days from the date of receipt of the Policy Bond. On receipt of the policy we shall cancel the same and the amount of premium deposited by you shall be refunded to you after deducting the charges for stamp duty.

Section 45 Of Insurance Act 1938:

- No policy of life insurance shall after the expiry of two years from the date on which it was effected, be called in question by an insurer on the ground that a statement made in the proposal for insurance or in any report of a medical officer, or referee, or friend of the insured, or in any other document leading to the issue of the policy, was inaccurate or false, unless the insurer shows that such statement was on a material matter or suppressed facts which it was material to disclose and that it was fraudulently made by the policyholder and that the policyholder knew at the time of making it that the statement was false or that it suppressed facts which it was material to disclose.
- Provided that nothing in this section shall prevent the insurer from calling for proof of age at any time if he is entitled to do so, and no policy shall be deemed to be called in question merely because the terms of the policy are adjusted on subsequent proof that the age of the life assured was incorrectly stated in the proposal.

Section 41 of Insurance Act 1938:

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

out by himself on his own life shall not be deemed to be acceptance of a rebate of premium within the meaning of this sub-section if at the time of such acceptance the insurance agent satisfies the prescribed conditions establishing that he is a bona fide insurance agent employed by the insurer.

- Provided that nothing in this section shall prevent the insurer from calling for proof of age at any time if he is entitled to do so, and no policy shall be deemed to be called in question merely because the terms of the policy are adjusted on subsequent proof that the age of the life assured was incorrectly stated in the proposal.

2. New Jeevan Nidhi Plan

LIC's New Jeevan Nidhi Plan is a conventional with profits pension plan which provides for death cover during the deferment period and offers annuity on survival to the date of vesting.

1. Eligibility Conditions and Other Restrictions (For Basic Plan):

a) Minimum Basic Sum Assured : Rs.1,00,000 under Regular Premium policies Rs.1, 50,000 under Single Premium policies

b) Maximum Basic Sum Assured : No Limit

(The Sum Assured shall be in multiples of Rs.5000/-)

c) Minimum Entry Age : 20 years (nearest Birthday)

d) Maximum Entry Age : 60 years (nearest birthday)

e) Policy Term : 5 to 35 years

f) Minimum Vesting Age : 55 years (nearest birthday)

g) Maximum Vesting Age : 65 years (nearest Birthday)

2. Payment of Premiums:

Premiums can be paid regularly at yearly, half-yearly, quarterly or monthly (through ECS only) or through SSS mode over the term of policy. Alternatively, a single premium can be paid.

A grace period of one calendar month but not less than 30 days will be allowed for payment of yearly or half-yearly or quarterly premiums and 15 days for monthly premiums.

3. Sample Premium Rates:

Following are some of the sample premium rates (exclusive of service tax) per Rs. 1000/- S.A.:

Single Premiums			
Age at entry	**Policy term**		
	10	**20**	**30**
25	-	-	43
35	-	612.00	45
45	852.55	632.80	-

Annual Premiums			
Age at entry	**Policy term**		
	10	**20**	**30**
25	-	-	32
35	-	53.60	34
45	115.25	57.15	-

4. Mode and High S.A. Rebates:

ode Rebate:

Yearly - 2% of tabular premium

Half-Yearly - 1% of tabular premium

Quarterly - Nil

Sum Assured Rebate:

For Regular Premium policies:

Sum Assured	Rebate
1, 00,000 to 2, 95,000	Nil
3, 00,000 and above	2%o S.A.

For Single Premium Policies:

Sum Assured	Rebate
1, 50,000 to 2, 95,000	Nil
3, 00,000 and above	5%o S.A.

5. Revival:

If premiums are not paid within the grace period then the policy will lapse. A lapsed policy can be revived from the date of first unpaid premium and before the date of vesting by paying all the arrears of premium together with interest within a period of five years, subject to submission of satisfactory evidence of continued insurability.

The Corporation reserves the right to accept at original terms, accept at revised terms or decline the revival of a discontinued policy. The revival of discontinued policy shall take effect only after the same is approved by the Corporation and is specifically communicated to the life assured. Accident Benefit Rider, if opted for, shall be revived along with the basic plan and not in isolation.

6. Policy Loan:

No loan facility will be available under this plan.

7. Service Tax:

Service tax, if any, shall be as per the Service Tax laws and the rate of service tax as applicable from time to time.

The amount of service tax as per the prevailing rates shall be payable by the policyholder on premium(s) as and when the premiums are paid.

8. Cooling-off period:

If the Life Assured is not satisfied with the 'Terms and Conditions' of the policy, he/she may return the policy to the Corporation within 15 days from the date of receipt of the policy stating the reason of objections. On receipt of the same the Corporation shall cancel the policy and return the amount of premium deposited after deducting the risk premium, expenses incurred on medical examination and stamp duty.

9. Exclusion:

Suicide: This policy shall be void if the Life Assured commits suicide (whether sane or insane at that time) at any time within one year from the date of commencement of risk and the Corporation will not entertain any other claim by virtue of this policy except to the extent of a maximum of 90% of single premium paid excluding any extra premium (in case of single premium policies).

ING Life Insurance aims to make customers look at life insurance afresh, not just as a tax saving device but as a means to live life to the fullest. It believes in enhancing the very quality of life, in addition to safeguarding an individual's security.

The Company follows a "customer centric approach" while designing its life insurance products. The ING Life product portfolio offers products that cater to every financial requirement, at all life stages. Go ahead and pick the life insurance plan that best matches your needs.

Children Plans

- ING Aashirvad
- Creating Life Child Protection Plan
- Creating Life Money Back Plan

Protection Plans

- ING My Term Insurance
- ING Term Life Plus

Savings Plans

- ING Secured Income Insurance Plans
  - ING Secured Income Insurance Plus
  - ING Secured Income Insurance RP
- Reassuring Life Endowment Plan (Reversionary Bonus)
- ING Nirmal Jeevan Insurance Plan
- Safal Jeevan Endowment Plan
- ING Creating Star Guaranteed Future

(Brochure | Benefit Illustration | Premium Rates)

- ING Assured Returns (*Withdrawn*)
  (Track record for Interest Declaration)
  - The ***Guaranteed Interest Rate declared for the 4th Policy year is 8.75%*,***
  - The ***Delayed Payment Interest rate is 5.75%*.***
  * (including Account Administration Fees of 1.25%)

Retirement Plans

- ING Golden Years Retirement Plan
- ING Immediate Annuity

Investment Plans

- ING STAR Life
- ING Prospering Life SP
- ING Market Shield
- ING Prospering Life
- ING Uttam Jeevan - Regular Premium
- ING Uttam Jeevan - Single Premium
- Powering Life
- New Fulfilling Life

Riders

- Accidental Death Rider
- Accidental Death, Disability and Dismemberment Rider
- ING Term Life Rider
- ING Critical illness Rider

  ING Critical illness Limited Pay Rider

Insurance Ombudsman

- The **Grievance Redressal Machinery** has been further expanded with the appointment of Insurance Ombudsman at different centers by the Government of India. At present there are 12 centers operating all over the country.
- Following type of complaints fall within the purview of the Ombudsman
  a) any partial or total repudiation of claims by an insurer;
  b) any dispute in regard to premiums paid if payable in terms of the policy;
  c) any dispute on the legal construction of the policies in so far as such disputes relate to claims;
  d) delay in settlement of claims;
  e)non-issue of any insurance document to customers after receipt of premium.
- Policyholder can approach the Insurance Ombudsman for the redressal of their complaints free of cost.

UNIT-2

Group Health insurance

These days more and more companies are becoming employee-centric and every now-and-then introduce various benefits for employees' betterment. Group insurance has emerged as one of the most preferred benefit. Group insurance ensures better health benefits for employees and increased employee satisfaction. Through this an employee can avail various

benefits which are otherwise non-affordable in individual insurance policy.

When an organization is going in for group mediclaim insurance policy, it should evaluate options like co-payment, names of the medical service providers on the preferred list and their locational accessibility. Further, a good group mediclaim insurance plan should also offer some built in flexibility to individual needs within s the group. Group Health Insurance from Apollo Munich Health provides all this at a nominal premium. It not only offers coverage against the unexpected health concerns but also provides preventive health solutions.

Apollo Munich Health is a joint venture between India's largest integrated healthcare group, the Apollo Hospitals Group, and Munich Health, Europe's leading healthcare insurer. With a backbone of over 60 yrs of experience globally, Apollo Munich Health offers a comprehensive range in corporate health insurance plans that are designed keeping company and employee needs in mind.

Highlights of Apollo Munich Health's Group Health Insurance plans:

Provides broad cover for medical treatment of illnesses and accidents that require 'in-patient' hospitalization

Critical illness cover (available as an option)

Covers diagnostic procedures, boarding & lodging, ICU, Surgery cost and prosthetic costs among others

Health insurance schemes in India

- Employees' State Insurance
- Health care access among Dalits in India
- Max Bupa
- Rashtriya Swasthya Bima Yojana
- Star Health and Allied Insurance

Types of Health Plans

1. **Health Care plus - Health Insurance Policy**

Now your insurance just got bigger with Health Care Plus. A health insurance cover, that takes care of excess payment that may arise due to the amount paid for illness over and above the existing cover. What's more, even if you don't have a cover you can still opt for this policy and get covered for the Sum Insured.

Benefits of Healthcare Plus

Individual Cover for each member of the family(maximum 4 Individuals)

Flexible Sum Insured

Flexible Deductibles

Long term cover of 1 year and 2 years

Entry age for members proposed for this insurance is from 5 years to 65 years

No sub-limits on room rent, hospitalization expenses, diagnostic tests/ doctors fees, etc.

No Co-payment

Free health check up for any one insured member in the plan upon policy renewal

Income Tax benefit under section 80D*

Policy becomes effective when the claim amount in single incidence / hospitalization is beyond the deductible

EMI facility is available.

3. **Health Advantage plus Insurance Policy**

Health Advantage Plus Policy offers comprehensive coverage that not only goes beyond covering just your hospitalization expenses, but also offers coverage for Out Patient Treatment expenses (OPD) up to the OPD Sum Insured limit and Tax Benefits.

Covers Outpatient Department (OPD) expenses, such as diagnostics tests, dental treatment, medical bills, ambulance charges, etc.

Pre-existing illness covered after two years, subject to continuous renewal of the policy with the Company

Avail Tax Benefit under Section 80 D of the Indian Income Tax Act, 1961**.

Maternity expenses can be covered under OPD expenses of this plan up to the OPD sum insured

Insurance against Terrorist activities

A maximum of 2 adults can be covered under a single policy

Buy Online and pay in EMIs without any extra charges***

Personal Protect Insurance Policy

The Personal Protect Insurance policy covers you against Accidental Death and Permanent Total Disablement (PTD) on account of Accident and also includes coverage against terrorism and acts of terrorism and optional cover against Accidental Hospitalisation Expenses and Accidental Hospital Daily Allowance.

Benefits of Personal Protect Insurance

Coverage against Accidental Death or Permanent Total Disablement (PTD) due to an accident (Optional Coverage against Accidental Hospitalization Expenses and Accidental Hospital Daily Allowance)

Customized coverage that allows you to choose between Rs.3 Lakhs, Rs.5 Lakhs, Rs.10 Lakhs, Rs.15 Lakhs, Rs.20 Lakhs and Rs.25 Lakhs Sum Insured

Covers claims arising out of Terrorism or acts of Terrorism

No health check-up required for policy issuance

Worldwide coverage of the policy

Easy Claim Process with minimal documentation

Buy Online and pay in EMIs without any extra charges*

Critical Care - Health Insurance Policy

If 'Savings' is what you are looking for, then Critical Care helps protect and support your savings by taking care of your medical expenses during hard times, so that your savings can

be utilized in the best possible way.

Special Purpose schemes

1. Whole Life Assurance (SURAKSHA)
2. Convertible Whole Life Assurance (SUVIDHA)
3. Endowment Assurance (SANTOSH)
4. Anticipated Endowment Assurance (SUMANGAL)
5. Joint Life Assurance (YUGAL SURAKSHA)
6. Scheme for Physically handicapped persons
7. Children Policy

WHOLE LIFE ASSURANCE:

This is a scheme where the assured amount with accrued bonus is payable to the assignee, nominee or the legal heir after death of the insurant. Minimum Age at entry is 19 years and the maximum Age at entry is 55 years. The minimum Sum Assured is Rs 20,000 and the maximum Sum Assured is Rs 10 lacs. The policy can be converted into an Endowment Assurance Policy after completion of one year and before 57 years of age of the insurant. Loan facility is available after completion of four years and policy can also be surrendered after completion of three years. The policy is not eligible for bonus if surrendered or assigned for loan before completion of 5 years. Proportionate bonus on the reduced sum assured is accrued if the policy is surrendered or assigned for loan.

ENDOWMENT ASSURANCE:

Under this scheme, the proponent is given an assurance to the extent of the Sum Assured and accrued bonus till he/she attains the pre-determined age of maturity. In case of unexpected death of the insurant, the assignee, nominee or the legal heir is paid the full Sum Assured together with the accrued bonus. The minimum age at entry is 19 years and the maximum Age at entry is 55 years. The minimum Sum Assured is Rs 20,000 and the maximum Sum Assured is Rs 10 lacs. Loan facility is available and policy can also be surrendered after completion of three years. The policy is not eligible for bonus if surrendered or assigned for loan before completion of 5 years. Proportionate bonus on the reduced sum assured is accrued if the policy is surrendered or assigned for loan.

CONVERTIBLE WHOLE LIFE ASSURANCE:

The features of this scheme are more or less same as Endowment assurance. Policy can be converted into Endowment Assurance after five years. Age on the date of conversion must not exceed 55 years. If option for conversion is not exercised within 6 years, the policy will be treated as Whole Life Assurance. Loan facility is available. The policy can also be surrendered after completion of three years. The policy is not eligible for bonus if surrendered or assigned for loan before

completion of 5 years. Proportionate bonus on the reduced sum assured is accrued if the policy is surrendered or assigned for loan. The policy is not eligible for bonus if surrendered or assigned for loan before completion of 5 years. Proportionate bonus on the reduced sum assured is accrued if the policy is surrendered or assigned for loan.

ANTICIPATED ENDOWMENT ASSURANCE:

It is a Money Back Policy with maximum Sum Assured of Rs 5 lacs. Best suited to those who need periodical returns. Survival benefit is paid to the insurant periodically. Two types of policies are available - 15 years term and 20 years term. For the 15 years term policy, the benefits are paid after 6 years (20%), 9 years (20%), 12 years (20%) and 15 years (40% and the accrued bonus). For the 20 years term policy, the benefits are paid after 8 years (20%), 12 years (20%), 16 years (20%) and 20 years (40% and the accrued bonus). Such payments will not be taken into consideration in the event of unexpected death of the insurant and the full sum assured with accrued bonus is payable to the assignee or legal heir.

JOINT LIFE ASSURRANCE:

It is a joint-life Endowment Assurance in which one of the spouses should be eligible for PLI policies. Life insurance coverage is provided to both the spouses to the extent of sum assured with accrued bonus with only one premium. All other features are same as an Endowment policy.

All the above schemes have compulsory medical examination. For the non-medical policy of any category (except AEA and Joint Life Assurance for which Medical Examination is compulsory), the maximum Sum Assured is Rs 1 lac.

LIMITS OF SUM ASSURED IN POSTAL LIFE INSURANCE:

Any person who is eligible to the benefit of Post Office Life Insurance Fund under Rule 6, may affect an insurance-Whole Life Assurance, Endowment Assurance, Convertible Whole Assurance, Anticipated Endowment Assurance and Yugal Suraksha Policy or all of them on his life for a sum not less than Rs. 20,000 in each class but not more than an aggregate of Rs. Twenty Lac (Rs. 20,00,000/-) in respect of one class/all classes of insurance policy (s) taken together. The value of policy shall be taken in multiples of Rs. 10,000/- after minimum limit of Rs.20, 000/- i.e. Rs. 20,000/-, Rs.30,000/-,Rs. 50,000/- and so on.

SCHEME FOR PHYSICALLY HANDICAPPED PERSONS:

The maximum limit of Insurance for Physically Handicapped persons in PLI is the same as others and he/she can take any one of the plans. Medical examination is compulsory under this scheme in order to determine the exact nature and extent of their handicap and its bearing on the life being insured. Depending upon the nature and extent of handicap, normal or a slightly higher premium is charged.

CHILDREN POLICY

The Department has introduced Children Policy under PLI/RPLI, with effect form 20th Jan 2006. The salient features of this scheme are as under:-

- The Scheme is envisaged to provide Insurance cover to the children of PLI/RPLI policy holders.
- Maximum two children in family will be eligible to take children policy.
- Children between the age of 5 and 20 years are eligible and maximum sum assured is Rs 1 lakh or equivalent to the sum assured of the main policy holder whichever is less.
- The main policy holder should not have attained the age of 45 years.
- No premium is required to be paid on the children policy on the death of the main policy holder and full sum assured with the accrued bonus shall be paid to the child after the completion of the term of the children policy. On the death of the child/children, full sum assured with the accrued bonus shall be payable to the main policy holder.
- Main policy holder shall be responsible for payments for the Children Policy. No loan shall be admissible on Children Policy. However, the policy shall have facility for making it paid up provided the premia are paid continuously for 5 years.
- No Medical examination of the Child is necessary. However, the child should be healthy on the day of proposal and the risk shall start from the date of acceptance of proposal.
- The policy shall attract bonus at the rate applicable to Endowment Policy. The POIF Rules amended from time to time shall be applicable to Children Policy.

Group Life Insurance

Basic employee benefit under which an employer buys a master policy and issues certificates to employees denoting participation in the plan. Group life is also available through unions and associations. It is usually issued as yearly renewable term insurance, although some plans provide permanent insurance.
Employers may pay all the cost or share it with employees.
Characteristics include:

1. *Group Underwriting*— an entire group of employees is underwritten, unlike individual life insurance where under only the individual is underwritten.

2. *Guaranteed Issue*— every employee must be accepted; an employee cannot be denied coverage because of a pre-existing illness, sickness, or injury.

3. *Conversion at Termination of Employment*— regardless of whether termination is because of severance, disability, or retirement, the employee has the automatic right to convert to an individual life policy without evidence of insurability or taking a physical examination. Conversion must be within 30 days of termination. The premium upon conversion is based on the employee's age at the time (attained age).

4. Disability benefit —available in many policies to an employee less than 60 years of age who can no longer work because of the disability.
The benefit takes the form of waiver of premium, and the employee is covered for as long as the disability continues. The beneficiary will receive the death benefit even though the employee may not have been in the service of the employer for a long time.

5. Death benefit Structure or Schedule—is usually based on an employee's earnings. The benefit is a multiple of the employee's earnings, normally 1 to 2.5 times the employee's yearly earnings. In many companies, if the employee dies while on company business, 6 times the yearly earnings are paid as a death benefit. For example, a $50,000 a year employee dies in an accident while traveling on company time; the beneficiary would receive $300,000.
But if the same employee dies in his sleep at home, the beneficiary would receive $100,000 (assuming that the normal death benefit is twice annual earnings).

Difference between Group and Individual insurance

Group life insurance is typically offered as a benefit through your employer or membership in an association. Group life insurance can fill some of your life insurance needs, but probably doesn't meet them all. Most often it is an inexpensive way to supplement an individual life insurance program.

Group policies typically offer two or three times your annual salary in coverage – some or all of it paid for by the employer or offered as supplemental, employee-paid coverage. Supplemental coverage is relatively inexpensive at younger ages, but rates increase with age.

Factors that distinguish group life insurance from individual insurance policies include:

1. **Guaranteed coverage amounts**

Under group life insurance programs a certain amount of coverage is often "guaranteed" – that means you won't have to answer questions about your health or take a medical exam to qualify for the coverage. For amounts of coverage beyond the guaranteed amount, you may need to answer a few health questions and provide some details about your medical history. If the amount of coverage you're requesting requires a medical exam, it's typically a much simpler process than the full physical required for an individual insurance policy.

2. **Group premium rates**

Group insurance underwriters use what is known as an experience approach when assessing the risks involved with a group life insurance policy. Rather than basing rates on an individual's lifestyle habits and health factors, they group people together and set rates based on the risk of the group as a whole.

3. **Administration and billing systems designed for groups**

The insurance company issues a life insurance policy to the employer or association – individuals insured under the policy typically receive certificates of insurance, which outline their rights under the policy. The insuring company or a third party administrator typically handles the details of who in the group is covered and for what amount and provides a customer contact center to answer individual insured's' questions about their coverage.

4. **Electronic funds transfer or payroll deduction**

Automatic billing options such as these make paying premiums painless. You don't have to worry about writing out a check every month.

5. **Portable or convertible coverage**

When you leave the group for whatever reason you may be able to keep your coverage, without providing proof of your good health, and pay premiums directly to the insurance company. Premium rates may be higher than those paid by active employees. If you lose eligibility for coverage, you have the option to convert group coverage to an individual policy with the issuing company at the current rates for that type of policy.

6. **Increasing coverage**

Many group plans allow an increase in coverage following a family status change. Often, there will be a certain amount you may increase by answering questions about your health or having a medical exam. Sometimes increases in coverage are automatic, as when you receive an increase in salary. Consult your specific benefits plan for the qualifying family status changes accepted.

Family status changes may include:

- marriage
- divorce
- birth or adoption
- death of dependent or spouse
- a change in employment status of an employee or an employee's spouse, such as the termination or commencement of employment
- going from part- to full-time employment
- retirement
- a significant change in employee benefits
- the entitlement to benefits under Medicare of an employee or an employee's spouse
- buying a home

Group Schemes in India

Group Insurance Scheme is life insurance protection to groups of people. This scheme is ideal for employers, associations, societies etc. and allows you to enjoy group benefits at really low costs.

- Group Term Insurance Schemes
- Group Insurance Scheme in Lieu Of EDLI
- Group Gratuity Scheme
- Group Savings Linked Insurance Scheme
- Group Leave Encashment Scheme
- Group Mortgage Redemption Assurance Scheme
- Group Critical Illness Rider

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Social security schemes

- JanaShree Bima Yojana (JBY)
- Shiksha Sahayog Yojana
- Aam Admi Bima Yojana

UNIT-3

Actuary Considerations/ Assumptions

Modeling assumptions are developed during the course of the actuarial appraisal in close coordination with the company's actuaries and other company officials. The external actuary must balance the goals of the company with a realistic assessment of the chances of achieving them, uncovering hidden value while scaling back on aggressive targets to achieve a balanced, defensible end product with buy-in from the seller's team. However, no matter what rationale or techniques are used, assumptions should ultimately be validated by dynamic validation testing, which compares cash flows generated by the model to historic experience.

Expenses

Expenses can be modeled in any number of ways; however, it can be difficult to establish appropriate expenses at even the line of business level because the practice of expense allocation is not common in many developing markets and accurate expense studies are even less common. The challenge is to find measures that are appropriate with which the company is comfortable.

The best way to start is with pricing expenses; however, often there is very little pricing information, or if there is, it does not validate to actual expense levels. Worse still, in some jurisdictions, pricing assumptions are mandated by the regulatory authorities and have little or no relation to actual costs, nor has management made it a priority to understand their cost structure. It is often up to the external actuaries with their analytic tools to devise methodology that is appropriate both at time zero and going forward.

Measures that help to determine the reasonableness of the expense assumptions and the fit of the model include:

· Total expenses as a percent of premium or reserves
· Maintenance expenses as a percent of claims (health/P&C)
· Maintenance expenses per policy in force (life)
· Acquisition expenses per policy or as a percent of issued premium
· Overhead expenses as a percentage of direct expenses

Overhead Expenses

Modeling overhead expense is often problematic. Once direct expenses have been established, there may still be a gap between the expenses generated by the model and total company expenses. The company may expect to close the gap in the years to come as production increases and economies of scale are reached. It is important for the external actuary to consider perceptions on both sides of the transaction in developing a model assumption for overhead.

Financial Groups

In some transactions, the insurance company is part of a larger corporate structure or financial group. In such instances, reported expenses may have little relation to actual expenses, as both corporate overhead and operating expenses may be allocated in a manner that has little bearing to actual costs. In such instances, the external actuary may be forced to rely on local market or international standards to develop reasonable expense assumptions.

Buy Side Expense Plays

From a bidder's perspective, expenses may present an opportunity to find extra value to improve the deal from their side. The bidder may be looking for the transaction to create economies of scale with existing operations, or they may perceive an opportunity to add value and/or effect cost reductions through technology and skills transfer. Such "expense plays" are risky, as additional layers of expenses are typically added to support the management and reporting needs of the acquiring company, often with little offsetting expense reduction on the side of the acquired company.

6.4 Commissions

Commissions are generally easier to model than expenses, as commission levels are closely monitored and systems are usually in place to track agent productivity. However, base and override commission levels described in product technical notes may tell only part of the story. A third layer of acquisition costs that is often material comes in the form of bonuses and

convention expenses based on qualification standards. These costs typically have less structure and are not as well controlled as the base commissions. As such, they can be harder to model, but by analyzing historic experience and having discussions with sales executives, future levels of bonus payments can be estimated based on management's intention to maintain, increase or decrease current funding levels. Ultimately, commissions are simpler to validate as they are usually expressed as a percentage of premium.

Life Mortality

Mortality is often not a driving factor in individual life profitability in developing countries. While there are numerous factors behind this, in some markets the amount of value returned to the policyholder in terms of death benefits can be as low as 10 percent of the expected va lue of future premium.

Thus, a 10 percent fluctuation in the mortality estimation is often less troublesome than a 10 percent fluctuation in the commission or expense assumption. As such, mortality experience studies can be hard to come by, as many companies do not regularly monitor their mortality experience.

If historic claims and exposure data can be assembled and the block of business is large enough (10,000 life years is a rule of thumb used on group life cases for assuming full credibility of aggregate mortality experience), factors can be developed to be applied to existing market tables. If historic data is not available, some combination of market tables and factors derived based on the actuary's experience in the market are typically used, taking into consideration the company's market niche(s).

After dynamically validating in the first period it can be difficult to show that the mortality assumptions provide a good fit going forward. At a minimum, the progression of the average mortality rate for the book of business needs to be examined for reasonableness, given the mix of business and the average attained age of the block.

Annuity Mortality

In some markets, particularly Latin America, annuity mortality is an important consideration. Unfortunately, even in the most developed markets, the amount of information available on annuitant mortality is far less than on life. A large block of annuity business might consist of 30,000+ policies, while the entire Chilean market contains less than 500,000 policies issued to date.

Annuities associated with privatized Social Security schemes are multiple life and often have certain periods, such that the impact of the mortality assumption in the first ten years is often minimal and discrepancies between actual to expected (A/E) do not have a material impact on results. However, assumptions for the 70+ age brackets are critical. The force of mortality is greatest here, as is the potential impact of improvements in mortality. A 10 percent variation in A/E at these ages has a much greater impact on ultimate profitability of an annuity block than a 10 percent variation does at the younger ages. Unfortunately, assumptions at the older ages are the hardest to refine due to lack of experience to date. However, there are reinsurers that specialize in the laying off of this long-tail risk.

Lapses

Lapse rates in developing markets can be an important driver of value.

Early-year lapse rates are often very high by developed market standards. Some products are lapse supported without local management clearly understanding the risks of these designs.

Lapse studies are often more readily available than expense or mortality studies, although it is simple enough to generate rough estimates of persistency for durations greater than one using year-end policy extracts. Universal life (UL) or fund accumulation products have the additional complication of partial withdrawals as well as the need to differentiate between full surrenders and lapse due to the exhaustion of fund value.

Another important consideration is non-forfeiture options. For traditional products, automatic premium loan, extended-term and reduced paid-up are all possibilities. If the technical basis upon which extended-term and reduced paid-up are calculated is more conservative than that of the base policy, these no forfeiture options can be significant generators of value. It is important for the external actuary to capture this value not just by modeling existing no forfeiture blocks, but by discriminating between full surrenders and premium lapses in the course of the projection.

Lapse rates have many implications on cash flows, so there are numerous moving parts to consider in validating lapse rates including:

· premium and policies remaining in force at the end of each period
· partial withdrawals and full surrenders on UL
· transition to non-forfeiture options on traditional blocks

Finally, the possible impact of the sale on short-term lapse behavior needs to be taken into consideration as well.

Statutory Reserves

Calculating statutory reserves for fund-accumulation products is arelatively straightforward task, although variations from market to market must be accounted for. For traditional life products, statutory reserves are calculated using factors provided by the company wherever possible, as reproducing factor reserve calculations can be costly and time consuming without adding value to the process.

The relative strength of the statutory reserving basis will determine the timing at which profits emerge. In instances where the statutory basis is deemed insufficient, a time-zero adjustment must be calculated and presented as a negative adjustment to statutory book value (see Actuarial Appraisal Value section below).

Dividends

Participating or with-profits business is typically not as great a consideration in developing markets as in developed markets. Dividend practices vary widely between markets, as do corporate practices within markets.

Dividends may be determined by a factor-type formula or declared at management discretion. The legal challenges surrounding participating business in developed markets have typically not been advanced to date in developing markets. In modeling participating business, the external actuary must carefully consider contractual obligations as well as policyholder expectations in the context of historic corporate and market practices.

Cost of Capital

A certain level of capital in addition to statutory reserves is required in order to support existing business and to issue new business. Companies domiciled in different jurisdictions have widely varying minimum capital requirements. Assuming this capital is released into earnings at the end of the projection, the cost of capital is the present value of the difference between the yield earned on the capital held in the model in each period and the discount rate used to calculate present values.

Typically, actuarial appraisals on the sell side are performed assuming domestic minimum capital requirements. This allows each potential investor to factor in their own capital considerations. Because capital considerations vary so widely between investors, there are no simple rules to translate the capital requirements of local jurisdictions to a single international standard.

The cost of capital for a particular investor is ultimately dependent on:

· The perceived adequacy of the statutory minimum reserves
· The level of capital necessary given the inherent risks of the company's portfolio
· The level of capital needed to satisfy regulator and rating agency requirements in an investor's home jurisdiction
· The difference between the potential investor's rate of return on capital and their desired rate of return for the acquisition

Taxation

Domestic taxation of insurance companies is often complex and most actuaries are not tax experts. Tax and investment strategies can vary greatly between potential investors. For example, new entrants to a market and companies with established local subsidiaries may have materially different tax positions causing them to value loss carry forwards deriving from the same potential acquisition differently. For each bidder, the decision to repatriate versus retain earnings must be weighed against tax treaties currently in place and the risk that they might change, for better or worse, going forward.

Thus, while it may be possible for the external actuary to accurately calculate taxes on a local basis, in a complicated multi-national transaction it may be appropriate for the external actuary to present pre-tax earnings. This approach allows potential investors the opportunity to assess the full economic consequences of the transaction from their unique perspective with their own tax team

what is an Underwriter?

An underwriter is a professional that has the ability to understand the risks to which the underwritten object is exposed to. This ability is gained not only through theoretical study but is also the result of years of experience dealing with similar risks and paying claims on those risks.

In principle there are no formal education requirements to become an underwriter and very few universities offer a field of study in underwriting.

The majority of the underwriter's duties are learnt on the job training. Therefore underwriters usually begin their career as trainees or assistant underwriters. Insurance companies when hiring junior underwriters will typically look for individuals with a bachelor's degree or a professional designation, related insurance experience and strong computer skills. In the insurance field there are many lines of insurance that an underwriter can work in. Most underwriters will specialize in one of the following fields: life, health, mortgage and property or casualty.

The Role of the Underwriter [Theory & Practice]

To better understand the different roles that underwriters can play in an insurance company, let us consider the relevant parts of the value generating chain of the insurance business where the participation of the underwriter is necessary.

Underwriter's Role in Selection of Policy
It contains following procedure

1. **Insurance application**

It is in this part of the insurance process that the insurance company is presented with a proposal or insurance application. The application form will contain the relevant information of the risk that allows the insurance company to assess the risk, price it and ultimately accept or reject it. The underwriter plays an important role in determining the content of the application form. The underwriter will make sure that enough but not excessive information is requested in this form that will allow for a proper assessment of the risk. Underwriters have also developed questions which addresses the moral risk. For example questions pertaining to felony charges, bankruptcy, driving criticisms and the use of alcohol and drugs are used to assess possible moral risk. These types of questions have to be in compliance with insurance regulation and relevant consumer protection requirements.
The application form becomes an important part of the documentation of the policy if the proposal is accepted. This document is of particular importance in the case of a claim or any type of dispute that may arise. The application form needs to comply with the legal requirements with respect to discrimination, confidentiality and relevant consumer protection laws. The application form is a standard document in any legal dispute and as such it should always be legally sound. Of equal importance is to avoid writing derogatory comments on the application form, as this could be considered prejudice against the proposed insured. As an example due to findings in the documents the underwriter puts the comment on the application form that the individual is 'gay' thus creating an unnecessary legal hassle for the company.
Insurance is sold through different sales channels. Insurance can be sold by an agent, a broker, enterprises, the government or by mass distribution channels like banks. Depending on the sales channel a different application form will be needed. For instance for sales done using the mass distribution channel it is conceivable to use a simplified application form, where only 2 to three questions are asked. The products sold through a mass distribution channel, have very little underwriting and the 'underwriting' is done on an accept/reject basis. An example of a complete application form for individual and group lifepolicies can be found in appendix 1.

2. ***Risk assessment***

When an application is received by the insurance company the administration department will set up the application on the company's underwriting system. This system can be web base, electronic or in some cases paper. At this point the underwriter will have the task to assess the risk and classify it according to its likelihood of a loss. He will proof if the risk should be accepted and if so how the policy should be issued. Insurance companies cannot assume that every proposed insured object will represent an average likelihood of loss. For instance, motor insurance has different tariffs depending on the type of car, experience of the driver, location of the risk, usage of the car, etc, reflecting the different likelihood of suffering a claim. The process

of identifying and classifying the degree of risk represented by a proposed insured object is an important aspect of underwriting or risk selection.
To assess the risk the underwriter uses relevant information contained in the application form to screen the object to be insured from possible risks. For instance the location of a building in a non earthquake prone area will exclude the earthquake exposure. A certain construction code will allows the exclusion of the perils created by winds below certain strength. The underwriter will also use data bases to check on the risk exposure, possible past claims, or declined applications in the past.

3. **Blood or Marriage:**

People generally have an insurable interest in the lives of their spousesand dependents. Based on this relationship, the general rule of thumb is:
Insurable Interest
Husbands and wives
Parents and children (including adopted children)
Grandparents and grandchildren
Brothers and sisters
Engaged couples (some states)
No Insurable Interest
Other relatives by marriage
Nieces and nephews
Cousins
Uncles and aunts
Stepchildren and stepparents
Business Relationship:
One who receives economic benefit from the continued life and good health of another has an insurable interest in that person's life. For example, employers can take out key person life insurance on key employees, corporations can take out insurance on the lives of their officers, and business partners can take out life insurance on each other.
Thus an insurable interest may be created in an otherwise non-insurable interest relationship by the existence of a financial dependency or a business relationship between the parties. For example, an uncle may be deemed to have an insurable interest in a nephew because the uncle's business is run by the nephew and the business, as run by the nephew,
is making money for the uncle.

4. **Creditors:**

Creditors are allowed to take out life insurance on the lives of their debtors, with the debtors' consent, up to the limit on the debt. Mortgage and credit insurance are examples of this type of insurance.
The underwriter then reviews the non medical aspects of the application to access the moral and physical risks:
• The purpose of the insurance is to protect and not create value.

Thus the underwriter will look in the application form for a valid insurance purpose like estate planning, business or family protection, etc.

• The occupation of the applicant is relevant because some occupations are hazardous and increase the risk of death, disability or accident death.

• The income of the applicant is also important to determine if the amount of insurance applied for is justified.

• The use of tobacco or smoking is another important factor affecting mortality and morbidity as is the excessive use of alcohol.

• In addition the avocation/aviation and foreign travel are also important factors in the risk assessment process as these could also have an impact on mortality and morbidity.

As a final step the underwriter will analyze the medical exam or para- medical exam, blood profile, and electrocardiogram and in some cases the attending physician statements if applicable. Reviewing the medical information is also critical as the underwriter has to determine that there is no adverse medical history that could result in a poor mortality or morbidity risk. During this step the underwriter's knowledge of medicine is valuable to interpret and understand the information received from the attending physician or specialist like pathology reports, tests results from MRI's, CT scans, to mentioned a few.

We have included in appendix 2 the underwriting of HIV in life and health insurance that illustrates the thought process that underwriters go through when assessing these complex cases.

5. *Insurance acceptance*

Here the underwriter will determine under which conditions the risk should be accepted. Upon the completion of identifying the risks, the underwriter will classify the insured object into the appropriate risk class. Classifying risk into classes allows the insurance company to determine the appropriate premium rate that should be charged. Not having such differentiation of the risk classes would result in some insured policies being charged too much premium while others will be cross subsidized as they would be charged less than the actual cost for insurance. In a competitive market this cross subsidy will create a serious competitive disadvantage for the insurance company.

Underwriters follow general rules for the risk classification. These rules are referred to as underwriting guidelines or selection tables.

Every insurance company develops its own guidelines. It is standard for insurance companies to have guidelines or selection tables that identify various classes according to the likelihood of a claim. Further, if a risk does not meet any of the classes mentioned then the risk is declined.

Typical guidelines or selection tables for personal lines are the following:

Standard Class: Describes the risk profile of the cases that actuaries use to price for the bulk of the expected business. The majority of cases an underwriter reviews will fall into this class.

Substandard class: There are medical conditions that do not lend themselves to the use of exclusions, for example hypertension, or diabetes. For such conditions an extra premium will be added to the premium to cover the higher risk.

Preferred class: Individuals will fall into this class if they present a significant less likelihood of claim than the standard class. The premium rates are lower in this class than for the standard class.

Benefit modification: There are cases where the risk factors make it necessary to adjust the policy. This adjusted policy will allow the agent to make an offer to the insured instead of simply declining coverage.
For example the offer may indicate a reduction of the benefit beginning at age 60.
Limited condition: This is a type of exclusion rider which provides some type of coverage for a specific condition without altering the other benefits that were applied for. The underwriter may consider extending the coverage to a condition on a limited basis rather than completely excluding it. For example an individual might get 50% of the death benefit of the full policy if the death occurs as a result of an accident while practicing paragliding, an activity excluded from the original policy.

6. **Decline**:

This class consists of those risks that are considered too high to the insurer to offer any type of coverage. A person with severe coronary artery diseases and a diabetic will probably be declined.

7. ***Risk management***

The board of directors, regulators and reinsurers are demanding greater accountability for the insurance business. As a result it has become important for life insurance companies to manage their risk portfolio better. For proper risk management companies assign to their risk management unit a select group of industry experts that as a group will understand all aspects of risk that can affect the company financial stability. Underwriters play an important role in the risk management of the company. The underwriting risk is an important element that every risk management unit carefully has to assess and monitor.
Underwriters get involved in claim experience studies, design of risk acceptance requirements, development of underwriting audits for their clients, creation and maintenance of underwriting guidelines and manuals, risk retention management, reinsurance and retrocession management, granting and removing underwriting authority to the different underwriting departments and individuals.

8. ***Treaty work***

Underwriters are normally not involved in treaty work in an insurance company. However underwriters who work for a reinsurance company7would find their day to day underwriting role expanded to include treaty work. Reinsurance is a financial transaction by which risk is transferred from an insurance company to a reinsurance company.
A reinsurance treaty will specify all the details and conditions under which the reinsurance company will accept the transferred risk. An important aspect pertaining to these conditions corresponds to the underwriting terms. When the risks to be reinsured are of considerable size or complexity, the reinsurance underwriters get involved in the direct underwriting of those risks. For the bulk of the reinsurance business though, the reinsurer will grant an automatic capacity to the insurance company. The automatic capacity is the dollar amount of exposure that the reinsurance company is willing to offer the insurance company under which the reinsurer will

follow the insurance company risk acceptance decisions. Under these conditions if the case meets all specifications as agreed upon, the automatic capacity allows the insurance company to automatically bind the reinsurer on the risk without providing the underwriting documents on the case and without requesting the reinsurer's approval. Underwriters working for
a reinsurance company are involved in approving terms and conditions to which the insurance company must abide on all risks reinsured.

9. Claims

By and large underwriters are not involved in claims adjudication. This is to avoid a conflict of interests. Underwriters will rather see their underwritten claims free from losses and hence there is a tendency to become particularly critical in accepting the claims. Claims adjudicators should have a basic understanding of risk assessment since when processing claims they not only review the claim documents but in addition the original underwriting documents. They are to provide a full and fair assessment of the claim, by reviewing the claim file, contractual language and any applicable state or federal regulation that are deem appropriate. When processing and paying a claim, the claim adjudicator will determine if the policy is in force and current with the premium payments. The adjudicator will also verify if the insured object corresponds to the policy, verify that the loss is insured and that it has occurred. Determine who is entitled to the proceeds and calculate the amount of benefit that is payable.

10. Product Development

Product development is the heart of all insurance activity and therefore the involvement of underwriters in this process is important. Underwriters work closely with the actuary to determine the risk profile of each risk type that the insurance company is willing to accept. The risk profile will be determined by following precise underwriting rules, using a specific application form and applying the pertinent exclusions.
Equipped with the risk profile for the products, the actuaries can then price them.

11. Audits

Throughout this section we have seen the relevance in the insurance business of proper underwriting. Underwriting has a direct impact on the performance of the portfolio of any I insurance company. Actuaries when pricing a specific product or coverage they are assuming a certain risk profile determined by the underwriting guidelines provided by the underwriter. Exceptions to these guidelines or weak underwriting will result in an inadequately priced portfolio. Knowing the quality of the underwriting clearly affects the claim cost of the portfolio. Underwriting audits are therefore the norm for insurance, reinsurance and retrocession companies. The underwriter auditor gains a better understanding of the underwriting department, the proper use of the guidelines, the acceptance criteria and practices, any informal exception procedures, the market targeted, the underwriting system used and the philosophy on particular perils.

Loadings and Exclusions in Life Insurance Policy Document

In order to try and lower the cost of covering a person who may present a higher chance of claiming their life insurance benefits in the future, insurance companies may include the following components:

Loadings

- A loading is an increase in life insurance premiums.
- The size of the loading will vary depending on the risks covered in the policy.
- A loading is usually placed to cover certain medical conditions, that may potentially carry certain risks, but not deny coverage altogether.

A loading is an added premium that is placed on your life insurance policy if you are seen to present a very high risk of claiming benefits in the future. Loadings are typically placed on life insurance policies if you have carry a pre-existing health condition or have a family history of serious illness that is significant enough to warrant an extra premium but not considered so risky that you need to be denied cover altogether.

A loading is a percentage increase that is placed on your regular premium payments. Therefore, if your particular health conditions attract a loading of 50%, then your regular life insurance premiums will be increased by 50% accordingly. Certain lifestyle factors such as smoking, obesity, high stress jobs that result in hypertension, as well as high-blood pressure may also attract loadings on your life insurance policy. Once a loading has been placed, it is possible to get the percentage lowered or get the loading removed altogether by adopting a healthy lifestyle. However, if the loading was due to a family history of illness or specific medical condition, then you may not be able to get it removed from your life insurance policy.

Exclusions

- Exclusions are coverage restrictions placed on your insurance policy.
- Certain conditions that considered risky to the insurer may form the basis of the exclusions and no coverage will be provided.
- High risk conditions often include medical condition, lifestyle and occupations.

If any particular health, medical, or lifestyle condition is determined to be so severe that it cannot be covered even by placing an extra loading on it, then the insurance companies may choose to exclude such conditions from being covered. These are known as exclusions. While you will still be able to get the desired levels of life insurance cover for your needs, your particular condition or body part that forms the basis of the exclusions will not be covered under the life insurance policy. For example, if you have had some heart troubles in the past, then any claims arising from a heart problem in the future may be excluded from your policy.

Similarly, if you work in a high risk occupation such as being a sky diver or a miner, then any claims arising from such activities will be excluded from your policy. What this means is that if you are insured and you meet an untimely death because of a road accident, then your family will get the insurance proceeds. However, if sky diving was an exclusion in your policy and your death was a result of a dive gone wrong, then no claims will be entertained because of the existing exclusions on your life insurance policy.

While most people think of exclusions and loadings to be negative aspects of life insurance, the reality is that they can be beneficial. If your insurer places exclusions and loadings on your

policy, you can at least get the cover that you need. If not for these aspects of life insurance, you may be denied cover altogether.

Indexing in Life Insurance

When you purchase a life insurance policy, you are likely to select a level of cover that is appropriate to your current income and standard of living. However, as time goes by, the cost of living may increase. If several years pass between buying the life insurance policy and making an actual claim, the benefits that your beneficiaries receive may not be enough when calculated against the increased cost of living over the years. Hence, to ensure that your life insurance cover is always in line with the rising cost of living, you can choose indexing within your policy. Your cover will thus increase every year by an indexation factor that is applied to your policy. You will have to pay higher premiums for the increased cover as a result of indexing, but can at least rest assured that your level of cover keeps pace with rising costs and will be adequate for your family's needs.

"Exclusion clauses" (insurance coverage or claims to be excluded) in an insurance policy

There are usually some "exclusion" clauses in an insurance policy under which the insurance company would not be liable for the losses resulting from the specified events.

The exclusion clauses remove the insurance coverage for the specified events that the insurance company chooses not to insure. The relevant reasons might be: such coverage is available under another class of insurance, the risks are not suitable to be taken up, or some special conditions are required, etc.

There are different types of exclusions for different types of insurance. An exclusion clause may apply generally in respect of the whole insurance policy, or may only apply to specific sections of the policy. In certain circumstances, an exclusion clause may be limited or removed by paying an additional premium.

The following are some examples of exclusions in respect of certain types of insurance.

Life insurance : the insured person commits suicide within the first two years after the policy is issued of; certain activities considered to be dangerous such as flying other than with a regular scheduled airline, hang-gliding, motor-car racing , s cuba- diving or skydiving ; and war exclusions.

Medical and hospitalization insurance : self-inflicted injury or suicide; pregnancy and childbirth; existing illness or disease prior to the insurance being effected; AIDS or AIDS Related Complex; intoxication by alcohol, narcotics or drugs not prescribed by a registered medical practitioner; and injury, sickness or accident sustained or medical treatment received outside of Hong Kong.

Property insurance : war; acts of terrorism; flooding; pressure waves caused by aircraft or other aerial devices travelling at super-sonic speeds; radiation from nuclear fuel or combustion of nuclear fuel; asbestos and pollution or contamination; and fines, penalty, punitive or exemplary expense.

Motor vehicle insurance : modified vehicle; where reasonable care was not taken to protect the vehicle; operation of the vehicle not within the law; use of the vehicle other than for the declared or specified purpose; driving while under the influence of alcohol, narcotics or illegal drugs; unlicensed driver; excess load; unlawful purpose; and unsafe condition of the vehicle.

UNIT- 4

Alterations in Policy

There may be instances when you would like to make alterations in your policy like change of premium payment mode, reduction in premium paying term etc.
your applications may be given in writing to the branch that services your policy for our further action. After the policy is issued, the policyholder in a number of cases finds the terms not suitable to him and desires to change them. LIC allows certain types of alterations during the lifetime of the policy. However, no alteration is permitted within one year of the commencement of the policy with some exceptions. The following alterations are allowed.

- Alteration in class or term.
- Reduction in the Sum Assured
- Alteration in the mode of payment of premiums
- Removal of an extra premium
- Alteration from without profit plan to with profit plan
- Alternation in name
- Correction in policies
- Settlement option of payment of sum assured by installments
- Grant of accident benefit
- Grant of premium waiver benefit under CDA policies
- Alteration in currency and place of payment of policy monies

A fee for the change or alteration in the policy is charged by the Corporation called quotation fee and no additional fee is charged for giving effect to the alteration.

How to Surrender Life Insurance policy?

Are you sure the insurance policy you hold suits the current market situation. The investment in insurance is in gains or losses. The mutual funds, PPf investment is getting you good returns. The three questions will lead you to the answer for policy surrender.

Why to surrender insurance policy?

The insurance policy taken by us is surrendered. The policy exit happens if it is not suiting our requirements or in loss or less returns.

1. If you surrender the existing policy how much you would get from it.

2. How much surrender charges will be levied.

3. If you wait for certain period will surrender charges reduce?

4. Instead of surrendering the policy. Alternatively if we change to paid of policy how much return will you get?

5. While surrendering the policy, how much life coverage will be benefited to match that term insurance is taken or not?

Traditional Policies (e.g., endowment, cash back, whole life)

1. Let the insurance policy lapse
Out of various exit options, the easiest way out is to stop paying your insurance premium. In case you want to forego your policy within first three years, there is no other way but to let it lapse by not paying the renewal premium. Here you don't get anything back and all your premiums paid go waste.

2. Surrender the insurance policy
The second exit option is to surrender the life policy. It is the voluntary termination of the insurance contract by the policyholder before the maturity. If you cancel (exit midway before maturity) the policy you get surrender value. In other words, it is premature encashment of the life insurance policy.

For traditional life insurance policies such as endowment, money back or whole life, there can't be any surrender during the first 3 years because surrender value is nil. Even thereafter during the early stages of policy the surrender value is just a fraction of the total premiums paid. It increases as the policy moves closer to the maturity.

The guranteeded surrender value is 30 per cent of the total premiums paid subsequent to the first

year. For instance, if you are paying a annual premium of Rs 20,000 then in the 5th year the policy will have minimum surrender value of Rs 24,000 (80,000*33.33%).

3. **Make the insurance policy paid up**
after three years of policy term; you also have another option available of keeping the policy in force without paying any further premiums. In other words, by converting your regular policy into paid-up policy you don't have to pay any more premiums and the policy life coverage continues albeit with a reduced sum assured.

ULIPs
In case of Unit linked insurance policies (Ulips), rules are a bit different.

On surrender of an ULIP, a surrender value is payable which is usually expressed as a percentage of the fund value. In other words, fund value minus surrender charges is equal to surrender value.

As per IRDA guidelines, **if the Ulip is surrendered during first three years** (i.e., due premiums have not been paid for at least 3 consecutive years from inception), the insurance contract ceases immediately, but the surrender value, if any, can't be paid before the expiry of 3 years. In other words, unlike traditional policies where the policy lapses and you don't get back anything for surrender before 3 years; Ulips acquire surrender value even before completion of three years but that is payable only after the completion of three policy years.

But the **fund value of a ULIP is too low in the initial years (due to high front end costs) and surrender value is even lower** because the insurance companies levy heavy surrender charges (levied as a percentage of fund value) during the initial years which vary from scheme to scheme and progressively reduce every year.

However, most of the Ulips usually provide for **full surrender of the policy after 5 years without any surrender charges**. Put simply, you get the full fund value without any extra costs. But there are exceptions also. To discourage, policy holders from making premature redemptions some Ulips levy steep surrender charges even after 5 years which may even go up to 10, 15, and 20 or 25 years.

Besides, unlike traditional policies **Ulips also allow part surrender (i.e., partial withdrawal)** after 3-5 years without any cost and without any reduction in the insurance coverage. **For more details, please see, 5 hidden fact about Ulips**

Furthermore, if due to financial constraints or due to any other reason, you're unable to pay premiums after 3 years, nothing to worry about. You can stop paying premium without surrendering the Ulip. Put another way, for Ulips, there is **another option of 'cover continuance'** available after completion of 3 policy years. If you opt for this option you can stop paying premium after 3 years and still your policy remains in force and your life insurance cover

continues.

However, remember that applicable charges such as mortality, fund management and administration are automatically deducted out of fund value by cancellation of units. Besides, if the fund value falls below the one year's premium then the policy is terminated and the balance fund value is returned (Foreclosure of policy). In other words, **you can continue the policy without paying the premium till the value of investment is greater than one year's premium.**

Finally for actual application of various exit options discussed above, you should carefully read the policy fine print before making the decision. And always keep in mind the adverse effects of terminating your life insurance policy

Claims Settlement Procedure:

The settlement of claims is a very important aspect of service to the policyholders. Hence, the Corporation has laid great emphasis on expeditious settlement of Maturity as well as Death Claims.

The procedure for settlement of maturity and death claims is detailed below :

Maturity Claims:

1) In case of Endowment type of Policies, amount is payable at the end of the policy period. The Branch Office which services the policy sends out a letter informing the date on which the policy monies are payable to the policyholder at least two months before the due date of payment. The policyholder is requested to return the Discharge Form duly completed along with the Policy Document. On receipt of these two documents post dated cheque is sent by post so as to reach the policyholder before the due date.

2) Some Plans like Money Back Policies provide for periodical payments to the policyholders provided premium due under the policies are paid up to the anniversary due for Survival Benefit. In these cases where amount payable is less than up to Rs.60,000/-, cheques are released without calling for the Discharge Receipt or Policy Document. However, in case of higher amounts these two requirements are insisted upon.

Death Claims:

The death claim amount is payable in case of policies where premiums are paid up-to-date or

where the death occurs within the days of grace. On receipt of intimation of death of the Life Assured the Branch Office calls for the following requirements:

a) Claim form A – Claimant's Statement giving details of the deceased and the claimant.

b) Certified extract from Death Register

c) Documentary proof of age, if age is not admitted

d) Evidence of title to the deceased's estate if the policy is not nominated, assigned or issued under M.W.P. Act.

e) Original Policy Document

the following additional forms are called for if death occurs within three years from the date of risk or from date of revival/reinstatement.

a) Claim Form B – Medical Attendant's Certificate to be completed by the Medical Attendant of the deceased during his/her last illness

b) Claim Form B1 – if the life assured received treatment in a hospital

c) Claim form B2 – to be completed by the Medical Attendant who treated the deceased life assured prior to his last illness.

d) Claim Form C – Certificate of Identity and burial or cremation to be completed and signed by a person of known character and responsibility

e) Claim form E – Certificate by Employer if the assured was employed person.

f) Certified copies of the First Information Report, the Post-mortem report and Police Investigation Report if death was due to accident or unnatural cause.
These additional forms are required to satisfy ourselves on the genuineness of the claim, i.e., no material information that would have affected our acceptance of proposal has been withheld by the deceased at the time of proposal. Further, these forms also help us at the time of investigation by the officials of the Corporation.

Double Accident Benefit Claims:
Double Accident Benefit is provided as an inject to the life insurance cover. For this purpose an extra premium of Rs.1/- per Rs.1000/- S.A is charged. For claiming the benefits under the Accident Benefit the claimant has to produce the proof to the satisfaction of the Corporation that the accident is defined as per the policy conditions. Normally for claiming this benefit documents like FIR, Post-mortem Report are insisted upon.

Disability Benefit Claims:
Disability benefit claims consist of waiver of future premiums under the policy and extended disability benefit consisting in addition of a monthly benefit payment as per policy conditions. The essential condition for claiming this benefit is that the disability is total and permanent so as to preclude him from earning any wage/compensation or profit as a result of the accident

Claims Review Committees:
The Corporation settles a large number of Death Claims every year. Only in case of fraudulent suppression of material information is the liability repudiated. This is to ensure that claims are not paid to fraudulent persons at the cost of honest policyholders. The number of Death Claims repudiated is, however, very small. Even in these cases, an opportunity is given to the claimant to make a representation for consideration by the Review Committees of the Zonal office and the Central Office. As a result of such review, depending on the merits of each case, appropriate decisions are taken. The Claims Review Committees of the Central and Zonal Offices have among their Members, a retired High Court/District Court Judge. This has helped providing transparency and confidence in our operations and has resulted in greater satisfaction among claimants, policyholders and public.

Retention:

After deciding the limit, retention can be easily fixed. Retention is the amount of maximum liability which the insurer can assume on a particular risk. The retention is determined according to the class to which it belongs and to its merit and demerits.

The retention is also decided upon the total amount of insurance in force, the average size of its policies and the amount of surplus find available with it.

It also depends upon the size of company, age of issue, the type of policy and the class of risk. Retention is also known as 'limit' or 'Net holding' of the insurer.

The 'Limit' is based on physical nature of the risk, construction and occupancy, probability to fire, exposure, fire protection, situation of risk, conflagration (adjoining) hazards, special peril Maximum Probable Loss (PML) is also influencing factor of deciding Maximum Amount of Loss (MAL) for the insurer. The different between these two is for reinsurance.

Reinsurance is the transfer of insurance business from one insurer to another. The insurer transferring the business is called the 'principal' or ceding or original office and the office to which the business is transferred is called for 'reinsurer or guaranteeing office'. It is also a contract of indemnity.

The original company must disclose all the material facts to the reinsurer. At the time of loss the reinsurer indemnifies the loss up to the amount of reinsurance. The reinsurance amount is obtained by deducting retention amount from the original policy amount

Reinsurance

It is an arrangement whereby an original insurer who has insured a risk insures a part of that risk again with another insurer, that is to say, reinsures a part of the risk to diminish own liability.

The difference between the retention and the total amount of acceptance is reinsured. The limiting or retention and effecting of reinsurance bring about a wider distribution of the risks and secure to the insurer the full advantages of the law of average. It creates an automatic capacity to accept a large amount of risks.

Insurance is a contract between the insurer and the original insured. Reinsurance is a contract between the reinsured (the insurer) and the reinsurer.

Therefore, the original insured is not a party to the contract of reinsurance. Now, if insurer goes into liquidation can the original insured sue the reinsurer for recovery of loss under the policy?

This question involves the protection of the rights of the reinsure's policyholders. In America, a special provision is made in the reinsurance contracts to safeguard the interests of the reinsure's policyholder that is the original insured.

A specific clause called 'loss assumption clause' is incorporated in the body of the reinsurance contract whereby the original insured can recover his loss on the policy from the reinsurers, if the reinsured goes into liquidation.

Catastrophe bonds (also known as **cat bonds**)

These are risk-linked securities that transfer a specified set of risks from a sponsor to investors. They were created and first used in the mid-1990s in the aftermath of Hurricane Andrew and the Northridge earthquake.

Catastrophe bonds emerged from a need by insurance companies to alleviate some of the risk they would face if a major catastrophe occurred, which would incur damages that they could not cover by the premiums, and returns from investments using the premiums, that they received. An insurance company issues bonds through an investment bank, which are then sold to investors. These bonds are inherently risky, generally BB, and are multi-year deals. If no catastrophe occurred, the insurance company would pay a coupon to the investors, who made a healthy return. On the contrary, if a catastrophe did occur, then the principal would be forgiven and the insurance company would use this money to pay their claim-holders. Investors include hedge funds, catastrophe-oriented funds, and asset managers. They are often structured as floating-rate bonds whose principal is lost if specified trigger conditions are met. If triggered the principal is paid to the sponsor. The triggers are linked to major natural catastrophes. Catastrophe bonds are typically used by insurers as an alternative to traditional catastrophe reinsurance.

For example, if an insurer has built up a portfolio of risks by insuring properties in Florida, then it might wish to pass some of this risk on so that it can remain solvent after a large hurricane. It could simply purchase traditional catastrophe reinsurance, which would pass the risk on to reinsurers. Or it could sponsor a cat bond, which would pass the risk on to investors. In consultation with an investment bank, it would create a special purpose entity that would issue

the cat bond. Investors would buy the bond, which might pay them a coupon of LIBOR plus a spread, generally (but not always) between 3 and 20%. If no hurricane hit Florida, then the investors would make a healthy return on their investment. But if a hurricane were to hit Florida and trigger the cat bond, then the principal initially paid by the investors would be forgiven, and instead used by the sponsor to pay its claims to policyholders.[1]

Michael Moriarty, Deputy Superintendent of the New York State Insurance Department, has been at the forefront of state regulatory efforts to have U.S. regulators encourage the development of insurance securitizations through cat bonds in the United States instead of off-shore, through encouraging two different methods—protected cells and special purpose reinsurance vehicles.

Computation of Surplus/ Profits [for tax purpose]

• **Aggregate Approach (based on financial statements)**

_ Policyholders account ('PHA') & Shareholders' account ('SHA') are considered part of one

Single business of life insurance

O Maintenance of two separate accounts is as per IRDA requirements

_ Aggregate results of both PHA & SHA (after nullifying effect of transfer between accounts)

Represents the profit of company

– Thus, taxable surplus / deficit computed to include impact of both the accounts

• **Segregate Approach (based on financial statements)**

_ PHA & SHA represent two separate businesses

_ Profits of each account to be calculated independent of other

_ Only PHA represents insurance business and should be taxable @ 12.5%*

_ SHA not to be taxed as income from insurance business and should be taxable as Income

From other Business @ 30%*

* Applicable surcharge and education cess will be additionally levied

Insurance Company's Revenue Model

The revenue models of insurance companies are based on premiums collected from policyholders. Premiums are the starting point for revenues earned by all types of. This includes life insurance companies, auto insurance companies, companies that sell homeowner's insurance and even companies that sell annuities.

Pricing of Risk by an Insurance Company

The revenue model starts with the pricing of risk and the sale of an insurance policy. The insurance policy's benefit amount represents the amount that the insurance company is willing to pay should a loss occur. For life insurance, that loss is death. With property and casualty insurance such as auto and homeowner's insurance, the loss is damage, theft or destruction of property, such as a home or auto.

Risk Pooling and Premium Pricing

The willingness to accept this risk comes at a price to the policy owner. This price is the premium amount and is based on the common occurrence of risk, as distributed among a large class of people. This process is known as risk pooling and is performed by actuaries hired by the insurance company. The risk pools determine the likelihood of a loss occurring for a class and the price for that risk, which becomes the premium amount.

Net Premiums

when the premium is paid, the insurance company nets out its expenses associated with keeping the coverage in force. This includes commissions paid to agents and brokers of the insurance company. It also includes the administrative and operational costs of the insurer such as overhead, salaries and other business related expenses. The net amount of the premium represents the revenue amount that the insurer has to invest.

General Account versus Separate Account Assets

For life insurance companies, 2 accounts are maintained in order to address the risks associated with their products. These accounts are the general account and separate account of the insurance company. In the general account, net premiums from fixed products issued by the life insurance company such as fixed annuities, term life, whole life and universal life products are deposited. These net premiums are invested in fixed income securities such as municipal and treasury bonds in order to back the insurer's promise to pay.

Separate Account

The separate account is backed with net premiums from variable insurance products such as variable annuities and variable life insurance. These product's premiums must be segregated or maintained in a separate account by law since it is the policy owner that determines how the premiums are invested, not the insurer. This investment control means that the policy owner is subject to a greater risk because those premiums are in the stock market and other equity securities.

Interest Earnings and Revenue

The interest earned by the investment of assets in either the general account for life insurance and property and casualty insurance companies or separate account for the life insurer is a component of overall revenue for the insurer. Savings realized by lowered expenses and less than expected risk losses (i.e. deaths, illness, disability, auto accidents) leads to higher revenues for an insurance company.

Investment & Revenue in Life Insurance sector

India's non-life insurance industry is nascent compared to the other analyzed countries. Insurance penetration and per capita premiums are very low, except for compulsory third-party motor insurance.
However, privately held insurers are increasingly looking to penetrate health insurance.
The claims ratio of the Indian non-life industry increased by 8.5 percentage points in fiscal 2010-11—the last fiscal year for which complete data is available—primarily driven by increased provisioning requirements in the third-party liability segment.
The claims ratios for motor and health insurance were more than 100% in fiscal 2010-11, mainly due inflation-related increases in claims expenses, as the rising cost of spare parts. The inefficient underwriting practices in the industry also contribute to the high claims rates. For example, only 2.6% of claims were rejected by non-life industry in fiscal 2010-11.
The operational expense ratio of the Indian non-life industry deteriorated further in fiscal 2010-11 despite already being the highest globally. This deterioration was evident among both public and private insurers.
Operational expenses increased as insurance players continued to invest in the expansion of their business and to compete with incoming international players.
India's Insurance Regulatory and Development Authority (IRDA) is contemplating an increase in the limit on foreign direct investment in insurers to 49% from 26%. If global players acquire larger stakes in
Tower Watson Group, September 2012 domestic operations, it could lead to more widespread adoption of best practices, and resultant operational efficiencies in the long run.
The acquisition ratio of India's non-life insurers declined in fiscal 2010-11 as new and low-cost distribution channels emerged, especially among private-sector providers, where acquisition costs are lower than among public insurers. As a result, total commission expenses rose by only 9.7% despite GWP growth of 19.8%.
Investment income for India's non-life industry remained stable in fiscal 2010-11, primarily due to the strong performance by local equity markets during the year. The industry's high investment ratio continued to help the Indian non-life industry compensate for poor underwriting results.

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