Chapter 4

LIFE INSURANCE PRODUCTS

In this module we will learn about various types of life insurance products available in Indian Insurance market offered by various Life Insurers

Learning Outcomes:

1. Term Insurance
2. Endowment Plans
3. Money back Policies
4. Whole life Policies
5. Universal Insurance Products - generic types
6. Unit Linked Insurance Plans (ULIP)
7. Variable Insurance Products
8. Other Variations of Product

Life insurance policies offer protection to dependents or self against the loss of economic value of an individual's income earning capacity. A life insurance policy, at its core provides peace of mind and protection to the near and dear ones of the life assured in case something unfortunate happens to him.

1. TERM INSURANCE

1.1 Term insurance is a life insurance policy suitable for providing cover against premature death. Under this plan, the sum assured is payable to the beneficiaries on the death of the insured during the period specified.

1.2 The sum assured under the policy remains constant. In some variations of this policy sum assured may get increased/decreased during the policy period. Decreasing sum insured policies are suitable when the policy is taken to cover a loan, which is getting repaid during the policy term.

1.3 The benefit is payable only if the insured dies during the specified term and the policy is in force at that time. The term can range from as short as one year to as long as forty years. Protection may extend up to age 65 or 70.

1.4 There is no saving or cash value element accruing to the insured. The premium for term assurance is generally low.

1.5 In many Term Insurance policies disability cover is also available.

1.6 Some companies offer Term Insurance with return of premiums. Policyholder gets the satisfaction that she has not lost anything in case she survives the term.

2. ENDOWMENT PLANS

2.1 This type of life insurance policy combines features of a Term Life Insurance and those of a long-term saving account. An Endowment Insurance policy has a fixed maturity date. It provides stable returns and grows in value over time. In addition, in the event of the death of the insured, during the period of the policy, the sum assured is paid to the beneficiaries.

2.2 This kind of life insurance is a form of savings for any purpose. If the insured person dies or becomes permanently disabled before the maturity date, the beneficiaries will receive the sum assured. Under the endowment policy the premiums are payable up to the end of the policy period. However they can be taken with an option of payment of premium for a shorter period.

2.3 Premiums for endowment policies are normally higher than Term Insurance or Whole Life Insurance.
The policies may be participating (with profit), in which case bonus is also paid along with sum-assured or non-participating (without profit), in which case only sum assured is paid.

2.4 Endowment policy is suitable when someone is planning to save money for a specific period and for a specific purpose such as children’s education or retirement fund. To get peace of mind and the assurance that the required money would be available, regardless of whether or not he is alive to the end, is the purpose of buying Endowment Assurance.

3. MONEY BACK POLICIES

3.1 A popular variant of Endowment policy is the Money Back Policy. It is an Endowment Plan with the provision for return of a part of the sum assured in periodic instalments during the term and balance of sum assured at the end of the term.

3.2 A Money Back policy for 20 years may provide 20% of the sum assured to be paid as a survival benefit at the end of 5, 10 and 15 years and the balance 40% to be paid at the end of the full term of 20 years. If the life assured dies at the end of say 18 years of policy term, the full sum assured and bonuses accrued are paid, even though the insurer has already paid a benefit of 60% of the face value.

3.3 These plans have been very popular because of their liquidity (money back) elements, which renders them useful for meeting short and medium-term needs. Full death protection is meanwhile available when the individual dies at any point during the term of policy.

4. WHOLE LIFE INSURANCE

4.1 Whole life insurance offers to pay the sum assured, when the life assured dies, no matter when the death occurs. There is no fixed term for cover of death. The premiums can be paid throughout one's life or for a specified limited period.

4.2 In this policy the premiums are significantly higher than for term insurance policy. Since a cash value accrues and accumulates, the policyholder can withdraw cash in the form of a policy loan should he require, or he can redeem by surrendering the policy for its cash value.

4.3 The policies may be participating (with profit) in which case bonus is also paid along with sum-assured or non-participating (without profit) in which case only sum assured is paid.

5. UNIVERSAL LIFE INSURANCE PLANS

Universal Life Insurance is a variant of a Whole Life Policy which offers flexible premium, flexible face amount and death benefit amounts. The pricing factors namely the risk, interest and expense are provided separately.

In contrast to ordinary Whole Life policies, Universal Life Insurance allows the policy holder to decide the amount of premium; she wants to pay for the coverage. The contract specifies the interest rate to be credited to the cash value, and mortality and expense charge.

The policy would be suitable for individuals facing income-expenditure-uncertainties and requiring a flexible premium-benefit schedule that could match their cash inflows and outflows.

6. UNIT LINKED INSURANCE PLANS (ULIP)

Unit Linked Insurance Plans (ULIP)
6.1 The benefits of these policies are wholly or partially determined by the value of units credited to the policyholder's account on the date when payment is due. The units are of a separate fund managed by the company. Units may be purchased by payment of a single premium or via regular premium payments.
6.2 The value of these units is fixed with reference to some predetermined index of performance. This value is defined by a rule or formula, which is declared in advance. The value of the units is given by the Net asset Value, which reflects the market value of assets in which the fund is invested. Policyholder benefits thus do not depend on the assumptions and discretion of the life insurance company.

6.3 An important feature of Unit Linked policies is its facility of choosing between different kinds of funds, which the unit holder can exercise. Each fund has a different portfolio mix of assets. The investor thus gets to choose between options of debt, balanced and equity funds.

6.4 The Insurance Company, while being expected to manage an efficient portfolio, does not give any guarantee about unit values. The investment risk is borne by the unit holder. The life insurer may however bear the mortality and expense risk.

6.5 Unlike conventional plans, unit linked policies work on a minimum premium basis and not on sum assured. The insured decides on the amount of premium to contribute at regular intervals. Insurance cover is a multiple of the premiums paid.
6.6 In case of death benefit would be the higher of the sum assured or the fund value standing to policy holder’s account. The fund value is simply the unit price (NAV) multiplied by an individual's account.

6.7 The important features of this scheme are as under:-

6.7.1 Premium is utilized for risk cover (death cover), investment and scheme maintenance charges.

6.7.2 The sum assured, in the policy is 5 times or more of total premiums paid. (In the case of a single premium it is 1.25 times or more).

6.7.3 Withdrawal of units is allowed during policy period. However there is a 3 years waiting period (lock in).

6.8 There is no annual bonus. Certain riders like accidental benefit, disability benefit, critical illness, hospital cash etc. are available.

7. VARIABLE INSURANCE PRODUCTS

7.1 Variable life insurance is a kind of Whole Life policy where the death benefit and cash value of the policy varies according to the investment performance of a special investment account into which premiums are credited. The policy thus provides no guarantees with respect to either the interest rate or minimum cash value.

7.2 In contrast to ordinary Whole Life Insurance, assets representing the policy reserves of a variable life insurance policy are placed in a separate fund that do not form part of its general investment account.

7.3 The policy mention show charges are made against the asset account to cover the Cost of Insurance (mortality costs).

7.4 Another charge levied against the individual accounts is the fees for managing the various funds. The policy also provides the investment objectives of each available fund option and a record of its historical performance as also a projection of future performance.

7.5 In sum Variable life insurance is a policy in which the cash values are funded by separate accounts of the life insurance company, and death benefits and cash values vary to reflect investment experience. The policy also provides a minimum death benefit guarantee for which the mortality and expense risks are borne by the insurance company.

8. OTHER VARIATIONS OF PRODUCTS

8.1 Policies covering physically challenged:

Under these policies physically challenged persons are insured. There may be extra premium charges. Generally partially handicapped people are insured without any extra premium.

8.2 Policies under Married Women's Property Act

Under provisions of the Married Women's Property Act, a married man can take a policy on own life, making wife and/or children or any other of them the beneficiaries under the policy. This policy is treated as trust for the benefit of beneficiaries.

The policy can also be taken by a widower or a divorced person. The beneficiaries may be:

1. The wife alone
2. Any one or more children
3. The wife and any one or more children jointly.
4. The life assured can specify the method of distribution of benefits to the beneficiaries on his death.
   The policy does not form part of the estate of the policyholder. The creditors and tax authorities cannot attach the policy.

The life assured needs to appoint a trustee for administration of the policy funds.

The policy cannot be surrendered and even loans cannot be taken against it. The claim will be paid only to the trustees.

8.3 Joint Life Policies

Two or more lives can be covered under one policy. Such policy usually covers married couples or partners.

Sum insured is paid on death of any of the person or at the end of the policy term.

Some plans provide for payment of sum insured on death of one person but continue to cover the second life till maturity without any additional premium.

The risk of life assured begins when he attains a particular age. The difference between the date of commencement of risk and commencement of policy is called 'Deferment Period'. If the policy is taken when the child is 6 years and the risk begins when he is of 15 years age, the deferment period is 9 years. The date on which policy will commence is called 'Deferred Date'.

There is no cover during the deferment period and cover starts from the deferred date. If in between the child dies premium paid is returned.

This insurance premium is low and cover is granted irrespective of the child's health condition. No medical examination is required when the risk starts on a deferred date. When a child attains majority at age 18 or thereafter if agreed, the child will become owner of the policy and this process is called 'vesting of policy'.

8.4 GROUP INSURANCE

A group insurance policy gives you advantage of standardised coverage and very competitive premium rates. You can avail of group insurance policies that a group you belong to takes.

Groups- for this purpose- can be employer-employee group or non-employer-employee group as defined by IRDA's group insurance guidelines. (Examples are holders of the same credit card, savings bank account holders of a bank or members of the same social or cultural association and so on).

Here are some things to be careful about when you participate in a group policy:

- Only one master policy will be issued to the Manager of the group and will be in the name of the group (e.g.: the association)
- You are entitled to get a certificate of insurance if you participate in a non employer-employee group policy for your records.
    - This certificate should contain
    - The schedule of benefits
    - Premium charged and
    - Terms and conditions of the cover
- Your cover could cease if you leave the group
- When you leave the group the insurer should offer continued coverage under an individual policy
- The Manager of the group should disclose the premium rate and terms of the policy including the premium discount offered to the group and should pass on the discount to all members.The manager of the group has to disclose any administrative or other charges he is collecting from members over and above the premium charged by the insurance company.