

Primary benefits of life insurance business essay



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Life insurance in India has been made a federal matter by The Insurance Act, 1938 and Insurance Regulatory and Development Authority Act 1999.

Therefore, all the life insurance companies in India have to comply with strict regulations laid out by the mentioned acts, irrespective of whether they are state-owned (LIC) or private (Bajaj Allianz Life Insurance Company, HDFC Standard Life Insurance Company Ltd, ICICI Prudential Life Insurance etc.).

Life insurance boosts confidence in the insured, offers satisfaction of being covered for life, any illness or financial loss. The advantage for the policy owner is the “ peace of mind” in knowing that, the death of insured person will not result in financial hardship for loved ones. Uncertainties of life cannot be controlled but, the risks surrounding us can be definitely taken care of like ensuring financial protection on accident or death. Life insurance also protects us from those contingencies that could affect us in a big way and enable the beneficiaries to maintain the same lifestyle even after the unfortunate demise of their loved ones.

Any basic life insurance policy works as under :

To cover the risk of untimely demise of the insured, small sums (monthly/ quarterly/ yearly) are paid to the insurer by the policyholder, called premiums, during the tenure of the policy. In case of death of the insured, the family (or the beneficiaries, as named in the policy) will receive a lump sum amount. In case of maturity of the policy, depending on the type of the policy opted for; returns will be received, which it may have earned over the years. Today, there are many variations to this basic theme and insurance policies cater to a wide variety of needs.

Primary benefits of life insurance

Coverage of death or any critical illness (as mentioned in the 'insuring agreement').

Coverage of financial interests/ needs of the family/ beneficiaries on the death of the policyholder.

Specific tailor made products for catering to different life stage needs (refer chapter 8 for different types of needs and their calculations).

Inbuilt wealth creation propositions under several products, providing dual benefit to the customer.

Availability of different types of retirement plans.

Loan facilities against various plans.

Life insurance premiums offer tax saving benefits.

Hence, life insurance occupies a unique space in the landscape of investment options to a customer and different life stage benefits to the beneficiaries.

TYPES OF LIFE INSURANCE POLICIES

As we have seen, life insurance plays a very important part in anybody's life as it covers the risk of dying early and protects the family in case of demise. The insured money will save the family in different stages of life, either it is for educating the children or daughter's marriage etc. Non-earning years of life which is called retirement is also covered by the insurance. Insurance policies fall into many categories (see exhibit 1 & 2), hence, choosing the <https://assignbuster.com/primary-benefits-of-life-insurance-business-essay/>

right policy type with the right amount of coverage becomes very critical. Some of the parameters for classifying them include premium amount, benefits covered, number of years and other regulations which govern the policy.

Life insurance policies vary from company to company but, none of them will be contradicting the principles of life insurance contract, however, the degree of variance is minimal. Given below are the basic types of life insurance policies, whereby, all other policies are built up by combination of various features considering major causes of deaths in India (see exhibit 3) :

Term Life Insurance Policy

Group Term Life Insurance

Level Term Life Insurance

Permanent Life Insurance

Whole Life

Universal Life

Variable Life

Variable Universal Life

Premium Life

Survivorship Life

Endowment Policies

Money Back Policy

Annuities and Pension

Group Insurance Policies

ULIPS

Exhibit 3 : Major causes of deaths in India

Coronary Heart Disease

13. 88

Suicide

2. 39

Diarrhoeal disease

12. 06

Liver Disease

2. 31

Lung Disease

11. 00

Road Traffic Accidents

2. 19

Stroke

09. 21

HIV/AIDS

2. 05

Influenza & Pneumonia

07. 45

Peptic Ulcer Disease

1. 20

Tuberculosis

03. 11

Hypertension

1. 86

Source : worldlifeexpectancy.com/country-health-profile/India

Term Life Insurance Policy

“ A term insurance policy is a pure risk cover policy that protects the person insured for a specific period of time”.

A type of insurance policy, in which, the insured pays a fixed sum for a specified term. This sum remains constant and the policy does not accumulate any cash value. ‘ Term’ is generally considered ‘ pure insurance’, where the premium buys only protection in the event of death and nothing is

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received on the maturity, hence, the premium charged is very nominal. While purchasing this policy, the insured has to undergo various medical checkups and in case of any hazards like; health hazard (increased BP, heart problems etc.), the premium will be charged extra by the name ' health extra'. In case of occupation hazard (risky jobs), again the premium is charged extra by the name ' occupation extra'. It is to be noted that the extra charged premiums will be purely at the discretion of the underwriter. The policy can be renewed when expired but at revised rates of premium which can be too high. The policy is highly recommended for the salaried youth and middle men. Another classification in term life insurance is ' whole term insurance policy' where the insured pays the fixed amount throughout his life. There are three key factors to be considered in term insurance :

Face amount (protection or death benefit),

Premium to be paid (cost to the insured) and

Length of coverage (term)

The objective of this policy is to protect the policy holder's family in case of death. Here, the fixed sum of money called the ' sum assured' and is paid to the designated beneficiary. For example; if a person buys a policy of Rs. 2 lacs for 15 years, his family is entitled to the sum of Rs 2 lacs if he dies within that 15 year period. If he survives beyond 15 years, he will not get any amount from the insurance company and the premiums paid are not returned back.

which will be comparatively lower, as now it covers only risk component and not savings/ investment)

Some term insurance policies also carry convertible option, known as ‘convertible Term Insurance Policies’. Here, the insurer has the option of converting the term policy to normal endowment policy (explained under the head ‘endowment policies’ later in this chapter) after a certain period of time say 5 or 6 years (the clause depends on company to company). As the policyholder is getting the policy converted to normal endowment policy, now the fresh premium will be calculated as per endowment policy. The benefit of this policy is that when the policy gets converted, the insured does not undergoes any medical checkup even if the his present health condition is not good.

Term Endowment

‘Suicide’ used to be excluded from all insurance policies. However, after a number of court judgements, many insurers began awarding payouts in the event of suicide (except for cases where it can be demonstrated that the insured committed suicide solely to access the policy payout). Generally, if an insured person commits suicide within the first two policy years, the insurer will simply return the premiums paid as a compromise, but, after this period, the full death benefit may be paid.

Group Term Life Insurance – Insuring a group of individuals together. This may be done due to their working in specific group such as partners, employees of the same organization or being members of a particular organization formed for a specific purpose. In case the insurance is taken for

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the employees by their employers, the employer is supposed to pay the premiums either from his pool or by deducting the right amount from the salary of individual employees. In group insurance you have the facility of converting your policy to another which is not available with other insurance policies. So as an insurer you are given the freedom to choose the policy as per your choice. Group term life insurance provides a lot of benefits but it cannot be solely relied to meet one's insurance needs. Policy is gaining significance in the many developing countries.

Level term Life Insurance – An insurance which asks to select a particular period and then premiums are paid for that period. The policy, by design matures on the attainment of that period. Once the term is selected say 5, 10 or 15 years, it cannot be revoked. The policy is ideal for those, who do not make long term financial plans.

Merits of the Term Life Insurance Policy

Financial security of a person.

Payments (premiums) are fixed and do not increase during the term period.

A low salaried person can also go for high value insurance policies as the premium is affordable.

The policy is intended to provide hundred percent risk coverage; no additional charges other than the basic ones. Hence, the premiums are lowest in the life insurance category.

The policy can be customised with the addition of different riders (explained later in this chapter), such as waiver of premium or accidental death.

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Can be kept as collateral/ mortgage with the banks in case of loan.

The premiums paid are exempt from tax.

Drawbacks of the Term Life Insurance Policy

Covers risk only during the selected term period.

No survival benefit, only death benefit.

The premiums are directly proportional to age of the person. They get increased with the age and become unaffordable over 60 years.

If the premium is not paid within the grace period (as per the specification of the insurance – explained later in the chapter), the policy could lapse without acquiring any paid-up value.

The revised rates (in case of renewal of policy) of premium are very high.

Policy is not suitable for savings or investment.

Points to Ponder

We are highly educated with honours from esteemed universities but still bad managers of our money because most of the times we tend to rely on “ someone else” for our financial planning and investments. This “ someone else” in insurance industry can be directly related to an agent or so-called insurance planner of XYZ company while choosing Insurance. Most of the time these agents exploit our financial illiteracy to their benefit, they tend to trap us by advising policies which earn them higher commission and completely ignore our needs. If we have to avoid being prey for their trap,

financial literacy is most important for each and every one of us. On this note, answer to the 10 amazing facts being presented below which one must know about the term insurance :

Which is the simplest form of life insurance ?

Which is the best form of life Insurance ?

Which is the most basic and purest form of life insurance ?

Which is the cheapest form of life insurance cover ?

Which life insurance plan is easiest to compare ?

Which is the most affordable form of life insurance ?

Which life insurance plans your agent or advisor refuses to discuss or discourages you to buy ?

Which life insurance plan is easiest to terminate ?

Which insurance plan is the least sold ?

Which is the best gift you can ever give to your family ?

Interestingly, answers to all the above 10 questions is ' Term Plan'.

Isn't it amazing? So, despite being the best form of life insurance, why the term policies are least sold ? Why only a few people are aware of them ? The only drawback is, there is no survival benefit. This fact is difficult to digest and consequently taken advantage of by the insurance agents to misguide people about the true purpose of life insurance.

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The decision should be made considering whether the person expects to receive the money back on the comprehensive insurance cover bought for his/her car or bike ? It is similarly with the pure form of life insurance. It is to be noted that life insurance is basically for eventuality and not for certainty. Now, the person should thoughtfully decide which life insurance plan should he/ she opt for ?