

The life insurance policy riders finance essay



**ASSIGN
BUSTER**

Mr A has a life insurance policy with ABC Life Insurance for a sum assured of Rs. 5 lacs. He takes a loan of Rs. 2 lacs from ABC Life Insurance and the policy is assigned to ABC Life Insurance. Mr. B is the Nominee under the policy. Mr. A dies and Rs. 2 lacs is payable to ABC Life Insurance and the remaining Rs. 3 lacs to Mr. B. Thus the nomination is not cancelled by this assignment but only affected to the extent of interest that ABC Life Insurance has in the policy.

Where the loan has been repaid and the policy re-assigned to Mr A (The Life Insured) the nomination in favour of Mr. B shall be valid for the full amount.

Impact of assignment

In assignment, assignor gives all the rights over the policy to the assignee that becomes the owner of the policy. The assignee has the right to reassign that policy.

In the event of death of the assignee

If the assignment is conditional assignment and the assignee dies, the assignment becomes ineffective and all the rights and title of the policy goes back to the life assured if he is alive. If the life assured is not surviving, the benefit goes back to the life assured's nominee. In case of absolute assignment, if the assignee dies, all the rights entitled of the policy are given to legal heirs of the assignee.

Cancellation of assignment

An assignment once executed cannot be cancelled, however, if an assignee during the term of the policy reassigns the interest and title of the policy to

the previous assignor such reassignment will result in cancellation of assignment and the benefits of the policy go back to the original assignor.

Procedures of assignment

A standard form of Assignment is issued to the policyholder who wants to effect an assignment of his policy. Necessary instructions are there for executing the assignment which is then registered by the insurance company. Points to be checked by the insurance company for affecting assignment:

Check whether the assignment is executed on the Policy or on a separate paper and if it is executed on a separate paper that the paper is adequately stamped. If it is unstamped or inadequately stamped inform the assignor and get it corrected.

Check whether notice of assignment is received from the assignor; if the notice is not received or it is defective, inform the assignor.

Check the signatures of assignor affixed to the assignment and notice with the specimen of his signature in the proposal papers to see that they tally. If the signature differs then for writing letter to the person concerned, inform the assignor.

If the assignment is executed on a separate paper, ensure that the paper should be stamped, in accordance with the stamp regulations.

Check that the date and place of execution on Assignment are mentioned. If they are not mentioned the assignment may be registered, if otherwise in order, but while returning the Assignment to the party concerned he should

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be asked to have the necessary particulars inserted in the Assignment under the Assignor's.

If the assignment is in order and that the notice there of has been duly received the particulars of assignment must be entered in the space provide for the purpose in the policy ledger sheet under the heading “ Nominations and Assignments”.

Also the appropriate rubber stamp is affixed at the foot of assignment write the date on which the assignment and the notice are received.

Policy Loan Provision

Loan from an insurance company secured by the cash surrender value of a life insurance policy.

Most of the insurance companies give facility to the policyholders to get loans on Life Insurance policies according to rules. The policyholder can apply for a loan in a prescribed form and has to give policy bond along with the completed form. The loan amount that the policyholder can get is calculated according to

surrender value of the policy at the time of taking the loan. Rate of interest charged on the loan by the insurance company may vary from time to time and may depend upon the rules of the insurance company. For loan the policy should be assigned absolutely in favour of the insurance company.

The amount available for such a loan depends on the number of years the policy has been in effect, the insured's age when the policy was issued and the size of the death benefit.

Such loans are often made at below-market interest rates to policy holders, although more recent policies usually only allow borrowing at rates that fluctuate in line with money market rates.

If the loan is not repaid by the insured, the death benefit of the life insurance policy will be reduced by the amount of the loan plus accrued interest.

Free Look Option

If you disagree with any of the terms and conditions of the Policy, you have the option to return the original Policy Document within fifteen days of receipt of the Policy Document (“the free look period”).

It’s possible that after buying an insurance policy, you realize that you are not satisfied with it and wish you had never bought it in the first place. As per the Insurance Regulatory and Development Authority (IRDA), you need not worry since most policies come with a 15-day free-look period. You can return the policy to the insurance company within this period and ask it to return the premium you have paid. The best part is that you don’t even need to give a reason for returning the policy.

The 15-day period starts from the day you get the policy in your hand.

The Policy will be cancelled by the insurer and we will pay you an amount equal to the :

Policy premium paid by you;

Minus the aggregate of the stamp duty on the policy, any expenses borne by the company for medical examination and proportionate premium for the

time that the company has provided insurance cover up to the date of cancellation.

All the rights under the policy shall stand extinguished immediately on the cancellation of the Policy under the Free Look Option.

Withdrawal Provision

This provision allows you to withdraw money from your life insurance policy up to the amount of the cash value you have accumulated.

However, in doing so, your life insurance policy is reduced by the amount you withdrawal.

LIFE INSURANCE POLICY RIDERS

Additional coverage to your existing life insurance policy by attaching special provisions to it what is known as a rider.

Some medical conditions regularly result in high medical expenses for the insured and his or her family or other care givers. The need for funds may significantly exceed benefits provided by medical and disability insurance because of deductibles, coinsurance, caps on benefits, and exclusions, and (perhaps primarily) because of having purchased inadequate coverage. Hence, the purchase of riders along with the original policy will relax the insured to some extent.

The name ' rider' is taken from the concept that they have no independent existence, they are in force and effective only when they are attached to a policy or riding it. They are the options that allow you to enhance your insurance cover, qualitatively and quantitatively. They can be blended, for an <https://assignbuster.com/the-life-insurance-policy-riders-finance-essay/>

additional cost, according to your present and future insurance needs.

However, buying a rider means paying an extra premium for this supplementary benefit but generally, this premium is low because relatively little underwriting is required. When a claim for the benefits of a rider is made, it can result in the termination of the rider, while the original policy continues to insure you as usual. Your lifestyle, your beneficiaries' needs will all yield different coverage needs and therefore, different life insurance riders are available. But some life insurance riders are fairly universal and generally a good idea for every policy holder to add to their life insurance policy.

Features of Riders

Riders are risk premium only.

Rider premiums do not have any accumulation.

Rider sum assured cannot be more than the basic sum assured. (as rider rides the horse).

Rider alone cannot be taken out the basic plan.

If policy lapses, rider alone cannot be revived.

Rider can be given only from the inception of policy but can be withdrawn anytime during the policy.

IRDA has given regulations related to riders premiums in April 2002 and further amended in October 2002 as under :

If basic plan is the saving product and if you have taken all the riders with it then the sum total of all rider premiums should be 30% maximum of basic plan premium.

If basic plan is the risk cover product, i. e., terms cover then sum total of all rider premiums should be maximum equal to basic plan premium.

Rider benefit not covered

Suicide within 1 year of policy.

Catastrophic events not covered.

Self inflicted injuries (example; a person who is not an electrician climbs the pole and dies)

Hazardous occupation.

Points to Ponder

A one size fits all approach does not apply to insurance policies. Therefore, the kind and number of riders added to an individual's insurance policy depends on the many factors such as the individual's health, future plans, purpose of the insurance etc.

Due to intense competition in the insurance space, especially among private insurers, there's a wide range of insurance products available today at really affordable rates. The typical riders you can take are critical illness benefit, waiver of premium benefit, level-term covers and accident and disability benefit, but you can opt for customized riders as well. Today, almost 80 per cent of all policies sold carry at least one rider.

Why are they so popular ?

The main reason is that riders offer high value at a low cost, and they offer extra protection without you having to take a second policy. As the premium for the rider goes completely towards the cost of the risk cover rather than towards savings, the premiums on riders tend to be lower than that for the basic policy. Moreover, the administrative cost on policies goes down when a base policy is maintained along with a rider cover. It's a perfect value-for-money match that both insurers and customers look out for today.

You can attach riders to almost any form of insurance policy-endowment, money-back and whole life- under the traditional and unit-linked formats. Typically, insurers let you attach a rider at the time of taking the policy; some also offer you the option to attach a rider at a later date, though the cost at that time may be higher depending on your health condition and your age. However, taking a rider at the inception of a policy is more gainful than taking it at a later date.

Riders at different stages in life can add more value. You can add disability, accident and critical illness rider at an early age. You can take waiver of premium rider in middle age and add critical illness and term insurance riders to pension plans.

Common Insurance Riders

Renewal Provision/ Guaranteed Insurability Rider

10. Long-Term Care Rider

Term/ Preferred Term Benefit

11. Return of Premium Rider

Spouse and Children's Insurance Rider

12. Level Term Cover Rider

Accidental Death Benefit (ADB) or Double Indemnity Rider

13. Double Sum Assured Rider

Accelerated Death Benefit/ Living Benefits/ Terminal Illness Rider

14. Critical Illness Benefit (CIB) or Dreaded

Disease Rider

Waiver of Premium Rider

15. Major surgical assistance benefit

Permanent Disability Benefit (PDB)

16. Life Guardian Benefit (LGB)

Family Income Benefit Rider

Cost of Living Rider

Child Term Rider

Additional Insured's Riders

Renewal Provision / Guaranteed Insurability Rider

This rider gives you the right to purchase additional insurance (of the nature of your base policy) at different stages, without further medical examination.

When included in your life insurance policy, this provision guarantees the policy's renewability at the end of its term and you will further not be required to provide additional proof of your insurability.

In order to take advantage of this provision, you are often required to renew your policy within a set number of days – you have fewer days to renew as you get older. this insurance rider may also expire at a certain age.

this rider is most beneficial when there has been a significant change in your life circumstances, such the birth of your child, marriage or an increase in your income.

It becomes valuable if the insured becomes uninsurable or develops a condition that would prevent the purchase of new life insurance at standard rates.

Term/ Preferred Term Benefit

In the event of death of the life insured during the term of this benefit, the beneficiary would receive an additional death benefit amount, which is over and above the basic sum assured.

The maximum amount of benefit that is available is equal to the basic sum assured.

Where the Term Benefit applied for is more than Rs. 10 Lacs, better rates may apply, subject to meeting eligibility requirements.

Spouse and Children's Insurance Rider

It offers term insurance for your spouse and/ or your children for an additional premium.

Accidental Death or Double Indemnity Rider

This benefit provides an additional amount (over and above the death benefit) to the beneficiary in the event of accidental death of the life insured.

' Accident' is defined as that which causes death by violent, accidental, external and visible means, sudden and independent of any physical or mental illness. If person dies within 180 days /6 with from happening of event, then it is considered to be an accident. Examples; Snake biting, shoot by terrorist, electric shock, car/ road accident, murder.

Exceptions to accident : suicide, heart attack, self provocation murder, self inflicted injuries are not accidents.

Generally, the addition of this provision doubles your death benefit if you die from an accident.

Normally, the additional benefit paid out upon death due to accident is equivalent to the face amount of the original policy, which doubles the benefit. This additional amount, usually referred to as the ' principal sum', is generally an amount equal to the face value of the policy (thus the term double indemnity).

Often the policy will stipulate an age when this coverage will unconditionally expire.

Before purchasing a life insurance policy with an accidental death rider, read over the terms and condition. Pay close attention to the insurance company's definition of "accidental", which is often times very restricted.

Accidental death caused by war, suicide, violations of the law, gas or poison, aviation except as a passenger on a regularly scheduled airline and illegal activities is generally excluded.

Adding this coverage is relatively inexpensive and may prove to be quite invaluable.

If you are the sole income provider for your family, this rider is ideal for you because the double benefit will take good care of your surviving family's expenses in your absence. However the maximum cover available under this benefit is equal to the basic sum assured (subject to a maximum of Rs. 10 lacs).

However, accidental deaths (especially by the insurance company's definition) are seldom. So, if you want to lower your costs, forgoing accidental death coverage is ideal.

Time and age limits are usually applicable, as for example, the insured must die within 90 days of the accident and be age 60 or less.

An Accidental Death Benefit Rider to a life insurance policy may also include an Additional Benefit for Dismemberment. In that case, it's called an Accidental Death and Dismemberment (AD&D) Rider.

The AD&D Rider usually provides that the accidental death benefit will also be paid if the insured loses sight in both eyes or suffers the loss of any two limbs. Sometimes a smaller amount may be paid for the loss of sight in one eye or the loss of one limb.

Accelerated Death Benefit/ Living Benefits/ Terminal Illness Rider

Accelerated death benefits are triggered by either the occurrence of a catastrophic (dread) illness or the diagnosis of the terminal illness (that will considerably shorten the insured's lifespan), resulting in payment of a portion of a life insurance policy's face amount prior to death.

The benefit can usually be claimed when two doctors agree that the insured has six months or less to live.

Usually, the terminally ill insured can receive up to 25-40 percent of the death benefits of the base policy to the insured to improve quality of life before death. However, the death benefits payable under the policy are reduced by any amounts paid under this rider. Often, the coverage is provided without an additional premium.

The insured can claim this rider if he/she is diagnosed with a terminal illness, requires long-term care or admission to a nursing home. With these conditions, the insured would most likely be unable to continue work and

earn an income. This life insurance rider can help relieve some of the financial burden and medical costs.

Note : Different insurers come out with different versions of the definition of “ terminal illnesses”, so better check what the rider has to offer before opting for it.

Waiver of Premium Rider

The future premiums are waived off if the insured becomes permanently disabled or loses his or her income as a result of injury or illness prior to a specified age.

Disability of the main bread-earner can have the most crippling effect on a family. In these circumstances, this rider exempts the insured from paying the premium due on the base policy until he or she is ready to work again.

For the waiver of premium to apply, the insured’s disability must be permanent and total. A waiting period of from 3-6 months normally applies before the benefits of the waiver of premium go into effect.

Most policies limit the age you can use this rider to being older than 65. If, after you turn 65, you become disabled and are disabled for longer than six months, your premiums will be waived.

Usually, the premiums you paid during the six months of disability will be reimbursed, but it depends upon the life insurance policy.

Once you are no longer disabled, you are required to resume your premium payments as before.

This rider can be valuable, particularly when the premium on your policy is quite high. Without this rider, you are at risk of lapsing you.

Effectively, this rider acts as a ‘disability insurance’ against your life insurance policy.

The premium paid for this rider qualifies for tax deduction under section 80D of the IT Act.

Note : The definition of being ‘disabled’ varies from policy to policy so read over your insurance company’s guidelines. Find out what qualifies as being disabled and how long you are able to retain your policy without paying the premiums. Become familiar with all the details, restrictions, and responsibilities outlined within the policy before agreeing to the extra cost.

Permanent Disability Benefit (PDB)

It guarantees that an insured policy holder will receive a monthly income from the insurance company should he or she become totally and permanently disabled, for as long as the disability lasts.

‘Permanent disability’ is defined as permanent and immediate inability to work or permanent loss of use of two limbs or total and permanent loss of sight.

This rider usually includes the waiver of premium rider (as explained above). As in the case of the waiver of premium, the disability income rider also requires a waiting period of generally 3-6 months before taking effect i. e. when an insured becomes disabled for at least six months, premiums due, are waived.

Depending on the rider, the insured may begin to receive a monthly income (usually 1% of the face value of the policy), or only the premium may be waived.

The length of time that income payments will continue depends on the definition of disability in the policy.

During the time that premiums are waived, the life insurance policy stays in force, so that if the insured dies the beneficiary receives the face value of the policy.

Cash values continue to build, and if the policy is participating, dividends continue to be paid.

Usually attached to juvenile insurance policies, the payer rider ensures that if the person who's paying the premium (typically a parent) dies or becomes disabled before the child has reached a specified age, the insurance company will waive all further premiums until the child reaches that age. Simply put, the child will not be without an insurance policy if something happens to the parent or guardian.

The maximum cover available under this benefit is equal to the basic sum assured (subject to a maximum of Rs. 10 lacs).

Family Income Benefit Rider

This insurance rider guarantees your family will continue receiving your monthly income if you die.

When purchasing a policy with this provision, you choose a length of time you would like to provide this security to your family.

This is an invaluable life insurance supplement for families with one income source. In the event of the salaried individual's death, the family will not suddenly be cut off from all sources of income but, instead, will be able to depend upon reliable monthly payments of your death benefit. However, as you grow older the duration will decrease and eventually expire. Depending upon the situation, your beneficiaries can choose to receive the amount in a lump sum or monthly payments.

The merit of having this rider is obvious. In case of death, the surviving family will face fewer financial difficulties thanks to the regular monthly income from the rider.

Child Term Rider

It provides a death benefit in case a child dies before a specified age.

After the child attains maturity, the term plan can be converted into permanent insurance with coverage multiplying up to five times the original face amount without the need for medical exams.

Long-Term Care Rider

In the event that the insured's bad health compels him or her to stay at a nursing home or receive home care, this rider offers monthly payments.

Although long-term care insurance can be bought individually, insurance companies also offer riders that take care of your long term care costs.

Return of Premium Rider

To give back most of the premium that you put into your policy.

Under this rider, you have to pay a marginal premium and at the end of the term, your premiums are returned back in full.

It doesn't actually return paid-in premiums, but adds an additional amount to the death benefit that equals the premiums paid at that time — as long as the death falls within the time period specified in the rider.

It is merely an increasing amount of term life insurance which always equals the total of the premiums paid at any point during the effective years of the rider.

In the event of death, your beneficiaries will receive the paid premium amount.

Note : Insurers sell this rider with many variations so verify, the phrasing of the rider before you buy.

Level Term Cover Rider

It provides a fixed amount of term insurance that is added to a permanent life policy for a specified period of time.

Generally, a level term rider is written for an amount that may be up to three or even five times the death benefit of the permanent policy to which it is attached.

This provides you the option to enhance your risk cover for a limited period, up to a maximum of the sum assured on your base policy.

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It solely offers death benefit and helps the survivors to meet any unforeseen expenses that need to be taken care of, or some liabilities to be cleared of in event of death of the policy holder.

Although, the survival benefits will be proportionately lower in this case, the basic need for life insurance is met at a far lower cost. For example – Your need for life insurance cover is Rs. 10 lakh. If you take a policy for a sum assured of Rs. 10 lakh, you would have to pay a high premium whereas if you go in for a Rs. 5 lakh life cover, and add a term rider for Rs. 5 lakh, you can satisfy your insurance requirement at a far lower premium.

Double Sum Assured Rider

This provides for an additional amount equivalent to the basic sum assured to the survivors in case of an unfortunate death of the policy holder.

With a little extra premium the policy holder can double his life cover at a nominal cost as compared to opting for a larger endowment policy.

It is commonly found that the policy holder is the main source of income of the family and in case of an unforeseen event of his death, his survivors are likely to need more money to manage to household, thus the double sum assured rider caters to such a situation.

Critical Illness Benefit (CIB) or Dreaded Disease Rider

This benefit can be added to the basic plan to provide financial support in the event of medical emergencies.

Generally, the extra cover is equal to the sum assured on the base policy and is paid upon diagnosis of the illness.

On the first occurrence of critical illness during the term of the plan, you would receive a portion of the sum assured to help you reduce your financial burden in this emergency.

The maximum CIB that you can avail of is equal to half of the basic sum assured (subject to a maximum of Rs. 20 lacs). The clause differs from company to company, more or less with similar provisions.

While the illnesses covered and the premiums vary among insurers, most insurers cover Cancer, Coronary Artery Bypass Graft Surgery (CABG), Heart Attack, Aorta Surgery, Kidney/ Renal Failure, Major Organ Transplant, Loss of Limbs, Major Burns, Blindness and Paralytic Stroke.

After the CIB is paid, the basic sum assured and all the benefits dependent on the basic sum assured will reduce in the same proportion that the CIB bears to the basic sum assured at the time of claim.

A few insurers terminate the base policy once a claim is made on the rider. Thus, a plan that continues to give you life cover, at marginally higher premium on the rider, is preferable.

The main difference between a critical illness benefit and a mediclaim policy is that under the critical illness benefit, the policy holder gets an amount equal to the sum assured irrespective of the medical expenses on diagnosis of the critical illness while under a mediclaim policy, the policy holder receives a reimbursement on producing the bills which is limited to the extent of amount medical expenses incurred.

The premium paid for this rider qualifies for tax deduction under section 80 D of the IT Act.

Note : Before adding this rider one must check illnesses covered and the exclusions.

Major Surgical Assistance Benefit

It provides financial support in the event of medical emergencies that require surgery in addition to the base policy.

When this clause is triggered, a part of the sum assured is paid to the policy holder.

Most insurers exclude claims arising from pre-existing injuries for illnesses and other predefined specific events. Also, expenses on hospitalization for ailments that do not require surgery are not covered.

The premium paid for this rider qualifies for tax deduction under section 80 D of the IT Act.

The premium varies in a large range because only some insurers allow the base policy to continue once a claim is made on the rider.

Note : You must check the list of surgical procedures covered and the exclusions.

Life Guardian Benefit (LGB)

In case of the unfortunate death of the proposer, this benefit keeps the policy alive by waiving all future premiums on the policy.

This benefit can be availed of only when the life assured and proposer are two different people.

Cost of Living Rider

The insured has the option to increase his or her policy's death benefit (with a corresponding increase in premium) to match any increase in the cost-of-living index.

this is usually accomplished by either changing the face amount of an adjustable life policy or by attaching an increasing term rider to the policy.

Additional Insured's Riders

These riders are commonly attached to life insurance policies to provide coverage for one or more additional people.

These are usually term insurance riders covering a spouse, one or more children or all family members in addition to the insured policy holder.

Note : Riders give you the flexibility to cover specific activities that you engage in without an exclusion of coverage for that activity. For example, if you know that your policy excludes death as a result of engaging in rock climbing, you can purchase a rider to your policy that covers death as a result of rock climbing. Riders are typically more expensive than a traditional policy because of the increase in risk for the life insurance company. However, adding a rider to your existing policy should still cost less than buying a specialized policy that covers all types of typical exclusions.

BENEFITS OF LIFE INSURANCE

Risks and uncertainties are part of life's great adventure — accident, illness, theft, natural disaster – they're all built into the working of the Universe, waiting to happen.

Life insurance as “ Investment”

Insurance is an attractive option for investment. While most people recognize the risk hedging and tax saving potential of insurance, many are not aware of its advantages as an investment option as well. Insurance products yield more compared to regular investment options, and this is besides the added incentives (read bonuses) offered by insurers.

You cannot compare an insurance product with other investment schemes for the simple reason that it offers financial protection from risks, something that is missing in non-insurance products.

In fact, the premium you pay for an insurance policy is an investment against risk. Thus, before comparing with other schemes, you must accept that a part of the total amount invested in life insurance goes towards providing for the risk cover, while the rest is used for savings.

In life insurance, unlike non-life products, you get maturity benefits on survival at the end of the term. In other words, if you take a life insurance policy for 20 years and survive the term, the amount invested as premium in the policy will come back to you with added returns. In the unfortunate event of death within the tenure of the policy, the family of the deceased will receive the sum assured.

Now, let us compare insurance as an investment options. If you invest Rs 10, 000 in PPF, your money grows to Rs 10, 950 at 9. 5 per cent interest over a year. But in this case, the access to your funds will be limited. One can withdraw 50 per cent of the initial deposit only after 4 years.

The same amount of Rs 10, 000 can give you an insurance cover of up to approximately Rs