Risk appraisal and risk selection business essay

Business

An underwriter, being specialized in his field, has the capability to understand the expected risks which the applicant is exposed to. By utilizing all the information which had being gathered from various multiple sources, concludes whether or not to accept a particular applicant. The underwriter has gained this ability not only through theoretical knowledge but also it is the result of years of experience dealing with similar risks and finally paying claims on those risks.

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http://www. finweb. com/insurance/the-basics-of-underwriting-insurance. html#comments‘ Insurance underwriting’ is the process of classification, rating, and selection of risks. In simpler terms, it's a risk selection process. This selection process consists of evaluating information and resources to determine how an individual will be classified (whether a standard or substandard risk). After this classification procedure is completed, the policy is rated in terms of the premium that the applicant will be charged. The policy is then issued and subsequently delivered to the purchaser by the advisor (more commonly known as the insurance agent). Basic underwriting principles being : selection of insured according to the Company’s Underwriting StandardsProper balance within each Rate ClassificationEquity among Policy owners

Sources of Underwriting Information

The Proposal FormAgent’s ReportMedical Examiner’s ReportMedical Referee’s Reportfriend’s Reportthe Inspection ReportNeighbors / Business Associates / Colleagues

Risk Appraisal and Risk Selection

No insurance contract can be entered into without risk assessment and risk selection. Insurer has the right to choose the risks which he can underwrite and which he cannot. If the person (applicant) does not fall within the limits of risk as matched to the premium, he shall be insured for a higher premium or even denied insurance cover.

Objectives of Risk Selection

To determine : Whether or not the insurance proposal should be accepted? The rate of premium to be charged from the assured. The premium depends upon the amount of risk. Higher the risk, more the premium. What risks are to be accepted at the normal rate of premium, at extra rate of premium and further what risks are not to be accepted at all? As the degree of risk is dissimilar to different people, different rates of premium should be charged from diverse groups depending upon the factors of risk (see exhibit 1) like basic premium plus health extra or occupation extra (explained later in the chapter). The selection of risk is essential to avoid adverse selection. For instance, if risk is not selected, it is possible that; people ineligible for insurance may be given cover. high risk profile people may get insured for lower rate of premium. sometimes people in adversity may try to purchase insurance i. e. persons imminent to death tend to buy big insurance covers. Hence, it is essential to select a standard (normal) risk at standard cost and sub-standard (high) risk at extra premium to avoid inequality of cost and unfavorable selection of risk.

Exhibit 1 : Determinants/ Factors of Risk

Age of the AssuredPresent HabitsPhysical Structure/Build1Morals3Body Condition2Race and Nationality4Personal History

Gender

Family HistoryHealth RecordPast HabitsPast OccupationInsurance History

Economic Status

Present OccupationDefense Services5Location of House

Plan of Insurance

1 Physical Structure/ Build - physique2 Body Condition – physical condition, appearance and lifestyle like sight, hearing, kidneys, lungs, heart, arteries, teeth, nervous system)3 Morals – dishonesty, sex behaviour, moral conduct4 Race and Nationality – scheduled caste/ tribe – (as said they live shorter)5 Defence Services – restrictive clauses

ADVISOR AS FIRST-LINE UNDERWRITER

A key element in the underwriting process is the role of the advisor/ insurance producer/ agent. As stated in earlier chapters, the importance of having an insurance policy which provides life cover and financial growth, a very essential to have it in one's financial portfolio. It is more fulfilling to have selected a right insurance policy for the right reasons after a proper evaluation out of various insurance products in the market which is indeed a daunting task. Seeking the help of an insurance advisor may help solve this problem but, sometimes due to unethical principles practiced now-a-days, most people feel that advisors/ agents will persuade them for buying something that they don't really understand or want, just to earn higher commissions (Refer the code of conduct of an advisor in Exhibit 2).

Exhibit 2 : Code of Conduct of a Life Advisor/ Insurance Agent

The code of business conduct sets out minimum standards of business practice to enhance the trust and relationship in order to earn the privilege to serve the customers. Selling life insurance is like selling intangible product. So, the life advisor needs to observe a set of norms in his professional conduct, which makes him worthy of trust and faith. Every person holding a license, shall adhere to the code of conduct specified below : Reliability and Honesty - The essence of life insurance business is based on sharing of losses and substitution of certainty for uncertainty. It is essential that the duties need to be performed with highest degree of reliability and trust. The life advisor must recommend from the various products available with the insurer that is in the best interest of the clients depending upon their needs and circumstances. Confidentiality - The life advisor must not disclose from the various products available with the insurer which is passes on to him. They must perform their duties with high esteem. Responsibility – The life advisor should strictly follow the concerned laws and regulations. It is their duty to provide accurate and complete information to the client about the insurer and vice versa. They must maintain fair relations with colleagues. Misrepresentation - Life Advisor shall not make any misleading statement to the client or to the insurer. Misrepresentation includes : False information to the policyholder in important matters such as affecting nomination or assignment, change of address or any other assistance in this behalf.

Reviving a surrendered policy without the policyholder's knowledge or consent. Without holding a certificate of valid license, trying to procure the insurance business. In order to get the acceptance of the proposal, encourage the prospective client to submit wrong information in the proposal form or in the documents submitted to the insurer. Apply for fresh license to act as an insurance life advisor, if his/her earlier one has been expired within five years from the date of termination. Behavior with other Life Advisors, insurers and financial InstitutionsProfessionalism is very important. The life advisor should not interfere with clients of their life advisors. Life advisor will sell products on merit and will not discredit any company's competitors, their products and services. Life advisor shall not induce the prospective policyholder to cancel existing policy/ policies. The application form which consists of multiple questions like; contact details, nature of job, past history, family, financial and medical questions etc. – see the profarma of application form in Annexure I) has to pass through various steps of underwriting (discussed in detail in chapter 16). The role of advisor here is to make sure the details are filled by the applicant honestly, in case of doubt the application form can be rejected or if it passes this stage, at the time of death claim, if found guilty, the company may deny the payment and the first one will be the advisor who will explain the reasons of non-compliance (See exhibit 3 for responsibilities of a life advisor). Underwriting being the most important step defines the types of risks an insurance company is willing to take and the applicant must fall within a reasonable level of risk to be approved for coverage. Underwriting ensures that the insurance company provides coverage only to those applicants who meet the company's risk criteria.

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http://www. finweb. com/insurance/the-basics-of-underwriting-insurance. html#commentsIt may even be argued that the advisor is the most important part of the ‘ risk selection process’. This is due to the fact that the advisor is in a position to actually see and talk to the proposed insured, to ask the questions contained on the application and gauge the responses and to accurately and completely record the answers to those questions. Thus, one of the most important functions of the advisor is to oversee the completion of the insurance application. Much of the information reported on the document becomes the basis upon which to accept or reject the proposed risk. Furthermore, a signed and witnessed copy of the application also becomes part of the policy; the legal contract between the insurer and the insured. The most essential element of this process for the advisor is the display of accuracy, diligence and honesty when completing the application. Answers to questions must be recorded with exactness and totality, along with frankness and sincerity. The advisor may not omit pertinent information or report it inaccurately in order to facilitate the policy's issuance. The ethical conduct of the advisor with regard to the underwriting process must be, in all instances above, should reprove. Additionally, the advisor can also help to expedite the underwriting process by the prompt submission of the application, by scheduling the applicant for any necessary physical exams and by assisting the home office underwriter with other requirements (such as obtaining an Attending Physician's Statement), as needed. Finally, if the applicant is rated or declined for coverage, it's the advisor’s role as a ‘ field underwriter’ to explain the reasons for the underwriting action. Seldom is an individual totally declined for life insurance, but it does happen that he or she may be classified as substandard and thus receive a rated (or substandard) policy in place of the one originally applied for. When this occurs, the advisor must be prepared to not only explain the reasons for the substandard rating but also to explain the rated policy that the company has countered with. This preliminary step is known as ' field underwriting'. It is to be noted that the advisor follows company's policies when soliciting applicants for insurance. to encourage a submission of only profitable business, a contingent or profit-sharing commission is often paid.

Exhibit 3 : Responsibilities of a Life Advisor/ Insurance Agent

Responsibility towards the Customers

For identification of life advisors and the insurance agency; certificate of license to be shown to the prospect on demand. If asked for, even the commission being offered to the life advisor by the insurance company to the prospect is also to be disclosed. Match the needs of the clients with various products available with the insurer. Work out the premiums for different plans, to be charged by the insurance company, so that the prospect is able to weigh the economic or financial implications with his available resources. Bring to the notice of his client the implication of various questions in the proposal form and other documents and advise the client to disclose all the information. Disclose to the insurer all relevant information regarding proponents. Inform the prospect about the acceptance or rejection of the proposal by the insurer. Obtain all documents from the prospect for the completion of the case. Assist the policyholder in matters of : Claim settlementEffecting nomination/ assignmentRevival, change of addressExercise of various optionsUnder no circumstance, should life advisor sign or fill-in the application form even if the client gives authorization. Life advisors are not allowed to remove part of the document or to make any alteration in the application.

Responsibility towards the Insurer

Prohibition of Rebates - All Life Advisors have to strictly comply with Section 41 of the Insurance Act, 1938 as regards prohibition of rebates to clients. The following are the extracts from Section 41 of the Insurance Act, 1938." No person shall allow or offer to allow, either directly or indirectly, as an inducement to any person to 1[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 2[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: 2[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]".

By Central Government Act - Section 41(1) in The Insurance Act, 1938

Restrictions on advertisements - Life Advisors are strictly prohibited from issuing an " insurance advertisement" which publicized name of the

Company or its products, unless there is an authorization in writing from the Company. Payment of Premiums - Life Advisors are strictly prohibited from advancing premiums on behalf of proposer or policyholders. Life Advisors as nominees or assignees - Life Advisors are strictly prohibited to become assignees or nominees under policies on the lives of persons, other than their near relatives such as wife and children or allowing such near relatives. Collection of monies from proposer or policyholders - life advisors are also prohibited from collecting any moneys from policyholders. They may, however, collect deposits towards the first premium and remit the same to the company immediately, but in doing the same, they should note that they act as life advisors of the proposer and not as life advisors of the company.

COMPLETING APPLICATION FORMS

Insurance business refers to the process of receiving life insurance applications, processing them, issuing policy bonds to the applications accepted (with specific terms and conditions) and then finally paying the claims. Initially, an application form/ proposal form for life insurance is filled up and then submitted (along with required documents, see exhibit 4) it either to the agent or directly to the insurance company. Sometimes, help/ guidance from the life insurance agent can be taken to fill the application form. Proposal deposit receipt (PDR) is then issued to the applicant. The insurance company along with the first premium payment, which is deposited along with the application form (although many insurers will waive this requirement until it's time to issue the policy) will then process the application with various underwriting steps and procedures. The first premium amount is normally not cashed until the application has been accepted i. e. passed the underwriting tests and the policy is issued. In the mean time, the life insurance agent contacts a paramedical examiner (called a " paramed" who is a traveling nurse who visits at home or workplace to collect a blood and/ or urine sample for the insurance company) to schedule the health exam for the applicant. The applicant should ensure to communicate every possible thing which is asked during examination by the paramed; and cooperate fully so that the medical examinations can take place as quickly as possible. Delays in the exam will result in delays in getting the insurance policy.

Exhibit 4 : Insurance Documents

Proposal Form – It is a standardized form, unique for every insurance company (see annexure 1). It is generally known as application form which is either available with the agent or can be directly taken from the insurance company. Usually, the term plans and unit linked plans have different types of application forms. This application form, is to be filled in by the proposer with all the details (as asked) about the life to be assured (see exhibit 5). For proof of address and proof of identification (required for everyone above 5 years), see annexure II – ‘ Aadhaar Form’ issued by Central Bank, India

Exhibit 5 : Contents of Proposal Form

Name of life assured

Name of the employer (if any)

Address

Sum assured of the proposed policy

Date of birth

Number and age of the family members

Occupation

Family medical history

Age

Proposer's medical history

The form contains entire details like; duration of the policy, type of plan, mode of payment, etc. A proposal form is to be to be completed by the proposer in his own handwriting and signed, in the presence of the agent. It contains the declaration at the end which ensures the authenticity of the information given. In addition, there is a consent letter of the life assured, giving consent to the imposition of some clause or extra premium (if any), duly signed by him/her. An ancient doctrine called " Caveat emptor (CE)"; a latin word which says that, " let the buyer beware" i. e. the purchaser buys at their own risk finds a mention in judicial systems of common law. In certain situations the buyer can cancel the sale and get their money back. The concept of Caveat Emptor is not applicable in life insurance because the insurers can in no way possibly foresee all the possible conditions likely to affect their interest. A contract of insurance is however a different contract and is guided by different principles (refer chapter 4) such as " utmost good faith" which requires that the party seeking insurance discloses all relevant personal information which are likely to influence the insuring party. Note : life Insurance is not based on the Principle of CE, adversely, General Insurance is based on the principle of CE. General Insurance says; details of those things which were not asked for during selling, seller is not liable, but, if asked and told rightly; principle of good faith applies. Life Insurance says; whether the customer enquires or not, insurance company is liable to tell everything. Age Proof (Documentary Evidence of Age) - This is the important documentary evidence which an applicant has to submit along with the proposal form. Cases where admission of age proof is necessarily required at the time of issue of policy : The age should be proved at the time of issue of policy where the age of the life assured is below 20 or 50 and above, children’s deferred assurance policies, annuity policies and policies issued under salary saving scheme. Proof of age is an important issue for insurer as the older people have higher probability of death than the younger ones as the premium rates are calculated on the basis of age groups. Where the insured is unable to give any of the standard age proofs, the insured may accept the age on the basis of a ‘ Declaration of age’ executed by an elderly relative or friend who has personal knowledge of the assured’s date of birth. The declaration is required to be adequately stamped according to the stamp regulations. It must be signed by the declarant in the presence of a magistrate or an officer empowered to administer oaths. On submission of an age proof, age admission certificate is issued to the policyholder. In case of any difference in recorded age and actual age, the proposal review slip and policy register sheet are corrected accordingly. In case, the actual age proves to be lower, the excess of premiums charged from the policyholder will be refunded to him. There are some standard and non-standard age proofs listed in exhibit 6, which is an exhaustive list, but, it can vary as per the company’s policies. The proofs of age, which are generally acceptable to the insurer are standards age proofs while non-standard ones are accepted subject to certain rules.

Exhibit 6 : Standard and Non-Standard Age Proofs

Standard Age Proofs

Non-Standard Age Proofs

School certificatePan CardA true copy of the University Certificate or of Matriculation/Higher Secondary Education, S. S. L. Certificate issued by a Board set up by a State/Central Government. Voters I - D CardBaptism certificate or certified extract from family Bible if it contains age or date of birth. Ration CardHoroscopeHoroscopePassport issued by the Pass port Authorities in India. Service Record where age is not verified at the time of entryDriving LicenseE. S. I. S. CardIdentity Cards issued by defence department. Marriage Certificate in case of Muslim ProposerCertified extract from Service Register in case of Govt. employees and employees of Quasi-Govt. institutions including Public Limited Companies. Elder’s DeclarationCertified extract from Municipal or other records made at the time of birth. Self-declarationMarriage certificate in the case of Roman Catholics issued by Roman Catholic ChurchCertificate by Village PanchayatsCertified extracts from the Service Registers of Commercial Institutions or Industrial Undertakings provided it is specifically mentioned in such extracts that conclusive evidence of age was produced at the time of recruitment of the employee. Certificate of Birth granted by Syedna v. Molana Badruddin Sahib of BarodaIf non-standard age proofs are given, it depends on underwriter whether the policy is to be given to the applicant or not. But, if the age proof submitted is faulty, let us see what happens under different circumstances. For example; Policy states age of the insured : 1/12/1984, actual age : 1. 12. 1982. Here the error is committed by the insured, hence, he will pay ‘ arrear + Interest.’Policy states age of the insured : 1/12/1984, actual age : 1. 12. 1986. Here the error is committed by the insured, but it is not increasing the liability of the company, hence, company pays only the difference, not the interest.

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http://www. finweb. com/insurance/the-basics-of-underwriting-insurance. html#commentsMedical Examiner’s Report –It is designed to provide information regarding the insured's past medical history, current physical condition and personal morals. If the proposed insured is required to take a medical examination (tests), which is/are conducted by physicians or paramedics at the expense of the insurer. Such exams usually aren't required for health insurance (which only emphasizes the importance of the agent accurately recording medical information on the application). The medical exam requirement is much more common for life insurance underwriting than for health insurance (simplified issue life insurance requires no medical examination and the application asks only very basic health-related questions. This type of coverage is usually only available in low face amounts to reduce the insurance company's subjection to the hazard of adverse selection.)Special Reports (Attending Physician's

Statement or APS) - After reviewing the medical information contained in the application and the medical exam, as above, the underwriter may also request an Attending Physician's Statement or Refree, from the proposed insured's doctor. The APS is typically used to obtain more specific information about a particular medical problem or issue. For example; if the medical examiner in his/her report indicates some specific disease which requires some more investigations like high BP then some more reports are required to reconfirm like urine test, blood test etc. Medical Examiners/ Refrees are appointed by Insurance Company and are specialized doctors referred by Insurance Company (for special cases only) to see if any further investigation. Agents Confidential Report (ARC) - The report of the advisor/ agent (who is also known as field underwriter as explained above in the chapter) is submitted along with the proposal of the applicant. The ARC is a confidential report which contains his personal comments and views about the applicant.

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http://www. finweb. com/insurance/the-basics-of-underwriting-insurance. html#commentsInspection Reports - To supplement the information on the application, the underwriter may order an inspection report on the applicant from an independent investigating firm or credit agency, which provides financial and moral (or lifestyle choices) information. This data is used only to help determine the insurability of the applicant. If the amount of insurance being applied for is average, the inspector will typically write a general description about the applicant's finances, health, character, occupation, hobbies, and other habits. When larger amounts of coverage are requested, the inspector will provide a more detailed report. This information is based on interviews with the applicant's associates at home (including neighbours and friends), at work, and elsewhere. Such " investigative consumer reports" may not be made unless the applicant is clearly and accurately told beforehand about the report in writing. This consumer report notification is usually part of the application. At the time that the application is completed, the advisor will separate the notification and present it to the applicant. Premium – Premium amount can be in the form of cash /demand draft /cheque (drawn in favor as directed by the insurance company). Proposal Deposit Receipt (PDR) – It is the acknowledgement in the form of a receipt which is issued by the insurance company on receiving complete proposal form along with the enclosed documents (as demanded) with the cash / cheque / demand draft at its branch office. It has to be noted that PDR is just the proof of acceptance of application. It is neither the guarantee of receiving a policy bond nor the evidence of the contract of life assurance. For example; a person has deposited the insurance proposal and duly received PDR, but while going back home he meets with an accident, question is whether the insurance company is liable to pay him the sum assured or can his beneficiaries claim the insurance amount ? The answer is ‘ NO’. First Premium Receipt (FPR) - The premium amount along with the proposal form (along with other required documents) is deposited to the insurer, on which PDR is received as above. After the proposal is accepted, the first premium amount is cashed by the insurer, which acknowledges the proposal of the life-assured. The policy bond specifies the details of the next premium to be paid. FPR is an important and powerful document on the basis of which the life-assured can ask the insurer to issue the policy bond and is also treated as the evidence of the contract of life assurance. Out of following two, only one can be issued to the client; FPR (first premium receipt, policy accepted)NTU (not to be undertaken, policy declined)Policy Bond - After issuing the FPR as above, the insurer is supposed to send the policy bond to the insured, which is also known as ' policy contract', which is the final evidence of the life-assured. The policy contract is duly stamped as per ' The Indian Stamp Act, 1899' and contains all the terms and conditions of the contract between the insurer and the assured. The policy bond is sent to the life assured within 45-50 days from the date of first premium receipt. The policy bond when received by the insured has to be studied and well understood, if realized that any terms and conditions are not acceptable or the policy is found different from what was wished, the insured can return the policy within 15 days of its receipt which is known as ' free-look period' (see chapter 9 for more details). The premiums will be returned after deducting insurance company's charges. The policy document contains detailed information like; duration of policy, type of policy, sum assured, premium amount, date of maturity, extra premium, nominee, assignee etc. Alterations and Endorsements – An ' endorsement' forms a part of the insurance contract and is an authentic noting on the back of the policy contract. The endorsements can also be put on a separated sheet of paper and is attached to the policy bond, in case of lack of space. Endorsement is evidence of contract, but not a contract in itself. For example; if policy bond got stolen or destroyed by fire, it can be taken in duplicate by the company. ' Alterations' are changes in the terms of contract and are necessary because in the long tenure of contract, there can be some alterations, but, sometimes it happens that the policy contract contains some terms and conditions which are mutually agreed by the insured and the insurer at the inception of the policy, but the insured may experience altered circumstances which could lead to the policy not meeting their needs as originally planned for. Renewal Premium Receipt (RPR) - Premium receipt after the first premium is renewal/ subsequent premium receipt. Reminding Notice - It is basically the information sent by the insurer to the insured, which is in the form of a notice; it may be for reminding the insured about the due date of premium or the amount of premium. However, sending notices is not mandatory on the part of the insurer, it is rather obligatory. The information about the lapse of policy (if the premiums are not paid in time) is also provided by the insurer in the form of a notice. Other Documents - Apart from above documents there are some other specialized documents, which form the part of insurance contract; Special questionnaire in case, if the proposal is on the lives of NRIs, asking for some relevant information. In case of partnership insurance, the insurer demands for the documents like; profit & loss account of the firm for the last three years, insurance of the partner, partnership deed and the deed of variation allowing the purchase of the assurance policy.

ONGOING AND FREQUENCY OF REVIEW

Review of the insurance policy purchased to make sure that the policy is moving with the trend and is of the right amount and the right kind for what is needed today; not what was purchased five, ten or fifteen years ago and further making alterations accordingly. Sometimes the insurance policies are just purchased, ticked off from the list and often forgotten. The life advisors also forget them once the sale is made, but this is done at the client’s peril.

There is plenty that can go wrong between the time when the person signs the policy and when beneficiaries collect the insurance. So, the people should keep a regular check on it as their investment portfolios and it is also the duty of a life advisor to keep a check annually on the policy sold to his/ her client. Reviewing a life insurance policy means sitting down with an advisor and discussing life changes and the effect they have on insurance policies. It is often seen that the proposer keeps on paying the premiums of their life insurance policies for over a decade without reviewing it and have actually no idea why they still have it. They just continue paying it thinking that, they are covered but in fact, they could reduce their life insurance premiums or could get better coverage after a proper review. Hence, an annual review can prevent a lot of trouble and in some cases from disaster and ensure one's own financial security. Helping those whose life insurance may be in chaos can not only help with insurance company's sales, but also help in maintaining and building strong, lasting relationships. It is usually believed that taking a life insurance policy will secure the financial future of our near and dear ones. While that is what is expected of an insurance policy, do not expect it to work for you if you had taken the policy a few years ago when circumstances were different from what they are now. It is important to take the first step of buying a life insurance policy, but, it does not end here. To serve the objective of financially protecting the loved ones, a periodic review is essential and to make the necessary changes in the policy depending on the changes in client's lifestyle or in situations like his/ her marriage or becoming a parent (see exhibit 7). As an investment portfolio requires timely review to maintain/ alter the balance of asset classes, similarly review of an insurance policy is also needed to make sure that your clients have fulfilled their responsibility towards the family.

Exhibit 7 : Wheel of Fortune - Emphasizing the personal, revealing the unexpected !

Change In Income Levels - Income is one of the most important factors that is used to determine the sum assured in an insurance policy. With increase in income, a person’s life style and other associated things undergo a change. Thus, an increase in income will require you to increase the total sum assured. The thumb rule is to ensure that the life cover is eight to ten times your net worth. What would happen if you lost your job? You need to read the terms of the policy to figure out whether there is a moratorium period on the policy which provides for postponement of the premium payment. Over a period of time several factors that contribute to determining the insurance coverage for an individual are bound to have changed. The insured may now have been promoted, which means more money at his disposal or he may have bought his first house taking a home loan for which he was not eligible earlier. This means that he must have committed to a long-term financial outflow. Each of these factors would require an enhancement in the insurance coverage so as to ensure that his/ her loved ones are fully protected to take care of the financial outflow that may fall upon them in his absence. Additional Financial Responsibility - In order to fulfil the aspirations, as income levels rise, individuals tend to resort to home loans, car loans and other kinds of loans. With loans, come financial obligations of loan repayment through EMIs, especially in case of home loans, where the average tenure is 20 years. So any loan that have been taken entails a long-term financial obligation, requires an enhancement of the insurance coverage, so that the EMI outflow can be taken care of by his loved ones in his absence. The entire objective of having a life insurance policy is to free your family members from the financial burden that can dawn on them in your client's absence. Make sure that you have done enough to protect the client's family members from financial stress when they would anyway be emotionally disturbed. Addition To The Family - The addition of a new member to one's family brings in additional responsibilities in terms of cost. In order to take care of the educational needs of one's child or his/her marriage or any other milestone, it is essential that the policy taken earlier is reviewed so that the additional monetary needs are fulfilled. Also, it is essential that the child be added in the family floater policy or as a beneficiary in the current existing policy. In an age of inflation, planning for the future of one's child is essential so as to ensure that there is no financial strain. Taking a money back policy to coincide with milestones that entail a significant outflow of funds will ease the financial burden, going forward. Therefore, it is essential to do a policy review. If needed, you could even plan on changing the type of policy he currently has. For example, he can switch to a money back policy from a term policy. Marriage or Separation - If your client has tied the knot, he may want to add his spouse as a beneficiary. Also, if his spouse is a dependent, he may have to double the coverage. But, if his spouse is employed, he may either want to have a joint policy or independent policies. Hence, depending on the situation, he may need to review his policy and make provisions for the requirements. In case of separation, he may want to remove his ex-spouse and add another family member as a nominee. Take into consideration any dependent he may have to take care of, even if, he is undergoing a separation from his spouse. Mentioned here are some instances that necessitate the review of an insurance policy : Sometimes, there could be a typo error (typographical error; a mistake in printing, typesetting or typing, especially one caused by striking an incorrect key on a keyboard) in the insurance policy you had taken earlier. If the policy is reviewed in a timely manner, necessary steps can be taken to ensure that the typo error is corrected and there is no trouble at the time of submitting claims. The nominee is dead and the policy continues to display his name as beneficiary or the policy still mentions the name of ex-wife as beneficiary (which may not be the intention). Should you opt for a new insurance policy for the client when a change is needed to be made or should you try to accommodate the requisite changes in the existing policy? Moving to a new policy is never a good idea because the client will increase the costs as premiums which are based on several factors such as age, occupation and family history. The client may have taken his old life insurance policy when he was younger, therefore, the premium would be lower due to the age factor. Insufficient insurance; the person has taken an insurance policy of Rs. 1, 00, 000 for his two children (when they were young) to cover their education needs in case of any misfortune. Today the policy will not be able to cover the college fees of even one child. It is always advantageous to add riders/ features to the existing policy rather than buying a new one as it would prove to be cheaper. If it is felt that the rider is expensive, seek quotes from other insurance companies only for the additional coverage you need. This will minimize the premium outflow when the two - the old and new policy - are put together as against taking a completely new policy for the required coverage. Some common problems that can be usually discovered during annual reviews and are easy to catch, but, you have to really pay attention to catch other issues like; If a client has purchased a universal life insurance policy (non-guaranteed), long years back when interest rates were approximately 14%. It is a type of flexible permanent life insurance, where the premiums (which are variable in nature) are broken down by the insurance company into insurance and savings, allowing the policy owner to make adjustments based on their individual circumstances but, the holders are required to deposit a set amount of money into the account each month. Any excess of premium payments above the current cost of insurance are credited to the cash value of the policy. The cash value is credited each month with interest and the policy is debited each month by a cost of insurance (COI) charge, as well as any other policy charges and fees which are drawn from the cash value, even if no premium payment is made that month, it allows the policyholder to use the interest from his/ her accumulated savings to help pay premiums. Hence, it allows the cash value of investments to grow at a variable rate to provide a cash value buildup, which is adjusted monthly. If the savings portion is earning a low return, it can be used instead of external funds to pay the premiums. It is to be noted that the account lapses if there are not enough funds in the account to pay the premiums. But, if the interest rates had stayed the same, the client would have been fine as the account would have generated enough money to cover the premium increase indefinitely. But, if the interest rates drop down sharply, the policy stopped generating enough returns to cover eventual premium increases. In fact, if the client is not advised to change over to a guaranteed policy, the non-guaranteed policy is likely to be lapsed and in fact the client is left without life insurance.

Questions the advisor should ask when reviewing a client’s existing policy

Is there an appropriate amount of life insurance? Most likely, life has changed for the insured since buying the policy, and more life insurance is needed. Often, an individual will be under-insured and/or have policies that don’t fit their needs. Can you lock in a level premium? On term insurance, the length of the level premium period remaining may fall short of the client’s anticipated period of need. If the client has an annually renewable term policy, then locking in a level premium can save them money. Is the policy underfunded? Permanent life insurance policies can often be underfunded. You can assist the client by obtaining and reviewing an in-force illustration, showing how the policy will perform based on current assumptions. The policy owner may need to purchase supplemental coverage or replace the coverage with a newer/less-costly policy. Can the client get a lower rate? Review the rate class that a policy was issued at. Depending on the client’s medical history, you can either assist the client in getting a lower rate on an existing policy or assist them in finding a new lower priced product. If a policy’s life expectancy is less than the client’s need and/or life expectancy, then the policy will be of no benefit. Being able to recognize whether a policy will outlive a client is something that requires diligence and understanding. Replacing a policy is also something that needs to be carefully reviewed and not taken lightly. It’s important to make sure that replacement is in the client’s best interest.

How often review is required ?

While it is best to review the policy when any of the mentioned changes have taken place, it is quite possible that you may overlook them in the daily scheme of things. Most policies have to be renewed annually, which is an automatic trigger as it gives you the opportunity to do a rain check and see if any changes need to be made in any form - be it addition of a beneficiary or an increase in the policy coverage, but can also be done quarterly/ half yearly basis. While all this may seem to be an overtly cautious approach. Asking the client to look back at his five years of life, maybe, he will be pleasantly surprised to see the kind of changes that may have happened, making his policy coverage inadequate to take care of his dependents/ family.

Merits of Reviewing the Policies Frequently

Continuous reviewing help clients; to take inventory of what coverage they have. to understand how well their policies are performing. to know whether objective of policy is being fulfilled. Recession prompt clients to ask about ways to cut insurance costs. For professionals, this has been a time to empathize with clients and to show what they can do to improve their situations as clients are just looking for reassurances. Sometimes a review can uncover important gaps or deficiencies. To check whether the policy provisions and guarantees are not obsolete. Remember, insurance is a financial instrument, which gives you the opportunity to plan the financial security of your family. Any lapse from your side may impact the future of your loved ones. So be proactive and take the necessary steps to ensure the financial security of your loved ones. In summation; policy grantors recognize that life insurance is an asset that must be periodically reviewed by an independent expert to avoid risk and to optimize asset performance. Review provide clients with significant value added and peace of mind as to their wealth planning, specifically, it increases the likelihood that their planning will achieve their stated objectives.

ESTABLISHING AND IMPLEMENTING CHANGES

After issue of a policy, the policy holder desires an alteration in the terms thereof to suit his convenience. Once the life insurance policy is purchased, there is just a little maintenance required for it except maintaining the premiums and ensure that all information in the file of your insurance agent for you is current. However, there are certain times when you may need or may want to make changes to your life insurance policy, such as update personal information or change your beneficiary (see exhibit 8). You may also decide to convert your life insurance policy from a term life policy to a whole life policy. You can make basic changes to almost any life insurance policy, but not every policy qualifies for conversion. Other changes that may be allowed vary by the insurance company and by the policy. For example; 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. Alterations in a life insurance policy are permissible only if both the parties to the contract agree to such alterations. Alteration can be in the mode of payment of premiums, plan of assurance, reduction in the premium-paying period, etc. An alteration may be allowed provided the policy is in force and has not become fully paid up. It is stated in the prospectus that no alteration from one class of assurance to another subject to a lower scale of premium is permissible. However, an alteration from the with profits limited payment plan to the with profits Endowment Assurance Plan with premiums payable for a term not exceeding the original premium-paying term will be allowed even if the premium payable on alteration is lower. Alterations from certain classes of assurance to certain other classes are not allowed at all. Governing principles of alteration : Alterations in the policies are allowed by the insurers that have been issued and are in force. Alterations may be allowed if the risk of the insurer does not increase. If the risk is likely to increase, a proposal for a fresh policy of insurance will have to be made for the consideration of the underwriter. There should not be any change in the first year of the policy, except change of address. Possible only with ‘ endorsements’.

Exhibit 8 : Instances when alteration in the policy will be allowed

Alteration in class or term of the planChanges in the period of paymentAlteration in nameGrant of accident benefitChange in address of the policyholderGrant of premium waiver benefit under CDA policiesCorrection in policiesRemoval of extra premiumSettlement option of payment of sum assured by instalmentsTerms of policy to from a ‘ without profit’ plan to a ‘ with profit’ planChange in the sum assuredAssignment of the policyAlteration in currency and place of payment of policy moniesReduction of the policyMaking a policy paid upRemoval of ridersChanging beneficiaries on a life insurance policySurrender a policyAlterations in the plan of insuranceRenewal of policyChanges in the mode of payment of premiumsRevival of a policy which has lapsed for non-payment of premiumReduction in the premiumA fee for the change or alteration in the policy is charged by the Insurance Company called ‘ quotation fee’ and no additional fee is charged for giving effect to the alteration. No alteration will be permitted within one year of the commencement of the policy, except the few cases like : Compulsory alterations such as alteration in name, correction in policies, alteration in currency of payment of policy moneys and alterations age proving higher or lower than that stated at the time of proposal. Requests for addition of Double Accident Benefit, Extended Disability Benefit. Change in the mode of payment of premium to ‘ monthly’ so as to bring the policy under Salary Saving Scheme or to finance the same from Provident Fund Account. Conversion of ordinary policies to those issued under Married Women’s Property Act, as provided in the Manual on the subject of ‘ Married Women’s Property Act’." Alteration fee" is required in the following cases; Alteration in the mode of payment whereby there is an increase in the frequency of payment of premium instalments, e. g., alteration from yearly to half-yearly, quarterly or monthly, etc.; When policyholder wants to add Double Accident Benefit or ExtendedDisability Benefit after the issue of the Policy and such Benefit is not granted from the commencement; Reduction in the Sum Assured; When policyholder wants to add Premium Waiver Benefit under a Child Deferred Annuity policy after its issue and such Benefit is not granted form the commencement. No fee is required for alterations of the following types : Where the alteration should necessarily be made in age of the policyholder, as age stated in the policy is not correct. The age stated in the policy may be understated or overstated. Where policyholder wants to reduce the frequency of payment of instalments of premiums in the year. Where change or correction is required in the name of the assured, nominee, assignee etc., in the policy.

HANDLING CLAIMS AND COMPLAINTS

If ‘ underwriting’ is where a contract begins, a ‘ claim’ is where it generally ends. Timely, easy and quick settlement of valid claims is the crucial and an ultimate function of an insurance company. These also form the yardsticks to judge an insurance company’s efficiency. The fairness, kindness and speed with which an insurance company handles the claims, shows the maturity of the company and leads to great satisfaction of the clients. The most important liability of the insurance company is to honour valid and legal claims and identify the fraudulent and invalid claims. A claim may arise; On maturity i. e. after expiry of the endowment period specified in the policy contract when the policy money becomes payable. On death of policyholder before the maturity date (see exhibit 9 for death claim schedule). Basic Principles for the claim to become successful are : Insured must be covered by the policy. Claim is covered by the policy. Policy must be in force at the time of claims. Nothing was outstanding to the insurer at the time of claim.

Exhibit 9 : Death Claim Schedule

Death claim/

Maturity Value

If Company defaults;

Company pays –

Market Value +Interest (bank rate) + 2 % extra

If insured defaults;

Company pays –

Market Value +Interest (bank rate)

Prohibit Unfair Claim PracticesAs per national Association of Insurance Commissioners' Model Act (NAICMA), some unfair claim practices are prohibited : Refusing to pay claims without conducting a reasonable investigation. Not attempting in good faith to provide prompt, fair and equitable settlements of claims in which liability has become reasonable clear. Compelling insured or beneficiaries to institute lawsuits to recover amounts due under its policies by offering substantially less than the amounts ultimately recovered in suits brought by them.

SENT FOR PERMISSION

(If permitted, take full article)

http://www. scribd. com/doc/49626558/14616347-Emerging-Trends-in-Insurance-SectorApologize or Acknowledge - apology rendered in first person is the most powerful tool. The magic word " I am sorry" provides authenticity of personal involvement. For example; LIC has realized the importance of personal involvement and has included it in the training program itself. Once the agent is recruited he needs to undergo a compulsory training program designed by them. The training program also explains them the importance of the smallest of the customer i. e., customer who is just seeking general information. The agents and employees are trained to apologize to its customers even if they are not at fault. Listen, Empathies and ask Questions - Customers look for a good listener who allows them to vent their frustrations, shows understanding of their upset and by listening offers tactic evidence of believing the customer’s report of the error on part of the company. For example, LiC has established elaborate ‘ Grievance Redressal Machinery’ at different levels as per the customer requirement. There are complaint cells which are specially set up to listen up to each and every customer’s problems. It has also set up ‘ Policyholder councils’ and ‘ Zonal Advisory Boards’ to understand the problems of their customer situated in any part of the city. Offers a fair fix to Problem : customers want wrong to be set right and expects service contact employee to be skilled, empowered and interested in setting things right. this is the main reason why LIC conducts training programs for the newly recruited agents as well as the other employees. In any kind of breakdown situations LIC tries to offer a rational explanation and demonstrate sensitivity and concern to the customer rather than defending themselves. For example; computer breakdown at the payment counter. Now, this payment counter might be open only at a particular time of the day. So, if the problem is repairable within a short period of time, then the Branch Manager would extend the timings for payment (only for that day) so that the customer is saved from wastage of time for another day for the same purpose. Offers some Compensation for Inconvenience - Compensation here wouldn’t mean of just monetary compensation or some extreme measures like firing the Branch Manager etc, but, it is just to make-up for the loss of customer dissatisfaction. It could be like " it’s on us", " free service" etc. The service provider should plan certain compensation policies in advance for various types of situations and deliver it as and when the situation is faced. For example; there is a customer who is standing in a long queue for payment of his premium on the very last date of the permissible period, and all the payments were not accepted on the same day within office timings and hence the payment was finally delayed. There are chances that the customer may blame the employees of the company for slow clearance of the premium. the Company could however compensate to the customer by waiving the penalty payable due to delay in payment of premium. Keep the Promises - It basically means that the Company should keep the promises made to the customer before or at the time of service provision i. e., the company should fulfill its commitments. LIC makes sure that none of the agents provide wrong information or provide false promises to its customers which mislead them. LIC ask their agents to give reasonable commitments so that they could be fulfilled by the Company or the agent on behalf of the Company. Follow Up - this is the most important step in service recovery handling as it ensures that whether the implemented service recovery was satisfactory or not. It would include internal and external follow-up. Internal follow-up would be to ensure that the solutions they put in motion are actually executed and the external part would be to get feedback from the customer whether he is satisfied or not.