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DEPARTMENT OF BUSINESS ADMINISTRATION

SUBJECT NAME: BASICS OF BUSINESS INSURANCE

SUBJECT CODE: MNM2G

SEMESTER: II

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BASICS OF BUSINESS INSURANCE

Course Objectives **Number of Credits : 2**

1. To enable the students to understand the concepts and the types of Insurance.

2. To sensitize the students on the role of Government in insurance business and IRDA Act.

OUT COME

Students understand the concepts and the types of Insurance and knows the role of Government in insurance business and IRDA Act.

Unit – I
Introduction to Insurance – Type of Insurance – Principles of Insurance.

Unit – II
Salient features of IRDA Act – Administration of IRDA Act – Regulatory measures of IRDA

Unit – III
Life insurance products – Term, Whole life, Endowment.

Unit – IV
Introduction to general Insurance – fire, marine and motor insurance.

Unit – V
Government and insurance companies – LIC India- private players in Insurance in India.

Text Books Recommended:

1. M.N.Mishra – Insurance, Principles and practice, S. Chand & Co. Ltd., New Delhi
2. Dr.N.Premavathy – Elements of Insurance, Sri Vishnu Publications, Chennai. Dr.A.Murthy – Elements of Insurance, Margham Publications, Chennai

References

1. Nalini Prava Tripathy, Prabir Paal – Insurance Theory & Practice, Prentice Hall of India Anand Ganguly – Insurance Management, New Age International Publishers.

UNIT-I

INSURANCE

INTRODUCTION

Man's life is open to risks of varied nature. An individual's life is subject to risks such as untimely death due to accidents, premature death, illness, disablement and unemployment. Similarly, in the case of business, varied natures and types of risks should be faced by the business people while carrying on their business activities. In fact, the human life from the days when the world was young is a kind of search for protection.

With the passage of time, he developed various devices to protect himself and his dependents from all sorts of risks to which they are exposed. Of the various means developed by him, insurance is a mean or device, which protects him against the risks of loss.

ORIGIN AND HISTORY OF INSURANCE

During the ancient days, various forms of insurance were prevalent. Of them, marine insurance is the oldest form of insurance. The reason is obvious. Travellers by sea and water were very much exposed to the risk of losing their vessels and merchandise due to storm and piracy on the open seas (robbery). The risk to the owners of such ships was enormous and therefore the marine traders devised a method of spreading over the financial loss, which could not be borne by a single individual trader. The device in the beginning was quite voluntary.

The marine policies in its present form were sold in the beginning of the 14th century by the Brugians. After the marine insurance, fire insurance was developed in the present form. It has been originated in Germany in the beginning of the 16th century.

The fire insurance got momentum in England after the Great Fire in 1666 when the fire losses were horrible. With colonial development of England, the fire insurance spread all over the world in the present form. Life insurance made its first appearance in England in the same time.

The first registered life office was the 'Hand in Hand Fire & Life Insurance Society' established in the year 1696 in England. However, it did not prosper in USA during the 18th century due to the serious fluctuations in the death rate.

But soon, after 1800, the life insurance business flourished in U.S.A. also. In India, some Europeans started the first fire insurance company in Bengal Presidency viz., the Orient Life Assurance Company in 1818.

Triton Insurance was started at Calcutta in 1850 to carry on general insurance business. The year 1870 was a year of landmark in the history of Indian Insurance Business. In 1871, the Bombay Mutual Life Assurance Society made its beginning.

The next important life office was Oriental Government security Life Assurance Co. Ltd., which started its operations since 1874. Since then, several insurance companies developed. With inauguration of LIC; the life insurance business is developing speedily all over the country.

MEANING AND DEFINITION OF INSURANCE

Insurance is a legal contract between two parties- the insurance company (insurer) and the individual (insured), wherein the insurance company promises to compensate for financial losses due to insured contingencies in return for the premiums paid by the insured individual. In simple words, insurance is a risk transfer mechanism, where you transfer your risk to the insurance company and get the cover for financial loss that you may face due to unforeseen events. And the amount that you pay for this arrangement is called premium.

Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against the risk. Risk is uncertainty of a financial loss. The risk cannot be avoided but the resultant loss occurring due to the risk can be avoided by reimbursement of the loss. The insurance contract works under this principle.

Insurance is a contract between-two parties by which one of them, called the insurer agrees to indemnify the other, called the insured or assured against a loss, which may be caused by the happening of a certain event.

The contract is embodied in a document known as the “Policy”. The insurer undertakes to indemnify the insured for a consideration in the form of money called the premium. The contingency insured against is called the “Risk”.

CHARACTERISTICS OF INSURANCE

1. SHARING OF RISKS

Insurance is a device to share the financial loss, which may fall on an individual or his family on the happening of a specified event. The nature of the risk, of course, may differ. However, the loss arising from the risk i.e. occurrence of the specified event, is shared by all the insured in the form of premium.

At this stage, it may occur, how all the insured share the loss of an individual. The common fund from which the loss is met is build up from the premiums received from a number of persons. Hence, there is nothing wrong to say that the loss of an individual is shared by all the insured.

2. CO-OPERATIVE DEVICE

Another notable feature of an insurance plan is the co-operation of large number of persons, who agree to share financial loss arising due to a specified risk. In other words, there is no compulsion for joining in any scheme of insurance. It is purely voluntary.

3. VALUE OF RISK

The risk should be valued before insuring. The amount of premium depends on the quantum or value of the risk involved. If the expected loss is estimated higher, the insurance premium will also be higher; whatever it may be, the probable value of loss should be estimated at the time of making the insurance contract.

4. PAYMENT AT CONTINGENCY

In a contract of insurance, the payment is made only on the happening of a certain contingency. If the expected event i.e. contingency occurs, payment is made. In a life insurance contract, the amount will be paid if the insured dies or the period of insurance expires.

5. AMOUNT OF PAYMENT

It is already stated that the probable loss will be estimated first and the premium will be determined on that basis. In case of life insurance the amount assured will be paid in the event of death of the insured. But in other cases, the insurance company will reimburse only the actual loss and not the amount insured. Further, the insured should prove his loss and then make a claim.

6. LARGE NUMBER OF INSURED PERSONS

To spread the loss – immediately, smoothly and cheaply, large number of persons should be insured. It is stated already that insurance is a co-operative endeavor of a large number of persons. Then only the cost of insurance will be the minimum.

7. INSURANCE IS DIFFERENT FROM GAMBLING

Insurance should not be confused with gambling. Even though there is a chance factor in both, insurance is totally different from gambling. In gambling, the gambler is exposed to the risk of losing whereas in insurance the insured is opposed to risk and in fact, he has to bear the loss if he is not insured. By getting insured his life and property, the insured can protect himself against the probable loss that may occur.

8. INSURANCE IS NOT CHARITY

Charity is given without consideration. Hence, charity is different from insurance. In the case of insurance, the premium paid by the insured is the consideration. Without premium, it is not possible to take out an insurance policy.

PRINCIPLES OF INSURANCE

The concept of insurance is risk distribution among a group of people. Hence, cooperation becomes the basic principle of insurance.

To ensure the proper functioning of an insurance contract, the insurer and the insured have to uphold the 7 principles of Insurances mentioned below:

1. Utmost Good Faith
2. Proximate Cause
3. Insurable Interest
4. Indemnity
5. Subrogation
6. Contribution
7. Loss Minimization

Principle of Utmost Good Faith

The fundamental principle is that both the parties in an insurance contract should act in good faith towards each other, i.e. they must provide clear and concise information related to the terms and conditions of the contract.

The Insured should provide all the information related to the subject matter, and the insurer must give precise details regarding the contract.

Example – Jacob took a health insurance policy. At the time of taking insurance, he was a smoker and failed to disclose this fact. Later, he got cancer. In such a situation, the Insurance company will not be liable to bear the financial burden as Jacob concealed important facts.

Principle of Proximate Cause

This is also called the principle of ‘Causa Proxima’ or the nearest cause. This principle applies when the loss is the result of two or more causes. The insurance company will find the nearest cause of loss to the property. If the proximate cause is the one in which the property is insured, then the company must pay compensation. If it is not a cause the property is insured against, then no payment will be made by the insured.

Example –

Due to fire, a wall of a building was damaged, and the municipal authority ordered it to be demolished. While demolition the adjoining building was damaged. The owner of the adjoining building claimed the loss under the fire policy. The court held that fire is the nearest cause of loss to the adjoining building, and the claim is payable as the falling of the wall is an inevitable result of the fire.

In the same example, the wall of the building damaged due to fire, fell down due to storm before it could be repaired and damaged an adjoining building. The owner of the adjoining building claimed the loss under the fire policy. In this case, the fire was a remote cause, and the storm was the proximate cause; hence the claim is not payable under the fire policy.

Principle of Insurable interest

This principle says that the individual (insured) must have an insurable interest in the subject matter. Insurable interest means that the subject matter for which the individual enters the insurance contract must provide some financial gain to the insured and also lead to a financial loss if there is any damage, destruction or loss.

Example – the owner of a vegetable cart has an insurable interest in the cart because he is earning money from it. However, if he sells the cart, he will no longer have an insurable interest in it.

To claim the amount of insurance, the insured must be the owner of the subject matter both at the time of entering the contract and at the time of the accident.

Principle of Indemnity

This principle says that insurance is done only for the coverage of the loss; hence insured should not make any profit from the insurance contract. In other words, the insured should be compensated the amount equal to the actual loss and not the amount exceeding the loss. The purpose of the indemnity principle is to set back the insured at the same financial position as he was before the loss occurred. Principle of indemnity is observed strictly for property insurance and not applicable for the life insurance contract.

Example – The owner of a commercial building enters an insurance contract to recover the costs for any loss or damage in future. If the building sustains structural damages from fire, then the insurer will indemnify the owner for the costs to repair the building by way of reimbursing the owner for the exact amount spent on repair or by reconstructing the damaged areas using its own authorized contractors.

Principle of Subrogation

Subrogation means one party stands in for another. As per this principle, after the insured, i.e. the individual has been compensated for the incurred loss to him on the subject matter that was insured, the rights of the ownership of that property goes to the insurer, i.e. the company.

Subrogation gives the right to the insurance company to claim the amount of loss from the third-party responsible for the same.

Example – If Mr A gets injured in a road accident, due to reckless driving of a third party, the company with which Mr A took the accidental insurance will compensate the loss occurred to Mr A and will also sue the third party to recover the money paid as claim.

Principle of Contribution

Contribution principle applies when the insured takes more than one insurance policy for the same subject matter. It states the same thing as in the principle of indemnity, i.e. the insured cannot make a profit by claiming the loss of one subject matter from different policies or companies.

Example – A property worth Rs. 5 Lakhs is insured with Company A for Rs. 3 lakhs and with company B for Rs.1 lakhs. The owner in case of damage to the property for 3 lakhs can claim the full amount from Company A but then he cannot claim any amount from Company B. Now, Company A can claim the proportional amount reimbursed value from Company B.

Principle of Loss Minimisation

This principle says that as an owner, it is obligatory on the part of the insurer to take necessary steps to minimise the loss to the insured property. The principle does not allow the owner to be irresponsible or negligent just because the subject matter is insured.

Example – If a fire breaks out in your factory, you should take reasonable steps to put out the fire. You cannot just stand back and allow the fire to burn down the factory because you know that the insurance company will compensate for it.

TYPES OF INSURANCE

There are two broad categories of insurance:

1. Life Insurance
2. General insurance

Life Insurance – The insurance policy whereby the policyholder (insured) can ensure financial freedom for their family members after death. It offers financial compensation in case of death or disability.

While purchasing the life insurance policy, the insured either pay the lump-sum amount or makes periodic payments known as premiums to the insurer. In exchange, of which the insurer promises to pay an assured sum to the family if insured in the event of death or disability or at maturity.

Depending on the coverage, life insurance can be classified into the below-mentioned types:

- **Term Insurance**: Gives life coverage for a specific time period.
- Whole life insurance: Offer life cover for the whole life of an individual
- **Endowment policy**: a portion of premiums go toward the death benefit, while the remaining is invested by the insurer.
- **Money back Policy**: a certain percentage of the sum assured is paid to the insured in intervals throughout the term as survival benefit.
- **Pension Plans**: Also called retirement plans are a fusion of insurance and investment. A portion from the premiums is directed towards retirement corpus, which is paid as a lump-sum or monthly payment after the retirement of the insured.
- **Child Plans**: Provides financial aid for children of the policyholders throughout their lives.
- **ULIPS – Unit Linked Insurance Plans**: same as endowment plans, a part of premiums go toward the death benefit while the remaining goes toward mutual fund investments.

General Insurance – Everything apart from life can be insured under general insurance. It offers financial compensation on any loss other than death. General insurance covers the loss or damages caused to all the assets and liabilities. The insurance company promises to pay the assured sum to cover the loss related to the vehicle, medical treatments, fire, theft, or even financial problems during travel.

General Insurance can cover almost anything, and everything but the five key types of insurances available under it are –

- Health Insurance: Covers the cost of medical care.
- Fire Insurance: give coverage for the damages caused to goods or property due to fire.
- Travel Insurance: compensates the financial liabilities arising out of non-medical or medical emergencies during travel within the country or abroad
- Motor Insurance: offers financial protection to motor vehicles from damages due to accidents, fire, theft, or natural calamities.
- Home Insurance: compensates the damage caused to home due to man-made disasters, natural calamities, or other threats

BENEFITS OF INSURANCE

The insurance gives benefits to individuals and organisations in many ways. Some of the benefits are discussed below:

1. The obvious benefit of insurance is the payment of losses.
2. Manages cash flow uncertainty when paying capacity at the time of losses is reduced significantly.
3. Complies with legal requirements by meeting contractual and statutory requirements, also provides evidence of financial resources.
4. Promotes risk control activity by providing incentives to implement a program of losing control because of policy requirements.
5. The efficient use of the insured's resources. It provides a source of investment funds. Insurers collect the premiums and invest those in a variety of investment vehicles.
6. Insurance is support for the insured's credit. It facilitates loans to organisations and individuals by guaranteeing the lender payment at the time when collateral for the loan is destroyed by an insured event. Hence, reducing the uncertainty of the lender's default by the party borrowing funds.
7. It reduces social burden by reducing uncompensated accident victims and the uncertainty of society.

What are the tax benefits on insurance?

Apart from the safety and security benefits of buying insurance, there are also the income tax benefits that you can avail.

- Life insurance premium of up to ₹1.5 lakh can be claimed as a tax-saving deduction under Section 80C
- Medical insurance premium of up to ₹25,000 for yourself and your family and ₹25,000 for your parents can be claimed as a tax-saving deduction under Section 80D

These claims have to be made at the time of e-filing income tax returns.

UNIT -II

IRDA- INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

"**IRDA**"- **Insurance Regulatory and Development Authority**. The Authority acts as the regulator of the insurance industry in India and oversees the functioning of the Life Insurance and General Insurance companies operating in the country. The main objective of the IRDA is to protect the interests of the policyholder and regulate the insurance industry. To know the various functions and the role of IRDA in the Indian insurance sector, read on to learn about the apex body of insurance providers in India.

What is the Insurance Regulatory and Development Authority (IRDA)?

The Insurance Regulatory and Development Authority is the main organization or supervisory body that regulates the insurance sector in the country. It sets rules and regulations for the functioning of the insurance industry. Its sole purpose is to protect the interest of policyholders and to develop the industry on the whole.

The IRDA or IRDAI regularly issues advisories to insurance companies in case of changes to the rules and regulations. The regulator guides the insurance industry in promoting the efficiency in the conduct of insurance business all the while controlling the rates and other charges related to insurance. This article dwells on the functioning of the IRDA, features and benefits as well as answers to frequently asked questions at the end of this reading.

ESTABLISHMENT OF IRDA:

The Government of India was the regulator for the insurance industry until 2000. However, to institute a stand-alone apex body, the IRDA was established in 2000 following the recommendation of the Malhotra Committee report in 1999. In August 2000, the IRDA began accepting applications for registrations through invites and allowed companies from other countries to invest up to 26% in the market. The IRDA has outlined several rules and regulations under Section 114A of the Insurance Act, 1938. Regulations range from registration of insurance companies for operating in the country to protecting policyholder's interests. As of September

2020, there are 31 General Insurance companies and 24 Life Insurance companies who are registered with the IRDA.

OBJECTIVE OF IRDA:

The main objective of the Insurance Regulatory and Development Authority of India is to enforce the provisions under the Insurance Act. The mission statement of the IRDA is:

- To protect the interest and fair treatment of the policyholder.
- To regulate the insurance industry in fairness and ensure the financial soundness of the industry.
- To regularly frame regulations to ensure the industry operates without any ambiguity.

IMPORTANT ROLE OF IRDA IN THE INSURANCE SECTOR IN INDIA:

The insurance industry in India dates back to the early 1800s and has grown over the years with better transparency and focus on protecting the interest of the policyholder. The IRDA plays an integral role in emphasizing the importance of policyholders and their interest while framing rules and regulations. **Here are the important roles of the IRDA:**

- To protect the policyholder's interests.
- To help speed up the growth of the insurance industry in an orderly fashion, for the benefit of the common man.
- To provide long-term funds to speed up the nation's economy.
- To promote, set, enforce and monitor high standards of integrity, fair dealing, financial soundness and competence of the insurance providers.
- To ensure genuine claims are settled faster and efficiently.
- To prevent malpractices and fraud, the IRDA has set up a grievance redress forum to ensure the policyholder is protected.
- To promote transparency, fairness and systematic conduct of insurance in the financial markets.
- To build a dependable management system to make sure high standards of financial stability are followed by insurers.
- To take adequate action where such high standards are not maintained.

- To ensure the optimum amount of self-regulation of the industry.

FUNCTIONS OF IRDA:

- Grant, renew, modify, suspend, cancel or withdraw registration certificates of the insurance company.
- Protecting the interests of the policyholder in matters concerning the grant of policies, settlement of claims, nomination by policyholders, insurable interest, surrender value of the policy and other terms and conditions of the policy.
- Specify code of conduct, qualifications and training for intermediary or insurance agents.
- Specify code of conduct for loss assessors and surveyors.
- Levying fees and charges for carrying out the provisions of the Act.
- Undertaking inspection, calling for information, and investigations including an audit of insurance companies, intermediaries, and other organizations associated with the insurance business.
- Regulate and control insurance rates, terms and conditions, advantages that may be offered by the insurance providers.

Apart from the above-mentioned core functions of the IRDA, there are several functions that the regulator performs keeping the policyholder's interest as its priority.

How Does IRDA Work?

The apex body of the insurance industry, the IRDA, ensures it frames rules and regulations without any ambiguity towards any particular insurance company. To ensure fairness and the financial soundness of the industry, the main work of IRDA revolves around the policyholder's interests. Refer to the following roles that the IRDA is mainly involved in:

- Issues certificate of registration to new insurance companies.
- Sets rules and regulations to ensure the interests of the policyholder are taken care of.
- Monitors all claims are settled in all fairness and that no insurer will deny any claim on their own free will.

- Regulates the code of conduct of the insurance companies, insurance intermediaries, and others associated with the insurance industry.
- Provides solutions in case of disputes through the IRDA ombudsman.
- Controls and regulates the rates of insurance to prevent unwanted price hikes in the insurance premium.
- The apex body is responsible for setting the minimum percentage limit of insurance companies for General and Life Insurance, thereby developing both urban and rural sectors.

Features & Benefits of IRDA:

Following are the salient features of the apex body, the Insurance Regulatory and Development Authority of India:

- Acts as a regulator for the insurance industry.
- Protects the policyholder's interests.
- Rules and regulations are framed by the apex body under Section 114A of the Insurance Act, 1938.
- It is entrusted under the Insurance Act to grant the certificate of registration to new insurance companies to operate in India.
- Oversees the insurance industry's activities to ensure sustained development of insurers and policyholders.

Types of Insurances Regulated by the IRDAI:

Insurance is mainly divided into Life and Non-Life/General Insurance. These are further classified into other types of insurance. Below are the types of insurance regulated by the IRDAI:

- Life Insurance
    - Term Plans
    - Endowment Policies
    - Unit-linked Insurance Policies

- Retirement Policies
- Money-back Policies

- General Insurance
    - Health Insurance Policies
    - Vehicle/Motor Insurance Policies
        - Car insurance
        - Bike Insurance
    - Property Insurance Policies
    - Travel Insurance Plans
    - Gadget Insurance Plans

Difference Between IRDA and SEBI on Their Functions:

Different industries or sectors are regulated by an apex body. They frame rules and regulations, monitor the functions of companies and ensure that they protect the stakeholders. Hence, the apex body for the insurance sector is the IRDA or Insurance Regulatory and Development Authority. As for SEBI or Securities Exchange Board of India, it regulates securities and commodity sectors in the country. Below is the comparison between IRDA and SEBI:

IRDA	**SEBI**
Regulates the insurance industry industry	Regulates the securities and commodity
Established in 1999	Established in 1992
Protects the interests of insurance policyholders	Protects the interests of investors in securities
Grant certificate of registration to insurance companies to issue insurance policies.	Grant certificate of registration to stockbrokers, bankers, sub-brokers to issue deeds.

IRDA	SEBI
Frames rules and regulations under the Insurance Regulatory and Development Authority Act	Frames rules and regulations under the Securities and Exchange Board of India Act

New Rules and Guidelines for Health and Mediclaim Insurance by IRDA:

The IRDA is the apex body which is responsible for framing new rules and guidelines for health insurance in the country. The regulator has issued new IRDA rules for health and mediclaim insurance in 2020, and they are:

- **Rejection of Claims:** The insurer cannot reject a claim if the policyholder has renewed the policy for eight years without any break or lapse. This period will be known as the moratorium period. The insurer cannot appeal to the IRDA for the rejection of the claim except in case of fraud or in case the claim is raised against the exclusion of the policy.
- **Inclusion of Telemedicine:** With the advent of digitalization, the medical service has changed and one can consult a doctor through online consultations. IRDA has asked insurers to include telemedicine consultations in the insurance policy.
- **Settlement of Claims:** If the insurer delays settling the claim, then the insurance company is liable to pay interest on the claim amount. It should ensure the claim is settled within 30 to 45 days from the submission of the last document by the policyholder.

UNIT-III

LIFE INSURANCE

What is Life Insurance?

Life Insurance is defined as a contract between the policy holder and the insurance company, where the life insurance company pays a specific sum to the insured individual's family upon his death. The life insurance sum is paid in exchange for a specific amount of premium. Life is beautiful, but also uncertain. Whatever you do, however smart and hard you work, you are never sure what life has in store for you.

It is therefore important that you do not leave anything to chance, especially 'life insurance'. As death is the only certain thing in life, apart from taxes, it pays to insure it well in advance.

Life Insurance Definition & Explanation

If you were to go by the dictionary definition, "life insurance" is a financial product that pays you or your dependants a sum of money either after a set period or upon your death as the case may be.

However, if you were to understand the term clearly and also appreciate its importance in your life, consider "life insurance" as a back-up plan for life. Life insurance in its simplest form means being prepared financially, come what may. It ensures that your family and you receive financial support in case you are not able to bring in the much-needed income yourself (maybe due to an accident, retirement, or untimely demise).

In legal terms, life insurance is a contract between an insurance policy holder (insured) and an insurance company (insurer). Under this contract, the insurer promises to pay a pre-decided sum of money (also known as "Sum Assured" or "Cover Amount") upon the death of the insured person or after a certain period.

Life Insurance Premium

"Life insurance premium"is the amount of money you pay your life insurance company in exchange for your coverage. Life insurance premium can either be a regular monthly/annual payment or a one-time payment as the case may be. The payout (called a death benefit) is the amount of money the life insurance company would pay your beneficiaries if you died unexpectedly during the term period. Calculate your premium by clicking below for a better understanding:

Why you Need a Life Insurance Now?

The significance of having a life insurance is to avail the "peace of mind" that it brings along. However, having an adequate amount of life insurance effectively sets your mind free of some important questions like:

• What will happen to my family financially after I die?

• How will my wife and kids take care of their expenses after I am no more?

• How will I provide for my family in case I lose my job after an accident?

• How do I ensure that I am able to fund my child’s higher education?

• How do I ensure an income after my retirement?

<u>TYPES OF LIFE INSURANCE – TRADITIONAL AND MARKET LINKED</u>

1. Traditional Life Insurance

Traditional Life Insurance plans offer multiple benefits in terms of life cover and returns, thus providing safety and security to the insured. These policies are considered risk-free. This is because they provide a fixed benefit (Cover Amount) in case of death of the insured person or at end of the term. Following are the three types of Traditional Life Insurance plans:

- Term Insurance Plans

Term policies are considered largely risk-free, low cost and usually with the highest coverage. These plans are purchased for a fixed period of time (such as 10 years or 20 years). They provide a fixed payout in case of death of the insured person or at the end of the term. These plans have evolved to also provide survival benefits so customers get double protection – for family and regular income for retirement needs. Let us understand the plan with an example:

- Endowment Plans or Guaranteed Returns Plan

Endowment Plans provide financial protection through life cover along with guaranteed returns. The policyholder will receive a lump sum amount if he or she survives until the date of maturity of the policy. With these plans the life cover amount is much lower and people generally buy these plans for the maturity benefit. These plans are great if you are saving for a big purchase.

- Money Back Policy

In a money back policy, the customer gets a certain percentage of the sum assured as guaranteed payouts at fixed intervals. In short, money back plans are endowment plans with liquidity.

2. Market Linked Plans or ULIPs

ULIPs (Unit Linked Insurance Plans) provide both protection and savings combined with flexibility to the covered person. As these products are linked to capital markets, they may have the potential to deliver better returns than traditional plans. However, with high returns there is a risk of low returns as well, which will depend on the market's performance.

<u>FEATURES AND BENEFITS OF LIFE INSURANCE IN INDIA</u>

The average penetration and density of life insurance in India is a measly 2.76%. There have been improvements in this arena but overall the growth has been rather slow in India. Not many people are aware of the benefits of life insurance and the numbers for penetration are an indicator of the same.

Accidents and mishaps are strong indicators of how fragile human life can be and how we need to systemically insure our lives. It is an important tool for providing an individual's family with safety and security. It acts as a protective cover to safeguard the insured's dependents. In the event individuals do not insure their lives, their dependents end up facing the tragic loss of their loved one along with a whole host of liabilities such as rent, loans, EMI's and child services.

Features of Life Insurance Plans

- **Policyholder:** Policyholder is the individual who pays the premium for the life insurance policy and signs a life insurance contract with a life insurance company.
- **Premium:**

  A premium is the cost the policyholder pays the life insurance company for covering his/herlife.

- **Maturity:** Maturity is the stage at which the policy term is completed and the life insurance contract ends.
- **Insured:** Insured is the individual whose life is secured via the life insurance. After his/her death the insurance company is accountable to provide a financial amount to the dependents.
- **Sum Assured:** The amount the insurance company pays the dependents of the insured if thoseevents occur which are specified in the life insurance contract.
- **Policy Term:** Policy term is the specified duration (listed in the life insurance contract) for which the insurance company provides a life cover and the time period during which the contract is active (listed in the life insurance contract).
- **Nominee:** A nominee is an individual listed in the life insurance contract who is entitled to receive the predetermined compensation, as a part of the policy.
- **Claim:** On the insured's demise, the nominees can file a claim with the insurance provider in order to receive the predetermined payout amount.

Key Advantages of life Insurance Policy in India

- **Death Benefits**

  life insurance enables individuals to protect themselves and their families, in case of any unfortunate happening in the life of the insurer. The insurer pays an amount equivalent to the sum assured as specified in the contract along with applicable bonuses. This is know as the death benefit.
- **Investment Components**

  Certain whole life insurance policies offer two-pronged benefits of both insurance and investment. While one half of your premium is paid toward insurance, the other half is invested in equity, debt or combinations of both. You get the best of both worlds with a protective covering as well as high returns on your investments. You can make the most of this component by investing in funds that align with your investment horizon and risk appetite. Certain policies allow you to switch between funds as per your evolving goals. The Invest 4G plan offered by Canara HSBC Oriental Bank of Commerce gives you the option of choosing from a range of 7 unit-linked funds and 4 different portfolio management options as per your preference.
- **Maturity Benefits**

  Life insurance policies can also double as a savings instrument by offering maturity benefits. If the insured survives the policy term and no claims have been made, the total premiums paid are returned at the time of maturity of the policy. In this manner, your life insurance plan can have a savings component, while also offering a protective cover.

- **Tax Benefits**

  Under the umbrella of Section 80C of the Income Tax Act (ITA), individuals can reduce their tax liabilities by investing in specific instruments. Term insurance is one of them. Under section 80C, the premium paid for your life insurance policy is eligible to attain a maximum tax deduction for up to Rs. 1.5 lakh. In addition to this, under Section 10(10D), any payouts you receive from your insurance policy are completely tax-free (provided your premium does not exceed 10% of your Sum Assured, annually). If you have opted for a health-related rider, such as a critical illness or surgical care rider, you can also avail tax deductions under 80D of the ITA.

- **Coverage Against Liabilities**

  To fulfill your dreams and attain your goals, you may have required a certain amount of financial support - in the form of loans, mortgages and other types of debt. Be it student loans or credit card debt, dealing with such liabilities can be a source of great financial strain, without a steady stream of income. While you may have the funds to pay off a part of your loans now, your family may find it difficult to manage such liabilities in the event of your unfortunate demise, owing to the loss of income. Thus, taking a life insurance policy ensures that your family has the financial means to steadily meet your loan and mortgage repayments, even in your absence.

- **Riders**

  You can opt for riders to enhance your life insurance coverage. A number of riders, ranging from Critical Illness to Accidental Total Permanent Disability are available and help protect you and your loved ones against instances wherein your life cover may not come into play.

PRINCIPLES OF LIFE INSURANCE

Life insurance is based on a number of principles that are tailored to meet market conditions and ensure insurance companies make profits, while offering security policies to insured individuals. There are broadly four major insurance principles applied in India, these being:

- **Insurable Interest** – This principle pertains to the level of interest an individual is expected to have in a particular policy. The interest could be a family bond, a personal relationship and so on. Based on the interest level, an insurance company can choose to accept or reject an application in order to protect the misuse of a policy.

- **Law of large numbers** – This is a theory that ensures long-term stability and minimises losses in the long run when experiments are done with large numbers.

- **Good faith** – Purchasing an insurance is entering into a contract between company and individual. This should be done in good faith by providing all relevant details with honesty. Covering any information from the insurance company may result in serious consequences for the individual in the future. This being said, the insurer must explain all aspects of a policy and ensure that there are no unexplained or hidden clauses and that the applicant is made aware of all terms and conditions.

- **Risk & Minimal loss** – Insurance is a risky and companies have to do business and make profits keeping in mind the risk factor. The principle of minimal risk states that the insured individual is expected to take necessary action to limit him/her self from any hazards. This includes following a healthy lifestyle, getting a regular health check-up and more.

TERM INSURANCE PLANS

Term insurance is the purest form of life insurance policy that offers comprehensive financial protection to your family members against life's uncertainties. Depending on the term insurance plan you buy, your family will get life cover or sum assured in case of your untimely demise within the policy period. Let us know more about what is term insurance and the features and benefits it offers.

What are the Key Features of Term Insurance Plans?

Now that you are aware of what is term insurance plan, you should check features and benefits of term insurance plans. Following are some of the primary term insurance benefits & features:

- **Life Cover Against Eventualities**

If you are the sole breadwinner of your family, you can help secure your loved ones against any financial setback they might have to face in your absence through a term insurance policy. The policy enables you to support a worry-free financial future for your family. You can easily take a significant life cover for a relatively small premium payable under these term insurance plans.

For example, if you are a 25-year old, non-smoker female, you can buy a Max Life term insurance plan with Rs.50 lakh life cover and pay for next 35 years, your premium will be Rs. 4,484 per annum approximately (inclusive of tax). Furthermore, you can use online term insurance premium calculators to see how your premium liability varies according to your age.

- **Term Insurance Riders**

Once you know what is term insurance and choose one to buy, you can add riders to your term insurance plan. Riders will help you extend your policy benefits by paying additional premium. Term insurance riders are optional and you can opt for them easily. With Max Life Insurance, you can opt for Max Life Accidental Death and Dismemberment Rider [104B027V03; Non-Linked Non-Participating Individual Pure Risk Premium Health Insurance Rider] & Max Life Waiver of Premium Plus Rider [UIN: 104B029V03; Non-Linked Non-Participating Individual Pure Risk Premium Health Insurance Rider].

- **Cover for Critical Illnesses**

In your 20s and 30s, you may think that you will never suffer from a critical illness such as cancer or kidney failure. However, if it happens, not only will your health deteriorate, but you may lose your hard-earned savings to get the necessary treatment. Although the plain-vanilla term insurance plans offer a death benefit, you can increase their coverage with a critical illness rider.

As the name suggests, a critical illness rider provides additional benefits when attached with your term insurance policy i.e. if you get diagnosed with an illness covered under the rider, a lump sum amount is paid to you to avoid any financial setback that your family might have to face for getting the treatment.

- **Cover for Accidental Death or Disability**

Accidents can happen anytime and anywhere. Depending on the severity, you may need a significant amount of money for the incurred medical expenses and compensate for the loss of income. Popular term insurance plans help you tackle such situations with accidental death or disability rider.

Max Life Insurance offers a Comprehensive Accident Benefit Rider (UIN: 104B025V03) with their term insurance plans. The rider provides extended financial protection to your family by also covering you for accidental dismemberment and death.

- **Tax Benefits**

With Term Insurance plans you can avail tax benefits on premiums paid under Section 80C of the Income Tax Act, 1961. You can avail tax benefits up to Rs.1.5 lakh on the premium paid. Not only this, with the critical illness cover, you can also avail additional tax benefits on premium paid under Section 80D of the Income Tax Act, 1961.

- **Multiple Payout Options**

If you feel your family members do not have the necessary know-how of handling large amounts of money as they may find it challenging to utilize a lump sum amount they receive under your term insurance policy, you can choose from multiple payout options available with Max Life's term insurance plan.

For instance, you can opt for term insurance plans that offer to pay a lump sum immediately on death and a fixed amount every month to your family. This way, your term insurance policy will work as a source of regular income for your family.

WHOLE LIFE INSURANCE

What is Whole Life Insurance?

Whole life insurance, by definition, offers coverage for your entire lifetime so long as you continue to pay premiums. This policy is sometimes referred to as "guaranteed whole life insurance", because insurers promise to keep the premiums constant over the life of the policy. Should you pass, and the policy hasn't lapsed, the beneficiaries will receive a payout.

In addition, whole life insurance is designed to offer tax benefits and have a cash value component which grows over time. This type of policy is good to consider if you're interested in not only the benefits of life insurance coverage, but also using the cash value as an investment vehicle to diversify your portfolio.

- How Does Whole Life Insurance Work?
- The Pros and Cons of Whole Life Insurance
- Should I Buy Whole Life Insurance?

How Does Whole Life Insurance Work?

Since whole life insurance is a type of permanent life insurance, you will continue to have coverage for your entire lifetime so long as the premiums are paid. In the case that you pass, the policy beneficiaries should file a claim with the insurer, after which point the circumstances of your death will be reviewed and receive the payout (also called a death benefit or the face value of the policy) so long as everything is in order.

This process may sound simple but, for example, if your child doesn't know they are the beneficiary to your life insurance policy, they may not be able to claim the payout should you pass, so make sure to keep your family informed.

Each whole life insurance policy consists of a few key elements:

Death benefit

Also called the face value of the policy, this refers to the payout the beneficiaries will receive upon your passing. Death benefits are tax-free so long as you're below federal and state estate exemption levels, which is the case for most households as the federal exemption level is approximately $5.5 million and only 18 states impose estate or inheritance taxes. Policy face values are typically available in increments of $50,000 or $100,000, though they can go up to several million dollars. Whole life insurance policies are generally more expensive than alternatives, such as term life insurance, and the death benefit directly impacts that cost, so it's important to evaluate your family's needs before deciding to purchase.

Premium

This is the cost of the policy, and can be paid annually, bi-annually, or monthly, depending on your insurer. Premiums are generally paid for the life of the policy, though some choose to pay a higher premium for a shortened period of time, such as 20 years, in order to make sure their policy doesn't lapse later. This option can often be useful for people that currently have high incomes that can cover the costs, and want to lock-in coverage for their family no matter what happens to their income in the future. If you're able to afford it, this can be a simple way to reduce your family's financial risk profile.

Cash value

As with other permanent life insurance policies, whole life insurance accrues a cash value over time. The cash surrender value is what you get if you surrender the policy to the insurer. It is not added to the face value of the policy, which your beneficiaries get if you pass away.

The cash value grows tax-deferred over time, and is guaranteed to grow at a particular rate in the case of whole life policies. This is why whole life insurance policies are often referred to as an investment vehicle. While the guaranteed rate of return on the cash value may be lower than other financial products, it can lower the overall volatility of a portfolio (though this benefit assumes you have a breadth of existing investments). The cash value can be used to:

- Pay premiums
- Purchase additional coverage
- Withdrawn (in certain cases)
- Provide a tax-free loan (for emergency expenses, a mortgage, or other needs)

Keep in mind that if you've borrowed against the cash value of your policy and pass away, the loan will be deducted from the policy's death benefit.

Dividends

Dividend paying whole life insurance, also known as participating whole life insurance, refers to policies offered by certain insurers that pay a dividend in the case that the insurer performs better than expected. Essentially, you, as a policyholder, get to participate in the profits of the company (as determined by the insurer once they've paid all death benefits and other business expenses). As a simplified example, if the insurer collected $90 in premiums and made $10 in other income, but only spent $95 in payouts and costs to run the company, the $5 remaining would be shared across the policyholders as a dividend.

Given that dividends are dependent on your insurer's performance, there's no guarantee they'll be paid each year, though some insurers have consistently paid dividends for decades. If you're considering whole life insurance policies from two insurers with the same features and premiums, that one insurer offers dividends is certainly an advantage to note.

Guaranteed acceptance & no medical exam whole life insurance

While the medical exam isn't actually a component of a life insurance policy, it's a fairly standard requirement that goes alongside the underwriting process, both of which are used to evaluate your health and determine your premiums. Some insurers offer no medical exam, meaning you still have to answer questions about your health and medical history, but aren't evaluated in-person. This option sounds great, as people often think of a long, in-depth exam in a doctor's office. However, the exam is generally quite short (about 30 minutes) and can be scheduled at your work or home. What this means is that you'd be paying significantly higher premiums (since the insurer is taking on additional risk) to avoid a relatively painless medical exam.

Similarly, guaranteed acceptance whole life insurance offers the ability to skip detailed health questions and the medical exam, but premiums will be even higher and the death benefit will be limited (typically less than $100,000). In addition, there's generally a restricted period for the first few years of coverage, so if you pass during that time your beneficiaries won't receive the full payout. Unless you have concerns regarding your ability to get coverage, such as if you've been diagnosed with a life-shortening condition like cancer, our analysis indicates this is a poor choice for most people.

The Pros and Cons of Whole Life Insurance

As we've reviewed, there are many benefits to whole life insurance which fit a variety of financial situations. As an overview:

Benefit	Overview
Cash value accrual	A whole life insurance policy's cash value has guaranteed, tax-deferred growth
Tax free policy loans	You can take out a policy loan using the cash value as collateral
Dividends	If your policy provides dividends, these are free of income tax as they're considered a return of premium
Fixed premiums	Whether you pay over a shortened period or over your lifetime, premiums are guaranteed to stay flat
Lifelong coverage	A benefit of all permanent life insurance policies, so long as premiums are paid
No additional exams	If your health changes in the future, you'll remain covered and aren't required to take additional health assessments
Option to surrender	If your financial situation changes, you can surrender the policy and receive its cash value back from the insurer

Similarly, there are multiple downsides to whole life insurance and, depending on your goals of coverage, these can often outweigh the benefits:

Downside	Overview
Complex product	Whole life insurance is a complex product with many features and potential benefits, but these can be challenging to take full advantage of without a professional
High premiums	The cost of whole life insurance is significantly higher than term, and means it may not be a good choice unless you take advantage of all the potential benefits
Growth rate & fees	While the policy's cash value is guaranteed to grow at a certain rate, this can be lower than other investment vehicles and you need to determine what fees are applied

<u>ENDOWMENT LIFE INSURANCE</u>

Everyone wants to live a long life and see their family flourish. Contrary to popular belief, life insurance isn't just a pessimistic plan meant to protect your loved ones after your untimely death or disablement. You can even use a life insurance policy to secure a happy, fulfilling post-retirement life you can enjoy with your whole family, with the invaluable help of an Endowment Life Insurance policy.

What are Endowment Life Insurance plans?

Endowment plans are <u>life insurance policies</u> that not only cover the individual's life in case of an unfortunate event, but also offer a maturity benefits at the end of the term. After a specific period of time- called 'maturity'- they are designed to pay a lump sum amount. The insurance company will pay this assured sum to the endowment policy holder's nominees in case of holder's death or to the holder himself on a fixed date in the future.

Why opt for Endowment plans?

Endowment life insurance policies have certain obvious benefits.

For starters, the policy holder has a pool of savings when the endowment insurance policy matures. He can either reinvest the amount or use it to enjoy life post-retirement. Thus, endowment policy is almost risk-free and offers a steady amount on a fixed date as long as the premium is paid.

You can also use this money for your monthly expenses, your child's education or wedding, or even for a much-deserved vacation.

Endowment Policy Benefits:

- **Maturity Benefit**: This is the substantial amount you receive at the end of the term, when your endowment policy matures.
- **Death Benefit**: This is the money your loved ones receive once they claim for it in case of your untimely death. This is equivalent to the life insurance policy cover.
- **Tax Benefits**: Endowment insurance plans also offer tax benefits. The premiums you pay can help you reduce your taxable income as per India’s Income Tax laws.

Endowment plans with a maturity of 15 to 20 years are more profitable since you manage to accumulate more money over a longer period. This maturity amount can then be used to fund large expenses in the future.

What’s more, some plans offer guaranteed returns and bonuses in addition to the sum assured, which are added to the policy holder’s account every year. These benefits, along with the tax savings, make the endowment life insurance policy an extremely appealing investment instrument.

GENERAL INSURANCE

- A policy or agreement between the policyholder and the insurer which is considered only after realization of the premium.
- The premium is paid by the insurer who has a financial interest in the asset covered.
- The insurer will protect the insured from the financial liability in case of loss.

How does the concept of General Insurance work?

Insurance is a concept that applies to a large group of people which may suffer the same risk in the same conditions or region. The money collected as the premium can be called as a pool and when anyone faces a loss, the person is paid from that pool.

Still perplexed at how does a general insurance policy come into play? Consider that your mother suffered a heart attack suddenly and she needs a transplant. At the same time, your daughter's college fee was due. It definitely is a huge expense to be made at the same time and none can be preferred over the other. In this time of stress, the family's health insurance policy can save your burden and the fees can be paid from the savings. A General Insurance Policy here works to save your burden for money.

Why do we need General Insurance?

Imagine you're driving back home in your car and suddenly, a taxi hits you from behind. Your car has a dent and its bumper has come off too. Now you need about Rs. 2000/- for the dent and Rs.7500/- for the bumper to be able to fix it all.

A car insurance policy, in this case, will play well. You can get the amount reimbursed under the insurance policy. Your car is the asset here in which you have a financial interest. But remember, an insurance policy will pay only as per its predefined conditions.

TYPES OF GENERAL INSURANCES IN INDIA

Almost everything is insurable. However, General Insurance in India is bifurcated as Fire, Engineering, Marine and Miscellaneous Insurance. Let us look at them as per the use and general acceptability. Following are the different types of General Insurances in India:

1. Health Insurance
2. Travel Insurance
3. Motor Insurance
4. Marine Insurance
5. Home Insurance
6. Commercial Insurance

Digit Insurance also offers insurance policies for Mobile, Bicycle, Shop Protection, and others.

Health Insurance

The Health Insurance cover from Digit offers protection for the medical expenses incurred due to hospitalization caused because of an accident or illnesses. Although every policy is different, based on who it's being purchased for, it mainly covers:

- Accidental Hospitalization (pre & post)
- Accidental illness and hospitalization
- Daycare procedures
- Psychiatric Support
- Annual Health Checkups
- Daily Hospital Cash

The cover can be extended to cover the following with some predefined conditions:

- Maternity benefit with Infertility benefit
- Critical Illness
- Organ Donation
- AYUSH (Alternate Treatment)

The premium for the health insurance is charged on the basis of:

- Age
- Pre-existing illness
- Lifestyle Habits
- Type of coverage
- Your family health history

Travel Insurance

Travel Insurance covers your financial liability, if any, when you travel within or beyond the Indian boundaries. The financial liability may arise due to medical or non-medical emergencies.

The duration of the travel for one time can be 180 days at the maximum. The policyholder can take more than one trip in a year. Your Travel Insurance will cover:

- Loss of Baggage
- Loss of Passport
- Hijacking
- Medical Emergencies
- Delayed Flights
- Accidental Deaths
- Adventure Sports

Digit's Travel cover comes with worldwide support and special features like:

- Zero Deductibles.
- Smart phone enabled claim process.
- Customized Travel Plan Cover.
- Missed call claim facilitation.

Motor Insurance

A Motor Insurance Policy is mandatory to be able to drive legally in India. Broadly there are two types a) Third-Party Liability b) Comprehensive Package Policy.

A Third-Party Policy covers for losses faced in a situation where your vehicle damages any third-party such as a public property, person or third-party vehicle. The same is the minimum requirement to be able to drive legally in India, as stated by the Motor Vehicles Act.

A Comprehensive Package Policy covers both third-party damages and liabilities and damages/losses caused to you and your own vehicle. The losses may arise due to an accident, theft, fire, natural calamities, and others.

Digit Insurance provides some add-ons under its Comprehensive Package Policies for Cars and Bikes that act as additional shields to your vehicle, such as:

- Tyre Protect Cover
- Zero Depreciation Cover
- Return to Invoice
- Engine and Gearbox Protection
- Breakdown Assistance Cover

Home Insurance

You build your home with your toil and hard earned money. Everything you buy is a priceless possession for you and hence it needs to be protected. A Home Insurance Policy protects your valuable and other assets. It is a comprehensive package policy that covers all valuables.

Digit Insurance gives protection for Home against Burglary, Loss/Damage of Jewelry, Fire and Natural Disasters.

Commercial Lines

The lines of insurance that affects the business operations in the real terms are categorized under the Commercial Lines of Insurance. Type of the insurance covers that one can buy may include:

- Property Insurance
- Engineering Insurance
- Liability Insurance

- Marine Insurance
- Employees Benefit Insurance
- Business Interruption

Depending on the type of occupation, risk exposure, and the money involved, the insurance could be different for each industry or business. For example; an insurance that is specific to a cement plant, versus one for an IT company will be different. The premium charged for a cement plant will be higher than a showroom of air conditioner. Therefore, Insurance is completely based on the level of the risk exposure. A worker in the cement plant is more prone or susceptible to injury than to the one who is working in the showroom.

Mobile Insurance

Simple as it reads. A mobile insurance protects the phone from accidental damage. Under the mobile protection cover, Digit Insurance compensates for repair of accidental screen damage to your phone. The buyers can have mobile insurance for both an old or new phone. A very affordable insurance protection for the most expensive phones you buy.

Bicycle Insurance

Not just the cars and two wheelers, people are now passionate for expensive bicycles also. Call it a fashion or change of lifestyle, Bicycle Insurance is another sought product these days. Digit Insurance offers cover against Personal Accident, Theft, Accidental Damage, and Hospital woes.

DIFFERENCE BETWEEN LIFE INSURANCE AND GENERAL INSURANCE

BASIS OF COMPARISON	LIFE INSURANCE	GENERAL INSURANCE
Meaning	Life insurance is an insurance contract, wherein the insurance company promises to compensate the insured individual for uncertainties of life that are death. Life insurance provides protection against life risk.	General insurance is an insurancecontract, wherein the insurance company promises to compensate the insured individual or entity for the financial loss or damage caused due to an unfortunate event. General insurance gives protection for all the valuable things that are important to you.
Term of contract	Long-term contract	Short-term contract

Nature of contract	Life insurance is not a contract of indemnity. It is considered as an investment	General insurance is a contract ofindemnity
Insurable interest	Life insurance requires the beneficiary to have an insurance interest in the person who is being insured. That means, insurable interest needs to be present at the time of underwriting	In general insurance policies, insurance interest is expected to exist both at the time of underwriting and at the time of loss.
Payment of claim	Benefits under the policy are paid on the occurrence of an insured event or on maturity	Financial loss caused due to the insured event is remembered on the occurrence of the particular event
Compensation value	The compensation value is dependent on the premium payableunder the policy	The compensation value is the actual loss incurred in the insured event (maximum amountpayable is subjected to the policylimit)
Premium payment	Premiums need to be paid periodically over the years for aspecified term	Premium is paid in a lump sum as the policy is purchased for short-term and plans need to be renewed on expiry
Savings	Many life insurance plans come with a savings element which helps the insured to build corpus or create wealth for future	General insurance plans have no savings component as it’s an indemnity contract wherein you incur the premium cost to avail the protection

Unit – V

Government Owned Insurance Companies in India

Prior to the year 2000, the insurance segment in India was dominated by Government insurance companies. However, the Government formed the Malhotra Committee in the year 1993 to suggest reforms in the insurance sector. As per the recommendations of the committee, the Insurance Regulatory and Development Authority of India (IRDAI) was formed and the insurance segment was opened to private companies. Since the year 2000, both life and general insurance segment have seen different private companies tying up with foreign companies to sell insurance products. The market has, therefore, become competitive. However, there are still some insurance companies which are owned by the Government of India. Let's see the list of such Government companies in different insurance segments –

List of Government Insurance Companies for Life Insurance in India:

- **The Life Insurance Corporation of India (LIC)**

  The Life Insurance Corporation of India was formed in the year 1956 when the Government nationalised the business of life insurance. From 1956 to 2000 LIC enjoyed a monopoly position in the country selling life insurance policies. Even today LIC has the largest market share in the life insurance segment. The company offers all types of life insurance plans like term plans, endowment insurance, money back plans, pension plans, ULIPs, health plans, etc.

  The Life Insurance Corporation of India was formed in the year 1956 when the Government nationalised the business of life insurance. From 1956 to 2000 LIC enjoyed a monopoly position in the country selling life insurance policies. Even today LIC has the largest market share in the life insurance segment. The company offers all types of life insurance plans like term plans, endowment insurance, money back plans, pension plans, ULIPs, health plans, etc.

List of Government Insurance Companies for General Insurance in India:

In the general insurance segment, there are four public sector companies which are government insurance companies in India. These companies include the following –

- **The New India Assurance Company Limited**

  The New India Assurance Company Limited has a rich heritage as it was founded by Sir Dorabji Tata, a leading industrial stalwart. The company came into existence in the year 1919 with its headquarters in Mumbai. The company, which started in India, now has operations in 28 countries of the word. As of March 2017, the company's global business surpassed INR 22,270 crores wherein the Indian business consisted of INR 19,100 crores.

The company has been rated A by AM Best Company in the direct insurance business consistently since 2007. Moreover, since 2014, it has been rated AAA by CRISIL which represents the company's financial strength to honour its claims. The range of products offered by New India Assurance Company includes the following –

1. Motor insurance
2. Health insurance
3. Travel insurance
4. Personal accident insurance
5. Office insurance
6. Home insurance
7. Rural insurance
8. Marine insurance, etc.

- **United India Insurance Company Limited**

  United India Insurance has been operating in the general insurance segment ever since the year 1938 when it was established. However, in the year 1972, the general insurance business was nationalised by the Government of India. Thereafter, different insurance companies operating in India at that time merged with United India Insurance and the company became a Government-owned general insurer. After nationalisation, United India has grown progressively and currently has a customer base of more than 1 crore individuals.

  Whether it is designing retail insurance solutions or sophisticated insurance plans for large scale corporations, United India has been a leading name in the general insurance segment. The company has also stressed on insurance penetration in the rural region by promoting and implementing Government-sponsored health insurance schemes like Universal Health Insurance Programme or Vijaya Raji Janani Kalyan Yojana among others.

- **Oriental Insurance Company Limited**

  The company was established in the year 1947 as a wholly-owned subsidiary of The Oriental Government Security Life Assurance Company Limited. Later on, the company became a subsidiary of the Life Insurance Corporation of India (LIC) in the year 1956 when LIC was established. Oriental Insurance remained a subsidiary of LIC till the year 1973 when the general insurance business was nationalised in India and the company's stake was transferred to GIC (General Insurance Corporation of India). In the year 2003, GIC relinquished its ownership in Oriental Insurance transferring it to the Central Government.

Today, the company is held only by the Indian Government and has its headquarters in New Delhi. The company sells different types of general insurance products and as per the year ending 2017-18, it has underwritten a premium amount of more than INR 11450 crores.

- **National Insurance Company Limited**

  The oldest general insurance company is the National Insurance Company which was founded in the year 1906 in Kolkata. After its establishment, when the general insurance business was nationalised, National Insurance became a subsidiary of GIC (General Insurance Corporation of India). However, in the year 2002, the company became an independent general insurer held by the Government of India.

  Besides offering general insurance solutions in India, National Insurance also serves Nepal. The company has various awards under its belt like the Economic Times Iconic Brands Award 2018 in the general insurance category, SKOCH order of merit received in 2017 for being the best general insurer in 2017 to name a few.

  National Insurance offers a range of general insurance products meant for individuals, businesses, rural sectors and also farmers. The products of the company offer the best coverage benefits at the lowest premium rates.

Specialized Government insurance companies

Besides life and general insurance companies, the Government of India also owns specialised insurance companies which include the following –

- **General Insurance Corporation of India**

  The General Insurance Corporation of India, or GIC as it is popularly called, is the only Indian reinsurance company in the market. As a reinsurer, GIC insures the insurance policies underwritten by life and general insurance companies. GIC was formed in the year 1972 under Section 9(1) of the General Insurance Business (Nationalisation) Act, 1972. The aim of forming GIC was to supervise, control and operate general insurance business in India. After nationalisation of general insurance, GIC owned the above-mentioned general insurance companies as subsidiaries. However, in November 2000, the Act which created GIC was amended and GIC became a reinsurance company relinquishing its holding over the four public-sector general insurance companies. Today, GIC is engaged in the reinsurance business in India as well as in international markets and is considered to be one of the best reinsurance companies.

- **Export Credit Guarantee Corporation of India**

  Another specialised insurance company, the Export Credit Guarantee Corporation of India, ECGC, deals in credit risk insurance policies for exports. The company, therefore, aims to promote exports by underwriting the associated risks.

  ECGC was formed in the year 1957 and was earlier called Export Credit Guarantee Corporation of India Limited. Today, the company's administrative controls are in the hands of the Ministry of Commerce & Industry. Besides offering credit risk insurance policies to protect against export related losses, the company also serves banks and financial institutions. Indian companies which invest in international joint ventures also resort to overseas investment insurance policies offered by ECGC.

- **Agriculture Insurance Company of India Limited**

  The Agriculture Insurance Company of India Limited, AIC, is a general insurance company which offers insurance solutions for agriculture related products. The company was established in 2002 but it commences operations in April 2003.

  By providing agriculture insurance to farmers, the company aims to boost agriculture productivity. When the farmers are assured of financial assistance in case of unforeseen losses, they are motivated to be more productive. This boosts agriculture which not only creates a source of revenue for farmers but also increases the country's GDP.

So, these are the list of Government insurance companies. In the general insurance segment, three of the four public sector insurers, National Insurance, United India Insurance and Oriental Insurance are proposed to be merged into one. Mrs Nirmala Sitharaman, in her debut Budget in July 2019, proposed the merger of these three companies into one unit. This merger would be completed in some time but today these companies are operating independently. You can, therefore, visit https://www.turtlemint.com/ and buy general insurance policies from these companies currently till they are merged.

LIFE INSURANCE

Life insurance provides financial protection to the family in cases like the sudden death or the permanent disability of the main earning member of the family. Thus, it is an assurance that the insurance company will take care of the financial well-being of the family members even when the breadwinner is not around. This is done by paying the sum assured to the nominee or the beneficiary. The insurance can also cover other contingencies like critical illness and permanent or temporary disability. The policyholder is called the insured, while the insurance company is called the insurer.

A life insurance policy helps in meeting three goals in life. Let us look at them:

1. **Protection**: A life insurance policy provides financial security to the family on the untimely demise of the insured.
2. **Investment**: Along with protection, life insurance also helps in investment so that the money can be used for meeting various financial goals.
3. **Savings**: Along with protection, through life insurance, you also get to save money which can be used during retirement or for other financial needs.

What is Life Insurance Premium?

A premium is the amount paid to the insurance company for getting a life insurance policy. The premium or the cost of the insurance is an important aspect to be considered before finalising a policy. It depends on various factors like age and gender. To reap the benefits of the insurance policy, it is important to pay the premium on time. In case of a non-payment or a payment delay, the policy can be considered as a lapsed policy. However, before a policy happens to expire, you usually get a grace period of 30 days. The payment mode can be regular or single. A regular payment can be monthly, annually and so on. Let us understand some factors on which the premium depends.

Age: This is an important deciding factor while buying an insurance policy. Older you are, higher the premium amount. Accordingly, younger people have to pay lower premium amount for a life insurance policy.

Gender: Premium amount for women is lower compared to that for men.

Smoker/Non-smoker: In case you are a smoker, the premium will be higher because you are prone to higher risks in life. Thus, a non-smoker has to pay lower premium.

Sum assured: Higher the sum assured or the death benefit, higher the premium amount to be paid.

Policy term: If the policy is for a longer duration, the premium amount will be higher.

Types of Life Insurance Policy

Life insurance is of 7 types. And each has its own features and specialties. You can choose them as per your need and requirement. They are: Term Insurance, Whole Life Insurance, Endowment Policy, Money Back Policy, Child Plan, Retirement or Annuity Plan and United Linked Insurance Plan (ULIP).

Term Insurance

Term insurance is a pure protection plan where the beneficiary gets the sum assured, also called death benefit, if the policyholder passes away during the term of the plan. However, if the insured survives the term plan, the coverage also ends, with the beneficiary not getting any money. Even the premium paid is not refunded to the insured.

However, there are some term plans where the premium paid is returned, if the policyholder happens to the survive the plan. This payment is termed as survival benefit. The premium for such plans are quite high. Otherwise, a pure term plan is one of the most affordable plans compared to other types, as the amount of the premium is quite nominal. One can opt for regular payment or single payment mode.

3 Types of Term Insurance

- **Level Term**: The sum assured remains the same during the entire term of the policy. Thus, even the premium amount and renewal premium remain constant.
- **Decreasing Term**: In this type, the sum assured decreases over time; however, the premium amount does not change.
- **Increasing Term**: Both the sum assured and the premium amount increase over time. This is mostly opted by people who think beneficiaries will need more money.

TYPES OF TERM INSURANCE		
Level Term Insurance	**Decreasing Term Insurance**	**Increasing Term Insurance**
Sum assured for the beneficiary remains constant throughout the term of the plan. Even the premium and renewal premium remain same during the term	Sum assured decreases with time and the premium amount remains constant. Example: credit life insurance, mortgage redemption policies	Not just sum assured, but also premium amount increases with time

Whole Life Insurance/Life Cover Insurance

Under this policy, the insured is covered for the lifetime, i.e. till his/her death. The maturity age is usually 100 years. Thus, you need to keep paying the premiums till 100 years of your age. Here, the beneficiary gets the sum assured along with maturity benefits on the untimely demise of the policyholder. On the other hand, the policyholder gets to enjoy the survival benefits, in case he/she happens to survive the policy term. A whole life insurance plan offers benefits in both the cases – when the policyholder survives the policy or on his/her sudden demise during the term.

2 Types of Whole Life Insurance

- **ULIPs**: In case of ULIPs, a part of the premium paid is used for coverage and a part is invested in the market
- **Traditional Whole Life**: Here, you get a guaranteed return on the maturity of the plan. These plans can be further classified as participating, where the insured gets the bonus or dividend from the company, and non-participating, where the insured does not get any bonus or dividend from the company. You can enjoy the benefits at the end or receive them as periodic payments.

Endowment Policy

This offers both coverage and a means for saving. Like any other life insurance plan, here, the beneficiary gets the sum assured in case of the death of the insured. However, if the insured survives the plan, he/she gets the maturity benefit. The policy can be both participating, where the insured gets bonus and dividends from the company, and non-participating, where the insured does not get bonus and dividends from the insurance company. An endowment policy can also be a ULIP, where a part of the premium is invested in market apart from a part being used in coverage.

Money Back Policy

In this policy, the insured gets a certain percentage of the sum assured at regular intervals during the term of the policy. If the insured survives the tenure of the policy, he/she also gets the sum assured irrespective of the percentage of the sum assured already paid out to him/her. Thus, at the end, the insured gets the sum assured along with the accumulated bonus.

And in case of the death of the insured during the term of the policy, the beneficiary gets the full sum assured regardless of the number of premiums paid. It is one of the expensive policies, as it provides benefit to the insured during the term period along with the long-term benefits of usual life insurance plans. A money back policy provides benefit to the insured in between the term of the insurance which he/she can use for meeting various financial goals.

Child Plan

People can take this insurance plan if they want to save money for the future of their child along with getting a coverage for the breadwinner. It is a combination of savings and insurance, where the insured can use the money for the future needs of the child like higher education. The investment in this plan do not have any vesting age – one can start investing soon after the birth of the child and one can withdraw money after the child reaches a certain age. Some child policies offer intermediate withdrawal options as well. This can be either a ULIP or an endowment plan.

Retirement or Annuity Plan

Taking insurance policies for the sake of the family is not enough. One should also keep one's old age in mind. When you are young you have a regular source of income, but during old age the situation can change. So, one needs to plan for the retirement also. Along with coverage, retirement or annuity plans give the option of saving and investing money which can be used in the old age. Life insurance companies in India provide retirement plans which help create a corpus from which a regular income, called annuity or pension, is given to the insured after reaching a certain age.

Retirement plans can be availed "with cover" or "without cover". The first plan offers a sum assured to the beneficiary and the "without cover" one gives the corpus amount to the beneficiary only after the death of the insured.

2 Types of Retirement Plans

- **Immediate Annuity:** The insured gets the pension within one year of the premium amount being paid
- **Deferred Annuity:** The insured decides a time frame after which he/she will get the annuity from the company. This time frame is known as deferred time

Unit Linked Insurance Plan (ULIP)

Unit Linked Insurance Plan (ULIP) offers dual advantage – coverage and a means of investment. Under this plan, the cash value/paid up value of the policy depends on the current asset value. The total premium paid by the insured is divided into two parts: one that is invested in the market or debt funds and the other that is used for insurance. The type of investment is selected by the insured depending on the type of risk that he/she is willing to take.

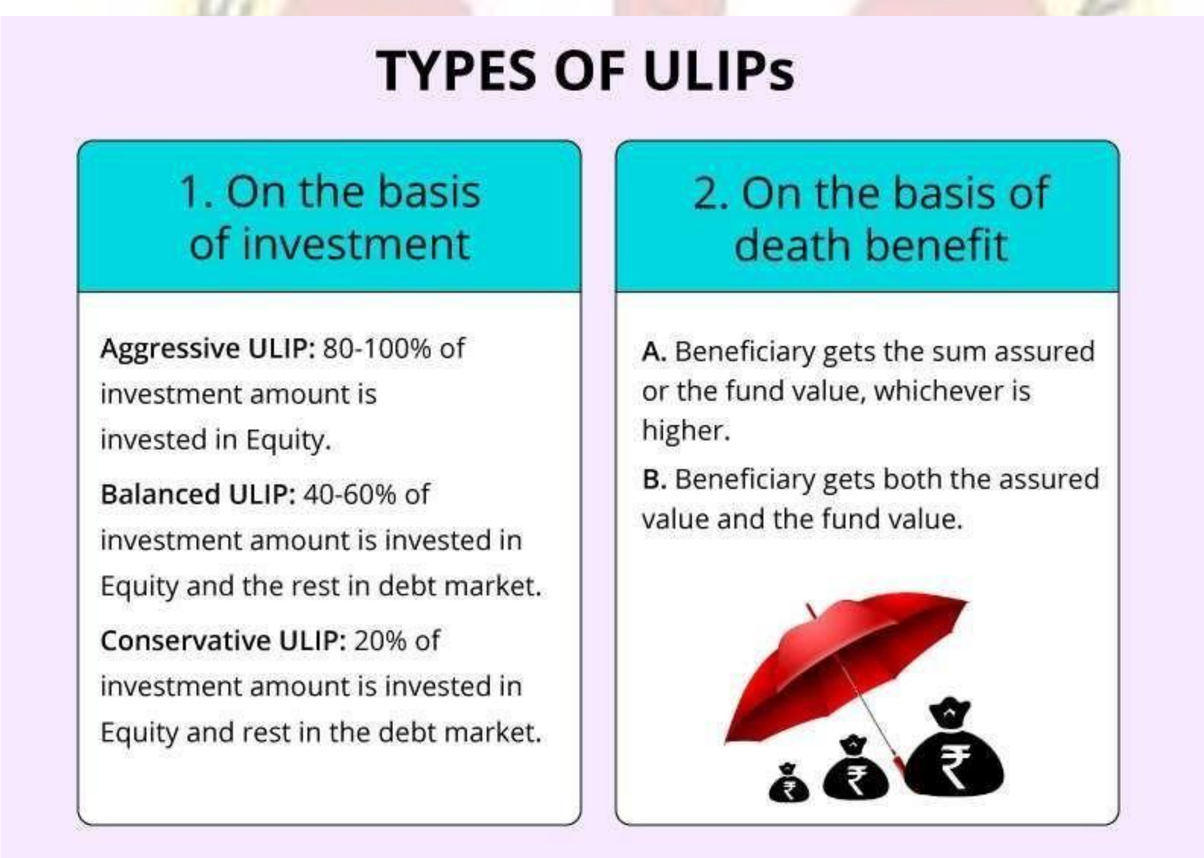
Types of ULIPs

On basis of investment:

- **Aggressive ULIP:** Here 80-100% of investment amount is invested in equity
- **Balanced ULIP:** In this case, 40-60% of investment amount is invested in equity and the rest is invested in debt market
- **Conservative ULIP:** Here 20% of investment amount is put in equity and the rest is invested in the debt market

On basis of death benefit:

- In the first case, the beneficiary gets the sum assured or the fund value, whichever is higher
- In the second case, the beneficiary gets both the assured value and the fund value



Other Types of Life Insurance

Group Life Insurance

Group life insurance is a type of life insurance that covers a group of people. It is mostly provided by companies to its employees. As the insurance is done in a group, a group life insurance is considered cost-effective. The group can comprise lawyers, members of cooperative banks, societies, doctors, etc. This life insurance can be contributory, where the employees contribute along with the employer in the payment of the premium, or non-contributory, where the employer pays the entire premium amount.

Life Insurance for Senior Citizens

You can brave various situations of life when you are young; however, in old age you need more protection and security. To manage such circumstances of life in old age, life insurance for senior citizens can be a good option. The insurance also provides financial coverage at times of need. For instance, in case you do not have any support for your spouse, life insurance for senior citizens can provide financial security to the spouse in case of your sudden demise. The death benefit can also be used to manage loans, debts and other financial needs.

What Life Insurance Covers?

Along with the standard coverage which varies with plan to plan, you can further enhance the protection with the help of riders, such as accidental death benefit rider, total or permanent disability rider and many more. The additional benefits can be availed on payment of some extra amount. Following are some common riders:

- **Accidental death benefit rider**: Nominee gets this financial benefit along with the sum assured, if the insured happens to dies in an accident
- **Accidental total and permanent disability rider:** Insured gets financial assistance if he/she is not able to earn due to some disability mentioned in the policy
- **Critical illness rider**: This covers major critical ailments like cancer, heart attack
- **Hospital cash rider**: A fixed amount is paid to meet the expenses of non-medical items in case of any hospitalisation
- **Waiver of premium rider**: Once you have this rider along with your life insurance policy, the company waives off the remaining premium payment on the sudden demise or total permanent disability of the insured

Eligibility Criteria

Particulars	Details
Entry Age	18-75 years
Policy Term	5-75 years
Premium Payment Option	Regular, limited and single premium
Sum Assured	Rs 3 Lakh-100 Crore

How Life Insurance Functions?

- Before purchasing a life insurance policy, you should understand your need and analyse your financial condition and also decide your beneficiary
- Choose the insurance company and the policy after a thorough comparison
- Once you finalise the company and the policy, also decide the policy term. The premium is decided on the basis of various factors like age, lifestyle, gender, policy term, etc.
- Policyholder has to pay the fixed premium to the insurance company for the fixed term. The premium is accumulated to provide the sum assured on the untimely demise of the insured
- In case of the sudden demise of the insured, the claimant should immediately inform the company and provide the required documents along with the claim form
- If the claim is approved, the beneficiary gets the sum assured. The claim can also get rejected because of reasons like nonpayment of premium, reason of death not covered in the policy, etc.

Documents Required For Claim Process

Following are the standard set of documents required to process a claim:

- Duly filled in and signed claim form
- Original policy certificate
- Death certificate issued by local authority
- FIR
- Post-mortem reports

- Hospital discharge summary
- KYC documents of beneficiary like copy of photo ID and address proof
- Copy of cancelled cheque and bank statement
- If the claim is made by someone other than the nominee or assignee, the person making the claim has to submit a legal proof of his or her title

Claim Process

In case of untimely demise of the insured, the nominee or beneficiary can file a claim to get the sum assured.

- Inform the insurance company as soon as possible with details like time of death, place of death and cause of death along with required set of documents given above
- Once these documents are submitted, insurance company would verify the details and accordingly settle the claim
- Sum assured would be transferred to the bank account of the beneficiary
- In case the company finds some problem while verification, it might reject the claim

Exclusions

A life insurance policy protects the insured and his family against different scenarios, but certain claims are not covered by the insurance company. Below are some common exclusions. However, this might vary for different policies.

- Self-inflicted surgery or deliberate self-harm
- Involvement in extreme sports activities like paragliding, water-sports activities, rock-climbing
- Man-made disasters or damage caused due to negligence on part of human beings
- Loss of life due to HIV and STDs
- If claim has arisen due to the involvement in any unlawful activity

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