Life Insurance (PUN012)

Insurance is a contract between a insurance company and a policy owner. An insurance policy guarantees the insurer pays a sum of money to one or more named beneficiaries when the insured person dies in exchange for premiums paid by the policyholder during their lifetime. Life insurance is a legally binding contract that pays a death benefit to the policy owner when the insured person dies, for a life insurance policy to remain in force, the policyholder must pay a single premium upfront or pay regular premiums over time, when the insured person dies, the policy's named beneficiaries will receive the policy's face value, or death benefit, term life insurance policies expire after a certain number of years. Permanent life insurance policies remain active until the insured dies, stops paying premiums, or surrenders the policy, a life insurance policy is only as good as the financial strength of the company that issues it. State guaranty funds may pay claims if the issuer can't. Many different types of life insurance are available to meet all sorts of needs and preferences. Depending on the short- or long-term needs of the person to be insured, the major choice of whether to select temporary or permanent life insurance is important to consider. Basic life insurance is a simple life insurance policy, often offered as part of a benefits package at a company along with group health insurance, paid time off and more. Companies often offer basic life insurance to their employees on a free or very inexpensive basis. To better understand what basic life insurance provides, here are a few things you should know. To evaluate how basic life insurance fits into your overall financial plan and whether you should think about other types of life insurance policies, consider working with a professional financial advisor. Life insurance is one of the most popular benefits companies offer to their employees. While there are several options available on the market, the most common options either require the employees to pay little or nothing at all. Additionally, a plan is typically a fixed dollar amount or a multiple of a person's base salary. For example, an employer might offer each employee a $100,000 life insurance policy or two times the person's base annual salary. There are two main types of life insurance. The most popular type of policy for employer-sponsored life insurance programs is called term life insurance. Term life insurance covers a person for a specific term. In employer-sponsored programs, the term is limited to the time that a person works for a company. Employer-sponsored term insurance pays a particular sum, or death benefit, to the employee's beneficiaries if he or she dies while covered by the term life insurance. The other type of life insurance is called whole life insurance. Whole life insurance provides life insurance protection for the insured person's entire life. Because most people do not work for a company for their entire careers, most companies will not provide whole life insurance to their employees. Some pension plans might offer life insurance to former employees, but as pensions go the way of the dinosaur, so do employers that offer whole life insurance to their employees. Basic life insurance or employer-sponsored life insurance policies are typically offered to employees at a low or no cost. While these policies are often helpful for boosting a person's total life insurance coverage or providing coverage to people who might not otherwise be eligible for life insurance, they are not typically enough coverage. Therefore, employees are encouraged to take advantage of free life insurance coverage and purchase a policy that meets their family's needs.

Term Life Insurance or Term Plan: Term life insurance is the most popular type of life insurance. It is widely considered to be the simplest and purest form of life insurance. It offers a death benefit to the beneficiaries of the policy if the policyholder passes away during the policy term. Term insurance is the most affordable types of life insurance. The most distinctive feature of this plan is the high amount of coverage offered at extremely nominal premium rates. It is thus cheaper than other types of life insurance policies. In general, term life insurance does not offer maturity benefits. But certain types of term plans also offer maturity benefits, i.e., term plan with return of premiums (TROP) if the policyholder outlives the policy term. One can also increase the amount of coverage offered by a term plan by opting for additional riders, such as Accidental Death Benefit or Child Support riders.

Whole Life Insurance Plan: Whole life insurance is a type of life insurance that offers coverage right until the death of the policyholder. In this policy, you can opt for either a participating or non-participating policy, as per your financial needs and risk appetite. Though the premiums for participating whole life insurance are higher in comparison, dividends are paid out at regular intervals to the policyholders. The premium rates for a non-participating policy are lower, but the policyholder generally cannot avail the benefits of regular dividends.

Unit Linked Insurance Plan (ULIP): Unit Linked Insurance Plan or ULIP is a type of life insurance product that offers dual benefits of investment and life insurance. Among the different types of life insurance policies available, ULIPs enjoy a high amount of popularity owing to their versatile nature. A portion of the premiums paid is directed towards ensuring insurance coverage, while the rest of the premium is invested into a bouquet of investment instruments, which can include market-backed equity funds, debt funds and other securities. ULIPs are extremely flexible instruments since investors can easily switch or redirect their premiums between the different funds available. They are also touted as having an edge over other market instruments in terms of tax-saving benefits, since their proceeds are exempted from LTCG (Long Term Capital Gains).

Endowment Policy: Endowment Policy is a type of life insurance policy which acts as, both, an instrument for insurance and saving. These plans aim to provide maturity benefits to the life insured, in the form of a lump sum payment at the end of the policy tenure, even if a claim hasn't been made. It is the most suitable types of life insurance for people looking to get maximum coverage alongside having a sizable savings component. They help the policyholder inculcate the habit of savings, even while providing financial security to their family. Endowment plans can broadly be classified into two types: with profit and without profit. Policyholders can choose from these two types based on their risk appetite.

Money Back Policy: Being one of the best types of life insurance policies, a money-back policy offers policyholders a percentage of the total sum assured at periodic intervals in the form of Survival Benefits. Once the policy reaches maturity, the remaining amount of the Sum Assured is handed over to the policyholder. However, if the policyholder dies while the term is ongoing, their dependents are given the entire Sum Assured without any deductions.

Retirement Plan: A retirement plan is a type of life insurance that focuses on providing you financial stability and security post your retirement. After you retire, you lose your regular income from employment. Investing in retirement plans can help you create a stable regular income stream. If you continue to invest until retirement, the plan will help you take care of your expenses after retirement. It requires you to invest a certain part of your income regularly during your working life. At the time you retire, the amount that you create over the years will be converted into a regular income stream. Retirement plans also involve death benefits. Thus, if the policyholder passes away during the course of the policy, their beneficiaries will be provided with an assured sum.

Child Insurance: A child insurance plan is a savings cum investment plan that provides financial protection for the child’s future upon the unfortunate demise of the policyholder. It is ideal for ensuring the future needs of the child are well taken care of, even in the absence of the life insured. Parents can invest in the best child insurance plans, in order to meet the financial requirements for their child’s education, marriage or to fulfil a multitude of other financial goals their child might have.

Group Insurance Plan: A group life insurance policy is a type of life insurance that covers a group of people inside a single insurance policy. Unlike individual life insurance policies, which cover one person for a period, group insurance covers a minimum of 10 members. Employers, banks, corporates, and other homogeneous groups of persons can buy group Life Insurance policies for their employees and customers. While employers would want to offer financial protection to their employees' families banks and lending institutions aim to keep the debt off the borrowers’ family after their death. The plan under which the group is covered is called the Master Plan. The policy is issued to the manager of the group (master) but will remain in the name of the group only.

Savings and Investment Plan: Savings and investment plans from life insurance are the plans which channel your regular savings into long-term investment goals. iSelect Guaranteed Future is a life insurance cum savings plan that offers a life cover along with guaranteed maturity benefits. With this, you can plan your investments so that you can achieve your life goals smoothly.

Proposal Form: Proposal form is the most important and basic document required for life insurance contract between the insured and insurance company. It includes the insured's fundamental information like address, age, name, education, occupation etc. It also includes the person's medical history; a life insurance company offers a policy on the basis of a proposal form. The form is the most basic requirement for the functioning of the life insurance contract between you and the life insurance company. It needs to be completed by the proposer who may seek the assistance of a life insurance advisor to fill it up, a proposal form seeks basic information of the proposer and the life assured. This includes the name, age, address, education and employment details of the proposer. The proposal form also gathers information on the medical history of the life to be assured. There are questions pertaining to the health status of family members of the life to be assured. The proposer and the life to be assured have to mention their incomes in the proposal form to satisfy the insurer about their ability to pay for the insurance and the need for insurance, respectively. Proposal form helps the insurance company to calculate all the potential risks in relation to the insurance policy and hence deciding the premium amount.

Proposer: A proposer is an individual who has applied to buy an insurance policy and will pay the premium for it. The insurance company conducts a risk assessment on the proposer and offers a quote. On mutual agreement with the insurer, the proposer pays for the insurance to own it and becomes a policyholder. As an example, you become the house owner when you buy a house and get it registered in your name. So, if any dispute arises, you will be legally entitled to the benefit. But if you just pay for the house and get it registered in your wife's name, she will be liable to receive the benefit from the home, this explains the relevance of buying an asset in your name. For an insurance policy, a proposer is a person who purchases the policy and pays a premium for it. He/she can buy the policy for another person also. If the proposer buys the cover for himself, he becomes the insured under the policy. And in case of any claim, he or his nominee receives the benefit. Whereas, if the proposer is a different identity than the insured, the benefit will be paid to the insured or the chosen beneficiary, the Proposer has the power to assign or change the beneficiaries and decide how the maturity or death benefit shall be payable.

Insured Person: The insured is the person whose life is being covered against the risk under the policy. 3) The insurer is the insurance company that provides the insurance cover. 4) The proposer is the person who takes the cover and is also called the policyholder.

Insurance Premium: An insurance premium equates to the money that is paid by any person or company/business for availing of an insurance policy. The insurance premium amount is influenced by multiple factors and varies from one payee to another. The insurance company stipulates that an individual or business periodically pay them a specific amount of money as premium for the availing and maintenance of their insurance policy and coverage. Insurance companies consider many factors while determining the premiums, particularly in case of life insurance. These include the chances of claims being made by the policyholder, medical conditions, smoking and other lifestyle habits, area of residence, nature of employment and so on. There are actuaries tapped by insurers for working out the chances of claims being made by the insured individual for critical ailments or life-threatening diseases like cancer/heart attacks across multiple age groups. The higher the risks linked to the individual; the higher will be the premium for life insurance. Premiums can be paid through monthly, half-yearly or even annual instalments. Customers can also pay the entire amount as a one-time payment for the whole policy term prior to the commencement of coverage in some cases. The insurance premium is what insurance companies make use of when it comes to ensuring coverage for all liabilities linked to the policy. The premium may also be invested by the insurance company in securities for earning returns and covering some of the costs tied to the coverage. While you can always look for a good insurance premium calculator to work out the premiums, the calculation procedure also depends on several factors as Age / Area of residence / Nature of employment / Medical ailments and history / Smoking and other lifestyle habits Likelihood of claims being made by the person insured Income / Height and Weight / Marital status and dependents / Gender Hobbies with high risk Global travel history and Debts. Insurance companies also take into account the mortality cost, i.e. the sum assured or the minimum sum payable by the insurance company in the event of death of the policy holder. This is also worked out through assessing the factors mentioned above the interest earned on invested premiums is also taken into account before the premium calculation, as can be seen, premium calculation is a multi-layered process, depending on several factors and varying from one person or policy to another. You should always use a calculator to determine the insurance premium payable on your life insurance policy prior to choosing the same or renewing it every year.

Insurance Underwriters: Insurance underwriters are professionals who evaluate and analyse the risks involved in insuring people and assets. Insurance underwriters establish pricing for accepted insurable risks. The term underwriting means receiving remuneration for the willingness to pay a potential risk. Underwriters use specialized software and actuarial data to determine the likelihood and magnitude of a risk, insurance underwriters assume the risk involved in a contract with an individual or entity. For example, an underwriter may assume the risk of the cost of a fire in a home in return for a premium or a monthly payment. Evaluating an insurer's risk before the policy period and at the time of renewal is a vital function of an underwriter.

Policy Lapse: Policy lapse is a situation where you can no longer avail the benefits and cover provided under a policy. Once your policy lapses, you cannot use any feature of the policy and will lose the right to make a claim against it, there are numerous reasons for which you may miss out on paying your premium on time. However, your policy does not lapse immediately, even if you miss the due date of payment. Insurance providers offer a grace period during which time the benefits enjoyed under a policy remain active. In most cases, the grace period is 30 days from the day on which your premium was due[4]. You can make your payment during this time and your insurance policy continues without any hiccups. However, if you are unable to do so, the insurer has the option to cancel your plan, resulting in a policy lapse. Most insurers allow a specific period within which you can restore your life insurance plan. This period can differ from one company to another. It also depends on the type of life insurance plan you opt for. Based on your payment history and nature of policy, most insurance companies levy an interest as a penalty for the missed premiums. To reinstate your policy, you just have to pay the premium amount due, along with the interest. Once these dues are paid your lapsed policy will be reinstated allowing you to continue enjoying the same benefits as before.

Renewal: An insurance renewal is the end of the term of your policy, at which point, you'll need to determine if you'd like to continue under the same policy with the same insurance carrier. When your policy term ends, your insurance policy is up for renewal. At this point, you can choose whether or not you want to renew insurance under the same policy, negotiate the terms, or switch to a different insurance carrier. Most carriers will notify you at least 30 days ahead of your insurance renewal to discuss your new premium, any changes in rates, and whether you qualify for any discounts. The renewal date on your policy is based on when your policy first took effect. Typically, business insurance policies, such as general liability, workers' compensation, and errors and omissions insurance, are renewed on an annual basis. That means that if you want to continue coverage under the same policy, it will need to be renewed at the one-year mark.

Surrender Value: Surrender Value in Insurance is the amount which insurance company will pay you, as a policyholder, when you decide to terminate the policy before the maturity. There is often a misconception that it is not possible to surrender your term insurance. Contrarily, as per a directive issued by the Insurance and Regulatory Development Authority (IRDA), term plans in India provide the option to give up on your policy at any time. Occasionally, a surrender (discontinuance) charge might be levied upon the policyholder for premature surrender. However, these charges are not applied if the policy is renounced after five years. After the policyholder has paid premiums consistently for three years, a regular premium policy acquires certain surrender value. Once you opt to exit the insurance policy, all the rights, benefits and interests linked with it, including the protection cover, will cease to exist. Guaranteed Surrender Value is typically stated in the policy brochure/documentation. You are entitled to the sum if you have paid the premium for three years in a row. The sum is equivalent to all premiums paid up to this point, except the initial payment and any premiums for extra benefits or riders. Any bonus money you might be qualified for upon the plan's maturity will not be included in the surrender value of the policy. guaranteed surrender value is determined by multiplying the total premiums paid by the surrender value factor (the percentage of total premiums paid). When the insurance is close to its maturity period, the surrender value factor will be close to up to100% of premiums paid. Special Surrender Value the total sum assured, premium payments, policy term, and bonuses all affect the special surrender value of the plan. In situations where the policyholder fails to make premium payments, but the plan remains in effect until they decide to surrender it, the special surrender value is determined, it is important to be careful and aware of the terms and conditions if you decide to surrender a life insurance policy. For example, policies like term insurance plans do not provide any compensation or surrender value, if you decide to cancel a term insurance in the middle of their term. However, for insurance plans like Unit-Linked Insurance Plans (ULIPs) and Endowment Plans, you will receive a surrender value, provided you have paid your premiums for at least three years.

Survival Benefit: The survival benefit of a life insurance policy pays an amount to the policyholder when the life insured outlives the policy term, and no death claim is filed. This benefit is generally paid at the end of the premium payment term. As an example, Vanilla life insurance plans do not offer survival benefits. Conventional life insurance policies pay the nominee in case the life insured passes away during the policy term provided all the premiums are paid. If there is no event of death of the life insured, then the policy does not return anything and the policyholder does not get any return for the years of investment made, but some types of life insurance policies widely known as return of premium policies or money back life insurance policies offer survival benefits to the policyholders. These policies pay the death benefit to the nominees in case of life insured’s death during the policy period. If the life insured survives the policy’s premium payment duration, then the life insurance company pays a survival benefits amount to the policyholder. A life insurance policy that is generally associated with a survival benefit, Term insurance with return of premium, ULIP plans, Endowment plans, the amount received as a survival benefit of the life insurance policy is tax-free. Policyholders do not have to pay taxes on survival benefits under section 10(10D) of the income tax act 1961.

Maturity Benefit: the maturity benefit is a lump-sum payment made by the insurance provider when the policy has reached its expiration date. It simply implies that if your insurance policy has a 15-year term, you, the insured, will get a pay-out at the end of those 15 years. Generally, the maturity amount meaning refers to the sum of the premiums paid up to that time and the additional benefits which the insurance company chooses to give to the policyholder. You will only be eligible for this if you have paid all of your premiums and finished the term. Furthermore, a maturity benefit policy covers the risk of mortality. It safeguards your family's future in the case of a mishap leading to loss of life of the insured.

Thank You…