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Life Insurance Products in India

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ABSTRACT: *Insurance is the means to financially compensate for losses that life throws at people. It is a form of risk management used to primarily hedge risk. It means transferring risk from one entity to another or we can also say that insurance transfers the risk from an individual to the group. Insurance is a form of risk management used to primarily hedge risk.Risk and uncertainties are an unavoidable part of life's design. Insurance is a form of risk management service primarily used to hedge against the risk of an uncertain loss.Identifying risk is the first and the most important step in the risk management process. If there is failure to identify, and assess, any particular risk then other step in the risk management cannot be implemented for the risk.*

Keywords: *Insurance, Premiums, Financial, Life insurance Products*

I. INTRODUCTION

Life insurance is defined as the contract, whereby in consideration of a premium insurer undertakes to pay a certain fixed sum of compensation either on the death of the insured or on the expiry of ascertain fixed period. The definition of the life insurance is enlarged by section 2 (*ii)* of the insurance act 1938. Insurance is a contractual relation between two parties- the insurer and the insured wherein the insurer agrees to pay the insured for the financial losses which arising out of any unforeseen events in return for a payment of "premium".

II. FEATURES OF LIFE INSURANCE CONTRACT

- Nature of general contract
- Insurable interest
- Utmost good faith
- Warranties
- Proximate cause

III. NATURE OF GENERAL CONTRACT

Offer and acceptance When one person signifies his willingness or accent to other to do or to abstain from doing anything for obtaining the willing of the other to such act, he is said to make an offer or proposal. Usually, proposer made the offer, and the acceptance is made by the insurer. When offer is made to a person and he signifies his assent thereto, this seems to be an acceptance. Hence, when a proposal is accepted, it becomes a promise. The acceptance is to be communicated to the proposer which leads to formation of a contract. When a proposer accepts the terms or conditions of the insurance plan and signifies their assent by paying the deposit amount, which, on acceptance of the proposal, which converted to the first premium, the proposal turns to policy. If there is any condition then it becomes a counter offer. The policy bond is the proof of the contract.

IV. UBERRIMA FIDES OR UTMOST GOOD FAITH

This is fundamental principles of an insurance contract. It is also known as Uberrima fides, which states that every party in the contract must disclose all the material facts relating to the subject matter of the insurance. All commercial contracts in general require that good faith shall be there in transaction and there shall be no fraud while giving the information. Apart from this legal duty of observing good faith, the seller is not bound to disclose all information about the subject matter of the contract to the buyer. Rule observed here is that of "Caveat Emptor" which state Buyer Beware. The parties to the contract are expected to examine the subject matter of the contract as long as one party does not mislead the other and the answers should be truthfully, there is no question of the other party avoiding the contract of Utmost Good Faith: Insurance contracts stand on many footing. Subject matter of the contract is intangible and cannot come in notice through direct observation or experience by the insurer. There are many of the facts because of their nature, is known only to the proposer. The insurer has to often rely entirely on the information. Hence the proposer has a legal duty to disclose all information about the subject matter of insurance to the Insurance Company who does not have this information.

This legal duty of utmost good faith is always in the common law. The duty applies not only to material facts which the proposer knows, but also it extends to material facts which he ought to know.

Material fact is defined as a fact that would affect the judgment of an underwriter in deciding whether to accept the risk or not and if accepted, then on what rate of premium and the terms and conditions. Whether an undisclosed fact is material or not would depend on the circumstances of the individual case and could be decided ultimately in a court of law. The insured has to disclose all the facts that affect the risk. Let us take a look at some of the types of material facts in insurance that need to disclose:

i. Facts indicating the particular risk represent a greater exposure than normal.

ii. Existence of all the past policies taken from all the insurers and their present status.

iii. All questions in the proposal form for insurance are considered to be material, as these are related to the various aspects of the subject matter of insurance and its exposure to risk. They need to be answered truthfully and be full in all respects.

V. INSURABLE INTEREST

Insurable interest [1] is an essential ingredient of every insurance contract and for validation of insurance contact it is necessary for the insured to have insurable interest in the subject matter of the contract. Insurance contract becomes valid because of insurable interest and enforceable under the law. Insurable interest is defined as pecuniary or monetary interest whereby the policyholder is benefited by the existence of subject matter.

The essential elements of a valid contract are:

-There must be a subject matter which is to be insured.

-There must be a monetary relationship between the policy holder and the subject matter.

-The relationship between the policy holder and the subject matter must be recognized by law.

-There must be a financial or monetary relationship between both of them such that the policy holder is financially benefited by the survival of the subject matter and face financial loss on the death of the subject matter.

The subject-matter is life of a human being in life insurance, property in property insurance, liability in general insurance. Insurable interests are the economic or pecuniary interest which can be valued in terms of money. No emotional or sentimental loss would be ground of insurable interest. The subject matter is such that survival of that is beneficial for the party and non existence of subject matter leads to financial loss.

VI. WARRANTIES

Certain condition and promises which are imposed in insurance contract are called warranties. Warranty generally means a guarantee which provides assurance to one party by the other that specific facts or conditions are true or will happen. This guarantee is factual and may be enforced regardless of material which allows for a legal procedure if that promise is not true or followed.

Warranty is the basic and important condition in the insurance contact which is to be fulfilled by the insured and if there is breach n the warranty the insurer become from his liability. If the warranty declared illegal, the warranty can be waived.

VII. PROXIMATE CAUSE

The last of the legal principles is the principle of proximate cause. Proximate cause is very important principle of insurance and is concerned with the reasons of how the loss or damage occurred or it is indeed as a result of a peril. If the immediate cause is an insured peril, the insurance company is bound to make good the loss, otherwise not. The insurer looks for the predominant cause which leads to the chain of events which produce the loss. It is not necessary that the event be the last that preceded the loss i.e. it is not necessarily an event which is closest to is responsible for the occurrence of loss. Other causes are classified as remote causes, which are separate from proximate causes. Remote causes are present but they are not effectual in causing an event. Proximate cause is basically active and efficient cause that sets in motion a series of events which gives out a result, without the intervention of any force started working actively from a new independent source.

The life insurance provides for payment of a death benefit, regardless of the death cause, the principle of proximate cause would not apply. However many of the life insurance contracts also contain an accident benefit rider in which an additional sum assured is payable or given in the event of accidental death. In such situation, it becomes essential to ascertain the cause - whether the death occurred as a result of an accident. Principle of proximate cause will become applicable in such instances.

Life Insurance Products:

1). **Term insurance plans:** Term insurance [2] is valid only during a certain time period that has been specified in the contract. The term can range from as short as it takes to complete an airplane trip to as long as forty years. Protection may extend up to an age of 65 or 70. One-year term policies are quite similar to property and casualty insurance contracts. All premiums received under such type of policy may be treated as earned towards the cost of mortality risk by the company. There is no savings element or cash value element accruing to the insured in the term insurance plan.

Purpose: A term life insurance fulfills the main idea behind life insurance, that is, if the life insured dies prematurely there will be a lump-sum of money available for his/her family. This lump sum money represents the insured's human life value for his loved ones: either chosen arbitrarily or calculated scientifically. A term insurance policy also comes as an income replacement plan. In this plan, by paying a series of monthly, quarterly, half yearly or annually payments for a pre defined duration, the dependent beneficiaries gets lump-sum amount, on the happening of an unfortunate death within the term of the policy.

Disability: Normally a term insurance policy covers only death. However, if it is purchased with a disability protection rider on the policy and if someone or the insured suffer with such a catastrophe during the period of term insurance, the insurance company will provide a payout to the beneficiaries/insured person and If the insured dies after the term ends then there are no benefits available as the term of the policy is over.

Term insurance is used as a rider Protection under term life is usually provided as a stand-alone policy but it could be provided as a rider in a policy.

Renewability: The premiums are mostly charged at a fixed annual rate for the whole of the duration of term insurance. Some of the term plans have an option to get renew at the end of the term duration of the policy; however, in these products the premium will be recalculated on the basis of one's age and health at that stage and also the new term for which the policy is being renewed.

Convertibility: Convertible term insurance allows a policyholder to convert a term insurance policy into a permanent plan like "Whole Life policy. This privilege helps those persons who wish to have permanent cash value insurance but they are temporarily unable to afford it because of high premium. When the term policy is converted into permanent insurance or whole life plan the new premium rate charged would be higher.

USP: The USP of term assurance plan is its low price, enabling one to buy relatively large amounts of life insurance on a limited budget. It thus makes it a good plan for the income earner, who wishes to protect his/her loved ones from financial insecurity in case of premature death or any catastrophe, and he has a limited budget for making insurance premium payments.

Term insurance policies are of following types:

a) Temporary insurance: Temporary life insurance is coverage that has an expiration date and is not guaranteed to be last over of an insured's entire life. For example, an insured might buy a ten-year temporary life insurance policy. If the insured dies within ten years of the policy, their coverage will pay out the death benefit and if the insured lives longer than span of ten years, their policy expires and the insured will not have life insurance coverage.

b) Convertible term insurance: This is a type of life insurance policy that allows the policyholder to convert a term policy into a whole/universal insurance policy without passing through the health qualification process again. It lets the insured convert a policy which only covers the policyholder's beneficiaries for a predetermined limited number of years into a policy that covers the policyholders beneficiaries indefinitely, as long as policyholder continues to pay the premiums.
If the policyholder decides to make the conversion, the permanent policy will have the same sum assured as the term policy, but the permanent policy will have higher premiums. Before conversion, convertible insurance is more expensive than a term insurance policy for the same amount of coverage because there is a built-in cost for the option of being able to make the conversion without a medical exam.

c) Renewable term policy: A clause in a term insurance contract that allows the beneficiary/insured to extend the coverage term for a set period of time without having to prequalify for coverage. A renewable term is contingent on premium payments being up to date, as well as renewal premium being paid by the beneficiary. In the context of a life insurance contract, having a clause of renewable premium would be beneficial, as future health circumstances are unpredictable.

2) Endowment Policies

Endowment assurance contract is basically a combination of two plans:

- A term assurance plan – It is a type of plan which pays the full amount of sum assured in case the assured dies within the specified term
- A pure endowment plan[3] –It is a type of plan which pays the amount of sum assured only in the case in which the insured survives till the end of the term

The product provides both a death benefit and a survival benefit. From an economic viewpoint, the endowment assurance contract provides a combination of benefits i.e. decreasing term insurance and an increasing investment element. Shorter the term of the contract, larger is the investment element. This combination of term and investment elements is also provided by the whole life policy and other cash value contracts, however, it is much more identifiable in the case of endowment assurance contracts. This combination thus provides it with an effective vehicle to accumulate a specified sum of money for a period of time. The primary objective of endowment plans is to provide a saving programme, which is protected by provision of insurance against the possibility of happening of the premature death. It is appealing to customers because it is an instrument which provides certainty to their financial plans by linking insurance to their savings programme. Endowment policies also provide a safe and secure method of accumulation of savings. Judicious investment and asset liability management provides safety; this semi-compulsory nature of premiums encourages the customers to save. People buy endowment policies because it is a method which helps in saving funds for old age moreover it also provides funds for meeting specific purposes such as saving for an education fund at the end of 15 years or accumulating funds for meeting marriage expenses of one's daughters. These objectives cannot be ignored by a person and they have to be fulfilled with certainty. Endowment policy is also considered as an ideal instrument in payment of a mortgage loan. In case the person who has to pay the loan dies than the sum assured is paid to the bank for the fulfillment of loan to protect the family of the deceased from the burden of the loan. Endowment plan can serve as a type of saving in which a person is supposed to set aside a surplus from his income monthly, quarterly or yearly and keep it to fulfill his future objectives. It is also very attractive for the customers because the premiums paid for this policy helps in tax deduction. Another benefit available in the Indian context has been the provision to place the policy in a trust created under the Married Women's Property Act, 1874 in which the money is paid only to the beneficiary stated in the policy by the policyholder, which is protected against all the claims of the creditors on the property of the insured. Most of the endowment policies mature when the insured is of the age of 55-65 and is planning for his/her retirement and hence these types of policies may be a used as a source of retirement savings.

Variants of endowment policies:

a) **Pure Endowment Policy**: A pure endowment policy is the one in which protection is provided for a stipulated time period only and no sum assured is payable if the policy holder dies within the specified time period. The maturity value is payable at the end of the term if the insured survives. This policy is a type of investment. It can be issued to adults as well as for children. If the policy depends on the life of adult than the payment of premium should be made during the whole life of the policy even if the insured dies.

b) **Ordinary Endowment Policy**: This policy is a combination of protection and investment. Under this policy the family members get the sum assured if the policy holder dies within the stipulated term otherwise maturity value is paid to the insured at the end of the policy. It is issued for a specified period of time generally 10-15 years. Under this policy the insured gets both old age protection as well as the family protection.

c) **Joint life Insurance**: As specified by its name, it offers the advantage to the customers as the can cover their own life as well as their spouse life under one policy only. It is a complex protection plan which provides multiple benefits to the insured and the spouse. Most of the joint life term policies make payment on first claim basis, i.e. the sum assured is paid when one of the two policy holders dies and with the payment of sum assured the policy ends. But there are certain other joint life policies, in which sum assured is paid on the death of both the policyholders. There are also some additional benefits offered by these policies.

d) **Double Endowment Policy**: In this type of policy, if the policyholder dies within the endowment period, the basic sum assured is paid to the family of the insured and if he survives the endowment period double of the sum assured is paid as the maturity value. Premiums are payable throughout the term of the endowment plan or till the death of the policy holder only if the insured dies before the maturity of the policy. This type of policy is beneficial for the person who due to some physical disability does not get protection under any other class of insurance. The main advantage offered by this policy is that if the insured lives till the end of the policy, than a guaranteed tax-free return of almost 6.5% is paid to the policy holder but if the insured dies in between or towards the end of the specified term, the returns given is as good as nothing. The main disadvantage of this policy is that the risk cover is quite less compared to other endowment products. The main motive of this policy is savings. It is more of an investment plan rather than a protection one. This policy is mainly suitable for individuals below the age of 35 years who are buying insurance as an investment option and whose probability of death is very low. Elder individuals too can look at this plan for shorter terms purely from the angle of savings.

e) **Education Annuity policy**: This type of policy is taken to meet the education needs of the children. This policy is basically taken on the life of father or guardian and the child is made the beneficiary of the policy. A medical examination is compulsory under this policy. The sum assured is paid to the child on the death of the insured or maturity value is paid when the police mature.

f) **Money back plan**: In a money back plan, a percentage of sum assured is paid to the insured at regular intervals, instead of paying the lump sum amount at the end of the term. It is an endowment plan which provides the benefit of liquidity. In this policy a part of sum assured is paid before the maturity and the left over is paid at the maturity if the policy or at the death of the insured whichever is earlier. This policy is suitable for risk-avoiding individuals who want to save their money through an insurance plan and also want to maintain liquidity throughout. In case of death of the policy holder, the nominee or the family members get the entire sum assured without deducting the amount of the survival benefits which is already paid to the insured.

g) **Anticipated endowment policy**: Anticipated Endowment policies provides a unique feature to the customers where some part of the sum assured is paid at equal intervals during the term of the policy and the balance of the sum assured is paid together with the accrued bonus on maturity of the policy. The policy holder enjoys the life cover till the maturity of the policy and in case the insured dies before the maturity date, full amount of sum assured is paid to the family of the insured without any deduction of installments paid earlier. This type of policy is generally issued for term of 15, 20, 25 years.

h) **Anticipated whole life policy with profit**: This policy (Single and Joint Life) is a unique product that combines the benefits of both Whole Life Policy and Anticipated Policies. This plan is designed in such a way as to provide two different types of advantages i.e. they provide complete long-term protection and in addition to this they help to meet various short-term needs by providing periodical payments. This plan, except from providing death benefits also provides increasing advantages payable only on the survival of the policy holder at specified intervals. Premiums are payable until the end of the specified term or until death, if it occurs before the maturity of the plan. In case of joint life policies, premiums are payable either till death of one of the insured or till the expiry of the premium paying term whichever is earlier but life cover continues until the death of both the insured.

i) **Jana Raksha policy:** this type of policy is ideal for farmers and workers who face problems of irregular incomes, since farmers have to depend on the climate for their production while workers are subject to change in trade cycles, depression, floods, drought, etc. which affect their jobs. It provides full life insurance cover for 3 years even when the insured cannot pay the amount of premiums. This policy also provides double accident benefit and bonus to the insured. Age proof is not compulsory in case the annual salary is 50,000 or less till the age of 40.

j) **Mortgage redemption assurance policy**: As the name suggests Mortgage Redemption Plan is a pure protection Term Plan which provides a cover for all the loans and debts. In this type of plan, if the insured dies before the maturity of the policy than the whole amount of sum assured is used to pay the amount of the outstanding loans and debts so that the family do not have to take the burden to pay any debts. However, if the policy holder survives till the end of the policy tenure, then there is nothing payable on the maturity of the policy. In other words the maturity values in this type of policy of nil. The maximum age to take this type of policy is 50 years and the insurance cover is only provided only till the age of 60 years. The minimum sum assured covered in the policy is Rs.10, 000 .The Sum Assured keeps on decreasing with the decrease in the loan liability of the insured over the years but the amount of premiums remains the same. The cost of the medical examination is borne by the individual, which is compulsory in this policy.

k) **Children's deferred endowment assurance policy**: It is an Endowment Assurance policy which is designed at a very low premium to enable a parent or a legal guardian or any near relative of the child also known as proposer to provide insurance cover for the life of the child known as insured. The risk protection under this policy will commence from the selected age of the assured child. This plan has following two stages:

- First stage covers the period from the date of commencement of policy to the Deferred Date. This stage is known as the deferment period.
- The second stage covers the period from the Deferred Date to the date of maturity. Premiums are payable yearly, quarterly or monthly and this shall stop on the death of the life insured.

l) Married women's property act policy: In this type of policy, a married man may take a policy for his own life, on the life of his wife and on the life of his children and if that policy is registered under the section 6 of the Married Women Property Act 1874 than it shall not be aggregated with his other property with the fact that the trust of the policy is absolute.

The Married Women's Property (MWP) Act was commenced with a view to protect the interest and ownership of properties of women against the creditors. Under this Act all the properties that belong to the married women gets secured from all the proceedings of the courts or any income tax department attachments that the husband has run up.

In the case when the husband dies the bank starts recovering their loans from his family members and in the process they liquidate the assets of the business and they also attach the properties that belong to the guarantor, which in most of the cases is the husband himself. In order to protect his family members mainly his wife and his children, the husband must ensure that all the life insurance policies that he take no matter for himself or for his family members, these policies should be registered under the section 6 of the Married Women Property act 1874 because life insurance policies are also treated as a property and are also entitled to be attached, which means that the claims that will be paid out on the death of the husband, will be given directly to the bank and not to the surviving members of the family.

The process of registering the policy under the MWP act is very simple. At the time of purchasing the policy one has to fill in an application form known as MWP postscript or addendum. This form is provided to the customers by life insurance companies. In this form the person taking the insurance has to fill the details of his wife and children, whoever he wants to be the beneficiaries of the policy. In case of death of that person, the policy proceeds are not given to anybody else other than the beneficiary as named by the person in the policy. This policy now will not be treated as a property at the time of liquidation as it does not belong to the husband.

3). Whole Life Policy: While term assurance policies are examples of temporary assurance, where protection is available for a temporary or short period of time, whole life insurance is an example of a permanent life insurance policy. In other words the term of cover of the policy is not fixed but the insurer offers to pay the agreed upon death benefit when the insured dies, not considered whenever the death might occur. The premiums can be paid throughout one's life or for a specified period of time which is limited and is less than one's lifetime. Whole life premiums are much higher than term premiums because a whole life policy is designed to remain in force until the death of the insured, and therefore it is always designed to pay the death benefit. After the money is taken by insurance company, to meet the cost of term insurance, the balance money is invested on behalf of the policyholder. This is called cash-value.

One can withdraw cash in the form of a policy loan should when he require emergency funds, or he can redeem by surrendering the policy for its cash value. In case if there is outstanding loans the amount of loan and interest gets deducted from the payout that is made to the designated beneficiaries upon death.

A whole life policy is a good plan[4] for one who is the main income earner of the family and he/se wishes to protect the loved ones from any financial insecurity in case of premature death. The income earner must be able to afford the higher premiums of a whole life insurance policy on a consistent and long-term basis, and wants a life insurance policy which can pay a death benefit, regardless of when he/she dies, while at the same time he wants to use the cash value of the whole life insurance policy for retirement needs. Whole life insurance plays a very important role in household saving and creating wealth to be passed on to the next generation. An important motive which leads to its purchase is the desire to leave behind a legacy to one's future generations. A higher ownership of life insurance policies among the households with children and a high regard or status for the family, further confirms this motive.

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