CHAPTER II

Life Insurance - Concept and Significance
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LIFE INSURANCE – CONCEPT AND SIGNIFICANCE

Risk is an inherent and integral part of human life and work. The all pervading risk cannot be eliminated in toto, and, therefore, the endeavour is to minimise risk. One of the ideal devices for avoiding risks and exigencies is the concept of insurance. In fact, life insurance takes care of contingencies that affect life.

Insurance is an essential service, which a welfare state must make available to its people. It is a measure conceived in a genuine spirit of service to the people.

Insurance is essentially an aleatory contract. It is based on an uncertain event, which may happen or not, that may cause loss to the assured. Even there is an element of speculation on the part of the insurer to undertake to pay a sum on the happening of the event. Such a speculation in risk burden covered in an insurance contract is known as ‘aleatory contract’. Unlike Fire or Marine Insurance, Life insurance has the following special features:

(i) Insurance upon human life;

(ii) Payment of money to the assured on death or happening of any contingency depending on human life; and

(iii) Subject to payment of premiums for the agreed period.

1 Chartered Secretary, November 1999, p.1283.
2 Common Wealth for Common Good, LIC, 1994, p.3.
LIFE INSURANCE - DEFINITION

Life Insurance may be defined as an insurance contract under which the insurer’s liability is dependent upon the happening of a contingent event viz., death or on the expiry of a stipulated period mentioned in the policy.

The definition of insurance can be made from two points:

(i) Functional Definition and

(ii) Contractual Definition.

(i) Functional Definition

Insurance is 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 insure themselves against the risk. Thus, the insurance is (a) a co-operative device to spread the risk; (b) the system to spread the risk over a number of persons who are insured against the risk; (c) the principle to share the loss of each member of the society on the basis of probability of loss to their risk; and (d) the method to provide security against losses to the insured.

(ii) Contractual Definition

Insurance has been defined to be that in which a sum of money as a premium is paid in consideration of the insurer’s incurring the risk of paying a large sum upon a given contingency. The insurance, thus, is a contract whereby (a) certain sum, called premium, is charged in consideration, (b) against the said consideration, a large sum is

Chartered Secretary, November 1999, p.1284.
guaranteed to be paid by the insurer who received the premium, (c) the payment will be made in a certain definite sum, i.e., the loss or the policy amount whichever may be, and (d) the payment is made only upon a contingency. More specific definition can be given as follows. Insurance may be defined as consisting one party (the insurer) agrees to pay to the other party (the insured) or his beneficiary, a certain sum upon a given contingency (the risk) against which insurance is sought.

FUNCTIONS OF INSURANCE

The functions of insurance are as under:

(i) **Provides Certainty**

Insurance provides certainty of payment at the uncertainty of loss. The uncertainty of loss can be reduced by better planning and administration. But, the insurance relieves the person from such difficult task. Moreover, if the subject matters are not adequate, the self-provision may prove costlier. There are different types of uncertainty in a risk. The risk will occur or not, when will occur, how much loss will be there? In other words, there are uncertainty of happening of time and amount of loss. Insurance removes all these uncertainty and the assured is given certainty of payment of loss. The insurer charges premium for providing the said certainty.
(ii) Provides Protection

The main function of the insurance is to provide protection against the probable chances of loss. The time and amount of loss are uncertain and at the happening of risk, the person will suffer loss in the absence of insurance. The insurance guarantees the payment of loss and thus protects the assured from sufferings. The insurance cannot check the happening of risk but can provide for losses at the happening of the risk.

(iii) Risk – Sharing

The risk is uncertain, and therefore, the loss arising from the risk is also uncertain. When risk takes place, the loss is shared by all the persons who are exposed to the risk. The risk – sharing in ancient time was done only at the time of damage or death; but today, on the basis of probability of risk, the share is obtained from each and every insured in the shape of premium without which protection is not guaranteed by the insurer.

(iv) Provides Capital

The insurance provides capital to the society. The accumulated funds are invested in productive channel. The dearth of capital of the society is minimised to a greater extent with the help of investment of insurance. The industry, the business and the individual are benefited by the investment and loans of the insurers.
(v) Helps Economic Development

The insurance by protecting the society from huge losses of damage, destruction and death, provides an initiative to work hard for the betterment of the masses. The next factor of economic progress, the capital, is also immensely provided by the masses. The property, the valuable assets, the man, the machine and the society cannot lose much at the disaster.

HUMAN LIFE VALUE AND LIFE INSURANCE

Human life value is a concept propounded by the late S.S. Huebner of Wharton School of Pennsylvania, USA in 1924, which is getting increasingly accepted for measuring the quantum of life insurance. One should go in for providing for his family.

Every object has its own economic value may be a house, land, car, television or any other goods. In a materialistic environment one often thinks of the value of tangible assets. One loves, and cherishes life and prays for a long one. But, surprisingly, many tend to overlook that one's own life is of great economic value to one's dependents.

The head of family is responsible for meeting the various social and economic needs of his wife and children. This apart, he is the nucleus around whom the dependents weave their dreams for a sound, secure and bright future. The son expects a good education and sound start-in-life, the daughter aspires for a good academic achievement and hopes to marry her prince charming befittingly. A Wife dreams of owning a house. These are in addition to his primary responsibility of providing the
basic necessities of the family. The net value of all these contributions in other words is "The Human Life Value". As long as the head of the family is alive and active, he provides the necessary economic support for the present.

Assuming for a moment the breadwinner unexpectedly wilts away, what happens to the hopes of his dependents for building a better and brighter future? Should they be caught in the whirlpool of sorrow and tear? Should their aspirations for a rosy future disintegrate? No, says the life insurance and it plays a little role to continue the economic potential of the breadwinner.

Generally all are attracted by high interest yielding investments, but for ensuring the economic security of a family there is no substitute for life insurance. Life insurance is the only means by which one can ensure total protection to one's family in case the family gets orphaned due to the untimely death of the breadwinner.

Life Insurance has become more and more attractive due to ever increasing bonus that is being announced by the L.I.C. And what is more, bonus declaration is now an annual feature.

CONCEPTUAL FRAME WORK

The concept of 'Insurance' means an arrangement to deal with unpleasant contingencies. It is a contractual arrangement which provides partial or total protection against adverse, typically financial outcomes. While there are many outcomes or risks which are insurable, there are many more against which there can be no insurance. Broadly insurance contracts can be divided into Life and Non-Life Insurance. Life insurance in particular provides protection to a household against the
risk to premature death of its income earning member. In traditional societies such as India, the joint family system itself provided an insurance umbrella and succour to surviving family members. In modern times such arrangements are now increasingly made through the market mechanism by 'buying insurance'. Thus, individuals pay a price (called the 'premium') to the insurance company for such a contractual arrangement, and the insurance company in turn, provides compensation if a specified event occurs. By making such contractual arrangement with a large number of individuals and organisations the insurance company can spread the risk. This gives insurance its 'social' characteristics, in the sense that it entails pooling of individual risks. Life insurance in modern times also provides protection against other life related risks, such as risk of longevity (i.e., risk of outliving other sources of income) and risk of diseases and sickness (Health Insurance).

NON-LIFE INSURANCE CONTRACTS

Non-life insurance provides for protection against accident, property damage, theft and other liabilities. Non-life insurance contracts are typically shorter in duration as compared to life insurance contracts. Non-life insurance is also called as general insurance, which includes property insurance, liability insurance and other forms of insurance.

Under the property insurance property of a person/persons are insured against a certain specific risk. The risk may be fire or marine perils, theft of property or goods, damage to property at accident.

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Liability insurance is a insurance whereby the insured is liable to pay the
damage of property or to compensate the loss of personal injury or death. The
insurance is seen in the form of fidelity insurance, automobile insurance and machine
insurance.

Besides the property and liability insurances, there are certain other
insurances, which are included under general insurance. The examples of such
insurances are Export Credit Insurances, State Employees Insurance etc.,

SAVINGS AND PREMIUM

When an insurance contract is in operation between the insurer and insured,
the periodic payments made to the insurer (the premium) is the price paid for the
service, i.e., ‘risk coverage’. When however the contract period is over a long time,
as in the case of life insurance, premium payments have two components. One goes
toward ‘buying’ coverage and the other goes toward ‘savings’. This savings
component of life insurance pits the insurer in direct competition with other financial
institutions and savings instruments, such as bank deposits, equities, and mutual
funds. Since an increasing proportion of life insurance business involves pensions
and annuities (insurance against ‘old age’) buying life insurance has elements of an
investment decision.

The bundling together of risk coverage and savings is peculiar to life
insurance, especially in developing economics. A bank depositor can reclaim savings
any time on ‘demand’. In case of life insurance, the insured cannot reclaim the
savings component without some penalty. Such recall of the savings embodied in
premium payments, amounts to cancelling or renegotiating the insurance contract, and
hence the penalty. There is thus a lock-in effect involved in signing insurance contracts. 

The savings-linked life insurance contracts are pervasive. There are other short duration term life insurance contracts devoid of any savings component. The savings component, and the typically long-term nature of the contract, make life insurance an important instrument of mobilizing funds required for long gestation and longer payback period investment projects. These are typically infrastructure projects, which have high capital costs, and low operating costs, substantial risks and sunk costs and high debt to equity ratio in their financing. Substantial infrastructure investment is recognized as necessary for improving growth rates in developing countries such as India.

The Table 2.1 exhibits the proportion contributed by the household sector. It indicates the trend of savings in the 1990s.
## TABLE - 2.1

GROSS DOMESTIC SAVINGS BY HOUSEHOLD

(Rs. in crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Gross Domestic Product (GDP)</td>
<td>136013</td>
<td>535534</td>
<td>616799</td>
<td>705918</td>
<td>810749</td>
<td>963492</td>
<td>1118964</td>
<td>1276974</td>
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<td>Gross Domestic Savings (GDS)</td>
<td>28786</td>
<td>129999</td>
<td>141251</td>
<td>155225</td>
<td>183710</td>
<td>247087</td>
<td>283003</td>
<td>333816</td>
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<tr>
<td>GDS/GDP</td>
<td>0.21</td>
<td>0.24</td>
<td>0.23</td>
<td>0.22</td>
<td>0.23</td>
<td>0.26</td>
<td>0.25</td>
<td>0.26</td>
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<tr>
<td>Household Sector Savings</td>
<td>21848</td>
<td>109623</td>
<td>109359</td>
<td>124825</td>
<td>149673</td>
<td>195403</td>
<td>210417</td>
<td>259543</td>
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<tr>
<td>Household /GDS</td>
<td>0.76</td>
<td>0.84</td>
<td>0.77</td>
<td>0.8</td>
<td>0.81</td>
<td>0.79</td>
<td>0.74</td>
<td>0.78</td>
</tr>
<tr>
<td>Of which Financial Savings</td>
<td>8610</td>
<td>49700</td>
<td>62139</td>
<td>65395</td>
<td>94517</td>
<td>108893</td>
<td>95715</td>
<td>136644</td>
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<td>Currency</td>
<td>1625</td>
<td>6251</td>
<td>8157</td>
<td>6562</td>
<td>13367</td>
<td>15916</td>
<td>16525</td>
<td>13553</td>
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<tr>
<td>Net Deposits</td>
<td>2985</td>
<td>11186</td>
<td>14514</td>
<td>19899</td>
<td>32846</td>
<td>32192</td>
<td>26210</td>
<td>59937</td>
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<tr>
<td>Shares &amp; Debentures</td>
<td>443</td>
<td>8410</td>
<td>15887</td>
<td>13824</td>
<td>14772</td>
<td>15519</td>
<td>8057</td>
<td>9634</td>
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<tr>
<td>Net claims on Government</td>
<td>576</td>
<td>7360</td>
<td>4457</td>
<td>3530</td>
<td>6109</td>
<td>12955</td>
<td>9289</td>
<td>11636</td>
</tr>
<tr>
<td>Life Insurance Funds</td>
<td>859</td>
<td>5338</td>
<td>6623</td>
<td>6766</td>
<td>9197</td>
<td>11016</td>
<td>13342</td>
<td>15636</td>
</tr>
<tr>
<td>Provident and Pension Funds</td>
<td>2122</td>
<td>11155</td>
<td>12501</td>
<td>14814</td>
<td>18226</td>
<td>21295</td>
<td>22292</td>
<td>26248</td>
</tr>
<tr>
<td>Savings in Physical Assets</td>
<td>13238</td>
<td>59923</td>
<td>47220</td>
<td>59430</td>
<td>55156</td>
<td>86510</td>
<td>114702</td>
<td>122899</td>
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<tr>
<td>Fraction of Household Savings in Financial Assets (FA)</td>
<td>0.39</td>
<td>0.45</td>
<td>0.57</td>
<td>0.52</td>
<td>0.63</td>
<td>0.56</td>
<td>0.45</td>
<td>0.53</td>
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<tr>
<td>Fraction of FA in Life Insurance</td>
<td>0.10</td>
<td>0.11</td>
<td>0.11</td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
<td>0.14</td>
<td>0.11</td>
</tr>
</tbody>
</table>

GDP AND SAVINGS

Given the link between Savings and Premiums as explained above, any study of insurance business has to be seen in the context of all other savings activities of households. In a macro-economic sense the link between high growth rates and savings is well known from the classical growth theory. In the context of India, statistics indicate that a growth rate of 8 percent is possible only with a saving rate of 30 percent. Gross savings in the economy are made of savings from the public sector, the private corporate sector and the household sector. In 1996-97 the total gross domestic savings were Rs.3,338 billion.

Household savings comprise of two components: (i) Physical—which includes land, gold etc., and (ii) Financial which includes bank deposits, life insurance, provident and pension funds, equities and debentures, small savings certificates and mutual funds.

The composition of household savings has undergone a substantial change in the last two decades. In 1980-81 financial assets of household accounted for 39.4 percent of household savings, going up to 63 percent in 1993-94 and down to 45.3 percent in 1995-96 and up again to 53 percent in 1996-97. Household savings in financial assets have increased from Rs.86 billion in 1980-81 to Rs.464 billion in 1990-91 and then to Rs.972 billion in 1995-96. Within the category of financial assets, savings in life insurance were almost 10 percent of total financial assets in 1980-81 and increased to 14 percent in 1995-96. As seen in the above mentioned table, insurance continues to be a significant part of household financial savings while financial savings as a fraction of total household savings have gone up in the last decade, the fraction devoted to insurance has remained constant at almost 10 percent of all financial savings.
The total insurance funds raised every year in the country are made up of various components, which includes life insurance, postal and state insurance. The breakup of insurance funds into various components is shown in the Table 2.2.

**TABLE 2.2**

**INSURANCE FUNDS COMPONENTS AND OTHER PENSION FUNDS**

(Rs. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Insurance Fund 1</th>
<th>Life Insurance Fund 2</th>
<th>Postal Insurance 3</th>
<th>State Insurance 4</th>
<th>Provident and Pension Funds 5</th>
<th>Financial Savings (FS) 6</th>
<th>Percentage Of FS in Life Insurance 7(2/6x100)</th>
<th>Percentage of FS in Provident &amp; Pension Funds 8(5/6x100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-1989</td>
<td>3423</td>
<td>3005</td>
<td>88</td>
<td>330</td>
<td>7552</td>
<td>27180</td>
<td>11.06</td>
<td>27.79</td>
</tr>
<tr>
<td>1989-1990</td>
<td>4415</td>
<td>3984</td>
<td>109</td>
<td>322</td>
<td>9508</td>
<td>37998</td>
<td>10.48</td>
<td>25.02</td>
</tr>
<tr>
<td>1990-1991</td>
<td>5599</td>
<td>5030</td>
<td>133</td>
<td>436</td>
<td>11155</td>
<td>49700</td>
<td>10.12</td>
<td>22.44</td>
</tr>
<tr>
<td>1995-1996</td>
<td>13894</td>
<td>12934</td>
<td>324</td>
<td>636</td>
<td>22292</td>
<td>95715</td>
<td>13.51</td>
<td>23.29</td>
</tr>
<tr>
<td>1996-1997</td>
<td>16188</td>
<td>15127</td>
<td>335</td>
<td>726</td>
<td>26248</td>
<td>136644</td>
<td>11.07</td>
<td>19.21</td>
</tr>
</tbody>
</table>

Source: Economic and Political Weekly, January 16-23, 1999, p.204

Note:

1. Insurance Fund (1) = LIF + PS + SI
   (2) + (3) + (4)

2. Percentage of FS in LI(7) = LIF/FS X 100
   (2/6 X 100)

3. Percentage of FS in Provident and Pension Funds (8) = P&P.F/FSX100
   (5/6X100)
It has been observed that the percentage of financial savings in life insurance has remained roughly at 10 percent and percentage in provident funds and pension funds has declined from a high of 28 percent in 1988-89 to 19 percent in 1996-97. Pension funds and LIC provide a significant source of investment funds to the Government. LIC’s investment in Central Government securities account for 18 percent of total Central Government securities. In case of state government securities, 12 percent of it held by LIC. Sectorwise distribution of the LIC investments show that as high as 84 percent goes to the public sectors, around 13 percent goes to the private and the balance goes to co-operative and joint sector.

HISTORICAL BACKGROUND

Life Insurance made its first appearance in England in 16th century, the first recorded evidence in England being the policy on life of William Gybbons on June 18, 1653. Even before this date, annuities had become quite common in England, and marine insurance had, in fact, made its appearance three thousand years ago. The life insurance developed at ‘Exchange Alley’. The first registered life office in England was the Hand-in-Hand Society established in 1696. The famous ‘Amicable Society for a Perpetual Assurance Office’ started its operation since 1706. Life insurance did not prosper in the United States during the 18th century, because of serious fluctuations in death-rate, but soon after 1800 some active interest began to be shown in this enterprise because of the application of level premium plan which had by then been in operation in U.K. for more than a generation.

In India, some Europeans started the first life insurance company in Bengal Presidency, Viz., Orient Life Assurance Company in 1818. The year 1870 was a year
of a landmark in the history of Indian insurance, separating the early period of pioneering attempts at life insurance from the subsequent period of steady development at the establishment of Indian Life Office, viz., Bombay Mutual Life Assurance Society in 1871⁵. This was the first company that charged the same premium on both Indian and Non-Indian lives. Earlier, native India lives were considered more risky and hence were charged a higher premium for coverage. Foreign insurance companies dominated in matters of insurance business in India and enjoyed almost monopoly right up to the end of 19th century. There existed a close association between the nationalist movement in India and the development of Indian insurance companies. There was a rapid growth of Life Insurance in India during 1920s and early 1930s⁶. The next important life office was Oriental Government Security Life Assurance Co. Ltd., which started its operation since 1874. Since then several offices developed in India.

NATIONALISATION OF INDIAN INSURANCE

The nationalisation of Life Insurance was another milestone on the road the country had chosen in order to reach its goal of a socialistic pattern of society. In the implementation of the Second Five-Year plan, it was bound to give material assistance. Into the lives of millions in the rural areas, it was to introduce a new sense of awareness of building for the future in the spirit of calm confidence which insurance alone can give. It was a measure conceived in a genuine spirit of service to the people. It was for the people to respond, confound the doubters and make it a

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resounding success. The nationalisation of life insurance was aimed at widening the channels of public savings. It was an important step towards mobilising these savings more effectively. These savings can be utilised for national development. Nationalised insurance, in brief, was designed to bring to the door of even the humblest citizen, wherever he may be, the benefits of this social service, to ensure complete security of the funds collected by way of premiums and to utilise profitably such funds for nation-building activities.

Speaking on the terms of history, Indian Insurance Industry is 150 years old. It had professed both Life and General Insurance business through the medium of Indian and Foreign players. There existed 245 companies upto 1956 doing life insurance business and 107 companies (63 foreign and 44 Indian companies) doing general insurance business upto 1971. Due to unhealthy state of affairs of the insurance industry in the country, non-percolation of benefits and poor customer services to the policyholders, the government of the day under the able and dynamic readership of Smt. Indira Gandhi, the former Prime Minister of India, had been compelled to nationalise the insurance Industry both Life and General Insurance through Acts of Parliament in 1956 and 1971 respectively. The Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) being a holding company and having 4 subsidiary insurance companies known as The New India Assurance Co. Ltd., Oriental Insurance Co. Ltd., National Insurance Co. Ltd., and United Insurance Co. Ltd., with their head offices being located in New Delhi,
Mumbai, Calcutta and Chennai respectively has been formed after amalgamation of the diverse Indian and foreign companies.

Both LIC and GIC are State-owned, monolithic and monopolistic corporations, which face no competition. The rationale behind the set-up of four subsidiary companies to do the general insurance business has been that they enter into healthy competition with each other in order to serve the customers with proper pre and after sales service, as against cutthroat competition comprising violation of tariffs together with uniformly formulated terms and conditions. In terms of the Nationalisation Acts concerning both LIC and GIC, they were to spread the insurance message to the rural areas and maximum mobilisation of savings for their better deployment towards national socio-development projects, especially the social sector of poverty alleviation and eradication of illiteracy programmes which have been the bane of our India society since centuries. Although both the state-owned corporations have markedly done well, yet it is felt that there still remains a lot more to be achieved in the near future.

The main purpose of nationalisation of life insurance business was to do away with the malpractices of the private insurance. The huge swindling of life insurance funds by the management of private insurers had to be avoided. The investment in government securities was declining. The findings of the investigation auditors, revealed that several crores of insurance funds were misappropriated by the private insurers. The private securities were purchased at higher rates and were sold at lower rates. The difference were misappropriated by the directors. The regulations of the

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9 Chartered Secretary, December 1998, p.1253.
Insurance Act, 1938 could not control the unfair practices prevailing with private insurers. The costs of insurance were exaggerated and investment returns were minimised. The then Finance Minister Shri Deshmukh stated, “The misuse of power, position and privilege that we have reason to believe occurs under existing condition is one of the most compelling reasons that have influenced us in deciding to nationalise life insurance”. Therefore, the nationalisation of life insurance business was arrived at to safe guard the public-money.

The next purpose was to spread the gospel to remote corners of the country and prompt services to policyholders. It was to help the national economy by providing adequate amount for investment. The fund must be invested as to secure the maximum yield for the policyholders that it may be possible to secure consistent with the safety of the capital.

The next aim of nationalisation was to create conducive atmosphere for the emergence of public sector in India, nationalisation of banking and insurance would help development of national economy in the right perspective for the benefits of the society as a whole. There is need for an extended public sector to provide for large planned development to prevent emergence of inequalities and to discourage greater concentration of economic power10.

LIFE INSURANCE PLANS

The LIC is offering wide variety of insurance policies taking into account the various requirements of the general public. The policies offered provide insurance

10 Saga of Security, LIC, p.264.
cover to various sections of the people who come under different age and income groups. They are as follows:

1. **Whole Life Policy**

   This policy runs throughout the life time of the policyholder. The maturity amount is paid to the nominee only on death of the policyholder. In Table No.2 (with bonus), the premium has to be paid for 35 years or up to age 80 whichever is later or till the death of the policyholder. In Table No.5 (limited payment—with or without bonus), the premium payment ceases after a fixed term.

   **Benefits**

   The low premium and high risk cover is an important advantage of this policy. The bonus declared is substantially higher. Hence, the death claim amount would be useful for surviving dependents to fulfill the financial needs.

   The limited payment option would help a person to restrict the premium payment to his productive years only. For example, if a person takes a whole life limited payment policy for 20 years, he will stop paying premium after 20 years. But, no money is paid to him. The sum assured plus bonus is paid to his nominee only after his death.

2. **Endowment Policy**

   This is a fixed term policy. The premium has to be paid till the end of the term or till the death of the policyholder whichever is earlier. In case the policyholder dies before the end of the policy term, the assured plus the accumulated bonus is paid
to the nominee. If the policyholder survives till the end of the term, he gets sum assured plus bonus.

**Benefits**

The Endowment Policy fulfills many of the long term and short term financial needs of a person. The short-term needs may be, to provide for family expenses in case of early death of the person or to take care of any unforeseen expenses (this is possible by raising a loan on policy after the policy has run for three years). The long-term needs may be, to provide for education of dependent children, their marriage, or for old age provision for self/spouse.

3. **Convertible Whole Life Policy**

This policy runs as a whole life policy for first five years without bonus. Thus the policyholder will have an option to convert the policy into an Endowment Policy with bonus and the term be fixed to his convenience. The term can be fixed at the time of taking the policy. Then, the policy will be issued under definite conversion clause. When the policy term is more than twenty five years, the maximum premium paying term will be restricted to twenty five years.

**Benefits**

This policy is very beneficial for young people who have just started earning or for the students who are availing study loans. (So that the premium payment is not a burden on parents). A person with lesser income at the time of taking policy would get a higher risk cover at a very nominal premium for first five years. At the end of five years, he would be expected of getting higher income and hence be able to pay
the endowment premium. Thereby, he becomes eligible for all the benefits of an endowment plan like maturity value and bonus.

4. Money Back Policy

This is a fixed term policy. The premium has to be paid till the end of the term or till the death of the policyholder whichever is earlier. A part of sum assured is paid to the policyholder once in five years. This benefit is called Survival Benefit (SB). It is very important to note that the risk cover continues for full sum assured even after payment of survival benefits to the policyholder. Also, the bonus is given on full sum assured. On the death of the policyholder before the term of the policy, the full sum assured along with accumulated bonus is paid to the nominee. On the other hand, if the policyholder survives till the end of the term, the amount of survival benefits already paid to him will be deducted from maturity value (Sum Assured + Bonus – Survival Benefits). The Table 2.3 explains the returns on survival of the policyholder till the end of the term.

**TABLE 2.3**

TERM AND RETURN ON SURVIVAL OF THE POLICY HOLDER

<table>
<thead>
<tr>
<th>PERIOD</th>
<th>20 years</th>
<th>25 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 years</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>10 years</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>15 years</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>20 years</td>
<td>40%+Bonus</td>
<td>15%</td>
</tr>
<tr>
<td>25 years</td>
<td>-</td>
<td>40%+Bonus</td>
</tr>
</tbody>
</table>
Benefits

Under this policy, apart from the life risk cover, the money becomes available at regular intervals. The amount may be used for short-term financial needs like purchase of household durables or for children’s education. Or the amount received as survival benefit can be reinvested in any secured investment so that the policyholder will have a substantial lumpsum amount at the end of the term of the policy.

5. Jeevan Mitra Policy

This is a double risk cover endowment policy with fixed term. On survival of the policyholder till the end of the term, he will get sum assured plus bonus. But, on unfortunate death of the policyholder before the maturity of the policy, the nominee will get double the amount of SA plus Bonus. If the policy is with accident benefit cover and the policyholder dies in an accident the nominee would get 3 times the SA plus bonus.

Benefits

The financial planning for short term and long term needs are made through this policy. This policy is suitable for people who are insurance minded and want to provide a substantial sum to their beloved family incase of their unfortunate death. This policy is highly beneficial for people who keep traveling frequently like, sales representatives and medical representatives.
6. **Jeevan Sathi**

This policy is issued on the life of the husband and wife to cover the risk of both lives. On death of any one of them, the survivor gets the sum assured immediately. Future premium need not be paid. If the survivor (Husband or Wife) survives till maturity, he or she gets sum assured again with bonus (bonus given till maturity on full sum assured). In case the survivor dies before maturity the sum assured plus bonus till that time is paid to the nominee. The age is taken as mean age of both husband and wife.

**Benefits**

Instead of taking two endowment policies on the lives of husband and wife, one Jeevan Sathi can be taken. The premium payable is much lesser. So, this policy is very economical and affordable.

7. **Marriage Endowment/Education Annuity Policy**

This policy is a fixed term endowment policy. One can choose a convenient term to coincide the maturity to marriageable age of a child or to provide for the higher education of the child. The policyholder (father or mother) will pay premium till maturity or earlier death. In case of maturity, the policyholder will get sum assured plus bonus. In case of death of the policyholder before maturity, no amount is paid. But, the future premiums are waived and the sum assured plus bonus till maturity is paid only on maturity, to the nominee.
Benefits

This policy is highly beneficial for persons who have children aged less than ten years. The term can be fixed for a definite period so that the maturity amount is available at a marriageable age of a female child or at an age when money is required for education of children. When compared to other savings like Recurring Deposit or Savings Bank account in a bank, this policy is a very superior form of savings because, as soon as a person takes this policy, a lumpsum amount is guaranteed to the children. This policy can also be thought of as an old age provision for the wife of the policyholder. The maturity amount can be invested to yield interest regularly which makes the widow financially independent.

8. New Janarakhsha Policy

This is a fixed term endowment policy. The premiums have to be paid till maturity or death of the policyholder whichever is earlier. The sum assured plus bonus is paid on maturity to policyholders or on earlier death of the policyholder to nominee. One of the distinct feature of this policy is that after payment of two years premiums from commencement of policy and if the policyholder is not able to pay the premium any time after that the life risk under the policy continues for three years from the first due date of unpaid premium. One more important feature is that the age proof is not insisted if the sum assured is less than or equal to Rs. 25,000 and age extra is not charged for self declaration under this policy provided term is twenty years & age is less than or equal to forty.
Benefits

This policy is highly advisable for people with irregular income like farmers, milk vendors and petty businessmen and for industrial workers, whose job is not secured. For these types of people submitting the age proof is also a problem as majority of them would not have had the age proof. By taking this policy they would be fulfilling their short-term and long-term financial needs. The family is assured of financial security in case the policyholder dies even during the lapsed period of the policy.

9. Jeevan Chhaya

This is a fixed term policy. On policyholder surviving till maturity, he receives 25% of sum assured every year during the last four years. On maturity, the policyholder gets bonus in addition to the 4th instalment of 25% of sum assured. The bonus is paid on full Sum Assured till the end of the term. This may be known as fixed benefit because whether the policyholder survives till the end of the term or dies before the term, the above mentioned amounts are paid by the L.I.C. If the policyholder survives he would get these amounts. But if he dies before the term, his nominee would receive these amounts. One of the important features of this policy is that in case of the premature death of the policyholder the sum assured (with double accident benefit, if he dies in an accident) is immediately paid to the nominee.

Future premiums are waived and the above mentioned fixed benefit is again paid to the nominee. Another important feature is that this policy is given under non-medical scheme up to sum assured one lakh for age between 18 and 40 if the prospect is having a child of less than one year of age as on date of registering the proposal. This non-medical is exclusive of other policies.
Benefits

Short term needs like family provision in case of premature death of the policyholder and long-term needs like education and marriage of dependents are simultaneously fulfilled by this policy. This policy is a right choice if a person wants to provide for the marriage of his daughter. The term can be fixed so as to receive the maturity benefit in marriageable age of the daughter.

10. Jeevan Griha

This is a fixed term triple risk cover policy without bonus. In case of the premature death of the policyholder, three times the Sum Assured is paid to the nominee. If the policyholder survives till maturity, he receives single sum assured only (No Bonus). Since it is high risk cover low premium policy, non-medical is not allowed under this policy. When the policy term is more than twenty five years, the maximum premium paying term will be restricted to twenty five years.

Benefits

The low premium high risk cover feature of this plan makes it a natural choice for housing loan. Hence, the name Jeevan Grita. On taking a Jeevan Griha policy, a policyholder will not automatically be eligible for housing loan. Other conditions like income and estimated cost of the house is taken into consideration for sanctioning the housing loan. So, if the prospect wants housing loan, it is advisable to first consult LIC Housing Finance Limited and then buy the policy for a fixed sum assured and term.
11. **Jeevan Kishore**

This policy is on the life of the child. The life risk cover starts from seventh year of the child or two years from the commencement of the policy whichever is later. The father has to propose. If father is not alive, mother can propose. In case both the parents are not alive, legal guardian can propose. The features of this policy are like that of an endowment policy. Minimum term of the policy is fifteen years. Premium Waiver Benefit on the life of proposer is available on payment of extra premium. Under this benefit, if the proposer expires, the future premiums upto the age of eighteen of the child is waived.

**Benefits**

Parents of children can provide a lump sum amount at a particular age of the child. The amount can be used for any particular need of the child like marriage or start in life.

12. **Jeevan Sukanya**

This is a policy designed specially for a female child aged between one and twelve years (last birthday). Proposer can be as explained in Jeevan Kishore. Premium Waiver Benefit is available. Premium has to be paid upto the age twenty years of the girl. Life risk cover starts from age seven or two years from the commencement of the policy whichever is later. Policy term will be upto age fifty of the girl. At the age of twenty of the girl Sum Assured will be paid as survival benefit. After marriage of the girl, husband’s life is also covered under this policy for the amount equal to Sum Assured. At the age of fifty of the girl, bonus upto that age is paid to the girl.
Benefits

This is an excellent policy which can be given as a gift to the female child. It almost takes care of the need for the entire life of the girl. The survival benefit received at age twenty can be used for marriage. Her husband’s life is also covered without payment of any premium. If anything were to happen to the life of her husband, her family will not be put into financial troubles. At the age of fifty she again gets a lumpsum amount as bonus which can be used for her old age.

LIC has launched a new life insurance plan, Jeevan Anand and relaunched its Popular individual pension plans, New Jeevan Akshay, New Jeevan Dhara and Jeevan Suraksha. Jeevan Anand is a combination of the endowment assurance and whole life plans. A policy available to individuals in the age group of 18-65 years, the premium term ranges from 5-57 years with a minimum amount of insurane of Rs. one lakh.11

INDUSTRIAL LIFE INSURANCE

Industrial Life Insurance is a form of life insurance specially designed to meet the requirements of wage earning population of industry. The premiums may be collected by agents weekly or monthly basis.

Benefits

The main purpose of Industrial Life Insurance is to provide at least clean up funds to meet lest expenses of the assured. The second aim is to educate the habit of

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11 Business World, 18 March 2002, p.44.
saving amongst the low-income group to meet their contingencies. Weekly premium can be easily saved and it may provide funds to create property.

In India, the form of industrial insurance policy is Janata Policy, which is issued generally to comparatively poorer sections of the society. The maximum amount under this policy is Rs.1,000, the minimum sum assured is Rs.250 and the maximum sum assured to a policyholder is Rs.3,000. The maximum age at entry is limited to forty five years. No medical examination is required up to thirty five years. A lapsed policy can be revived during a period of three years from the due date without medical examinations. No loans or other benefits are granted on this policy.

PARTNERSHIP INSURANCE

In our country, nearly fifty percent of the business is done by the partnership firms and proprietorship concerns. Proprietorship concern is a one-man show and that an individual may take a policy or two to cover his life. However, it is not the same case with partnership firms.

The partnership firm will be in trouble when a partner dies unfortunately. The death results in dissolution of the firm and the firm has to pay a lumpsum amount to the deceased partner’s family. But still, many a partnership firms have not realised the importance of partnership insurance in our country.

Eligibility

(i) All partners should be first class male lives. Number of partners maximum is five and minimum two.
(ii) The sum assured should be for a minimum of Rs.25,000 and should not exceed the minimum amount of capital brought in by any single partner.

(iii) (a) In case of Joint Life Assurance, the difference in age between youngest and eldest partner should not be large.

(b) In case of Individual Partner’s Insurance, the maturity age should not exceed seventy years of age of the partner.

(iv) The term offered should be such that the policy would mature before the eldest partner reaches the age of seventy.

(v) A deed informing that in case of death of a partner the partnership will be dissolved and capital will be withdrawn.

(vi) Nomination is not allowed.

(vii) Assignment is not allowed.

Tax Rules and Benefits

The insurance premium paid under partnership insurance on the lives of partners is allowed as 100% business expenditure under sec.37(1) of I.T.Act. However, the policy proceeds on the death claim will be treated as income of the firm and is subjected to tax.

The Remaining partners can pay the amount out of the policy maturity proceeds without touching the assets of the partnership firm. The risk of closing down the business is avoided.
In case of dissolution of partnership for reasons other than death of a partner, either the policy should be surrendered (for its cash value) or assign the policy in favour of any one partner if the policy has acquired paid-up value. All proposals under partnership insurance should be sent to Divisional Office for scrutiny and acceptance.

**POSTAL LIFE INSURANCE**

The Government of India introduced the Postal Life Insurance Scheme in the year 1884 and the scheme is administered and operated by the Department of Posts.

All persons who are admitted to the benefits of the postal life insurance have direct government security for the payment at the proper time of the money due to them.

The following persons are eligible to insure with Postal Life Insurance. All regular employees of

(i) Central and State Governments.

(ii) Defence services.

(iii) Extra departmental agents and industrial and work charged employees in the Department of Posts and Telecommunications.

(iv) Govt. Aided Educational Institutions.

(v) Universities established by Government.

(vi) Local bodies like Municipalities, Zilla parishads etc.,
(vii) Reserve Bank of India, State Bank of India and its subsidiaries and Nationalised Banks.

(viii) Bodies like Indian Standard Institution, C.S.I.R. etc.,

(ix) Medical Council of India, Dental Council of India, Nursing Council of India and Pharmacy Council of India.

(x) Financing institutions such as I.D.B.I., I.F.C.I., I.C.I.C.I., and U.T.I.

(xi) All public sector undertakings of both Central and State Governments.

(xii) All regular employees of Regional Rural Banks.

TYPES OF POLICIES

P.L.I. offers the following types of policies:

(i) **Endowment Assurance (Santhosh)**

Under this plan, PLI offers policies maturing on insurant’s age of 35 years, 40, 45, 50 years, 55 years, 58 years and 60 years.

(ii) **Whole Life Assurance (Suraksha)**

Under this plan, the sum assured under the policy is payable on the death of insurant to his nominee/legal representative. The plan offers protection for a larger sum assured against relatively cheaper rate of premium. While the sum assured under the policy is payable on the death of the insurant to his nominee/legal representatives, it is not necessary to pay further premium by the insurant on his attaining the age of 55 years, 58 years or 60 years as he may choose.
(iii) Convertible Whole Life Assurance (Suvidha)

This is a whole life policy offering the twin benefit of protection for large sum assured and cheaper rate of premium in the initial five years with a further option to convert the policy into an endowment assurance policy maturing at a specified age of 50, 55, 58 and 60 years.

(iv) Anticipated Endowment Assurance (Sumangal)

On its centenary, postal life insurance introduced the new and attractive anticipated endowment assurance policy for coverage of risk as well as quicker monetary returns for its clients. The scheme introduced on 1st February 1984, provides full protection throughout its currency and also ensures flow of cash at regular intervals.

The scheme operates in two terms, at 15 years term and a 20 years term.

SIGNIFICANCE OF INSURANCE

The insurance provides safety and security against the loss on a particular event. In case of life insurance, payment is made when death occurs or the term of insurance is expired. The loss to the family at premature death and payment in old age are adequately provided by insurance. In other words, security against premature death and old age sufferings are provided by life insurance.

The security wish is the prime motivating factor. This is the wish which tends to stimulate to more work, if this wish is unsatisfied, it will create a tension which manifests itself to the individual in the form of an unpleasant reaction causing
reduction in work. The security banishes fear and uncertainty, fire, windstorm, automobile accident, damage and death are almost beyond the control of human agency and in occurrence of any of these events may frustrate or weaken the human mind. By means of insurance, however, much of the uncertainty that centers about the wish for security and its attainment may be eliminated.

At the death of the owner of the mortgaged property, the property is taken over by the lender of money and the family will be deprived of the uses of the property. On the other hand, the mortgagee wishes to get the property insured because at the damage or destruction of the property he will lose his right to get the loan repaid. The insurance will provide adequate amount to the dependents at the early death of the property-owner to pay off the unpaid loans. Similarly, the mortgagee gets adequate amount at the destruction of the property.

At the death of the husband or father, the destruction of family need no elaboration. Similarly, at destruction of property and goods, the family would suffer a lot. It brings reduced standards of livings and the suffering may go to any extent of raising loans from the relatives, neighbours or friends. The economic independence of the family is reduced or, sometimes, lost totally. What can be more pitiable than this is that the wife and children are looking others more benevolent than the husband and father, in absence of protection against such dependency. The insurance is here to assist them and provides adequate amount at the time of sufferings.

Individuals unwilling or unable to handle their own funds have been pleased to find an outlet for their investment in life insurance policies. Endowment Policies, Multipurpose Policies, Deferred Annuities are certainly better form of investment.
The elements of investment i.e., regular savings, capital formation, and return of the capital along with certain additional return are perfectly observed in life insurance. In India the insurance policies carry a special exemption from income tax, wealth tax, gift tax and estate duty. An individual from his own capacity cannot invest regularly with safety and profitability. The life insurance fulfills all these requirements with a lower cost. The beneficiary of the policyholder can get a regular income from the life-insurer, if the insured amount is left with him.

The loss of particular wealth can be protected with the insurance. Life insurance provides loss of human wealth. The human material, if it is strong, educated and carefree, will generate more income. Similarly, the loss of damage of property due to fire, accident, etc., can be well indemnified by insurance. Cattle, crop, profit and machines are also protected against their accidental and economic losses. With the advancement of the society, the wealth or the property of the society attracts more hazardous and, so new types of insurance are also invented to protect them against possible losses. Each and every member will have financial security against old age, death, damage, destruction and disappearance of his wealth including the life wealth. Through prevention on economic losses, insurance protects the society against degradation. Through stabilisation and expansion of business and industry, the economic security is maximised. The present, future and potential human and property resources are well protected. The children are getting expertise education, working classes are free from botherations and older people are guiding at ease. Happiness and prosperity are observed everywhere with the help of insurance.

The insurance reduces the inflationary pressure in two ways. First, by extracting money in supply towards the amount of premium collected and secondly,
by providing sufficient funds for production purposes so as to narrow down the infla-
tionary gap. With reference to Indian context, it has been observed that about 5.0 percent of the money in supply was collected in the form of premium. The share of premium contributed to the total investment of the country was about 10.0 percent. The two main causes of inflation, namely, increased money in supply and decreased production are properly controlled by insurance business.

Insurance in India has been viewed more as an investment or as a form of saving tax and not as a means of securing one's life\(^\text{12}\).

**WHY LIFE INSURANCE IS BETTER?**

**An Income Tax point of view**

(i) Sec.10 (10D) of Income Tax Act totally exempts from paying tax on any amount received as bonus against life insurance policy (except on Jeevan Aadhar, Key-Man insurance, Jeevan Dhara, Jeevan Akshay policies).

(ii) A deduction from taxable income up to a maximum of Rs.10,000 is allowed towards the premium paid in a year for Jeevan Suraksha Policy. This is a separate deduction u/s 80CCC.

(iii) Under section 80DD a deduction up to Rs.40,000 p.a. is allowed from gross total income, when a contribution or deposit is made with the LIC for the maintenance of a handicapped dependent.

\(^{12}\) 12 Business World, 18 March 2001, p.44.
A policy can be taken out in the name of an individual or any member of a Hindu undivided family. An individual can claim rebate on LIC premium paid on his/her life, his/her spouse, his/her children including adult children and married daughter.

Under section 88, a rebate of 20% is allowed an investment in the form of LIC premium. This rebate is deductible from the total tax payable by the Individual/Hindu Undivided Family. The total amount of investment in the form of LIC premium and other specified investments like PPF, NSC, etc., is restricted to Rs.60,000/- p.a.

In case of husband and wife where both are income tax assesses, when one has crossed his/her limits of Rs.60,000 u/s. 88, the other can take the tax benefit advantage. It is even permitted where wife can take advantage in one year and husband in the other for the same policy. The rate of tax on income is given in Table 2.4.

**TABLE 2.4**

**INCOME TAX RATES U/S.88**

<table>
<thead>
<tr>
<th>UP TO Rs.50,000</th>
<th>NIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>50,001 – 60,000</td>
<td>10% of the amount exceeding Rs.50,000 (60,000-50,000 = 10,000 X 10/100 = 1,000)</td>
</tr>
<tr>
<td>60,001 – 1,50,000</td>
<td>1000 + 20% of the amount exceeding Rs.60,000 (1,000 + 18,000 (1,50,000-60,000 = 90,000 X 20/100) = 19,000)</td>
</tr>
<tr>
<td>1,50,001 and above</td>
<td>19,000 + 30% of the amount exceeding Rs.1,50,000.</td>
</tr>
</tbody>
</table>
A surcharge of 10% to be calculated for income from Rs.60,000-1,50,000 & 15% for income above 1,50,000 p.a (after allowing deductions, rebates and reliefs but, before deducting Advance Tax and TDS.

General Point of View

(i) Life insurance is the only savings scheme which covers the life risk besides giving tax concession both at entry (premiums paid) and at exit points (Maturity + Bonus).

(ii) Life insurance cover is as much a necessity as food and clothing.

(iii) Loan also can be availed on LIC policies from LIC.

(iv) LIC policies can be pledged as a collateral security for raising loans from banks and other financial institutions also.
CONCLUSION

In this chapter, Concept and Significance of life insurance have been analysed. Also innumerable schemes provided for the benefit of living citizens regardless of caste, community has been exposed.

Life Insurance starts from the time of birth and extends after the death of individual person. Life Insurance enjoys maximum scope because life is the most important property of the society or an individual. Each and every person requires the insurance. This insurance provides protection to the family at the premature death or gives adequate amount at the old age when earning capacities are reduced.

The insurance is not only a protection but is a sort of investment because a certain sum is returnable to the insured at the death or at the expiry of a period.

As per experts opinion, Life Insurance is the only scientific method of capitalizing the economic value of a human life and indemnifying for its loss in case of premature death of the policyholder.