CHAPTER – II
RATIONALE BEHIND LIFE INSURANCE

2.1 HISTORICAL EVALUATION

Almost 4,500 years ago in the ancient land of Babylonia, traders used to bear risk of the caravan trade by giving loans that had to be later repaid with interest when the goods arrived safely. In 2100 BC, the Code of Hammurabi granted legal status to the practice.

Life insurance had its origins in ancient Rome, where citizens formed burial clubs that would meet the funeral expenses of its members as well as help survivors by making some payments. As European civilization progressed, its social institutions and welfare practices also got more and more refined. With the discovery of new lands, sea routes and the consequent growth in trade. Medieval guilds took it upon themselves to protect their member traders from loss on account of fire, shipwrecks and the like. Since most of the trade took place by sea, there was also the feat of pirates. So these guilds even offered ransom for members held captive by pirates. Burial expenses and support in times of sickness and poverty were other services offered. Essentially, all these revolved around the concept of insurance or risk coverage. That's how old these concepts are, really.

In 1347, in Genoa, European maritime nations entered into the earliest known insurance contract and decided to accept marine insurance as a practice.
Insurance as we know it today owes its existence to 17\textsuperscript{th} century England. In fact, it began taking shape in 1688 at a rather interesting place called Lloyd's Coffee House in London, where merchants, shipowners and underwriters met to discuss and transact business. By the end of the 18\textsuperscript{th} century, Lloyd's had brewed enough business to become one of the first modern insurance companies.

Back to the 17\textsuperscript{th} century. In 1693, astronomer Edmond Halley constructed the first mortality table to provide a link between the life insurance premium and the average life spans based on statistical laws of mortality and compound interest. In 1756, Joseph Dodson reworked the table, linking premium rate to age.

The first Joint stock company to get into the business of insurance were chartered in England in 1720. They year 1735 saw the birth of the first insurance company in the American colonies in Charleston, SC.

In 1759, the Presbyterian Synod of Philadelphia sponsored the first life insurance corporation in America for the benefit of ministers and their dependents. However, it was after 1840 that life insurance really took off in a big way. The trigger reducing opposition from religious groups.

The 19\textsuperscript{th} century saw huge developments in the field of insurance with newer products being devised to meet the growing needs of urbanization and industrialization.
In 1835, the infamous New York fire drew people's attention to the need to provide for sudden and large losses. Two years later, Massachusetts became the first state to require companies by lay to maintain such reserves. The great Chicago fire on 1871 further emphasized how fires can cause huge losses in densely populated modern cities. The practice of reinsurance, wherein the risks and spread among several companies, was devised specifically for such situations.

There were more offshoots of the process of industrialization. In 1897, the British government passed the workmen's Compensations Act, which made it mandatory for a company to insure its employees against industrial accidents. With the advent of the automobile, public liability insurance, which first made its appearance in the 1880 gained importance and acceptance.

In the 19th century, many societies were founded to insure the life and health of their members, while fraternal orders provided low-cost, members - only insurance. Even today, such fraternal orders continue to provide insurance coverage to members as do most labour organization. Many employers sponsor group insurance policies for their employees, providing not just life insurance, but sickness and accident benefits and old-age pensions. Employees contributes a certain percentage of the premium for these policies.

Insurance in India can be traced back to the Vedas. For instance, Yogakshema, the name of Life Insurance Corporation of India's corporate headquarters is derived from the Rig Veda. The term suggests that a form of "Community insurance" was prevalent around 1000 BC and practised by the Aryans.
Burial societies of the kind found in ancient Rome were formed in the Buddhist period to help families build houses, protect widows and children. Bombay Mutual Assurance Society, the first Indian life assurance society, was founded in 1870. Other companies like Oriental, Bharat and Empire of India were also set up in the 1870-90. It was during the swadeshi movement in the early 20th century that insurance witnessed a big boom in India with several more companies being set up.

As these companies grew, the government began to exercise control on them. The Insurance Act was passed in 1912, followed by a detailed and amended Insurance Act of 1938 that looked into investments, expenditure and management of these company’s funds. By the mid-1950, there were around 170 insurance companies and 80 provident fund societies in the country’s life insurance scene. However, in the absence of regulatory systems, scams and irregularities were almost a way of life at most of these companies.

As a result, the government decided nationalise the life assurance business in India. The Life Insurance Corporation of India was set up in 1956 to take over around 250 life insurance companies.

For years thereafter, insurance remained a monopoly of the public sector. It was only after seven years of deliberation and debate – after the RN Malhotra Committee report of 1994 became the first serious document calling for the re-opening up of the insurance sector to private players – that the sector was finally opened up to private player in 2001.
The Insurance Regulatory & Development Authority, an autonomous insurance regulator set in 2000, has extensive powers to oversee the insurance business and regulate in a manner that will safeguard the interests of the insured.

2.2 INSURANCE

Life Insurance is a contract for payment of a sum of money to the person assured (or failing him / her, to the person entitled to receive the same) on the happening of the event insured against. Usually the contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or an unfortunate death, if it occurs earlier. Among other things, the contract also provides for the payment of premium periodically to the Corporation by the assured. Life insurance is universally acknowledged to be an institution which eliminates ‘risks’, substituting certainty for uncertainly and comes to the timely aid of the family in the unfortunate event of the death or of total permanent disability of the breadwinner. By and large, life insurance is civilisation’s partial solution to financial uncertainties caused by untimely death.

2.3 INSURANCE SUPERIOR TO OTHER FORMS OF SAVINGS

2.3.1 PROTECTION

Savings through life insurance guarantee financial protection against risk of death of the policy holder. In life insurance, on death, the full sum assured is payable (with bonuses wherever applicable) whereas in other savings schemes, only the amount saved (with interest) is payable.
2.3.2 AID TO THRIFT

Life insurance encourages ‘thrift’. Long term saving can be made in a relatively ‘painless’ manner because of the ‘easy instalment’ facility (premiums can be paid through monthly, quarterly, half–yearly or yearly instalments). The salary savings scheme, popularly known as SSS, provides a convenient method of paying premium each month through deduction from one’s salary. The employer remits the deducted premium to the LIC. The salary savings scheme can be introduced in an institution or establishment subject to specified terms and conditions.

2.3.3 LIQUIDITY

Loans can be raised on endowment type & whole life policies as per policy conditions on the sole security of a policy which has acquired a paid–up value. Besides, a life insurance policy is also generally accepted as security for even a commercial loan/housing loan.

2.3.4 TAX RELIEF

Tax relief in Income Tax is available for amounts paid by way of premium for life insurance subject to the Income Tax rules in force. Assessees can avail themselves of provisions in the law for tax relief. In such cases the assured in effect pays a lower premium for his insurance than he would have to pay otherwise.

2.3.5 MONEY WHEN YOU NEED IT

A suitable insurance plan or a combination of different plans can be taken to meet specific needs that are likely to arise in future, such as children’s education, start-in-life or marriage provision or even periodical needs for cash over a predetermined stretch of time. Alternatively, policy moneys can be so arranged to be made available at the time of one’s
retirement from service to be used for any specific purpose, such as for the purchase of a house or for other investments. LIC pension plans also offer regular income in the form of an annuity when you retire from active work or in a later of life at your choice leaving a lump sum purchase price for your heirs. Subject to certain conditions, loans are granted to policyholders for house – building or for purchase of flats.

2.4 WHO CAN BUY A LIFE INSURANCE POLICY

Any person who has attained majority and is eligible to enter into a valid contract can take out a life insurance policy for himself/herself and for those in whom he/she has insurable interest. Policies can also be taken out, subject to certain conditions, on the life of one’s spouse or children. While underwriting proposals, factors such as the state of health of the life to be assured, the proponent’s income and other relevant factors are considered by the Corporation.

2.5 MEDICAL AND NON – MEDICAL SCHEMES

Life insurance is normally offered after a medical examination of the life to be assured. However, to facilitate greater spread of insurance and also as a measure of relaxation, LIC has been extending insurance cover without any medical examination, subject to certain conditions.

2.6 WITH PROFIT AND WITHOUT PROFIT PLANS

An insurance policy can be ‘with’ or ‘without’ profit. In a With Profit Policy, bonuses declared, if any, after periodical valuations are allotted to the policy and are payable along with the contracted amount at the time of the final claim payments. In a Without Profit Policy, only the contracted amounts are paid, without any addition. Under some new plans Guaranteed Additions & Loyalty Additions are paid in lieu of bonuses.
2.7 **KEYMAN INSURANCE**

Keyman Insurance is taken by a business firm on the lives of key employees to protect the firm against the financial loss which may occur owing to their premature.

2.8 **QUALIFYING INVESTMENT ELIGIBLE FOR REBATE**

Investments qualifying for rebate viz. Insurance Premia, Premium paid toward annuity plans of LIC of India are specified under Section 88 of the Income – Tax Act.

i) Premiums paid to effect or to keep in force an insurance policy on the life of assessee or on the life of the wife or husband or any child (whether minor or major) of the assessee, irrespective of the status of the child; provided the premium paid is not excess of 20% of the actual capital sum assured.

ii) Premiums paid to effect or to keep in force a contract for a deferred annuity on the life of the assessee or on the life of the wife or husband or any child (whether minor or major) of the assessee provided that such a contract does not contain a provision for the exercise, by the assured, of an option to receive a cash payment in lieu of the payment of the annuity.

iii) Contribution to any provident fund to which the provident Fund Act, 1925, applies or to any Provident Fund set up by the Central Government.

vi) Notified Annuity Plans of LIC of India or any other insurer.
2.9 Some Important Income - Tax benefits available under various plans of life insurance are highlighted below

2.9.1 INCOME-TAX EXEMPTION ON MATURITY /DEATH CLAIMS PROCEEDS UNDER SECTION 10(10D)

Under the provisions of Sub - section 10D of section 10 of Income Tax Act, 1961, any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy other than any sum received under sub – section (3) of section 80DD (i.e. amount to be refunded under Jeevan Aadhar Insurance plan in case the handicapped dependant predeceases the individual) or under a Keyman Insurance Policy, is exempted from income tax. However, any sum received under an insurance policy effected on or after 1-4-2003 in respect of which the premium paid in any of the years the term of the policy exceed 20 percent of the actual capital sum assured will no longer be exempted under this section.

2.9.2 NEW JEEVAN SURAKSHA – PLAN (U/S 80CCC)

A deduction to an individual for any amount paid or deposited by him from his taxable income in the above annuity plan for receiving pension (from the fund set up by the Corporation under the pension Scheme) is allowed. The deduction will be restricted to Rs. 10,000/-.

2.9.3 JEEVAN AADHAR PLAN (SEC.80DD)

As per section 80DD, an amount not exceeding Rs. 50,000/- Deposited with Insurance Corporation of India under Jeevan Aadhar Plan for the maintenance of a handicapped dependant is eligible for deduction from the total income (Rs. 75,000/- where handicapped depended dependant is suffering from severe disability)
2.9.4 EXEMPTION IN RESPECT OF COMMUTATION OF PENSION UNDER JEEVAN SUREKSHA

Under Section 10(10A) (iii) of the Income – tax Act, any payment received by way of commutations of pension out of the jeevan Suraksha Annuity plans is exempt from tax.

2.9.5 REBATE OF INCOME – TAX ON LIFE INSURANCE PREMIUM (SECTION 88), LIFE INSURANCE PREMIA (SECTION 88(2)(I) )

The insurance premiums are paid in order to effect or to keep in force an insurance policy on the life of the assessee or on the life of the spouse or his child. The child may be minor or adult child and also includes a married daughter. In the of HUF, premium paid on the life of any member thereof, is eligible for rebate. Provided premium paid is not in excess 20% of capital sum assured.

2.9.6 CONTRIBUTION TO DEFERRED ANNUITY PLANS (SECTION 88 (2) (II)

Any sums paid by an individual in order to effect or to keep in force a contract for deferred annuity, on his own life of his spouse or any child, provided such contract does not contain a provision for the exercise by the insured of an option to receive a cash payment in lieu of the payment of annuity.

2.9.7 CONTRIBUTION TO PENSION/ANNUITY (SECTION 88(2) (XIII) )

Contribution to New Jeevan Dhara – I and New jeevan Akshay – I Schemes of LIC are qualified for rebate under this section.
CONCLUSION

Life insurance has the origin from 2100 BC. The Chartered England was to first joint stock company to enter into life insurance business. In the 19th century, many societies were founded to insure the life and health of its members. Insurance in India can be traced back to the vedas. The first Indian life assurance society was founded in 1870. During Swadeshi movement the insurance business witnessed a big boom in India with more companies being set-up. The government began to exercise control over the insurance companies by insurance act of 1938. The government of India decided to nationalise the life insurance business by taking over 250 life insurance companies by forming Life Insurance Corporation of India. The life insurance remained a monopoly of the public sector. The life insurance sector was opened to private sector in 2001. The IRDA Act was passed and IRDA was wanted with the powers to oversee the insurance business.

Life insurance is a contract between the insurer and the insured. Life insurance is superior to other forms of savings. Life insurance promote savings, ensures liquidity over the said savings, gives tax relief and can get money when the insured requires. Life insurance policies an be taken even on the life of child. There are various plans of life insurance. The premiums paid and the premiums paid on the notified annuity plans of LIC are qualifying amounts to claim tax exemption under 80 CC of the Income-Tax Act.

According to section 10 D of the Income-Tax Act, 1961 any sum received under a life insurance policy is exempted from Income-Tax Act.