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3.1 INTRODUCTION

Insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. An insurer is a company selling the insurance; the insured, or policy holder, is the person or entity buying the insurance policy. The amount to be charged for a certain amount of insurance coverage is called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.¹

The transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate (indemnify) the insured in the case of a financial (personal) loss. The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated.

3.2 History of insurance - Life Insurance in Antiquity

Certain forms of life insurance existed in antiquity. Almost every economic history book contains references to practices that can be identified as forerunners of modern insurance techniques and economic historians have described insurance practices dating back thousands of years before the Christian calendar began.²

The ancient Egyptians and Chinese left much evidence of burial society and other insurance activities in their communities. Historians believe that a rudimentary form of insurance existed in China as early as 5000 B.C. At the time of the first Babylonian Empire about 2500 BC, members of caravans shared common losses

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¹ Harrington, Risk Management & Insurance, 2E Tata McGraw-Hill Education, 2004
caused by robbery or attack and, while it is not clear whether compensation for loss of life was included, it seems improbable that the death of valuable slaves (as with the loss of other commodities and chattels) would have been omitted from such arrangements. Regulations on insurance were found in the ancient legal code of Hammurabi (1792 – 1750 BC), the Babylonian king whose surviving set of laws was once considered the oldest promulgation of laws in human history.³ Excavations have shown that there was a type of life insurance in the city of Milete in Asia Minor in the year 2052 BC. The basic principles of life insurance were clearly well understood in ancient Greece. The Eianoi and the Thiasoi in ancient Athens were benevolent societies established and maintained by contributions from members. They later developed into societies providing for the payment of burial expenses and the immediate needs of deceased members’ dependants.⁴

The Romans also understood the essential elements of life insurance. The Romans had mutual societies and military societies that established funds to provide for the payment of sums of money in the event of members dying within a specified period. Romans customarily bequeathed annuities to their dependants. The earliest form of mortality table used for this and other purposes dates back to 208 AD when the Roman prefect and jurist Domitius Ulpianus perfected tables by which a fairly accurate estimate could be made of the length of human life. Ulpianus’s tables were still being used in Northern Italy as late as the end of the 18th century.⁵ The Romans were also known to have adopted from the Greeks a form of loan agreement known as Bottomry Bond under which money advanced by merchants and moneylenders to

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5. Report on Family Law; Cohabitation, s. XVI, Scottish Law Commission.
finance a ship’s voyage was repayable with interest only if the voyage was successfully completed. The Hindus were also known to use Bottomry Bonds to shift the burden of risk from owners of ships and cargoes to moneylenders. The Phoenicians, Greeks and Romans all developed agreements that corresponded in most essentials to written contracts used some 2000 years later in marine ventures to the New World.\(^6\)

As cargoes often consisted of slaves (i.e. chattels), taking out insurance on the safe transport of human beings became a common practice since 1399. In the Dark Ages, following the fall of the Roman Empire, the principles of mutual insurance in particular, were developed in both England and Europe by the feudal guilds which often included burial costs in their system of dues.

The early evolution of life insurance was therefore not so precise that we can point with confidence to a single civilisation, year or transaction and say that that was its beginning. What we can say though, is that its history closely mirrors the history of trade and it is consequently no surprise that insurance has often been referred to as ‘the handmaiden of commerce’.\(^7\)

### 3.3 Growth of Life Insurance

**The first Life Insurance Policies:** Achaemenian monarchs of Ancient Persia were the first to insure their people and made it official by registering the insuring process in governmental notary offices. The insurance tradition was performed each year in Norouz (beginning of the Iranian New Year); the heads of different ethnic groups as well as others willing to take part, presented gifts to the monarch. The most important gift was presented during a special ceremony. When a gift was worth more

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than 10,000 Derrik (Achaemenian gold coin) the issue was registered in a special office. This was advantageous to those who presented such special gifts. For others, the presents were fairly assessed by the confidants of the court. Then the assessment was registered in special offices. The purpose of registering was that whenever the person who presented the gift registered by the court was in trouble, the monarch and the court would help him. Jahez, a historian and writer, writes in one of his books on ancient Iran: "Whenever the owner of the present is in trouble or wants to construct a building, set up a feast, have his children married, etc. the one in charge of this in the court would check the registration. If the registered amount exceeded 10,000 Derrik, he or she would receive an amount of twice as much.\textsuperscript{8}

A thousand years later, the inhabitants of Rhodes invented the concept of the general average. Merchants whose goods were being shipped together would pay a proportionally divided premium which would be used to reimburse any merchant whose goods were deliberately jettisoned in order to lighten the ship and save it from total loss. The ancient Athenian "maritime loan" advanced money for voyages with repayment being cancelled if the ship was lost. In the 4th century BC, rates for the loans differed according to safe or dangerous times of year, implying an intuitive pricing of risk with an effect similar to insurance.\textsuperscript{9} The Greeks and Romans introduced the origins of health and life insurance in 600 BC when they created guilds called "benevolent societies" which cared for the families of deceased members, as well as paying funeral expenses of members. Guilds in the Middle Ages served a similar purpose. The Talmud deals with several aspects of insuring goods. Before insurance was established in the late 17th century, "friendly societies"

\textsuperscript{8} American Council of Life Insurance - \textit{Life Insurance Fact Book} (1991) pp 567, 568

existed in England, in which people donated amounts of money to a general sum that could be used for emergencies.

Separate insurance contracts (i.e., insurance policies not bundled with loans or other kinds of contracts) were invented in Genoa in the 14th century, as were insurance pools backed by pledges of landed estates. These new insurance contracts allowed insurance to be separated from investment, a separation of roles that first proved useful in marine insurance. Insurance became far more sophisticated in post-Renaissance Europe, and specialized varieties developed.¹⁰

Some forms of insurance had developed in London by the early decades of the 17th century. The will of the English colonist Robert Hayman mentions two "policies of insurance" taken out with the diocesan Chancellor of London, Arthur Duck. Towards the end of the seventeenth century, London's growing importance as a centre for trade increased demand for marine insurance. In the late 1680s, Edward Lloyd opened a coffee house that became a popular haunt of ship owners, merchants, and ships' captains, and thereby a reliable source of the latest shipping news. It became the meeting place for parties wishing to insure cargoes and ships, and those willing to underwrite such ventures. Today, Lloyd's of London remains the leading market for marine and other specialist types of insurance, but it operates rather differently than the more familiar kinds of insurance. Insurance as we know it today can be traced to the Great Fire of London, which in 1666 devoured more than 13,000 houses. The devastating effects of the fire converted the development of insurance "from a matter of convenience into one of urgency, a change of opinion reflected in Sir Christopher Wren's inclusion of a site for 'the Insurance Office' in his

new plan for London in 1667." A number of attempted fire insurance schemes came to nothing, but in 1681 Nicholas Barbon, and eleven associates, established England's first fire insurance company, the 'Insurance Office for Houses', at the back of the Royal Exchange. Initially, 5,000 homes were insured by Barbon's Insurance Office.¹¹

The first insurance company in the United States was formed in Charleston, South Carolina in 1732, but it provided only fire insurance. The sale of life insurance in the U.S. began in the late 1760s. The Presbyterian Synods in Philadelphia and New York created the Corporation for Relief of Poor and Distressed Widows and Children of Presbyterian Ministers in 1759; Episcopalian priests organized a similar fund in 1769. Between 1787 and 1837 more than two dozen life insurance companies were started, but fewer than half a dozen survived. Prior to the American Civil War, many insurance companies in the United States insured the lives of slaves for their owners. In response to bills passed in California in 2001 and in Illinois in 2003, the companies have been required to search their records for such policies.¹¹

Global insurance premiums grew by 2.7% in inflation-adjusted terms in 2010 to $4.3 trillion, climbing above pre-crisis levels. The return to growth and record premiums generated during the year followed two years of decline in real terms. Life insurance premiums increased by 3.2% in 2010 and non-life premiums by 2.1%. While industrialized countries saw an increase in premiums of around 1.4%, insurance markets in emerging economies saw rapid expansion with 11% growth in premium income. The global insurance industry was sufficiently capitalized to withstand the financial crisis of 2008 and 2009 and most insurance companies restored their capital to pre-crisis levels by the end of 2010. With the continuation of

the gradual recovery of the global economy, it is likely the insurance industry
continued to see growth in premium income both in industrialized countries and
emerging markets in 2011.\textsuperscript{12}

Advanced economies account for the bulk of global insurance. With premium
income of $1,620bn, Europe was the most important region in 2010, followed by
North America $1,409bn and Asia $1,161bn. Europe has however seen a decline in
premium income during the year in contrast to the growth seen in North America and
Asia. The top four countries generated more than a half of premiums. The US and
Japan alone accounted for 40\% of world insurance, much higher than their 7\% share
of the global population. Emerging economies accounted for over 85\% of the world’s
population but only around 15\% of premiums. Their markets are however growing at
a quicker pace.\textsuperscript{13}

3.4 Types of insurance

Any risk that can be quantified can potentially be insured. Specific kinds of risk that
may give rise to claims are known as perils. An insurance policy will set out in detail
which perils are covered by the policy and which is not. Below are non-exhaustive
lists of the many different types of insurance that exist.

Life Insurance

Life insurance provides a monetary benefit to a deceased's family or other
designated beneficiary, and may specifically provide for income to an insured
person's family, burial, funeral and other final expenses. Life insurance policies often


allow the option of having the proceeds paid to the beneficiary either in a lump sum cash payment or an annuity.

**Auto insurance** - Auto insurance protects the policyholder against financial loss in the event of an incident involving a vehicle they own, such as in a traffic collision. Coverage typically includes property coverage, liability coverage and medical coverage.\(^\text{14}\)

**Business insurance** - This can take a number of different forms, such as the various kinds of professional liability insurance, also called professional indemnity (PI), and the business owner's policy (BOP), which packages into one policy many of the kinds of coverage that a business owner needs.

**Home insurance** - Home insurance provides coverage for damage or destruction of the policyholder's home. In some geographical areas, the policy may exclude certain types of risks, such as flood or earthquake that require additional coverage.\(^\text{15}\)

**Health insurance and dental insurance** - Health insurance policies cover the cost of medical treatments. Dental insurance, like medical insurance protects policy holders for dental costs.

**Accident, sickness and unemployment insurance** - Workers' compensation, or employers' liability insurance, is compulsory in some countries. They cover Disability insurance policies - Long-term disability insurance covers an individual's expenses for the long term, up until such time as they are considered permanently disabled and thereafter. Permanent disability insurance provides benefits when a person is permanently disabled and can no longer work in their profession, often taken as an adjunct to life insurance. Workers’ compensation insurance replaces all or part of a


worker’s wages lost and accompanying medical expenses incurred because of a job-related injury.\textsuperscript{16}

**Casualty Insurance** - Casualty insurance insures against accidents, not necessarily tied to any specific property. It is a broad spectrum of insurance that a number of other types of insurance could be classified, such as auto, workers compensation, and some liability insurances. It takes the following forms - Crime insurance and Political risk insurance.

**Burial insurance** - Burial insurance is a very old type of life insurance which is paid out upon death to cover final expenses, such as the cost of a funeral.\textsuperscript{17}

**Property Insurance** - Property insurance provides protection against risks to property, such as fire, theft or weather damage. This may include specialized forms of insurance such as fire insurance, flood insurance, earthquake insurance, home insurance, inland marine insurance, Aviation insurance, Builder’s risk insurance, Crop insurance, boiler insurance and Landlord insurance.\textsuperscript{18}

**Terrorism insurance** - The demand for terrorism insurance surged after 9/11. This insurance provides protection against any loss or damage caused by terrorist activities. In the US in the wake of 9/11, the Terrorism Risk Insurance Act 2002 (TRIA) set up a federal Program providing a transparent system of shared public and private compensation for insured losses resulting from acts of terrorism. The program was extended until the end of 2014 by the Terrorism Risk Insurance Program Reauthorization Act 2007 (TRIPRA).

**Volcano insurance** - It is a specialized insurance protecting against damage arising specifically from volcanic eruptions.

\textsuperscript{17} Mehr Robert Irwin, Cammack Emerson, *Principles of insurance*, R.D. Irwin, 1961
\textsuperscript{18} Levy Michael H., *Your Insurance and how it Profit by it*, Harcourt, Brace, 1955
Windstorm insurance - It is an insurance covering the damage that can be caused by wind events such as hurricanes.

Liability insurance - Liability insurance is a very broad superset that covers legal claims against the insured.

Credit insurance - Credit insurance repays some or all of a loan when certain circumstances arise to the borrower such as unemployment, disability, or death.\(^\text{19}\)

Other types of Insurance

Bloodstock insurance covers individual horses or a number of horses under common ownership.

Business interruption insurance covers the loss of income, and the expenses incurred, after a covered peril interrupts normal business operations.\(^\text{20}\)

Collateral protection insurance (CPI) insures property (primarily vehicles) held as collateral for loans made by lending institutions.

Expatriate insurance provides individuals and organizations operating outside of their home country with protection for automobiles, property, health, liability and business pursuits.\(^\text{21}\)

Kidnap and ransom insurance is designed to protect individuals and corporations operating in high-risk areas around the world against the perils of kidnap, extortion, wrongful detention and hijacking.

Legal expenses insurance covers policyholders for the potential costs of legal action against an institution or an individual.


Locked funds insurance is a little-known hybrid insurance policy jointly issued by governments and banks. It is used to protect public funds from tamper by unauthorized parties.

Livestock insurance is a specialist policy provided to, for example, commercial or hobby farms, aquariums, fish farms or any other animal holding. 22

Media liability insurance is designed to cover professionals that engage in film and television production and print, against risks such as defamation.

Nuclear incident insurance covers damages resulting from an incident involving radioactive materials and is generally arranged at the national level.

Pet insurance insures pets against accidents and illnesses; some companies cover routine/wellness care and burial, as well.

Pollution insurance usually takes the form of first-party coverage for contamination of insured property either by external or on-site sources. Coverage is also afforded for liability to third parties arising from contamination of air, water, or land due to the sudden and accidental release of hazardous materials from the insured site. 23

Purchase insurance is aimed at providing protection on the products people purchase. Purchase insurance can cover individual purchase protection, warranties, guarantees, care plans and even mobile phone insurance.

Title insurance provides a guarantee that title to real property is vested in the purchaser and/or mortgagee, free and clear of liens or encumbrances.

Travel insurance is an insurance cover taken by those who travel abroad, which covers certain losses such as medical expenses, loss of personal belongings, travel delay, and personal liabilities. 24

22 Greene Mark Richard, Trieschmann James S., Risk and insurance, South-Western Publishing Co., 1981
23 Namara Michael J, Principles of Risk Management and Insurance, Pearson College Division, 2000
**Tuition insurance** insures students against involuntary withdrawal from cost-intensive educational institutions.

**Interest rate insurance** protects the holder from adverse changes in interest rates, for instance for those with a variable rate loan or mortgage.

### 3.5 Types of Life Insurance

**Life insurance** is a contract between an insurance policy holder and an insurer, where the insurer promises to pay a designated beneficiary a sum of money (the "benefits") upon the death of the insured person. Depending on the contract, other events such as terminal illness or critical illness may also trigger payment. The policy holder typically pays a premium, either regularly or as a lump sum. Other expenses (such as funeral expenses) are also sometimes included in the premium. The advantage for the policy owner is "peace of mind", in knowing that the death of the insured person will not result in financial hardship for loved ones.25

Life policies are legal contracts and the terms of the contract describe the limitations of the insured events. Specific exclusions are often written into the contract to limit the liability of the insurer; common examples are claims relating to suicide, fraud, war, riot and civil commotion.

Life-based contracts tend to fall into two major categories:

- Protection policies – designed to provide a benefit in the event of specified event, typically a lump sum payment. A common form of this design is term insurance.26

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• Investment policies – where the main objective is to facilitate the growth of capital by regular or single premiums. Common forms are whole life, universal life and variable life policies.

**Term Insurance**

Term is a straightforward and easy to understand type of life insurance. Premium is paid by the insured and in exchange, the policy pays a sum of money to the beneficiaries of the insured if he dies while covered. There is no savings or investment component and the policy is in effect for a period of time. Time periods are often of one to five years. Most of these policies are renewable. Most term insurance policies are also convertible which means the term policy can be exchanged for a cash-value policy without evidence of insurability. Term insurance policies have no cash value or savings element.

There are several variations that typically apply to this type of insurance:

**Yearly renewable term:** This is issued for a one – year period, and the policy owner can renew for successive one year periods to some stated age without evidence of insurability. Premiums increase with age at each renewal date.

**Level Term:** Insurance costs are a fixed face amount and there is a fixed annual premium throughout the term of the policy. In this case insurance is issued for 5, 10, 15 or 20 years or for longer periods. The premiums paid during the term period are level but they increase when the policy is renewed.27

**Term to age 65:** This insurance policy provides protection to age 65 at which the policy expires. The policy can be converted to a permanent plan of insurance, but the decision to convert must be exercised before age 65, may be before age 60.

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Because premiums are level, the policy develops a small reserve that is used up by the end of the period.

**Decreasing Term:** In this insurance, face value gradually decreases, but the annual premium remains fixed. This method avoids paying a relatively large premium for only a small amount of insurance near the end of the term period. Decreasing term insurance can be written as a separate policy or it can be added as a rider to an existing contract.

**Re-entry term:** It is also called revertible term and is another important term insurance product. Under a re-entry term policy, renewal premiums are based on select (lower) mortality rates if the insured can periodically demonstrate acceptable evidence of insurability. Select mortality rates are based on the mortality experience of recently insured lives. However to remain on the low-rate schedule, the insured must periodically show that he or she is in good health and is still insurable. The rates are substantially increased if the insured cannot provide satisfactory evidence of insurability.28

**Cash Value Insurance**

With this type of insurance you are paying for more than the face value of the policy. You are being enrolled into a forced savings program that later yields a face value for the policy which will be added to the death benefit, or which may be refunded if the policy is cashed in prior to death.

This insurance is more costly than term insurance for the same level of coverage. It usually features a level premium throughout the course of the policy coverage.

There are various types of cash value insurance:

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**Whole Life**: This is the most widely sold type of insurance. You accumulate a cash value but can only take the money out when you cancel, thereby giving up your insurance protection.

**Universal Life**: This is similar to whole life, but cost of protection rises as you get older.

**Variable Life**: It differs from the universal policy in that the money in your cash value is invested and you get to choose where your money is invested.  

### 3.6 Types of Insurance companies

Insurance companies may be classified into two groups:

- Life insurance companies, which sell life insurance, annuities and pensions products.
- Non-life, general, or property/casualty insurance companies, which sell other types of insurance.

General insurance companies can be further divided into these sub categories.

- Standard lines
- Excess lines

In most countries, life and non-life insurers are subject to different regulatory regimes and different tax and accounting rules. The main reason for the distinction between the two types of company is that life, annuity, and pension business is very long-term in nature — coverage for life assurance or a pension can cover risks over many decades. By contrast, non-life insurance cover usually covers a shorter period, such as one year.  

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stock companies. Mutual companies are owned by the policyholders, while stockholders (who may or may not own policies) own stock insurance companies.

Demutualization of mutual insurers to form stock companies, as well as the formation of a hybrid known as a mutual holding company, became common in some countries, such as the United States, in the late 20th century. Other possible forms for an insurance company include reciprocals, in which policyholders reciprocate in sharing risks, and Lloyd's organizations.\(^{31}\)

**Reinsurance companies** are insurance companies that sell policies to other insurance companies, allowing them to reduce their risks and protect themselves from very large losses. The reinsurance market is dominated by a few very large companies, with huge reserves. A reinsurer may also be a direct writer of insurance risks as well.

**Captive insurance companies** may be defined as limited-purpose insurance companies established with the specific objective of financing risks emanating from their parent group or groups. This definition can sometimes be extended to include some of the risks of the parent company's customers. The types of risk that a captive can underwrite for their parents include property damage, public and product liability, professional indemnity, employee benefits, employers' liability, motor and medical aid expenses. The captive's exposure to such risks may be limited by the use of reinsurance. Captives are becoming an increasingly important component of the risk management and risk financing strategy of their parent.\(^{32}\)

There are also companies known as 'insurance consultants'. Like a mortgage broker, these companies are paid a fee by the customer to shop around for the best

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insurance policy amongst many companies. Similar to an insurance consultant, an ‘insurance broker’ also shops around for the best insurance policy amongst many companies. However, with insurance brokers, the fee is usually paid in the form of commission from the insurer that is selected rather than directly from the client.

3.7 Principles of Life Insurance

Insurability

Insurability can mean either whether a particular type of loss (risk) can be insured in theory, or whether a particular client is insurable for by a particular company because of particular circumstance and the quality assigned by an insurance provider pertaining to the risk that a given client would have.

An individual with very low insurability may be said to be uninsurable, and an insurance company will refuse to issue a policy to such an applicant. Insurability is sometimes an issue in case law of torts and contracts. It also comes up in issues involving tontines and other insurance fraud schemes.  

Characteristics of insurable risks

Risk which can be insured by private companies typically share seven common characteristics. Large number of similar exposure units, Definite Loss, Accidental loss, Large Loss, Affordable premium, Calculable loss and limited risk of catastrophically large losses.

Indemnification

To “indemnify” means to make whole again, or to be reinstated to the position that one was in, to the extent possible, prior to the happening of a specified event or peril. Accordingly, life insurance is generally not considered to be indemnity insurance, but

33. Lane Mervin L., How to Sell Life Insurance, Prentice-Hall, 1947
rather "contingent" insurance (i.e., a claim arises on the occurrence of a specified event). There are generally two types of insurance contracts that seek to indemnify an insured.

1. An "indemnity" policy, and
2. A "pay on behalf" or "on behalf of policy.

**Insurable interest**

Insurable interest is: An interest based upon a reasonable expectation of pecuniary advantage through the continued life, health and bodily safety of another person, and, consequently, loss by reason of their death or disability; or A substantial interest engendered by love and affection if closely related by blood or by law.—Society of Actuaries.\(^{35}\)

Insurance contracts must be supported by an insurable interest to prevent gambling, to reduce moral hazard and to measure the amount of the insured’s loss in property insurance.

**Principle of Utmost Good Faith**

An insurance contract is based on the principle of utmost good faith – that is, a higher degree of honesty is imposed on both parties to an insurance contract than is imposed on parties to other contracts. The principle of utmost good faith is supported by three important legal doctrines – representations, concealment and warranty.\(^{36}\)

Representations are statements made by the applicant for insurance. The legal significance of a representation is that the insurance contract is voidable at the insurer’s option if the representation is material, false and relied on by the insurer.

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Principle of Subrogation

The principle of subrogation strongly supports the principle of indemnity. Subrogation means substitution of the insurer in the place of the insured for the purpose of claiming indemnity from a third person for a loss covered by insurance. The insurer is therefore entitled to recover from a negligent third party any loss payments made to the insured.

Effects

Insurance can have various effects on society through the way that it changes who bears the cost of losses and damage. On one hand it can increase fraud, on the other it can help societies and individuals prepare for catastrophes and mitigate the effects of catastrophes on both households and societies.

Insurance can influence the probability of losses through moral hazard, insurance fraud, and preventive steps by the insurance company. Insurance scholars have typically used morale hazard to refer to the increased loss due to unintentional carelessness and moral hazard to refer to increased risk due to intentional carelessness or indifference.\(^{37}\)

3.8 Insurers' business model

Underwriting and investing

The business model is to collect more in premium and investment income than is paid out in losses, and to also offer a competitive price which consumers will accept. Profit can be reduced to a simple equation: \(\text{Profit} = \text{earned premium} + \text{investment income} - \text{incurred loss} - \text{underwriting expenses}\).

Insurers make money in two ways:

\(^{37}\) Levy Michael H., *Your Insurance and how it Profit by it*, Harcourt, Brace, 1955
1. Through underwriting, the process by which insurers select the risks to insure and decide how much in premiums to charge for accepting those risks;

2. By investing the premiums they collect from insured parties.

The most complicated aspect of the insurance business is the actuarial science of ratemaking (price-setting) of policies, which uses statistics and probability to approximate the rate of future claims based on a given risk. After producing rates, the insurer will use discretion to reject or accept risks through the underwriting process.\(^{38}\)

At the most basic level, initial ratemaking involves looking at the frequency and severity of insured perils and the expected average payout resulting from these perils. Thereafter an insurance company will collect historical loss data, bring the loss data to present value, and compare these prior losses to the premium collected in order to assess rate adequacy. Loss ratios and expense loads are also used. Rating for different risk characteristics involves at the most basic level comparing the losses with "loss relativities" - a policy with twice as many losses would therefore be charged twice as much. More complex multivariate analyses are sometimes used when multiple characteristics are involved and a univariate analysis could produce confounded results. Other statistical methods may be used in assessing the probability of future losses.

Upon termination of a given policy, the amount of premium collected and the investment gains thereon, minus the amount paid out in claims is the insurer's underwriting profit on that policy. Underwriting performance is measured by something called the "combined ratio which is the ratio of expenses/losses to premiums. A combined ratio of less than 100 percent indicates an underwriting profit,

\(^{38}\) Levy Michael H., *Your Insurance and how it Profit by it*, Harcourt, Brace, 1955
while anything over 100 indicates an underwriting loss. A company with a combined ratio over 100% may nevertheless remain profitable due to investment earnings.

Insurance companies earn investment profits on "float". Float, or available reserve, is the amount of money on hand at any given moment that an insurer has collected in insurance premiums but has not paid out in claims. Insurers start investing insurance premiums as soon as they are collected and continue to earn interest or other income on them until claims are paid out. The Association of British Insurers (gathering 400 insurance companies and 94% of UK insurance services) has almost 20% of the investments in the London Stock Exchange.

In the United States, the underwriting loss of property and casualty insurance companies was $142.3 billion in the five years ending 2003. But overall profit for the same period was $68.4 billion, as the result of float.39

3.9 Claims

Claims and loss handling is the materialized utility of insurance; it is the actual "product" paid for. Claims may be filed by insured directly with the insurer or through brokers or agents. The insurer may require that the claim be filed on its own proprietary forms, or may accept claims on a standard industry form.

Insurance company claims departments employ a large number of claims adjusters supported by a staff of records management and data entry clerks. Incoming claims are classified based on severity and are assigned to adjusters whose settlement authority varies with their knowledge and experience.40 The adjuster undertakes an investigation of each claim, usually in close cooperation with the insured, determines if coverage is available under the terms of the insurance

contract, and if so, the reasonable monetary value of the claim, and authorizes payment.

The policy holder may hire their own public adjuster to negotiate the settlement with the insurance company on their behalf. For policies that are complicated, where claims may be complex, the insured may take out a separate insurance policy add on, called loss recovery insurance, which covers the cost of a public adjuster in the case of a claim.

3.10 Marketing of life insurance products

Insurers will often use insurance agents to initially market or underwrite their customers. Agents can be captive, meaning they write only for one company, or independent, meaning that they can issue policies from several companies. The existence and success of companies using insurance agents is likely due to improved and personalized service.41

3.11 Costs & Benefits of Insurance to Society

Although the insurance industry provides enormous social and economic benefits to society, the social costs of insurance must also be recognized. The major social costs of insurance include the cost of scarce economic resources – land, labour, capital, and business enterprise, Fraudulent Claims, Inflated Claims.42

Although fraudulent and inflated claims must be recognized as a social cost of insurance, the economic benefits of insurance generally outweigh these costs. Insurance reduces worry and fear; the indemnification function contributes greatly to social and economic stability; financial security of individuals and firms is preserved;


and from the perspective of insurers, objective risk in the economy is reduced. The social costs of insurance must be viewed as the sacrifice that society must make to obtain these benefits.

3.12 Arguments against insurance

Insurance insulates too much

An insurance company may inadvertently find that its insured’s may not be as risk-averse as they might otherwise be (since, by definition, the insured has transferred the risk to the insurer), a concept known as moral hazard. To reduce their own financial exposure, insurance companies have contractual clauses that mitigate their obligation to provide coverage if the insured engages in behaviour that grossly magnifies their risk of loss or liability.43

Complexity of insurance policy contracts

Insurance policies can be complex and some policyholders may not understand all the fees and coverages included in a policy. As a result, people may buy policies on unfavourable terms. In response to these issues, many countries have enacted detailed statutory and regulatory regimes governing every aspect of the insurance business, including minimum standards for policies and the ways in which they may be advertised and sold. For example, most insurance policies in the English language today have been carefully drafted in plain English; the industry learned the hard way that many courts will not enforce policies against insured’s when the judges themselves cannot understand what the policies are saying. Typically, courts construe ambiguities in insurance policies against the insurance company and in favour of coverage under the policy.

43. Teale John, Insurance and Risk Management, John Wiley & Sons Australia, Limited, 2008
Many institutional insurance purchasers buy insurance through an insurance broker. While on the surface it appears the broker represents the buyer (not the insurance company), and typically counsels the buyer on appropriate coverage and policy limitations, it should be noted that in the vast majority of cases a broker's compensation comes in the form of a commission as a percentage of the insurance premium, creating a conflict of interest in that the broker's financial interest is tilted towards encouraging an insured to purchase more insurance than might be necessary at a higher price.

Insurance may also be purchased through an agent. Unlike a broker, who represents the policyholder, an agent represents the insurance company from whom the policyholder buys. Just as there is a potential conflict of interest with a broker, an agent has a different type of conflict. Because agents work directly for the insurance company, if there is a claim the agent may advise the client to the benefit of the insurance company. It should also be noted that agents generally cannot offer as broad a range of selection compared to an insurance broker.44

An independent insurance consultant advises insured's on a fee-for-service retainer, similar to an attorney, and thus offers completely independent advice, free of the financial conflict of interest of brokers and/or agents. However, such a consultant must still work through brokers and/or agents in order to secure coverage for their clients.

**Limited consumer benefits**

In United States, economists and consumer advocates generally consider insurance to be worthwhile for low-probability, catastrophic losses, but not for high-probability,
small losses. Because of this, consumers are advised to select high deductibles and to not insure losses which would not cause a disruption in their life. However, consumers have shown a tendency to prefer low deductibles and to prefer to insure relatively high-probability, small losses over low-probability, perhaps due to not understanding or ignoring the low-probability risk. This is associated with reduced purchasing of insurance against low-probability losses, and may result in increased inefficiencies from moral hazard.\textsuperscript{45}

**Redlining**

Redlining is the practice of denying insurance coverage in specific geographic areas, supposedly because of a high likelihood of loss, while the alleged motivation is unlawful discrimination. Racial profiling or redlining has a long history in the property insurance industry in the United States.

An insurance underwriter's job is to evaluate a given risk as to the likelihood that a loss will occur. Any factor that causes a greater likelihood of loss should theoretically be charged a higher rate. This basic principle of insurance must be followed if insurance companies are to remain solvent. Thus, "discrimination" against (i.e., negative differential treatment of) potential insureds in the risk evaluation and premium-setting process is a necessary by-product of the fundamentals of insurance underwriting. The purpose of insurance is to provide protection, and in this sense clients are in a vulnerable position when they place their faith in the financial planner. The planner who sells an insurance policy that is inappropriate or overpriced is analogous to a policeman who burglarizes a house or a minister who steals from the collection plate or a nurse who intentionally administers the wrong medication.\textsuperscript{46}


3.13 World Overview

Outside the United States, the insurance industry is divided into life and non life or general insurance rather than life/health and property/casualty. World insurance premiums increased from $4.11 trillion in 2009 to $4.34 trillion in 2010, as the economic rebound that began in 2009 helped drive up premiums, according to the latest Swiss Re sigma study. The study found that while capital continued to recover in the nonlife sector, it remained below pre-crisis levels in the life sector.47

In 2010 life and non life insurance premiums (excluding cross-border business) accounted for 18.4 percent of gross domestic product (GDP) in Taiwan, the highest share in the Swiss Re study, followed by 14.8 percent in South Africa, 12.4 percent in the United Kingdom and in the Netherlands, and 11.4 percent in Hong Kong. Premiums represented 8.0 percent of GDP in the United States. Among the 10 largest insurance markets, premiums per capita ranged from a high of $5,845 in the Netherlands to a low of $158 in China. In the United States premiums per capita totalled $3,759, including $1,632 for life insurance and $2,127 for nonlife insurance.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Life premiums</th>
<th>Nonlife premiums</th>
<th>Total premiums</th>
<th>Percent change from prior year</th>
<th>Percent of total world premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United States (3), (4)</td>
<td>$506,228</td>
<td>$659,915</td>
<td>$1,166,142</td>
<td>1.4%</td>
<td>26.88%</td>
</tr>
<tr>
<td>2</td>
<td>Japan (4), (5)</td>
<td>440,950</td>
<td>116,489</td>
<td>557,439</td>
<td>6.8</td>
<td>12.85</td>
</tr>
<tr>
<td>3</td>
<td>United Kingdom (6)</td>
<td>213,831</td>
<td>96,191</td>
<td>310,022</td>
<td>-0.7</td>
<td>7.15</td>
</tr>
<tr>
<td>4</td>
<td>France (6)</td>
<td>192,428</td>
<td>87,654</td>
<td>280,082</td>
<td>-1.4</td>
<td>6.46</td>
</tr>
<tr>
<td>5</td>
<td>Germany (6)</td>
<td>114,868</td>
<td>124,949</td>
<td>239,817</td>
<td>-0.1</td>
<td>5.53</td>
</tr>
<tr>
<td>6</td>
<td>China (4)</td>
<td>142,999</td>
<td>71,628</td>
<td>214,626</td>
<td>31.6</td>
<td>4.95</td>
</tr>
<tr>
<td>7</td>
<td>Italy (6)</td>
<td>122,063</td>
<td>52,285</td>
<td>174,347</td>
<td>2.9</td>
<td>4.02</td>
</tr>
<tr>
<td>8</td>
<td>Canada (6), (7)</td>
<td>51,574</td>
<td>63,947</td>
<td>115,521</td>
<td>16.1</td>
<td>2.66</td>
</tr>
<tr>
<td>9</td>
<td>South Korea (4), (5)</td>
<td>71,131</td>
<td>43,291</td>
<td>114,422</td>
<td>16.3</td>
<td>2.64</td>
</tr>
<tr>
<td>10</td>
<td>Netherlands (6)</td>
<td>25,102</td>
<td>71,954</td>
<td>97,057</td>
<td>-6.1</td>
<td>2.24</td>
</tr>
</tbody>
</table>

(1) Before reinsurance transactions.
(2) Includes accident and health insurance.
(3) Life premiums include an estimate of group pension business; nonlife premiums include state funds.
(4) Provisional.
(5) April 1, 2010-March 31, 2011.
(6) Estimated.
(7) Life premiums are net premiums.
## World Rankings

### Table 3.2 Table showing top ten global insurance companies by revenues, 2010 ($ millions)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Revenues (2)</th>
<th>Country</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Japan Post Holdings</td>
<td>$203,958</td>
<td>Japan</td>
<td>Life/health</td>
</tr>
<tr>
<td>2</td>
<td>AXA</td>
<td>162,236</td>
<td>France</td>
<td>Life/health</td>
</tr>
<tr>
<td>3</td>
<td>Berkshire Hathaway</td>
<td>136,185</td>
<td>U.S.</td>
<td>Property/casualty</td>
</tr>
<tr>
<td>4</td>
<td>Allianz</td>
<td>127,379</td>
<td>Germany</td>
<td>Property/casualty</td>
</tr>
<tr>
<td>5</td>
<td>Assicurazioni Generali</td>
<td>120,234</td>
<td>Italy</td>
<td>Life/health</td>
</tr>
<tr>
<td>6</td>
<td>American International Group</td>
<td>104,417</td>
<td>U.S.</td>
<td>Property/casualty</td>
</tr>
<tr>
<td>7</td>
<td>Aviva</td>
<td>90,211</td>
<td>U.K.</td>
<td>Life/health</td>
</tr>
<tr>
<td>8</td>
<td>Nippon Life Insurance</td>
<td>78,571</td>
<td>Japan</td>
<td>Life/health</td>
</tr>
<tr>
<td>9</td>
<td>Munich Re Group</td>
<td>76,220</td>
<td>Germany</td>
<td>Property/casualty</td>
</tr>
<tr>
<td>10</td>
<td>Prudential</td>
<td>73,598</td>
<td>U.K.</td>
<td>Life/health</td>
</tr>
</tbody>
</table>

(1) Based on an analysis of companies in the Global Fortune 500. It includes stock and mutual companies.

(2) Revenues include premium and annuity income, investment income and capital gains or losses, but exclude deposits; includes consolidated subsidiaries, excludes excise taxes.

Source: Fortune.

### 3.14 Insurance in the United States

The first insurance company in the United States underwrote fire insurance and was formed in Charleston, South Carolina, in 1735. In 1752, Benjamin Franklin helped form a mutual insurance company called the Philadelphia Contributor ship, which is the nation’s oldest insurance carrier still in operation. Franklin’s company was the first to make contributions toward fire prevention. Not only did his company warn
against certain fire hazards, it refused to insure certain buildings where the risk of fire was too great, such as all wooden houses.\textsuperscript{48}

The first stock insurance company formed in the United States was the Insurance Company of North America in 1792. Massachusetts enacted the first state law requiring insurance companies to maintain adequate reserves in 1837. Formal regulation of the insurance industry began in earnest when the first state commissioner of insurance was appointed in New Hampshire in 1851. In 1869, the State of New York appointed its own commissioner of insurance and created a state insurance department to move towards more comprehensive regulation of insurance at the state level.

Insurance and the insurance industry has grown, diversified and developed significantly ever since. Insurance companies were, in large part, prohibited from writing more than one line of insurance until laws began to permit multi-line charters in the 1950s. From an industry dominated by small, local, single-line mutual companies and member societies, the business of insurance has grown increasingly towards multi-line, multi-state and even multi-national insurance conglomerates and holding companies.

\textbf{Regulation}

Historically, the insurance industry in the United States was regulated almost exclusively by the individual state governments. The first state commissioner of insurance was appointed in New Hampshire in 1851 and the state-based insurance regulatory system grew as quickly as the insurance industry itself. Prior to this period, insurance was primarily regulated by corporate charter, state statutory law and de facto regulation by the courts in judicial decisions.

\textsuperscript{48} \textbf{Review of the Interim Mortality Tables} Developed by Tillinghast and Proposed for Use by the ACLI from the Joint American Academy of Actuaries/Society of Actuaries Review Team\textsuperscript{a} August 29, 2006
Under the state-based insurance regulation system, each state operates independently to regulate their own insurance markets, typically through a state department of insurance. Stretching back as far as the Paul v. Virginia case in 1869, challenges to the state-based insurance regulatory system have risen from various groups, both within and without the insurance industry. The state regulatory system has been described as cumbersome, redundant, confusing and costly.

The United States Supreme Court found in the 1944 case of United States v. South-Eastern Underwriters Association that the business of insurance was subject to federal regulation under the Commerce Clause of the U.S. Constitution. The United States Congress, however, responded almost immediately with the McCarran-Ferguson Act in 1945. The McCarran-Ferguson Act specifically provides that the regulation of the business of insurance by the state governments is in the public interest. Further, the Act states that no federal law should be construed to invalidate, impair or supersede any law enacted by any state government for the purpose of regulating the business of insurance, unless the federal law specifically relates to the business of insurance.

A wave of insurance company insolvencies in the 1980s sparked a renewed interest in federal insurance regulation, including new legislation for a dual state and federal system of insurance solvency regulation. In response, the National Association of Insurance Commissioners (NAIC) adopted several model reforms for state insurance regulation, including risk-based capital requirements, financial regulation accreditation standards and an initiative to codify accounting principles. As more and more states enacted versions of these model reforms into law, the pressure for federal reform of insurance regulation waned.

The NAIC acts as a forum for the creation of model laws and regulations. Each state decides whether to pass each NAIC model law or regulation, and each state may make changes in the enactment process, but the models are widely, albeit somewhat irregularly, adopted. The NAIC also acts at the national level to advance laws and policies supported by state insurance regulators. NAIC model acts and regulations provide some degree of uniformity between states, but these models do not have the force of law and have no effect unless they are adopted by a state. They are, however, used as guides by most states, and some states adopt them with little or no change.

Table 3.3 LIFE INSURANCE IN THE UNITED STATES OF AMERICA – AT A GLANCE

<table>
<thead>
<tr>
<th>YEAR OF ORIGIN</th>
<th>ORGANISATION</th>
<th>NO. OF LIFE INSURANCE COMPANIES</th>
<th>ASSOCIATION</th>
<th>REGULATORY BODY</th>
</tr>
</thead>
</table>
| 1849           | 1. Large companies - Insurance Groups  
2. Small companies - Single Corporation | 50 | 1. Insurance Information Institute  
New York.  
Web: www.iii.org  
2. American Council of Life Insurers (ACLI)  
Washington, DC  
3. Reinsurance Association of America  
4. Surety & Fidelity (SFAA)  
6. The life and health insurance foundation for education  
7. Life insurance settlement association  
8. National alliance of life companies (nalc)  

<table>
<thead>
<tr>
<th>TYPES OF INSURANCE</th>
<th>LIFE INSURANCE PRODUCTS</th>
<th>STATE OWNED LIFE INSURANCE COMPANIES</th>
<th>DIRECT PREMIUMS WRITTEN, 2010</th>
<th>PERCENTAGE OF WORLD TOTAL PREMIUM</th>
</tr>
</thead>
</table>
| 1. Life, Health, and Variable Annuities  
2. Health (dental, vision, medications)  
3. Life | 1. Long-term care  
2. Accidental death and dismemberment  
3. Hospital indemnity  
4. Universal Life insurance | Nil | $1,166,142 (U.S. $ millions)  
Nonlife premium: 659,915  
Life premiums: 506,228 | 26.88% |
### Challenges in US Insurance Industry

1. Softness of the US economy, which has resulted in a lack of confidence on the part of both households and businesses.
2. Massive claims from catastrophes, both in the US and elsewhere; brutal swings in global stock markets (and some bond markets) in Q311 (although it has to be noted that October was one of the best single months on record for the major US equity indices).
3. Extraordinarily low interest rates.
4. Rising costs associated with regulation, and rising reinsurance costs.
5. Variable Universal Life insurance.
6. Whole life insurance.
7. Survivorship Life Insurance.
8. Term Life insurance.

### Population in 2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>313,232,044</td>
</tr>
</tbody>
</table>

### Institutions Supporting Insurance Industry

1. The National Association of Insurance Commissioners provides models for standard state insurance law, and provides services for its members, which are the state insurance divisions.

### Gross Domestic Product 2010

- Many insurance providers use the Insurance Services Office, which produces standard policy forms and rating loss costs and then submits these documents on the behalf of member insurers to the state insurance divisions.

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3.15 **Life Insurance in Japan**

For years, Japan has earned respect as a giant in global insurance markets. It's the second largest market in the world, after the U.S. According to Swiss Re, total premium income in 2006 reached $363 billion, representing approximately one-sixth of total world life insurance premium income. Japanese life insurers are among the largest in the world, including the largest of all, Japan Post Insurance.

But time has not kept Japan immune from change. Premium income has slipped after a period of steady growth in the 1990s, reflecting the existing high rate of penetration of life insurance products in an economy that has seen only mild economic growth over a number of years.\(^{50}\) From 1998 to 2001, seven life insurers in

---

Japan either became insolvent or entered rehabilitation as a result of reduced asset values and high-interest-rate guarantees on products that could not be supported by current investment yields. Six of these failures occurred in an eventful 12-month period in 2000 and 2001.

Table 3.4 LIFE INSURANCE IN JAPAN– AT A GLANCE

<table>
<thead>
<tr>
<th>YEAR OF ORIGIN</th>
<th>ORGANISATION</th>
<th>NO. OF LIFE INSURANCE COMPANIES</th>
<th>ASSOCIATION</th>
<th>REGULATORY BODY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1880</td>
<td>1. Government owned - Japan Post Insurance - currently government-owned but is to be progressively sold to the private sector 2. Private sector - Domestic owned, Foreign owned, Domestic/Foreign Joint venture 3. Kyosai, - These are cooperative insurance organizations</td>
<td>43</td>
<td>The Life Insurance Association of Japan (LIAJ) Web: <a href="http://www.sonpo.or.jp/en">www.sonpo.or.jp/en</a></td>
<td>General Insurance Association of Japan</td>
</tr>
</tbody>
</table>

Types of Insurance

LIFE INSURANCE PRODUCTS

State owned life insurance companies
Nil

Direct premiums written, 2010
Total premiums: $557,439 Nonlife premium: $116,489 Life premiums: $440,950

Percentage of worlds total premium
12.85%

Challenges in Japan’s insurance industry
For existing insurers
1. What mix of products should the organization offer and via
2. How can multiple

Population in 2010
126,475,664

Gross domestic product 2010
$ 4,141.0

4. How can operations be sourced appropriately for product development,
For potential entrants

1. What competitive advantage, brand value or expertise does my organization bring to the Japanese market?

2. Does the firm have access to appropriate product distributors? How will distributor relationships be developed?

3. How can risks on product offerings, including investment guarantee risks, policyholder longevity risk and lifetime guarantees on medical protection business be managed?

4. Do we have experienced senior managers in Japan? How can we plan to recruit the local management resources and expertise required for success?

• (1) Overview of the Life Insurance Business in Japan in Fiscal 2010
  Source: LIAJ Business in Japan 2010/2011

SPECIAL FEATURES OF JAPANESE INSURANCE LAWS – Law concerning Earthquake Insurance - This law was established with the objective of contributing to the stability of the life of those who have suffered as a result of earthquakes. Under this law, earthquake risks on dwelling houses and contents are covered with reinsurance support provided by the government. Since the likelihood of catastrophic losses on dwelling risks following an earthquake is high, the aggregate limit of indemnity is shared among all private insurers and the government, who are liable under the excess of loss reinsurance cover arranged through the Japan Earthquake Reinsurance Company.51

51. www2.iii.org/international-insurance-fact-book/country-profiles.html
3.16 LIFE INSURANCE IN ENGLAND

The first life insurance company (often referred to as a life office) instituted in England was the ‘Hand-in-Hand Society’ which was founded in 1696 by 100 incorporators. ‘The Society of Assurance for Widows and Orphans’, established in 1699, appears to have been the first office open to the general public. A death benefit of £500 on the death of a member was its object and a contribution of 5 shillings from each of 2000 members was required. This Society apparently never attained the required membership and survived for only 12 years. It paved the way however, for the ‘Amicable Society for Perpetual Assurance on Lives’, founded in 1706 and operating on similar lines by virtue of a charter from Queen Anne. Initially, this Society charged an annual premium of £6.4.0 irrespective of age, for a death benefit the size of which depended on the number of deaths amongst members during the year. There was a fixed number of shares (2000) offered to the public and persons between the ages of 12 and 45 were eligible for membership. The contributions received during the year less outgoings, were to be divided at the close of the year between the representatives of the members who had died during that year. In 1770 the Society reported that during its history it had paid 3 643 claimants the total sum of £378 184 and that the sums paid on death in the 17 years prior to 1770 had averaged £154 each.52

This concept of offering a death benefit equal to the fund available divided by the number of deaths during a particular period was not insurance practice as we know it today. Furthermore, the contract differed substantially from today’s life

52. www2.iii.org/international-insurance-fact-book/country-profiles.html
insurance in that the premium was a fixed amount per £100 death benefit, irrespective of the age at entry of the life insured.

One of the earliest schemes of mutual insurance was set up by the workers of the University Printing House, Oxford, in 1707. It was agreed that each should deposit one shilling upon every third Saturday and also at Christmas, Easter and the Wayzgoose (a trade picnic day) to be placed in a chest, the keys of which were kept by two nominated workmen. On the death of a member, there was paid to the widow or next-of-kin a sum depending on the length of time he had been a subscriber. Sums up to half the total amount paid in by a member could be advanced at interest but repayment by weekly installments was compulsory during the ensuing year.

In contrast to its misguided ill repute on the continent of Europe, life insurance in England was advertised as a morally uplifting exercise in the virtues of thrift, prudence and charity. In consequence, life insurance in England acquired widespread if not universal esteem. Policy holders agreed that life insurance inspired providence, encouraged a tender and selfless devotion to one’s family and ‘kindled a warm Christian fellowship’ amongst insurance society members.53

Moreover, England had that great institution of insurance known as Lloyds of London. Lloyds came of age in the late 1700s insuring ships through a succession of wars culminating in the defeat of Napoleon in Waterloo in 1815. War drove up premiums and whilst many ships were sunk and much money lost, skilled underwriters grew rich and Lloyds grew in size and importance. Having

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begun through a loose association of merchants who gathered at Edward Lloyd’s coffeehouse in Tower Street near the Thames waterfront in the late 1600s, in 1771 a group of 79 sober underwriters established a formal association in a building nearby. Although Edward Lloyd was long dead, his name stuck, as did the tradition of doing business from wooden benches clustered in rectangular ‘boxes’ around a large room.

The introduction of the Financial Services Act in the 1980s and subsequently the Financial Services Authority at the turn of the century heralded the advent of an environment considerably less favourable to the British insurance industry. Indeed, a sudden and great contraction in the life insurance industry appeared to be taking place in the early 2000s and it remains for future historians to record whether or not this new-found state intervention will have unintended consequences similar in impact and magnitude to those of the Europeans in earlier times.

**Table 3.5 LIFE INSURANCE IN UNITED KINGDOM**

<table>
<thead>
<tr>
<th>YEAR OF ORIGIN</th>
<th>ORGANISATION</th>
<th>NO. OF LIFE INSURANCE COMPANIES</th>
<th>ASSOCIATION</th>
<th>REGULATORY BODY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1633</td>
<td>Corporations</td>
<td>25</td>
<td>INVESTMENT ASSOCIATION Association of British Insurers Web: <a href="http://www.abi.org.uk">www.abi.org.uk</a></td>
<td>Financial Services Authority (FSA) When acting as the competent authority for listing of shares on a stock exchange, it is referred to as the UK Listing Authority (UKLA)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TYPES OF INSURANCE</th>
<th>LIFE INSURANCE PRODUCTS</th>
<th>STATE OWNED LIFE INSURANCE COMPANIES</th>
<th>DIRECT PREMIUMS WRITTEN, 2010 (U.S. $ millions)</th>
<th>PERCENTAGE OF WORLD'S TOTAL PREMIUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Health &amp; 1. Mortgage Life</td>
<td>Nil</td>
<td>Total premiums:</td>
<td>7.15%</td>
<td></td>
</tr>
</tbody>
</table>
The UK insurance industry is the third largest in the world and the largest in Europe. It is a vital part of the UK economy, managing investments amounting to 26% of the UK’s total net worth and contributing £10.4 billion in taxes to the Government. Employing over 290,000 people in the UK alone, the insurance industry is also one of this country’s major exporters, with 28% of its net premium income coming from overseas business. Insurance helps individuals and businesses protect themselves against the everyday risks they face, enabling people to own homes, travel overseas, provide for a financially secure future and run businesses. Insurance underpins a healthy and prosperous society, enabling businesses and individuals to thrive, safe in the knowledge that problems can be handled and risks carefully managed. Every day, our members pay out £147 million in benefits to pensioners and long-term savers as well as £60 million in general insurance claims.⁵⁴

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### Table 3.6 LIFE INSURANCE IN FRANCE

<table>
<thead>
<tr>
<th>YEAR OF ORIGIN</th>
<th>ORGANISATION</th>
<th>NO. OF LIFE INSURANCE COMPANIES</th>
<th>ASSOCIATION</th>
<th>REGULATORY BODY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1686</td>
<td>Insurance Groups</td>
<td>Most of the insurance companies are private-owned stock companies and profit oriented.</td>
<td>480</td>
<td>Insurance Federation FederationFrançaise des Sociétés d'Assurances Web: <a href="http://www.ffsa.fr">www.ffsa.fr</a></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TYPES OF INSURANCE</th>
<th>LIFE INSURANCE PRODUCTS</th>
<th>STATE OWNED LIFE INSURANCE COMPANIES</th>
<th>DIRECT PREMIUMS WRITTEN, 2010(U.S.$ millions)</th>
<th>PERCENTAGE OF WORLD'S TOTAL PREMIUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Life Insurance</td>
<td>1. Assurance Décès -Death policies in France are known as assurance décès. There are two types of such policies.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>i. Assurance vie entière - This is a death policy that pays out a capital sum at the end of the fixed term of the policy.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ii. Assurance décèstemporaire-A cheaper way of ensuring your partner or children obtain a fixed sum is to take out assurance décèstemporaire. These policies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Dependence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Health</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Dependence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Loan Insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Retirement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Foresight</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Property Insurance &amp; Liability</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Direct Premiums

<table>
<thead>
<tr>
<th>Nonlife premiums (1)</th>
<th>$87,654</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life premiums</td>
<td>$192,428</td>
</tr>
<tr>
<td><strong>Total premiums</strong></td>
<td><strong>$280,082</strong></td>
</tr>
</tbody>
</table>

6.46%
normally have a life
of one year. So,
with this policy, you
choose the capital
sum you seek,
which will be paid
to the beneficiary in
the event of death
in the year.

Pure Endowment
Insurance
Individual Policies

Group Policies
Term Life
Insurance
Individual Policies
Group Policies
Capital
Redemption Bonds

Euro-based
Contracts

Unit-linked
Contracts
Health and Bodily
Injury Insurance
Disability
\(incapacite-
invalidite\)
Health Insurance
\(soim de sante\)

<table>
<thead>
<tr>
<th>POPULATION IN 2010</th>
<th>GROSS DOMESTIC PRODUCT 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>65,312,249</td>
<td>$ 2,113.0 (2)</td>
</tr>
</tbody>
</table>

(1) Includes accident and health insurance
(2) Estimated.
(3) Source: U.S. Central Intelligence Agency.
   Based on Purchasing Power Parity calculations, which take into account the relative cost of
   living and inflation rates of countries. GDP estimate for July for each year shown.
(4) Source: Swiss Re, \(sigma\), No. 2/2011.

Table 3.7 LIFE INSURANCE IN GERMANY

<table>
<thead>
<tr>
<th>YEAR OF ORIGIN</th>
<th>ORGANISATION</th>
<th>NO. OF LIFE INSURANCE COMPANIES</th>
<th>ASSOCIATION</th>
<th>REGULATORY BODY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1860</td>
<td>Large Companies</td>
<td>470</td>
<td>German Insurance Association Gesamtverband der Deutschen</td>
<td>European insurance supervisory</td>
</tr>
</tbody>
</table>
The German life insurance segment is one of the strongest in Europe in terms of insurance density and penetration. However, the German life insurance segment registered a negative annual growth rate due to the impact of the European sovereign debt crisis in 2011. As a result of the difficult economic conditions, German consumers are beginning to appreciate the advantages offered by life insurance products.

<table>
<thead>
<tr>
<th>TYPES OF INSURANCE</th>
<th>LIFE INSURANCE PRODUCTS</th>
<th>STATE OWNED LIFE INSURANCE COMPANIES</th>
<th>DIRECT PREMIUMS WRITTEN, 2010 (U.S. $ millions)</th>
<th>PERCENTAGE OF WORLD’S TOTAL PREMIUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Insurance, Pension &amp; annuity insurances</td>
<td>Life Insurance, Single premium policy, endowment insurance, Individual life insurance, Group life insurance</td>
<td>Nonlife premiums (1) $124,949 Life premiums 114,868 Total premiums $239,817</td>
<td>5.53%</td>
<td></td>
</tr>
<tr>
<td>(1) Includes accident and health insurance.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Estimated.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Based on Purchasing Power Parity calculations, which take into account the relative cost of living and inflation rates of countries. GDP estimate for July for each year shown.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Source: U.S. Central Intelligence Agency</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Source: Swiss Re, sigma, No. 2/2011.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The German life insurance segment is one of the strongest in Europe in terms of insurance density and penetration. However, the German life insurance segment registered a negative annual growth rate due to the impact of the European sovereign debt crisis in 2011. As a result of the difficult economic conditions, German consumers are beginning to appreciate the advantages offered by life insurance products.
insurers. These advantages include insurance cover against biometric risks and old age guarantees. Biometric risk is the risk that the insurer has to pay pensions for a longer time or larger death or disability benefits to the insured than anticipated by the insurer when pricing the policies. There was a strong demand for single-premium life insurance as part of private old age pensions in Germany in 2010. The country’s aging population and rising employment opportunities, driven by the improving European economic environment, are expected to drive German life insurance growth over the forecast period (2012-2016).

Table 3.8 LIFE INSURANCE IN CHINA

<table>
<thead>
<tr>
<th>YEAR OF ORIGIN</th>
<th>ORGANISATION</th>
<th>NO. OF LIFE INSURANCE COMPANIES</th>
<th>ASSOCIATION</th>
<th>REGULATORY BODY</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>TYPES OF INSURANCE</th>
<th>LIFE INSURANCE PRODUCTS</th>
<th>STATE OWNED LIFE INSURANCE COMPANIES</th>
<th>DIRECT PREMIUMS WRITTEN, 2010(U.S. $ millions)</th>
<th>PERCENTAGE OF WORLD’S TOTAL PREMIUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term insurance Permanent life insurance Whole life coverage Universal life coverage Limited Pay Endowment</td>
<td>1 originally state backed but subsequently a public limited company</td>
<td>Nonlife premiums (1) $71,628 Life premiums142,999 Total premiums$214,626</td>
<td>4.95%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>POPULATION IN 2010</th>
<th>GROSS DOMESTIC PRODUCT 2010</th>
<th>DISTRIBUTION CHANNELS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,336,718,015 (2)</td>
<td>$ 8,791.0 (3)</td>
<td></td>
</tr>
</tbody>
</table>

(1) Includes accident and health insurance.
(2) Estimated.
(3) Based on Purchasing Power Parity calculations, which take into account the relative cost of living and inflation rates of countries. GDP estimate for July for each year shown.
(4) Source: U.S. Central Intelligence Agency.

In contrast to China’s nascent retail-banking industry, the life insurance and savings business is already huge and increasingly competitive. Over the past decade, it has increased by about 30 percent each year, making China the world's
fastest-growing major life insurance market. Rapid growth is expected through 2008, when it will have exceeded $100 billion in premiums, surpassing France and Germany.

Behind the growth lies a 40 percent household-savings rate, coupled with limited and deteriorating public-pension and health schemes that have generated high demand for personal-retirement savings and protection vehicles. Attractive options are limited. Capital controls block the ability to invest in other countries, and there are few good local stocks or mutual funds. Bank deposits yield a flat 2 percent—no match for a typical savings policy, which pays a guaranteed 2 percent, plus 70 percent on returns that exceed the guaranteed portion, and is tax-exempt to boot. During the late 1990s, foreign insurers were invited to invest in Chinese ones, subject to a 25 percent foreign-ownership limit, or to form 50-50 joint ventures with local partners.

Table 3.9 LIFE INSURANCE IN ITALY

<table>
<thead>
<tr>
<th>YEAR OF ORIGIN</th>
<th>ORGANISATION</th>
<th>NO. OF LIFE INSURANCE COMPANIES</th>
<th>ASSOCIATION</th>
<th>REGULATORY BODY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marine Insurance Originated in Italy in 16th Century A.D.</td>
<td>Limited Companies</td>
<td>242</td>
<td>Italian Association of Insurance Companies Associazione Nazionale Assicuratrici</td>
<td>Web: <a href="http://www.ania.it">www.ania.it</a></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TYPES OF INSURANCE</th>
<th>LIFE INSURANCE PRODUCTS</th>
<th>STATE OWNED LIFE INSURANCE COMPANIES</th>
<th>DIRECT PREMIUMS WRITTEN, 2010 (U.S. $ millions)</th>
<th>PERCENTAGE OF WORLD S TOTAL PREMIUM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Nonlife premiums (1) $52,285</td>
<td>4.02%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Life premiums $122,063</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total premiums $174,347</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>POPULATION IN 2010</th>
<th>GROSS DOMESTIC PRODUCT 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>61,016,804 (2)</td>
<td>$1,756.0 (3)</td>
</tr>
</tbody>
</table>
(1) Includes accident and health insurance.

(2) Estimated.

(3) Based on Purchasing Power Parity calculations, which take into account the relative cost of living and inflation rates of countries. GDP estimate for July for each year shown.

Source: U.S. Central Intelligence Agency.

### Table 3.10 LIFE INSURANCE INDUSTRY IN CANADA

<table>
<thead>
<tr>
<th>YEAR OF ORIGIN</th>
<th>ORGANISATION</th>
<th>NO. OF LIFE INSURANCE COMPANIES</th>
<th>ASSOCIATION</th>
<th>REGULATORY BODY</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>TYPES OF INSURANCE</th>
<th>LIFE INSURANCE PRODUCTS</th>
<th>STATE OWNED LIFE INSURANCE COMPANIES</th>
<th>DIRECT PREMIUMS WRITTEN, 2010 (U.S. $ millions)</th>
<th>PERCENTAGE OF WORLD S TOTAL PREMIUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Life Insurance</td>
<td>1. Retirement and Investment Products</td>
<td></td>
<td>Nonlife premiums$63,947 (1) Life premiums$51,574 Total premiums$115,521</td>
<td>2.66%</td>
</tr>
<tr>
<td></td>
<td>2. Group Investment Products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>For Plan Members Product information for members who belong to a group retirement plan.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>For Institutions Product information for institutional investors, with maximum flexibility and a</td>
<td></td>
</tr>
</tbody>
</table>


Simplified pricing structure.

<table>
<thead>
<tr>
<th>POPULATION IN 2010</th>
<th>GROSS DOMESTIC PRODUCT 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>34,030,589 (2)</td>
<td>$1,335.0 (3)</td>
</tr>
</tbody>
</table>

(1) Includes accident and health insurance.

(2) Estimated.

(3) Based on Purchasing Power Parity calculations, which take into account the relative cost of living and inflation rates of countries. GDP estimate for July for each year shown.

(4) Source: Swiss Re, sigma, No. 2/2011.

SPECIAL FEATURES OF INSURANCE IN CANADA- Through a wide range of products and services, the life and health insurance industry helps Canadians to protect themselves and their families against the financial risks of premature death, illness and retirement. These products include individual and group life insurance, supplementary health insurance and individual and group annuities (including RRSPs, RRIFs, TFSAs and defined contribution pension plans).

Table 3.11 LIFE INSURANCE IN SOUTH KOREA

<table>
<thead>
<tr>
<th>YEAR OF ORIGIN</th>
<th>ORGANISATION</th>
<th>NO. OF LIFE INSURANCE COMPANIES</th>
<th>ASSOCIATION</th>
<th>REGULATORY BODY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Korea Non-life Insurance Association Web: <a href="http://www.knia.or.kr">www.knia.or.kr</a></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TYPES OF INSURANCE</th>
<th>LIFE INSURANCE PRODUCTS</th>
<th>STATE OWNED LIFE INSURANCE COMPANIES</th>
<th>DIRECT PREMIUMS WRITTEN, 2010 (U.S. $ millions)</th>
<th>PERCENTAGE OF WORLD’S TOTAL PREMIUM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Nonlife premiums $43,291 (1) Life premiums $71,131 Total premiums $114,422</td>
<td>2.64%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>POPULATION IN 2010</th>
<th>GROSS DOMESTIC PRODUCT 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>48,754,657 (2)</td>
<td>$1,343.0 (3)</td>
</tr>
</tbody>
</table>
(1) Includes accident and health insurance.
(2) Estimated.
(3) Based on Purchasing Power Parity calculations, which take into account the relative cost of living and inflation rates of countries. GDP estimate for July for each year shown.
(4) Source: Swiss Re, sigma, No. 2/2011

The South Korean insurance market has undergone several changes since the deregulation of life insurance sector in 1987. The deregulation of market led to the entry of foreign insurers in the South Korean market in the form of joint ventures with local companies or the acquisition of domestic players. Life insurance market accounts for a larger share of the South Korean insurance business. The domestic consumer’s slow uptake in general insurance products has restricted non-life insurance business growth.

Despite the global economic slowdown, annual insurance premiums maintained a high growth trend in 2009 due to changes in the financial environment as well as diversifying consumer needs. The on-going demand for after-retirement protection-type products as well as health insurance products, including accident and illness, and medical expense coverage products are expected to drive this growth. In life insurance sector, sales of both annuities and savings insurance products are in high demand among consumers. Non-life insurance premiums growth was mainly driven by growing demand for long term insurance and automobile insurance.

Table 3.12 LIFE INSURANCE IN NETHERLANDS

<table>
<thead>
<tr>
<th>YEAR OF ORIGIN</th>
<th>ORGANISATION</th>
<th>NO. OF LIFE INSURANCE COMPANIES</th>
<th>ASSOCIATION</th>
<th>REGULATORY BODY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>295</td>
<td>Insurance Companies Association</td>
<td>Verbond Van Verzekeraars Web: <a href="http://www.verzekeraars.nl">www.verzekeraars.nl</a></td>
</tr>
<tr>
<td>TYPES</td>
<td>OF LIFE INSURANCE</td>
<td>STATE OWNED</td>
<td>DIRECT</td>
<td>PREMIUMS</td>
</tr>
</tbody>
</table>

69
Table 3.13 TAX LAWS – COMPARATIVE

UNITED STATES
1. Premiums paid by the policy owner are normally not deductible for federal and state income tax purposes, and proceeds paid by the insurer upon the death of the insured are not included in gross income for federal and state income tax purposes. However, if the proceeds are included in the "estate" of the deceased, it is likely they will be subject to federal and state estate and inheritance tax.
2. Cash value increases within the policy are not deductible for federal and state income tax purposes.

UNITED KINGDOM
1. Premiums are not usually deductible against income tax or corporation tax, however qualifying policies issued prior to 14 March 1984 does still attract LAPR (Life Assurance Premium Relief) at 15% (with the net premium being collected from the policyholder).
2. Non-investment life policies do not normally attract either income tax or capital gains tax on claim. If the policy has as investment element such as an endowment policy, whole of life policy or an

AUSTRALIA
1. Where the life insurance is provided through a superannuation fund, contributions made to fund insurance premiums are tax deductible for self employed persons and substantially self-employed persons and employers. However where life insurance is held outside of the superannuation environment, the premiums are generally not tax deductible. For insurance through a superannuation fund, the annual deductible is

INDIA
1. Premiums paid by the policy owner are deductible from the taxable income of the policy owner under section 80 (C) up to a maximum limit of Rs.1,00,000. 2. Any proceeds from an Insurance Plan in form of maturity proceeds, claims, partial withdrawal is exempt from taxation under section 10 (10) D of Income Tax law of India.
subject to income taxes unless certain events occur. Savings can increase without taxation until the owner withdraws the money from the policy.

3. In flexible-premium policies, large deposits of premium could cause the contract to be considered a modified endowment contract by the Internal Revenue Service (IRS), which negates many of the tax advantages associated with life insurance. The insurance company, in most cases, will inform the policy owner of this danger before deciding their premium.

4. The tax ramifications of life insurance are complex. The policy owner would be well advised to carefully consider them. As always, both the United States Congress and state legislatures can change the tax laws at any time.

Investment bond then the tax treatment is determined by the qualifying status of the policy.

3. Qualifying status is determined at the outset of the policy if the contract meets certain criteria. Essentially, long term contracts (10 years plus) tend to be qualifying policies and the proceeds are free from income tax and capital gains tax.

4. Single premium contracts and those running for a short term are subject to income tax depending upon the marginal rate in the year a gain is made.

5. All UK insurers pay a special rate of corporation tax on the profits from their life book; this is deemed as meeting the lower rate (20% in 2005–06) of liability for policyholders. Therefore a policyholder who is a higher rate taxpayer (40% in 2005-06), or becomes one through the transaction, must pay tax on the gain at the difference between the higher and the lower rate. This gain is reduced by applying a calculation called top-slicing based on the number of years the policy has been held.

6. Although this is complicated, the taxation of life assurance-based investment contracts may be beneficial compared to alternative equity-based collective investment schemes (unit trusts, investment contributions to the superannuation funds are subject to age limits. These limits apply to employers making deductible contributions. They also apply to self-employed persons and substantially self-employed persons.

2. Included in these overall limits are insurance premiums. This means that no additional deductible contributions can be made for the funding of insurance premiums. Insurance premiums can, however, be funded by undeducted contributions.

3. The insurance premium paid by the superannuation fund can be claimed by the fund as a deduction to reduce the 15% tax on contributions and earnings. (Ref: ITAA 1936, Section 279)

4. Pension term assurance -

Although available before April 2006, from this date pension term assurance became widely available in the UK. Most UK insurers adopted the name “life insurance with tax relief” for the product. Pension term assurance is effectively normal term life assurance with tax relief on the premiums. All premiums are paid at a net of basic rate tax at 22%, and higher rate tax payers can gain an extra 18% tax relief via their tax return. Although not suitable for all, PTA briefly became one of the most common forms of life
trusts and OEICs).

7. The proceeds of a life policy will be included in the estate for death duty (in the UK, inheritance tax) purposes. Policies written in trust may fall outside the estate. Trust law and taxation of trusts can be complicated, so any individual intending to use trusts for tax planning would usually seek professional advice from an Independent Financial Adviser and/or a solicitor.

assurance sold in the UK until; Chancellor Gordon Brown announced the withdrawal of the scheme in his pre-budget announcement on 6 December 2006.

<table>
<thead>
<tr>
<th>FRANCE</th>
<th>ITALY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assurance Décès -Death policies in France are known as assurance décès. There are two types of such policies.</td>
<td>Life insurance cover has been exempt from Italian IPT (Insurance Premium Tax) since 2001. Freedom of Services insurers from Europe providing Life cover in Italy do not need to appoint a fiscal representative any longer. However, problems with requirements on local payments and keeping records mean almost all insurers retain a tax rep. This rep must file the equivalent of ‘nil’ returns with the Italian tax authorities.</td>
</tr>
<tr>
<td>i. Assurance vie entire - This is a death policy that pays out a capital sum at the end of the fixed term of the policy.</td>
<td>Reinsurance is exempt from IPT in Italy.</td>
</tr>
<tr>
<td>ii. Assurance décèstemporaire- These policies normally have a life of one year. So, with this policy, a person chooses the capital sum he seeks, which will be paid to the beneficiary in the event of death in the year.</td>
<td></td>
</tr>
<tr>
<td><strong>Tax Relief</strong> The lump sums payable under all these policies are neither subject to income tax or inheritance tax. In the latter case up to €152,500 per beneficiary.</td>
<td></td>
</tr>
</tbody>
</table>

Source: U.S. Central Intelligence Agency