Chapter 3

Life Insurance Protection

I am not afraid to die.
I just don’t want to be there when it happens

-- Woody Allen

"Life insurance is not for the people who die.
It is for people who live."

--Life and Health Insurance Foundation for Education
(USA)

A study of human history reveals that the quest for security has been one of the most potent and motivating forces in material and cultural evolution. Early societies of mankind relied mostly on family and tribe cohesiveness for their security and protection. However, as mankind progressed economically through Industrial Revolution, this security source began to weaken. So, man, in desperate need of an alternative security source, turned to religion and science, but only to be disappointed and disgruntled. The growth of religious faith and advancement of scientific knowledge, with their refined understanding and forecasting of future, should have come to man’s need of security in a big way. But unfortunately, religious fundamentalism on one hand, and scientific determinism, on the other, added fuel to the fire. This has been amply proved by the recent gruesome devastation of the World Trade Centre that was triggered by religious terrorism coupled with gross misuse of modern science and technology. As Peter L. Bernstein shows in his book, Against the Gods: The Remarkable Story of Risk, how man has not been able to avoid risk ‘with the help of the gods’ and deterministic science’.1 Man’s vulnerability to danger is paradoxically catapulted by ‘modern technology's greatest efficiency’, accompanied by an increase in uncertainty and pure risk in all economic endeavours. Hence, the need for a new
device that can really protect human beings against the basic uncertainties of life, thereby offering full security.

We may say that the institution of life insurance, in general, and the philosophy of Human Life Value concept, in particular, have met man's quest for security by mitigating the loss potential of risk to the greatest extent possible. The financial instrument of life insurance makes risks reversible by reimbursing the insured for the losses incurred. And the technique of human life value concept covers the risk more adequately by capitalizing an individual's net future earnings. Thus, risk and insurance are necessarily intertwined. As C.A. Kulp and J.W. Hall put it, "if, in meeting risk, average loss is substituted for actual loss, the result is insurance". The most important element in insurance is relief from potential burden of financial loss on the individual, and the society at large, commonly known as transfer of risk. In other words, insurance is easily" the most important illustration of the transfer technique and the keystone of most risk management programmes".

Life and health insurance is of paramount significance throughout the world, providing as it does potential benefits to individuals and to society as a whole. The more economically developed a country, the greater seems to be the role of insurance as an economic security device. Small wonder, therefore, if the United Nations Organisation (U.N.O.) adopted a resolution at the tenth session of the 'Committee' on Invisibles and Financing Related to Trade, formally recognizing that life insurance " can play an important role in providing individual and economic security and in national development efforts, including the mobilization of personal savings".

Just as property is subject to destruction by fire, floods, earthquake and other natural and man-made disasters, the monetary worth of human life is constantly subject to
destruction by the loss of current earning power through death or disability. Life insurance, including health insurance, exists to serve mankind economically. Its broad mission is to protect the economic destruction of the insured life against the total or permanent loss of current earning capacity. It protects financial consequences that result from a loss of time through premature death, by guaranteeing to an individual the full estate that he/she had resolved to accumulate, but was prevented from completing it because of an untimely death.

We are apt to construe death only in the light of actual physical death, whereas the concept needs to be given a broader economic interpretation like the metaphysical interpretation given by John Donne, a distinguished metaphysical poet of the seventeenth century, in his illustrious poem, *Death Be Not Proud*:

Death be not proud, though some have called thee
Mighty and dreadful, for, thou art not so.
For, those whom thou think'st, thou dost overthrow,
Die not, poor death, nor yet can'st kill me;
From rest and sleep, which but thy pictures be,
With much pleasure, then from thee, much more must flow,
And soonest our best men with thee do go
Rest of their bones, and souls deliver.
Thou art slave to Fate, chance, kings, and desperate men,
And dost with poison, war, and sickness dwell,
And the poppy, are charms can make us sleep as well,
And better than thy stroke; why swell'st thou then?
One short sleep past, we wake eternally
And death shall be no more, Death thou shalt die.5

The poet is of the view that there is no reason at all, for death to be proud of its powers inasmuch as it can just make us sleep for a short while, only to enable us to awake in the
other world and live there eternally. Thus, in reality, death does not kill us. Instead, it is death itself that dies. Extending the analogy to the field of life insurance, we may say that any adequately insured person need not be afraid of any kind of death since life insurance guarantees his/her dependents against the loss of the current earning power of the breadwinner. In other words, an individual with adequate insurance coverage dies physically, only to be economically alive to his/her dependents. Insurance, then, is essentially a technique for redistributing losses, whereby average loss costs are substituted for actual loss costs. 6

We may say that life insurance is the sole technique of protection of the life value against three types of death, and it has no substitute. Therefore, not to insure adequately through life insurance is to gamble with greatest economic risk confronting man. The prime purpose of life insurance is to get certainty for us out of the greatest uncertainty with which we are confronted. Even if one has an adequate acquired estate, it cannot be said to be a real substitute for life insurance. It is, therefore, wise to make allowance for a 'factor or margin of safety' in order to meet the strain of unforeseen contingencies through insurance.

The present chapter is divided into four parts. Part I offers a brief history of life insurance, defines life insurance and gives a brief account of the basic types of life insurance. Part II deals with innovations in whole life insurance and special-purpose life insurance policies as well as other minor types of life insurance. Part III is concerned with measurement of risk in life insurance, and methods for providing life insurance protection. Part IV discusses the role of health insurance in life insurance protection.
(A) Brief History of Life Insurance

An understanding of the history of life insurance is necessary for all those who are seriously interested in the cause of protection of human life values. As Humvert O. Nelli observes, "history should explain the present and be a guide for the future. It may however be noted that insurance in the modern sense did not exist in ancient or medieval times, although elements of insurance have been in practice since times immemorial. The human urge to protect and secure once goods and property in different forms against known perils has been present throughout the history of mankind. With the growth of industry, trade and commerce, the insurance also grew over a period of time and gained maturity.

(1) Greek Societies, Roman Collegia and Medieval Guilds

The beginnings of personal insurance may be traced back to the Greek societies which practised a semblance of insurance by conducting the funeral of the dead with all required rituals, sacrifices and feasts to their patron gods for the sake of gaining entrance of the departed soul into paradise. Patterned after the Greek societies, the Roman collegia evolved into mutual benefit associations with stated benefits and regular membership contributions. The need for mutual protection and security not only continued but, increased after the dissolution of the Rome Empire. This need was met by the guilds in the Middle Ages by providing mutual assistance to their members in the event of death, illness, capture by pirates, shipwreck and the burning of houses.
(2) The English Friendly Societies

The guilds of the Middle Ages transformed themselves into English Friendly Societies during the 16th century. These Friendly societies pioneered the formation of private life insurance in England by providing insurance protection to persons of meagre or limited means in return for periodic contributions. The earliest insurers in Europe were individual underwriters who assumed various life insurance risks. Individual underwriting gave way to corporate underwriting in the 17th century. By 1720, two English insurers—The Royal Exchange and The London—had managed to receive a monopoly of British insurance. And, in 1720, the Society for Equitable Assurances on Lives and Survivorships was born and it was the first life insurer to operate on modern insurance principles.

(3) Life Insurance in Europe

However, life insurance, in the modern sense, did not thrive until the corporate stock form gained acceptance, and mathematicians developed the 'theory of probability' and 'actuarial science'. The Globe was organized as a stock company in 1803. The first life insurance company in France was founded in 1787 and the first stock life insurance in Germany was founded in 1828. The Prudential, formed in 1848, was the pioneer of the industrial insurance in United Kingdom. The history of life insurance in Europe is intertwined with government in a number of ways. One of the most popular schemes was to raise funds to support government expenditures through the use of a type of life annuity. The longer one lived, the larger grew the annuity payment.
(4) **Life Insurance in U.S.A**

The growth of insurance in America was rapid though it was hampered in the beginning by the monopoly on corporate insurers granted by the English Crown in 1720. The first mutual life insurance corporation for the relief of the poor and the distressed was organized in 1759 in Philadelphia. The first stock insurer, the Insurance company of North America, was chartered on April 14, 1794 in Pennsylvania. Charted in 1812, the Pennsylvania Company for the Insurance on Lives and Granting Annuities was the first North American insurer organized for the sole purpose of selling insurance and annuities to the general public. The Massachusetts Hospital Life Insurance Company was founded in 1818, and the New York Life and Trust Company in 1830. The latter company is notable as the first insurer to employ agents. Established in 1836, the Girard Life Insurance, Annuity and Trust Company of Philadelphia used a new principle of granting policy owners participation in its profits. The Prudential Insurance Company of America founded in 1875 introduced industrial life Insurance which was developed further by the John Hancock Mutual Life Insurance Company and the Metropolitan Life Insurance Company. The industrial life insurance and its debit marketing system greatly enhanced public awareness of life insurance in the United States.

(5) **Life Insurance in Asia**

The first life insurance company to open for business in Asia was the Meiji Life Assurance Company started in Japan in 1881. Later, two other modern life insurance companies - Teikoku Life Assurance Company, established in 1888, and Nippon Life Assurance Company Ltd, established in Osaka in July 1889 and many other stock companies
that followed spread life insurance throughout Japan as a result of impact of World War II and the post-war occupation policies of the Allied forces. Furthermore, Japanese and British insurers played a significant role in the development of life insurance in other Asian countries like Korea, Singapore, and India. The Cho-Sun Life Insurance Company in Korea, and the Great Eastern Life Assurance Company Ltd. in Singapore played major roles in the development of the life insurance business.

(6) Life Insurance in India

In India, insurance business was established in 1938 under Private Partnership that covered a few segments and established 245 branches all over the country. Its head office was located in Delhi with branch offices in Mumbai, Calcutta, and Chennai. A large number of both Indian and foreign insurance companies were set up in the country. However, till Independence, foreigners, mainly Britishers, held 40 percent of the insurance business. After Independence, under the planned development of the country, the Government of India thought that a strong public sector under its direct control would be able to meet the national objectives of growth, equity, resource mobilization, and employment generation. Consequently, life insurance was nationalized in 1956.

The public insurance sector played a key role in developing life insurance as a social security and as an important mechanism for channeling the savings of people for national development programmes. It went a long way in improving the range, quality, and price of insurance products. Over the years, the Life Insurance Corporation (LIC) considerably expanded its business and established an extensive presence throughout the country. Both the premium income and annual addition to life fund have grown substantially with the increase in
insurance business. The total premium income was Rs.22,805.80 crore (1998-99') reflecting a growth of 18.46%. Similarly, the life fund grew from Rs.696 crore in 1962-63 to Rs.1,27,389.06 crore in 1998-99', registering a growth of 20.37%.

In spite of the growth of gross domestic premium, the insurance penetration in India (defined as insurance premium as share of gross domestic product) in 1997 was as low as 1.95 percent (life: 1.39 percent and non-life: 0.56 percent.) But in the developed countries like Switzerland, U.K, France and USA, it was as high as 11.94 percent, 11.22 percent, 9.25 percent and 8.49 respectively. The average for Asia was 1.90 percent while for the world it was 3.06 percent. Even among the developing economies and other East Asian countries, the Indian insurance industry lagged far behind in this area. For instance it was 3.79 percent for South Korea, 2.45 percent for Japan, 1.69 percent for Taiwan 2.19 percent for Malaysia. The low insurance penetration is due to the fact that the spread of life insurance business as relatively been poor in India, and a large section of insurable population is still isolated from the insurance coverage. (Table A).

Table A

Insurance Penetration (Premium as Percentage of Gross Domestic Product) in Selected Countries: 1997

<table>
<thead>
<tr>
<th>Country</th>
<th>Total; Business</th>
<th>Non-Life Insurance</th>
<th>Life Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>NORTH AMERICA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>8.49</td>
<td>4.64</td>
<td>3.85</td>
</tr>
<tr>
<td>Canada</td>
<td>7.37</td>
<td>4.30</td>
<td>3.07</td>
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<tr>
<td>LATIN AMERICA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>1.77</td>
<td>1.21</td>
<td>0.56</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.12</td>
<td>1.74</td>
<td>0.39</td>
</tr>
<tr>
<td>EUROPE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United-Kingdom</td>
<td>11.22</td>
<td>3.34</td>
<td>7.87</td>
</tr>
<tr>
<td>France</td>
<td>9.25</td>
<td>2.91</td>
<td>6.34</td>
</tr>
<tr>
<td>Germany</td>
<td>6.53</td>
<td>3.81</td>
<td>2.72</td>
</tr>
</tbody>
</table>
Also, the insurance density (defined as premium per capita) in India in 1997 was as low as 7.6 US dollars (life: 5.4 and non-life 2.2). (10) But in developed countries like Switzerland, Japan, USA, and U.K., it was as high as 4289.7 US$, 3896.0 US$, 2570.6 US$ and 2451.5$ respectively. The average for Asia was 46.4 US$ while for the world as a whole it was 176.8 US$. Insurance density in India was low even as compared to several developing countries like Singapore (338.3US$), South Korea (303US$), Taiwan (332.1US$), Malaysia (99.8US$), and Thailand (26.3US$). The low insurance density in India is due to the lack of awareness on the part of general masses regarding the benefits flowing from the insurance in improving their standard of living and welfare. (Table B)

### Table B

<table>
<thead>
<tr>
<th>Country</th>
<th>Total; Business</th>
<th>Non-Life Insurance</th>
<th>Life Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NORTH AMERICA</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>2570.6</td>
<td>1403.7</td>
<td>1167.0</td>
</tr>
<tr>
<td>Canada</td>
<td>1543.9</td>
<td>900.5</td>
<td>643.4</td>
</tr>
<tr>
<td><strong>LATIN AMERICA</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country</td>
<td>Life Insurance</td>
<td>Non-life Insurance</td>
<td>Total Insurance</td>
</tr>
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<td>-------------</td>
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<td>--------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Argentina</td>
<td>161.1</td>
<td>110.3</td>
<td>50.8</td>
</tr>
<tr>
<td>Brazil</td>
<td>106.5</td>
<td>87.2</td>
<td>19.3</td>
</tr>
<tr>
<td><strong>EUROPE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United-Kingdom</td>
<td>2451.5</td>
<td>730.9</td>
<td>1720.7</td>
</tr>
<tr>
<td>France</td>
<td>2203.6</td>
<td>692.8</td>
<td>1510.9</td>
</tr>
<tr>
<td>Germany</td>
<td>1666.1</td>
<td>972.6</td>
<td>693.5</td>
</tr>
<tr>
<td>Switzerland</td>
<td>4289.7</td>
<td>1296.6</td>
<td>2993.1</td>
</tr>
<tr>
<td>Russia</td>
<td>43.0</td>
<td>33.5</td>
<td>9.5</td>
</tr>
<tr>
<td><strong>ASIA</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Korea</td>
<td>1232.3</td>
<td>303.3</td>
<td>929.3</td>
</tr>
<tr>
<td>Japan</td>
<td>3896.0</td>
<td>804.0</td>
<td>3092.2</td>
</tr>
<tr>
<td>Singapore</td>
<td>1327.3</td>
<td>338.3</td>
<td>989.0</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>945.5</td>
<td>299.2</td>
<td>646.3</td>
</tr>
<tr>
<td>India</td>
<td>7.6</td>
<td>2.2</td>
<td>5.4</td>
</tr>
<tr>
<td>China</td>
<td>10.9</td>
<td>4.7</td>
<td>6.1</td>
</tr>
<tr>
<td>Pakistan</td>
<td>3.2</td>
<td>1.8</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>AFRICA</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>520.5</td>
<td>104.6</td>
<td>415.9</td>
</tr>
<tr>
<td>Egypt</td>
<td>8.2</td>
<td>6.3</td>
<td>1.9</td>
</tr>
</tbody>
</table>

**Source:** World Insurance in 1997: Booming Life Insurance but Stagnating Non-life Insurance, *Sigma*-Swiss Re No. 3/99

Thus, insurance industry in India has lagged behind even the developing countries of the world. Particularly, the lack of competition has impeded the development of insurance industry resulting in low productivity and poor quality of customer services. The process of liberalisation and globalisation of Indian economy started in mid-1980's. Needless to say, the market mechanism was the motivating factor underlying the new economic policy. In consonance with the new economic policy, the government of India set up a committee on Reforms in Insurance sector in April 1993 under the chairmanship of Sri. R.N. Malhotra.

The high-power committee strongly felt that it would be desirable to open up the insurance industry to competition for several reasons. First, The emergence of competition will have the salutary impact of enhancing the level of efficiency in the system, apart from the right of choice, which it will offer to the insuring public. Besides, competition would
result in better customer services and help improve the range, quality, and price of insurance products. On top of that, competition will bring in efficiency since consumers will have many more options before them. Second, the entry of new players would speed up the spread of life insurance as well as general insurance. Third, by expanding collection of small savings through privatization, the insurance system substantially rises and this acts as a complement to baking system. Fourth, being a long-term contractual agreement, Life Insurance is a significant mobilizer of long term funds. With its implicit long-term maturity, it can avoid short-term fluctuations in the capital market by planning a long-term deployment of funds. And, supported by optimization of returns to finance capital, the long-term deployment of funds would give the insurance system the required efficiency. Fifth, as Insurance is highly professionalised service, there is a need for some kind of flexibility to take commercial decisions in the interest of customers. This can be made possible only if the existing rigidities are replaced by flexibility through privatisation, thereby ensuring a level-playing field and establishing a highly desirable corporate culture. Gains in efficiency and establishing a highly desirable corporate culture. Gains in efficiency and flexibility of information technology result in economic growth. Last, the entry of the private sector will bridge the gap between customers' expectations and what the insurance companies can offer today. This would make the employees rise to the occasion and prove their mettle, and thus become more productive.

After the decision of the government to liberalise the insurance sector, an interim body known as Insurance Regulatory Authority (IRA) was set up in Delhi in 1999. Thus, after seven years of stop-and-start policymaking, private insurance finally became a reality with the approval of the Insurance Regulatory and Development Authority (IRDA) Bill 1999
in the Parliament on January 7, 2000. The legislation provides for the entry of domestic and foreign companies into the insurance business, thereby ending the monopoly of the public sector – Life Insurance Corporation (LIC) and General Insurance Corporation (GIC).

As restructuring of the financial sector, in the wake of liberalization, is going on in the country, it is inevitable that the insurance sector also goes through the process to enlarge its scope. With rapid changes in production and marketing systems, the demand for new and sophisticated insurance products is bound to grow. Given the accelerated economic growth, the demographic changes with an increasing percentage of senior citizens in the population, and a virtually non-existing life-long social security, the demand for life policies cannot but increase at a faster pace. In short, the new competitive environment is expected to benefit the consumers, industry and the economy of the country at large.

However, there are many apprehensions and misconceptions about the opening up of the Indian insurance sector to private companies. The most prominent apprehension is that if new players enter insurance, whether they are domestic corporates with 100 per cent equity or foreign companies with a ceiling of 26 per cent equity, it would gradually lead to privatization of entire insurance industry. The left parties are naturally up in arms against the very idea of opening up of insurance sector. They apprehend that particularly the entry of multinationals in insurance would amount a “sell-out” of national interests. These apprehensions are almost unfounded. The envisaged private sector participation can never dislodge the LIC and the GIC from their prime positions. The reasons for this are not far to seek. First of all, the LIC and the GIC have been in the business for a long time and, therefore, they know the business conditions better than any new entrant does. Second, the network of branches and agents in the LIC is so large, deep and penetrating that it will take
a long time for any other entrant to replicate. Third, the LIC has a kind of a government baking, which instils faith in would-be policyholders, much more than a private can generate.

Also, there is a misconception that the multinationals with deeper pockets may squeeze out existing Indian players, and this may, in the long run, affect national interests. Also, there is a misconception that the multinationals with deeper pockets may squeeze out existing Indian players, and this may, in the long run, affect national interests. This provision made in the IRDA Bill, for 26 per cent unit cap on foreign equity, for no disinvestment in public sector players and for no repatriation of profits, is only to ensure that the business is retained in India and there is no outflow of foreign exchange. It is also contended in some quarters that privatization of insurance sector is likely to impair our national economy and prove detrimental to the interests of customers of the services. But, it must be borne in mind that the equity structure is neither a help nor a hindrance to the existing players. Another argument that is often advanced against the opening up of insurance is that the contracts between the insurer and the insured involve special fiduciary obligations that are best guaranteed by state ownership of the insurance companies. Though each category of financial institutions has its special characteristics, fiduciary relationships are quite common in the world of finance and are by no means exclusive of insurance. To cite but a few instances, commercial banks, mutual funds and asset management companies have fiduciary relations with their clients, which are sustained through mutual trust and effective regulatory mechanism.

Yet another apprehension is that the entry of private sector will automatically result in retrenchment of employees in the public sector. So, the employees are naturally perplexed by the unprecedented prospects of having to contend with private sector insurance companies, with or without foreign collaboration. Their fear is that it poses a threat to their
very professional existence. The real question, however, is not whether employees will be 
retrenched, but whether they can be made more productive or not. The existing cost 
structure is too high and we have to become cost-effective. The pricing of product depends 
upon the efficiency and cost-effectiveness of the organization. His provides the cutting edge 
in all service sectors, including insurance. Our transaction costs have to be brought down 
and if we do this there is nothing to be worried about. It must be realised that manpower 
can be a source of strength if it is utilised to add value to the service. Certainly, there will 
be some surplus staff on account of restructuring of their services close analysis of the 
performance of life insurance business in India reveals that a few foreign companies co- 
venturing with some domestic corporates can never sound the death-knell of the LIC and the 
GIC. It should be noted that the provisions in the IRDA bill are not exactly designed to 
open the floodgates to foreign insurance companies in India. The new Bill, with its 
threshold “owned funds” creation Rs.100crore, cannot be seen as a tremendous incentive for 
new players. The argument that privatization of insurance will be a threat to national 
sovereignty is not tenable in a country like India which has, over the last nine years, learnt 
to live with reality of a interdependent international economy with all its regulatory 
authority is a rebuttal of the cry of domestic economic sovereignty.

Furthermore, the public sector employees and their supporters in the political parties 
who take objection to privatization of insurance disapprove of the opening up of insurance 
sector on three grounds. They say that there is absolutely no reason why such a profit- 
making sector as insurance is opened to the entrepreneurs at all. Second, they think that 
exposing of the existing public sector companies would encourage unhealthy practices that 
prove detrimental to national economy. Third, they are of the view that the very nature of the
insurance business demands that it should be put under the category of the natural State monopoly.

There is no denying the fact life and general insurance business has grown considerably in spread and volume since their nationalization, as already been pointed out. All the same, we have to integrate with global trends and, therefore, liberalization of insurance is a necessary part of globalization. Different areas of our economy, such as mutual funds, domestic civil aviation and telecommunications demonstrate the private companies do not necessarily encourage unhealthy practices and prove detrimental to national economy. To illustrate but one case, the monopoly status of the official Airline bred complacency, resulting in inadequate customer service and numerous interruptions in operations owing to strikes and go-slows, many of which lacked sufficient justification. The entry of private Airlines has changed the situation for the better as experience has shown. The contention that the insurance is natural State monopoly is untenable inasmuch as a dominant part of insurance business in the world is handled by private sector.

If the hype built around the private entry into insurance is to be believed, it would be the beginning of a new era for Indians. As Heinz Dollberg, Executive Vice-president of Allianz, a German-based insurance company, has declared, “the biggest beneficiary of the incoming competition in insurance will be Indian consumers”. Thus, the consumers are expected to benefit in three ways. First, they will have more choice of insurance schemes. At present Indians are said to be one of the most deprived insurance customers in the world. Out of about 150 general insurance schemes on offer at the global level, only 10 out of them are really offered by the four subsidiaries of the GIC. Options in the LIC are equally limited. Just three schemes of the LIC generate 90 per cent of its total revenues. What is more
stunning is that, 99 per cent of the LIC policies currently sold are Endowment policies. Also, the LIC does not have life insurance schemes linked to non-traditional investment avenues like stock market indices. Further, many life polices are not clubbed with health benefits. There are no health polices that entitle the holder to daily allowance for the days he or she is hospitalized. Similarly, the mediclaim polices of the GIC do not cover outpatient expenses. Existing schemes also do not cover disability arising out of illness. All these uncovered variety of insurance schemes are expected to be introduced by private companies, thereby accruing a very wide choice to the customers. Second, with the advent of privatization the Indian consumer is expected to have easier access to insurance schemes through new sales channels --- bankassurance, insurance brokers and technology-enabled methods-to be evolved by private companies. In the present dispensation, virtually all insurance policies in India are sold through over half a million agents of the LIC and the GIC. To combat this army of agents private companies will introduce a new channel of bankassurance under which polices are sold through bank branches. Another new channel of sale could be an insurance broker. Unlike the insurance agent who is retained by the insurance company, a broker represents the insured. Yet another new channel of sale of insurance schemes could be technology-enabled methods which primarily comprise phone and Internet. Third, privatization of insurance is expected to help improve the present poor customer service through diverse products, varied distribution, agent training, and customer education. By their very nature, all life insurance claims should be settled either before or on the date of policy maturity. But, according to an estimate the LIC is able to settle 80 per cent of the schemes by the date of maturity. The GIC is in no better position to settle the claims.
Private investors promise radical improvement in the speed and ease of claiming settlements. In other words, claims settlement will be hassle-free and customer friendly.

The success of the opening up of the insurance sector to private investors would, however, depend upon the following strong protection measures and safeguards to be provided by the Government through IRDA in the interest of proper functioning of insurance sector and even development of the Nation at large:

1. Every care must be taken to secure a smooth transition from a state monopoly to a healthy, competitive environment.
2. Both the public and private sector should undertake social obligations in order to protect the interests of holders of insurance policies, and also to regulate, promote and ensure orderly growth of insurance industry.
3. No single company should be permitted to transact both Life and General insurance.
4. Foreign companies proposing to enter insurance will have to be required to float Indian companies, preferably in joint venture with Indian partners.
5. As foreign participation, though at present limited to 26% equity can in long run result in repatriation of funds by foreign partners, the government should take steps to check it.
6. As foreign insurers will bring highly sophisticated technology and data analysis, some sort of market control must continue to regulate the market.
7. Employment opportunities to be created should be restricted to Indian citizens only.
8. As in U.S.A and Canada, Insurance commissioners should monitor the insurance business so as to ensure that there is fair and effective competition with insurance industries and that proper services are made available to the consumers. The commissioners should also entertain complaints from consumers, and provide detailed information about the performance, track record and penalties imposed upon erring insurance companies.
9. The insurance industry should adopt a three-pronged regulatory framework comprising internal control system, external statutory auditors, and a supervisory regulatory body with healthy competition and fair play as the watchwords.
10. Above all, the IRDA must be allowed to function autonomously with minimal government interference in order to discharge its duties effectively.

To conclude, properly approached and rightly understood, liberalization of insurance is at once a challenge and an opportunity. It is a challenge, because the insurance sector has to re-engineer itself, as its survival will be at stake. And it is an opportunity, because the presence of competition will bring in efficiency in operations. The opening up of insurance sector will definitely make the LIC and the GIC introspect so as to be able to face the competition from private companies successfully. The LIC should aim at more autonomy and restructuring of programmes and equip itself to compete in a global world with other private insurers.

The Indian insurance market has a large potential considering the country’s huge and burgeoning population, a growing demand and an increasingly affluent middle class with a gross domestic savings of around 23 per cent of the GDP, and the economic growth expected to rise to 6-7 per cent. This scenario should, therefore, provide increasing opportunities to life and non-life insurance business. Both the public and private sectors in insurance industry could vie with each other for share in the growing market.

To really make a dent in the insurance industry, the entry of private companies should ensure (a) introduction of several kinds of life insurance policies, (b) reduction in premia rates, especially on non-life insurance schemes, (c) radical expansion in distribution and sales channels, (d) more efficient allocation of policy funds, and (e) improved customer service. Obviously, the final count of gains from the entry of private operators will depend on the kind of new policies and distribution channels actually allowed by the IRDA. Gains to the
economy as a whole will also hinge on where and how the insurance firms invest policyholders' money.

The brief history of life insurance given above, illustrates how it has developed to occupy the present prominent position in the business world. This leads us to the name and nature of insurance and the basic types of life insurance.

(B) Definition of Insurance

Insurance has been defined in different ways by different authors who have thoroughly examined life and health insurance. To cite but a few examples, Willett defines insurance as "that social device for making accumulations to meet uncertain losses of capital which is carried out through the transfer of the risks of many individuals to one person or a group of persons". Kulp states that 'insurance is a formal social device for the substitution of certainty for uncertainty through the pooling of hazards". Similarly, Riegel and Miller say that from a functional standpoint, "insurance is a social device whereby the uncertain risks of individuals may be combined in a group and thus made more certain, small periodic contributions by the individuals providing a fund out of which those who suffer loss may be reimbursed". Above all, as Huebner rightly asserts, "Life insurance is a sure means of changing uncertainty into certainty, and is the opposite of gambling. He who does not insure gambles with the greatest of all chances and, if he loses, makes those dearest to him pay the forfeit."
Underlying all these definitions is insurance as concept of risk pooling, or group sharing of losses. In other words, persons exposed to loss from a particular source combine their risks and agree to share losses on some equitable basis.

Most recently, attempts have been made to define insurance from two perspectives -- legal and economic. From a legal perspective, insurance is an agreement in the form of an insurance policy by which the insured pays a premium to the insurer in return for which the insurer agrees to pay a defined amount of money if a 'covered event' occurs during the policy term. In other words, insurance is a device for the reduction of uncertainty of one party through the transfer of particular risk to another party. Thus, insurance provides financial protection against loss by enabling the insured to transfer the risk of loss to the insurer upon the fulfillment of certain conditions. Then, considered purely from a risk financing point of view, insurance provides a means for handling risks with a low probability of suffering a large loss that an organization cannot afford to retain itself, on an internal funding basis.

Human beings are generally exposed to many serious perils such as property losses from fire, floods, windstorm and earthquake, and personal losses from incapacity and death. Though individuals cannot predict or completely prevent such unfortunate occurrences they can afford to provide for their financial effects. The prime function of insurance is to safeguard against such misfortunes through the contributions of many for the losses of the unfortunate few. So, the essence of insurance lies in the sharing of losses by way of substituting a certain, small loss, called the premium, for an uncertain, large loss.

However, this legal definition, as Huebner feels, "does not reveal the great underlying economic purposes of the institution of life insurance". For, one of the primary purposes of life insurance is to guarantee dependents against loss of the current earning power of the
insured in the event of physical disability or death. Thus, life insurance can be used to alleviate the financial consequences of premature death. So, the purchase of life insurance is economically justified if the insured earns an income, and others are dependent on the earning capacity. If the breadwinner dies prematurely, life insurance can be used to restore the family's share of the deceased breadwinner's earnings. Thus, from an economic perspective, "insurance is a financial intermediation function by which individuals expose to a specified contingency each contribute to a pool covered events suffered by participating individuals are paid". From this it is clear that the primary purpose of life insurance is to serve mankind economically.

(c) Alternative Definitions of Insurance

In general terms, however, there are two important definitional schools of insurance -- "transfer" and "pooling" -- from the viewpoints of the insured and the insurer respectively. From the point of view of the insured, insurance is the protection against financial loss provided by an insurer. As Pfeffer points out, "insurance is a device for the reduction of uncertainty of one party, called the insured, through the transfer of particular risks to another party, called Insurer, who offers restoration, at least in part, of economic losses suffered by the insured." The most important aspect of the foregoing definition of insurance is transfer of risk. No mention is made of grouping or pooling or even of the presence of many insured. From the point of view of the insurer, insurance is a device by means of which the risks of two or more persons are pooled through actual or promised contributions to a fund out of which payments are paid. Alfred Manes offers a precise definition of insurance in the pooling tradition when he says that "the essence of insurance lies in the elimination of the uncertain
risk of loss for the individual through the combination of a large number of similarly exposed individuals". This definition, ignoring transfer, sees combination or pooling as the crucial element in describing the insurance device. The distinctive feature of this definition of insurance is that it involves some pooling of risks. The advocates of each of these definitions usually argue that they are irreconcilable and that the definition in opposition to theirs fails to describe the essence of insurance. This is due to the variations of life insurance policies that lead us to an examination of the basic types of life insurance.

(D) Basic Types of Life Insurance

Despite the fact that there are many variations of life insurance policies, there are only three basic types of life insurance plan — (i) term insurance, (ii) whole life insurance, and (iii) endowment insurance.

(i) Term Insurance

Term insurance provides financial protection for limited period of time at the end of which the policy expires. If the insured dies during that period the face amount of the policy is paid to the insured's beneficiary. If, on the other hand, the insured survives the policy period and the policy is not renewed, the contract expires and the company has no further obligations. Since most term insurance policies are renewable the policy can be renewed for additional periods without evidence of insurability. The premium is increased at each renewal and is based on the insured's attained age. Most term insurance contracts are also convertible. So, the term insurance policy can be exchanged for a permanent policy without
evidence of insurability. Term insurance is appropriate when income is limited, or temporary needs must be fulfilled. However, since term insurance usually has no cash values, it cannot be used for retirement or savings purposes. One of the main attractions of term insurance, however, is its low premium. The shorter the policy period the stronger is the attraction.

(ii) Whole Life Insurance

In contrast with term insurance, whole life insurance provides financial protection for one's entire lifetime. The essence of whole life insurance is that it provides for the payment of the face amount upon the insured's death regardless of when death occurs. There are two major types of whole life insurance -- straight life insurance, and limited-payment life insurance. Straight life insurance provides permanent protection. The premiums and policy values are based on the assumption that premiums will be paid periodically as long as the insured is alive. Naturally, a straight life policy is appropriate when lifetime protection is desired or additional savings are required. Limited payment life insurance provides permanent protection, but the premiums are paid only for limited number of years. Because of the higher premiums, limited payment policies are not well adapted to those whose income is small and whose need for insurance protection is great. Rather they fit many business insurance situations in which it is desirable to insure that the policy is fully paid for within a certain time period.

(iii) Endowment Insurance

An endowment life insurance policy provides protection for a limited period of time, but unlike the term insurance policy it pays the full face-amount at the end of stipulated
period if the insured is still living. In other words the contract pays if the insured dies during the policy period and it also pays if the insured survives to end of the policy period. Endowments can be purchased for almost any duration, but the most common contracts are based on not more than thirty years. Endowment policies should be considered only when the primary need is for savings. They are often used to provide retirement funds. An endowment policy can be viewed as a combination of term life insurance and a pure endowment. Endowment insurance policies can be effective saving instruments provided loadings are competitive with those of other savings media.

II

(A) Innovations in Whole life Insurance

The traditional types of life insurance discussed above have come in for a good deal of criticism because the rates of return on the saving component are relatively low and, what is worse, they are not disclosed to the policy-owners. As a result, many policy-owners have replaced their older cash value policies with life insurance products which offer higher returns. Besides in recent years financial institutions have started paying relatively high interest rates. Naturally, life insurers have faced keen competition from market mutual funds, commercial banks, stock brokerage firms, and other financial institutions. So, in order to be more competitive with other financial institutions and thereby to overcome the criticism levelled against traditional cash value polices, insurers have developed a wide variety of innovative whole life products that combine insurance protection with an investment
element. These innovations in whole life insurance include (i) variable life insurance, (ii) universal life insurance, (iii) variable universal life insurance, (iv) current assumption whole life insurance, and (v) adjustable life insurance.

(i) Variable Life insurance

Variable life insurance may be defined as "a policy in which the death benefit and cash surrender values vary according to the investment experience of a separate account maintained by the insurer." The motivation for the variable life insurance contract arises from a desire for a product based on equity values that shares some of the investment gain with the policyholder. The variable life policies have at least three common features. First, a variable life policy is a permanent whole life contract with a fixed premium. Second, the entire reserve is held in a separate account and is invested in equities or other investments. Third, cash surrender values are not guaranteed, and there are no minimum guaranteed cash values.

(ii) Universal Life Insurance

Universal life contract, a variation of whole life insurance, is one of the most popular and controversial life insurance policies in recent years. Universal life insurance can be defined as "a flexible premium, non-participating policy that provides lifetime protection under a contract that separates the protection and saving components." The unique feature of universal life insurance is that the policy-owner determines the amount and frequency of the premium payments. What distinguish universal life insurance from traditional cash value
contracts are certain characteristics — bundling of component parts, considerable flexibility, cash withdrawals and favourable income tax treatment.

Universal life insurance has certain uses to the policyholders. It appears to be the only life insurance policy a person ever needs. Its extraordinary flexibility in premium payments and death benefits renders it well suited as an individual's "life cycle policy. Moreover, its operations are more transparent than most life products. Above all, it is very low in cost. Though it is superior to term and whole insurance policies it has its own limitations -- misleading rates of return, incomplete disclosure, decline in interest rates, right to increase mortality charge and lack of firm commitment to pay premiums. The flexibility with respect to premium payments deeply ingrained in universal life insurance, can lead to poor persistency resulting in consumers losing money.

(iii) Variable Universal Life Insurance

Variable universal life insurance is similar to universal life insurance with two major exceptions. First, the cash values can be invested in a wide variety of investments. Second, there is no minimum guaranteed interest rate. A variable universal policy allows the policy owner to invest the cash values in a wide variety of investments. The money can also be moved from one fund to another as investment objectives or market conditions change. Besides, a variable life insurance policy has no minimum, guaranteed rate of interest, and the principal is not guaranteed. If the investment experience is poor, cash values can decline considerably. In this way, the investment risk falls entirely on the policy-owner. That is why some financial planners and consumer experts offer caution in the purchase of a variable universal life policy.
(iv) Current Assumption Whole Life Insurance

Current Assumption Whole Life Insurance is a non-participating whole life policy in which the cash values are based on the insurer's current mortality, investment and expense experience. Besides, an accumulation account is credited with a current interest rate that changes over time. Although its products vary among insurers, current assumption whole life has at least four common features. First, an accumulation account is used to reflect the value of the account. Second, a surrender charge is deducted from the accumulation account. Third, both guaranteed interest rate and current interest rate are used to determine cash values. Lastly, a fixed death benefit and maximum premium level at the time of issue are stated in the policy itself.

(v) Adjustable Life Insurance

Adjustable Life Insurance is a fairly recent development in life insurance. It allows the policyholder to adjust the life insurance to changing insurance needs. Unlike universal life insurance there is no unbundling of the protection and saving components. Also, the cash values are not credited with a current interest rate that changes over time. Adjustable life insurance has four distinct characteristics. First, it combines both term and permanent insurance elements into a single policy. Second, It has usual features of cash value life insurance. Third, it provides considerable flexibility. Finally, a cost-of-living provision is attached to most adjustable life polices without any extra premium.
(B) Special-Purpose Life Insurance Policies

Special-purpose polices— (a) family income policy, (b) family policy, (c) Multiple protection policy, (d) economic policy, (e) vanishing premium policy and (f) juvenile policy -- are designed to meet life insurance certain needs. Some polices combine term insurance with whole life insurance to meet these needs. Other polices are designed for specific purposes and they have unique features.

(a) The family income policy is a combination of decreasing term and whole life insurance. It pays a monthly income till the end of the period when the face amount of insurance is paid.

(b) The family policy covers insurance for all its members in one policy, and provides permanent insurance on the family head and term insurance on the spouse and the children.

(c) A multiple protection policy is one in which the face amount doubles or triples if death occurs during some specified period, and it consists of permanent insurance and level term insurance for a multiple protection period.

(d) An economic policy is a special whole life policy in which the dividends are used to buy some combination of term insurance and cash value insurance equal to the difference between the face amount of insurance and some guaranteed amount.

(e) A vanishing premium policy is a form of participating whole life insurance in which the premiums vanish after a certain time period and this is accomplished by the appropriate use of dividends.
(f) **Juvenile insurance** refers to life insurance purchased by a parent or adult on the lives of children under a certain age.

(C) **Other Minor Types of Life Insurance**

In addition to the basic and special forms of life insurance, other types of life insurance like (a) savings bank life insurance (b) industrial life insurance and (c) group life insurance are available for protection of life.

(a) **Savings bank life insurance**

This is essentially a low cost life insurance that is sold over the counter in mutual savings banks. Based on the interest-adjusted cost method, the net cost of the life insurance is substantially lower than the policies sold by any commercial life insurance. Since insurance is sold only on a walk-in basis there are no overhead expenses for a field force of agents.

(b) **Industrial life insurance**

This is a class of insurance in which the polices are sold in small amounts and the premiums are paid monthly or weekly at the policyholders home itself. In recent years it has come to be known as home service life insurance.

(c) **Group insurance**

This is an important form of life insurance that provides life insurance on number of persons in a single master contract. Physical examinations are not required, and
certificates of insurance are issued to the members of the group as evidence of insurance. It is essentially an employee benefit scheme provided by the employers.

III

(A) Measurement of Risk in Life Insurance

The above analysis of various types of life insurance, and methods of life insurance protection suggests the possibilities for the application of the insurance principle to risk in whatever field it is found to exist. As Huebner and Kenneth Black Jr. point out, "the working out of a scientific insurance plan necessitates some method of measuring the risk involved in order to determine the amount of each individual's contribution to the common fund".\(^{22}\)

Therefore, the correct measurement of risk lies at the foundation of any system of insurance and the measurement of risk is possible through the application of mathematical laws known collectively as the theory of probability.

(1) Probability

According to the Canadian philosopher, Ian Hacking, the Latin root of probability suggests something like "worthy of approbation".\(^{23}\) The theory of probability, popularly known as 'the mathematical heart of the concept of risk', is a powerful instrument for forecasting, organizing, interpreting and applying information. Though the discovery of the theory of probability dates back to the 17\(^{th}\) century, it can be applied to decisions and choices regarding measurement of risk in the modern world.
Like risk, the term, "probability", is both objective and subjective in its connotation. Objective probability is a long run relative frequency of an event based on the assumptions of an infinite number of observations and of no change in the underlying conditions. Objective probability is the same for all purposes in the given situation. Objective probabilities can be determined by deductive reasoning as well as by inductive reasoning. Subjective probability is the individual's personal estimate of the chance of loss. It is influenced by the individual's age, sex, intelligence, education and use of alcohol. It may be noted that subjective probability need not coincide with objective probability.

(2) The Laws of Probability

The laws of probability furnish three principles -- (1) the law of certainty, (2) the law of simple probability and (3) the law of compound probability -- that are of practical use in life and health insurance. The use of these three principles facilitates the description of risk in terms of mathematical values. The three laws are as follows:

(i) Certainty may be expressed by unity, or 1.

(ii) Simple probability, or the probability or chance that an event will happen or that it will not happen may be expressed by a fraction, which may take a value of from 0 to 1.

(iii) Compound probability, or the chance that two mutually independent events will happen, is the product of the separate probabilities that the events, taken separately, will happen.
(3) The Use of Probability to Forecast Future Events

The above three laws of probability are useful in estimating the likelihood of future events. Objective probabilities can be determined in two ways. First, they can be determined by deductive reasoning. For example, the probability of getting a head from a toss of a perfectly balanced coin is \(\frac{1}{2}\), since there are two sides and only one is a head. Second, objective probabilities can be determined by inductive reasoning, rather than by deduction. For example, the probability that a person aged 16 will die before attaining 21 years of age cannot be logically deduced. However, by a careful analysis of past mortality experience, life insurers can estimate the probability of death and sell a five-year term insurance policy. The validity of the deductive reasoning depends on the completeness of the various causes in the determination of any phenomenon. However, owing to the limitations of the human mind, a deductive reasoning does not furnish a safe basis upon which a superstructure guaranteeing the degree of certainty, required in insurance, can be developed. Inductive reasoning does not require an analysis of the causes of phenomena in order to predict future events. This statement underlines the assumption that all things are governed by law.

Inductive reasoning can also be applied to life insurance. From data, showing the length of life and age at death in the past, it is possible to predict the probabilities of death as well as survival in the future. This prediction is based on the assumption that, like the law of chance, there is a law of mortality by which human beings die. The prediction is also based on the assumption that there are certain causes, which determine that, out of a large group of persons, a definite number of lives will fail each year until all have died. The prediction is further based on the assumption that the law of mortality could be measured if only the
causes at work were known. Thus, a working basis is available for predicting future rates of
death. So, it is necessary to have mortality statistics in order to develop a scientific plan of
life insurance.

Though some scholars like John Maynard Keynes, do not go the whole hog with the
efficacy of the theory of probability, they are alive to its significance in predicting future for
humanity. Though Keynes is opposed to mechanical application of the laws of probability
and the quantification of uncertainty, he recognizes the importance of probability with its
profound implications for humanity. According to him "the importance of probability can be
only be derived from the judgment that it is rational to be guided by it in action; and a
practical dependence on it can only be justified by a judgement that in action we ought to act
as to take some account of it."24 From this one can infer that "without a command of
probability theory and other instruments of risk management, engineers could never have
designed the great bridges that span our widest rivers, homes would still be heated by
fireplaces, or parlor stoves, electric power utilities would not exist, polio would still be
maiming children, no airplanes would fly and space travel would be just a dream."25

(4) Accuracy of Mortality Forecasts: The Law of Large Numbers

The success of any method of insuring life depends on the accuracy with which the
theoretical estimates approximate actual experience. This accuracy depends on two factors
-- the accuracy of the statistics underlying the estimates and the number of units or
trials taken. As regards the first factor it should be obvious that accurate data are fundamental
if an accurate measure of the law of mortality is to be obtained. Therefore, mortality statistics
should be scrutinized carefully in order to detect inaccuracies in the original data. The second factor determines the accuracy of the estimate based upon the laws of probability that are described above. This may be illustrated by the coin example already presented. As stated before, the probability of its falling heads up is \( \frac{1}{2} \). There is no inaccuracy at all in the data on which this fraction is based, for there are only two sides of the coin, and one is heads.

(B) Methods for Providing Life Insurance Protection

To provide proper life insurance protection to individuals, two basic methods — (1) yearly renewable term method, and (2) level premium method — are generally used.

(1) Yearly renewable term method

Under yearly renewable term method, life insurance protection is provided only for one year. The policy can be renewed for successive one-year periods with no evidence for insurability. It means that evidence of good health or a physical examination is not required when the policy is renewed. The pure premium for yearly renewable term insurance is determined by the death rate at each attained age. However, this method eventually becomes prohibitive in cost so much so that some insureds may even drop their insurance. While the healthier members may drop their life insurance as the premiums increase, the unhealthy persons will still continue to renew their policies despite the premium increase. So, this method is not suitable for lifetime protection because premiums increase with age until they reach prohibitively high levels.
(2) **Level Premium Method**

Under the level premium method, premiums are leveled and do not increase with age. So, the insured has lifetime protection to age 100. Under this method, premiums paid during the early years of the policy are higher than is necessary, while those paid in the later years are less than is necessary to pay current death claims. The excess redundant premiums, paid during the early years, are invested at compound interest to supplement the inadequate premiums paid at the later years of policy.

**IV**

**Role of Health Insurance in Life Protection**

Health Insurance is basically a form of life insurance in that it supplements and protects existing life insurance. "The two are teammates with a similar mission". Both have as their objective protection against the loss of personal current earning power as it relates to family dependents and business associates, that is, protection against the loss of the human life value. While life insurance is based on the family head’s current wage and salary income devoted to the support of dependents, health insurance is based on the total earned income for the support of not only dependents but also the family head himself/herself. And, it may be emphasized that health insurance is essential to any life underwriter when arranging the life
insurance programme for a client, just as life insurance is essential to any health insurance underwriter when arranging a family protection programme involving sickness and injury.

Health insurance may rightly be called "disability income insurance".\textsuperscript{27} It provides protection against financial losses caused by illness, injury, and disability. Its fundamental objective is to guarantee the availability of current income in case of sickness or accident, and also to meet the costs of treating the disabled insured through hospital, medical and surgical services. It is essential to have appropriate health insurance coverage, because the risk of suffering financial losses owing to health related incidents is sufficiently high. A recent survey conducted by CIGNA Health care and Group Life Multinationa Insurance Company found that less than one percent of the population is covered by third party health insurance." The Swiss Insurance Giant Winterthur Life and Health Reinsurance Company, has projected the size of the Indian health insurance market at an astonishing, Rs.782 million in another 10 years".\textsuperscript{28}

The individual health insurance coverage available in India today includes (i) hospital expense insurance, (ii) surgical expense insurance (iii) physicians expense insurance (iv) major medical insurance, (v) disability-income insurance, and (vi) long-term care insurance.

(i) Hospital Expense Insurance

Hospital insurance covers the medical expenses incurred while in hospital. It provides two basic benefits -- (i) daily hospital benefit, and (ii) miscellaneous expenses benefit. For meeting the daily room and board expenses there are three basic approaches -- indemnity
approach that pays the actual costs of the daily services, valued approach which pays a fixed amount for each day of hospitalization, and service approach provides service benefits rather than cash benefits. Similarly, for determining the miscellaneous expenses there are several methods -- payment of maximum amount of expenditure, payment of a multiple of the daily room expenses, and payment of a certain percentage of miscellaneous expenses.

(ii) Surgical Expense Insurance

Surgical insurance protects people from the financial burden of surgical procedures performed in a hospital. One type known as surgical expenses insurance reimburses patients directly for unto 50 listed operations. In addition specific methods are used for arriving at the amount of reimbursement to be paid for procedures that are not listed. Another type of surgical insurance called the surgical service-incurred plan pays the providers of operation services directly for their services.

(iii) Physician's Expense Insurance

Physician's expense insurance pays for doctors' services excluding their surgical charges. It pays for medical expenses provided by a physician in the hospital, the patient's home, or in the doctor's office. Some plans also pay for diagnostic x-ray and laboratory expenses incurred outside the hospital.
(IV) Major Medical Expense Insurance

Major medical expense insurance is designed to provide reimbursements for all-encompassing medical treatment. It is generally used as a supplement to hospital, surgical and medical expense insurance and pays only those charges that are not covered by the other basic forms. It provides for quality medical care that is appropriate for individual needs as diagnosed and approved by qualified physicians. It also provides for pre-admission testing, extended hospital care, home health care, and for second surgical opinions. Although major medical expense provides considerable protection against a catastrophic loss, millions of Indians have no insurance coverage at all.

(v) Disability Income Insurance

Disability income insurance provides payments when the insured is unable to work because of sickness or injury. The income payments are designed to restore part or all of the work earnings lost during a period of disability. A serious disability can result in a substantial loss of work earnings. And the economic loss from total and permanent disability is far greater than the economic lost hat results from premature death at the same age. Where as, in the case of premature death, the family loses only its share of the deceased breadwinner's of future earnings, in the case of permanent disability there is the loss of earned income, depletion of savings, loss of employee benefits, and other expenses such as getting someone to care for the disabled person.
(vi) Long-term Care Insurance

Many old persons face serious financial problems because they need long-term care in a nursing home or they may require other types of long-term care. And care in nursing homes is very expensive. Long-term care insurance, which is rapidly growing in popularity, pays a daily or monthly benefit for medical or custodial care received in a nursing home or hospital. It also pays for home health care and adult day care.

Thus, life insurance and health insurance go a long way in offering protection against the perils man is confronted with, thereby, making possible the preservation of an individual's human capital in the face of an uncertain lifetime. The need of the hour, however, is the optimal life insurance protection that can provide an adequate coverage in the wake of religious terrorism and scientific determinism that have abated man's vulnerability to insecurity and danger. This is what is elaborated on in the ensuing chapter providing different approaches to optimal life insurance protection.
Notes and References


9. Source: Internet


11. S. Swaminathan, "Xenophobia or Vested Interests?" *The Hindu*, December 1, 1999.


16. Ibid.


21. Ibid.


