CHAPTER - 1
Life Insurance - An Overview

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1.1 Introduction

Nearly 80 per cent of Indian population is without life insurance cover while health insurance and non-life insurance continue to be below international standards. And this part of the population is also subject to weak social security and pension systems with hardly any old age income security. This itself is an indicator that growth potential for the insurance sector is immense. Life insurance is not bought in India. General insurance is often bought because there are compulsions under the law (motor vehicles, public liability, workmen etc.) or from the financiers asking for insurance as collateral security. In the case of life insurance, there is very little compulsion. The tendency is to defer the decision. The possibility of death is either ignored or not considered imminent. Most people never do believe that they can succumb to destiny and they think, they will live a long and healthy life. Sadly, that is not always true. A prudent financial plan needs to build in the risk of dying too early to ensure that our family’s financial future is protected. There are financial tools that help us determine the “risk of dying early” leading to the quantum of Life Insurance required. While the algorithms may be different, conceptually, all that these tools try and determine is the present value of your future earnings keeping in mind your future goals and aspirations. It is important that each one of us put some thought into the potential exposure of our family to the risk of the primary wage earners risk of dying too early and arrive at the level of protection required.¹

The concept of insurance has been prevalent in India since ancient times amongst Hindus. Overseas traders practiced a system of marine insurance. The joint family system, peculiar to India, was a method of social insurance of every member of the family on his life. The law relating to insurance has gradually developed, undergoing several phases from nationalization of the insurance industry to the recent reforms permitting entry of

¹ Bimaquest - Vol. VIII Issue I, January 2008 pp 42-43
private players and foreign investment in the insurance industry. The Constitution of India is federal in nature in as much there is division of powers between the Centre and the States. Insurance is included in the Union List, wherein the subjects included in this list are of the exclusive legislative competence of the Centre. The Central Legislature is empowered to regulate the insurance industry in India and hence the law in this regard is uniform throughout the territories of India. The development and growth of the insurance industry in India has gone through three distinct stages.

1.2 Development and growth of the insurance industry in India

a) Formation of the Insurance Industry in India

Insurance law in India had its origins in the United Kingdom with the establishment of a British firm, the Oriental Life Insurance Company in 1818 in Calcutta, followed by the Bombay Life Assurance Company in 1823, the Madras Equitable Life Insurance Society in 1829 and the Oriental Life Assurance Company in 1874. However, till the establishment of the Bombay Mutual Life Assurance Society in 1871, Indians were charged an extra premium of up to 20% as compared to the British. The first statutory measure in India to regulate the life insurance business was in 1912 with the passing of the Indian Life Assurance Companies Act, 1912 (“Act of 1912”) (which was based on the English Act of 1909). Other classes of insurance business were left out of the scope of the Act of 1912, as such kinds of insurance were still in rudimentary form and legislative controls were not considered necessary. ²

General insurance on the other hand also has its origins in the United Kingdom. The first general insurance company Triton Insurance Company Ltd. was promoted in 1850 by

² Insurance Law & Regulations in India by Parveen Nagree-Mahtani
British nationals in Calcutta. The first general insurance company established by an Indian was Indian Mercantile Insurance Company Ltd. in Bombay in 1907. Eventually, with the growth of fire, accident and marine insurance, the need was felt to bring such kinds of insurance within the purview of the Act of 1912. While there were a number of attempts to introduce such legislation over the years, non-life insurance was finally regulated in 1938 through the passing of the Insurance Act, 1938 (“Act of 1938”). The Act of 1938 along with various amendments over the years continues till date to be the definitive piece of legislation on insurance and controls both life insurance and general insurance. General insurance, in turn, has been defined to include “fire insurance business”, “marine insurance business” and “miscellaneous insurance business”, whether singly or in combination with any of them.

b) Nationalization of the Insurance Business in India

On January 19, 1956, the management of life insurance business of two hundred and forty five Indian and foreign insurers and provident societies then operating in India was taken over by the Central Government. The Life Insurance Corporation (“LIC”) was formed in September 1956 by the Life Insurance Corporation Act, 1956 (“LIC Act”) which granted LIC the exclusive privilege to conduct life insurance business in India. However, an exception was made in the case of any company, firm or persons intending to carry on life insurance business in India in respect of the lives of “persons ordinarily resident outside India”, provided the approval of the Central Government was obtained. The exception was however not absolute and a curious prohibition existed. Such company, firm or person would not be permitted to insure the life of any “person ordinarily resident outside India”, during any period of their temporary residence in India. However, the LIC Act, 1956 left outside its purview the Post Office Life Insurance Fund, any Family Pension Scheme framed under the Coal Mines Provident Fund, Family Pension and Bonus Schemes Act, 1948 or the Employees' Provident Funds and the Family Pension Fund Act, 1952.
The general insurance business was also nationalized with effect from January 1, 1973, through the introduction of the General Insurance Business (Nationalization) Act, 1972 (“GIC Act”). Under the provisions of the GIC Act, the shares of the existing Indian general insurance companies and undertakings of other existing insurers were transferred to the General Insurance Corporation (“GIC”) to secure the development of the general insurance business in India and for the regulation and control of such business. The GIC was established by the Central Government in accordance with the provisions of the Companies Act, 1956 (“Companies Act”) in November 1972 and it commenced business on January 1, 1973. Prior to 1973, there were a hundred and seven companies, including foreign companies, offering general insurance in India. These companies were amalgamated and grouped into four subsidiary companies of GIC viz. the National Insurance Company Ltd. (“National Co.”), the New India Assurance Company Ltd. (“New India Co.”), the Oriental Insurance Company Ltd. (“Oriental Co.”), and the United India Assurance Company Ltd. (“United Co.”). GIC undertakes mainly re-insurance business apart from aviation insurance. The bulk of the general insurance business of fire, marine, motor and miscellaneous insurance business is undertaken by the four subsidiaries.

c) Entry of Private Players

Since 1956, with the nationalization of insurance industry, the LIC held the monopoly in India’s life insurance sector. GIC, with its four subsidiaries, enjoyed the monopoly for general insurance business. Both LIC and GIC have played a significant role in the development of the insurance market in India and in providing insurance coverage in India through an extensive network. For example, currently, the LIC has a network of 7 zones, 100 divisions and over 2,000 branches. LIC has over 550,000 agents and over 100 million lives are covered. From 1991 onwards, the Indian Government introduced various reforms in the financial sector paving the way for the liberalization of the Indian economy. It was a matter of time before this liberalization affected the insurance sector. A huge gap in the funds required for infrastructure was felt particularly since much of
these funds could be filled by life insurance funds, being long tenure funds. Consequently, in 1993, the Government of India set up an eight-member committee chaired by Mr. R. N. Malhotra, a former Governor of India's apex bank, the Reserve Bank of India to review the prevailing structure of regulation and supervision of the insurance sector and to make recommendations for strengthening and modernizing the regulatory system. The Committee submitted its report to the Indian Government in January 1994. Two of the key recommendations of the Committee included the privatization of the insurance sector by permitting the entry of private players to enter the business of life and general insurance and the establishment of an Insurance Regulatory Authority. It took a number of years for the Indian Government to implement the recommendations of the Malhotra Committee. The Indian Parliament passed the Insurance Regulatory and Development Act, 1999 (“IRD Act”) on December 2, 1999 with the aim “to provide for the establishment of an Authority, to protect the interests of the policy holders, to regulate, promote and ensure orderly growth of the insurance industry and to amend the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and the General Insurance Business (Nationalization) Act, 1972”.

d) Insurance Regulatory and Development Authority

The IRD Act has established the Insurance Regulatory and Development Authority (“IRDA” or “Authority”) as a statutory regulator to regulate and promote the insurance industry in India and to protect the interests of holders of insurance policies. The IRD Act also carried out a series of amendments to the Act of 1938 and conferred the powers of the Controller of Insurance on the IRDA. The members of the IRDA are appointed by the Central Government from amongst persons of ability, integrity and standing who have knowledge or experience in life insurance, general insurance, actuarial science, finance, economics, law, accountancy, administration etc. The Authority consists of a chairperson, not more than five whole-time members and not more than four part-time members.
1.3 Meaning of life insurance

There are three parties in a life insurance transaction: the insurer, the insured, and the owner of the policy (policyholder), although the owner and the insured are often the same person. Another important person involved in a life insurance policy is the beneficiary. The beneficiary is the person or persons who will receive the policy proceeds upon the death of the insured.

1.4 How life insurance works

The mechanism of insurance is very simple. People who are exposed to the same risks come together and agree that, if any one of them suffers a loss, the others will share the loss and make good to the person who lost. For example, there are 1000 persons who are all aged 50 and are healthy. It is expected that of these, 10 persons may die during the year. If the economic value of the loss suffer by the family of each dying person is taken to be Rs. 20,000, the total loss would work out to Rs.2,00,000/-. If each person in the group contributed Rs. 200/- a year, the common fund would be Rs. 2,00,000/-. This would be enough to pay Rs. 20,000 to the family of each of the person who die. Thus risk in the case of 10 persons are shared by 1000 persons. Thus the business of insurance is nothing but one of sharing. If spreads losses of an individual over the group of individuals who are exposed to similar risks. ³

³ IRDA Pre-Recruitment exam for insurance agent (LIFE) pp 6
1.5 Why life Insurance?

An insurance policy is primarily meant to protect the income of the family’s breadwinners. The idea is if any one or both die, their dependents may hereto continue to live comfortably. The circle of life begins at birth, followed by education, marriage and eventually, after a lifetime of work, we look forward to a life of retirement. Our finances too tend to change as we go through the various phases of our life. In the first twenty years of our life, we are financially and emotionally dependent on our parents and there are no financial commitments to be met. In the next twenty years, we gain financial independence and provide for our families. This is also the stage when our income may be insufficient to meet the growing expenses of a young household. In the following twenty years, as our children grow and become financially independent, we see our savings grow, a nest egg put away for life after retirement. The final twenty years of life, post retirement is the time to reap the rewards of our hard work. A human being is an income generating asset. One manual labour, professional skills and business acumen are the assets. This asset also can be lost through unexpectedly early death of through sickness and disabilities caused by accidents. Accidents may or may not happen. Death will happen, but the timing is uncertain. If it happens around the time of one’s retirement, when it could be expected that the income will normally cease, the person concerned could have made some other arrangements to meet the continuing needs. But if it happens much earlier when the alternate arrangements are not in place, there can be losses to the person and dependents. Insurance is necessary to help those dependent on the income.  

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4 Bimaquest - Vol. VIII Issue I, January 2008 pp 41
1.6 Types of Life Insurance

Taking out a life insurance policy covers the risk of dying early, by providing for your family in the event of your death. It also manages the risk of retirement – providing an income for you in non-earning years. Choosing the right policy type with the coverage that is right for you therefore becomes critical.

There are a variety of policies available in the market, ranging from Term Endowment and Whole Life Insurance, to Money Back Policies, ULIPs, and Pension plans. Let's see what each of these is about, so that you can consider the one that best suits you.  

a) Term Insurance

Term Insurance, as the name implies, is for a specific period, and has the lowest possible premium among all insurance plans. You can select the length of the term for which you would like coverage, up to 35 years.

Payments are fixed and do not increase during your term period. In case of an untimely death, your dependents will receive the benefit amount specified in the term life insurance agreement.

You can customize Term life insurance with the addition of riders, such as Child, Waiver of Premium, or Accidental Death.

b) Endowment Insurance

Endowment Insurance is ideal if you have a short career path, and hope to enjoy the benefits of the plan (the original sum and the accumulated bonus) in your lifetime.

Endowment plans are especially useful when you retire; by buying an annuity policy with the sum received, it generates a monthly pension for the rest of your life.

c) Whole Life Insurance

Whole Life Policies have no fixed end date for the policy; only the death benefit exists and is paid to the named beneficiary. The policy holder is not entitled to any money during his or her own lifetime, i.e., there is no survival benefit. This plan is ideal in the case of leaving behind an estate.

Primary advantages of Whole Life Insurance are guaranteed death benefits, guaranteed cash values, and fixed and known annual premiums.

d) Money-Back Plan

In a Money-Back plan, you regularly receive a percentage of the sum assured during the lifetime of the policy. Money-Back plans are ideal for those who are looking for a product that provides both - insurance cover and savings.

It creates a long-term savings opportunity with a reasonable rate of return, especially since the payout is considered exempt from tax except under specified situations.
e) Children’s Plan

Under this policy, claim by insurance company is paid on the option date which is calculated to coincide with the child's eighteenth or twenty first birthday. In case the parent survives till option date, policy may either be continued or payment may be claimed on the same date. However, if the parent dies before the option date, the policy remains continued until the option date without any need for payment of premiums. If the child dies before the option date, the parent receives back all premiums paid to the insurance company. They make sure that the child’s financial needs are fulfilled, whatever the circumstances. They are a good way to take care of situation when you feel the financial crunch, especially during the time the child is looking forward to higher education and marriage.

f) ULIP

Unit-linked Insurance Plans (ULIPs), introduced by the private players, are hugely popular, because they combine the benefits of life insurance policies with mutual funds. A certain part of the premium is invested in listed equities/debt funds/bonds, and the balance is used to provide for life insurance and fund management expenses.

g) Pension Plan

Insurance companies offer two kinds of pension plans - endowment and unit linked. Endowment plans invest in fixed income products, so the rates of return are very low.

Unit-linked plans are more flexible. You can stop contributing after 10 years and the fund will keep compounding your corpus till the vesting date. You can opt for higher exposure in the stock market for your plan if your risk appetite allows it. Lower risk options like balanced funds are also offered.
1.7 Role of Insurance in economic development

a). Insurance Contributes Positively to Economic Growth.

The deepening of insurance markets makes a positive contribution to economic growth. While life insurance is causally linked to growth only in higher income economies, nonlife insurance makes a positive contribution in both developing and higher income economies.

b). Strong Complementarity between Insurance and Banking.

Insurance and banking system deepening appear to play complementary roles in the growth process. Although insurance and banking separately each make positive contributions to growth, their individual contributions are greater when both are present. There is also some evidence that the development of insurance markets contributes to the health of securities markets. Separate evidence that a growing presence of life insurance providers and pension funds is associated with more efficient banks suggests that they promote some capital market discipline on the investment side that is also complementary. Analysis of the heterogeneity even within the group of relatively wealthy OECD member countries leads some analysts to conclude that a full understanding of the relationship between insurance and growth requires some analysis of cultural and institutional characteristics within individual countries.6

6 Lael Brainard, What is the role of insurance in economic development?
c). Globalization of Insurance markets

Although the evidence suggests that insurance market deepening should be a priority in the financial sector strategies of developing countries, awareness of the role of insurance lags behind that of banking and capital markets. For many countries, a good starting point would be to include analysis and recommendations specifically for insurance in financial sector assessments.

d). The Road Ahead

The evidence suggests there is substantial potential for insurance to make a greater contribution to economic growth and social welfare in many lower and middle income countries. Indeed, industry experts argue that insurance lags behind other financial services in the extent of globalization, providing substantial growth opportunities.

1.8 Insurance products are under penetration and under insurance

The market is now brimming with countless insurance products, all of which claim to provide financial cover to the direct dependents in the unfortunate demise of the earning (insured) member. Insurance products are sold like hot cakes in this country.

However, statistics reveal that the life insurance penetration in India has still a long way to go. Figures from the Reserve Bank of India show that the share of life insurance products in the total financial savings of the households has gone up from about 17% in 2006-07 to 19.5% in 2008-09. In absolute terms, this means Indians have invested over Rs 1.45 lakh crore of their total savings in life insurance products, second only to bank deposits. And in terms of number of policies, the insurance industry had a total of about 26 crore policies until 2007-08. Roughly, life insurance today provide cover to nearly 26
crore households, though the actual number is bound to be much less due to a single individual buying more than one policy.

Take off the sheen, and one realise that the market is highly under-penetrated, given India's population of nearly 115 crore. The larger issue is that of under-insurance. As per the IRDA statistics, the total amount of life cover or sum assured on the 26 crore policies in 2007-08 were merely Rs 23.96 lakh crore. This translates into average life cover per policy to just about Rs 93,000. Given India's current per capita income of around Rs 39,000 and average family size of 5.1, the amount covers only the six-month income of a typical family in India. This is a meager amount and cannot termed as financial security by any stretch of imagination.  

1.9 Benefits of Insurance

Insurance is the instrument of Security, saving and peace of mind. It provides several benefits by paying a small amount of premium to an insurance company as:

1. Safeguards oneself and one's family for future requirements.
2. Peace of mind in case of financial loss.
3. Encourage saving.
4. Tax rebate.
5. Protection from the claim made by creditors.
6. Security against a personal loan, housing loan or other types of loan.
7. Provide a protection cover to industries, agriculture, women and child.

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7 The Economic Times, Wednesday, 31 March 2010
1.10 Four reasons for buying Insurance

Ask individuals wanting to buy life insurance, about how they do their tax planning and the first reply will be - insurance policy. Such is the nature of life insurance. It is bought by almost everyone right from the bigwigs of the business world to small retail investors. And most buy it for one core reason - to save tax. But should this be the only reason to buy a life insurance policy? Here, are some guiding principles for individuals who are contemplating taking life insurance.

a). Premature Death

One is never sure about life. We often come across people claiming that nothing is going to happen to them; that they are too young to pass away. But do they really know what the future holds for them? We can assure you they don't, because the question `What if?' has probably never crossed their minds. We only have to read newspaper headlines about the recent Tsunami, the earthquake that took place not so long ago and such other natural calamities to understand how the future can be unpredictable.

Individuals need to insure themselves to secure the future of those who are dependent on them; especially so if they happen to be the sole breadwinners. You wouldn't want them to go through hardships or rely on others/relatives, etc. This, in fact, is the prime reason why one should buy an insurance policy.

b). Living too long

Advances in the field of medicine have grown by leaps and bounds over the past few decades. Due to this, life expectancies have gone up. This poses another problem for individuals. It is generally observed that individuals who tend to live way beyond their earning years like say, till the age of 85 or 90, usually face a problem coming to terms
with increasing costs of living. And that is not taking into account the manifold increase in medical expenses of course. This takes place largely due to imprudent financial planning by individuals during their earning years. Insurance, if bought at the right time for the right amount, acts as a savior in such times. Individuals could opt for a pension plan offered by insurance companies, which suits their profile in terms of income, proposed retirement age and proposed expenses post-retirement. Such plans provide an annuity, which means that individuals keep getting a fixed sum every month/year after they have retired.

c). Painful existence

Maybe an individual has planned well during his earning years to secure himself financially. He has also designed his financial portfolio in such a way that he is drawing a comfortable monthly income to support his family expenditure. But what if an individual were to have a health problem afflicting him or his spouse? What if the remedy to this ailment were to cost him a sum beyond his financial capacity? Here again, life insurance can act as the saving grace in two ways. One, by way of a medical rider like the accidental death benefit rider, permanent disability benefit rider, critical illness benefit rider. These riders are taken along with the life insurance plan and help cover the medical expenses.

d). Tax benefits

Traditionally, life insurance has always been bought more for tax benefits than for what it is actually purported to do; i.e. insure human life. But the role of life insurance in an individual's tax planning cannot, in any way, be undermined. Under the new regime, individuals can now invest up to Rs 100,000 in insurance premium to avail of a deduction from taxable income. The tax sops provided on insurance help ‘increase’ the individual's
disposable income and make him consider taking a life insurance plan which he otherwise may not have done.

1.11 Life Insurance Provisions

a). Premium

This is the amount you pay to the insurance company to buy a policy.

A single premium policy will need you to pay just one lump-sum amount.

The annual premium policy will require you to pay every year. This will go on for a fixed period of time. The exact number of years will depend on the scheme in question. 8

b). Insurer and Insured

The person in whose name the insurance policy is made is referred to as the policy holder or the insured. So, if you have taken an insurance policy, you are the policy holder, the one who is insured.

The insurer is the insurance company that offers the policy.

In India, these are the life insurance players. We have listed them in alphabetical order:

AEGON Religare Life Insurance
Aviva Life Insurance
Bajaj Allianz Life Insurance
Bharti AXA Life Insurance

8 http://www.rediff.com/getahead/2006/may/25term.htm
Birla Sun Life Insurance
Canara HSBC Oriental Bank of Commerce Life Insurance
DLF Pramerica Life Insurance
Edelweiss Tokio Life Insurance
Future Generali India Life Insurance
HDFC Standard Life Insurance
ICICI Prudential Life Insurance
IDBI Federal Life Insurance
IndiaFirst Life Insurance
ING Vysya Life Insurance
Kotak Life Insurance
Life Insurance Corporation of India
Max New York Life Insurance
MetLife India Insurance
Reliance Life Insurance
Sahara India Life Insurance
SBI Life Insurance
Shriram Life Insurance
Star Union Dai-ichi Life Insurance
Tata AIG Life Insurance

c) Nominee / Beneficiary

The person whom you name as the nominee is the one who will get the insured amount if you die. The nominee is referred to as the beneficiary.
d). Sum Assured and Maturity Value

**Sum assured** is the amount of money an insurance policy guarantees to pay before any bonuses are added. In other words, sum assured is the guaranteed amount you will receive. This is also known as the cover or the coverage and is the total amount you are insured for.

**Maturity value** is the amount the insurance company has to pay you when the policy matures. This would include the sum assured and the bonuses.

Let's take an example of an endowment policy.

<table>
<thead>
<tr>
<th>Age of policy holder</th>
<th>30 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cover</td>
<td>Rs 2,00,000</td>
</tr>
<tr>
<td>Term</td>
<td>20 years</td>
</tr>
<tr>
<td>Annual premium</td>
<td>Rs 9,000</td>
</tr>
</tbody>
</table>

If the policy holder passes away before the policy matures, the beneficiary gets Rs 2,00,000 along with the bonus too (if any).

If he is alive when the policy matures, he will get Rs 2,00,000 as well as any bonuses declared during the tenure of the policy.

Let's say the bonuses amounted to Rs 1,00,000. His maturity value would be Rs 3,00,000 (sum assured + bonuses).


e). Bonus

This is the amount given in addition to the sum assured.

**Reversionary bonus** is a bonus that is added to policies throughout the term of the policy. It may or may not be declared every year. When it is declared, it will not be given to you immediately. It will be payable as a guaranteed sum to the policyholder either at the end of the policy, or, if death occurs before that, to the nominee.

This bonus can either be a with-profit bonus or a guaranteed bonus.
A **with-profit bonus** is linked to the profit of the company. If the company makes a profit, it declares a bonus in accordance with the profits. The profits are added to your insurance policy and given to you either on maturity of the policy or to your nominee if death occurs before that. This bonus will be flexible as it is dependent on the performance of the company. However, once it is declared, it becomes part of your sum assured. This is offered purely at the discretion of the insurer and depends on the profits made that year.

As opposed to a with-profit bonus, there is a **guaranteed bonus**.

This is part of the sum assured. It will be paid to you irrespective of the profits of the company.

**f). Term and Term insurance**

The term is the number of years you bought the policy for. So, if your policy lasts for 10 years (the number of years is your choice), it is referred to as one with a 10-year term.

Term insurance, on the other hand, is a type of insurance policy. It provides policyholder with protection only. If the policyholder dies within the specified number of years (the term), his nominee gets the sum insured. If he lives beyond the specified period, the policyholder gets nothing.

This is the cheapest and most basic type of life insurance.

**g). Endowment Insurance**

You are given a life cover just like term insurance. If you die during this period, your beneficiary will get whatever amount you are insured for.

Unlike a term insurance cover, if you live, an amount will be paid to you on maturity of the plan.
This kind of policy combines saving (because money is given to you on maturity) with some protection (your nominee gets an amount if you die).

h). Rider

It is an optional feature that can be added to a policy.

For instance, you may take a life insurance policy and add on accident insurance as a rider. You will have to pay an additional premium to avail this benefit.

i). Annuity

Annuities refer to the regular payments the insurance company will guarantee at some future date. So, say, after you cross 55, the insurance company will start giving you a monthly or quarterly return. This is known as an annuity (premium is what you pay them).

This is often done to supplement income after retirement.

j). Surrender Value & Paid-up value

Halfway through the policy, you might want to discontinue it and take whatever money is due to you.

The amount the insurance company then pays is known as the surrender value. The policy ceases to exist after this payment has been made. Do remember, you will lose out on returns if you withdraw your policy before time.

Paid-up value is different. If you stop paying the premiums, but do not withdraw the money from your policy, the policy is referred to as paid up.
The sum assured is reduced proportionately, depending on when you stopped. You then get the amount at the end of the term.

**k). Survival Benefit**

This is the amount payable at the end of specified durations. These amounts are fixed and predetermined.

Let's take an example.

<table>
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<td>15 years</td>
</tr>
<tr>
<td>Annual premium</td>
<td>Rs 18,000</td>
</tr>
</tbody>
</table>

Now the policy promised to give back a portion of the sum assured (10%, 15%, 20%, 25%) every three years.
After 3 years: Rs 20,000
After 6 years: Rs 30,000
After 9 years: Rs 40,000
After 12 years: Rs 50,000
On maturity: Rs 60,000
Should you die during this tenure, your beneficiary will get the entire Rs 2,00,000. Irrespective of, whether or not you have been paid any amount till date.

**l). Maturity**

Some insurance policies are valid up to a certain period of time only. When this period expires, the policy is said to have reached maturity. At this date the policy holder receives a sum of money from the insurance company.
m). Lapse

When the policy holder is unable to or does not pay the premium any more, within the specified grace period, the policy is said to have lapsed. If certain conditions are met, a revival of a lapsed policy might be possible.

n). Free look period

Once you get an insurance policy, the rules offer you 15 days within which you can revisit your purchase decision. This gives you the time to go through the policy's fine print, understand how the policy is going to work and be convinced that you need such a policy before deciding to commit funds every year over the insurance plan's tenure.

1.12 Insurance riders

Riders are additional benefits that can be purchased with a life insurance policy to enhance your insurance cover. These are extra features that you can buy over and above your base policy features to protect yourself against an unexpected tragedy. Riders typically cost extra in premium and add value, flexibility as well as safety to the core coverage during the life of the policy. All life insurance riders get tax benefit under Section 80C, subject to the overall limit of Rs 1 lakh.

Further, these riders can be attached to all types of insurance policies - endowment, money back, whole life and unit linked insurance plans (Ulips). While riders can be added anytime to your policy, it is wise if you buy them while buying the main policy. Typically, insurers too prefer to sell riders while selling the main policy, otherwise they have to do the underwriting again.
a). Indians at higher risk

Worldwide, the incidence of critical illnesses such as diabetes, heart attack, cancer, hypertension, and renal failure is on the rise. But, these figures are even more disheartening for Indians. For instance, according to the Cancer Aid and Research Foundation, an Indian charitable organisation, it is estimated that approximately one million new cancer cases will be recorded every year and at any given time there will be three million cancer patients in India. Other statistics suggest that one in every 12 Indians is expected to get some form of cancer before they reach the age of 64. Recent studies suggest that one in three urban Indians have high blood pressure.  

Our country is already the diabetes capital of the world with 40.9 million diabetics. According to Indian Council of Medical Research [ICMR], India will also be the world capital of heart attack and hypertension by 2020.

In a dubious distinction for the country, the World Health Organization has revealed in its first ever Global Status Report on Road Safety that more people die in road accidents in India than anywhere else in the world, including the more populous China. At least 13 people die every hour in road accidents in the country, the latest report of the National Crime Records Bureau reveals. In 2007, 1.14 lakh people in India lost their lives in road mishaps.

What happens when a family looses a child or mother or a sole bread earner? For each death / seriously injured, it is estimated that roughly 5-7 family members are directly effected. Therefore, due to road accidents, nearly 25 lakhs people are additionally impacted in our country every year.

b). The good, the bad and the ugly

The good news is that, thanks to advances in medical science and improved lifestyles, survival rates of critical illnesses are going up. But the bad news is that a critical illness treatment costs are prohibitive to all but the wealthiest among us. Everything is expensive - tests, curative treatments, surgeries and medicines. The ugly aspect of contracting a critical illness is that it throws life completely out of gear as the sufferer often remains incapable of earning a living, temporarily, if not permanently. What is worse is that the critical illness patients become more dependent on their loved ones, to not only take care of them but also to financially provide for them.

c). Dealing with financial burden

Prevention is better than cure, not just in case of physical health, but also in case of your financial health. Being prepared for any sudden financial requirement ensures that you will not have to scout for funds, during any emergency - medical or non-medical.

Many of us hardly spend time planning for the rainy day. According to a senior insurance advisor, most people spend less than five minutes per year evaluating what would happen to them financially if they were to experience a critical illness in the family. Yet, when you think about the high probability of contracting a critical illness, doesn’t it make sense to insure ourselves and our loved ones against the financial consequences of critical illness?

d). Cost of riders

Most riders are relatively inexpensive in comparison to the premium that you pay for the base policy. A rider generally costs around 5-10 per cent of the total premium. As such
there is no limit on the number of riders that you may attach, but the premium on all the
riders together should not exceed 30 per cent of your base premium. However, keep in
mind that when you take multiple riders, your premium amount escalates and this may
pinch your pocket.

e). Benefits of riders

Suppose you buy a policy with a sum assured of Rs 5 lakh, which has an accidental death
benefit rider. In case of a normal death, your nominee will get the sum assured as death
benefit. But in case you die due to an accident then depending upon the conditions of the
rider you might get up to double the sum assured. The chances of this occurring are low;
hence you have to pay a small premium in addition to the basic premium that you pay for
the policy. So such riders are small features for which you pay a small premium amount
in addition to your base premium but get substantially big benefits out of them.

f). Types of riders

Below are the most common life insurance riders that you may choose to add on to your
base policy, but this is definitely not a complete list.

**Accidental Death Benefit.** Accidental Death Benefit (also known as Double Indemnity)
is by far the most common rider. In the event of death occurring as a result of an accident
during the term of the life insurance policy, an additional amount less than or equal to the
sum assured is payable to the nominee.

**Critical illness or surgery rider:** This rider offers a lump sum benefit to the insured if
he is diagnosed as having a critical illness like cancer or stroke, as specified in the
contract of the policy.
Waiver of premium rider: This is an essential part of child insurance policies. This rider waives off subsequent premiums if the insured or the earning parent dies or is disabled and is unable to continue paying the premiums. If this happens, the insurance company pays the remaining premiums.

Guaranteed Insurability. This rider allows the insured to purchase additional amounts of insurance at specific ages without requiring proof of insurability, in other words, without needing to take a physical examination. This rider is useful if you need to buy additional insurance to keep pace with changing life circumstances, such as when you get married or have children.

Disability Income. The disability income rider guarantees that the insured policyholder will receive a monthly income from the insurance company should he or she become totally and permanently disabled, for as long as the disability lasts. Beware of exclusions and inclusions. Make sure that you check with the insurance company not only the terms and conditions of its riders, but also the specific meanings of the words that the insurance company uses to describe situations in which the rider provides benefits.

g). Why are riders popular?

The main reason is that rider’s offer high value at a low cost, and they offer extra protection without you having to buy a second policy. While most life insurance policies are standardized and may not give you the liberty to modify them according to your individual needs, these riders empower you with much-needed control over your changing life situations.
h). Finding the best riders

Riders are not complex but choosing the right rider may be difficult. That is mainly because one, there are numerous types of riders which are available at affordable prices. And second, insurance agents try to sell as many riders as possible as they make more money for themselves.

Don't buy just for the sake of buying a rider. It is important that you evaluate your needs first. For example, if you travel a lot by road or if you are into a job that requires a lot of traveling, then the chances of an accident are high. So it would be wise to buy an Accidental Death Benefit rider.

Hence, ask yourself whether you really need the rider. Suppose you have a life insurance policy and also a health insurance policy. If your health insurance policy already covers your medical expenses, in that case buying a rider that provides the same features or serves the same purpose would be futile. Evaluate what benefits you are already getting from your existing policies and then decide upon the appropriate riders.

Points to remember

- Riders add extra protection over and above the base policy
- For a small price, you are offered a high-value, low-probability benefit by the insurance company
- They are inexpensive compared to the base policy premium
- Various types of riders are available in the market to suit individual needs
- Understand and evaluate your needs before buying a rider
- Be aware of the terms and conditions attached to them