Typology of life Insurance

Role	Name	Affiliation
Principal Investigator	Dr.Gyanendra Kumar sahu	Asst.Professor Utkal University
Content Reviewer	Dr.Gyanendra Kumar sahu	Asst.Professor Utkal University

Description of Module

Items	Description of Module
Subject Name	Law
Paper Name	Law of Insurance
Module Name /Title	Typology of life Insurance
Module No.	IV

Typology of life Insurance

Objective: After reading this module, the learners will have a clear picture of :

Life insurance products are usually referred to as 'plans' of insurance, one is death cover and the other is survival benefit.

Learning Outcomes:

If you live till the end of policy period, you get the sum assured or if you die before the end of policy period, your survivors will get the sum assured.

KINDS OF LIFE INSURANCE

Life insurance products are usually referred to as 'plans' of insurance. These plans have two basic elements, one is death cover and the other is survival benefit. If regular premiums are paid throughout the duration, one gets the sum assured in the policy at the end of the period. Or, if the holder dies while the policy is in force, his survivors will get the amount as compensation for the economic loss. Thus, if you live till the end of policy period, you get the sum assured or if you die before the end of policy period, your survivors will get the sum assured.

Privatization has greatly revolutionized the product range of insurance companies. Now, there are different kinds of insurance plans, which are available to people in life insurance itself. People today have greater option in choosing a policy depending on their requirements.

The major kinds of life insurance plans are:

1. Term Assurance

The plans of insurance that provides only death cover for a specific term are called term assurance. You can select the term for which you would like the coverage; up to 35 years. Payments are fixed and do not increase during your term period. In case of an untimely death, your dependants will receive the benefit amount specified in the policy. The whole life plan is a long term ‘Term Assurance’.

2. Pure Endowment

The plans of insurance that provides only **survival benefits** are called pure endowment plan. In this plan the life insurance company promises to pay the life insured a specific amount (sum insured) only if he survives the term of the plan. If the insured dies during the tenure of the plan then the family is not entitled to anything. It means there is no death cover. But in this plan, the premium is much higher compared to the term assurance.
All the different insurance plans of any insurance company are a mixture of these two basic plans, though their proportions may vary. While doing it, customer needs are given preference, out of which are born different insurance plans.

3. Annuity (Pension) Plan
Annuities are practically the same as pensions. We all know that each and every person is going to retire at some time or the other and the greatest risk after retirement is the lack of income, or a reduced earning capacity. To take care of this, different insurance companies have devised different plans providing annuity. Once the pension starts, insurance protection is removed. The pension can be had monthly, quarterly, half yearly or yearly.

4. Unit Linked Insurance Plan
ULIPs are market linked life insurance products that provide a combination of life cover and wealth creation options. This is a very attractive and equally useful scheme. Here, after paying the first 2-3 yearly premium amounts, even if one does not pay the rest of premiums, his insurance protection continues. The policy does not lapse.

5. Whole Life Policy

A term insurance plan with an unspecified period is called a whole life policy. Under this plan premiums are paid throughout life, till his death, but the claim i.e. the sum assured becomes payable only after his death. The policy does not expire till the time any unfortunate event occurs with the individual. The advantage of this policy is that the validity of this policy is not defined and hence the individual enjoys the life cover throughout life. Moreover, this policy is the cheapest policy as the premium under this policy is lowest and exempted from tax.

6. Whole Life Policy- Limited Payment

Here, the holder can decide in advance the number of years he is going to pay the premiums. After the period of premium payment, the risk continues without payment of premiums, and if the policy is participatory, the amount of yearly declared bonus is added to the sum assured. A feature of this policy is that in the declining period of life, when premium payment becomes burdensome because of carrying out of other responsibilities, premiums need not be paid, because the premiums have already been paid during the prime life.

7. Convertible Term Insurance Policy

Convertible term insurance policy is for those people who may not be able to afford a large premium at present, but will be capable of paying large premiums in 4-5 years after their income has grown and stability has been attained in the occupation. Convertible term insurance policy allows the insured to convert a term policy to a permanent policy at a later date as the insurance needs and financial resources change. It is a term assurance policy with a period of 5-7 years. They have to decide whether to convert it into a whole life policy or endowment policy, at least two years before the end of the term of this policy. For this, there is no need for fresh medical examination. Only, premium has to be paid at the time of making the changes according to the changed age, and for the changed term accordingly.

8. Convertible Whole Life Assurance Policy

This is devised for those people who want a large insurance protection, but want a minimal premium at the beginning, which may be increased four to five times after five years and also want to convert it into a whole life policy of a proper duration. In the beginning, it is in the form of a whole life assurance policy where premiums have to be paid till the age of 70. Before the end of five years, the holder can convert it into a whole life policy of a proper duration. For this, there is no need for fresh medical examination. If no changes are made, the insurance continues in the form of a limited payment whole life plan, where premiums have to be paid till the age of 70.

9. Pure Insurance

This scheme is for young people with a limited income but who want a large insurance protection. If the holder dies while the policy is in force, the whole insurance amount together with loyalty addition amount is paid. If he lives till the end of the term, all premiums paid by him (less extra premiums paid), together with loyalty addition are paid to him. In addition, free insurance protection is provided for next 10 years, depending on the policy duration for 30 to 60 percent of the original sum assured.

10. Mortgage Redemption Policy

Mortgage redemption policy is designed to meet the requirements of the policy holding individual who seeks to ensure that all his outstanding loans and debts are automatically paid up in the event of his demise. This plan is suitable to a person who is refunding loan on EMI basis. If he dies before repaying the full loan amount, instead of the burden of his loan balance repayment falling upon his survivors, the loan is automatically repaid out of the insurance amount payable on his death. Premiums have to be paid for a period which is two years less than his loan duration. One time premium payment can also be made. The premiums are easily affordable. At any time, the policy face value is equal to the loan balance. In other words, policy face value goes on decreasing yearly in proportion to loan balance. The holder gets no benefits under the policy, once the loan is repaid fully. Medical examination is compulsory. Since the premium amount is fixed according to the loan interest, loan amount, age of the holder and loan duration, the premium amount is informed to him after he applies for the loan.

11. Endowment Assurance Policy

This is the most popular policy. There is a wonderful mixture of risk coverage and provision for old age in this policy scheme. If the holder dies while the policy is in force, his survivors get the compensation in the form of the sum assured. At the end of policy period, if he is alive, he gets the policy amount. These policies are both with and without bonus. This is considered to be a model insurance policy, and over 60 percent of all the policies are taken out under this scheme. It is suitable for middle aged to elderly professionals whose dependants might need assistance in clearing their debts in case of their unexpected demise. This policy bears no surrender value.

12. Money Back Policy

This scheme is devised for those who need a lump sum amount after a certain period, or those who want to invest this amount somewhere other than in insurance and earn more profits. While this policy is in force, if the holder is alive after certain period of time, he is paid 15-20 per cent of the sum assured as survival benefit. On the other hand, if he dies at any time during the policy period, the whole amount is paid to his survivors. If he is alive after the policy duration, the whole amount after deducting the survival benefits already paid is paid back to him.