**Intro:** This chapter presents the basics of insurance and how it works as a tool for risk transfer.

### Life Insurance – History and evolution

#### History of Insurance in India

- Modern insurance in India began in early 1800 or thereabouts

- It began with agencies of foreign companies starting marine insurance business

#### The first life insurance company in India

- The Oriental Life Insurance Co. Ltd. was an English company

#### The first non-life insurance company

- Triton Insurance Co. Ltd. established in India

#### The first Indian insurance company

- Bombay Mutual Assurance Society Ltd. was formed in 1870 in Mumbai

#### The oldest insurance company in India

- National Insurance Company Ltd. was founded in 1906 & still in business
Chapter 1
Introduction to Insurance

Life Insurance Companies Act, 1912 was passed to regulate insurance business.

Insurance Act, 1938 was the first legislation enacted to regulate conduct of insurance companies.

Nationalisation of life insurance
- Life insurance business was nationalised on 1\textsuperscript{st} September, 1956
- The Life Insurance Corporation of India (LIC) was formed.

Nationalisation of non-life insurance
- The non-life insurance business was nationalised with the enactment of General Insurance Business Nationalisation Act (GIBNA) in 1972,
- The General Insurance Corporation of India (GIC) and its four subsidiaries were set up.

Insurance Regulatory and Development Authority (IRDA)
- The passing of the Insurance Regulatory & Development Act, 1999(IRDA) led to the formation of Insurance Regulatory and Development Authority (IRDA) in April 2000 as a statutory regulatory body both for life and non-life insurance industry.
Chapter 1
Introduction to Insurance

How insurance works

Insurance

Process where losses of a few are shared by others exposed to similar uncertain events / situations

Insurance process

House owners Contributing Premium

Insurance Company

Claim Settlement

Risk burdens that one carries

Primary burden of risk

Secondary burden of risk
Chapter 1
Introduction to Insurance

Risk management techniques

Risk avoidance
Risk retention
Risk reduction and control
Risk financing

Insurance is one of the major forms of risk transfer, and it permits uncertainty to be replaced by certainty through insurance indemnity

Insurance vs Assurance

Insurance
• Refers to protection against an event that might happen
• Provides cover against a risk

Assurance
• Refers to protection against an event that will happen
• Covers an event that is definite
• Assurance policies are associated with life cover
Chapter 1
Introduction to Insurance

How insurance indemnifies the insured

Step 1
Individual has taken motor insurance

Step 2
Individual meets with an accident

Step 3

Step 4
Individual makes a claim
Insurance company indemnifies individual
Chapter 1
Introduction to Insurance

Insurance as a tool for managing risk

Considerations before opting for insurance

- Don't risk a lot for a little
- Don't risk more than what you can afford to lose
- Consider the likely outcomes of the risk carefully
Intro: This chapter explains the various components of life insurance.

Life insurance business – Components, human life value, mutuality

Asset: Human Life Value (HLV)

- HLV concept considers human life as a kind of property or asset that earns an income.
- It measures the value of human life based on an individual's expected net future earnings.

Typical concerns faced by ordinary people:

- Dying too early
- Living too long
- Living with disability
Chapter 2
What Life Insurance Involves

The level premium is a premium fixed such that it does not increase with age but remains constant throughout the contract period.

Level premium has two components

- **Term or protection component**: It consists of that portion of premium actually needed to pay the cost of the risk
- **Cash value element**: It is made up of accumulated excess payments of the policyholder. It constitutes the savings component
Chapter 2
What Life Insurance Involves

Mutuality & Diversification

Mutuality is one of the important ways to reduce risk in financial markets, the other being diversification.

Diversification

Under diversification the funds are spread out among various assets (placing the eggs in different baskets).

Under diversification we have funds flowing from one source to many destinations.

Mutuality

Under mutuality or pooling, the funds of various individuals are combined (placing all eggs in one basket).

Under mutuality we have funds flow from many sources to one.
**Intro:** This chapter explains the elements that govern the working of a life insurance contract and also deals with the special features of a life insurance contract.

### Insurance contracts – Legal aspects and special features

- **Insurance contract**
  - Insurance involves a contractual agreement in which the insurer agrees to provide financial protection against certain specified risks for a price or consideration known as the premium.
  - The contractual agreement takes the form of an insurance policy.

### Elements of a valid contract

- Offer and acceptance
- Consideration
- Agreement between parties
- Free consent
- Capacity of the parties
- Legality
Consent is said to be free when it is not caused by

- **Coercion**
  - It involves pressure applied through criminal means

- **Undue influence**
  - When a person who is able to dominate the will of another, uses his / her position to obtain an undue advantage over the other

- **Fraud**
  - When a person induces another to act on a false belief that is caused by a representation he or she does not believe to be true. It can arise either from deliberate concealment of facts or through misrepresenting them

- **Misrepresentation**
  - Error in one’s knowledge or belief or interpretation of a thing or event. This can lead to an error in understanding and agreement about the subject matter of contract

- **Mistake**
  - Error in one’s knowledge or belief or interpretation of a thing or event. This can lead to an error in understanding and agreement about the subject matter of contract
Chapter 3
Legal Principles of Life Insurance

Uberrima Fides or Utmost Good Faith

It means that every party to the contract must disclose all material facts relating to the subject matter of insurance.

It is defined as involving “a positive duty to voluntarily disclose, accurately and fully, all facts material to the risk being proposed, whether requested or not”.

If utmost good faith is not observed by either party, the contract may be avoided by the other.

Material facts

It has been defined as a fact that would affect the judgment of an insurance underwriter in deciding whether to accept the risk and if so, the rate of premium and the terms and conditions.
Chapter 3
Legal Principles of Life Insurance

**Insurable interest can be in**

- Self (Own life)
- Spouse’s life
- Children’s life
- Asset/s owned

**Proximate cause**

It is defined as the active and efficient cause that sets in motion a chain of events which brings about a result, without the intervention of any force started and working actively from a new and independent source.
**Intro:** Life insurance must be understood in the wider context of “Personal Financial Planning”. The purpose of this chapter is to introduce the subject of financial planning.

Financial planning and the individual life cycle

It is a process of identifying one’s life’s goals, translating these identified goals into financial goals and managing one’s finances in ways that will help one to achieve those goals.

The Economic Life Cycle

- **Savings**
- **Consumption**
- **Income**

Life, Death and Disease – the 3 contingencies

- Learner
- Earner
- Partner
- Parent
- Provider
- Empty Nester
- Twilight years
Chapter 4
Financial Planning

Savings may be considered as a composite of two decisions

Postponement of consumption: an allocation of resources between present and future consumption.

Parting with liquidity in exchange for less liquid assets. E.g. purchase of a life insurance policy implies exchanging money for a contract which is less liquid. Financial planning includes both kinds of decisions.

Life Stages

<table>
<thead>
<tr>
<th>Life Stage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Childhood stage</td>
<td>When one is a student or learner</td>
</tr>
<tr>
<td>Young unmarried stage</td>
<td>When one has begun to earn a livelihood but is single</td>
</tr>
<tr>
<td>Young married stage</td>
<td>When one has become a partner or spouse</td>
</tr>
<tr>
<td>Married with young children stage</td>
<td>When one has become a parent</td>
</tr>
<tr>
<td>Married with older children stage</td>
<td>When one has become a provider who has to take care of education and other needs of children who are growing older</td>
</tr>
<tr>
<td>Post family/Pre-retirement stage</td>
<td>When the children may have become independent and left the house, just as birds leaving an empty nest behind</td>
</tr>
<tr>
<td>Retirement stage</td>
<td>When one passes through the twilight years of one’s life. One could live with dignity if one has saved and made sufficient provisions</td>
</tr>
</tbody>
</table>
Chapter 4
Financial Planning

Role of financial planning

Elements of Financial Planning

Investing
Risk Management
Retirement Planning
Tax and Estate Planning
Financing one's needs

The challenges facing our society and our customers

- Disintegration of the joint family
- Multiple investment choices
- Changing lifestyles
- Inflation
- Other contingencies and needs
Chapter 4
Financial Planning

Financial planning - Types

Financial Planning Advisory Services

Cash Planning | Investment Planning | Insurance Planning | Retirement Planning | Tax Planning | Estate Planning

Parameters on which investment decisions are based

Diversification | Tax Considerations | Risk Tolerance | Time Horizon | Liquidity | Marketability

Phases of retirement

Accumulation | Conservation | Distribution
**Intro:** This chapter discusses products in general, need for life insurance products and the role they play in achieving various life goals. It also discusses some traditional life insurance products.

### Overview of life insurance products

#### What is a product?

A product is a bundle of attributes.

The difference between a product (as used in a marketing sense) and a commodity is that a product can be differentiated. A commodity cannot.

**Products may be**

- **Tangible**
- **Intangible**

**Life insurance is a product that is intangible**

**Customer value** would depend on how life insurance is perceived as a solution to a set of customer needs.

**A rider** is a provision typically added through an endorsement, which then becomes a part of the contract.
Chapter 5
Life Insurance Products - I

Traditional life insurance products

Traditional Life Insurance Products

Term Insurance Plans
Whole Life Insurance Plans
Endowment Insurance Plans

Term insurance policy

A term insurance policy comes handy as an income replacement plan

Considerations: Price is the primary basis of competitive advantage in term assurance plans

Variants of Term Assurance

Decreasing term assurance
Increasing term assurance
Term assurance with return of premiums

Whole Life Insurance

There is no fixed term of cover but the insurer offers to pay the agreed upon death benefit when the insured dies, no matter whenever the death might occur

A whole life policy is a good plan for one who is the main income earner of the family and wishes to protect the loved ones from any financial insecurity in case of premature death
Endowment Assurance: Combination of 2 plans:

- **A term assurance plan**: Pays the full sum assured in case of death of the insured during the term.
- **A pure endowment plan**: Pays this amount if the insured survives at the end of the term.
- **Money back plan**: It is typically an endowment plan with the provision for return of a part of the sum assured in periodic installments during the term and balance of sum assured at the end of the term.

The unique selling proposition (USP) of term assurance is its low price, enabling one to buy relatively large amounts of life insurance on a limited budget.
Intro: This chapter discusses non-traditional life insurance products.

Overview of non-traditional life insurance products

Limitations of Traditional Life Insurance Products

Cash value component

- The savings or cash value component in traditional life insurance policies is not well defined

Rate of return

- It is not easy to ascertain what would be rate of return on traditional life insurance policies

Surrender value

- The cash and surrender values (at any point of time), under these contracts depend on certain values (amount of actuarial reserve and the pro-rata asset share of the policy)

Yield

- Finally there is the issue of the yield on these policies
Chapter 6
Life Insurance Products - II

Direct linkage with the investment gains
Inflation beating returns
Flexibility
Surrender value

Appeal: Major sources of appeal of the new genre of products that emerged worldwide are

Non-traditional life insurance products

Universal Life Insurance
Universal life insurance is a form of permanent life insurance characterised by its flexible premiums, flexible face amount and death benefit amounts, and the unbundling of its pricing factors

Non-traditional life insurance products
Variable insurance plans
Unit linked insurance plans
**Chapter 6**  
**Life Insurance Products - II**

### Investment fund options offered by ULIPs

<table>
<thead>
<tr>
<th>Equity Fund</th>
<th>Debt Fund</th>
<th>Balanced Fund</th>
<th>Money Market Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>This fund invests major portion of the money in equity and equity related instruments.</td>
<td>This fund invests major portion of the money in Government Bonds, Corporate Bonds, Fixed Deposits etc.</td>
<td>This fund invests in a mix of equity and debt instruments.</td>
<td>This fund invests money mainly in instruments such as Treasury Bills, Certificates of Deposit, Commercial Paper etc.</td>
</tr>
</tbody>
</table>
**Intro:** This chapter discusses pension & annuity products, types of annuities and pension related contingencies

### Types of pension

<table>
<thead>
<tr>
<th>Life insurance products</th>
<th>Pension products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose of product:</strong> Life insurance products have been designed basically to provide protection against the financial consequences of an individual’s early and premature death.</td>
<td>Pension products provide protection against the financial consequences that may arise when the individual lives too long and thus outlives one’s financial resources.</td>
</tr>
<tr>
<td><strong>Contingency covered:</strong> In case of life insurance, the basic contingency covered is that of mortality.</td>
<td>In case of pensions it is post-retirement income discontinuity.</td>
</tr>
<tr>
<td><strong>Product structure:</strong> In the case of life insurance, a stream of premium payments results in creation of a capital sum, known as the sum assured. This sum is payable to the individual’s nominees or beneficiaries in the event of death of the individual, or may be paid as a survival benefit at the end of the term in the case of endowment policies.</td>
<td>In the case of pensions, a capital sum, which we may call a corpus or total consideration gets liquidated in part or whole through its conversion into a stream of regular income payments. These are known as annuities.</td>
</tr>
</tbody>
</table>
Chapter 7
Pension and Annuities

Types of pension schemes

Public pensions

Occupational pensions

Personal pensions
Chapter 7
Pension and Annuities

Classification of annuities

Basis of classification of annuities

- How the annuity is purchased
- How often the annuity is paid
- When the annuity payment is due to begin
- Length of the payout period
- Whether the annuity amount is fixed or variable

Types of Annuities

Immediate Annuities

An annuitant receives payments after making an initial investment. In an immediate annuity, an individual pays a lump sum and begins to receive income one annuity period later.

Deferred Annuities

With a deferred annuity, money is invested for a period of time until the annuitant is ready to receive annuities. The deferred annuity accumulates money for the term chosen by the individual.
Chapter 7
Pension and Annuities

Pensions – The value proposition

Pension related contingencies

- Longevity risk
- Inflation
- Investment risk
- Replacement income risk
**Intro:** This chapter explains health insurance concepts, domiciliary hospitalisation, family floater policies and group health insurance policies.

### Health insurance policies

<table>
<thead>
<tr>
<th>Policy Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health insurance</strong></td>
<td>It is a contract between the insurer and the insured wherein the insurer agrees to pay hospitalisation expenses to the extent of an agreed sum insured in the event of any medical treatment arising out of an illness or an injury.</td>
</tr>
<tr>
<td><strong>Family floater policies</strong></td>
<td>The sum insured floats among the family members. Family floaters usually cover husband, wife and two children.</td>
</tr>
<tr>
<td><strong>Cashless facility</strong></td>
<td>This means a facility extended by the insurer to the insured where the payments of the costs of treatment undergone by the insured in accordance with the policy terms and conditions, are directly made to the network provider by the insurer to the extent pre-authorisation approved.</td>
</tr>
<tr>
<td><strong>Group health insurance policy</strong></td>
<td>This policy is available to groups/ associations/ institutions/ corporate bodies, provided they have a central administration point and are subject to a minimum number of persons to be covered. The group must belong to a category that is approved.</td>
</tr>
</tbody>
</table>
Expenses covered under health insurance include:

| Cost of room / bed | Boarding expenses | Nursing expenses | Doctor’s fees | Diagnostic tests | Operation theatre charges | Expenses related to surgical appliances and the like |

Terms in health insurance:

**Third Party Administrators (TPA)**
- It means any person who is licensed under the IRDA (Third Party Administrators - Health Services) Regulations, 2001 by the Authority, and is engaged, for a fee or remuneration by an insurance company, for the purposes of providing health services.

**Portability**
- It is the right accorded to an individual health insurance policyholder (including family cover), to transfer the credit gained for pre-existing conditions and time bound exclusions, from one insurer to another insurer or from one plan to another plan of the same insurer, provided the previous policy has been maintained without any break.
Chapter 8
Health Insurance

Group insurance policy for bank customers may cover:

- Home Loans
- Education Loans
- Car Loans
- Credit Cards
- Personal Loans

IC-33 Life Insurance
Intro: This chapter discusses various applications of life insurance.

Applications of life insurance

Married Women’s Property Act

Section 6 of the Married Women’s Property Act, 1874 provides for security of benefits under a life insurance policy to the wife and children. Section 6 of the Married Women’s Property Act, 1874 also provides for creation of a Trust

Beneficiaries under Section 6 of MWP Act

- Wife alone
- Wife and one or more children jointly
- One or more children
Key man Insurance

It can be described as an insurance policy taken out by a business to compensate that business for financial losses that would arise from the death or extended incapacity of an important member of the business.

Mortgage Redemption Insurance (MRI)

It is an insurance policy that provides financial protection for home loan borrowers. It is basically a decreasing term life insurance policy taken by a mortgagor to repay the balance on a mortgage loan if he/she dies before its full repayment.
Intro: This chapter illustrates the basic elements that are involved in the pricing and benefits of life insurance contracts.

Insurance pricing – basic elements

Insurance contract

Rebates

Life insurance companies may offer certain types of rebates on the premium that is payable. Two such rebates are:

- For sum assured
- For mode of premium

Individual provides insurance cover

Pays Premium

Insurance Company
Components of Premium

- Mortality
- Interest
- Expenses of management
- Reserves
- Bonus loading

Guiding Principles for determining Amount of Loading

- Adequacy
- Equity
- Competitiveness

Gross premium = Net premium + Loading for expenses + Loading for contingencies + Bonus loading
Surplus and Bonus

Every life insurance company is expected to undertake a periodic valuation of its assets and liabilities. Such a valuation has two purposes:

1. To assess the financial state of the life insurer, in other words to determine if it is solvent or insolvent.
2. To determine the surplus available for distribution among policyholders / shareholders.

Surplus is the excess of value of assets over value of liabilities. If it is negative, it is known as a strain.

Surplus = Assets - Liabilities

Assets are valued in one of the following three ways:

- **At Book Value**
  - This is the value at which the life insurer has purchased or acquired its assets.

- **At Market Value**
  - The worth of the life insurer's assets in the marketplace.

- **Discounted Present Value**
  - Estimating future income stream from various assets & discounting them to present.
Bonus is paid as an addition to the basic benefit payable under a contract. Typically it may appear as an addition to basic sum assured or basic pension per annum.

Types of Reversionary Bonuses

- Simple Reversionary Bonus
- Compound Bonus
- Terminal Bonus
Unit Linked Policies

They involve a different approach to the design of products and follow a different set of principles.

**Unitising:**
Benefits are determined by value of units credited to the account at the time of claim.

**Transparent structure:**
Charges for insurance protection and expenses component are clearly specified.

**Pricing:**
Insured decides the amount of premium and insurance cover is a multiple of premiums paid.

**Investment risk:**
It is borne by the insured.
Intro: This chapter discusses the various documents that are involved at the proposal stage and their significance.

Life insurance – Proposal stage documentation

Prospectus

Prospectus used by a life insurance company should state the following, under each of its plans of insurance:

- Terms and conditions
- Scope of benefits – guaranteed and non-guaranteed
- Entitlements
- Exceptions
- Whether the plan is participative or non-participative
Chapter 11
Documentation – Proposal Stage

Proposal Form

The insurance policy is a legal contract between insurer and the policyholder. As is required for any contract, it has a proposal and its acceptance. The application document used for making the proposal is commonly known as the ‘proposal form’

Moral hazard

It is the likelihood that a client’s behaviour might change as a result of purchasing a life insurance policy and such a change would increase the chance of a loss
Chapter 11
Documentation – Proposal Stage

Valid age proof

Standard age proofs
- School or college certificate
- Birth certificate extracted from municipal records
- Passport
- PAN card
- Service register
- Certificate of baptism
- Certified extract from a family bible if it contains the date of birth
- Identity card in case of defence personnel
- Marriage certificate issued by a Roman Catholic Church

Non-standard age proofs
- Horoscope
- Ration card
- An affidavit by way of self-declaration
- Certificate from Village Panchayat

Anti-Money Laundering (AML)

It is the process of bringing illegal money into an economy by hiding its illegal origin so that it appears to be legally acquired. The Government of India launched the PMLA, 2002 to rein in money-laundering activities

IC-33 Life insurance
Each insurer is required to have an AML policy and accordingly file a copy with IRDA. The AML program should include:

- Internal policies, procedures and controls
- Appointment of a principal compliance officer
- Recruitment and training of agents on AML measures
- Internal audit/control

**Know Your Customer (KYC)**

It is the process used by a business to verify the identity of their clients.
Agents should ensure that proposers submit the proposal form along with the following as part of the KYC procedure:

- **Photographs**
- **Age proof**
- **Proof of address** – driving license, passport, electricity bill, bank passbook etc.
- **Proof of identity** – driving license, passport, voter ID card, PAN card, etc.
- **Income proof documents in case of high-value transactions**
Intro: This chapter discusses the various documents involved when a proposal becomes a life insurance policy.

First Premium Receipt (FPR)

- An insurance contract commences when the life insurance company issues a FPR.

- The FPR is the evidence that the policy contract has begun.
Chapter 12
Documentation – Policy Condition: I

First premium receipt contains

- Name and address of the life assured
- Policy number
- Premium amount paid
- Method and frequency of premium payment
- Next due date of premium payment

- Date of commencement of the risk
- Date of final maturity of the policy
- Date of payment of the last premium
- Sum assured
It is evidence of the contract between the assured and the insurance company.

Policy document components:
- Policy Schedule
- Standard Provisions
- Specific Policy Provisions
Intro: This chapter discusses the provisions incorporated in a policy document.

Policy conditions and privileges

- **Grace period**: The “Grace Period” clause grants the policyholder an additional period of time to pay the premium after it has become due. The standard length of the grace period is one month or 31 days.

- **Reinstatement**: It is the process by which a life insurance company puts back into force a policy that has either been terminated because of non-payment of premiums or has been continued under one of the non-forfeiture provisions.

Policy revival measures

- Ordinary revival
- Loan cum revival
- Special revival
- Instalment revival
Nomination is where the life assured proposes the name of the person(s) to whom the sum assured should be paid by the insurance company after their death.

A nominee does not have any right to the whole (or part) of the claim.

Nomination can be made when the policy is bought or thereafter.

Nomination is not applicable to Section 6 of MWP Act.

Policy moneys payment is made to surviving nominee/s.

Assignment cancels nomination.

Addition, change or cancellation of nomination is allowed.

Nomination shall be by endorsement.
The term assignment ordinarily refers to transfer of property by writing as distinguished from transfer by delivery.

### Types of Assignment

#### Conditional Assignment
- Conditional assignment provides that the policy shall revert back to the life assured on his or her surviving the date of maturity or on death of the assignee.

#### Absolute Assignment
- Absolute assignment provides that rights, title and interest of the assignor in the policy are transferred to the assignee without reversion to the former or his / her estate in any event.
- The policy vests absolutely with the assignee. The latter can deal with the policy in whatever manner he or she likes without the consent of the assignor.
Chapter 13
Documentation – Policy Condition: II

Provisions of Section 38 (Assignment)

- Assignment has to be by endorsement
- Assignment notice should be in writing
- Insurer should record and register assignment
- Assignment cancels nomination
- Assignment should be supported by valuable consideration
- Assignee can do another assignment

Main types of alterations

- Change in certain classes of insurance or term
- Change in the mode of payment of premium
- Splitting up of the policy into two or more policies
- Change from without profits to with profits plan
- Settlement option for payment of claim and grant of double accident benefit
- Reduction in the sum assured
- Change in the date of commencement of the policy
- Removal of an extra premium or restrictive clause
- Correction in name

IC-33 Life Insurance
**Intro:** This chapter discusses the process of underwriting and the elements involved in the process.

### Underwriting – Basic concepts

#### Underwriting purpose
- To prevent anti-selection or selection against the insurer
- To classify risks and ensure equity among risks

#### Risk classification
- Standard lives
- Preferred risks
- Substandard lives
- Declined lives

#### Underwriting or the selection process
- Field or Primary level
- Underwriting department level

#### Methods of Underwriting
- Judgment Method
- Numerical Method
IC-33 Life Insurance

Chapter 14
Underwriting

Acceptance at ordinary rates (OR)
Acceptance with an extra
Acceptance with a restrictive clause
Acceptance with a lien on the sum assured
Decline or postpone

Underwriting decisions
Chapter 14
Underwriting

Non-medical underwriting

• A large number of life insurance proposals may typically get selected for insurance without conducting a medical examination to check the insurability of a life to be insured. Such cases are termed as non-medical proposals.

Rating factors in underwriting

• Factors like income, occupation, lifestyle and habits, which contribute to moral hazard, are assessed as part of financial underwriting, while medical aspects of health are appraised as part of medical underwriting.

Occupational hazards can emanate from any of three sources:

- Accidental hazards
- Health hazards
- Moral hazard
Medical underwriting

Medical Factors that influence an Underwriter’s Decision

- Personal history
- Personal characteristics
- Family history

IC-33 Life Insurance
Intro: This chapter explains the concept of claim and how claims are ascertained.

Types of claims and claim procedure

Claim

A claim is a demand that the insurer should make good the promise specified in the contract

While a death claim arises only upon the death of the life assured, survival claims can be caused by one or more events

A maturity or death claim or a surrender leads to termination of the insurance cover under the contract and no further insurance cover is available

Claims can be

Survival Claims

Death Claims
Chapter 15
Payments Under A Life Insurance Policy

Types of claims

- Survival Benefit Payments
- Surrender of Policy
- Rider Benefit
- Maturity Claim
- Death Claim

Forms to be submitted for Death Claim

- Claim form by nominee
- Treating physician’s certificate
- Employer’s certificate

- Certificate of burial or cremation
- Hospital’s certificate
- Certified court copies of police reports in case of death by accident

Early (less than three years policy duration)
Non-early (more than three years)
Intro: This chapter explains the importance of insurance regulations, the legal status of an insurance agent and various rules and regulations applicable to agents.

Insurance regulations

The prime purpose of insurance regulation is to protect the policyholder

Entities regulated by IRDA

Agents

Insurance Companies

Third Party Administrators

Surveyors

Brokers

Corporate Agents

The Insurance Act, 1938 has provisions for monitoring and control of operations of insurance companies
IRDA regulations prescribe insurers’ obligations

- at the point of sale
- towards policy servicing
- claims servicing
- control on expenses, investment
- financial strength to meet the commitments to policyholders
Regulations and code of conduct applicable to insurance agents

**Regulations applicable to insurance agents**

- As per the Insurance Act, 1938 (Section 42), to work as an insurance agent, one must have a licence.
- IRDA deals with issuance of licences and other matters relating to agents recruitment.
- There are regulations which must be complied with at all stages in the process.
### Qualifications of the applicant

- The applicant must possess the minimum qualification of a pass in **12th Standard or equivalent examination**, where the applicant resides in a place with a population of five thousand or more as per the last census, and a pass in **10th Standard or equivalent examination** from a recognised Board / Institution if the applicant resides in any other place.

### Practical training

- The first time applicant for agency licence shall have completed from an IRDA approved institution, at least, **fifty hours’** practical training in life or general insurance business, which may be spread over two to three weeks.

### Examination

- The applicant shall have passed the pre-recruitment examination in life or general insurance business, or both, as the case may be, conducted by the Insurance Institute of India, Mumbai, or any other ‘examination body’.

### Fees payable

- The fees payable to the Authority for issue / renewal of licence to act as insurance agent or composite insurance agent shall be Rs. Two Hundred and Fifty or as amended from time to time.
Chapter 17
Life Insurance Agency as a Career

Intro: This chapter discusses life insurance agency as a career.

<table>
<thead>
<tr>
<th>Insurance Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agent</strong></td>
</tr>
<tr>
<td>• As per Section 182 of the Indian Contract Act, an <em>agent</em> is a person employed to do any act for another or to represent another in dealing with a third person</td>
</tr>
<tr>
<td><strong>Principal</strong></td>
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<tr>
<td>• The person for whom such act is done or who is represented is called the <em>principal</em></td>
</tr>
<tr>
<td><strong>Insurance agent</strong></td>
</tr>
<tr>
<td>• As per the Insurance Act, an agent is one who is licensed under Section 42 of the Act, authorised to be a salesman for insurance, and is paid commissions for soliciting, procuring and continuance of the business</td>
</tr>
</tbody>
</table>
Chapter 17
Life Insurance Agency as a Career

Insurance channels

- Individual Agency
- Corporate Agency
- Brokers
- Bancassurance
- Direct marketing

Direct marketing approaches

- Telemarketing
- Mail marketing
- Internet and web based marketing
- Work site marketing
Chapter 17
Life Insurance Agency as a Career

Life insurance agency profession

Rewards of an agency career in life insurance

- Being **recognised by the society** as a knowledge worker and a professional
- Being **able to provide solutions** to some of the most critical problems of people around is a matter of immense social value that life insurance agents enjoy
- Being **able to help people by advising them to take the right policy** to cover their death or old age needs or an accident or an illness or meet other family needs can be a matter of immense personal satisfaction for life insurance agents
- They can **become very skilled in dealing with various kinds of people**
- Finally, the life insurance agency is one of the few avocations where **one can be an entrepreneur**
Requirements for success in the life insurance agency profession

- Fire in the belly
- Positive self-image
- Being a self-starter
- Ability to relate with and communicate with people

Ethics and market conduct

The term ‘Ethics’ is used to denote a set of principles for morally correct behaviour

Basic ethical principles to be followed

- Do good and avoid harm
- Be fair
- Keep your word
- Be true to yourself
Chapter 17
Life Insurance Agency as a Career

Major areas of unethical behaviour in insurance sector

- Misrepresentation
- Illustrations
- Replacement
- Advice
| Principle 1 | To conduct business according to high standards of honesty and fairness and to render that service to its customers which, in the same circumstances, it would apply to or demand for itself. |
| Principle 2 | To provide competent and customer-focused sales and service. |
| Principle 3 | To engage in active and fair competition. |
| Principle 4 | To provide advertising and sales material that is clear as to purpose and honest and fair as to content. |
| Principle 5 | To provide for fair and expeditious handling of customer complaints and disputes. |
| Principle 6 | To maintain a system of supervision and review that is reasonably designed to achieve compliance with these principles of ethical market conduct. |
Persistency during a period has been defined as “proportion of policies remaining in force at the end of the period out of the total policies in force at the beginning of the period.”

Agency function consists of two distinctive tasks:

- Building a relation with the customer – which inspires trust and confidence
- Providing expert financial advice to the customer – which enables the latter to meet his or her needs for insurance in the most appropriate manner
Intro: This chapter illustrates the life insurance selling process and its various steps.

Sales process

**Selling** as a profession refers to the act of inducing a commercial transaction through inducing the purchase of a product or service, such act being carried out with the intent of earning remuneration.

Selling

Insurance agents are sales persons who seek to induce members of the community to buy insurance contacts written by the insurance company that they represent.

The remuneration they enjoy in return is known as a commission.
### Chapter 18
Life Insurance Selling Process

**Sales Process**

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Identify and build up a list of prospects</td>
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<tr>
<td>Develop by qualifying the list of prospects</td>
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<tr>
<td>Approach to get appointments with these people</td>
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<tr>
<td>Gather information and unearth the need/s</td>
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<tr>
<td>Capture the priority need with the help of ‘Dreams and Aspirations’</td>
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<tr>
<td>Presenting the solutions effectively</td>
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<tr>
<td>Closing the sale: overcoming objections (if any)</td>
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<tr>
<td>Sales-follow through</td>
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<tr>
<td>Policy delivery</td>
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<tr>
<td>Commit to ‘after sales service’</td>
<td></td>
</tr>
</tbody>
</table>
Reference

• It is a name of another potential prospect which is provided as a lead, by your client or prospect or centre of influence or any other person, whom you may be able to support with your solutions.

Testimonial

• It is a kind of statement which one may seek from a satisfied customer, affirming that the latter has done business with the salesperson and has been very satisfied with the services and solutions rendered.

Qualified prospects

• "Qualified" prospects are those people:
  • who can pay for insurance,
  • who can pass the company underwriting requirements,
  • who have one or more needs for insurance products, and
  • who can be approached on a favourable basis.

Need Analysis Method

• In need analysis method we do the following things:
  • the present and the future needs of the family are analysed;
  • the monetary value of these needs are then calculated;
  • the difference between the funds so needed to meet these needs and the available fund with the family as at present is ascertained.
Chapter 18
Life Insurance Selling Process

Handling objections through LAPAC

• One of the important techniques that one can use for handling objections is known as LAPAC (Listen, Acknowledge, Probe, Answer and Confirm)

Closing the sale

• Closing is the process of persuading the prospect to buy now. The key to successful closing lies in helping the prospect to want to say "yes"

Commitment to service

• Service on the part of the agent is an integral element of the sales cycle. Essential to a commitment to service is a structured program for maintaining contact with our clients. Such a program could consist of:
  • Conveying clearly
  • Committing to continuous contact
  • Annual service review plan
Intro: This chapter explains the importance of customer service, the role of agents in providing service to customers and how to communicate and relate with the customer.

Importance of customer service

‘SERVQUAL’ highlights five major indicators of service quality

- Reliability
- Responsiveness
- Assurance
- Empathy
- Tangibles

Customer lifetime value

It may be defined as the sum of economic benefits that can be derived from building a sound relationship with a customer over a long period of time.
Chapter 19
Customer Service

Customer lifetime value

**Historical Value**
Premiums and other revenues that have been received in the past from customer

**Present Value**
Present value of future premiums that may be expected to be received if existing business is retained

**Potential Value**
The value of premiums that could be derived by persuading the customer to buy additional products
Communication skills

- Trust
  - Attraction
  - Communication
  - Being Present

Communication may take place in several forms:

- Oral
- Written
- Non-verbal
- Using body language
Chapter 19
Customer Service

Non-verbal communication

Making a great first impression

- Be on time always
- Present yourself appropriately
- A warm, confident and winning smile
- Being open, confident and positive
- Interest in the other person
- Confidence
- Trust
Chapter 19
Customer Service

Active Listening

is where we consciously try to hear not only the words but also, more importantly, try to understand the complete message being sent by another

Elements of active listening

- Paying Attention
- Demonstrating that you are listening
- Provide feedback
- Not being Judgmental
- Responding appropriately
- Empathetic listening
**Intro:** This chapter explains Grievance Redressal Mechanism and IRDA guidelines for it.

**Grievance redressal mechanism**

**Integrated Grievance Management System (IGMS)**

- IRDA has launched IGMS which acts as a central repository of insurance grievance data and as a tool for monitoring grievance redress in the industry.

**The Consumer Protection Act, 1986**

- The Act was passed “to provide for better protection of the interest of consumers and to make provision for the establishment of consumer councils and other authorities for the settlement of consumer's disputes”.
- The Act has been amended by the Consumer Protection (Amendment) Act, 2002.
- “Consumer disputes redressal agencies” are established in each district and state and at national level.
Chapter 20
Grievance Redressal Mechanism

Judicial Channels

National Commission
Established by central government by notification
Entertains: complaints, where value of the goods or services and compensation, if any, claimed exceeds Rs. 1 Crores and appeals against the order of any State Commission

State Commission
Established by state government by notification
Entertains: complaints where the value of goods/services and compensation, if any, claimed exceeds Rs. 20 lakhs but does not exceed Rs. 100 lakhs and appeals against the order of any district forum within the state

District Forum
Established by state government in each district
Entertains: complaints, where value of the goods or services and the compensation claimed is up to Rs. 20 lakhs
Chapter 20
Grievance Redressal Mechanism

The Insurance Ombudsman

The Ombudsman, by mutual agreement of the insured and the insurer can act as a mediator and counsellor within the terms of reference.

The decision of the Ombudsman, whether to accept or reject the complaint, is final.
Complaints can be made to the Ombudsman if:

- The complainant had made a previous written representation to the insurance company and the insurance company had:
  - Rejected the complaint or
  - The complainant had not received any reply within one month after receipt of the complaint by the insurer

- The complainant is not satisfied with the reply given by the insurer

- The complaint is made within one year from the date of rejection by the insurance company

- The complaint is not pending in any court or consumer forum or in arbitration