IAQS | INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

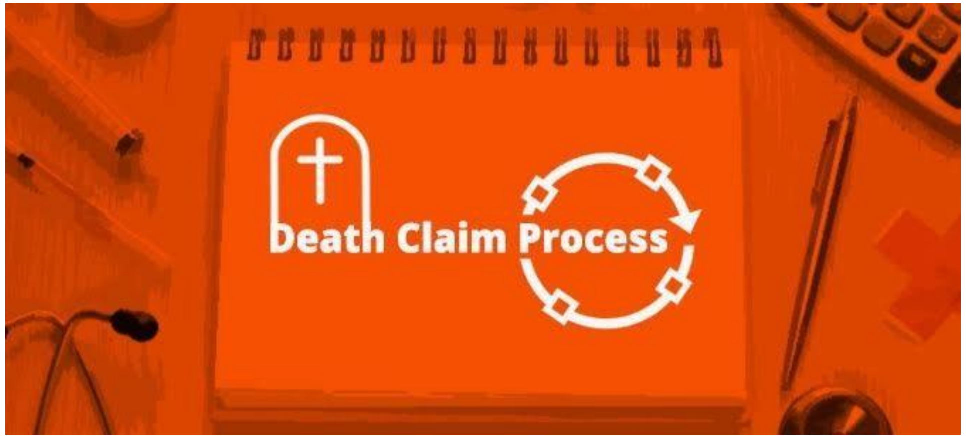
# Subject : Life Insurance – PPP

## *Topic – Stages of Life Insurance Policy*

# *Death/Claim*

- *When the person assured dies during the Term of the policy i.e. before the date of maturity, proceeds under the policy as a claim, is payable to the beneficiary which is called a Death claim.*

- *The person entitled to the proceeds must complete certain death claim forms giving due proof of the death and establishing the claimant's right to such proceeds. When filed with the company, the company is said to have received a death claim.*



# Maturity

- A maturity benefit is a lump-sum amount the insurance company pays after the policy is matured.
- Eg: If an insurance policy is for 15 years, insured will get a pay-out after 15 years.
- Term – ROP
- Endowment – Survival benefit
- ULIP – Fund Value at end of term

# Surrender

A surrender is a full cancellation of a life insurance policy. You are allowed to surrender your policy at any time. A surrender does not affect your credit score, and a surrender will not affect your ability to get a new life insurance policy in the future (but changes in health can). There may be fees associated with your surrender, these are known as surrender charges. These are taken from the cash value (if any). A term life insurance policy does not have any surrender fees.

# Policy Paid up

If a life insurance policy is in a paid-up state, it means that though the premium payments have stopped, the plan remains active. The other benefit is that you or your family can still expect to receive the sum assured at the time of maturity or if you don't outlive the policy term.

Making your policy paid-up is a good way to continue your life insurance plan. But do remember that the sum assured amount reduces. Secondly, there are no more bonus declarations.

However, a paid-up policy is a good choice for those of you who are stuck in a wrong life insurance plan. You can invest your premium amount elsewhere while continuing the existing plan at a reduced paid-up value.

**Difference between Surrender and Paid Up of Life Insurance**
(www.basunivesh.com)

| Feature | Policy Paid Up | Policy Surrendered |
|---|---|---|
| Stop Premium payment immediately | YES | YES |
| Receive of lump sum immediately | NO | YES |
| Insurance cover till maturity period | Yes-With reduced Sum Assured | NO |
| At Maturity or death of Life Assured | Total Paid Up Value | Nothing will be payable |
| Eligible for future Bonus or Guaranteed Additions | NO | NO |

# Lapsation

- *Pure lapse [the policy is discontinued within 3 years*
- *Lapse [the policy is discontinued after 3years]*
- *Zero duration lapse [policy is discontinued within the financial year of issue]*

# Causes of Lapsation

- Economic-social background
- Financial difficulties
- Government policies with regard to taxation
- Fiscal incentives
- Mode of premium payment
- Policy term
- Lack of Agency professionalism
- Poaching/churning
- Policy mismatch [lack of need based approach]
- Inflation

# *Indices for Measurement*

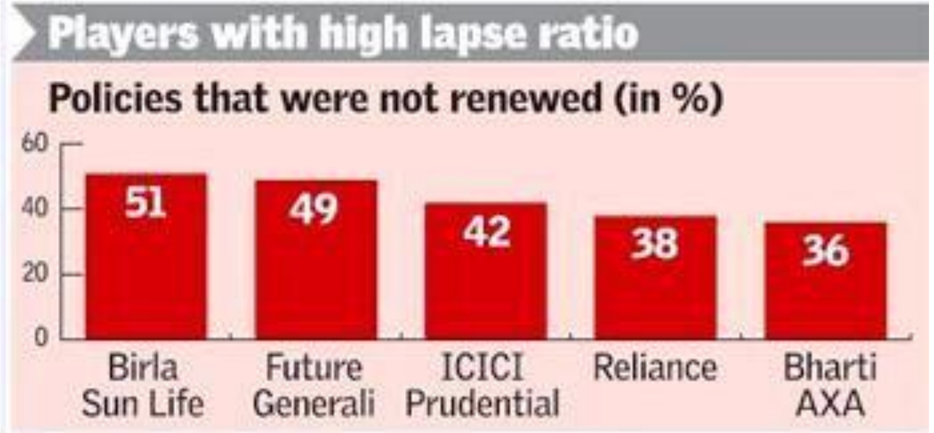
*Overall net lapse ratio, i.e., percentage of lapse to the mean business in force*

*The formula for this is as follows:*

***(A-R)/A x 100***

**A** = *Number of active policies in the period*

**R**= *Number of renewed policies in the period*



# *Consequences of Lapsation*

- The lapsed policy does not cover the loss [life] of the policyholder
- Policyholders lose a significant amount even if a policy is made paid-up and surrendered.

- Insurer incurs heavy expenditure
- Level premium system and the assumed ‘expense loading

- Efforts of the intermediaries are wasted
- Lapsation reduces financial security of individuals

# *Suggestion to Improve the Lapsed Conditions*

- *Need for public education.*
- *Need for training field personnel.*
- *Career Agency should be encouraged.*
- *After sales service from Agents, Development Officers.*
- *Continuation of Relation with customer after sales and after claim also.*
- *Pre-recruitment training should be followed by a test and interview.*

# *Revival of a Policy*

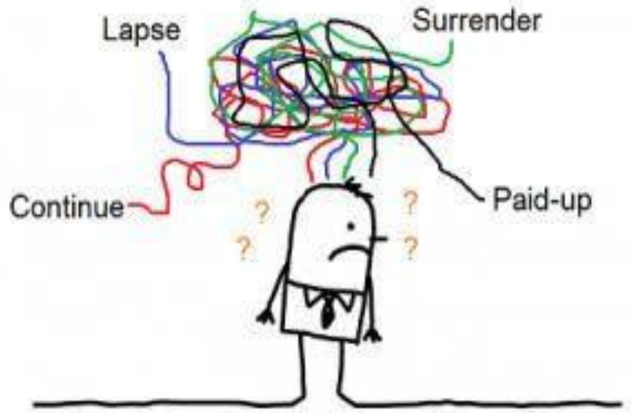
- *Current Revival window is 5 yrs for  Traditional business and 3 years for ULIP*
- *Missed out premiums to be paid*
- *Interest may be charged on premium*
- *Will Health evidence be required ?*

# Persistency

- Percentage of an insurance company's already written policies remaining in force,
  without lapsing or being replaced by policies of other insurers.

- Since persistency is a critical factor in the viability and success of insurance companies, they constantly look for ways to increase this percentage.

- Persistency rates show loyalty of customers and how much confidence they have in the products being offered, thereby, providing a clea e and consistent growth will be in the industry.



# LONG-TERM COMMITMENT

Persistency of life insurance policies after one year of sale (13th month)

| Insurer | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|
| ICICI Prudential | 67.00 | 66.20 | 73.40 | **78.70** |
| Kotak Mahindra | 64.00 | 70.90 | 71.79 | **76.82** |
| Sahara | 57.00 | 76.22 | 62.62 | **75.21** |
| Max Life | 70.00 | 76.00 | 78.00 | **74.00** |
| HDFC Standard | 69.00 | 67.61 | 68.19 | **71.33** |
| SBI Life | 67.34 | 67.98 | 69.00 | **69.25** |
| Edelweiss Tokio | 46.00 | 41.60 | 49.50 | **63.92** |
| PNB Metlife | 71.22 | 50.24 | 58.00 | **63.30** |
| LIC | 70.00 | 59.00 | 66.00 | **63.00** |
| Aviva Life | 59.00 | 56.10 | 56.50 | **62.49** |
| Aegon Life Insurance | 49.00 | 69.74 | 73.00 | **62.07** |
| IDBI Federal | 70.00 | 70.70 | 70.07 | **61.89** |
| IndiaFirst Life | 64.00 | 65.29 | 60.10 | **60.53** |
| Canara HSBC | 65.00 | 58.20 | 53.47 | **59.25** |
| Exide Life | 56.00 | 55.90 | 59.00 | **58.80** |
| Tata AIA | 49.00 | 46.85 | 51.43 | **56.84** |
| Reliance Nippon | 61.52 | 51.59 | 54.48 | **55.80** |
| Birla Sun Life | 49.00 | 43.37 | 50.00 | **54.00** |
| Bajaj Allianz | 48.89 | 61.57 | 52.72 | **53.95** |
| Star Union Dai-Ichi | 45.00 | 43.45 | 48.84 | **52.89** |
| DHFL Pramerica | 43.64 | 40.62 | 43.21 | **50.08** |
| Bharti Axa Life | 45.00 | 54.28 | 52.10 | **49.73** |
| Shriram | 30.00 | 48.93 | 45.00 | **47.19** |
| Future Generali | 39.82 | 42.44 | 38.73 | **35.23** |

**Companies that saw no more than half the policies sold alive after 1 year**

**Persistency of life insurance policies after 5 years of sale (61st month)**

Only company to have more than half its policies alive after 5 years

| Insurer | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|
| IDBI Federal | NA | 43.22 | 54.47 | **58.11** |
| LIC | 43.00 | 44.00 | 44.00 | **44.00** |
| HDFC Standard | 23.00 | 24.87 | 31.78 | **41.36** |
| Sahara | 24.00 | 38.88 | 22.09 | **40.05** |
| Kotak Mahindra | 33.00 | 14.12 | 25.75 | **37.39** |
| Max Life | 26.00 | 23.00 | 23.00 | **37.00** |
| ICICI Prudential | 10.00 | 10.70 | 16.70 | **35.20** |
| Aviva Life | NA | 11.90 | 18.10 | **31.53** |
| Canara HSBC | NA | 80.50 | 36.96 | **31.04** |
| Exide Life | 24.00 | 23.80 | 29.00 | **30.10** |
| Shriram | 4.00 | 80.63 | 7.00 | **28.03** |
| Birla Sun Life | 40.00 | 44.38 | 19.00 | **28.00** |
| Aegon Life Insurance | NA | 15.05 | 20.00 | **27.31** |
| IndiaFirst Life | NA | NA | 37.30 | **26.01** |
| Tata AIA | 18.00 | 16.06 | 16.39 | **24.02** |
| SBI Life | 17.02 | 11.43 | 16.00 | **23.44** |
| Star Union Dai-Ichi | NA | 47.43 | 19.01 | **21.40** |
| PNB Metlife | 61.36 | 13.41 | 14.00 | **17.10** |
| Future Generali | 6.81 | 14.69 | 8.88 | **16.61** |
| Bharti Axa Life | 32.00 | 30.22 | 33.30 | **16.53** |
| Reliance Nippon | 21.09 | 7.33 | 6.42 | **16.17** |
| DHFL Pramerica | NA | NA | 10.16 | **15.66** |
| Bajaj Allianz | 4.02 | 3.98 | 6.88 | **14.86** |
| Edelweiss Tokio | NA | NA | NA | **NA** |

**Companies that saw more than 80% policies dead after 5 years**

# *How can a Life Insurers Address Low Persistency*

- *Greater **digitization** of the entire sales process to enhance customer experiences while also allowing effective monitoring of sales channels.*

- *Greater emphasis on **training of employees and agents** so they become financial or risk advisors for customers rather than just sellers.*

- *Enhance the **understanding past insurance behavior** of customers through a unified view of customer risk profiles, which is possible only if life insurers share data amongst themselves.*

- *Use **advanced analytics** to identify customer life stages and thereby insurance needs. This will help in pitching right products to customers.*

- *Identify policy lapsation patterns using **predictive modelling** and surrogate data like credit scores.*

# Lets Discuss :

*Mr. Marvel and Ms. Daisy, both in their early thirties, had a 18-month- old boy called Thanos. Marvel was a movie distributor earning INR 20 Lacs per annum, while Daisy remained home spending most of her time dedicated for upbringing of Thanos.*

*Marvel's dad had bought an whole life insurance policy, for Marvel, of 35 lac during his early age. Further, at age of twenty five, on his friends suggestion Marvel bought a term policy of INR 7 Crore, but discontinued paying the premium after 2 years as he convinced himself that he doesn't want to park his money in insurance premium.*

*One weekend, while playing with Thanos on the Terrace of their bunglow, Marvel slipped from the edge and fell down in the garden, injuring his head. Two days later, Marvel died.*

- *Marvel had a home loan of INR 50 Lac.*
- *Marvel had some savings left for his family, but that would be exhausted in a year to maintain their lifestyle.*