

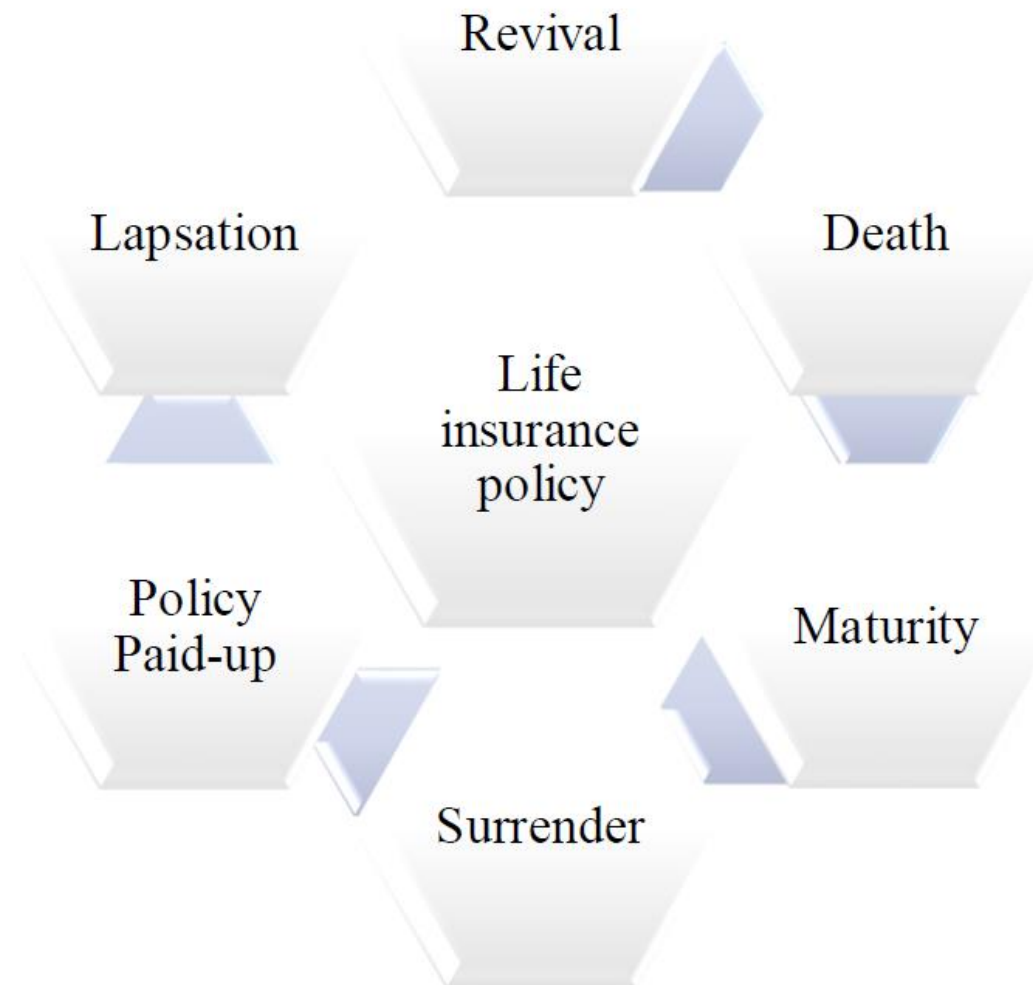


INSTITUTE OF ACTUARIAL
& QUANTITATIVE STUDIES

Subject : Life Insurance - PPP

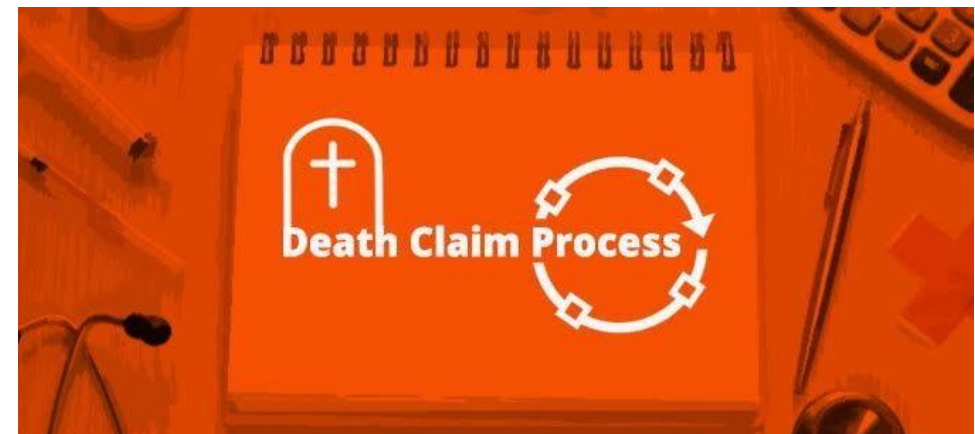
***Topic – Stages of Life Insurance
Policy***

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 (not always) otherwise no Maturity Benefit*
- *Endowment – Survival benefit and Maturity 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]*
- *Zero duration lapse [policy is discontinued within the financial year of issue]*
- *Lapse vs Surrender – conditions, pay out, account value*

Causes of Lapsation

- *Economic-social background*
- *Financial difficulties*
- *Government policies with regard to taxation*
- *Mode of premium payment*
- *Lack of Agency professionalism*
- *Poaching*
- *Policy mismatch*
[lack of need based approach, mis-selling]
- *Inflation*



Indices for Measurement

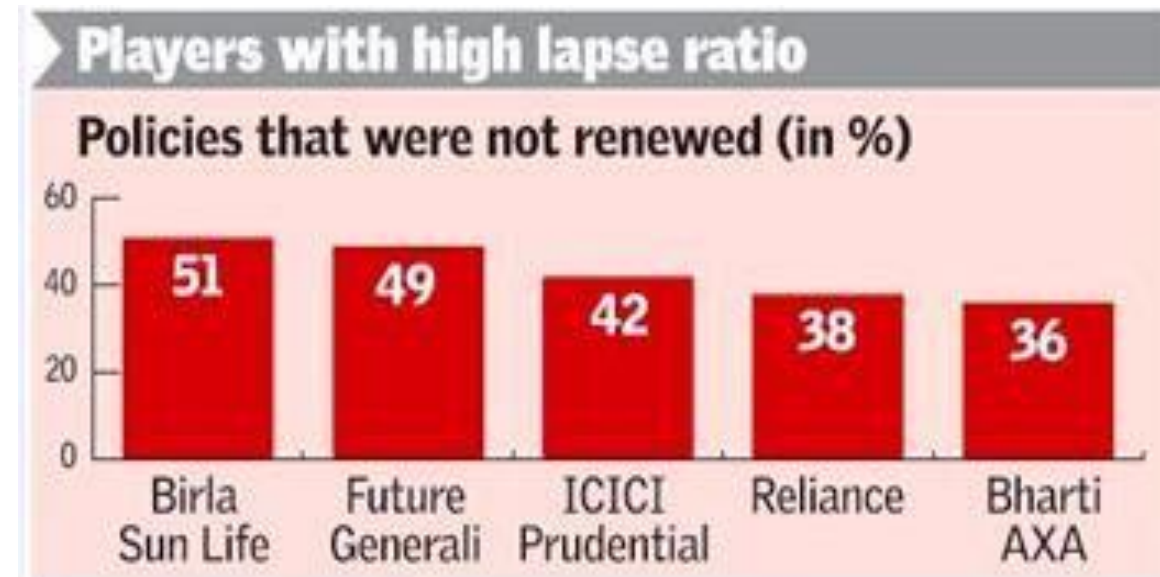
Overall net lapse ratio, i.e., percentage of lapse to the mean business in force

The formula for this is as follows:

$$(A-R)/A \times 100$$

A = Number of active policies in the period

R = Number of renewed policies in the period



Consequences of Lapsation

To the policyholder

- 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.

To the industry

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

Intermediaries, society and government

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

Suggestion to Improve the Lapsed Conditions

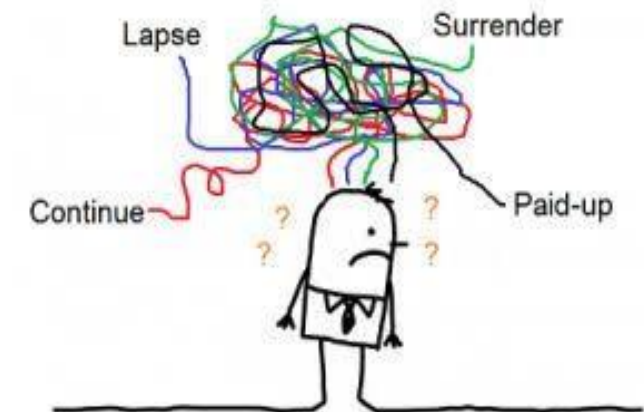
- *Need for public education/awareness. Adopt a need based approach to purchase policy.*
- *Need for training field personnel.*
- *Career Agency should be encouraged.*
- *After sales service from Agents, Development Officers*
- *Continuation of Relation with customer after sales and after claim also.*
- *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 clear overview of how stable 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.

Case Study:

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

Noel's dad had bought an whole life insurance policy, for Noel, of 35 lac during his early age. Further, at age of twenty five, on his friends suggestion Noel 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 Tom on the Terrace of their bungalow, Noel slipped from the edge and fell down in the garden, injuring his head. Two days later, Noel died.

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