Lecture 1

INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Class: MSc Sem 1

Subject : Insurance

Chapter: Unit 4 Chapter 2

Chapter Name: Stages of life insurance policy

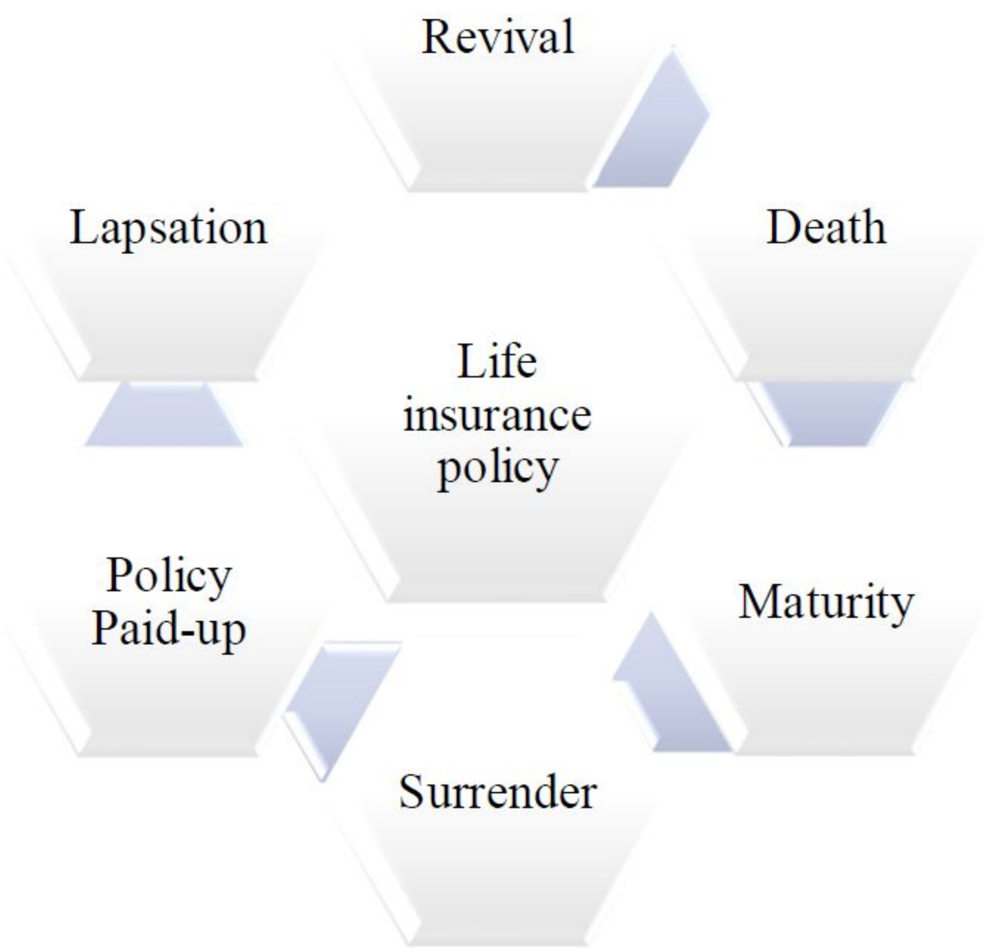
Today's Agenda

1. Stages of life insurance policy
    1. Death claim
    2. Maturity
    3. Surrender
    4. Policy paid up
    5. Difference between surrender and policy paid up
    6. Lapsation
    7. Causes of lapsation
    8. Revival of policy

2. Other stages

3. What is persistency?

1 Stages of Life Insurance Policy



1.1 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.

1.2 Maturity

- Maturity benefits are the sum assured along with bonuses that your life insurance provider pays to you when you survive the policy tenure. Thus, maturity benefits turn regular life insurance products into saving instruments.

- However, term insurance offers pure protection without any maturity benefits. You have to pay a fixed amount as a premium for a predetermined time. If an unfortunate event occurs during the specified policy period (term of the policy), your nominee will receive a set amount as per your plan's stipulations.

1.3 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.

1.4 Policy paid up

- A paid-up value is the value of your sum assured after you stop paying your premiums. The sum assured decided at the start of the policy is reduced if you do not pay all the premiums. This reduced sum assured is known as Paid-up Value.

- 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.

1.5 Difference between Surrender & Policy paid up

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

1.6 Lapsation

- If the policyholder fails to pay the premium within the specified timeframe, the policy may lapse, and coverage ceases. In such cases, any claims made during the period of lapsed coverage may be rejected.
- 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]

1.7 Causes of Lapsation

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

1.8 Revival of policy

- Revival of a Policy means restoration of the Policy, which was discontinued due to the non-payment of Premium, by the Company with all the benefits mentioned in the Policy document, with or without rider benefits, if any, upon the receipt of all the Premiums due and other charges/late fee, if any, as per the terms and conditions of the Policy, upon being satisfied as to the continued insurability of the insured/Policyholder on the basis of the information, documents and reports furnished by the Policyholder.

- The revival period is the span of time offered by the insurance company during which the policyholder can reactivate a lapsed policy. Once the revival period is over the policy can never be re-activated even if the policyholder wants to pay all the premium payments that are due.

2 Other stages

1. Policy Exclusions: Insurance policies have specific exclusions, which are situations or events not covered by the policy. If the claim falls within these exclusions, the insurance company may reject the claim. It's important for policyholders to review and understand the policy terms and exclusions before filing a claim.

2. Non-Disclosure or Misrepresentation: If the policyholder fails to provide accurate and complete information during the application process or intentionally misrepresents facts, the insurance company may reject the claim. It is essential to provide truthful and accurate information when applying for insurance.

3. Delayed Claim Intimation: Most insurance policies have a specified timeframe within which the policyholder must notify the insurer about a claim. If the claim is not reported within the stipulated timeframe, the insurer may reject it. It is crucial to promptly notify the insurer about any covered events or losses.

4. Fraudulent or Suspicious Claims: If the insurer determines that the claim is fraudulent or involves dishonest activities, such as staging an event or providing false documentation, the claim may be rejected. Insurance companies have processes and tools to investigate claims and identify fraudulent activities.

2 Other stages

5. Uncovered Losses: Insurance policies have specific coverage limits, deductibles, and exclusions. If the claim amount exceeds the coverage limit, falls below the deductible, or is excluded as per the policy terms, the insurer may reject the claim. It is important to understand the coverage limits and deductibles stated in the policy.

6. Failure to Cooperate: Policyholders are typically required to cooperate with the insurer during the claims process. This includes providing requested documentation, attending medical examinations, or allowing inspections. If the policyholder fails to cooperate, it can result in claim rejection.

7. Pre-Existing Conditions: In health insurance, claims related to pre-existing medical conditions may be subject to waiting periods or may be excluded from coverage altogether, depending on the policy terms. It is essential to review the policy terms regarding pre-existing conditions.

3

What is 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.