

Life Insurance - PPP Assignment - 2

ANSWER 1

The various distribution channels that can be used to sell a product are -

- **Marketing intermediaries** - Includes agents and brokers. They sell insurance products, on a face to face basis with customers for a commission on each sale.
- **Direct response** - No face-to-face contact is involved, with the customer responding to some type of solicitation directly from the insurer, such as through the mail, television, or telephone.
- **Financial institutions** - Include commercial banks, investment banks, thrifts, credit unions, mutual fund organizations and other insurers sell insurer's products.
- **Investment banks** - Investment banks like ICICI and their retail marketing divisions are important distribution channels for variable and fixed annuities as well as some life and health insurance.
- **Deposit taking institutions** - Bancassurance was started in India with the opening of insurance to the private sector. Banks indicate, however, that with the changing regulatory environment they will strengthen marketing efforts related to term life insurance, cash-value life insurance, long-term care insurance, and disability income insurance and annuities.
- **Other Financial Institutions** - Mutual fund organizations like UTI [Unit Trust of India] also offer insurance through policies like ULIP [Unit Linked Insurance Plan] to investors.

ANSWER 2

Causes of Lapsation of a life insurance policy -

1. **Economic decision making of the policyholder** - If the policyholder's economic condition is not good and he cannot afford to pay premiums
2. **Availability of alternative investment options** - If the policyholder gets an alternative investment option then he could lapse the policy and use the premium saved into the investment option.
3. **Government policies with regard to taxation** - If the Government changes the policy with regard to taxation then the policyholder who might have taken the policy for tax benefits may lapse the policy.

4. **Absence of insurance awareness/consciousness** - If the policyholder is not aware about insurance and its importance and therefore decides to lapse his policy considering it useless.
5. **Product** - If the policyholder feels that the policy he had bought is not perfectly suitable for him then he could lapse the policy to take some other policy.

ANSWER 3

- A) Yes, the insurance company is right though Mr Harvey told about his condition of high iron levels and his visits to a hematologist to the nurse. The nurse noted "blood work normal" and the insurance company was not aware about it. It was the nurses fault.
- B) Mrs. Harvey should complain and file for a review in the insurance company and tell them the whole story. If the insurance company still rejects the claim then she could file a petition in the court.
- C) The insurance company denied the claim for failing to disclose information about Mr. Harvey's health.
- D) Underwriting is the process of consideration of an insurance risk. This includes assessing whether the risk is acceptable and, if so, setting the appropriate premium, together with the terms and conditions of cover. For an insurer, the underwriter must determine the risk of a policyholder filing a claim that must be paid out before the policy has become profitable. For a lender, the risk is of default or non-payment.
- E) **Different types of Underwriting are as follows -**
 1. Medical Underwriting
 2. Lifestyle Underwriting
 3. Financial Underwriting
 4. Claims Underwriting

ANSWER 4

The rates of insurance are fair [equitable]. It should be adequate, that is, it shouldn't be too low so that it can make profits and avoid solvency or bankruptcy. It should not be excessive to survive the competition because if the premium rates are too high then no one would buy the policy from the company and it would suffer a great loss.

ANSWER 5

The various premium payment plans are as follows:

1. **Regular Premium Payment** - This is the most common and preferred mode of premium payment used by most policyholders. With regular mode, the premium payments for your term life Insurance are made on a periodic basis, at a regular frequency
2. **Single Premium Payment** - This is one of the less frequently chosen modes of premium payment for life insurance policies. With single premium payments, the policyholder is required to make a one-time complete, upfront payment of premiums, regardless of the duration of his policy.
3. **Limited Premium Payment** - Another option of premium payment for your life insurance is the limited premium payment mode. With this option, policyholders can pay the premium for their entire policy in a limited period of time, such as 5 or 10 years. The premiums payments are therefore taken care of within a short time period while the insurance benefits for the same can continue for a long time.

There are various premium payment plans in the market for life insurance policies because of different types of people and their needs. Some people would like to pay the premiums regularly and some would like to pay the whole amount in a single go.

ANSWER 6

Universal Life Insurance - Universal life insurance is also called adjustable life insurance because of the flexibility it offers. You have the liberty to reduce or increase your death benefit and pay your premiums at any time in any amount (subject to certain limits) once there is money in the account.

The Traditional Cash Value Insurance or Whole Life Insurance - Whole life insurance covers you for the rest of your life, regardless of how long you may live. As long as you keep paying the premiums, your beneficiaries will receive the death benefit when you die. This policy is highly suitable for long-term responsibilities such as a dependent adult child's care or post-death expenses like estate taxes.

ANSWER 7

The following are the different types of claims which come up before an Insurance Company -

1.Maturity Claims and Survival Benefits - Payment of Maturity Claims is by far the easiest to manage. These include benefits payable during the period of

assurance called 'Survival Benefits' under certain types of policies popularly known as 'Money Back' policies.

2.Death Claims - Life insurance is basically for providing financial security to the families of deceased policyholders. Unlike in Maturity and Survival Benefit Claims, the Policyholder is not alive.

3.Accident and Disability Claims - Death should be due to Accident, i.e. by External, Violent and Visible means. Death must be directly due to the accident and there should be no intervening cause.

4.Annuity Payments - The payments are made by the insurance company to the policyholder.

The procedure to settle the claims is -

- **Step One:** Intimation to the insurance company about the Claim
- **Step Two:** Documents required
- **Step Three:** Submission of required Documents for Claim Processing
- **Step Four:** Settlement of Claim

ANSWER 8

A) The requirements for settlement of Death Claims -

1. Obtaining satisfactory Proof of Death
2. Obtaining satisfactory Proof of Title

B) The requirements for settlement of Maturity claims are -

1. A Discharge Voucher to be sent in advance
2. Policy Document
3. Any Deed of Assignment, if the same was executed on a separate Stamp Paper.

ANSWER 9

The effectiveness of the claims management is dependent on two important elements such as the well defined structure of the claims department and well defined working of the department as :

- If there is a well defined structure of the claims department then the claim settlement for a policyholder will become more efficient as the employees would have a definite pre assigned work which will help them to know their work in claims management better and can guide the

policyholder for different types of claims and their settlement procedures.

- If there is a well defined working of the claims department then it would make the claim settlement faster and easier for the policyholder which would help the insurance company's consumers to grow as efficient claim settlement is what consumers of an insurance company look for.

ANSWER 10

In this regard with a large consumer base it becomes necessary for any provider of insurance services to have claims management staff and support systems. With more stringent regulations in place, it will be difficult for insurance companies to repudiate claims for every other reason. Information technology is helping the insurance companies to manage claims. Many software for insurance claims have hit the market. A popular one among them is **Claims Management Systems (CMS)**. It is called **Managing, Organizing and Documenting Every Loss (MODEL)**. This software is developed by Scott Insurance. **The highlights of Future Outlook of claim settlement -**

- Automatic completion of state required forms
- Internal claims management training
- Adjuster-to-adjuster claims planning and oversight
- Physician-to-physician medical reviews
- Organization of all information in one place
- Conversation/event documentation
- Internal/external claims information communication
- Progress tracking
- Follow-up for timely return to work, closing or settling claim

ANSWER 11

The process by which the value of all the existing policies is ascertained is called valuation. It is also called valuation of liabilities of the insurance company. And since the process of valuation is taken up by an 'actuary' by applying actuarial principles it is termed as **actuarial valuation**.

ANSWER 12

The purpose of an actuarial valuation is :

1) To determine the amount of actuarially determined contributions, that is, an amount that, if contributed consistently and combined with investment earnings, would be sufficient to pay promised insurances in full over the long-term.

2) To measure the plan's funding progress.

ANSWER 13

Surplus in the life insurance context means total assets of the company including the Present value of future premiums minus the liabilities including Present value of future claims.

Surplus = (Life Fund + Present value of future premiums) – Present value of future claims.

ANSWER 14

Different Method for distribution of Surplus are as follows:

- **Contribution Method:** This is also called as fair distribution, but is an impractical method of surplus distribution. According to this method distribution is directly based on the contribution of the policies to the surplus accumulated from basic sources like interest, expenses, mortality etc.
- **Simple Reversionary Method:** In this method the bonus is paid in addition to the sum insured, when the event for which insurance is provided occurs, that is death during the term of the policy, or on maturity of the policy.
- **Bonus in Cash:** In this method the bonus announced is paid in the form of cash to the policyholders.
- **Bonus in Reduction of Premium:** In this method the bonus is reduced from the premium payable by the policyholders to the company. But after a certain period there will be no premium to reduce from, so the company will have to change its way of distributing surplus.
- **Tontine Bonus:** In this process the bonus is distributed after a specific period to the survivors among the policyholders. To avail this kind of bonus, the policyholder should be alive on the date when the bonus is announced.

ANSWER 15

In life insurance the word '**surplus**' signifies an estimated profit. Surplus in the life insurance context means total assets of the company including the Present value of future premiums minus the liabilities including Present value of future claims.

Profit in insurance business is a result of margin kept on the basis adopted for the calculation of premium with regard to mortality, expenses, interest and

other factors like surrender and lapse. Profits are also made when the actual earning is more than the projected value at the time of premium calculations.