

Life Insurance – PPP (Project – 1)

Insurance Product -: “Loss of income” policy

This loss of income policy is designed for self-employed workers/sole-traders who don't work under anyone. Ex. Plumbers, mechanics, home-bakers etc. A claim can be made when an accident occurs and the person can't work for a period or is permanently disabled and thereby has no other source of income. A percentage of their average monthly income would be paid for a specified period which is mentioned in the policy contract.

This policy is especially made for the unorganised sector and provide them with insurance. A salaried person is not eligible for this policy.

Ex. If a mechanic has his own garage and if in an accident his hand gets injured, then he can't work for a certain period. For this period, he won't have an income and it would be difficult to sustain and recover from the injury. Then a claim can be made with the insurance company and monthly payments will be paid until he recovers or the specified term surpasses, whichever is earlier.

Unlike disability insurance which pays a monthly benefit based upon on a decided sum assured on partial or

permanent disability, this insurance will pay the policyholder 80-90% of the average monthly income.

No benefit is paid to the policyholder on account of death.

The policy can be taken by people in the age group 18 to 60.

A similar policy known as 'Income Protection policy' is sold outside India

Premium

The amount of premium will depend on various factors such as their average monthly income, the nature of their job, their health, ability of the insured to take upon alternative job, availability of alternative job opportunities etc.

Higher premium will be charged to people who have a risky job and have a relatively high income.

But the overall premium would be low which would be affordable by the middle-class.

In this highly uncertain world, this insurance will provide a relief to the policyholders and help them until they can get back on their feet.

The premium payments can be made annually, six-monthly, quarterly or monthly in advance.

The premium payment term is equal to the term of the policy.

Selling strategy of the product and Distribution channels

The product would be pitched to sole-traders, freelancers who have a single source of income and don't work for anyone who would provide them with income in case of partial or permanent disability. The insurance agents can personally approach such people and inform them about this product. Moreover, advertisements can be made on social media, OTT platforms and television to reach more people. The policy can be bought through agents or online on websites selling insurance policies.

Future prospects

The insurance policy pays the agreed percentage of the average monthly payment for a specified period of time. In the future, more variations of this policy can be created such as: -

- 1) Different periods

- The periods can be a year, 5 years or till retirement age (in case of permanent disability)

2) Riders

Various riders can be designed and sold as an add-on the policy such as: -

1. Medical payment rider

- If the injury is huge and requires hospitalization then with this rider a part of the bills can be claimed.

2. Period extension rider

- If the term for which the monthly payment is made is less and the policyholder wishes to increase it afterwards then this rider can be used to extend the term by a year. This way the policyholder can gain more time to recover.

Definitely an extra and appropriate premium will be charged for the riders.

Reasons for the working of the product in India

1. India has a huge untouched market for selling insurance policies. There are so many middle classes people who don't take out insurance. However, this product will be attractive to small sole traders working from home, self-employed people, and

unskilled labourers working on contract basis who generally don't take out insurance. Their income is based solely on the amount they work and if they suffer from partial or permanent disability then it becomes very difficult to sustain. In this case, this policy works to protect the income of the policyholders.

2. There are many such people in India who can make use of this policy if properly designed and marketed. Many times, disability insurance pays a lump sum amount of sum assured or make monthly payments of it but that does not make up for the loss of income that the person could have earned. In this scenario, the loss of income policy can prove to be useful.

Jamie's Case Study

Jamie is starting out on her own in a rural area in Illinois and wants to be responsible. She has a steady job with benefits, a car, and an apartment in an old farmhouse. She understands that insurance may help minimize some financial risks, but she can't afford to purchase every policy she wants within her budget. She has determined that she can spend up to Rs. 2,150 per year on premiums. After doing some careful research to figure out which choices would be best for her at this point in her life, here's what Jamie decided.

<u>Medical insurance - In place</u> Through her employer, Jamie pays a premium of Rs.103 per month. Rs.30 copay for doctor visits Rs.10 copay for prescriptions Rs.0 copay for annual physical Rs.50 copay for emergency room visits Jamie pays 20% of the cost of medical procedures.	<u>Dental insurance - Declined</u> Through her employer, Jamie would have paid a premium of Rs.27 per month. Through her employer, Jamie pays a premium of R 5.2 per month. Rs.30 copay for eye doctor visits Rs.10 copay for prescriptions R 5 .0 copay for annual eye exam Jamie brushes and flosses every day, so she felt like she could do without this insurance for a couple of years	<u>Vision insurance- In place</u> Through her employer, Jamie pays a Premium of rs.2 per month. Rs.30 copay for eye doctor visits Rs.10 copay for prescriptions Rs. 0 copay for annual eye exam
<u>Renter's insurance - Declined</u> Jamie would have paid a premium of Rs. 16 per month. There is little to no crime in Jamie's area, and she can't imagine a fire or flood affecting her.	<u>Disability insurance - In place</u> Paid for by Jamie's employer. She doesn't have to pay a premium, deductible, or copay for this policy.	<u>Auto insurance - In place</u> Jamie pays an annual premium of Rs.889. This type of insurance is required by law. Jamie pays a Rs.300 deductible for claims (including coverage for glass replacement and towing).

Life Happens

The table below details specific things that happened to Jamie during this year

Month	What happened?	Which insurance would cover this	Did Jamie have Coverage?	How much will Jamie will pay? (If she has insurance, what is her co-pay or deductible)
January	Jamie got sick and visited the doctor. Without insurance, the appointment cost Rs.120 and the antibiotics cost Rs.110.	Medical Insurance	Yes ☒ No ☐	As Jamie has medical insurance in place Rs.30 as her co-pay for the visit to the doctor and Rs. 10 as the co-pay for prescriptions i.e., on the antibiotics. So, she will pay a total of Rs. 40 and the rest is covered by the insurance company.
March	Jamie fell on ice while hiking and had to get stitches in the emergency room. Without insurance, the procedure cost Rs.250.	Medical Insurance	Yes ☒ No ☐	Jamie has a medical insurance in place but she has to pay 20% of the cost of medical procedures (here the stiches) i.e., Rs.50 and Rs.50 co-pay for emergency room visit. So, Jamie in total as to pay Rs.100
July	A kitchen fire in the apartment next door caused the sprinkler system to activate in Jamie's apartment as well. Her couch, her television, her computer, and her bookcase were ruined. The cost of the damage was Rs.2,500.	Renter' s Insurance	Yes ☐ No ☒	Jamie doesn' t have a renter' s Insurance and thus must bear all the damages on her own. Here Jamie will have to pay Rs.2500 for the damages
September	Jamie hit a deer when driving home from work. She wasn't hurt, but the damage to her car was Rs.3,400.	Auto Insurance	Yes ☒ No ☐	Jamie has an auto insurance policy in lace and is required to pay only Rs.300 which is the deductible amount.
October	Jamie got dirt in her eye while picking fruit at a local farm. She went to the eye doctor when her eye became red and swollen, the doctor prescribed eye drops. Without insurance, the appointment cost Rs.150, and the eye drops cost Rs.90.	Vision Insurance	Yes ☒ No ☐	Jamie has a vision insurance and must pay Rs. 30 co-pays for the doctor visit and Rs.10 co-pay for prescriptions i.e., the eye drops. In all she has to pay Rs.40

Summarize the costs

Based on the above the table Jamie had to incur the following costs: -

- i. In January Jamie got sick and had to visit the doctor. She had in place a Medical Insurance Policy through her employer and paid a premium of Rs.103 per month. With her insurance policy in place, she did not have to bear all the costs due to the visit to the doctor. She only paid **Rs. 40** which included **Rs.30** as co-pay for doctor visits and **Rs.10** as co-pay for prescriptions which in her case were the antibiotics prescribed.
- ii. In March, she had to go to the emergency room to get stitches due to an injury. As she had an active medical insurance policy, she didn't have to pay all the costs by herself and paid **Rs.50** as co-pay for emergency room visits and 20% of the medical procedure cost i.e., **Rs. 50** which comes to a total of **Rs.100**.
- iii. In July certain damages occurred to the things in her house but as she did not have a Renter's Insurance, she had to bear the damage of **Rs.2500** by herself.
- iv. In September she got in a car accident and paid **Rs.300** deductible and the rest of the cost were covered by auto Insurance.
- v. She had vision insurance and had to pay **Rs. 40** which included **Rs.30** as co-pay for the visit to the eye doctor and **Rs.10** as co-pay for prescriptions.

In all Jamie had to pay herself a total of **Rs.2980** on co-pays, deductibles and damages for losses which were not covered.

She paid **Rs.2341** as the premium for the whole year on the insurance policies taken by her.

If Jamie did not have any of the insurance policies mentioned above the total cost borne by her for the damage would have been **Rs.6620** which is an amount much higher than what she actually had to pay.

In such a manner Insurance helps us reduce the risk borne by us as well as protects us from such risks.

Consider Insurance in your Life

1. In the past year, my father had to do a root canal surgery as one of his teeth had decayed severely and he was experiencing pain from it. The surgery was unexpected. However, a dental insurance policy would have been beneficial in this scenario by not putting a financial burden on the family. A dental insurance policy covers the expenses for the surgery as well as for the prescribed medications.
2. In the month of March, my sister was travelling nearby by car and got in an accident. A bike crashed with her car. Thankfully she was not injured much as the bike came from behind but the car got damaged. In this scenario, Auto insurance/Car insurance would have protected her. As the car was insured, the number of damages was claimed from the insurance company.

Jamie gives advice

Dear John,

Happy to hear that you have graduated and starting you new job in the town. You asked me if Insurance is worth it or not and I must say that insurance is one of the important things in our life and we should not take it lightly. It is very helpful and protects us from the uncertainties of life. Take it from my experience, this year in march I went hiking and slipped on ice. I had to visit the emergency room and got stitches. As I had medical insurance it significantly reduced the cost I had to bear due to this incident. By adding the co-pays, I only had to pay Rs.100. If I did not have medical insurance, then I would have paid Rs.250. As a person who has just started earning such an unfortunate incident can cause a huge financial burden. Having yourself insured provides us with a sense of certainty, provides us protection from various risks and helps to reduce the financial burden caused by it. As I said earlier Insurance should not be taken lightly. I made that mistake by not getting a renter's insurance. I believed a fire or a flood would not occur in my place or a theft can happen as I live in a very safe neighbourhood. But I was wrong as a kitchen fire occurred in the apartment next to me and the sprinklers damaged my furniture. As I did not have it insured, I had to pay for the damages of Rs.2500 by myself. It cut a hole in my pocket. Had I taken out the insurance the financial burden could have eased significantly. Therefore, I advise you to take out the appropriate insurance policies at the earliest. The cost of life and medical insurance increases as we get older and therefore it is better to take out these insurance policies as early as possible. Insurance has a major impact on our financial lives and therefore wise decision should be made regarding it.