

Life Insurance - PPP

Assignment - 2

1. The insurance company can make use if the following distribution channels:-

1. **Market intermediaries** - They are agents and brokers who sell the insurance policies to the customers. They receive commission on the sales and work on a face-to-face basis.

They can be categorised as below:-

- i. Agency Building distribution
 - Career agency
 - Multiple line exclusive agency
 - Home service
 - Salaried agents
 - Worksite management
- ii. Non-agency building distribution
 - Brokerage
 - Producer groups
 - Personal producing general agents
 - Independent property and casualty agents

2. **Direct response**

In this way, the products are sold directly to the customers. The services of the agents are not employed here.

Under this method the communication occurs by the following ways between the customer and the insurance company:-

- Mail
- Telephone
- Television
- Print media
- Broadcast media

3. Financial institutions

These are institutions like commercial banks, investment banks , credit unions etc who sell the insurance products.

- Deposit taking institutions
 - Investment banks
 - Mutual fund organizations
- Etc

2. Causes of Lapsation are as follows :-

i. Alternative investment opportunities

- The policyholder can have an investment opportunity that may be more profitable and hence the policy can be lapsed by the policyholder

ii. Economic- social background of the policyholder

- Due to weak economic background the policyholder may not be able to make the premium payments .

iii. Disposable income

- If the policyholder has a low disposable income because of certain conditions , he/she may opt to cover their other needs rather than insurance and hence lapse the policy

iv. Economic decision making of the policyholder

- If it seems to the policyholder that the given policy is not appropriate for them they may lapse the policy and find another which is more suitable for them.

v. Inflation

- Inflation reduces the purchasing power of money. Due to inflation, it may not be affordable for the policyholder to continue with policy and therefore he/she will lapse it.

3. A. The insurance company has the right to reject the claim as all the facts were not disclosed to them . The principle of good faith was violated. It was the nurse's fault and Mr. Harvey should have not signed when he saw the mistake in the report.

B. Mrs. Harvey can make a complaint with the Ombudsman.

C. The claim was denied because sufficient information and all the material facts were not

disclosed. Due to this the insurance company could not appropriately charge the premiums.

D. Underwriting is the evaluation of the risk of the policyholder. It is done so that the insurance company receives all the relevant information regarding the policyholder and determine if the person can be insured or not and if yes what premium should be charged.

E. Types of underwriting :-

- i. Medical underwriting
- ii. Lifestyle underwriting
- iii. Financial underwriting
- iv. Claims underwriting

4. The rates of insurance should be fair (equitable), adequate and not excessive.

The rates should be fair i.e equitable. This means that based on the underwriting done the rates charged should be decided.

Ex. A Smoker should be charged higher rates than a non-smoker so that the additional risk for the smoker is cover in the premiums and non-smoker pays the rate suitable to him/her.

The rates should be adequate so that the expenses incurred by the insurance company i.e underwriting expenses, acquisition cost, advertising etc should be covered.

The rates should not be excessive because if excessive rates are charged the policyholder may lapse the policy or may not buy it in the first place.

5. The various premium payment plans are as follows:-

1. Regular - The premium payment period is same to the policy of the term. The premiums can be paid annually, six-monthly, quarterly or monthly.
2. Limited - Where the premium paying term is less than the policy term.
3. Single - A single premium is paid at the start of the policy and the insured is covered for the entire policy term.

The different payment plans exist for the convenience of the policyholder and reduces the no. of lapses. The person who earns a monthly salary may prefer a regular premium payment plan so that he/she can make the payments after receiving their salary.

A single premium policy is beneficial for people who receive a huge amount at a single time as their income. Ex. Actors, Sportspersons, etc. They can buy an insurance policy by paying the premium once and be insured for a longer period of time.

6. Traditional Cash value insurance is similar to whole life insurance. As there is an investment component to this , there is a cash value of the

insurance. The funds can be withdrawn or a loan can be taken against it.

Universal Life Insurance is a type of cash value insurance where the excess of the premium payments over the cost of insurance is credited with interest to the cash value of the policy.

7. The different types of claims are:-

i. Maturity claim

— Maturity claims are paid when the policyholder survives the term of the policy. The ‘survival benefit’ is paid to the policyholder. As the policy holder is alive when these claims are paid there aren’t many difficulties in the settlement process.

The requirements for settling maturity claims are as follows:-

1. A discharge voucher
2. Policy document
3. Deed of assignment , if any.

These documents should be given to the insurance companies and after receiving them the insurance company makes the payment.

ii. Death Claims

Death claims are made when the insured dies and the ‘death benefit’ is paid.

Proof of death and proof of title should be submitted to the insurance company by the family members or the nominee . Then the insurance company checks

the status of the policy i.e if it is active or not. After verifying all this the claim is paid.

iii. Accident and disability claims

If the death is due to accident then this accident claim is paid to the nominee/s.

- Death should occur within 120 days after the accident.
- The documents such as a. First information report b. Police report c. Postmortem Report should be submitted to the insurance company.
- The policyholder should die because of an accident and no other intervening cause. And if the policyholder has availed for the accident benefit by paying the additional premium then the benefit is paid to the nominee.

Disability Claim

Disability claim is paid in two ways i.e waiver of premiums or payment of income to the life assured.

- This claim is paid if the disability benefit is availed by paying the extra premium.
- This claim is paid if the life assured cannot pursue the same job as before.

iv. Annuity Payments

Annuity Payments are made based upon the type of policy. They start either immediately or after a period and are certain or contingent.

8. The basic requirements to settle

○ Death claims are:-

- Proof of death
- Proof of title
- The death should occur within 120 days of death
- The death should occur by accident and not by any other intervening cause
- The accident benefit should be availed by paying extra premium

○ Maturity claims:-

- The policyholder is alive
- Discharge Voucher
- Policy document
- Deed of Assignment

9. The effectiveness of claims management is dependent on the following two elements.

1. Well defined structure of claims department

The claims department should be well structured i.e each person in this department should have a specific task to perform for which he/she possesses the knowledge. Division of work in this way ensures smooth functioning of the department and efficient service to the customers. The claims get settled quickly.

2. Well defined working of the department

The work is divided among the employees. The working should be well defined i.e the nature of the

work should be clear to the people working in the claims management department. This ensures that they perform the task with less errors.

10. Future Scenario of Claims management

The insurance industry has grown immensely in last few decades and has acquired a huge consumer base. With the deregulation of banking and brokerage industry , companies have started to offer every imaginable financial service and thus a variety of insurance plans are being offered.

Therefore to maintain the huge customer base and satisfy their needs it is important to have an efficient claims management department and support systems. Claims should be settled quickly and in a hassle-free manner and they should not be rejected for every other reason. Only claims which are not appropriate should be repudiated.

Information Technology helps to ensure smooth settlement of claims . There are many new softwares in the market to ensure efficient claim settlement process.

One of them is CMS (Claims Management Systems). It is called MODEL (Management, Operation and Documenting Every Loss).

This software enables automatic completion of forms, progress tracking, Internal/External claims information communication, etc.

11. Actuarial Valuation

The Process of determining the values of the policies which are in place with the insurance company is known as '**valuation**'. It is the valuation of liabilities of the insurance company. This valuation is done by an actuary and hence known as ' Actuarial Valuation'.

12. The need for a life insurance company to conduct actuarial valuation.

Actuarial valuation is the valuation of the existing policies. By doing the actuarial valuation we can find out if the premium accumulated so far is similar to our assumptions. With the help of this the value of the life fund can be calculated and help the insurance company to maintain its solvency.

13. Surplus - in Life Insurance context

Surplus means estimated profit in the context of life insurance.

Surplus is accumulated when there is a favourable difference in the estimates made during the valuation and the actual experience.

In life insurance the sources of surplus are :-

1. Surplus from mortality
2. Surplus from investment earnings
3. Surplus from loading
4. Surplus from surrenders

14. The different methods of distribution of surplus are as follows:-

1. Contribution method
2. Simple Reversionary Method
3. Compound Reversionary Method
4. Bonus in reduction of Premium
5. Tontine Bonus
6. Interim Bonus
7. Guaranteed Bonus
8. Final additional bonus

15. Distinguish between surplus and profit in life insurance business.

1. Surplus is the estimated profit of the life insurance company. Whereas , profit is the margin kept in the calculation of premium with regard to several factors.

2. There is a surplus when there is a favourable deviation of the actual experience from the assumptions made. Profits are made when the actual earning is more than the projected value at the time of premium calculations as well as based on the profit margin kept in the amount of premium.

3. Surplus is just an estimate of profit , whereas the profit amount is the actual profit earned by the life insurance company.

