Life Insurance

Assignment 2

Ans 1.

Marketing intermediaries includes agents and brokers. They sell insurance products, on a face to face basis with customers for a commission on each sale.

These are four types of agency-building distribution

1. Career agency
2. Multiple-line exclusive agency(MLEA)
3. Home service
4. Salaried
5. Worksite Marketing

Non-Agency – Building Distribution

1. Brokerage
2. Personal Product General Agents(PPGA)

3. Independent property and casualty agents
4. Producer groups

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.

Ans 2.

Five causes of lapsation of any policy contract are divided into external and internal factors

External factors

1. Economic decision making of the policyholder
2. Economic-social Background
3. Availability of alternative investment options
4. Macro economic factors
    a. Disposable income
    b. Inflation
    c. Government policies
5. Client specific features
    a. Wealth and savings
    b. Education
    c. Age
    d. Gender

Internal Factors

1. Product design and choices
    a. Types of plan
    b. Mode of premium payment

    c. Policy term

2. Marketing and personal startegies

    a. Planning of business activites (budget, times frames)

Ans 3.

Insurance company is correct in declining the claim as Mr. Harvey knew that the nurse had not accurately filled the questionnaire and still signed it. It is a clear case of non-disclosure. Mrs. Harvey must file a complaint to Insurance company of wrongfully rejecting the claim. If company has either rejected it or not resolved it to satisfaction or not responded to it at all for 30 days, Mrs. Harvey can approach the Ombudsman.

Claims could be rejected for any of the following reasons:

1. Non-Disclosure or Wrong Disclosure of Facts
2. Not Appointing or Updating Nominee Details
3. Avoiding Medical Tests
4. Operation of a condition or exclusion clause 5. Fraud

D. Underwriting is the process of consideration of an insurance risk. Through insurance the company assumes the liability and uses underwriting as a tool to manage risk. It involves selecting lives that fit the company's underwriting standards. Makes sure proper balance is maintained within each rate classification Charging equitable rates thus charging more to a substandard life to compensate for the

additional risk. In order to avoid adverse selection against the company

Avoid Moral and Morale Hazard

E. The main types of Underwriting are

1. Medical
2. Financial
3. Lifestyle Claims

Ans. 4

1) Rate adequacy

To avoid financial problems and insolvency, insurance company rates must be adequate in the light of benefits promised under the company's insurance products. Rate adequacy means that, for a given block of policies, total payments collected now and in the future by the insurer plus the investment earnings attributable to any net retained funds are sufficient to fund the current and future benefits promised plus cover related expenses.

2)Rate equity

Equity means charging premiums commensurate
with the expected losses and other costs that insured bring to the insurance pool. The pursuit of equity is one of the goals of underwriting classification and selection of insured.

3)Rates not excessive

Rates should not be excessive in relation to the benefits provided. By establishing a ceiling on the rates, this objective is achieved. Competition discourages excessive pricing.

Ans. 5

Yearly renewable term life insurance

This plan provides coverage for one year only but guarantees renewal irrespective of the insurability of the policy owner. Premium depends on the rate of mortality. As age increases, premium rate increases. Therefore, there is a possibility that those in good health discontinue the policies because of burdensome premium.

Single premium plan

In this system, premium will not increase year after year. Only one single lump sum is collected at the inception to cover risk for the selected period of insurance. The present value of total death claims anticipated to be paid by the insurer over the period of insurance is calculated at a chosen rate of interest. The single premium payable by each policyholder is arrived at by dividing the total value by the number of persons taking insurance at inception. The total fund created by collection of single premiums will be utilized to pay claims year after year.

Level premium plan

In this system, premium payable throughout the period of insurance is level or uniform. In this system, reserve builds up under each policy because the premium charged in the initial years of the policy is more than what is required to cover the death risk. The difference between the face value of a policy and the reserve under the policy is called the ‘net amount at risk’.

Flexible premium plan

Flexibility of deciding the amount of premium to be paid is allowed by many insurers to policy owners. Ex. Universal life policies. Out of the amount paid, mortality charges and expenses are deducted and balance accumulates and the insurer gives interest credit to the insured.

There are multiple insurance plans to provide choice to the consumers based on their needs and financial status

Ans. 6

Under traditional forms of life insurance, the savings element is considered a by – product of the level premium method of payment. Under this, premium is not divisible into risk and saving elements. Under universal life the savings element is often considered as a more independent part of the policy, specifically designed to build a savings fund from which mortality and loading charges are withdrawn. Under this premium is divisible into risk and saving.The higher the premium the higher will be the cash value.

Ans. 7

Maturity Claims

Payment of Maturity Claims is by far the easiest to manage. These include benefits payable during the period of assurance called ‘Survival Benefits’ Payment in these cases is easy because

there is no need on the part of the policyholder to prove the happening of the event

the policyholder is alive so Proof of Title does not pose any problem, and

the Insurance company need not await any claim from the policyholder and take initiative to settle the claims expeditiously. The requirements for settlement of these claims are very simple. They are: A Discharge Voucher to be sent in advance Policy Document Any Deed of Assignment, if the same was executed on a separate Stamp Paper.

As the policyholder is alive, obtaining these requirements poses very little problem. A few problems are likely to arise when a Policy Document is misplaced. Usually, in such cases, the Corporation settles maturity claims on the basis of an Indemnity Bond to be executed on a Non- Judicial Stamp Paper of the value of Rs. 100 by the policyholder along with a surety of sound financial standing. While settling survival benefits, however, the corporation insists on issue of a duplicate policy because the contract continues even after the payment of the survival benefit.

Death Claims

Life insurance is basically for providing financial security to the families of deceased policyholders. Death claim settlement naturally assumes very great importance in the total operations of any Life

Insurance Company. Despite several problems encountered, still Life Insurance Companies struggle to efficiently and effectively attend to this function. Unlike in Maturity and Survival Bene t Claims, the Policyholder is not alive. This itself poses many problems. Broadly the problems in settlement of Death claims are

Obtaining satisfactory Proof of Death, and

Obtaining satisfactory Proof of Title

These two requirements are independent of each other. It is necessary for an insurance company to decide first whether any liability lies in a death claim. This not only depends on the proof of the happening of the event, i.e. death but also the status of the policy as on the date of death. It is necessary to verify whether the policy in question is in force or in a reduced paid-up condition. In these cases, some money becomes payable. But there may be cases where the policy had lapsed without acquiring any value. It is also necessary for the office to verify whether any claims

concessions or administrative concessions (already mentioned earlier) are applicable or whether the claim can be considered on ex-gratia basis. Cause of death also assumes importance. If it was suicide, it is to be considered whether it was within one year from the date

of the policy. If it was accident, it is to be verified whether Accident Bene t becomes payable. Once liability is admitted, the office will have to verify the position of title to the policy moneys and arrange payment to the persons legally entitled to receive the same.

assured is involved in war or war like operations, or when the life assured was flying in an aircraft other than as a passenger, or in police or police like operations; he must not have been engaged in hazardous sports like car or motor cycle racing, mountaineering, steeple-chasing, hangg- liding, sky-diving, scuba-diving, or the life assured making an attempt to commit suicide (whether sane or not at that time).

Subject to all the above conditions being satisfied, the insurance company decides to allow the extra bene t. The bene t is generally paid along with the normal liability under the policy.

ACCIDENT AND DISABILITY BENEFIT

We shall now turn our attention to settlement of Accident and Disability Accident benefit:

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. For example, if a person meets with an accident, admitted to hospital, develops Gangrene due to his Diabetic condition

and then dies, it is not taken as death due to accident because there is an intervening cause viz., Diabetes.

Death should take place within a specific period of time after the accident. Asper the rules of LIC of India, this period is 120 days.

Proof satisfactory to the insurance company should be submitted.

Usually the requirements called for are

First Information Report

Panchanama or Police Inquest Report

Postmortem Report. If Viscera was sent for

Chemical Examination, then the Report of the Forensic Laboratory is also called for. These reports indicate the cause and circumstances of death, whether it is accidental in nature, etc.

The policy must be in full force at the time of death. Policyholder should have availed of the Accident Bene t by paying the necessary additional premium. He must not have been aged 70 years and above at the time of death.

None of the exclusions should apply for consideration of sanctioning accident bene t in a case. There are also several exclusions in considering granting Accident Bene t. The life assured should not be under the influence of any intoxicating liquor, drug or narcotic at the

time of the accident. The accident should not be because of the life assured being engaged in an activity which is a Breach of Law. The accident should not have happened when the life assured is involved in war or war like operations, or when the life assured was flying in an aircraft other than as a passenger, or in police or police like operations; he must not have been engaged in hazardous sports like car or motor cycle racing, mountaineering, steeple-chasing, hangg- liding, sky-diving, scuba-diving, or the life assured making an attempt to commit suicide (whether sane or not at that time).

Subject to all the above conditions being satisfied, the insurance company decides to allow the extra benefit . The benefit is generally paid along with the normal liability under the policy.

One is waiver of premiums and the other is payment of an income to the life assured apart from waiver of premiums. The exclusions mentioned in respect of Accident bene t are equally applicable to Disability bene ts also. In addition, disability itself is de ned as permanent loss of two limbs due to accident, by amputation or other wise. The life assured should not be in a position to pursue the same occupation he was engaged in earlier to the accident.

Ans. 8

The requirements for settlement of these Maturity claims are very simple. They are:

A Discharge Voucher to be sent in advance

Policy Document

Any Deed of Assignment, if the same was executed on a separate Stamp Paper.

The requirements for settlement of these Death claims

Obtaining satisfactory Proof of Death,

Obtaining satisfactory Proof of Title

Ans 10.

FUTURE OUTLOOK

The insurance industry has grownup to become a veritable institution, with over 6000 insurance companies worldwide collecting $ 800 billion in premiums each year and holding assets with an estimated value of $ 2.7 trillion.Information technology is helping the insurance companies to manage claims. Many softwares 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 are –

1. Automatic completion of state required forms
2. Internal claims management training
3. Adjuster-to-adjuster claims planning and oversight
4. Physician-to-physician medical reviews
5. Organization of all information in one place
6. Conversation/event documentation
7. Internal/external claims information communication
8. Progress tracking

Ans. 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.

Ans. 12

During the early years of a policy the premium received by an insurance company surpasses the required amount due to the Level Annual Premium system. Thus there is collective excess, corresponding to the premiums of all the policies. This excess then constitutes a funds pool, which enables the company to, settle claims and meet deficit during years when the premium is not sufficient. It now becomes essential to determine whether the premium accumulated is on the same lines as the calculated premium. This enables the company in determining its solvency. Thus the process by which the value of all the existing policies is ascertained is called valuation.

Ans 13.

In life insurance the word ‘surplus’ signifies an estimated profit. This is because the calculation of profit in insurance business is slightly different from other businesses. We all know that normally profit is the excess over the cost price of a product. Thus in regular businesses, the difference between the cost price and the selling price decides the profit made or loss incurred. But it is not the same in the case of an insurance business. 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

Ans 14.

DIFFERENT METHODS FOR DISTRIBUTION OF DIVISIBLE SURPLUS

1)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.

2)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. Therefore it is termed as reversionary. It is a popular method as it allows the insurer to retain the surplus enabling him to earn interests on it. It also gives an incentive to policyholders to maintain their policies. Furthermore it is a very simple procedure.

3)Compound Reversionary Bonus System: This method is also reversionary as the one discussed above. But the incentives provided to the policyholder by this method are better. In this process the bonus addition of each year is of an increasing nature, and the rate that is

given is a percentage of the sum insured and the bonuses added during the maturing years of the policy.

4)Bonus in Cash: In this method the bonus announced is paid in the form of cash to the policyholders.

5)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. There is another disadvantage of this method; it reduces the profit acquiring capacity of the company due to loss of premium income and due to depletion of funds, as the surplus is distributed as cash.

6)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. In this method the distribution of divisible surplus is deferred to a future date, and for the first few years of the policy it is not considered eligible to participate in profit sharing. New entrants favour this method, as it enables them to conserve their resources and also removes the need to distribute surplus in early stages.

7)Interim Bonus: In this the bonuses are announced on the basis of valuation of all the policies at the date of valuation. If some policies result in claim (in case of death) or maturity before the next valuation then they are not eligible for that bonus, as by then they will not be part of the company records, but an interim bonus according to the previous valuation is provided.

8)Guaranteed Bonus: This method is applicable for without profit policies, which are not entitled to surplus of actuarial valuation. In this process there is guaranteed addition of bonus at a fixed rate for every year, to the sum assured, as long as the policy is in force.

9)Final Additional Bonus: This is an extra bonus paid by the company to policyholders apart from the usual annual bonus. This is generally paid to policies lasting for long durations, and due to the contribution made by these policies to the surplus. Considering the period for which the premium under a policy was received the company may decide to pay an additional bonus to the policyholder in case of claim or maturity of the policy. Life insurance Corporation of India was following this process, provided the policies were in force at the time of claim or maturity, along with prior payment of 15 years premium.

Ans 15.

Profits:

the excess of assets that remains after settling current liabilities cannot be termed as ‘profit’ as it will be required to meet the liabilities in future. Thus it is very difficult for a life insurance company to declare the profit made at the end of a year. It is possible to declare profits only if the company closes its new business procuration operations, after which it should have met the liabilities to the last policy. After this the funds left with the company can be considered as profit.

Surplus:

Surplus is accumulated when there is a favourable deviation from the projected value with respect to mortality savings, excess interest and loading savings. That is, when the actual experience overshoots the assumptions made during valuation, which are very conservative estimates.

In life insurance there are five sources of surplus: