INSURANCE

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Contents

Important Terms under Insurance:-

- **Insurance** :
  - Insurance is a contract (policy) between 2 parties whereby one party called Insurer undertakes in exchange for a fixed sum called Premium to pay the other person called insured on happening of future uncertain event
  - Insurance is a way of protecting yourself and your family from a financial loss
- **Insured :** The term 'insured' refers to the person who has taken insurance against various risks and who pays a premium for the insurance.
- **Insurer** : Is the company which accepts risks after receiving premiums and pays claims
- **Premium** : The amount you pay to an insurance company, sometimes in regular installments or as per your agreement with the insurer for your insurance policy.
- **Policy Amount :** The policy limit is the maximum amount an insurer will pay under a policy for a covered loss
- **Deductible :** The deductible is a specific amount the policy-holder must pay out-of-pocket before the insurer pays a claim

- **<u>Third Party</u> :** Any other person who may be affected by your actions.
- **<u>Sum Insurred</u>** :
  - The sum for which the risk is insured is called the sum insured or the policy money or the face value of the policy. This is the maximum liability of the insurer towards the insured.
  - Non Life Insurance policies such as Health , Motor , Property etc which work on the principle on indemnity offers an amount called **Sum Insurred.**
- **<u>Sum Assured</u>** : The sum assured is the amount of money an insurance policy guarantees to pay to the policy holder.

- **<u>Indemnity</u>** : Compensation for actual loss suffered is call indemnity
- **<u>Pre Ex Disease</u>** (PED): A pre-existing disease is a condition, ailment or or injury that already exists at the time you buy a health insurance Policy

- **<u>No Claim Bonus</u>** : **No Claim Bonus** (NCB) is a **reward** (in the form of discount in premium), given by an insurer to a policyholder for making **no claims** during the policy term.

- **<u>Beneficiaries</u>** : The person or the party to whom the policy proceeds will be paid in the event of the death or happening of any contingency is called beneficiary.

- **<u>Surrender Value</u>**: The cash **surrender value** is the sum of money an **insurance** company pays to a policyholder if the policy is voluntarily terminated before its maturity.
- **<u>Riders</u>** : Riders are an additional paid-up feature to widen up the scope of the base insurance policy.

- **Nominee :** A person who receives the benefit in case of death of the insured person is a nominee
- **Survival / Maturity Benefits :** A **maturity benefit** is a lump-sum amount the insurance company pays you after the **maturity** of insurance policy
- **Grace Period** :If you couldn’t pay the renewal premium for your policy on time, insurance company gives you an **extension** in the number of days after the premium payment due date.
- If the policyholder does not pay the premiums even before the end of grace period, the policy gets lapsed.
- **Revival Period** : Specified period after the grace period for re-activating the Lapsed policy.

Why to Buy Insurance

- Life is full of uncertainties. We face various risks in our day to day life including risks to our life, health, property and so on. Insurance is responsibility, security, peace of mind and the simplest way of telling yourself that you care for your loved ones
- Insurance is available for unpredictable events such as death, accident, sickness, loss or damage to motor vehicle, property etc.

Risks and perils

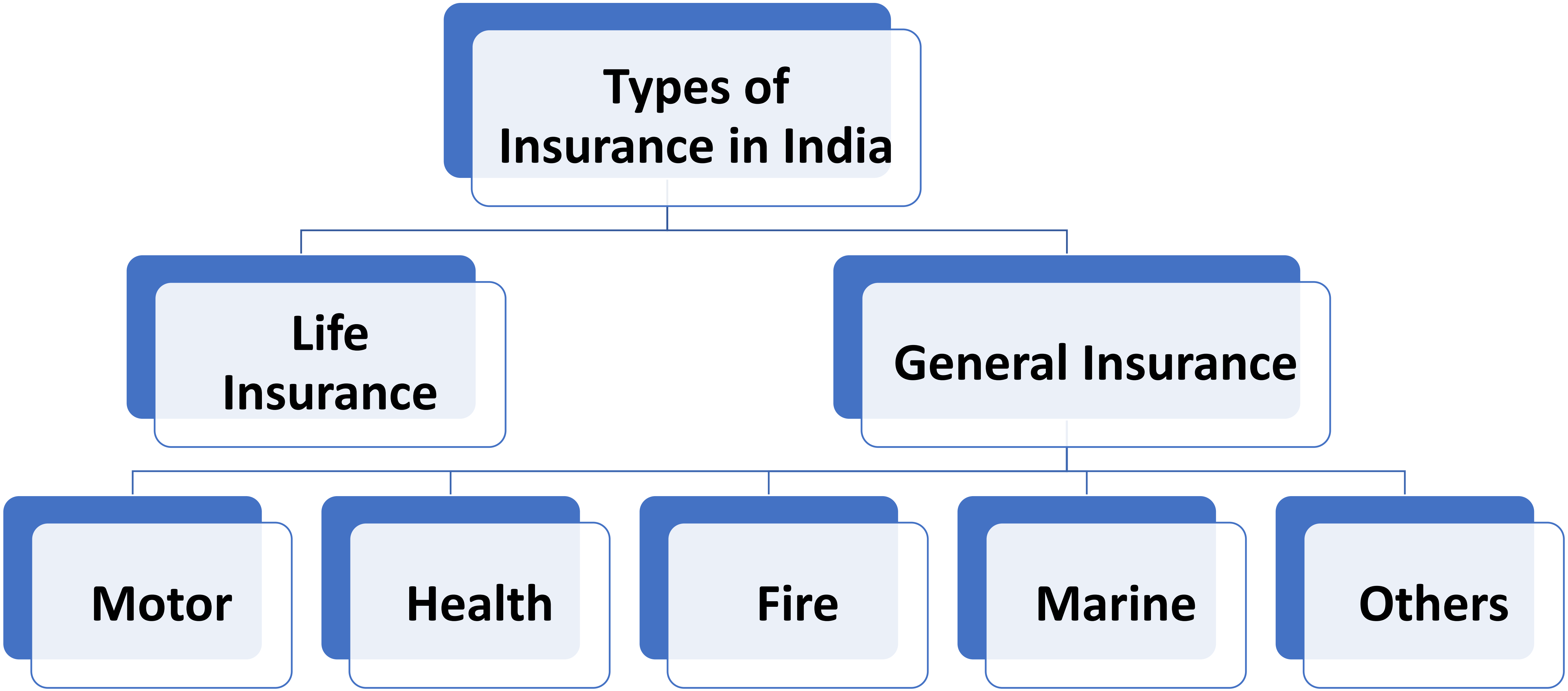
- Every day, we hear stories about accidents and other misfortunes that someone has suffered. Some of these include:

1. All of a sudden, people fall seriously ill
2. Motor vehicles are stolen and people die or get injured in accidents involving motor vehicles.
1. House and belongings are destroyed by fire.
2. Large scale loss of lives and destruction of property in cyclones and tsunamis.

- **Insurance Helps to get cover from all such risks & live a fear life**

Importance of Insurance in todays time

1. Provides protection against occurrence of uncertain event
2. Device for eliminating Risks & sharing Loss
3. Co-operate method of sharing Risks
4. Financial Support
5. Tax Benefits
6. Old Age Pensions
7. As an Investment / Saving Mechanism etc…


Types of Insurance in India
Life Insurance
General Insurance
Motor
Health
Fire
Marine
Others

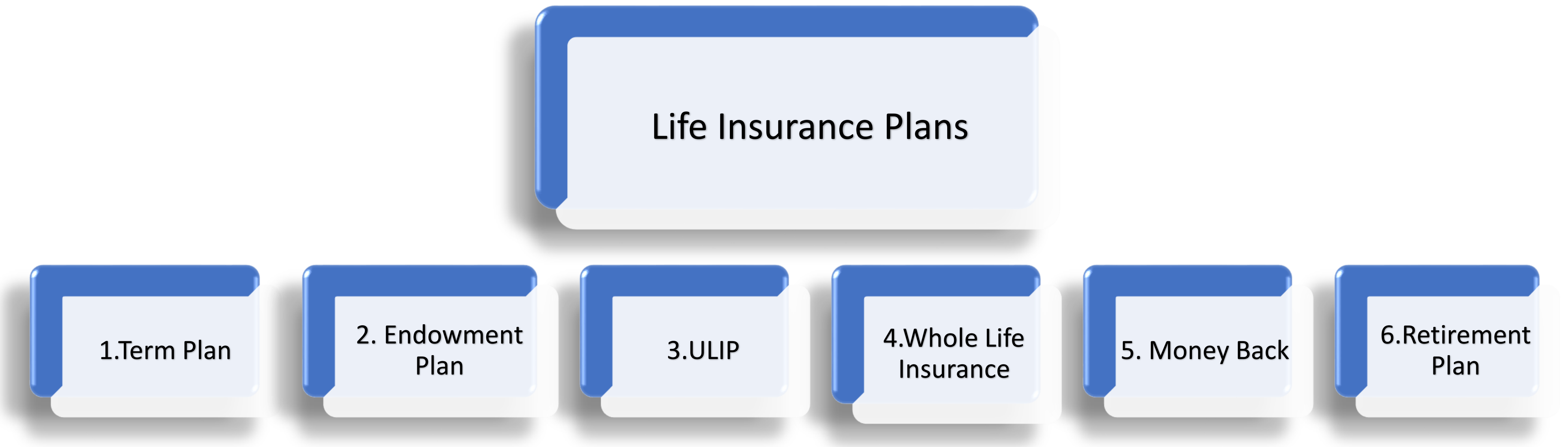
Life Insurance Policy

- A life insurance policy is a contract with an insurance company. In this policy, a person has to make regular payments **(known as premiums)**to the insurance company in order to receive a sum of money that will be paid to them after a period of time, or to their family, in case of the policyholder's death, or if the policy matures.
- As the name suggests, Life Insurance is insurance on your **life**
- You buy life insurance to make sure your dependents are financially secured in the event of your untimely demise

Why is it Important ?

- What If you are the **sole breadwinner** for your family or if your family is heavily reliant on your income and suppose tomorrow you are not there in this world then who will take financial care of your family ?
- Under life insurance, the policyholder's family is financially compensated in case the policyholder expires during the term of the policy.

Importance of Life Insurance?


Life Insurance Plans
1.Term Plan
2. Endowment Plan
3.ULIP
4.Whole Life Insurance
5. Money Back
6.Retirement Plan

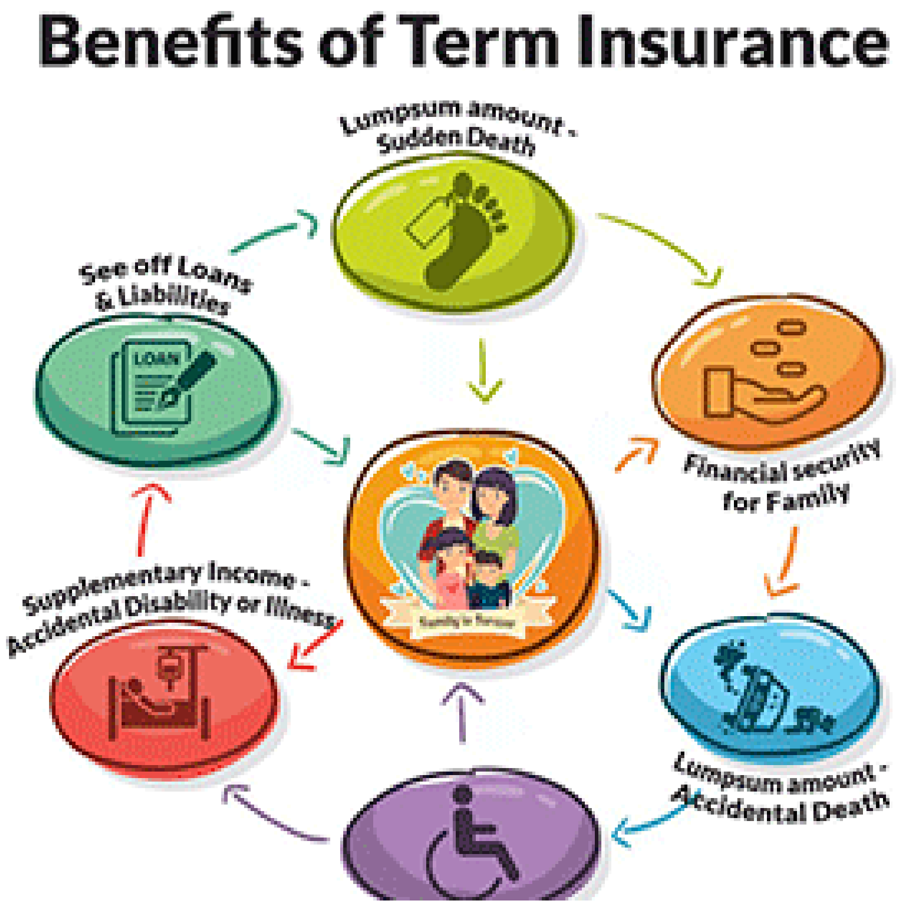
1. Term Plan (Pure Risk Cover)

- A Term Plan provides **death risk** cover for a specified period.
- Term insurance is the simplest form of life insurance plan
- In case the life assured passes away during the policy period, the life insurance company pays the death benefit to the nominee
- It is a pure risk cover plan that offers high coverage at low premiums.
- There's no payout if the life assured outlives the policy term.
- However, these days there are companies offering Term Plans with Return of Premiums (TROPS), where insurance companies payback all the paid premium amount in case the life assured outlives the term period. But, such plans are costlier than the vanilla term insurance plan.

- Best Known for → High Sum Assured at a Low premium

Lets understand through an eg:-

- Mr. Sanjay, 28 Yr old having Salary of Rs.50,000 p.m. He is the only person earning in the family which consists of he himself, his wife , 2 child & dependent parents.
- What if Mr. Sanjay is No more ?
- Who will take the Financial Burden of his family for rest of the period ?
- So **Term Plan** provides Financial protection to your family & dependents when you are not around.



Types of Term Plan in India

1. **Standard / Pure Term Plan** : Most common & basic term plan
2. **Term Return of premium (TROP) Plan** : Term plan that refunds the premium paid in case the insured party survives the policy period
3. **Group Term Plan** : Designed for Business , Corporates, societies , large families etc.
4. **Decreasing Term plan** : It is also known as Mortgage term insurance. It's main purpose is to pay off your MORTGAGE DEBTS/ **HOME LOAN** upon your demise. Here the sum assured of the policy decreases every year by fix percentage.
5. **Increasing Term plan** : Exact opposite to decreasing plan. Here the sum assured increases as your age increases with constant premium. It covers the risk of **RISING INFLATION** cost that may affect **REAL VALUE** of death benefits which the insured family will receive on demise of insured.
6. **Convertable Term Plan :** In these the policy holder can convert his plan to any of these at a future date
7. **Term Plan with Riders** : Normal term plan with additional benefits such as critical illness , Disability etc.

2. Endowment Plan

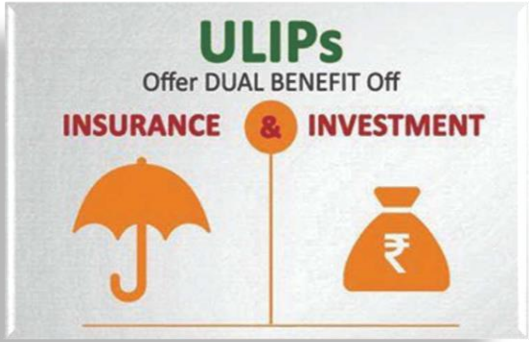
- Endowment Plan is a type of insurance policy , which provides COMBINE benefits of INSURANCE COVER + SAVINGS + WEALTH GROWTH
- Endowment plans are life insurance policies where a portion of your premiums go toward the death benefit, while the remaining is invested by the insurance provider. Maturity benefits, death benefit and periodic bonuses are some types of assistance from endowment policies

Who Should buy Endowment Plan ?

- Individual who require lump sum after a certain period of time should consider purchasing endowment plan.
- Who want to :-

1. Financially protect their families & dependent
2. Build a Corpus for Longer period
3. Goal Based Savings

3. Unit Linked Insurance Plans (ULIP)



- Similar to endowment plans, a part of your insurance premiums go toward mutual fund investments, while the remaining goes toward the death benefit.
- Performance of ULIP is linked to markets
- Individuals can choose the allocation for investments in stock/debt markets.
- The value of the investment portfolio is captured by the **NAV** (net asset value).
- To that end, there are many similarities between ULIPs and mutual funds. ULIPs differ in one area, they are a combination of investment and insurance, while mutual funds are a pure investment avenue

Benefits of ULIP Plan

1. **Flexible Investment Options :** ULIPs offer a whole host of high, medium and low-risk investment options under the same policy. You can choose an appropriate policy according to your risk-taking appetite
2. **Transparency :** The charge structure, value of an investment and expected rate of returns, for the complete tenure of the policy are shared before you buy a product.
3. **Liquidity when you need it :** In case of any unforeseen future events, ULIPs also let you do a partial withdrawal; wherein after the first 5 years, you can withdraw funds from your Unit Linked account.
4. **Disciplined and regular savings :** ULIPs help you inculcate a regular saving habit, which goes a long way in building a corpus for future needs.
5. **Tax benefits :** The premiums paid towards the policy are allowed as Deduction u/s 80C.

- **The Only Major Difference between both is Mutual fund does not offer Life Cover which is available under ULIP Plan.**

4. Whole Life Insurance

- A whole life insurance policy covers a policyholder over his life.
- The main feature of a whole life policy is that the validity of the policy is not defined so the individual enjoys the life cover throughout his life.
- The policyholder pays regular premiums until his death, upon which the corpus is paid out to the family.
- Choose WLI only if you have financial dependndts for relatively long period of time, possibily for your entire life. Eg. Children with sp needs, dependent spouse/parents etc.
- Diff b/w Term Plan & Whole Life Insurance

Term Plan → When you have financial dependent for Limited Period

Whole Life Insurance → When you have financial dependent for Relatively Long Period

5. Money Back Policy

- A money back policy is a variant of the endowment plan.
- It gives periodic payments over the policy term.
- To that end, a portion of the sum assured is paid out at regular intervals.
- If the policy holder survives the term, he gets the balance sum assured. In case of death over the policy term, the beneficiary gets the full sum assured.

❑ **Benefits of Money Back Policy**

- Regular Source of Income
- Assured return on Investment
- Low Risk Exposure
- Insurance Coverage
- Tax Benefits

6. Retirement Plan

- Retirement plan helps to build corpus for your retirement.
- Helping you to live independently financially and without worries after the age of 60 years.
- Retirement & Pension Plans provide you with financial security so that when your income comes to an ends, you can still live with pride without compromising on your living standards
- Retirement & Pension Plans provide ample regular income in retirement with the help of money saved during work life. Your family can maintain its lifestyle without your regular pay cheque despite constantly rising living costs.

❑Fire Insurance

- Insurance that is used to cover damage / Loss to the property caused by Fire

❑Marine Insurance

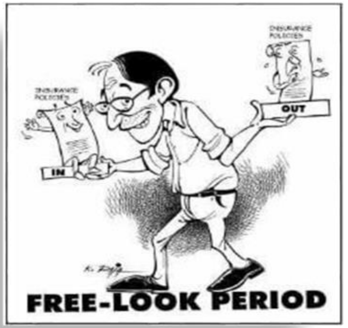
- Marine Insurance is a type of insurance policy that provides coverage against any damage/loss caused to cargo vessels, ships, terminals, etc. in which the goods are transported from one point of origin to another

❑HEALTH INSURANCE

- Health Insurance is a type of insurance that offers financial coverage for medical & surgical Expenses that are incurred by the Insured.
- Coverage:- It usually covers
  - Hospitalisation Expenses
  - Treatment of critical Illness
  - Medical Bills prior & post Hospitalisation
  - Day Care Procedure like cataract operations etc.
- **Minimum period stay in Hospital**
  - In order to become eligible to make a claim under the policy, minimum stay in the Hospital is necessary for a certain number of hours. Usually this is 24 hours. This time limit may not apply for treatment of accidental injuries and for certain specified treatment
- **Health Insurance offers 2 modes for settlement**.
  - Cashless Service
  - Reimbursement

Terms used in Health Insurance

- **Pre Existing Disease (PED)** : PED is the disease that you have before you have purchased the health plan.
- **Network Hospitals** : These are the Hospitals with whom the Insurance Company have made a tie up. These are hospitals where, if you are admitted, you need not get worry about arranging the money required for your treatment, as your insurer will be directly be bare the cost (Cashless scheme).
- **Non-Network Hospitals:** Non-network hospitals are those where you would be required pay the bills for your treatment and produce these bills to your insurance firm who would then reimburse the amount due to you, depending on your insurance plan.
- **Day Care Treatment** : Most Insurance co accepts your claim only if you have spend at least 24 hours in hospital. However there are few plans that also cover day care treatment & don’t ask to stay at hospital for at least 24 hrs.
- **Family Floater :** A family plan is one single policy that covers all the members of a particular family. It takes care of the family members' hospitalization expenses



Free Look Period

- This is the period within which, if you do not agree to the terms and conditions of the policy after reading the same, you can return the policy immediately and seek Refund of Premium from the insurance company.
- Free-look gives you a second chance to review your policy and return it if you feel you misunderstood or were mis-sold the plan
- Normally, all life insurance policies and health insurance policies having a term of three years or more have a provision for free look period. (This is not available in Other general Insurance policy)
- You can exercise this option within 15 days of receiving the policy document.

Why Health Insurance ?

- The cost of medical expenses and hospitalization skyrocketing, it has become important to get covered under Health Insurance.
- It helps in meeting the sudden expenses of emergency hospitalization of self or any member of the family.
- It protects from sudden & unexpected costs of hospitalization
- Tax Benefits u/s 80D of Income Tac Act 1961 etc..

❑ Motor Insurance

- **Motor insurance** is the **insurance** policy for vehicles.
- Motor insurance is mandatory in India.
- It is compulsory to buy auto insurance when you purchase a vehicle.
- Types of Motor Insurance:

A. **Third Party Insurance (Statutory Requirement):** compensation for the damages caused to another individual , their vehicle or third Party property

B. **Comprehensive / O.D Cover** : (TP + Damage to Own Vehicle)

Covers all kinds of damages and liabilities caused to both i.e your own vehicle and third party as well.

What Motor Insurance Covers ?

- Fire, Explosion, Self- Ignition, Lightning
- Burglary/Housebreaking / Theft
- Riot & Strike
- Earthquake
- Flood, Storm, Cyclone, Hurricane.
- Accidental external means
- Malicious Act
- Terrorism acts
- While in Transit by Rail/ Road, Inland waterways, Lift, Elevator or Air
- Land slide / Rock slide etc..

What Motor Insurance Excludes ?

- The following contingencies are usually excluded under the Motor Insurance Policy when:

❑ Not having a valid Driving License

❑ Under Influence of intoxicating liquor/ drugs

❑ Accident taking place beyond Geographical limits

❑ While Vehicle is used for unlawful purposes

❑ Electrical/Mechanical Breakdowns.

Regulatory Framework:-

IRDA

1. Insurance Act 1938
2. IRDA (Protection of Policyholders' Interests) Regulations, 2002
3. Redressal of Public Grievance Rules, 1998 (RPG Rules, 1998)
4. Guidelines for Grievance Redressal, 2010
5. Consumer Protection Act 1986

- **Insurance** Regulatory and Development Authority (**IRDA**) is an autonomous regulatory body that protects the interests of the policyholder. They oversee the growth of the **insurance** sector in India and also maintain a speedy development.

Channels for Complaints offered by IRDA

- _IGMS (Integrated Grievance Management System) Registering a complaint at www.igms.irda.gov.in

- Toll Free Number 155255 or1800 425 4732

- E-mail to complaints@irda.gov.in

- http://www.policyholder.gov.in (Consumer Education Website)

Other Points

- The insurance industry of **India** consists of **57 insurance** companies of which 24 are in life **insurance** business and 33 are non-life insurers.
- **IRDA** is the primary regulator for Insurance in India , which aims to protect the interest of policy holder & encourage systematic growth of Insurance sector in India and help in bringing economic growth.
- Life insurance premium of up to ₹1.5 lakh can be claimed as a tax-saving deduction under Section 80C
- Medical insurance premium of up to ₹25,000 for yourself and your family and ₹25,000 for your parents can be claimed as a tax-saving deduction under Section 80D (Additional ₹ 5,000/- if senior citizen)
- Make sure you Inform & educate to your family / Nominee about all your Policies and plans.

Thank You

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