The Insurance Handbook

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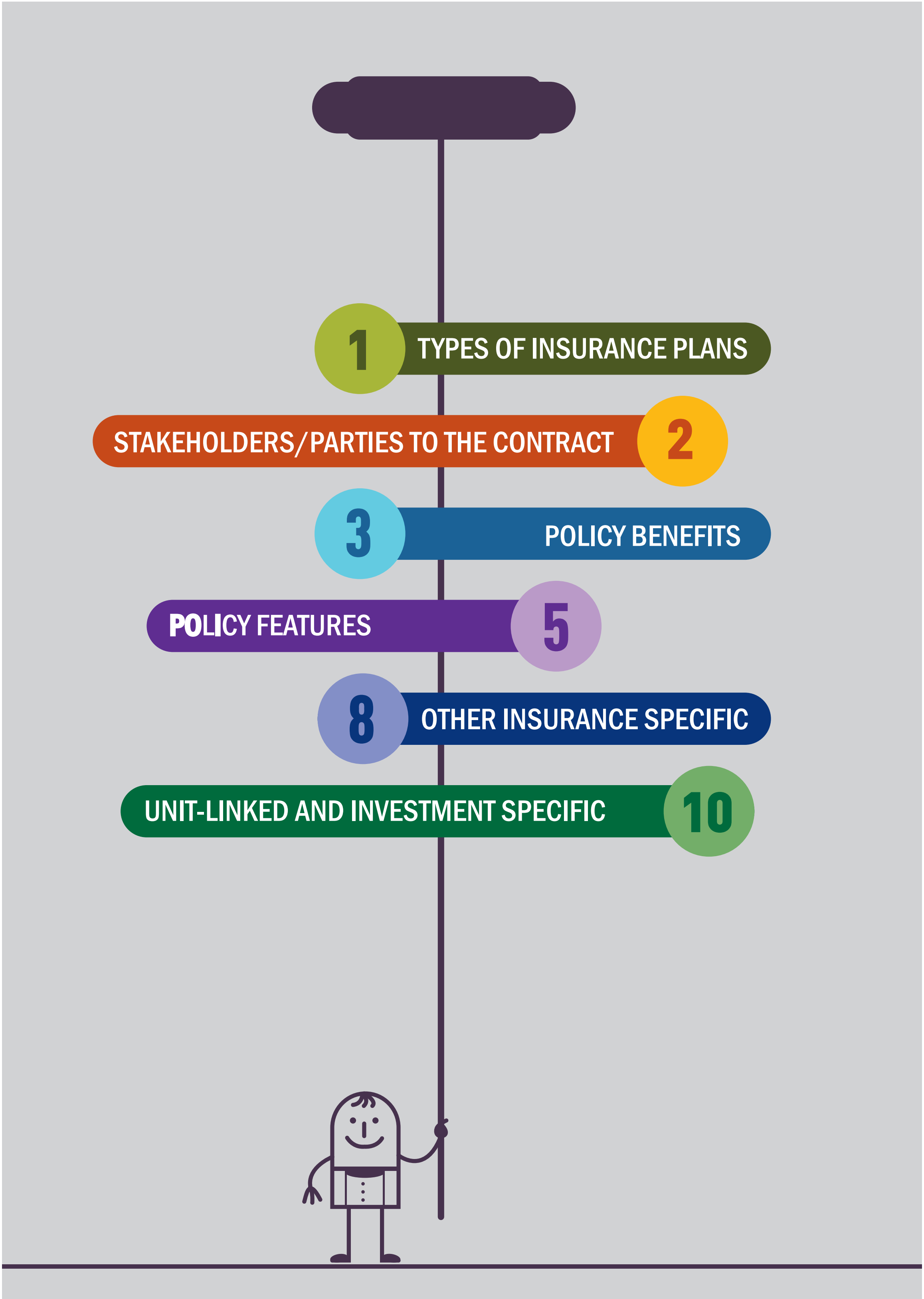
jeevan suraksha ka **naya nazariya**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TYPES OF INSURANCE PLANS

TERM INSURANCE:
A basic Insurance Plan which provides a Lump Sum amount to the family of the person who is Insured in case of his/her unfortunate death.

ENDOWMENT PLAN:
An Insurance Policy which provides a Lump Sum amount on a fixed date i.e. maturity of the policy or on death of the Life Insured, whichever is earlier.

PARTICIPATING POLICY:
An Insurance Plan which gives the Policyholder a share in the profits of the insurance company's participating fund in the form of bonuses. Apart from bonuses, such Insurance Plans shall provide some Guaranteed Benefits also. Participating policy is also referred to as "with Profits Policy".

NON-PARTICIPATING POLICY:
An Insurance Plan under which all the benefits are guaranteed at the beginning irrespective of the actual investment performance.

MONEY BACK PLAN:
A Money Back Plan starts giving liquidity from before the end of Policy term by giving you periodic payments or monetary benefits at regular intervals of time.

WHOLE LIFE PLAN:
A life Insurance Plan which provides a cover for your entire life time. Such plans are used to accumulate and pass on the wealth from one generation to another as legacy in a tax efficient manner.

UNIT LINKED INSURANCE POLICY:
An Insurance Plan which gives benefits both of Life Insurance as well as investing in different funds consisting of different investment instruments like stocks, money market securities or government bonds. However, the returns are dependent on market performance and the Policyholder has to bear the investment risk.

STAKEHOLDERS/ PARTIES TO THE CONTRACT

POLICY HOLDER:
Policyholder is the person who buys the Insurance Policy and makes the premium payment. Policyholder can either buy insurance to cover his own life or cover the life of someone else. In the first case he would be called the Life Insured.

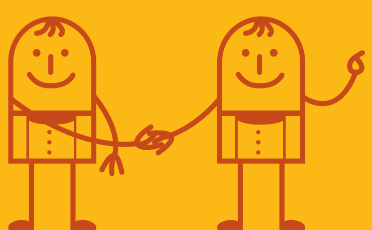
LIFE INSURED:
Life insured is the person whose life is covered by the company. In case of unfortunate death of the Life Insured the death benefits of the policy are received by the nominee or the Policyholder.

NOMINEE:
The person who is nominated to receive the benefits of the policy, in the event of Life Insured's unfortunate death before maturity date is called the Nominee.

INSURANCE COMPANY (INSURER):
It is the company that collects premiums and provides compensation for financial loss incurred due to an unfortunate event.

FINANCIAL ADVISOR/AGENT:
A company representative or an intermediary who helps you to understand and buy insurance products based on your needs and requirements.

IRDAI:
Insurance Regulatory and Development Authority of India is a statutory body which regulates the insurance industry in India. It was constituted under the Insurance Regulatory and Development Authority Act, 1999.



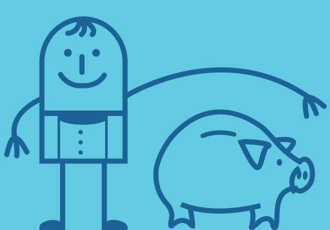
POLICY BENEFITS

DEATH BENEFIT:
Whenever an unfortunate event happens, there is both emotional as well as financial loss. An insurance company helps you replace the financial/monetary loss through the Death Benefit, which helps maintain your family's financial stability. This benefit includes both a guaranteed sum of money called as Sum Assured on Death and also the Accrued Bonuses, if applicable.

MATURITY BENEFIT:
It is the amount which the insurance company pays to the policy holder on the completion of the Policy Term, if the Life Insured has survived the entire duration of the Policy. This amount includes the guaranteed sum of money called as Sum Assured on Maturity and also the Accrued Bonuses, if applicable.

BONUS:
Life Insurance companies share the profits from the participating fund with the Policyholder in the form of bonuses which are usually declared at the end of every financial year and can be classified as cash bonus, reversionary bonus and terminal bonus. It is only available on participating or with profits Insurance Policy.

REVERSIONARY BONUS:
Bonus which is declared regularly by the company and accumulated to be paid at the end of the Policy Term or at the time of death is called Reversionary Bonus. Such bonuses can be further classified as simple reversionary bonus and compound reversionary bonus on the basis of difference in the way they are accrued.



SIMPLE REVERSIONARY BONUS:

Simple Reversionary Bonus is declared as a percentage rate of Sum Assured. For example, if the policy is of 10 lakhs and the bonus declared for the year is 20 per 1000 Sum Assured then bonus amount is 20,000. However, this amount is paid only on maturity or at the time of claim as it is a Reversionary Bonus.

COMPOUND REVERSIONARY BONUS:

Compound Reversionary Bonuses are declared as a percentage rate of Sum Assured & the Reversionary Bonuses already declared. For example, if the policy is of 10 lakhs with the bonus declared last year of 1,00,000 and the rate of bonus being 10%, then the bonus amount this year would be 1,10,000 (as opposed to 1,00,000 under Simple Reversionary Bonus). However, the amount is paid only on maturity or at the time of claim as it is Reversionary Bonus.

CASH BONUS:

Cash Bonuses are paid in the same year in which the bonus is declared, thus giving the Policyholder cash payouts year after year as opposed to a single payout at the end of policy.

TERMINAL BONUS:

Terminal Bonuses are declared at the time of maturity or claim, from the residual profits available in the participating fund.

PAID UP:

If the Policyholder has paid a certain number of prescribed annual premiums and is unable to pay the future premiums, then the policy is converted into paid up status. This takes away the obligation to make future premium payments however the benefits of the policy are reduced. The benefits are typically reduced to the extent of premiums paid to premiums payable.

POLICY LOAN:

A loan granted by the Insurer to the Policyholder on the basis of the Policy Value is referred to as policy loan.

ACCIDENTAL DEATH BENEFIT:

Under this benefit, a sum of money is paid over and above the death benefit in the event of death caused due to an accident.

POLICY FEATURES

DATE OF COMMENCEMENT OF RISK:
It is the date which represents the beginning of Life Cover.

DUE DATE:
It is the date by which the insurance premium has to be paid to the company. It is calculated from Policy Date and depends on the premium mode chosen. If the insurance premium is not paid within 30 days (grace period) from the due date, the policy lapses or becomes paid up.

MATURITY DATE:
It represents the ending (end of term) for an Insurance Plan. On maturity date, the Policyholder will receive the benefits on maturity depending on the plan chosen, and the life cover terminates.

PREMIUM PAYMENT TERM:
It means the number of years for which the premiums of your Insurance Plan have to be paid

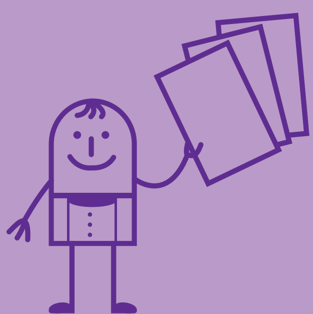
POLICY TERM:
It means the number of years for which the Insurance Policy and Life Cover is active. It starts with the issue date and ends with the maturity date.

POLICY SCHEDULE:
It is the cover page of the policy contract; it shows details of the Policyholder, Life Insured and a brief description of the Policy. It is not a standalone document, but forms an integral part of the policy contract.

POLICY SPECIFICATIONS:
It refers to the brief summary of all the important features (Maturity Benefit, Life Cover, Sum Assured, Guaranteed and Non-guaranteed Benefits, Tax Benefit etc.) of the Insurance Policy.

ANNUALISED PREMIUM:
Annualised premium is the sum of all the premiums required to be paid by the Policyholder during the year. For example If the monthly premium to be paid is 1000, annualised premium would be 1000 (monthly premium)

*12(number of months) 12000



Modal premium:
It is the amount which has to be paid, if the Policyholder has chosen to pay premium using Semi-annual, Quarterly, or Monthly mode. The modal premium may be slightly higher as compared to annual mode if non-annual modes are opted for. This amount is decided using adjusting factors called as Modal Rates.

PREMIUM RATES:
Premium rates help in deciding the amount of money that has to be paid as the premium for the benefits received under the insurance product. It is based on various factors like age, Premium Payment Term, and gender etc.

PREMIUM DISCOUNT:
It is a discount on premium given on high levels of Sum Assured or premium.

LIMITED PREMIUM PAYMENT TERM:
Limited Premium Payment Term is suitable if Policyholder wishes to pay premiums only for a limited number of years and reap the benefits and protection of insurance for a longer period, as the Policy Term is more than the number of years for which premiums are paid.

REGULAR PREMIUM PAYMENT TERM:
Regular Premium Payment Term is suitable if Policyholder wishes to invest and accumulate money for more number of years, as premiums are to be paid for the entire Policy Term. Regular Premium Payment Term plans may charge lower premium for same level of benefits as a Unit Linked or Limited Premium Payment Term plan.

AUTOPAY OPTION:
This option saves the Policyholder from the trouble of remembering the due date of premium as the funds are automatically transferred from his bank account/credit card to the company, as per your instructions.

REINSTATEMENT:
Reinstatement option helps the Policyholder to restart the policy and get back the benefits which were lost due to non-payment of premium earlier. However, the unpaid premiums have to be paid along with any due interest within a specified time frame to get the policy reinstated. The period of reinstatement is 2 years as per the regulations in India.

SURRENDER:
Surrender of a policy happens if the Policyholder voluntarily decides to pre-close the policy before the date of maturity. In this case he will receive a Surrender Value, which is decided on the basis of number of premiums paid and is lower than Maturity Value in most cases, and the policy will be terminated.

SURRENDER VALUE:
It is the amount which the Policyholder would get in case of surrender of the policy. It is decided on the basis of number of premiums paid and the terms of the Insurance Plan and is lower than the Maturity Value in most cases.

AUTO SURRENDER:
Auto surrender of a policy happens when the premiums are not paid for a period greater than the period of reinstatement as specified by the company. For example: If the period of reinstatement is 2 years, then the policy would surrender automatically after 2 years from the date of unpaid premium. Policyholder will receive the Surrender Value, if any.

GUARANTEED SURRENDER VALUE:
The money which is guaranteed to the Policyholder in the event of voluntary termination of the policy before maturity date is called the Guaranteed Surrender Value.

SPECIAL SURRENDER VALUE:
The Company, from time to time, may declare special Surrender Value, subject to prior approval from IRDA of India, which could be higher than or equal to the Guaranteed Surrender Value.

GRACE PERIOD:
A period during which the Policyholder can still make the overdue Premium Payment without attracting any interest. Grace period is of 30 days from the original due date as stipulated by regulation and the benefits under the Policy remain unaltered during this period.

ASSIGNMENT:
Assignment is the legal transfer of rights and interests in an Insurance Policy. It leads to a shift in the ownership of the Insurance Policy.

COVERAGE:
The amount of protection provided to the Policyholder on the basis of premium amount and the terms of the policy.

EXCLUSIONS:
Special circumstances stated in the policy bond under which no benefits will be provided to the beneficiaries.

RENEWAL PREMIUM:
Premium which is payable after the 1st years premium to ensure the continuation of the benefits of the policy.

LAPSED POLICY:
Lapsed is a policy status under which all benefits of the policy stops due to non-payment of the premium due within the grace period. In case of a lapsed policy, policy holder has an option to either reinstate the policy within 2 years and restore the benefits or surrender the policy and receive the Surrender Value, if any.

OTHER INSURANCE SPECIFIC

RIDER:
Riders help the Policyholder in enhancing the insurance product to meet specific needs by adding protection benefits to the basic Insurance Plan at a lower additional cost. For example, Bharti AXA Life Hospi cash rider provides fixed per day cash benefit to the Policyholder for each day of hospitalisation, thus providing benefits of a health plan along with base Life Insurance plan.

RIDER PREMIUM:
It is the additional cost that has to be paid to attach a rider with a base Insurance Plan.

BASE POLICY/BASIC PLAN:
The basic plan is the insurance product on which the rider is attached is called Base Plan.

POLICY IN-FORCE:
It means that the policy is active and that the Policyholder is eligible to receive all the benefits under the policy. Premiums have to be paid regularly before the due date to ensure that the Policyholder is protected under the policy.

FREE LOOK OPTION:
After receiving the policy bond, a period of 15 days is given by the insurer to review and check if the understanding of the agreed benefits and terms and conditions is correct. If in case there is some inconsistency, the Policyholder has an option to terminate the contract within this period.

POLICY ANNIVERSARY DATE:
It is the date which represents the policy anniversary i.e. the completion of a year from the policy date.

UNDERWRITING:
Before the issuance of an Insurance Policy, the Life to be Insured is evaluated on different parameters like health status, financial standing, age, occupation etc. to determine whether he can be issued the policy and also decide the amount of money that has to be paid as the Insurance premium. This process is referred to as underwriting.

INSURANCE REPOSITORY:
Insurance Repository system refers to the conversion of all the policies, from different Insurers, in electronic form to be stored at one single place i.e. the Insurance Repository. This concept is similar to the dematerialisation of shares and saves the trouble of storing physical copies of policy contracts.

PROPOSAL FORM:
It is a form through which relevant information including personal, health, financial informa tion of the Life Insured is collected to evaluate the issuance of a Life Insurance Policy.

HAZARD:
Any situation which increases the probability of a loss is known as a Hazard.

OCCUPATIONAL HAZARD:
Occupations where the Life Insured is faced with greater than normal danger due to the nature of work. For example: If a person is working in a coal mine there is more risk to his life as compared to a person working in office.

MORAL HAZARD:
It is the risk associated with the life of a person due to factors like position, character, personal reputation, or involvement in illegal and immoral activities. Existence of criminal record is an example of Moral Hazard. Insurance company has to make the decision whether they want to accept the risk or not for cases involving potential moral hazard.

TOTAL PERMANENT DISABILITY:
It is the condition when the person has become completely disabled due to an accident or fatal disease making him physically incapable of being employed in any sort of work.

SUB-STANDARD LIFE:
Any individual, who cannot be granted a policy under normal rates of premiums but can be granted with an extra premium over normal rates of premium due to reasons like existence of disease/medical condition, high risk to life due to kind of employment, unhealthy habits like smoking etc., is considered as a Sub-Standard Life.

MISREPRESENTATION OF MATERIAL FACTS:
It refers to stating of a wrong fact or not providing complete information. If such information was available to the underwriter it might have led to a different decision.

CONCEALMENT:
Deliberately hiding a material fact from the Insurer is referred to as concealment. Concealment may lead to termination of promised benefits.

INSURABLE INTEREST:
It means that the Policyholder or the owner must have some emotional or financial loss if an unfortunate event happens to the Insured to make the insurance contract valid.

UNIT LINKED AND INVESTMENT SPECIFIC

ALLOCATION:
It means that units are allotted to the Policyholder in the chosen Investment Fund. The allocation is done at the prevailing unit price.

INVESTMENT FUND:
It is an individual fund having a certain mix of equity and debt. The company offers a number of Investment Funds, having different debt and equity ratios based on investment instruments like stocks, money market, corporate and government bonds to suit different investment needs and risk appetites.

INVESTMENT FUND ALLOCATION INSTRUCTION:
It is the instruction given by the Policyholder to allocate his premiums towards the purchase of units in the desired Investment Fund.

PARTIAL WITHDRAWAL:
It is a facility that allows the Policyholder to withdraw a part of his funds before the end of the Policy Term. This is usually recommended to be used only in case of an emergency as it may affect the final Investment Value.

POLICY FUND VALUE:
It is the value of the policy fund as on that day. It is calculated by multiplying the number of units in each fund by the respective unit price for that day. For example if the policy holder owns 100 units in Fund A and 100 units in Fund B and the unit price is 100 and 200 respectively, the Policy fund value would be

Fund A: 100 units X ₹100 = ₹10,000
Fund B: 100 units X ₹200 = ₹ 20,000
Policy Fund Value ₹30,000

PREMIUM REDIRECTION:
It is an option to direct future premium payments for investment in a fund which is different from the one chosen at the inception of the policy.

SINGLE PREMIUM:
It means that premium needs to be paid only once i.e. at the beginning of your policy.

SWITCH:
Switch is an option to take out money from the existing investment funds and invest in an alternate fund which better suit the Policyholder's investment needs. It helps the Policyholder to manage his Investment Portfolio better.

UNIT:
Unit is a part or portion of the Investment Fund has been purchased from the premiums paid.

NAV:
It is the value of a unit of an Investment Fund and is calculated by dividing the total assets of the fund by the number of units.

Formula to calculate NAV= Total Assets – Total Liabilities
Number of Outstanding Units in the fund

VALUATION DATE:
It is the date on which unit price of the investment fund is determined.

INVESTMENT RISK/MARKET FLUCTUATIONS:
The performance of the Investment Fund depends on the financial markets and may increase or decrease. The risk of such fluctuations or uncertainties due to market related factors is called as the Investment Risk.

INVESTMENT PORTFOLIO:
It is a suite of various kinds of assets like shares, government bonds etc. which have different risk and returns. Portfolio helps in maximizing benefits and at the same time protects against market fluctuations as money is invested in both less risky assets like government bonds and the most risky assets like small company stocks.

LIQUIDITY:
It means the ability to convert a financial asset into cash quickly.

SETTLEMENT PERIOD (EXTENDABLE INVESTMENT PERIOD):
The period to which the investment period can be extended and the Policyholder can stay invested in the funds even after the end of policy term. At any time during the settlement period Policyholder can withdraw the fund value as on that day. The company only charges for fund management during this period.

MONEY MARKET INSTRUMENTS:
It refers to financial instruments having very high liquidity and short term (from several days to under a year). Examples: Certificate of deposits and Commercial Paper.

EQUITIES:
It is one of the principal asset classes having high potential of returns as well as high risk. It represents ownership interest in the company and therefore the returns are dependent on the company's performance.

CORPORATE BONDS:
It is a debt security issued by a company to borrow money from the public. Corporate bonds are less risky financial assets as compared to equities and provide a better return as compared to Government Bonds. However, there is a risk of default attached to corporate bonds in case the company goes bankrupt.

GOVERNMENT BONDS AND SECURITIES:
These are the least risky financial instruments as they are issued by the government to borrow money from the public. The rates of interest and time period are predetermined in Government Bonds.

MARKET CAPITALIZATION:
It is the worth of the whole company based on factors like past performance, future prospects and market sentiments of the company. It is calculated by using the simple formula:

Market Capitalization= Market Price of Share X Number of shares outstanding

LARGE CAP:
Large Cap is a short form for Large Market Capitalization and as a thumb rule includes companies having a market capitalization of 10,000 crore or more. Such firms are less risky to invest as they have strong market presence and are well established.

MID CAP:
Mid Cap is a short form for Middle Capitalization and as a thumb rule includes compa nies having market capitalization of 2,000 to 10,000 crore. The risk is relatively more in such companies as compared to Large Cap firms but they have higher probability of exceptional returns.

SMALL CAP:
Small Cap is a short form of Small Capitalization and as a thumb rule includes companies having market capitalization of upto 2,000 crore. Such stocks have the highest risk but come with a potential of providing with exponential returns.

LOCK IN PERIOD:
It refers to the number of years for which the funds need to be kept invested in the policy and cannot be withdrawn.

FUND MANAGEMENT CHARGES:
These are the charges for meeting expenses relating to managing the fund. The Fund management charge varies for each fund depending on the type of investments made.

POLICY ADMINISTRATION CHARGES:
These are the charges for meeting expenses relating to servicing and maintaining the life Insurance Policy. This charge is deducted by cancellation of units on a monthly basis.

DISCONTINUANCE CHARGES:
The discontinuance charges are levied at the time of surrender or on discontinuance of premium. The charges depend on the year of discontinuance of premium/ surrender.

PREMIUM ALLOCATION CHARGES:
These are the charges for the initial expenses like underwriting, medical tests, etc. incurred by the company to issue the policy.

MORTALITY CHARGE:
These are the charges for providing Life Insurance Benefit To The Policyholder.

BULL MARKET:
It is a period of positive sentiment in market during which prices of the stock market increase greatly.

BEAR MARKET:
It is a period of negative sentiment in market leading to a fall in the prices of stock markets.