**COMPARATIVE ANALYSIS**

**ANALYSIS OF LIFE INSURANCE AND GENERAL INSURANCE**



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**INTRODUCTION**

# OVERVIEW OF THE INSURANCE POLICIES:

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# **WHOLE LIFE INSURANCE:**

Whole life insurance is a type of permanent life insurance, which means it lasts your entire life, and pays out no matter when you die. It comes with a cash value component in addition to the lump-sum payout. High-net-worth individuals can benefit from this cash value as an additional investment vehicle, or as a buffer against estate tax.If you have trouble qualifying for traditional life insurance due to your age or a serious health condition, a limited type of whole life insurance called final expense insurance could be a good option. Final expense insurance, also known as burial insurance, pays a small death benefit to your family to help cover end-of-life expenses, like a funeral or medical bills.

# **COVERAGE:**

As the name suggests, a whole life insurance plan offers financial security and insurance coverage for the rest of your life. This type of insurance protects you and your loved ones by providing you with a life cover! for up to 99 years. This can safeguard the financial interests of your family in your absence.

There several types of plans under whole life insurance :

**Limited payment whole life insurance:** high premiums paid for a limited time period (10-20 years) with lifetime coverage and high overall savings on premiums paid.

**Single premium whole life insurance policies:** Premium is paid in lump sum at the time of policy purchase and policy holder or nominee enjoys constant lifetime coverage.

**Modified whole life insurance:** typical whole life insurance plan with variable premium payments.

**Joint whole life insurance:** A joint whole life term insurance covers two people instead of one. The premium is paid for both policy owners, and the sum assured is offered for both lives.

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# **BENEFITS:**

Whole life insurance provides common benefits like whole life coverage, leveled premium payments and Tax benefits. But the riders or additional benefits vary from one company to another company.

## **Additional Riders and Features available in ICICI Pru iProtect Smart**

* **Accidental Death Benefit**- This rider pays out an additional amount if the policyholder’s death during the policy term is caused by an accident. For example, if the [life insurance cover](https://www.iciciprulife.com/life-insurance.html) is ₹ 1 crore and the accidental death benefit cover is ₹ 25 lakh, then an [accidental death benefit rider](https://www.iciciprulife.com/life-insurance/accidental-death-benefit-rider.html) will payout an additional ₹ 25 lakh if the death is caused by an accident.
* **Critical Illness Benefit**^- This rider pays out on the diagnosis of 34 Specified [critical illnesses](https://www.iciciprulife.com/health-insurance/what-is-critical-illness-insurance.html) such as heart attack, kidney failure or cancer. It helps you fight the illness and pay the expenses incurred in medical treatment. For example, if you have a critical illness cover of ₹ 30 lakh and are diagnosed with cancer, you will be paid ₹ 30 lakh, immediately on the diagnosis.
* **Terminal Illness Benefit**- This rider pays out on the diagnosis of a terminal illness##. A terminal illness, as distinguished from a critical illness, is one which most likely leads to death. If you have a term insurance cover of ₹ 50 lakh, this amount will be paid to you on the diagnosis of a terminal illness.
* **Permanent Disability Benefit**- This type of rider can waive future premiums if the policyholder suffers from permanent disability. The insurance cover is kept intact but future premiums do not need to be paid. For example, say you pay ₹ 10,000/- per annum as premiums and you have a life cover of ₹ 50 lakh. You suffer from a permanent disability. All your future premiums of ₹ 10,000/- will be waived but your life cover of ₹ 50 lakh will be kept intact.
* **Lump Sum or Income Payment**- Some policies will allow you to choose between income payment or lump sum payment to your nominees from the policy. On the death of the policyholder, his or her family may not want a large lump sum but instead, need an income to pay their monthly bills. This feature of payout options will give them this flexibility. For example, assume the policyholder has a life cover of ₹ 1 crore but has opted to receive the same as income. On his death, the family of the policyholder will receive income of, say, ₹ 10 lakh per annum in equal monthly installments for 10 years rather than a lump sum payout of ₹ 1 crore. This income will be tax-free# subject to Section 10(10)(D).

# **EXCLUSIONS IN WHOLE LIFE INSURANCE:**

A life insurance exclusion is a situation or circumstance that prevents your beneficiaries from receiving your death benefit. Essentially, it means that certain causes of death are not covered by the policy. Life insurance exclusions are regulated at the state level, but insurance companies can decide which of those exclusions they include in their policies. Exclusions will be listed in the policy at the time of application, so the insured will know which causes of death may not be covered by the policy before accepting a policy.The main reason life insurance companies add exclusions is to protect them from risk – namely untimely deaths, which may cost the company more money in the form of an early death benefit. Exclusions are a way for insurers to reduce the likelihood of paying a death benefit in certain situations which are as follows:

* **Suicide:** If the policyholder dies by suicide within a certain timeframe after purchasing their policy, then a life insurance suicide exclusion likely applies, and the insured’s beneficiaries are not eligible for death benefits. In most cases, the suicide clause is a two-year period, but this will be defined in the policy.
* **Acts of war**: If a policyholder dies as a result of wartime activities, coverage may be denied.
* **Service in the military**: Because military service may make a policyholder a higher risk to insure, this exclusion may be present in policies.
* **Aviation accident**: Although fairly rare anymore, death caused by aviation accidents is a common life insurance exclusion.
* **Illegal activity:** When someone dies as a result of illegal activity, their beneficiaries likely cannot claim their death benefits. This includes everything from drug deals gone wrong to DUI crashes.
* **Risky activity:** Any death due to risky activities, such as skydiving or rock climbing, are usually counted as an exclusion.
* **Substance abuse:** If a policyholder’s death is the result of drug or alcohol abuse, it may be excluded from their policy.

# **HEALTH INSURANCE :**

Health insurance, also known as medical insurance, is a financial tool that covers medical expenses for illness or injury. A health insurance policy is a contract between the insurance company and the policyholder, with the policyholder paying a premium and the insurance company offering financial protection in return.

## **COVERAGE**:

Health insurance coverage can vary significantly depending on the type of plan, the insurance provider, and the specific terms of the policy. Some common types of health insurance coverage include:

* **Health Maintenance Organization (HMO)**: HMO plans typically require individuals to choose a primary care physician (PCP) and obtain referrals from their PCP to see specialists. They often have lower out-of-pocket costs but may have more restrictions on which doctors and hospitals you can use.
* **Preferred Provider Organization (PPO):** PPO plans offer more flexibility in choosing healthcare providers, allowing individuals to see specialists without a referral. However, they often have higher premiums and out-of-pocket costs compared to HMOs.
* **Exclusive Provider Organization (EPO)**: EPO plans combine features of both HMOs and PPOs. Like PPOs, they typically do not require referrals to see specialists, but they usually have a restricted network of healthcare providers.
* **Point of Service (POS):** POS plans also combine features of HMOs and PPOs. They require individuals to choose a primary care physician and typically require referrals for specialists, but they may offer out-of-network coverage at a higher cost.
* **High Deductible Health Plan (HDHP):** HDHPs have higher deductibles than traditional health plans, but they often have lower premiums. They are often paired with Health Savings Accounts (HSAs) or Flexible Spending Accounts (FSAs) to help individuals save money for healthcare expenses.
* **Catastrophic Health Insurance:** Catastrophic plans typically have low premiums and high deductibles and are designed to provide coverage for major medical expenses such as hospitalizations or surgeries.

## **BENEFITS**:

Health insurance benefits refer to the specific services and coverage provided by a health insurance plan.

* Health insurance includes coverage for doctor visits, consultations, diagnostic tests, laboratory services, and outpatient procedures.
* Health insurance plans usually cover expenses related to inpatient hospital stays, including room and board, surgery, and other necessary medical services.
* Many health insurance plans include coverage for prescription medications, either through a formulary (a list of covered drugs) or with copayments or coinsurance.
* Health insurance plans often cover emergency room visits and ambulance services for situations that require immediate medical attention.
* This includes services such as annual check-ups, vaccinations, screenings (e.g., mammograms, colonoscopies), and counseling to prevent or detect illnesses at an early stage.

## **EXCLUSIONS**:

The following are some exclusive situations commonly encountered in health insurance:

* Pre-Existing Conditions: In the past, health insurance companies often excluded coverage for pre-existing medical conditions. While this practice has been largely eliminated due to regulations, there may still be waiting periods or limitations for coverage of pre-existing conditions in some cases.
* Experimental or Investigational Treatments: Health insurance plans may not cover treatments or procedures that are considered experimental or investigational, meaning they have not yet been proven effective or approved by regulatory authorities.
* Cosmetic Procedures: Cosmetic procedures that are performed for purely aesthetic purposes, such as elective plastic surgery or procedures to enhance appearance, are typically not covered by health insurance.
* Alternative Therapies: Some health insurance plans may exclude coverage for certain alternative or complementary therapies such as acupuncture, chiropractic care, or naturopathy.
* Self-Inflicted Injuries: Health insurance may not cover medical expenses resulting from self-inflicted injuries, including attempted suicide or injuries sustained while engaging in risky behavior.

**Hypothetical Situation:**

**WHOLE LIFE INSURANCE:**

William is a 30-year-old married man with two young children. He works as a software engineer, earning a comfortable salary that supports his family's needs. William is concerned about the financial security of his family in case something were to happen to him unexpectedly. He wants to make sure they are taken care of, even if he's no longer around to provide for them.

By purchasing a whole life insurance policy, William gains peace of mind knowing that his family will be financially protected if something were to happen to him. Additionally, the cash value component of the policy provides him with a source of savings that he can access if needed during his lifetime.

However, it's important to note that whole life insurance policies can be complex financial products, and they may not be the best option for everyone. Individuals should carefully consider their financial goals, needs, and risk tolerance before purchasing any insurance product. Consulting with a financial advisor can help individuals make informed decisions about their insurance coverage.

**HEALTH INSURANCE:**

Sarah is a 28 year old hairstylist living in Delhi. She's generally healthy and hasn't had any major medical issues in the past, however she understands the importance of HEALTH INSURANCE to protect herself from unforeseen medical emergencies.

By purchasing health insurance, Sarah gains access to affordable healthcare services and protection from large medical bills in case of illness or injury. She can visit doctors for routine check-ups, seek treatment for unexpected medical conditions, and have peace of mind knowing that she has coverage in case of emergencies.

Additionally, having health insurance helps Sarah avoid the penalty for being uninsured, as mandated by the ACA (though the penalty was reduced to zero starting in 2019). It also provides her with financial security and protects her from the potential burden of medical debt.

Overall, health insurance is a valuable investment for Sarah's physical and financial well-being, ensuring that she can maintain her health and focus on her career without worrying about healthcare costs.

**COMPARISON OF INSURANCE POLICIES:**

| **Aspect** | **Whole Life Insurance** | **Health Insurance** |
| --- | --- | --- |
| **Purpose** | **Provides a death benefit to beneficiaries upon the insured's death. May also accumulate cash value over time.** | **Provides coverage for medical expenses, including preventive care, doctor visits, hospital stays, prescription drugs, etc.** |
| **Coverage** | **Typically provides coverage for the insured's entire life, as long as premiums are paid.** | **Provides coverage for a specified period (e.g., one year) and must be renewed annually or as per the policy terms.** |
| **Premiums** | **Premiums are generally fixed for the life of the policy.** | **Premiums may vary based on factors such as age, location, coverage level, and health status.** |
| **Cash Value** | **Policies include a cash value component that grows over time, offering a source of savings.** | **Does not accumulate cash value. Premiums solely cover the cost of healthcare services.** |
| **Flexibility** | **Policies may offer options to adjust coverage, change beneficiaries, or access cash value through loans or withdrawals.** | **Plans may offer various coverage options, deductibles, and networks of providers.** |
| **Benefits** | **Provides a death benefit to beneficiaries. Cash value can be accessed during the insured's lifetime.** | **Covers medical expenses, including preventive care, doctor visits, hospital stays, prescription drugs, etc.** |
| **Investment Component** | **Often viewed as a long-term financial investment due to the cash value accumulation and potential for dividends.** | **Primarily designed to cover healthcare costs and does not include an investment component.** |
| **Tax Treatment** | **Death benefit is generally tax-free for beneficiaries. Cash value growth is tax-deferred.** | **Premiums paid for individual health insurance plans may be tax-deductible, subject to certain conditions. Benefits received are generally tax-free.** |
| **Policy Duration** | **Provides coverage for the insured's entire life, as long as premiums are paid.** | **Provides coverage for a specified period (e.g., one year) and must be renewed annually or as per the policy terms.** |
| **Estate Planning** | **Can be used as part of estate planning to provide financial security for beneficiaries and cover estate taxes.** | **Helps protect against medical debt and may be considered in estate planning to cover healthcare expenses.** |

**CONCLUSION**

* Both whole life insurance and health insurance are great insurance plans with appealing features and benefits, while one the former is to assure for a financial protection to the insured’s family which depends on him or her , the later is more of a convenient tool to hedge against health related expenses i.e. medical exams, doctor’s appointment, hospital bills etc
* Whole life insurance provides cover for lifetime of the insured as long as the premiums are paid and comprises an investment component to accumulate money to provide financial support to the beneficiaries or family members of the insured in an uncertain event of life loss or demise of the policy holder. Along with various benefits which differ depending on the insurance company.
* Health insurance on the other hand, is an optional yet a practical and viable expenditure which is helpful if not plays a crucial role in meeting the short term financial needs of the people with chronic health conditions and the policy holders derive benefits generally which are tax deferred, and premiums paid are economic compared to life insurance.
* Both whole life insurance and health insurance are great insurance policies meeting different needs of different people and have their significant variance, advantages and disadvantages over one another but in the end choosing either of the policy comes down to individual goals, objectives,income or ability to afford to pay the premiums, health conditions, family stability and financial mindset.

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