

DOCUMENTATION - POLICY CONDITION - II

A. Policy conditions and privileges

1. Grace period

Every life insurance contract undertakes to pay the death benefit on the condition that the premiums have been paid up to date and the policy is in force. The "Grace Period" clause grants the policyholder an additional period of time to pay the premium after it has become due.

The standard length of the grace period is one month or 31 days. The days of grace may be computed from the next day after the due date fixed for payment of the premium. The provision enables a policy that would otherwise have lapsed for non-payment of premium, to continue in force during the grace period.

The premium however remains due and if the policyholder dies during this period, the insurer may deduct the premium from the death benefit. If premiums remain unpaid even after the grace period is over, the policy would then be considered lapsed and the company is not under obligation to pay the death benefit. The only amount payable would be whatever is applicable under the non-forfeiture provisions. In a sense the insured may thus be said to have received free insurance during the grace period.

2. Lapse and Reinstatement / Revival

We have already seen that a policy may be said to be in lapse condition if premium has not been paid even during the days of grace. The good news is that practically all the permanent life insurance contracts permit reinstatement (revival) of a lapsed policy.

Reinstatement is the process by which a life insurance company puts back into force a policy that has either been terminated because of non-payment of premiums or has been continued under one of the non-forfeiture provisions.

A revival of the policy cannot however be an unconditional right of the insured. It can be accomplished only under certain conditions:

- i. **No increase in risk for insurer:** Revival of a policy cannot result in an increase in risk for the insurance company
- ii. **Creation of reserve:** The policyholder must pay such amount of premiums with interest, as would lead to creation of the same reserve it would have accumulated if the policy had not lapsed.
- iii. **Revival application within specific time period:** The policy owner must complete the revival application within the time frame stated in the provision for such reinstatement. In India revival must be effected within a specific time period, say five years, from the date of lapse.
- iv. **Satisfactory evidence of continued insurability:** The insured must present to the insurance company satisfactory evidence of continued insurability of the insured. Not only must her health be satisfactory but other factors such as financial income and morals must not have deteriorated substantially.