Summary

Life Insurance

In this session, you learnt about life insurance through the case of Mala and her family. Mala faces **premature death**, which is the case when a person dies with unfulfilled financial obligations. In this situation, life insurance would provide security for her family. She transferred the risk to her life in exchange for recurring **premium payments**. In case of her demise, the insurance company would provide her family with an insurance amount that is also known as **sum assured.**

Pricing Policies of Life Insurance

You also learnt about the different pricing strategies that are used to determine the insurance amount, such as **estimation.** This estimation can either be based on the total financial worth of a person, which is based on their income, or on the basis of the family's needs once the breadwinner dies.

These approaches are known as **human-life value approach** and **needs approach**, respectively.
Under the needs approach, immediate needs such as funeral costs and pending instalments to needs such as life income for the surviving spouse and educational needs for the children are covered.

Forms of Life Insurance

Next, you learnt about the different forms of life insurance. The first of these is **term life insurance,** which as the name suggests is only for a particular time period. Therefore, it is also called temporary insurance. This type of insurance is valid only for a particular period, and can then be renewed for further periods. Term insurance does not accumulate money. To overcome this, the plan can be converted into one that has an savings component.

Further, there's another form of life insurance called **whole life insurance**. This type of insurance is meant for a person's entire life and hence, is also known as permanent insurance. This type of insurance accumulates cash benefits in the form of savings plans, and this amount can be borrowed. The cash benefit here is called legal reserve, and the death benefits portion is called 'net amount of risk'.

Whole life insurance is further divided into **ordinary life insurance** and **limited payment life insurance**. Ordinary life insurance includes premium payments for the person's entire life span, while its counterpart only has it for a designated amount of time. These payments can therefore span a duration of 10 years, 20 years, etc. A single premium is also possible in some cases. Moreover, security is offered for the person's entire life span in both cases.

A combination of different forms of life insurance has produced different types of products in today's insurance market. The premium amount, which is collected from the insured, can be invested in different investment instruments. The cash benefit from this kind of policy is therefore not fixed, but is variable in nature and depends on the performance of the investments. Such plans are called **Unit Linked Insurance Plans** or **ULIPs**.

In addition, there are plans which make it easy to pay the premium paying with flexible and customisable payments. When enough cash benefits have accumulated, a person can skip paying the premium of that amount. These kinds of plans fall under **universal life insurance plans**.

Finally, there are insurance policies which not only give death benefits, but also take care of disabilities and retirement income as well. Such plans fall under **disabilities and annuity** plans.

In the next session, you will learn about health insurance in-detail.