Life Insurance in India

Be Responsible…..

Be Secure…..

Do we really understand Insurance?

Most of the times, life is smooth sailing and certain. But sometimes, it may become uncertain and a bumpy roller coaster ride. These uncertainties create lot of stress and may disturb family life. These uncertainties may be a sudden loss of life of an earning member, major medical illness in family, college education and marriage of children. It is during these times that life insurance in its various forms and medical insurance, if properly planned and adequate proves to be extremely useful. The key words are proper planning and adequacy. The process of insurance has been evolved to safeguard the interests of people from uncertainty by providing certainty of payment at a given contingency. The advantages of insurance are many, some of which are

- *Insurance provides security and safety*
- *Insurance affords peace of mind*
- *Insurance eliminates dependency*
- *Life Insurance encourages saving*
- *Life Insurance provides profitable investment*
- *Life Insurance provides tax benefits*

Always remember Life Insurance is primarily made keeping your family and those who are dependent on you in mind. When you decide to invest in Life Insurance, it is imperative that you understand your financial status, your future liabilities & commitments and then opt for a policy that would suit your needs in the longer run.

Types of Life Insurance…..

A life insurance policy could offer pure protection (insurance), another variant could offer protection as well as investment while some others could offer only investment. The types of insurance policy are :

- **Term Life Insurance Policy**
  As its name implies, term life insurance policy is for a specified period. It depends on the length of time. It has one of the lowest premiums among insurance plans In case of the policy holder's untimely demise, the benefit amount specified in the insurance agreement goes to the nominees. This is a very important policy but often ignored. The thumb rule of this policy is

that the coverage of the term plan should be 100 times your monthly income. For eg. if your monthly income is 1 lac, then the coverage should be 100 lacs (1 Crore). The premium being low for term plan, this coverage is possible. Two important factors have to be balanced while assessing the insuring companies for term plans viz. the premium amount and the claim settlement ratio. It may not very advisable to go for insuring companies whose claim settlement ratio is not high, even though the premium may be low. It may always be better to pay a slightly higher premium and go for an insurance company whose claim settlement ratio is relatively high.

- **Whole Life Insurance Policy**
  Whole life insurance policies do not have any fixed term or end date and is only payable to the designated beneficiary after the death of the policy holder. The policy owner does not get any monetary benefits out of this policy. Because this type of insurance involves fixed known annual premiums, it's a good option to ensure guaranteed financial benefits for surviving family members.

- **Money Back Plan**
  With a money back plan, policyholder receives periodic payments, which are a percentage of the entire amount insured, during the lifetime of policy. It's a plan that offers insurance coverage along with savings. These policies provide for periodic payments of partial survival benefits during the term of the policy itself. A unique feature associated with this type of policies is that in the event of death of the insured during the policy term, the designated beneficiary will get the full sum assured without deducting any of the survival benefit amounts, which have already been paid as money-back components. Moreover, the bonus on such policies is also calculated on the full sum assured.

- **Pension Plan**
  Pension plans are different from other types of life insurance because they do not provide any life insurance cover, but ensure a guaranteed income, either for life or for a certain period. The Policyholder makes the investment for a pension plan either with a single lump sum payment or through installments paid over a certain number of years. In return, he gets a specific sum every year, every half-year or every month, either for life or for a fixed number of years**.** In case of the death of the insured, or after the fixed annuity period expires for annuity payments, the invested annuity

fund is refunded, usually with some additional amounts as per the terms of the policy.

- **Endowment Policy**
  It is the most popular life insurance plan. This policy combines risk cover with objective of savings and investment. If the policy holder dies during the policy period, he will get the assured amount. Even if he survives he will receive the assured amount. The advantage of this policy is if the policy holder survives after the completion of policy tenure, he receives assured amount plus additional benefits like bonus from the insurance company. Designed primarily to provide a living benefit, along with life insurance protection, the endowment policy makes a good investment if policyholder wants coverage, as well as some extra money.

  There are two types of Endowment policy:

  (a) Without profit endowment plan
  These plans do not participate in the profits the insurance company makes each year. Apart from the sum assured, the policyholder could possibly get a loyalty bonus, which is a one time payout.

  (b) With-profit endowment plan
  These plans share the profits the insurance company makes each year with the policyholder. So they offer more returns than without-profit endowment plans and are more expensive i.e. the premiums will be higher than without-profit endowment plans.

- **Unit-linked insurance plan (ULIP)**
  Unit-linked insurance plans gives a policyholder greater control on where premium can be invested. The annual premium is invested in various types of funds that invest in debt and equity in a proportion that suits all types of investors. A policyholder can switch from one fund plan to another freely and can also monitor the performance of his plan easily. ULIP is suitable for those who understand the stock market well.

Insurance Companies in India…..

LIC was the major insurance player before the year 2000. The insurance sector was finally opened up to private players in 2001.The Insurance Regulatory and Development Authority, an autonomous insurance regulator set up in 2000, has extensive powers to oversee the insurance business and regulate in a manner that will safeguard the interests of the insured. There are currently 23 private companies in life insurance who have been provided with license by IRDA.