Summary

Chapter 5

Insurance Documentation

Learning Objectives

- This chapter will help you understand the different types of documents that are essential to evidence the existence of a insurance contract and to learn the utility of each document

5.1 Introduction

Insurance is a complex product representing a promise to compensate the insured or third party according to specified terms and conditions in the event of the occurrence of a covered contingency.

Documents are necessary to evidence the existence of a contract. In both life insurance and non-life insurance several documents are in vogue.

The documents stand as a proof of the contract between the insurer and the insured. Insurance is a legally enforceable contract between two parties

Hence it is necessary that the terms and conditions of the agreement must be suitably documented in a manner that would make it clear that both parties to the contract understand the same thing in the same sense or are of the same mind on the same subject.

5.2 Proposal stage documentation

Proposal stage is the time of offer made by the applicant to the insurer for the acceptance of the insurer. The acceptance of offer culminates into an insurance policy.

It is essential to understand the purpose of each stage of documentation in order to comply with the essentials of a legal insurance contract

Prospectus

A prospectus is a formal legal document used by insurance companies that provides details about the product. The prospectus helps the helps the prospective policyholder to get familiar with the company's products.

Proposal form

The application document used for providing all details of the prospective policyholder is commonly known as the ‘proposal form’. The proposal form carries an offer made by the applicant and requires acceptance from the insurer to fulfill the first stage of offer and acceptance of a valid legal contract.The applicant has to disclose all material information in the proposal form which will enable the insurer to assess and evaluate the risk and stipulate a premium for the insurance cover desired by the applicant.

Agent’s report

The agent is the primary underwriter. All material facts and particulars about the policyholder, relevant to risk assessment, need to be revealed by the agent in his / her report. Matters of health, habits, occupation, income and family details need to be mentioned in the report.

Medical examiner’s report

The medical examiner’s report is required typically when the proposal cannot be considered under non-medical underwriting because the sum proposed or the age of the proposed life is high or there are certain characteristics which are revealed in the proposal, which call for examination and report by a medical examiner.

Moral hazard report

Moral hazard report has to be submitted by an official of the insurance company. Before completion of the report the reporting official should satisfy himself regarding the identity of the proposer.

Age Proof

The risk of mortality in life insurance increases with age and hence the premium is charged as per the age group. Valid age proofs may be standard or non-standard.

Anti-Money Laundering (AML)

Anti Money Laundering law applies to banks, insurers, finance companies, capital market intermediaries etc. Each insurer is required to have an AML policy and accordingly file a copy with IRDA.

Know Your Customer (KYC)

The objective of KYC guidelines is to prevent financial institutions from being used by criminal elements for money laundering activities.

Insurers should determine the true identity of their customers. Agents should ensure that proposers submit the proposal form along with required documents as part of the KYC procedure.

Freelook period

IRDA has built into its regulations a consumer-friendly provision termed as a “free look period’ or as “cooling period.”.During this period, if the policyholder has bought a policy and does not want it, he/she can return it and get a refund subject to the following conditions:

i. He/she can exercise this option within 15 days of receiving the policy document

ii. He/she has to communicate to the company in writing

iii. The premium refund will be adjusted for proportionate risk premium for the period on cover, expenses incurred by the insurer on medical examination and stamp duty charges.

5.3 Policy Stage documentation

Once the insurer accepts the proposal of the prospective policy holder, various new documents take birth and each document has its unique purpose.

First Premium Receipt

First Premium Receipt (FPR) is a proof of commencement of an insurance contract.After the issue of the FPR, the insurance company will issue Renewal Premium Receipts (RPR) on renewal of insurance by further payment of premium.

Policy Document

The policy document is the evidence of the contract between the assured and the insurance company as it is signed by the insurer and stamped according to the Indian Stamp Act.

A policy document can have various provisions and its recitals change from one insurer to another. Policy documents contains terms and conditions to be fulfilled by the insurer as well as insured .

Grace period

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 provision enables a policy that would otherwise have lapsed for non-payment of premium, to continue in force during the grace period.

Lapse and Reinstatement / Revival

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.

Surrender values

Surrender Value arrived as a percentage of premiums paid is called Guaranteed Surrender Value. The actual amount of cash one gets in hand on surrender may be different from the surrender value amount prescribed in the policy because paid up additions, bonuses or dividend accumulations, advance premium payments or gaps in premiums, policy loans etc. may result in additions or subtractions from the cash surrender value accrued. The policyholder ultimately receives net surrender value. Surrender Value is a percentage of paid-up value.

Paid-up value

If the policyholder faces financial problems and is not in a position to continue paying the premiums he can opt convert his policy into a paid-up policy rather than surrendering the policy. On the maturity of such policies, the proportionate reduced sum insured is paid out by the insurance company.

Policy loans

Life insurance policies that accumulate a cash value also have a provision to grant the policyholder the right to borrow money from the insurer by using the cash value of the policy as a security for the loan. The policy loan is usually limited to a percentage of the policy's surrender value (say 90%).

Nomination

Under Section39 of the Insurance Act 1938, the holder of a policy on their own life may nominate the person or persons to whom the money secured by the policy shall be paid in the event of their death. The life assured can nominate one or more than one person as nominees. The sum assured is paid by the insurance company to the nominee after the death of the life assured.

Assignment

In India assignment is governed by Section 38 of Insurance Act.The term assignment ordinarily refers to transfer of property by writing as distinguished from transfer by delivery. The assignment of a life insurance policy implies the act of transferring the rights , title and interest in the policy (as property) from one person to another.

Life Insurance Riders

Riders are add-on options (Benefits) that can be added to a basic Life Insurance Policy - to provide additional coverage. They help to customize different coverage requirements of a person under a single insurance policy.

Alterations in Insurance Policy

After the policy is issued, the policyholder in a number of cases finds the terms not suitable to him and desires to change them. The insurance company may allows certain types of alterations during the lifetime of the policy. However, no alteration is permitted within one year of the commencement of the policy with some exceptions.

Duplicate Policy

A duplicate policy confers on its owner the same rights and privileges as the original policy.The following are the requirements for issuing a duplicate policy:

1. Insertion of an advertisement at the policyholder's cost in one English daily newspaper having wide circulation in the State where the loss is reported to have occurred. A copy of the Newspaper in which the advertisement appeared should be sent to the servicing office one month after its appearance. If no objection has been lodged with the insurer regarding the policy in question, a duplicate policy will be issued after complying further requirements, i.e., Indemnity Bond and payment of charges for preparing duplicate policy and stamp fee.

2. However, the requirement of advertisement and Indemnity Bond may be dispensed with or modified in certain circumstances as given below :

- Loss of policy by theft
- Destruction of policy by fire
- Loss of policy while in custody of an office of government
- Mutilated or damaged policy
- Policy in torn and a part of it is missing
- Policy partially destroyed by white ants