

TABLE OF CONTENTS

1.	Why is insurance needed?.....	2
2.	How did Insurance begin?	4
3.	Life insurance: an insight.....	7
4.	The present scenario of insurance industry.....	8
5.	Insurance Policies	9
	5.1 Term plans:	9
	5.2 Whole life policies:.....	9
	5.3 Endowment policies:.....	10
	5.4 Money back policies:.....	10
	5.5 Unit-linked insurance plans:	10
	Pension schemes:	11
6.	Endowment plans-a safe investment option	12
7.	Riders	13
	7.1 Critical illness	13
	7.2 Medical expenses.....	14
	7.3 Major Surgical Assistance Rider:	14
	7.4 Disability Insurance Cover Rider.....	14
	7.4.1 Accident Benefit:	14
	7.4.2 Disability Benefit Rider:	15
	7.4.3 Waiver of Premium Rider.....	16
	7.4.4 Miscellaneous Riders:.....	17
	7.4.5 Accident and disability benefit:	17
	7.4.6 Level Term Cover Rider:.....	17
8.	Tax treatment	18
	Rates.....	18
9.	Exclusions	19
10.	How much insurance do you need?	20
	10.1 What does Life Insurance offer young families?	20
	10.2 Dual Income Young Families	22
11.	Miscellaneous:	28
	11.1 Grace period:.....	28
	11.2 Contract details:	28
	11.3 Settlement of claims:.....	28
12.	Other important question	30
	12.1 How to revive a lapsed policy?.....	30
	12.2 When can a nomination be done?	30
	12.3 Can I take a loan on my policy?.....	30
	12.4 How to calculate the Paid-Up Value, Surrender Value and Loan Value?	31
	12.5 Surrender Value:	32
13.	Traps to Avoid	33
14.	Conclusion	34
15.	Reference:	34

Your Insurance Guide

1. Why is insurance needed?

I don't think insurance is really needed? A bold statement spoken out imprudently by the uninsured. An innocent belief that generally prevails on the mind of a person who has not insured himself. May be he/she doesn't understand the gravity and consequences of not being prepared for the contingencies. This innocence walks with him at every step till he learns the importance of insurance. Take a break from your busy schedule and make a concrete decision. Stop for a moment and ponder over some uncomfortable, yet necessary, questions. What if you met with an accident? How will your loved ones maintain their current lifestyle and meet their financial goals? What better example than the recent floods and the bomb blasts that has shocked everyone out of their wits.

Disasters don't strike with a prior notice; they arrive uninformed and loaded with destruction powers. Insurance is your defense that you can put on; it will help you mitigate the effect of such unforeseen eventualities. All it needs is a little outgo of money in the form of insurance premiums at your end. Insurance has many synonyms. It is a protection against the worst situations. It is best described as a security blanket. When you choose to buy insurance cover you transfer your risk to the insurance company. The premiums that you pay is justified for the invaluable protection that comes with this bargain. Whatever stage of life you are at, insurance is needed and a must for everyone.

A guideline of Insurance in accordance to your age			
Young adult	20s	Buy only if you have dependants	Buy accident and health insurance
Young family	30s	Subtract existing assets from future expenses, and cover the difference	Extend health insurance to family; continue accident and asset covers
Mature family	40s	Maintain cover to balance the shortfall in existing assets	Same as above
Empty nesters	50s	Maintain cover till you are earning	Top up health cover for self and

			spouse, continue asset cover
Retired	60s and over	No life cover needed, unless you have dependants	Continue health insurance for self and spouse; continue asset cover

Ref: Outlook Money-the layman's guide to Insurance

2. How did Insurance begin?

The story of insurance is probably as old as the history of mankind. During the primitive stage of life, the protection was not in monetary terms. Protecting one's life from the wild animals, rough nature was all that was counted. Today, after having gained control over the two factors, insurance is a man made effective tool that helps you to gain control over your financial crisis. It is a security blanket made available to protect oneself against life's eventualities. One can secure not only human life but also assets various destructions.

To date back the birth of insurance, the concept was conceived after the industrial era. It was the British who had introduced Life Insurance in India in the year 1818. Oriental Life Insurance Company was the first life insurance company that was set off in India. The Company was set up in Calcutta. Initially, the European community did not insure Indian lives but later with the invaluable efforts of Babu Muttylal Seal, insurance was extended to Indian lives too. However, insurance came at heavy premiums compared to the foreign lives. Later on, Bombay Mutual Life Assurance Society was formed, which was the first Indian Life Insurance Company. It was initiated in the year 1870 and it offered justice as insurance was provided at the same rate as that of foreign lives.

The number of insurance companies grew with the Swadeshi movement, which took place between 1905-1907. The United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative Assurance at Lahore were established in 1906. In 1907, Hindustan Co-operative Insurance Company began in one of the rooms of the Jorasanko, house of the great poet Rabindranath Tagore, in Calcutta. The Indian Mercantile, General Assurance and Swadeshi Life (later Bombay Life) were some of the companies established during the same period. Prior to 1912 India had no legal power to determine the insurance business but later it underwent change. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act of 1912 made it mandatory that an actuary should officially state the 'premium rate tables and periodical valuations' of the companies. But the Act operated as a discrimination factor that put the Indians Insurance Companies at a disadvantage and the foreign companies at an advantage.

The Insurance Act, 1938 was the first legal Act that was released which governed both life insurance and non-life insurance. The demand for nationalization of life insurance industry was made time after time but it was only years later that it gained momentum in 1944. A bill was introduced in the Legislative Assembly to amend the Life Insurance Act, 1938. However, it was much later on the 19th of January 1956 that life insurance in India was nationalized. Around 154 Indian

insurance companies, 16 non-Indian companies were operational in India at the time of nationalization.

Nationalization was acquired in two stages. Initially, the management of the companies was taken over by means of an Ordinance, and later, the ownership too by means of a comprehensive bill. The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of India was created on 1st September 1956. When LIC was set up, it had 5 zonal offices, 33 divisional offices and 212 branch offices, apart from its corporate office in the year 1956.

With the passage, it was felt that insurance should have more facilities to make it more need based. Later on, the Corporation expanded at various districts and headquarters. The number of new branch offices that were opened grew and the servicing functions were transferred to the branches. The branches were then made accounting units. It may be seen that from about Rs. 200.00 crores of New Business in 1957 the corporation crossed Rs. 1000.00 crores only in the year 1969-70, and it took another 10 years for LIC to cross Rs. 2000.00 crore mark of new business. But with re-organisation happening in the early eighties, by 1985-86 LIC had already crossed 7000.00 crore sum assured on new policies.

From the time it started to the present stage, LIC has crossed many milestones and has set itself as the choice of countless laypeople. LIC was and will continue to be one of the most trusted brands of India.

Some of the important milestones in the life insurance business in India are:

1818: Oriental Life Insurance Company, the first life insurance company on Indian soil started functioning.

1870: Bombay Mutual Life Assurance Society, the first Indian life insurance company started its business.

1912: The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.

1928: The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

1938: Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.

1956: 245 Indian and foreign insurers and provident societies are taken over by the central government and nationalised. LIC formed by an Act of Parliament,

viz. LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of India.

The General insurance business in India, on the other hand, can trace its roots to the Triton Insurance Company Ltd., the first general insurance company established in the year 1850 in Calcutta by the British.

3. Life insurance: an insight

After having absorbed and understood the concept of insurance. It's now time to take action. Unfortunately, the insurance awareness is appallingly low and understandably so is the insurance penetration.

Lets try and understand the concept of insurance. Life insurance can be defined as the promise of reimbursement in the case of loss, which is paid to people. The insurance companies concerned about the hazards agree on the prepayments made by the policyholder to an insurance company. The need of insurance is as much as is the need of food to the body. Having yourself adequately insured is earning yourself peace of mind. Rest is assured to your beloved children, spouse and parents. That's what a life insurance policy will do. It guards your family against the vagaries of life and will provide financial support.

There are so many insurance companies that are eyeing the insurance market. The number of private insurance companies that were earlier 14 now is 16 and the number is sure to rise further more. According to a research conducted, it is said that around 80% of the Indian population is uninsured. These statistics reveal the low penetration of insurance in India. If you are sill thinking why one should buy insurance, read on to get the answers. The chapters that follow below give will you an insight into some of the basic questions pertaining to insurance.

Much spoken about insurance, this little guide will give you a clear view of why and what kind of policy you should buy. After all buying an insurance cover demands you to invest your hard earned money. The subsequent chapters are simple to understand. It has been written from a layman's point of understanding insurance and its related terms.

4. The present scenario of insurance industry

The Indian insurance industry is dominated by sixteen life insurance companies and will further witness new entrants. Among all the insurers, it is Life Insurance Corporation of India that holds the major market pie.

Most of the insurance companies in India are in foreign ventures wherein the latter holds a stake of 26% and the Indian companies hold the remaining stake. However, to keep the company boosted, it is necessary to infuse regular capital. But since the stake held by the foreign insurance companies is 26%, the Indian insurers are facing difficulties. The finance minister, P Chidambaram in the last budget promised to increase the FDI limit to 49% but sadly it failed to fulfill it.

For the reasons mentioned above, the government should consider its decision seriously of raising the FDI limit. Insurance holds immense potential to grow but the major hindrance felt at the moment is the FDI limit. The government should understand the gravity of the situation and should take a decision as soon as possible to reach the objective with which it had opened the doors of insurance to private players.

However, one should not overlook the government's effort which is trying hard to make insurance available to all right from urban to rural, businessmen to laymen. Today, the insurance industry is a lot more dynamic in nature and is accepting changes with open arms. Micro, composite insurance are some of the examples. These products specifically cater to the low-income group. Thus following the mantra, 'insurance for all'.

When so many changes are gulped down then why can't there be more acceptances shown with FDI hike? The competition is getting tougher and the line of difference between companies competing in acquiring the coveted number rank is getting thinner. For instance, among private players it was ICICI Prudential that had the largest market share and topped the chart, which was followed by Bajaj Allianz. But according to the industry sources and the latest ratings, ICICI Prudential has slipped to number two rank making place for Bajaj Allianz at the number one position.

India is open to changes, which it proved when it embraced liberalisation. With privatization, the State lost its dominance but today it has witnessed some of the best changes ever. The companies are trying hard to offer the best deal possible to customers, making them the king of the market. And in the years to come, the competition will only get tougher and robust growth will be witnessed in insurance.

5. Insurance Policies

Life insurance policies can be broadly classified into three categories, which are 'term insurance', popularly known as pure insurance plans, traditional policies which cover (endowment, moneyback, whole life insurance plans), the other being investment plan, popularly known as unit linked plans. Buying an insurance policy depends on various reasons. Say a person has contracted a particular disease or has undergone by pass surgery the premium payment would increase thereby. At times it becomes difficult to say which policy is the ideal one. As days go by, there are new changes and with that arises new needs. At such times you would need to choose policy that would aptly fit into your future wants. A single policy cannot meet all your needs hence it is advisable to own couple of policies, which will have varied benefits suiting your needs. The types of policies are given below that will give you an insight into understanding the concept of it.

5.1 Term plans:

Buying a term policy depends on many factors like income, monthly expenditure, number of dependent members, etc. The policy that you choose should completely depend on how much risk you would want to secure. If you are the sole breadwinner of the house and you have more number of dependants then you would need to choose the insurance coverage that is sufficient enough to take care of your family expenses in your absence. In such a case a 'term policy would suit you. The policy keeps you in the protection net for a specific term. If anything had to happen to you, your nominee would receive the insured amount. Lets say, you have insured yourself for Rs. 20 lakhs. Should the insured person pass away, the family is protected by a certain amount insured by you i.e. Rs. 20 lakhs. Incase you survive the term, the premium paid is not received but one should not look at it from 'expense' point of view. An insurance policy be it a term, whole, endowment or ULIP are good options with its own unique features. It is recommended to opt for a term policy when you are in your teens.

5.2 Whole life policies:

This policy covers the insured for life. On attaining the maturity age, the insured would receive the due amount along with the bonus. Whole life policies offer the highest bonus and cost less compared to endowment policies. If you want insurance protection that extends throughout your lifetime, whole life policy is the ideal pick for you. However, the premium paid is stretched till the maturity age, which is generally 80-100 years. On reaching the maturity age, the insurer gives you the option to either continue with the cover throughout your lifetime or encash the maturity benefits, which is sum assured plus bonus.

5.3 Endowment policies:

These policies offer cover for a specific term that has been opted by the insured. On surviving the term, the policyholder receives the insured amount hence the premium payment is more with an endowment policy. The returns are topped with bonus. Endowment policies are broadly classified into two types - With-profit and Without-profit.

'With-profit' policy comes with the bonus declared by the Life Insurance Corporation. It is paid at the time of maturity of the policy. In a 'Without-profit' plan, the due amount is paid without any bonus announced by the Corporation, which otherwise is applicable with 'With-profit' plan. The premium rate charged for a 'With-profit' policy is therefore slightly higher. In a 'Without-profit' policy only the sum assured is offered.

5.4 Money back policies:

These policies offer a part of the sum assured, usually 25% of the sum assured. The policyholder receives it at regular intervals, which can be put to use for various purposes. The balance sum assured along with guaranteed additions or bonus (as the base might be) is returned at the end of the tenure. However, this early return compared to conventional endowment plans doesn't reduce the sum assured of money-back plans. In case of a death claim, the full sum assured will be paid. For example, if the policyholder passes away in the 6th year of the term, the nominee will get the full sum assured (Rs. 5 lakh). The premium on money back plans is higher than endowment plans.

5.5 Unit-linked insurance plans:

ULIPs are one of the popular investments options among individuals. The reason being, it is linked with the stock market, which assures high returns. Especially after the booming Sensex, the stock market has managed to attract a lot of investors. This has made ULIPs a popular investment vehicle. One of the advantages is that the asset allocation decision lies in the hands of investors themselves. They can choose the funds in which they want to invest at the same time they also have the option to switch over between funds, but you do need to know your market well before switching over funds. The impact can be drastic if the decision taken is incorrect. If you wish you can withdraw from these plans (after the initial lock in period) without any tax implication as withdrawals and death claim proceeds under ULIPs qualify for (capital gains) tax exemption under Section 10 (10D) of the Income Tax Act.

The investment plans on offer cover the risk reward spectrum. You can choose from income plans (high on debt, low on equity), growth plans (high on equity, low on debt) and balanced plans (roughly equal distribution between debt and equity). There are other features like 'switching' wherein the policyholder can switch from one plan to another free of cost once a year (a nominal amount is charged for additional switches). So, if you think stocks are going cheap, you can move to growth plan or, if you think stocks are overvalued you can move your money to the income plan. Thus, unlike endowment plans you can control your investment in unit-linked insurance plans.

Pension schemes:

Pension schemes are policies that offer money to the insured at the retirement age. If the insured dies during the term of the policy, his nominee will get the insured amount either in lump sum or every month. Pension plans can be classified as immediate or deferred pension plan. An annuity that comes with a pension plan can be defined as the 'income from capital investment that is paid in a series of regular payments that is paid annually to the policyholder. There are two types of annuities –immediate and annuity.

In an immediate annuity, the payments start the year you buy the contract. The policyholder invests the amount in a lumpsum to the insurer and chooses the intervals at which he wants to receive the payments, which would depend on factors like your life expectancy, financial dependants, etc. It is considered ideal for those who have retired or about to retire from work.

The other type of annuity is a deferred annuity. Under this plan an annuity is deferred for later years. During the accumulation phase the investments earn a return and grow without being taxed until you receive your annuity payments.

6. Endowment plans-a safe investment option

Endowment plans have always remained the popular choice of common people. This is mainly because of its 'safe investment' component. It is ideal for ones, who do not want to be a part of the volatile stock market where your money cannot be assured of safety. If you are someone who do not believe in taking risks with your money, then endowment plans are the best for you, as it promises safety for your money along with financial protection. Moreover, you also get bonus and loyalty additions, in any. After having said that, let's understand how an endowment policy is an excellent option for long-term savings.

Firstly, the premium amount outgo for a term or a whole life policy is quite low compared to an endowment policy. Infact, a term policy is the cheapest insurance policy available. Broadly speaking, a term insurance policy offers only pure risk cover. There are no maturity benefits given at the end of the term to the policyholder. However, such is not the case with endowment policies that offers maturity returns. Hence the premium payment for these policies is much more compared to other policies. Also the premium increases as per the age and tenure selected by the policyholder.

Apart from this, the policyholder also gets to participate in the profits of the company along with the bonus that is announced by the Life Insurance Corporation of India (LIC). Thus an endowment policy is a smart and a safe investment option with a life insurance cover to take of life's eventualities. On maturity, bonus on the full sum assured and final additional bonus if any is given. The policy also offers you the flexibility of payment, which can be done on a yearly, half-yearly, quarterly, monthly basis or through salary deductions.

It is a with-profit plan and participates in the profits of the Corporation's life insurance business. It gets a share of profits in the form of bonuses. Simple reversionary bonuses are declared per thousand sum assured annually at the end of each financial year. Once declared, they form part of the guaranteed benefits of the plan. Bonuses for full term on the full sum assured are paid at the end of the term even if death occurs during policy term. Final (Additional) bonus may also be payable provided policy has run for certain minimum period.

So, along with insurance protection and security, returns is what you are looking for, your search ends with endowment plans. Rest is assured to you with this investment option. All you have to do is pay your premiums religiously and reap the benefits at a later stage of life.

7. Riders

Riders are additional benefits that you can buy with your insurance policy. The benefits are incredible compared to the minimum costs at which it is offered. Simply put, it is 'one size fits all' that suits the needs and approach of everyone. Riders were created to customise your policy and moreover it comes with great deal of flexibility. However, it qualifies for separate terms and conditions and it comes with additional exclusion clauses.

An example will make it simpler to understand. Assuming, a healthy male of 25 years takes a life insurance cover for a term of 20 years. Now, he knows his chances of being prone to illnesses and sicknesses are quite less. So for the time being, he can postpone his decision of buying riders to a later stage till say 10 years. If he wants, after completion of 10 years, he can customize his policy with riders. Riders can broadly be classified into four categories, which are Critical Illness Rider, Medical Expense Rider, Disability Insurance Cover Rider and Miscellaneous Riders.

7.1 Critical illness

Critical Illness Rider can be opted to cover major illnesses. At the payment of a reasonable premium, one can get insurance cover for Heart Attack (Myocardial Infarction), Stroke (Cerebro-Vascular Accident), Cancer, Kidney Failure, Major Organ Transplantation, Paralysis, Third Degree Burns, Blindness, Coronary Artery By-Pass Surgery, Heart Valve Replacement or Repair, Aorta Graft Surgery.

- This rider is added to a life insurance policy to protect the insured in the event of a critical illness.
- Generally, the extra cover is equal to the sum assured on the base policy and is paid upon diagnosis of the illness.
- While the illnesses covered and the premiums vary among insurers, most insurers cover cancer, coronary artery bypass, heart attack, kidney/renal failure, major organ transplant and paralytic stroke.
- Before adding this rider one must check illnesses covered and the exclusions.
- The main difference between a critical illness benefit and a mediclaim policy is that under the critical illness benefit the policy holder gets an amount equal to the sum assured irrespective of the medical expenses on diagnosis of the critical illness while under a mediclaim policy the policy holder receives a reimbursement on producing the bills which is limited to the extent of amount medical expenses incurred.

7.2 Medical expenses

Riders under this category cover risk towards ailments other than critical illnesses that may require medical treatment and hospitalisation.

Under Hospital Cash Benefit Rider there are two components: sum assured and the daily compensation. Lets say, you have taken a sum assured of Rs. 1,00,000 and per-day hospital cash benefit of Rs. 5,000. So, if you are admitted in the hospital for five days, your insurer will pay you Rs. 25,000. This is your daily compensation. Please note, in the case of this rider, you will get the amount that is equal to the sum assured whereas the critical illness rider doesn't follow such rules. It takes into account the sum assured and the age of the policyholder. The sum assured rider doesn't cover the hospital admittance for routine check-ups.

7.3 Major Surgical Assistance Rider:

This rider is useful when the policyholder undergoes a surgery. When this rider is called upon, the policyholder is paid a part of the sum assured (only for the rider). The payout would differ depending on severity and nature of surgery. The amount varies between 20% and 50% of the sum assured. In other words, for each surgery you are entitled to a maximum of 50% of the sum assured.

Before you opt for this rider, the policyholder is expected to know the list of the surgical procedures that are covered. Needless to say, keeping a keen eye on the exclusions. The premiums paid towards riders qualify for tax deduction under section 80C. However, you need to know that many insurers discontinue the base policy once a claim is made on the rider.

7.4 Disability Insurance Cover Rider

7.4.1 Accident Benefit:

This benefit is payable in case of death that occurs as a result of an accident.

The death must occur:

- When the policy is in force for the full sum assured
- Any time before the expiry of the policy
- Before the age of 65 (whichever is earlier.)

If you are covered under this benefit and if death occurs as the result of an accident during the term of the policy, your beneficiary shall receive an additional amount equal to the accident cover under the rider.

If the accidental death occurs during the term of the policy, while you are travelling as a fare paying passenger on an authorised public mass transport namely bus or train, your beneficiary will be entitled to twice the accident cover under the rider. However, the policy terminates once the benefit of the claim is paid.

Please note the following exclusions:

The death due to accident should not be caused due to the following:

- By attempted suicide or self inflicted injuries while sane or insane, or whilst the Life Assured is under the influence of any narcotic substance or drug or intoxicating liquor; or
- By engaging in aerial flights (including parachuting and skydiving) other than as a fare paying passenger on a licensed passenger-carrying commercial aircraft (being a multi-engined aircraft) operating on a regular scheduled route; or
- By the Life Assured committing any breach of law; or
- Due to war, whether declared or not or civil commotion; or
- By engaging in hazardous sports/pastimes, i.e. taking part in (or practising for) boxing, caving, climbing, horse racing, jet skiing, martial arts, mountaineering, off piste skiing, pot holing, power boat racing, underwater diving, yacht racing or any race, trial or timed motor sport.

7.4.2 Disability Benefit Rider:

This benefit is payable in case of disability that occurs as a result of an accident. The disability must occur:

- When the policy is in force for the full Sum Assured
- Any time before the expiry of the policy
- Before the age of 65 (whichever is earlier.)

If the Life Assured is totally and permanently disabled as a result of an accident the following additional benefits are paid:

- 10% of the Sum Assured every year for 10 years commencing from the first anniversary of the disability date. Premiums under this rider falling due on or after the disability date shall be waived.

- If there are any other benefits payable under this rider then all such benefits shall cease to be available on and after the disability date.

Exclusions:

The death/disability should not be a result of:

1. By attempted suicide or self inflicted injuries while sane or insane, or whilst the Life Assured is under the influence of any narcotic substance or drug or intoxicating liquor or
2. By engaging in aerial flights (including parachuting and skydiving) other than as a fare paying passenger on a licensed passenger-carrying commercial aircraft operating (being a multi engined aircraft) on a regular scheduled route; or
3. By the Life Assured committing any breach of law: or
4. Due to war, whether declared or nor civil commotion :or
5. By engaging in hazardous sports/pastimes, i.e. taking part in (or practising for) boxing, caving, climbing, horse racing, jet skiing, martial arts, mountaineering, off piste skiing, pot holing, power boat racing, underwater diving, yacht racing or any race, trial or timed motor sport.

7.4.3 Waiver of Premium Rider.

- This rider is initiated when the insured person becomes 'completely disabled' or loses his source of income cause due to an injury or sickness.
- Thereby, the premiums due on the base policy (and other riders, if any) are waived till the person is fit and is able to start working again.
- Takes care in the event of the policyholder being disabled. Without this, you are at risk of seeing your policy lapse if you don't pay the premium owing to financial difficulty in the event of your becoming disabled.
- The premium for this rider depends on the premium on the base policy and on other riders. The higher the premium on the base policy, and the more the riders you add, the higher will be the premium you pay on this rider.

7.4.4 Miscellaneous Riders:

Here are a few other riders on offer and an indication of what to look out for when you buy them.

7.4.5 Accident and disability benefit:

- If in an accident, you are disabled either permanently, totally or partially, this rider will prove beneficial. This provides for an additional cover on the base policy.
- In case, the accident results in total and permanent disability, the rider provides for other benefits: a proportion of the benefits will be paid to the insured person every year until he recovers.
- Some insurers provide a waiver of premium benefit as well, in the event of disability; a few insurers offer a clause that provides for compensation in the event of accidental dismemberment.

7.4.6 Level Term Cover Rider:

- This provides you the option to enhance your risk cover for a limited period, up to a maximum of the sum assured on your base policy.
- It solely offers death benefit and helps the survivors to meet any unforeseen expenses that need to be taken care of, or some liabilities to be cleared of in event of death of the policyholder.
- For example - Your need for life insurance cover is Rs. 10 lakh. If you take a policy for a sum assured of Rs. 10 lakh, you would have to pay a high premium whereas if you go in for a Rs. 5 lakh life cover, and add a term rider for Rs. 5 lakh, you can satisfy your insurance requirement at a far lower premium. Although, the survival benefits will be proportionately lower in this case, the basic need for life insurance is met at a far lower cost.

8. Tax treatment

Like mentioned earlier many individuals buy insurance cover to avail tax benefits. The premiums that are paid by the policyholder are eligible for tax benefits. Individuals with an annual income of Rs. 1,00,000 are exempt from tax; those falling in the income bracket of Rs. 1,00,000-Rs. 1,50,000 are subject to a tax of 10%. For those earning between Rs. 1,50,000 to Rs. 2,50,000, a 20% tax is charged and anything above Rs. 2,50,000 a tax of 30% is paid. A relief is provided to the resident individual belonging to lower income group. A resident individual having taxable income up to Rs. 100,000 is not subject to paying any income taxes. Such individual will be entitled to rebate equal to the amount of tax payable on taxable income up to Rs. 1,00,000.

In order to avail the tax benefits, one can invest in various insurance policies, which qualify for tax benefits. Here it becomes important to mention that do not buy insurance just to get tax benefits. Before you decide on a particular policy, analyse your needs and based on the requirements, take a decision.

As far as riders are concerned, a deduction of Rs. 10,000 a year is allowed, under Section 80D, on the premium paid for buying medical insurance: for senior citizens, this limit is Rs. 15,000 a year. This deduction is also available on the premium paid for all health riders. Take a quick glimpse of the tax slabs given below:

Individual Tax Rates	
<i>Taxable Income</i>	<u>Rates</u>
Upto Rs 1,00,000	NIL
Upto Rs 1,00,000-1,50,000	10%
Upto Rs 1,50,000	20%
Above Rs 2,50,000	30%

Woman assesses are eligible for tax benefits upto Rs. 1.35 lakh and senior citizens have a basic limit of Rs 1.50 lakhs can plan 'nil' tax liability up to Rs 2.50 lakh.

9. Exclusions

The purpose of buying life insurance policies is to provide your family with financial support. In the event of the death of the policyholder, the nominee will receive the proceeds. It forms a crucial part of your duty to know the exclusions made under a policy. Many a times, policyholders pay the insurance premiums religiously but when its time to benefit from it, the exclusions come in the way. So, rather than blaming the insurance company takes that little effort and read the fine print before signing the dotted line.

High-risk professions. Insurance companies do not offer insurance cover to individuals who are in professions like defense forces, paramilitary and police. Individuals working in these professions cannot buy cover directly from insurers, though their employers (various governments) can insure their lives.

High-risk interest: People interested in 'high-adventure sports' like mountaineering, motor racing, hunting, etc. are not offered insurance cover. However, some insurers do offer risk cover but the definition of 'adventure' and 'high-adventure sports' differs from insurer to insurer.

Suicide: Most insurers don't give insurance proceeds to the policyholders who die due to suicide in the first year of a policy. However, the insurer will refund all the premiums paid by the policyholder till the time of death, along with interest at the prevailing market rate.

War: Individuals residing in areas affected by rebellion and riots face a larger risk of death. Many insurance companies do not cover residents of such areas for this risk.

10. How much insurance do you need?

Insuring your life is a must but insuring it adequately is equally important. Having your life uninsured or underinsured is exposing your dependants to the financial risk that may arise in your absence. Broadly speaking, the amount of life cover you need depends on your age. Other factors like dependants, age, income, etc. follows next. Different policies work fine for different people. If a particular policy has worked well for a person, it need not work in the same manner for you. In other words, your life insurance needs are influenced by the various circumstances of your life. The need for life insurance at various stages of life have been analysed below. It should help you in making decisions.

10.1 What does Life Insurance offer young families?

Protection

Families with young, dependent children need adequate protection against losing their primary wage earner's income if and when premature and unexpected death occurs.

Emergency Fund

Life insurance provides an additional consideration by providing an emergency fund to provide money for survivors. It buys the time so essential and necessary that is needed to adjust to the death of a parent or spouse. The insurance proceeds provide a temporary buffer that gives the survivor the time and the inclination to adjust to the new and unprecedented situation. The surviving beneficiary has the option to consider career alternatives as well as make rationally based and thoroughly informed decisions.

Education

Yet another priority need for young families is building adequate funds for higher education costs. The need for highly specialised education is greater than ever before. Qualified students obviously enjoy better lifestyles and have more rewarding careers compared to other people. Every year, the cost of education rises beyond estimated limits. Capitation fees and deposits only aggravate this situation further. Every young family must start a substantial savings plan. The sooner, the better since compounded interest schemes need time to work and show their appreciative worth. Life insurance also offers handsome reductions in taxes.

Retirement

Young families should also plan for retirement in the long run. Investment and pension plans are not adequate to fund the retirement needs at times. Once a family attains a specific standard of living, it is very hard to adjust to a reduced standard during the retirement years. Systematic savings over a working lifetime is the key towards supplementing other retirement programmes. The old rule of saving 10 percent of the annual income still holds true for single income young families. Young families with modest incomes must commence with at least a 10 percent guideline if they cannot make a total commitment immediately.

Disability

A single income young family would be in an extremely perilous situation if there would be a loss of income owing to a disability. In case an income provider is unable to work, the economic consequences could be severe for the family. Not only does the family have to maintain the established standard of living, it also has to shoulder the additional burden of a disabled member within itself. Disability is the major need that is to be addressed and protection against this loss is a priority. Besides in most of the families today, two incomes are an absolute necessity. For these households, the protection of both the income producers is extremely essential.

Single Young Adults

People who belong to the young, single adult age group are young, healthy and energetic. Since they are single, they enjoy more freedom and have fast access to money. Most of them bear carefree attitudes that have been passed on to them from their families. As they begin to assume new responsibilities and gain maturity, it can be a major transition in their lifestyles. The ironic part about single, young individuals is that they might possess extensive funds but none of them have established any specific savings plans or cash reserves in case of any emergency. Single, young people need to protect their newly acquired status and their earning capacity besides their human life-value the most. Their priorities' list must be topped by disability income insurance so they are protected against loss of income and loss of insurability in the future. People from this socio-economic group also have loans to pay off and high credit card balances. They will also need financial help so that their debts are paid off until they learn to provide steady finance for themselves.

Rising Debts

Most single, young adults are possessed by a dominant need to pay off their debts and fulfill their retirement obligations at the same time. They also need help in planning their budget for the future. Most single, young adults lack an understanding of the virtues of saving. The value of future planning and adhering to the plans made is yet to be impressed upon their minds. They don't realise the significance of compound interest and tax implications on savings and investment choices. Professional insurance agents can provide a lot of help to

them in this regard, to say the least. One of the most important needs, voiced together by a majority of people in the single young adult arena is to make the right choices that are consistent with proper planning to take care of their needs. Single people are used to putting off decisions regarding their current status. It is consequently difficult to convince them that they should not put off the events that need to be done immediately.

For single, young adults there is an ever-increasing need for life insurance. Yet, the need to save money is equally important since most people don't start any serious savings until they find a suitable means of employment. For them, protection against loss of income owing to a disability must be addressed the moment the person begins earning an income.

Advantages of starting an early financial security program

- Your provision for a guaranteed, immediate financial security is ensured. Besides, lower premiums are also charged at younger ages.
- You qualify for lifelong protection while you are insurable regardless of later hazards that might be ventured through your chosen lifestyle vocation or occupation.
- You start building cash reserves for emergencies and can avail of new opportunities.
- The compound interest schemes prevalent over your insurance policy work towards longer and longer periods of time so the final rewards are greater.
- You can opt to change your policy type with the highest possible flexibility as your status changes.
- In the event of an early death, the funds available can easily pay off debts as well as honour any bequests made in your will.
- Since your policy plan has commenced at a younger age, at retirement the largest pension values are available for you.
- Since your policy plan has started at a younger age, you can qualify for additional coverage and benefits at the most feasible rates in the future.
- You will always enjoy satisfaction and peace of mind since you have opted towards taking positive actions when it mattered the most.

10.2 Dual Income Young Families

Why is it necessary to invest in insurance?

Families having twin incomes generally have more money to spend as well as money to save. Yet as everyone knows making money is easier compared to saving money. Similarly two incomes are spent just as easily and as quickly as one.

If the mother decides to stay home after children are conceived can greatly affect the standards of living for the family. Such couples have highly variable and completely diverse needs compared to their single income counterparts. In dual income families, there is obviously a marked sharing of household duties. Since both partners have to balance the needs of work and home, sharing becomes essential. Despite this liberal attitude, dual income families show the least tendency towards savings despite having two incomes.

Dual-income families buy less permanent life insurance since they view the second income as 'insurance' against loss of the first. They prefer to live in a surrealistic world of complacency and procrastination. Financially, the dual income family is part of a fairly complex situation. Both the partners pool their resources together. This enhances their standard of living and helps them in achieving financial independence. On the other hand, the increased level of expenditure and desire for a better lifestyle invites increased taxes, creating a challenging situation.

How are the needs of Dual Income families similar to Single Income families?

Families with both partners working have needs and wants more or less identical to their single income-earning counterparts. Both family types are equally vulnerable to the same risks. After all, everyone needs protection against dying early or living too long or being disabled. Unexpected emergencies and contingencies need to be covered through adequate funds too.

Adulthood-The Middle Years

Middle years are the stage in the life cycle identified and characterised as a period of acquisition and establishment. People at this phase of life, assume more responsibility and often take on new career opportunities. Middle-aged people are constantly making commitments, acquiring assets and incurring additional debts as well. This phase in the human life cycle develops the individual's long-term and ongoing relationships more than the others.

Challenging Concerns

People, in their middle years are assuming greater responsibilities as well as acquiring newer assets and possessions. Growth means change wrought together with new challenges and added concerns. People have to consequently face a lot of problems and considerations during this stage of their life cycle. They may be trying to achieve their aims in life, their aspirations and dreams ranging from a

proper balance between their careers and family life to a continual movement up the career ladder. They will also seek proper protection of their income levels in event of a disability, or a loss of job or a career change and even premature unexpected death. They may also be considering investing in better residential facilities with realistic provisions made for their retirement needs and financial security. Budgetary changes may also be implemented along with long-term savings and investment plans. They might also be updating their wills and bequests.

Since different people use different approaches in meeting their mid-life crises and challenges, they are highly prone to make financial mistakes and errors of judgement. A miscalculation at this stage can affect an individual's financial standing for the rest of his life.

The most common mistake made by individuals during their middle age periods is probably procrastination or delay in the commencement of programs for future needs. The benefits of compounded interest are lost forever owing to this single greatest failure. Another mistake people tend to commit is making inadequate estimates or judgements regarding the amount of protection needed for their future. The other common errors on people's part are concurrent to the fact that people tend to overuse and at times, even abuse their credit limits. They blindly accept investment strategies or plans newly introduced in the market. Also they fail to provide for pending major purchases or replacement of large-sized utilitarian items.

They also tend to neglect in protecting or covering their property assets while continue to rely on their employment-sponsored benefits. At times, people forget that inflation will catch up with them and make inadequate provisions for their retirement.

Hopes and Dreams

People never abandon their hopes and dreams, regardless of their position in life or their status in the life cycle. Success can be determined by an individual's ability in identifying what is needed and eventually obtaining the desired outcome. An individual seeking to fulfill their aspirations should base his game plan with specific objectives estimated on his resources and working capacity. As long as the individual maintains the following perspectives in mind, his chances of success are assured:

- Clearly defined goals and objectives.
- Controlled spending with the budget.
- Planned savings and investment program.
- Adequate funds for children's higher education.

- Protection against property losses.
- Sufficient income against disability.
- Emergency fund.
- Financial independence and a comfortably secure retirement.
- General well-being and peace of mind.

Mature Adults

The needs of mature adults tend to emphasis on their successors as well as their elders. These generally include:

- Providing funds for higher specialised studies for their children.
- Assisting their children with payments on their new homes.
- Loaning or granting money by way of gifts to other needy family members or relatives.
- Ensuring health care and attention for their aged and dependent parents.
- Planning for a dependent who might have specific needs.
- Guaranteeing loans and financial obligations for their children.
- Building a savings fund to provide additional income during retirement.

We've said this earlier and we'll say it again to anyone who is ready to listen and accept the truth. The only way that an individual can provide for subsequent expenditure is to accumulate sufficient cash and resources ahead in time. As it is, most major expenses are out of bounds with current income standards. Paying day-to-day bills is tough enough for most of us already.

Marriage and Education Costs

The cost of marriage and higher education for children forms a major expense during the mature adult's life cycle. The costs of living increase year after year. And to meet these rising costs requires sacrifice and considerable effort on the part of most families.

Families associate the ritual of marriage as a prestige issue. Owing to social trends and pressure, every family oversteps its bounds when it comes to budgeting the marriage expenditure. The cost of higher education is also rising. More and more students are opting to go abroad to seek specialisation in their chosen vocation. Foreign universities are also offering a wide range of specialised

courses on Indian soil now. This makes a college education highly desirable. Yet, as the costs go on mounting, it makes planning all the more essential to make the education a reality.

Children's First Home

Since costs of housing have to be met with a large percentage from our incomes, newly married couples are finding it harder than ever before to pay the minimum down payment or even acquire the necessary resources to qualify for housing finance. Needless to say, these young couples need their parents' help for providing the necessary funds. When a young couple applies for a loan, they should purchase dual-life insurance policies, naming their parents as beneficiaries. If by chance, the couple expires before the housing loan is paid off, the proceeds of the policy can easily suffice in meeting the repayment installments.

In case the couple lives happily ever after, the cash value in the policies can be used to pay off the remainders of the loan after a while. The tax advantages offered are extremely advantageous for the young couple and their parents. Many other financial options are available, but the flexibility offered by life insurance policies is unmatched by any of them. Research shows that the younger the loan applicant, the lesser are the chances of unfortunate demise.

Age	Mortality Ratio
25	1:9
30	1:8
35	1:7
40	1:6
45	1:5
50	1:4

Caring for Dependent Parents

Not many people anticipate that as their children mature and gain independence, they might be confronted by new dependents-their own parents. Since these people are responsible for their children as well as their elderly parents, they subsequently get 'sandwiched' between the expenses of both the generations.

The fact is that people are living longer. The longer they live, the more likely are they to be damaged by inflation. Costs of illnesses and coupled with long-term care leave them with no choice but to ask their children for assistance and support. A family 'sandwiched' between the pressures of two generations is subjected to a lot of emotional and financial strain. Difficulties arise from balancing the needs of parents and shouldering their children's responsibility besides concentrating on personal financial goals. The only solution lies in

planning in advance for the risks covered. People who anticipate and prepare for the worst can afford to make choices later on in life.

Long Term Care

Long term care insurance is yet another major planning consideration. Medical assurance policies are not always adequate. They can never meet the catastrophic costs of a major illness or a chronic disability. Not many people can afford the large expenses of nursing homes with their current income. If matured adult parents are unable to afford this coverage, it makes sense for their children to share the premium expenditure. This is a sensible precaution to be exercised against any potentially high costs that might occur later. When the time period for future health planning is over, the options available for the elderly are fewer and extremely unattractive.

If a parent's health goes from bad to worse and they become completely dependent on external help, the medical costs may be higher than the income level of the family, regardless of how willing they might be.

Dependents with Special Needs

Just like elderly parents; children who are physically or mentally handicapped require special consideration and are a source of major and expensive concern. A provision for their needs must be considered and plans made as early as possible. Needless to say, the dependency period never ends with these dependents.

Providing necessary care for dependents having special needs can be extremely strenuous, both emotionally and financially. At times, people who are caring for the disabled sacrifice their own health and financial security at the expense of the other members of the family. The emotional pull generated can create a terse atmosphere within the household. Parents of a dependent with special needs wish to see that these expenses are taken care of on a long-term and guaranteed basis. With timely and proper planning, such expenses can be met easily regardless of what happens to the provider of support.

11. Miscellaneous:

11.1 Grace period:

Grace period is defined as the additional period of time given by the insurer to the policyholder to make his due premium payments. In case you have not paid the premium within the due date, you can make the payments without payment of interest on the premium. This period is called the grace period. However, there are some plans, which do not have this feature. The grace period for policies where the premium payment mode is quarterly, half-yearly or yearly is one month but not less than 30 days.

11.2 Contract details:

At the time of buying a policy, the declarations you make in the application form become contractual provisions. They serve as the prime evidence in case of any dispute over the validity of the contract or claim, and an insurer can terminate a policy on discovery of false declarations.

Take pre-existing diseases-medical conditions an individual suffers from, which he has to disclose to the insurer, at the time of taking a policy. There is a tendency among individuals to be cagey about pre-existing diseases out of fear of being charged a higher premium: in extreme cases, even being rejected insurance. If an insurer finds out that a policyholder's death occurred due to an ailment that existed at the time of taking the policy and wasn't revealed, it can reject the claim.

11.3 Settlement of claims:

The settlement of a claim arises either due to maturity of the policy or due to the death of the policyholder. When the maturity claim arises, the concerned LIC branch sends intimation at least 2 months ahead of maturity date. An agent should help the policyholder to submit the below mentioned requirements, which are as follows:

1. Policy documents (if not in the custody of LIC as security for loan).
2. Discharge Form no. 3825 duly stamped and signed, attested by a witness.
3. Age proof document (if age has not been admitted earlier)
4. Assignment/reassignment deed, if any.
5. Existence certificated in case of children's deferred assurance and pure endowment policies.

Death claim requirements are as follows:

1. Letter of intimation of death to LIC by any relative/nominee/assignee of the deceased policyholder and contain statement of death, date, reason, place of death and policy number.
2. If death occurs exactly or after 3 years from the date of the policy, the following requirements must be compiled with

- i) Policy document
 - ii) Discharge Form 3801
 - iii) Legal evidence of title
 - iv) Death certificate
 - v) Claim Form No 3783A
 - vi) Assignment/Reassignment deed, if any (if policy not assigned/nominate)
 - vii) Age proof document (if age has not been admitted earlier)
3. If death occurs in less than 3 year from the date of the policy, following requirements must be compiled with:
- i) Policy document
 - ii) Discharge Form 3801
 - iii) Assignment/Reassignment deed, if any.
 - iv) Age proof document (if age has not been admitted earlier)
 - v) Certificate of treatment issued by the hospital authorities where the deceased policyholder was treated last, on claim Form 'B!' (F No 3816)
 - vi) Certificate of the employer if the deceased was employee, on claim Form 'E' (F No. 3787 revised)
 - vii) Death certificate
 - viii) Legal evidence of title (if policy not assigned/nominate)
 - ix) Claim Form No A (F No 3783)
 - x) Statement from the doctor- (Form No 3783A revised)
 - xi) Certificate of identity and burial by a person who attended the funeral on claim Form C (F No. 3785 revised)
 - xii) F No. 3785 revised

When death takes place due to accident (solely, directly, independently or other intervening causes) the claim must be lodged with LIC to get the double accident benefit within 120 days from the date of death. Claim will be admitted after acceptance and verification of the death Report (Post mortem/Report/Spot Panchanama/Inquest Panchanama/Eyewitness statement) by LIC and upon clearance by the concerned SDM

12. Other important question

12.1 How to revive a lapsed policy?

If your policy has lapsed on account of non-payment of premium within the specified due date, you can re-apply to reinstate it, if:

You apply within 5 years from the date of the first unpaid premium and before the maturity date. You would need to pay all the required premiums and interest.

12.2 When can a nomination be done?

To begin with, 'nomination' is the process of identifying a person to receive the policy amount in the event of death of the policyholder. The nomination can be done at the start of the policy by providing details of the nominee in the proposal form. However, if the nomination is not given at the beginning, it can be done at a later date. This nomination has to be effected by giving notice in a prescribed form to LIC and getting it endorsed on the Policy Bond.

The policyholder can change the nomination at any time during the term of the policy and for end number of times. For this, the policyholder has to give a notice in a prescribed form to LIC. Further, nomination can be removed any time by the policyholder without giving prior notice to the nominee.

Under nomination, the nominee gets only the right to receive the policy amount in the event of the death of the policyholder; nomination does not pass on the property in the policy. If nominee dies when the policyholder is still surviving then the nomination would be ineffective. If nominee dies after the death of the policyholder but before receiving policy amount, then again the nomination becomes ineffective and only the legal heirs of the policyholder can claim money.

12.3 Can I take a loan on my policy?

Yes, the policyholders are eligible to take loan on their policies subject to certain rules. The policyholder has to apply for loan in a prescribed form and submit the policy bond with the form duly completed. The loan amount is calculated depending on the Surrender Value the policy would have acquired.

Approximately 85% of the Surrender Value is given as loan. Presently, LIC charges 9% interest on policy loans. Interest is payable on half-yearly basis. A policyholder can repay the loan amount either in part or in full any time during the term of the policy. If loan is not repaid during the term of the policy or early claim, the amount of loan plus interest, if any, will be deducted from the claim money and the balance amount will be paid to the claimant. If the interest is not paid regularly every half-yearly, then the interest is calculated on compounded

interest basis. As a final resort, LIC has powers to withdraw the entire loan amount. Please note, not all policies qualify for policy loans.

12.4 How to calculate the Paid-Up Value, Surrender Value and Loan Value?

An example would make it easier to understand the working of the Paid-Up, Surrender and Loan Value.

Mr. Seth takes an endowment policy of 25 years term on 28/3/1985 for sum assured of Rs. 1 lakh and has paid all the premiums upto till 28/3/2004 i.e. for 20 years. Now, he would want to know how much loan he can get?

To get the Loan Value, one should know the Surrender Value, which is dependent on Paid up Value of the policy. Hence, they can be obtained by using the following formula in a step-by-step method as shown below:

1. Paid-Up Value=

$$\begin{array}{ccc} \text{PART A} & & \text{PART B} \\ \left[\frac{\text{No. of years premium paid}}{\text{Policy Term}} \times \text{Sum Assured} \right] & + & \left[\frac{\text{Bonus}}{1000} \times \text{S.A.} \right] \end{array}$$

Now, substituting for formula 1 'PART A', we get $20/25 \times 1,00,000=80,000$

Substituting for Formula 1 "PART B', we get
Rs. $1321/1000 \times 1,00,000=1,32,100$

Adding PART A and PART B of Formula 1, we get Rs. 2,12,100 (Rs 80,000+1,32,100)

2. Surrender Value=Surrender Value Paid Value X Paid up Value

100

By substituting for Formula 2 we get, $65.49/100 \times 2,12,100=1,38,904$

3. Loan Value: = 90% of surrender Value (approx.)

Therefore, calculate 90% of 1,38,904 to get the loan value, which works out to Rs. 1,25,014/-

To know the correct figures, one should have the bonus chart and surrender value chart.

12.5 Surrender Value:

Surrender Value is defined as the cash value payable by LIC on termination of the policy contract at the desire of policyholder but before the expiry of term. A policy can be surrendered, provided the policy is kept in force for at least three years. The bonus will be added, provided the policy was in force for atleast 3 years, i.e. premiums should have been paid for 3 years and 3 years should also have been completed from the date of commencement. However, this condition is not applicable in respect of claims by death.

13. Traps to Avoid

You may get confused with the right decision pertaining to insurance. You may unknowingly get into some unpleasant situations. Read the following to know the traps, which you can avoid.

Consider Endowment plans:

If you want insurance cover along with maturity returns, then endowment policy is the best. You may come across write-ups, which may suggest you to invest in term plans. Now, if are risk averse, then endowment suits you the best. It's in the interest of insurers and agents to sell life insurance by way of plans that have an investment component plan built in (namely, endowment, moneyback and whole life plans), as opposed to pure term plans.

14. Conclusion

We hope that after reading this little guide on insurance, you have understood the importance of it. Life is unpredictable and the only way to protect yourself against the unpredictable situations is to get your life insured. Insurance is the only answer to keep you family financially safe and sound. So do not wait, get yourself insured now!!

15. Reference:

Outlook Money - Layman's Guide to Insurance, moneycontrol.com