

**Life Insurance: A Necessity of Life****Ms. Reena Devi**

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**Abstract**

*Life has a beginning as well as an end and when it comes to the subject of life, absolute certainty doesn't exist so if there is anyone dependent on you and your income- you need life insurance. Nowadays in India, the term "insurance" is becoming popular rapidly. These insurance policies are designed to give financial security for the dependents of a person in case of his death. It is one of the most important, least understood, and frequently neglected aspects of our overall family financial plan.*

*This paper deals with the basic concept of life insurance and the related terms and throws light on its importance in our life for an understanding of what it is all about. What is life insurance? What are the companies that provide for it? What factors are to be seen in order to make choice of a particular life insurance policy? What are the benefits of taking an insurance policy?*

**Keywords:** Dependent, Life Insurance, Income, Financial Security.

**Introduction**

Life of all the individuals is uncertain as it is always exposed to some or the other kind of risk. There may be risk of dying too early or even of dying too late. This can be understood in the following manner:

A family is generally dependent on the income brought in by the bread winner of the family and as long as he lives, the family is secure but his unexpected death may put the family in a very difficult situation. Uncertainty of the death is inherent in human life. It is this uncertainty that gives rise to the necessity for some form of protection against the financial loss arising from death. Life Insurance substitutes this uncertainty by certainty. Similarly, think of a situation when you retire and there is no one to cater to your financial needs, how are you going to survive? Here's when Life Insurance plays its vital role. Life insurance policy is to provide financial support to the family that we care for in case of death or to you as well as your family during your old age.

Life Insurance was initially designed to protect the income of families, particularly young families in the wealth accumulation phase, in the event of the head of household's death. Today, life insurance is used for many reasons, including wealth preservation and estate tax planning.

**Life Insurance In India**

Life Insurance came from England in 1818 in India. Earlier the foreign life insurance companies used to insure the lives of Indians but they charged heavy extra premiums and treated Indian's lives as sub-standard but after the coming up of the Bombay Mutual Life Assurance Society in the year 1870 the conditions changed. It was the first Indian Life Insurance Company that started to cover Indian lives at normal rates. In 1896, Bharat Insurance Co. Ltd was another one such company that was inspired by nationalisation.

The period from 1905 to 1907 saw a rise in the insurance sector. In 1906, there was the United India in Madras, National Indian and National Insurance in Calcutta. In 1912, legislations regulating insurance policies were passed. Indian Insurance market was nationalized in 1956 and Life Insurance Corporation of India Ltd. was the main player in the Indian insurance market that enjoyed monopoly for more than 4 decades. In the year 2000, the Insurance Development Regulatory Authority was setup and after this the private players like SBI Life Insurance Company, ICICI Prudential, etc. were also allowed to operate in collaboration with foreign Insurance companies.

Today the Insurance Industry of India consists of 52 Insurance companies of which 24 are in Life Insurance business and 28 are Non-Life insurers.<sup>1</sup>

### **Life Insurance And Related Terminology**

The benefits of Life Insurance can be enjoyed only when we make a right choice of the same and for that it is very important to be well versed with the basic concepts related to Insurance in order to go for the best suited option. Some of the related terminology is given as under:

- **Life Insurance-** It is a bipartite **contractual agreement** between an “insured” and an “insurer.” The **policyholder** is the insured party since he agrees to make premium payments to the company who is the insurer, and, in exchange, the company agrees to pay the financial dependants or the so called “beneficiaries” of the policyholder, a sum of money if he/she dies while the policy is still in force.<sup>2</sup>
- **Beneficiaries-** A beneficiary typically refers to someone who is eligible to receive **distributions** from a **life insurance** policy. Beneficiaries are either named specifically in these documents as nominees or have met the stipulations that make them eligible for whatever distribution is specified.<sup>3</sup>
- **Premium-** It is the financial cost of obtaining an insurance cover and is either paid as a lump sum or in instalments during the duration of the policy.<sup>4</sup>
- **Sum Assured-** Sum assured is the amount of money an insurance policy guarantees to pay before any bonuses are added. In other words, sum assured is the guaranteed amount you will receive. This is also known as the cover or the coverage and is the total amount you are insured for.<sup>5</sup>
- **Surrender Value-** The surrender value is the sum of money an insurance company pays to the policyholder or annuity holder in the event his policy is voluntarily terminated before its maturity or the insured event occurs. It is also known as "cash value," "surrender value" and "policyholder's equity."<sup>6</sup>

### **Types Of Life Insurance Policies<sup>7</sup>**

The life insurance companies in India are providing different types of life insurance plans with several benefits and riders. There are some products that are considered as specific tailor-made products for various life stages such as child plans, retirement plans or pension plans etc. In fact, some insurance also gives loan facility along with insurance feature. According to the Indian Income Tax Act, all life insurance premiums provide tax benefits to the policyholder. Some of the life insurance policies offered by the companies have been briefly discussed as under:

#### **A) Whole Life Insurance Policy:**

As the name suggest this policy is for the whole life i.e until the death of the insured. Thus, the policy gives protection against risks for throughout life of the insured person and the policy continues as long as the insured is alive. Under this policy, the amount is paid only on the death of the insured whereas the premium on this policy may be paid regularly throughout the life of the insured or for a fixed period of time. This death benefit is given to the nominee in case of the insured's death. This insurance does not include any survival benefits.

#### **B) Endowment Insurance Policy:**

It is a savings-linked insurance which offers cover for a certain time period and the insured person get sum assured with a bonus at the time of maturity in case of his survival. In other words you can say that under this policy, the insurer pays a particular sum at the death of the person or on attaining a particular age or on the expiry of a fixed period of time whichever is earlier and in case the

insured dies, the compensation is paid to the legal heirs of the deceased but where he/she survives, the insured himself/herself gets the compensation amount.

**C) Joint Life Policy:**

This said policy provides insurance coverage jointly to partners. Under this policy, the sum assured becomes payable to the survivor(s) on the death of any one of those whose lives are assured jointly.

**D) Children Endowment Policy:**

This policy is taken for the purpose of higher education or marriages of children. Under this policy, the insurer undertakes to pay a certain sum when the children of the insured attain a certain age.

**E) Annuity Policy:**

Under this policy, the sum assured is not payable in lump sum but in instalments which may be monthly, quarterly, half-yearly or yearly but only after the assured attains a certain age.

**F) Money Back Policy:**

Under this plan, some part of the sum assured is returned back to the policyholder in case of survival of the insured person. The nominee receives the death benefit in case of policyholder's death during the policy term and this death benefit is equal to the sum assured plus accumulated cash benefits.

**G) Term Insurance Policy:**

It gives financial security for the whole family of the policyholder in case of his or her sudden death. This plan provides high sum assured at low cost and cover is available for a period of time. Generally, it will be available for 5, 10, 15, 20 or 30 years.

**H) Unit-Linked Insurance Policy:**

This plan is a combination of both investment and life insurance. Some portion or percent of the premiums goes into investment and some part goes into investment.

**Factors For Choosing A Right Insurance Policy<sup>8</sup>**

An average untrained person, insurance as a whole is mind boggling and since it involves one's hard earned money, it is often scary. There are so many choices for one's money and it becomes really difficult to pick up the best of the available options. Throughout one's life, one has to take decisions relating to these options again and again as new and better insurance products, interest rates changes, family changes, etc., will cause one to relook at one's position many times. From a purely financial perspective, both personal and business, insurance plays a very important role in preserving those hard earned money.

For every individual it is very important to buy a life insurance plan to secure his family before making any other investments. But choosing the best life insurance policy that fits to your needs is equally important. You can find numerous attractive plans these days which are launched by well known institutions. A well known institution offering a policy at and premium rates are not the only factors that are to be seen while buying an insurance policy rather there are plenty of other factors as well that should be considered while buying a life insurance policy<sup>9</sup> and these are given here as under:

**a) Inquire About The Agent Offering Insurance Product:**

First and foremost thing is to inquire about the agent before discussing your insurance needs. You have to ensure that the insurance agent offering you insurance products is a licensed agent appointed by the insurance company to offer their products to the customers. Next step is to make sure that the agent understands your requirements and unveils all the insurance options which can suit your needs. Do not share your financial details or documents before verifying license of the agent.



**b) Check History Of The Company Offering Insurance Product:**

It is very important for you to first check the financial history of the company offering life insurance plan. You can get the complete details either from the agent offering the insurance plan or you can check the annual reports of the company. You can also ask financial experts or check from the customers already having insurance plan of the same company through online channel.

**c) How Much Insurance Is Needed:**

It is difficult to estimate the amount of insurance product required by an individual to cater to the needs of their family. To get the right estimate of the amount of the insurance product required by you, it is important for you to discuss your family and financial details with your insurance agent. It will make him understand the need of insurance product.

**d) Different Types Of Life Insurance Policies:**

There are number of life insurance products hitting the market so it becomes difficult for an individual to select a plan which caters to the needs while also being affordable. Some of the most common products available in the market are term life insurance, whole life insurance, universal life insurance and variable universal life insurance. Understanding the difference, benefits, purpose, premium, coverage etc. of all the available plans will help to choose the right plan.

You can either discuss this with your agent or you can also get the details of each plan online. It will help you understand each plan and will also let you compare each plan to pick the best one. Experts always suggest term plan as this is the cheapest form of insurance.

**e) Understand All The Aspects Of The Recommended Product By Insurance Agent:**

Before finalizing the plan it is always good to clarify all the aspects of the insurance plan recommended by the insurance agent. After discussing different plans it may create a confusion in your mind so it is always advisable to understand all the aspects of the shortlisted policy once again to make a wise decision.

Discuss all the benefit, premium, scope of coverage and other expenses of the policy in detail. Like in case of charges, all the insurance companies deduct various charges like administration, surrender, mortality etc. Get the complete information about the policy. Also, it is recommended to take a stand alone life insurance policy. Clubbing life insurance with investment is not a good choice for any individual.

**f) Procedure To Claim The Policy:**

The prime motive of taking life insurance policy is to make sure that your family should not suffer from financial crises in your absence. So it is very important for you to understand the procedure for claiming the policy. It should not be very time taking and troublesome.

**g) At The Time Of Maturity Of the Policy:**

It is important for an individual to understand what will happen if policy holder won't die during the tenure of the policy.

**h) Convertible / Non Convertible Policy:**

Before buying a life insurance policy it is good to understand the convertibility clause of the policy i.e. is the policy recommended by the agent convertible or not. If yes, then is there any time limit or charges attached to it.

**i) Rights Of The Policyholder:**

Before signing the insurance documents it is very important for you to understand your rights as a policy holder of the company. You must read all the terms and conditions after getting the policy documents so that if you find any of the terms not acceptable, or if you find the policy is mis-sold to you then you can surrender the policy within 15 days.

## Conclusion

Life Insurance is a great financial planning tool as it provides you with an opportunity to protect you and your family from personal risk exposures like repayment of debts after death, providing for a surviving spouse and children, fulfilling other economic goals (such as putting your kids through college), leaving a charitable legacy, paying for funeral expenses, etc. It is also important if you are a business owner or a key person in someone else's business, where your death (or your partner's death) might wreak financial havoc.

Nowadays it has been a constant endeavour of these Insurance Companies to provide security to as many people as possible and to channelize the savings mobilized for welfare of the people at large.

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