Life Insurance

Life insurance is a contract between an insurance policy holder and an insurer or assurer, where the insurer promises to pay a designated beneficiary a sum of money (the benefit) in exchange for a premium, upon the death of an insured person (often the policy holder). Depending on the contract, other events such as terminal illness or critical illness can also trigger payment. The policy holder typically pays a premium, either regularly or as one lump sum. Life policies are legal contracts and the terms of the contract describe the limitations of the insured events. Specific exclusions are often written into the contract to limit the liability of the insurer; common examples are claims relating to suicide, fraud, war, riot, and civil commotion.

Modern life insurance bears some similarity to the asset management industry and life insurers have diversified their products into retirement products such as annuities.

Life-based contracts tend to fall into two major categories:

- Protection policies: designed to provide a benefit, typically a lump sum payment, in the event of a specified occurrence. A common form of a protection policy designed is term insurance.
- Investment policies: the main objective of these policies is to facilitate the growth of capital by regular or single premiums. Common forms are whole life, universal life, and variable life policies.

Although many of us are aware of the importance of Life Insurance, not everyone knows that there are multiple types of Life Insurance Products available in India and each of them comes with a variety of offerings. Life Insurance is a mutual contract between a policyholder and insurer/ insurance company, wherein the insurer guarantees the payment of a sum assured (also known as death benefit) to named beneficiaries of the insured in case if he/she dies. The sum assured is paid based on the premium paid by the insured and policy contract.

Types of Life Insurance Policies in India

Life Insurance policy mainly has two basic types ie term life policy and traditional whole life policy. In term life policy the policyholder pays a fixed amount of premium for a specific period whereas, in a whole life policy, the policyholder has to pay premiums till his/ her death.

1. **Term Insurance or Term Plan**

Term insurance or term plan is a type of life insurance plan that provides coverage for a specific period. In case of demise of the insured during the policy tenure, the nominee receives death benefit (sum assured). If the policyholder survives the entire policy term, no pay-out will be provided. These are the most basic and affordable form of Life Insurance. Term plans provide life cover with no profits or savings component. The premiums are much cheaper in a term insurance than other Life Insurance plans.

2. **Whole Life Policy**

This Type of Life Insurance Policy provides permanent life insurance. Whole life policy offers a savings component (also known as cash value), and lifelong protection cover as long as the insured pays premiums. Under this policy, beneficiaries receive a death benefit after the death of the insured person. Unlike a term insurance, the policy is not defined in a whole life policy, so the policyholder can enjoy the life cover throughout his/her life. By paying regular premiums, the policyholder gets a complete life cover. The policyholder needs to pay regular premiums until he expires, and upon that total amount, the corpus is paid to his family. The whole life policy expires only when any eventuality occurs as there is no pre-defined tenure.

3. **Endowment Plan**

It is a life insurance plan which not just covers the life of the insured, but also helps them save regularly for a specific time period so that they can get a lump sum amount on the maturity of the policy in case they survive the policy term. An endowment plan is different from a term plan in terms of maturity benefit. Unlike a term plan, an endowment plan pays out the sum assured along with profits in case of an eventuality during the policy term as well as on survival of insured. The profits are the result of investing the premiums in the asset market. Another

difference is, endowment plans come with higher fees and premiums for paying out sum assured with profits in both scenarios – death or maturity.

4. **Unit Linked Insurance Plan**

A Unit Linked Insurance Plan (or ULIP) is a life insurance product which gives you both insurance as well as an investment with a single integrated plan. You can pay a premium on a monthly or annual basis. A portion of the premium goes towards life insurance whereas rest of the amount is invested in stock/debt market like mutual funds. Unit Linked Insurance Plan (ULIP) is linked to markets and thus, it is a form of the traditional endowment plan in which the sum assured is paid on death/maturity. However, in ULIP, you have the liberty to choose the investments' allocation in stock/debt markets and its value is captured by the net asset value (NAV). Also, ULIP is a combination of insurance and investment, whereas a mutual fund is a pure investment avenue.

5**. Money Back Policy**

This policy too is a form of the endowment plan, however, it gives periodic payments to the beneficiary over the policy term instead of providing a lump sum amount at the policy's maturity. The insurer pays a portion of the sum assured at regular intervals. In case of policyholder's death over the term of the policy, the full sum assured is given to the beneficiary. If the policyholders survive the policy term, they receive the balance sum assured.

6. **Children's Policy**

Child plan or children's policy is insurance plus investment plan which offers two crucial benefits – securing the future of policyholder's children financially and financing the turning points in their life including higher education, marriage, and so on. These policies can be obtained in the name of the policyholder's child. It is beneficial only for the child and provides a financial assistance to the parents when their child reaches a particular age of his/ her life.

7. **Annuity/ Pension Plan**

An annuity plan is a long term insurance policy which helps to protect policyholders from the risk of outliving their income. Under this plan, the contribution (in terms of premiums) is converted into regular periodic payments after the retirement that can last for life. It is similar to a term insurance policy and aims at covering policyholder's income loss. Post-retirement, the regular income source ceases to exist for an individual (mainly for private job holders) and it doesn't take long to exhaust benefits like gratuity or provident funds. At that time, annuity plan provides regular income in the form of pension to the policyholder for safeguarding his/ her retirement. It is best to get an annuity plan to enjoy financial freedom post-retirement.

Source:

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- Financial Markets and Institutions (Galgotia Publishing Company) by Dr. Kalpana Kataria and Dr. Arshi Zareen (2018).
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Disclaimer:

1. These notes are only for the students.

2. These notes are prepared after referring various books and websites.