

# UNIT – IV

## LESSON-10

### LIFE INSURANCE – ESSENTIALS OF LIFE INSURANCE CONTRACT

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#### OBJECTIVES OF LESSON:

- Introduction
- Elements of life insurance contract

**10.0 INTRODUCTION:** According to Section 2(ii) of the Insurance Act 1938 the life insurance contract is not a contract of indemnity contract, the undertaking on the part of the insurer is an absolute one to pay a definite sum on maturity of policy at the death or an amount in installment for a fixed period or during the life.

#### 10.1 ELEMENTS OF LIFE INSURANCE CONTRACT:

- **Nature of General contract-** All essentials of general contract, for example agreement, competency of parties, free consent of parties, legal consideration and legal objectives etc., as specified under section 2 and 10 of the Indian Contract Act 1872, must be fulfilled.
- **Insurable Interest-** In this case the insurer undertakes to put the insured, in the event of loss in the same position that he occupied immediately before the happening of the event insured. Proof of insurable interest must require at the time of contract. It is not required in case of own life, but is required in some cases e.g. business relations.
- **Utmost good faith-** The life insurance contract requires that the principle of utmost good faith should be preserved by both the parties. They must make full and true disclosure of the facts material to the risk. Few facts are not required to be disclosed e.g. facts of public knowledge, facts which are waived by the insurer etc.
- **Warranties –** Warranties or representations are promises which are important in case of life insurance contract. Warranties may be informative or promissory. In case of breach of warranty, the insurer is not bound to perform his part of the contract.

- **Proximate cause-** Reason which causes the loss is called proximate cause. Normally this clause is not apply in case of life insurance contracts except in case of loss due to war risk, suicide etc.
- **Assignment** – The life insurance policy can be assigned freely for a legal consideration or love and affection.
- **Return of premium** – Premium once paid is not returned by the insurer except 'on the ground of equity' e.g. when contract become void.
- **Other Elements:**
  - **Aleatory Contract:** Life insurance contract depends on chance (death etc)
  - **Unilateral Contract:** Only insurer makes an enforceable promise.
  - **Conditional Contract:** Life insurance depends upon regular payment of premium.
  - **Contract of Adhesion:** Terms of the life insurance contract are not arrived by mutual negotiations
  - Features of indemnity contract are not applied in case of life insurance contract.

### 10.2 Self-Check Questions:

1. Life insurance contract is a contract of indemnity. (True \_\_\_\_\_ False\_\_\_\_\_)
2. Warranties under life insurance may be \_\_\_\_\_ or \_\_\_\_\_
3. Reason for loss in case of insurance is called \_\_\_\_\_

### 10.3 Class Assignment Questions

1. Discuss meaning and various elements of 'general contract' and 'life insurance contract' applied to 'life insurance contract'.

### 10.4 Home Assignment Questions

1. Discuss meaning and various elements of general contract applied to life insurance contract.

### 10.5 Answers of self-check Questions

1. False
2. Informative, promissory
3. Proximate

# LESSON-11

## LIFE INSURANCE

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### OBJECTIVES OF LESSON:

- Introduction
- Classification of life insurance policies

**11.0 INTRODUCTION:** Life insurance provides premature death and a fixed sum at the maturity of policy. The elements of protection and investment exist in various degrees in different types of policies. These elements will vary according to the different times in the same policy. The older the policy, the lesser the element of protection and higher the element of investment and vice-versa is also true.

### 11.1 CLASSIFICATION OF POLICIES

The Life insurance policies can be divided on the basis of;

- Duration of policy
- Method of premium payments
- Participation in profit
- Number of lives covered
- Method of payment of claim amounts

#### 11.1.1 DURATION OF POLICY:

**11.1.1.1 Whole life policies:** It means the policy amount will be paid at the death of life assured and not on maturity. The whole life policies can be affected either by payment of single premium,

continuous premium, or limited payment. The whole life policy may effected by payment of single premium, continuous premium or limited premium. Further whole life policy can be converted endowment policy with in a specific time period.

**11.1.1.2 Term policies:** These policies is for a short period ranging from 3 months to seven years but the claim amount is payable in case of death. It may be for a short period of time or converted in any other type of policy.

**11.1.1.3 Endowment Policies:** In case of endowment policy amount of claim is paid in case of death only. Therefore, it is suitable for family protection in case of death of insured. Endowment policies may be further classified as pure, ordinary, joint life, double endowment educational endowment policy etc.

**11.1.2 POLICIES ACCORDING TO PREMIUM PAYMENT:** The policies according to the premium payment may be of Single premium or multiple premiums. In both the cases amount of claim is payable on expiry of tenure of policy or in case of death of insured subject matter.

**11.1.3 POLICIES ACCORDING TO PARTICIPATION IN PROFITS** can be divided as without profit policies or non-participating policies and with profit policies or participating policies. In case of non-participating policies bonus is not given to the insured but it is given in case of participating policies.

**11.1.4 POLICIES ACCORDING TO THE NUMBER OF PERSONS INSURED:** Life insurance policies may be based on single life or multiple life ( more than one persons are insured)

**11.1.5 POLICIES ACCORDING TO THE METHOD OF PAYMENT OF**

**CLAIM AMOUNT:** same as amount of premium claim amount also can be paid by the insurer either in single installment or in more than one installments

**11.2 Self-Check Questions:**

4. In case of whole life insurance Policy amount of claim is paid in case of \_\_\_\_\_ (death of insured /maturity of policy/ death of insured or maturity of policy)
5. In case of convertible whole life insurance policy, whole life insurance policy can be converted into endowment policy at the end of \_\_\_\_\_ (1<sup>st</sup> year/ 2<sup>nd</sup> year/4<sup>th</sup> year/5<sup>th</sup> year/ 10<sup>th</sup> year)
6. In case of \_\_\_\_\_policy amount of claim is paid in case of death only.

**11.3 Class Assignment Questions**

2. Discuss various types of endowment policies under life insurance contract.
3. Discuss various types of term policies under life insurance contract.

**11.4 Home Assignment Questions**

1. Discuss in detail classifications of life insurance policies.

**11.5 Answers of self-check Questions**

4. Death of insured
5. 5<sup>th</sup> year
6. endowment

# LESSON-12

## LIFE INSURANCE

### FACTORS AFFECTING IN DETERMINATION OF PREMIUM

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#### OBJECTIVES OF LESSON:

- Introduction
- Factors affecting in determination of premium.

**12.0 INTRODUCTION:** In case of life insurance contract, human life is a subject matter. Like other subject matters life is also affected by various factors. These facts are important for insurer for the purpose of selection of risk and for determination of amount of premium. Life insurance proposals may be rejected or some additional premium can be charged.

#### 12.1 FACTORS AFFECTING RISK

Volume of risk effects amount of premium in case of insurance contract. Followings are the factors which affect the risk:

**12.1.1 Age:** It is an important element for risk determination and premium calculations. Amount of premium increase with the increase in age. Normally insurer refuses insurance proposals when insured property of life insurance contract is at the advance stage.

**12.1.2 Physical condition:** Insurer is very particular about the conditions of an applicants, lungs, teeth, kidneys, nervous system, heart etc. These physical conditions determine the risk factors of life insurance contract. For the above purpose insurer prefer to demand for medical examination.

**12.1.3 Build:** Build refers to physique of the proposed life and includes height; weight etc. there should be a standard proportion among age, weight, and height. If the insured life is not within the standard the proposal may not be accepted.

**12.1.4 Personal History:** The personal history would reveal the possibility of death of insured. Personal history may be related to health record, past habit, previous occupation etc.

**12.1.5 Family history:** Alike personal history, family history also affect the risk factor. The family history is considered significant to know the transmission of certain, characteristics by heredity, heart, lungs, build, etc., follow family.

**12.1.6 Occupation:** Occupation is an important factor to affect the risk. Nature of work, volume of risk, effect of pollution, excessive mental and nervous strain, and amount of income is the factors which affect the volume of risk.

**12.1.7 Residence:** The risk will be lesser in a good climate area and more in a bad climate. The geographical location, atmosphere, political stability, climate construction of house etc the factors which may affect the risk.

**12.1.8 Morals:** Moral conduct involves infidelity and departure from the code of sex behavior is seriously regarded because these may affect the health. Insurer generally avoids agreements based on reputed dishonest persons.

**12.1.9 Sex:** Mortality among female sex is, generally, higher than that of male sex because the ladies are physically more handicapped, lesser educated, conservatism and non-employment.

**12.1.10 Other factors:** Climate, way of life of a country, economic status of insured, social and political peace and stability etc also affect the risk.

## **12.2 Self-Check Questions:**

1. Insurer can refuse life insurance proposals if insured are at the advance age. (True \_\_\_\_\_ False\_\_\_\_\_)
2. Mortality among female sex is, generally \_\_\_\_\_ than that of male sex. (high/ low)

## **12.3 Class Assignment Questions**

4. Discuss meaning and various elements of life insurance contract.

## **12.4 Home Assignment Questions**

2. Discuss in detail classifications of life insurance policies.

## **12.5 Answers of self-check Questions**

7. True
8. High

## **SUGGESTED READINGS:**

1. Kothari & Bahal: PRINCIPLES & PRACTICE OF INSURANCE
2. Mishra MN: INSURANCE-PRINCIPLES & PRACTICE
3. Mitra JC: GUIDE TO MARINE FIRE & ACCIDENT INSURANCE
4. Srivastav & Balchand: Elements of Insurance (Hindi)
5. Kamta Prasad: Principles & Practice of Insurance (Hindi)
6. Anand Kumar: Preliminary Elements of Insurance(Hindi)