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B.COM HONOURS	SEMESTER 2	CALICUT UNIVERSITY	COURSE CODE: COM2MN106

LIFE INSURANCE: FUNDAMENTALS AND APPLICATIONS

EXAM REVISION NOTES

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MODULE I

INTRODUCTION TO LIFE INSURANCE

Definition and Fundamental Legal Principles of Insurance

Economic and Legal Conception of Insurance: From an economic standpoint, Insurance is a sophisticated cooperative risk-transfer mechanism wherein the uncertain, potentially catastrophic financial losses of an individual or business entity are transferred to a professional risk-bearer (the Insurer) in exchange for a predetermined consideration termed the Premium.

Fundamental Legal Principles Applied to Life Insurance: Insurance contracts belong to a specialized legal class known as contracts of speculation and good faith, governed by cardinal common law doctrines:

Principle of Insurable Interest

- **Crucial Timing in Life Insurance:** Insurable interest must exist at the inception (commencement) of the contract.
- **Relationships:** A person has unlimited insurable interest in their own life; spouses have mutual insurable interest; business partners have mutual insurable interest; creditors have insurable interest in the life of debtors up to the loan amount.

Non-Applicability of Principle of Indemnity

- An individual can hold multiple life insurance policies across differing insurance companies, and each insurer must pay the full contractual Sum of assured upon death!
- The companion doctrines of Subrogation (insurer taking over legal rights to sue negligent third parties) and Contribution (insurers sharing loss proportionally) do NOT apply to life insurance death claims.

Historical Evolution of Life Insurance: Global Indian Milestones

Chronological Evolution of Life Insurance in India: The development of the Indian life insurance industry is divided into four distinct historical eras:

- **1818:** Oriental Life Insurance Company established in Calcutta (first life insurer on Indian soil; charged 20% higher discriminatory premiums to native Indians).
- **1870:** Bombay Mutual Life Assurance Society formed (first insurer to insure Indian lives at standard par rates).
- **1912 amp; 1938:** Indian Life Assurance Companies Act 1912 passed.
- **January 19, 1956:** Government of India promulgates Ordinance nationalizing life insurance.
- **September 1, 1956:** Life Insurance Corporation Act of 1956 takes effect.

Role of Life Insurance in Financial Planning Human Life Value

The Human Life Value (HLV) Concept: Formulated in 1927 by Dr. Solomon S.

- **Gross Annual Income:** Projected annual professional earnings.
- **Personal Consumption:** Deduct personal taxes, personal living expenses, and personal discretionary costs consumed exclusively by the breadwinner (typically 20% to 30%).
- **Net Annual Family Contribution:** Capital surplus transferred to family dependents = Gross Earnings−Taxes−Personal Consumption.
- **Working Horizon (n):** Remaining working years until retirement = Retirement Age−Current Age.
- **PVIFA(r%, n):** Present Value Interest Factor of an Annuity discounted at real discount rate (r): PVIFA=r1−(1+r)−n

Taxation Framework of Life Insurance under Indian Tax Laws

Tax Benefits on Premium Outlays: Section 80C: Under Section 80C of the Income Tax Act, 1961, individual taxpayers and Hindu Undivided Families (HUFs) can claim a deduction from gross total income for life insurance premiums paid during the financial year, subject to the aggregate Section 80C ceiling of ₹1,50,000 per annum:

- **Eligible Insured Lives:** Individual can claim premiums paid for self, spouse, and children (whether minor, major, dependent, or married).
- The Statutory 10% Sum Assured Cap (Section 80C(3A)): For policies issued on or after April 1, 2012, deduction is capped at a maximum of 10% of the actual minimum capital Sum of assured.
- **Example:** If a policy has a Sum of assured of ₹10,00,000 and annual premium of ₹1,40,000, the permissible deduction is strictly capped at 10%×Rs.
- For persons with severe disability (under Section 80U/80DDB), the threshold is relaxed to 15% of Sum of assured.
- **Minimum Holding Mandate:** If a regular premium life policy is terminated, lapsed, or surrendered within 2 years (or within 5 years for single premium policies), the tax deductions claimed in preceding years are reversed and taxed as income in the year of termination.

TDS on Taxable Life Insurance Payouts (Section 194DA):

Statutory Powers and Regulatory Functions of IRDAI: Under Section 14 of the IRDA Act, 1999, the Authority exercises comprehensive supervisory, legislative, and adjudicatory powers:

Market Licensing Registration

- Issues, renews, modifies, withdraws, suspends, or cancels registration certificates of life insurers, general insurers, and reinsurers.
- Prescribes minimum equity capital requirements (minimum ₹100 Crores for life/general insurers, and ₹200 Crores for reinsurers).

Prudential Solvency Margin Regulation

- 50 (150%) of the Required Solvency Margin (RSM).
- Ensures the insurer maintains surplus capital assets over policyholder actuarial liabilities, preventing corporate insolvency.

Institutional Grievance Redressal Architecture: The Insurance Ombudsman: To resolve policyholder grievances against insurance companies quickly and inexpensively without requiring expensive litigation in civil courts, the Government of India established the Insurance Ombudsman scheme under the Insurance Ombudsman Rules, 2017:

- **Jurisdiction:** Entertains complaints regarding total or partial repudiation of claims, disputes over premium payments, delay in claim settlement, non-issuance of policy contracts, and misrepresentation of policy terms.
- **Monetary Ceiling:** An Insurance Ombudsman can award compensation up to a maximum of ₹30,00,000 (₹30 Lakhs) per complaint.
- **Binding Nature:** The Ombudsman's award is strictly binding on the insurance company, which must comply within 30 days.

MODULE II

TYPES OF LIFE INSURANCE POLICIES

Pure Protection Traditional Life Policies: Term and Whole Life

Level Term Assurance

Term with Return of Premium (TROP)

Endowment Assurance Policies: The Dual-Benefit Paradigm: An Endowment Policy is a traditional life insurance contract combining financial risk protection with systematic capital accumulation.

- The policyholder upon surviving to the end of the contracted endowment term (Maturity Benefit); OR

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- The designated nominees if the insured dies at any time during the policy term (Death Benefit).

Policy Values: Surrender Value, Paid-Up Value, and Policy Loans: Traditional life insurance policies develop contractual non-forfeiture options if the policyholder cannot continue paying premiums:

- **Guaranteed Surrender Value (GSV):** If premiums have been paid for at least 2 consecutive years, the policyholder can terminate the contract and receive a statutory percentage of the total premiums paid (excluding the first year's premium and taxes).
- **Special Surrender Value (SSV):** Insurers calculate a higher, actuarially determined surrender value based on the discounted present value of the paid-up Sum of assured and accrued bonuses.
- **Policy Loan Facility:** Policyholders can pledge their traditional life policy as collateral to obtain a loan from the insurer, typically up to 80% to 90% of the accumulated surrender value at competitive interest rates.

Core Performance Benchmarks: Claim Settlement Persistency Ratios

Actuarial Underwriting Premium Calculation Mechanics

Medical vs. Non-Medical Underwriting

- **Non-Medical Underwriting:** Policies approved without physical medical examination, based on the proposer's age, declared health history, and financial income proof (typically for younger lives and lower Sum of assured limits).
- **Medical Underwriting:** Mandates clinical diagnostic tests (Blood tests, lipid profile, HbA1c, Liver/Kidney function, ECG, chest X-ray) when the proposed Sum of assured is large or the proposer is aged 45+.

Advanced Analytical Dimensions and Applied Commerce Casework (Analytical Division 1): The concepts, statutory provisions, operational accounting rules, and quantitative models detailed in this module carry critical implications for enterprise governance, audited disclosure standards, and executive fiscal decision-making.

Executive Synthesis, Governance Policy, and Continuing Professional Mastery: To conclude, mastery of the concepts examined throughout this module empowers students and commerce executives to evaluate complex fiscal data with precision, independence, and analytical clarity.

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- **Ledger amp; Voucher Integrity:** ; Companies Act (Sec.
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MODULE III

POLICY HOLDERS AND LIFE INSURANCE CLAIMS

Policyholders' Rights, Responsibilities, Nomination Assignment

Statutory Rights of the Policyholder

- **Right to Policy Document amp; Terms:** Insurer must deliver the formal physical or digital policy contract within 30 days of proposal acceptance.
- **Free-Look Cancellation Period:** Policyholders have the absolute right to review policy terms for 15 days (or 30 days for electronic policies or distance marketing).
- **Right to Nomination amp; Assignment:** Unrestricted statutory right to nominate beneficiaries or assign policy title.
- **Right to Non-Forfeiture Benefits:** Statutory entitlement to receive paid-up value or surrender value once premiums have been paid for the qualifying statutory period.

Nomination under Section 39 of the Insurance Act, 1938: Nomination is the statutory authorization conferred by the policyholder on a designated individual (the Nominee) to receive the policy claim proceeds in the event of the insured's death.

- **Registration:** Nomination can be registered at the time of proposal or incorporated subsequently by written endorsement on the policy bond.
- **Revocability:** Nomination is completely revocable; the policyholder can change, cancel, or substitute nominees multiple t × during the policy currency without the nominee's consent.
- **Minor Nominee amp; Appointee:** If a minor is named as nominee, the policyholder must legally appoint an adult Appointee to receive claim proceeds in trust on behalf of the minor should death occur before the minor attains age 18.

Assignment under Section 38 of the Insurance Act, 1938: While nomination merely identifies a claims receiver upon death, Assignment is the formal, legal transfer of the entire title, legal rights, and beneficial ownership of the insurance policy from the policyholder (the Assignor) to another person or institution (the Assignee).

Absolute Assignment

- **Legal Nature:** Irrevocable and unconditional transfer of all policy rights, title, and interest without any reversionary clause.
- **Standard Commercial Use:** Transferring a policy to a spouse or child out of natural love and affection, or selling/trading an endowment policy for valuable financial consideration.

- **Assignee Control:** The assignee can surrender the policy, take a policy loan, or assign it to a third party without the original policyholder's permission.

Policy Protection under the Married Women's Property Act, 1874 (MWPA)

- **Immunity from Creditors:** Neither commercial business creditors, lenders, nor bankruptcy courts can attach, seize, or liquidate the MWPA policy to satisfy the husband's debts!
- **Immunity from Tax Authorities:** Cannot be attached by the Income Tax Department to recover tax arrears.
- **No Surrender or Loan without Trustee Consent:** The husband cannot alter nominees, surrender the policy, or borrow against it.

Premium Servicing Modes and Frequency Loading: Life insurance premiums represent the contractual consideration payable by the policyholder to keep the risk cover in force.

Policy Lapses and Consequences of Default: If the renewal premium remains unpaid upon the expiration of the statutory grace period, the policy enters a state of Lapse:

- **Term Insurance Policies:** All risk coverage terminates immediately.
- Traditional Policies with Less than 2 Years' Premiums: All life cover ceases, and all premiums previously paid are completely forfeited to the insurer without any paid-up or surrender value.
- Traditional Policies with 2 or More Years' Premiums Paid: The policy does not lapse completely; it automatically acquires a Reduced Paid-Up status.

Taxonomy of Life Insurance Claims: A Claim is the ultimate realization of the insurance covenant, wherein the insurer discharges its primary contractual obligation by paying the agreed financial benefits upon the occurrence of the specified insured event.

- **Survival Claims:** Periodic milestone payouts under Money-Back policies paid automatically during the policy term upon survival.
- **Maturity Claims:** Payout of the full Sum Assured plus total accrued reversionary and terminal bonuses upon the insured surviving the full contracted term.
- **Death Claims:** Payout of the Sum Assured to designated nominees following the untimely death of the life assured.

Early Death Claims (Within 3 Years of Inception/Revival)

- **Definition:** Death occurring within three years from the date of policy issuance, risk commencement, or latest policy revival.
- **Forensic Scrutiny:** Triggers mandatory forensic investigation by independent claim investigators to verify whether the insured suppressed pre-existing chronic conditions, cancer diagnoses, or fraudulent identity.
- **Legal Scrutiny:** Insurer can investigate hospital admission logs, historical medical records, and employer leave records.

Step-by-Step Death Claim Settlement Workflow: The processing of a death claim follows a disciplined chronological workflow:

Settlement Options, Beneficiary Protections IRDAI Timelines

Lump-Sum Payout

Annuity Conversion

Summary Evaluation Matrix of Life Insurance Claims Management

- **Survival Benefit:** Surviving specified policy milestone; Policyholder; Policy in-force status, premium clearance; Paid automatically on due date
- **Maturity Claim:** Surviving contracted policy term; Policyholder; Original policy bond, age proof admission; Within 15 days of term end
- **Non-Early Death Claim:** Death after 3 continuous years; Beneficial Nominee / Legal Heir; Proof of death, identity of claimant (Sec 45 applies); Within 30 days of documents
- **Early Death Claim:** Death within 3 years of inception; Forensic scrutiny of proposal disclosures amp; medical history; Up to 120 days (with investigation)

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MODULE IV

EMERGING TRENDS IN LIFE INSURANCE

Innovative Products: ULIPs, Micro-Insurance, Combos Group Schemes

Transparent Charge Structure of Modern ULIPs (Post-2010 SEBI/IRDAI Reforms):

- **Premium Allocation Charge (PAC):** 0% PAC, ensuring 100% of the premium enters investment units!
- **Mortality Charges:** ; Calculated based on the Sum at Risk (Sum Assured−Current Fund Value) and the attained age of the policyholder.
- **Fund Management Charge (FMC):** 35% per annum, making ULIPs highly competitive with mutual fund expense ratios.
- **Policy Administration Charge:** ; Capped under IRDAI guidelines; many new-age digital products waive this charge entirely.

Group Life Insurance Schemes: , an employer, bank, or professional association). The premium is paid either wholly by the employer (non-contributory) or jointly by the employer and employees (contributory):

- **Group Term Life Insurance (GTLI):** , 3x annual salary); zero individual medical tests up to Free Cover Limit (FCL); low wholesale group premium rates.
- **Group Gratuity Schemes:** ; Accumulates an actuarial fund managed by the life insurer; contributions are 100% tax-deductible as business expenses for the corporate sponsor.
- **Group Superannuation Schemes:** ; Structured retirement accumulation; enables employees to commute up to one-third or one-half of their corpus tax-free at retirement.
- **Credit Life Insurance:** ; Decreasing term cover linked to outstanding loan balance; protects borrower's family and lender against default upon death.

Multi-Channel Distribution Architecture and Sales Dynamics

The 7-Step Consultative Selling Process in Modern Life Insurance: Modern professional life insurance distribution has evolved from high-pressure "product pushing" into a disciplined, fiduciary Consultative Financial Advisory Model:

Phase 2: Solution Fulfillment

- **Solution Presentation:** Recommending tailored insurance solutions based on scientific Human Life Value (HLV) calculations, accompanied by mandatory benefit illustrations.
- **Overcoming Objections:** Addressing consumer doubts regarding premium affordability, policy duration, or claims procedures transparently.

- **Closing amp; Underwriting:** Securing proposal signatures, collecting initial deposit, and guiding the client through medical checks.
- **After-Sales Servicing:** Delivering policy contracts, annual portfolio reviews, nominee updates, and claims assistance.

Technological Innovations Reshaping the Insurance Value Chain: The convergence of advanced data analytics, ubiquitous mobile connectivity, artificial intelligence, and cloud computing—collectively designated as InsurTech—is dismantling traditional paper-bound insurance practices across underwriting, customer onboarding, and claims adjudication:

Internet of Things (IoT) Wearable Health Devices

- **Interactive "Vitality" Wellness Policies:** Insurers partner with fitness tracking brands (Apple Watch, Fitbit) to monitor policyholders' daily physical step counts, sleep cycles, and active workouts.
- **Dynamic Premium Discounts:** Policyholders who maintain healthy, active lifestyles receive annual renewal premium rebates, gym membership subsidies, and wellness rewards, transforming insurance from a passive death benefit into an active health partner.

Cyber Security and Digital Personal Data Protection (DPDP Act, 2023): As life insurers aggregate vast repositories of sensitive customer data—including biometric identifiers, financial statements, clinical pathology reports, and genomic family histories—robust data governance has become a paramount regulatory mandate:

- Digital Personal Data Protection Act (DPDPA), 2023: Mandates explicit, informed consent before processing personal health data, enforces strict purpose limitation, and imposes severe financial penalties (up to ₹250 Crores) for data breaches.
- IRDAI Information amp; Cyber Security Guidelines: Requires insurers to establish Chief Information Security Officers (CISOs), maintain dual air-gapped data backups, conduct annual vulnerability assessments and penetration testing (VAPT), and report security breaches within 6 hours.

Macroeconomic Metrics: Insurance Penetration vs. Insurance Density: Economists and international rating agencies evaluate the development of a nation's insurance sector using two standardized quantitative metrics:

- **Life Insurance Penetration:** 8% and mature markets like Taiwan and South Korea exceeding 7% to 11%).
- **Insurance Density:** Stands at approximately 70to75 per capita in India (compared to global averages exceeding 380,andadvancedeconomiesexceeding2,000+).
- **The Critical Under-Insurance Protection Gap:** Swiss Re estimates India's mortality protection gap at over 83%.

The IRDAI "Bima Trinity" and Vision 2047: To achieve the national vision of "Insurance for All by 2047" (coinciding with the centenary of Indian independence), IRDAI has rolled out the transformative Bima Trinity architecture:

Bima Vaahak (Women-Led Grassroots Workforce)

Ethical Issues in Insurance Sales and Marketing: Because life insurance is an intangible, complex, long-term legal product characterized by substantial information asymmetry between financial agents and consumers, the industry is vulnerable to serious ethical violations:

Policy Churning (Twisting)

- **The Churning Practice:** Persuading a policyholder to lapse, terminate, or surrender an existing, healthy in-force policy after 3 to 5 years, purely to funnel those funds into purchasing a new policy.
- **Unethical Motive:** Driven exclusively by the agent's desire to capture high first-year commissions (20% to 35%), while severely harming the policyholder who forfeits accumulated surrender values and faces higher mortality charges due to advanced age.

Master Synthesis: Contemporary Evolution of Life Insurance

- **Core Products:** Endowment amp; Money-Back plans; Pure Term + ULIPs + Annuities; Bima Vistar composite combo covers
- **Distribution:** Physical tied agency force; Bancassurance + Web Aggregators + D2C; Bima Sugam unified exchange + Bima Vaahaks
- **Underwriting:** In-person physical medical testing; Digital tele-medical + CIBIL/KYC scoring; Real-time AI biomarker scans amp; IoT wearables
- **Claims Processing:** Physical paper certificates (30–90 days); Digital document upload amp; NEFT payout; Instant blockchain-based parametric settlement

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