

# Why to Buy Life Insurance?



**IFE Academy**

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As a parent, you would want to give your best to your family. Having insurance coverage can give you the **PEACE OF MIND** that your family will be taken care of - even if you are not around.

**Give your family a financial safety net with  
Life Insurance**

# Why to Buy Life Insurance?



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### **About this book**

Life Insurance gives a greater sense of financial security while developing behaviour for consistent saving. It can be used as a retirement planning tool as well. It is more of an emotional decision and it gives a sense of satisfaction that the loved ones are taken care of.

We have compiled basic information you need to know about life insurance. We hope you would find it informative and useful.

Happy Reading!

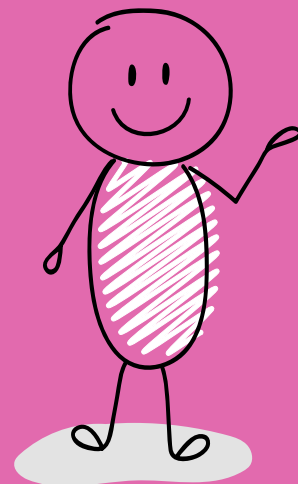
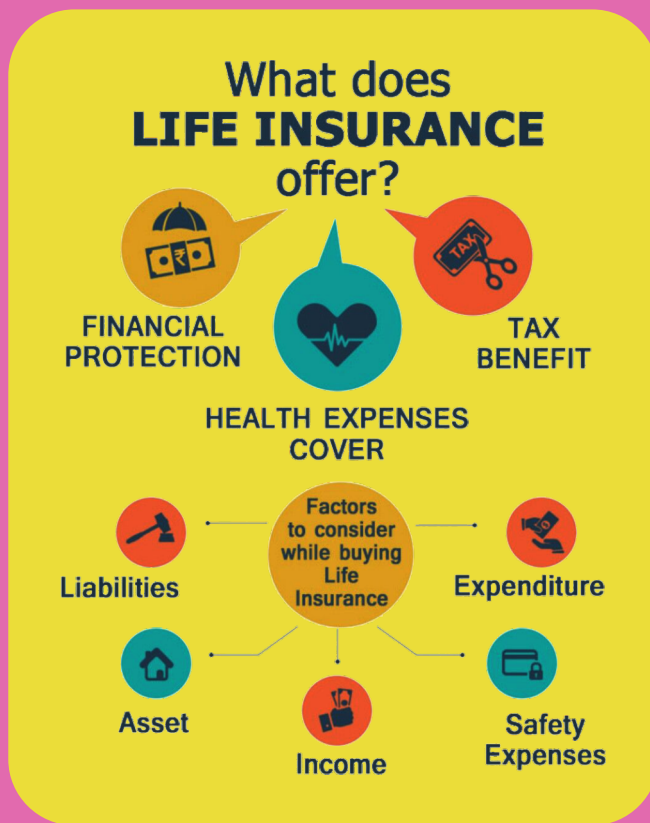
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To Provide Security, Old age Pensions, as an Investment or saving mechanism, as collateral for Loans, for Tax benefits.



## Why buy Insurance?

Insurance Regulatory and Development Authority of India is the regulator for the insurance industry in India.



Segments of Insurance in India –

- i. Life Insurance companies (life insurance, annuities & pension products)
- ii. General insurance companies (health & property insurance)



**Insurance in India**

- The first life insurance company to be set up in India was an English company - The Oriental Life Insurance Co.Ltd.
- The first Indian insurance company was Bombay Mutual Assurance society limited which was formed in 1870 in Mumbai
- The oldest insurance company in India which is currently in business is National Insurance Company Limited. It was founded in 1906.
- The first non-life insurer to be established in India – Triton Insurance Company limited.



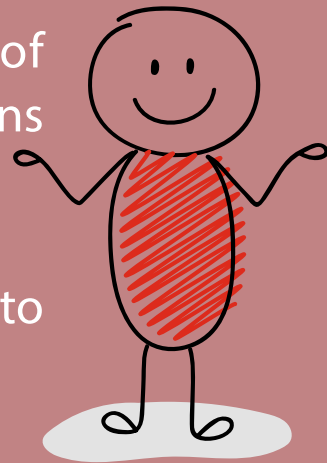
## **“THE FIRST” Facts**

The element of guarantee in a life insurance contract implies that life insurance is subject to stringent regulation and strict supervision.

The insurer enters into an insurance contract with each person who seeks to participate in the scheme. Such a participant is known as insured.

An institution, known as Insurer carries out a process of pooling funds, underwrites the risk and compensating the unlucky few.

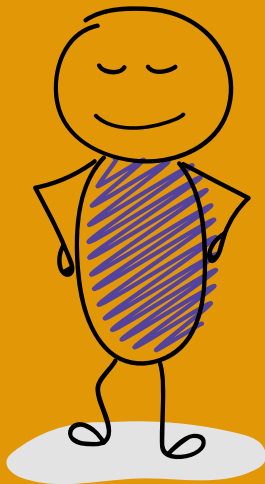
Pooling involves collection of numerous individual contributions or premiums from various persons. These persons have similar assets which are exposed to similar risks.



## Concept of Life Insurance



- Burden of risk refers to the costs, losses and disabilities one has to bear as a result of being exposed to a given loss situation /event.
- Insurance is only one of the methods by which individuals may seek to manage their risks. Here they transfer the risks they face to an insurance company.
- Insurance is a method for providing protection against the financial losses due to any accident, death, fire, natural calamities, theft or any other unforeseen circumstances.



## Risk Management

- A contract is an agreement between parties, enforceable at law. The life insurance contract is covered under the provisions of the Indian Contract Act, 1872.
- Insurance is a legally valid and enforceable contract between two parties. Insurer (insurance company) and insured (the individual or entity seeking insurance protection).
- The insurance policy is a legal contract between insurer and the policyholder. As is required for any contract, it has a proposal and its acceptance.



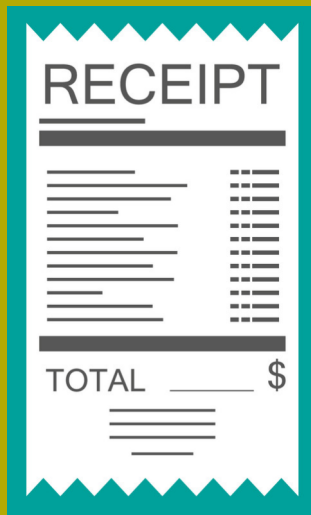
## What is an Insurance policy?

- Premiums collected in early years of the contract are held in trust for the benefit of its policyholders. The amount so collected is called a "Reserve".
- Uberrima fidae or "in utmost good faith" means every party to the contract must disclose all material facts relating to the subject matter of insurance.



## Premium

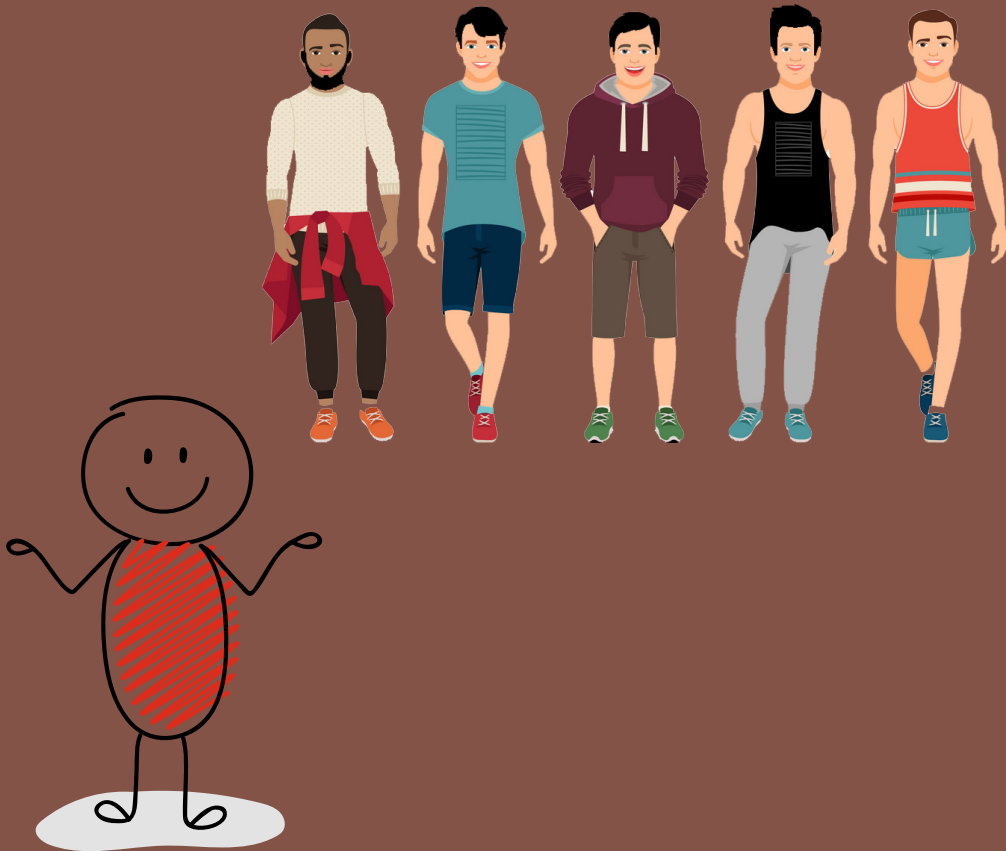
An insurance contract commences when the life insurance company issues a first premium receipt (FPR). FPR is the evidence that the policy contract has begun.



## First Premium Receipt

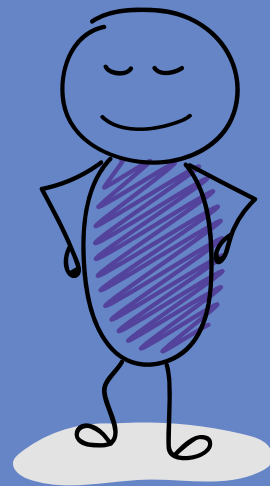


The cost of life insurance is dependent on two factors, age and health. Premiums are lower when a person is young and healthy.



## Factors determining Premium

- Shop around before buying a Life Insurance policy
- Consult brokers who work with various companies to get a better idea and choices.
- Most Life Insurers offer rebate for Annual Mode and higher Sum Assured.
- It requires medical test in few cases and the rates are lowest for a healthy person



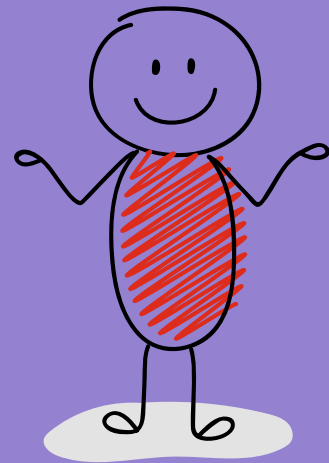
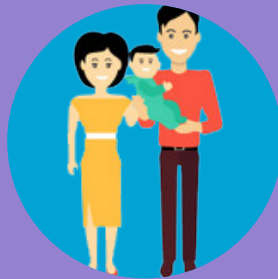
**Save on Life Insurance premiums**

Medical exam while buying a cover typically covers height, weight, BP, medical history, blood & other routine testing. It is better to undergo medicals.



## Medical Check

The life events that should definitely trigger an insurance review are marriage, the birth of a child, paying off the mortgage, and retirement.



## Review

The life insurance company you choose should be financially secure have a good claims payment history and good customer service.



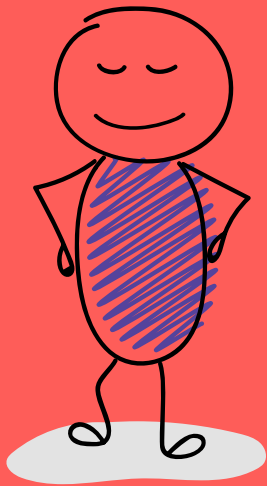
## How to choose the Insurer?

- Term insurance is valid for a certain time period that has been specified in the contract. There is no savings or cash value element accruing to the insured.
- Term Insurance is suitable for a person who is looking at risk cover at a cost effective premium.



## Term Insurance

A whole life policy is ideal for one, who is planning to care for his spouse or creating wealth to be passed on to the next generation.



## Whole Life Policy

An endowment policy is a life insurance contract which pays a lump sum after a specific term (on its 'maturity') or on death. Typical maturities are ten, fifteen or twenty years up to a certain age limit.



## Endowment Insurance Policy



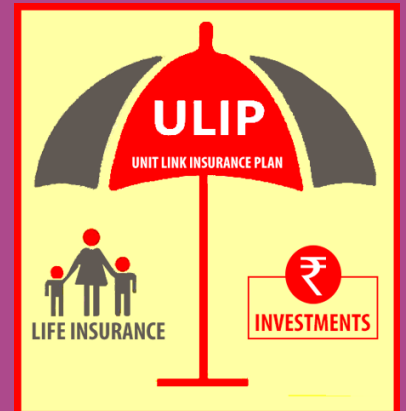
Money Back policy is a variant of endowment plans in India. It is an endowment plan with the provision for return assured sum in periodic instalments.



## Money Back Insurance Policy

ULIP (Unit Linked Insurance Plan) is essentially a combination of an Insurance & investment in which investment decisions are left with the policyholder.

Under ULIP, the benefits are wholly or partially determined by the value of units credited to the policyholder's account at the date when payment is due.



## Unit Linked Insurance Plan (ULIP)

Riders in a policy means that an additional feature/ benefit is added to the base plan at an additional (nominal) cost.

#### Common life insurance riders



Accelerated death benefit rider



Accidental death benefit rider



Critical illness rider



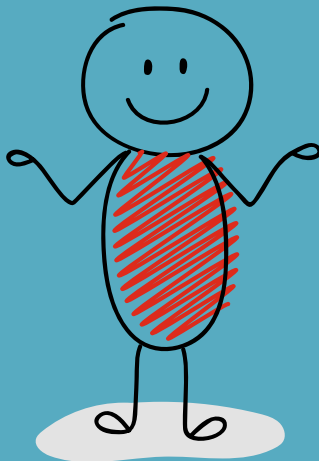
Disability income rider



Guaranteed insurability rider



Long-term care rider



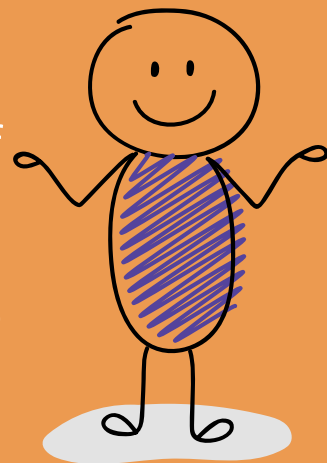
## Life Insurance Riders

Participating policies are insurance policies which provide both guaranteed and non-guaranteed benefits (e.g. in the form of bonuses).

Out of the premium paid, after deducting the mortality charges, the Insurer would invest a portion of the money collected in a range of assets such as bonds, equities, cash, deposits or other assets.

The policyholders are allowed to participate and share in the profits of the participating fund. This is paid in the form of bonuses.

Depending on the performance of the participating fund, bonuses are declared annually. Once it is added or vested in the policy, it forms part of the guaranteed benefit of the policy.

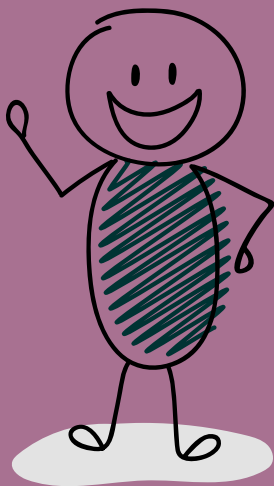


## Participating Policies

A limited premium payment plan is a plan where you pay the premium for a shorter span of time and enjoy the benefits of an insurance cover for a longer time.

This option is preferred by people who would not want a long term commitment.

Under Regular Payment option, premium is paid throughout the policy term.



## Limited Payment Option

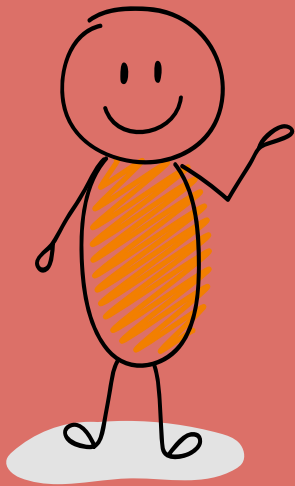
Group life insurance is purchased by a well-defined group, such as the company you work for or a professional organization you belong to.

In a Group Policy, the employer pays for or provides benefits, they determine coverage limits, control the policy, and can change or discontinue at anytime.



## Group Life Insurance

By combining the advantages of different life insurance products, you can help secure your family's financial future. Like diversifying an investment portfolio, choosing a few different life insurance options can offer you a broader range of coverage opportunities.



## Balancing Life Insurance

Group coverage could be your base layer. Then you might add an individual insurance layer, based on what you might need at different stages of your life, and factoring in your budget. Many people fill the largest part of their individual insurance need with term life insurance, given the lower cost. Based on budget and the possible need to transfer wealth at some point, many add a layer of other insurance such as Endowment now, while they are in good health, or revisit it later in life.



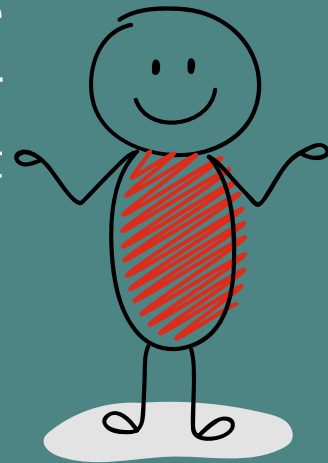
Endowment



Term Insurance



Group Insurance

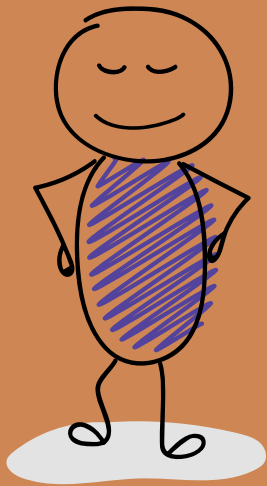


## Balancing Life Insurance



Depending on your family's needs and goals, you will need to make the choices that best address your individual situation. By balancing the best of group and individual life insurance, you can plan for securing your Financial Goals.

# Financial



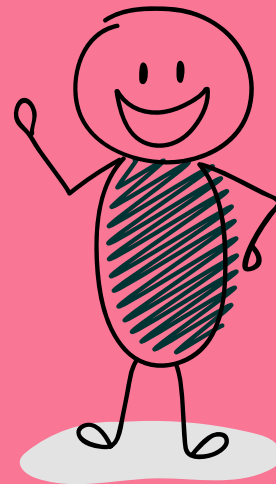
## Balancing Life Insurance

Some experts suggest the Optimum cover based on a scientific formula "human-life value."

It is a figure that reflects the present value of an individual's future earnings on a tax-adjusted basis.

Some advisors undertake an exhaustive needs-based analysis that takes a number of factors into account, such as how much it would take to pay off mortgages, send kids to college and replace lost income.

Or simply, as a rule of thumb, 5 to 10 times of Annual Income may be considered for taking an Insurance Cover.



**How much Cover do you need?**

Human Life Value (HLV) concept considers human life as an asset that earns an income. It values human life based on an individual's expected net future earnings.



## What is HLV?



Insurance



Assurance

Both insurance and assurance are financial products offered by companies operating commercially.

Insurance provides cover against a risk while assurance covers an event that is definite e.g. death, which is certain. Assurance policies are associated with life cover.



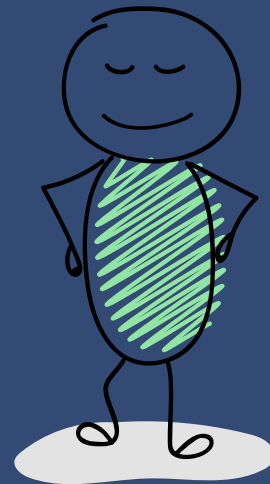
**What is the difference between Insurance and Assurance?**

After you purchase a Life Insurance policy, it can be cancelled within 14 days of receiving policy document (known as "free-look period").



## Free-look period

Section 80C and 10(10D) of the Income Tax Act, covers tax benefits on life insurance. Under section 80C, premiums paid towards a life insurance policy qualify for a deduction up to ₹1.5lakh, while Section 10(10D) makes income on maturity tax-free if the sum assured is at least 10 times the premium.



## Tax benefits on Life Insurance



# Is my Life Insurance on track?

Life insurance is the foundational aspect of your financial plan, but it's also a component that requires regular evaluation. Ask yourself these questions to make sure you have the right kind and amount of life insurance.

Do I have the right type of coverage?

Term or Traditional based on the requirements.

Do I have enough coverage?

Life events play a significant role.

Does my life insurance support my objectives?

To replace income, to fund future goals, retirement etc.,

Reviewing policies periodically is part of long-term financial planning process.



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## About IFE Academy

IFE Academy was established in 2011 as a Not-for-Profit entity to promote Financial Education. IFE Academy conducts Investor Awareness Programs across the country with the support of other market participants. [www.ifea.in](http://www.ifea.in) is a comprehensive website on Financial Education. It has various sections such as Videos, Puzzles & Games, Financial Calculators and Library. It gives a holistic view on financial education combining various aspects such as Savings, Investments, Credit, Insurance and Pension at a single place. IFE Academy periodically publishes Investor Educational materials and distributes it to general public.

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