

# UDHNA COLLEGE

## FYBCOM SEM 1

### SUB: ELEMENTS OF BANKING & INSURANCE

#### **CH-2 Life Insurance**

##### ❖ **Meaning and Definition of Life Insurance**

###### ➤ **Meaning of Life Insurance**

- Life insurance is a contract between an individual (called the **policyholder**) and an insurance company (called the **insurer**), where the insurer promises to pay a **certain sum of money** to the nominee (beneficiary) upon the **death of the insured** or after a fixed period (in case of maturity), in exchange for regular payments called **premiums**.
- It is a way to **provide financial security** to the family of the insured person in case of their untimely death.
- Life insurance is a contract between an individual (policyholder) and an insurance company, where the insurer promises to pay a specified sum of money (called the **sum assured**) to the nominee/beneficiary upon the death of the insured person or after the completion of a certain period, in return for regular premium payments.
- It serves as a tool of financial protection, ensuring that the family or dependents of the insured person are financially secure even in the event of the insured's death.

##### ❖ **Definitions of Life Insurance**

1. **According to the Insurance Regulatory and Development Authority of India (IRDAI):**
  - "Life insurance is a contract under which the insurer, in consideration of premium payments, agrees to pay a sum of money either on the death of the insured person or on the expiry of a fixed period."
2. **According to the U.S. Insurance Institute:**
  - "Life insurance is a contract that pledges payment of a sum of money to the person assured (or to his nominee) on the happening of a particular event contingent on the duration of human life."
3. **In Simple Terms:**
  - "Life insurance is a protection plan that offers financial help to your family after your death or after a specific time period."
  - "Life insurance is a contract that provides financial compensation in case of death or disability of the insured person."

## ❖ Key Terms to Understand

Term	Explanation
<b>Policyholder</b>	The person who buys the insurance policy
<b>Insured</b>	The person whose life is covered
<b>Nominee/Beneficiary</b>	The person who receives the money after the death of the insured
<b>Premium</b>	The amount paid regularly for the policy
<b>Sum Assured</b>	The amount promised to be paid by the insurer

## ❖ Advantages of Life Insurance

Life insurance offers several important benefits for individuals and their families. It is not just a protection tool but also a way to build savings and financial discipline.

### 1. Financial Security for Family

- Life insurance ensures that the family of the insured person receives a **lump sum amount** in case of the insured's death. This helps the family maintain their lifestyle, pay off debts, or manage daily expenses.

### 2. Risk Coverage

- Life is uncertain. Life insurance protects against the **risk of premature death**, offering peace of mind that loved ones will be financially supported.

### 3. Long-Term Savings

- Many life insurance policies (like endowment or money-back plans) also act as **savings plans**, helping individuals save for long-term goals such as **children's education, marriage, or retirement**.

### 4. Tax Benefits

- Under Section 80C of the Income Tax Act (India), **premiums paid** for life insurance policies are eligible for **tax deductions**. Also, **maturity proceeds** are usually **tax-free** under Section 10(10D).

### 5. Loan Facility

- Some life insurance policies offer the option to take a **loan against the policy** after a certain period. This can be helpful in times of financial emergencies.

### 6. Encourages Financial Discipline

- Paying regular premiums helps individuals build a habit of saving money systematically.

## 7. Retirement Planning

- Certain life insurance products like **pension or annuity plans** help in **building a retirement corpus**, ensuring a steady income after retirement.

## 8. Peace of Mind

- Knowing that your loved ones are financially protected brings **emotional peace and mental comfort**, especially for people with dependents.

## 9. Wealth Creation (in ULIPs)

- Unit Linked Insurance Plans (ULIPs) combine insurance with **investment** opportunities, helping policyholders build wealth over time through market-linked returns.

### ❖ Procedure of Taking a Life Insurance Policy

- Buying a life insurance policy involves several important steps to ensure that the policy suits the needs of the individual and provides proper coverage.
- **Assessing Insurance Needs**
- The first step is to **evaluate your needs**—such as family responsibilities, future goals, income level, and debts.
- This helps determine the **type of policy** (term, endowment, ULIP, etc.) and **sum assured** (coverage amount).
- **Selecting the Right Insurance Policy**
- Compare different insurance policies offered by companies.
- Consider factors like:
  - Premium amount
  - Policy term
  - Benefits and riders
  - Claim settlement ratio of the company

### STEP: 1 Filling the Proposal Form

- Fill out the **application (proposal) form** with accurate personal, health, lifestyle, and financial details.
- This form is a **legal document** and forms the basis of the insurance contract.
- The individual, desirous of purchasing a life policy has to fill in the appropriate printed form of proposal with the help of the LIC agent. Such a proposal form can be obtained

either from the LIC agent or from LIC office without any cost. There are various types of forms for different types of schemes of life insurance.

- This proposal form is the basis for the insurance contract, and hence all the requisite facts must be disclosed therein. In this proposal form an individual is required to furnish the following information:
  - (i) Name, short name, father's name, permanent address, and nationality.
  - (ii) Details of the present occupation.
  - (iii) Employer's name and address, and duration of service
  - (iv) Sum assured/proposed for insurance, table and term, mode of payment, and the amount of instalment.
  - (v) Date and place of birth.
  - (vi) Object of insurance.
  - (vii) Name of the nominee and the relationship
  - (viii) Details of the previous insurance.
  - (ix) Full family history
  - (x) Details of any disease e.g. Sugar, Gout, T. B., Leprosy Cancer etc.
- When the applicant is a female adult, there is a further series of questions regarding pregnancy, maternity and disturbances, indicating trouble with the gynecologist. Female proposers have to give the other additional information such as educational qualification, average monthly income, source of income, marital status, husband's name, his income, occupation, and details about his own insurance.

### **STEP: 2 Declaration by the proposer**

- In filling in the proposal the principle of utmost good faith is to be followed.
- This declaration part is the most important part of the proposal form because on the basis of this declaration the contract of insurance depends.
- The object of signing a declaration is the confirmation by the assured that he has disclosed all the material facts related to the proposed risk and that this declaration along with the proposal form should be the basis of the contract.

### **STEP: 3 Age Proof**

Attach the necessary documents, such as:

- Birth date certificate issued from school or college authority (i.e. School Leaving certificate)
- S.S.C. certificate (in which the birth date has been mentioned).
- Certificate extract from municipal record at the time of birth.
- Affidavit about the age before the public prosecutor or before the magistrate.
- Certified extract of service register in case of Govt. employees.
- Passport issued by the passport authority of India etc.
- **Proof of identity** (Aadhaar card, PAN card)
- **Proof of age**
- **Proof of address**
- **Income proof** (for high-value policies)
- **Medical reports** (if required)

#### **STEP: 4 Medical Examination (if required)**

- The proposer has to submit a medical report from an authorized medical practitioner appointed by the LIC in this behalf.
- A full medical checkup is done by the doctor and the report is send to the company along with the opinion whether he considers the life as standard or otherwise and in his opinion the proposal is to be accepted at ordinary rates of premium.
- Depending on the **age, sum assured, and health declaration**, the insurance company may ask for a medical check-up.
- This is done to assess the risk to the insurer.
- The report contains the height, weight, B.P., chest, position of the lungs etc.
- The doctor should send the report directly to the LIC and not through the agent. He should keep a complete record of every proposer examined by him in a diary supplied to him by LIC.

#### **STEP: 5 Agents' confidential report**

- The LIC agent has to give the full facts about health, habits, previous illness, and source of income. However, the report should contain the following information:
  - Proposer's name, address, and occupation (previous as well as present).

- Proposer's financial status and nature of duties.
- Details about the previous illness or any operation.
- Details about health and habits.
- Agent's own recommendation.

#### **STEP: 6 Consideration over the proposal form by LIC**

- After receiving the proposal form, the medical report, the agent's confidential report, and the hazard report of the branch manager or development officer, all the papers are sent to the branch offices for scrutiny.

#### **STEP: 7 Acceptance of the proposal**

- If the proposal and other relevant papers are found adequate and required (first) premium is paid, the proposal is registered in the books of LIC, allotting a proposal number.
- The proposal index card is prepared, and the papers are put up before the underwriter for making the decision.
- The underwriter, who is a person specialised in the selection of risk, now reviews the proposal form from all the pros and cons. If the proposal is found good (or valid), it is accepted. If the proposal discloses the life of a proposer to be substandard, then some restrictive clause, like a lien, is imposed.

#### **STEP:8 Receipt of the first premium**

- Usually, the proposal form is submitted along with the premium.
- The premium may be calculated on a yearly, half-yearly, quarterly, or monthly basis.
- Pay the premium through the available modes (online, cheque, ECS, etc.)
- Usually, on case of monthly basis, three months' premium is to be deposited, but in the case of the salary scheme, at least two months' premium is required. (Note that the minimum amount of premium should not be less than Rs. 10/- per month.)

#### **STEP:9 Commencement of Risk**

- As soon as the premium is paid, the contract becomes complete and the life risk is started.
- LIC is liable to pay the full amount of insurance in the event of premature death.
- The insured must pay the premium within the due date or within the grace period; otherwise, the company is not liable for any payment.

#### **STEP: 10 Issue of Policy**

- When the proposal is accepted, it turns into a policy, and a policy number is allotted to it.

- The policy is prepared in duplicate; the original one is sent to the insured, and the copy is retained as an office record at the branch office.
- The original policy is stamped as per the Indian Stamp Act.
- The policy bears the seal of the corporation and the signature of the competent authority.

### ❖ **Mediclaim Policy – Meaning and Explanation**

#### ➤ **Meaning of Mediclaim Policy**

- A **Mediclaim Policy** is a type of **health insurance policy** that provides **financial coverage** for medical expenses due to **illness, injury, or hospitalization**. The insurance company reimburses the expenses or provides **cashless treatment** at network hospitals.
- It helps protect individuals and families from the **high cost of medical treatment**.

#### ➤ **Definition**

- "**Mediclaim** is a health insurance policy that reimburses the policyholder for hospital and medical expenses incurred due to illness or accident during the policy period."

#### ➤ **Features of Mediclaim Policy**

Feature	Description
<b>Hospitalization Cover</b>	Covers expenses for hospital stay, surgery, room rent, etc.
<b>Cashless Facility</b>	Direct settlement at network hospitals without paying upfront
<b>Pre &amp; Post Hospitalization</b>	Covers expenses before and after hospitalization (like tests, medicines)
<b>Renewable Annually</b>	Usually valid for 1 year, can be renewed annually
<b>Individual or Family Floater</b>	Can be taken for one person or the entire family under one plan
<b>Tax Benefits</b>	Premium paid is eligible for deduction under Section 80D of the Income Tax Act

#### ➤ **Types of Mediclaim Policies**

1. **Individual Mediclaim Policy** – Covers one individual only.
2. **Family Floater Policy** – One sum insured is shared among all family members.
3. **Group Mediclaim Policy** – Given to employees of a company or members of an organization.
4. **Critical Illness Policy** – Covers specific major illnesses like cancer, heart attack, etc.

5. **Senior Citizen Mediclaim** – Specifically designed for people above 60 years of age.
6. **Jan Arogya Bima Policy** – Provides affordable health insurance coverage to economically weaker sections of society.
7. **Bhavishya Aarogya Policy** – A long-term health insurance plan that covers medical expenses in later stages of life.
8. **Overseas Medical Policy** – Offers medical coverage to individuals traveling abroad for emergencies and hospitalization.
9. **Videsh Yatra Mitra Policy** – A travel insurance policy providing health and accident coverage during foreign travel.

➤ **Benefits of Mediclaim Policy**

- Protects against **unexpected medical expenses**
- Offers **peace of mind** during health emergencies
- Allows **cashless treatment**
- Provides **tax benefits**
- Encourages **regular health check-ups**

➤ **What is Not Covered (Exclusions)**

- Pre-existing diseases (before waiting period ends)
- Cosmetic surgery
- Dental or vision treatment (unless due to accident)
- Injuries due to alcohol or drug abuse
- Self-inflicted injuries

➤ **Individual Medi-Claim Policy**

- An individual is granted this cover under an individual Mediclaim policy.
- The policies under this plan provide reimbursement of hospitalization /domiciliary expenses for illness/disease or accidental injury sustained during the policy period within India only.
- The liability in respect of all claims admitted during the period of insurance shall not exceed the sum insured for the person as mentioned in the schedule.

(A) Under the head of these legitimate expenses, the following entries can only be included.

- (1) Rent of the room, diet expenses, etc., in the hospital or nursing home.

- (2) Treatment expenses.
- (3) Visit fees of Surgeon, Anesthetist, Physician, Consultant specialist etc.
- (4) Expenses towards anesthesia, blood, oxygen, operation theatre, surgical instruments, medicines, examination tools, X-ray, diabetes, chemotherapy, radiotherapy, pace-maker, artificial limbs body cultures and tissues, physical organs etc.
- (B) In the prospect of the Mediclaim policy, it has been clearly mentioned that hospital/nursing home means any institutions in India established for indoor care and treatment of sickness and injuries and which has been registered as a hospital or nursing home with the local authorities and is under the supervision of registered and qualified medical practitioner and should comply with minimum criteria as under:
- (i) It should have at least 15 inpatient beds (or 10 beds in a class C town).
- (ii) Fully equipped operation theatre of its own, wherever surgical operations are carried out.
- (iii) Fully qualified nursing staff under its employment round the clock.
- (iv) Fully qualified doctor(s) should be in charge round the clock.
- (C) Expenses on hospitalization for a minimum period of 24 hours are admissible. However, this time limit is not applied to specific treatments such as treatments for diabetes, chemotherapy, radio therapy, eye-operation, lithotripsy in which the patients are discharged on the same day, and the treatment will be considered to be taken under hospitalization benefit.
- (D) An illness is treated as fresh if it reoccurs after 45 days; if it relapses within 45 days, it is considered a continuation of the same illness.
- (E) Medical expenses up to 30 days before hospitalization are covered under the Medi-Claim.
- (F) Medical expenses up to 60 days after hospital discharge are covered under the Medi-Claim.
- (G) Inadmissible Expenses under Medi-claim:
- Pre-existing diseases/illnesses/injuries before the start of the policy.
  - Treatment of diseases/illnesses/injuries occurring within 30 days of policy commencement.
  - Operations like cataract, benign prostate, hernia, hydrocele, piles, sinus, etc. in the first year.
  - Treatment of injuries/diseases caused by war, invasion, or war-like operations.
  - Cost of contact lenses, spectacles, and hearing aids.
  - Dental treatment or dental surgery.
  - Treatment for general debility, anemia, venereal diseases, convalescence, barrenness, pregnancy, self-injury, caesarean delivery, or similar conditions.
  - Expenses on vitamins and tonics.
  - Naturopathy treatment.

- (H) Age limit: The Medi-Claim insurance is available to persons between the ages of 5 years to 80 years.
- (I) Notice of claim:
- a. A preliminary claim notice with policy details, insured's name, illness/injury type, and doctor/hospital information must be submitted to the insurer within 7 days of hospitalization, injury, or death.
  - b. The final claim with hospital bills and receipts must be submitted to the insurance company within 30 days of discharge.
- (J) The insured can claim reimbursement for a health check-up at the end of every four claim-free years, up to 1% of the average sum insured, in addition to the cumulative bonus.
- (K) Renewal of insurance cover: A further period of 7 day from the date of expiry will be permissible in exceptional cases subject to health certificate from medical practitioner.
- (L) This Medi-claim policy is available for the total sum of Rs. 15,000 to Rs. 5,00,000.
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#### ❖ OPD In Health Insurance

##### ➤ What is OPD?

- **OPD** stands for **Outpatient Department**.
- It refers to **medical treatments or consultations** that do **not require hospitalization** (i.e., staying in the hospital for 24 hours or more).
- **OPD in health insurance** means that the insurance policy will **cover expenses** for treatments done **outside the hospital**, like:
  - Doctor consultations
  - Diagnostic tests (blood tests, X-rays)
  - Medicines
  - Minor procedures (like dressing or stitches)

##### ◆ Why OPD Cover is Important?

- Many people visit doctors without getting admitted to a hospital.
- These **day-to-day medical expenses** can add up over time.
- OPD cover helps reduce the financial burden by **reimbursing or covering** such costs.

##### ➤ Example of OPD Cover

#### Example:

Mr. Raj visits a doctor for a fever and gets a blood test and medicines. The total cost is ₹2,000.

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Since his health insurance includes **OPD cover**, he submits the bills and gets the amount **reimbursed** by the insurance company.

➤ **OPD vs Hospitalization Cover**

<b>Feature</b>	<b>OPD Cover</b>	<b>Hospitalization Cover</b>
Need to stay in the hospital?	✗ No	✓ Yes (24+ hours)
Includes doctor visits?	✓ Yes	✗ No
Includes tests/medicines?	✓ Yes	✗ No (unless hospitalized)
Claim process	Usually reimbursement	Cashless or reimbursement

➤ **What Does OPD Cover Include?**

- General physician or specialist consultation fees
- Pathology or diagnostic tests
- Medicines purchased from a pharmacy
- Minor procedures done in the clinic

➤ **Important Points:**

- Not all health insurance plans include OPD cover.
- OPD limits are usually **capped** (like ₹5,000 per year).
- Bills and prescriptions must be **submitted for reimbursement**.
- **OPD in health insurance** covers **medical expenses without hospitalization**, such as doctor fees, tests, and medicines. It is useful for managing **routine health expenses**.

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❖ **Workmen's Compensation Insurance Policy**

➤ **Meaning**

- Workmen's Compensation Insurance is a type of insurance policy that provides **financial protection to employers** against the legal liability to pay compensation to employees in case of:
  - Injury

- Disability
  - Disease
  - Death
- arising **out of and during the course of employment.**

- This policy is based on the **Workmen’s Compensation Act, 1923** (now referred to as the **Employees' Compensation Act, 1923**) in India.

➤ **Objective**

The main objective of this policy is to:

- **Protect workers** and their families from loss of income due to workplace accidents.
- **Protect employers** from the financial burden of compensation.

➤ **Who Should Take This Policy?**

- All businesses that **employ workers** or **manual laborers**, especially in **factories, construction, transportation, etc.**
- It is **mandatory** for employers under certain labor laws.

➤ **Key Features of the Policy**

<b>Feature</b>	<b>Description</b>
<b>Covers Legal Liability</b>	Compensation to employees for injury or death at work
<b>Covers Medical Expenses</b>	For treatment of workplace-related injuries
<b>Covers Disability</b>	Partial or total disability due to workplace accident
<b>Covers Occupational Diseases</b>	Illness caused due to the nature of employment
<b>No-Fault Compensation</b>	Compensation must be paid even if accident was not due to employer's negligence

➤ **Types of Risks Covered**

1. **Death** of the employee due to an accident at work
2. **Permanent Total Disablement** (e.g., loss of both limbs)
3. **Permanent Partial Disablement** (e.g., loss of one eye)

4. **Temporary Total Disablement** (e.g., bone fracture, bed rest)
5. **Occupational diseases** caused by the nature of work

➤ **Exclusions (What is Not Covered)**

- Accidents not related to employment
- Injury due to war, terrorism, or nuclear risks
- Intentional injury caused by employee
- Alcohol or drug abuse-related injuries

◆ **Benefits of Workmen’s Compensation Policy**

For Employees	For Employers
<b>Financial help during injury or death</b>	Protects from huge compensation costs
<b>Medical treatment cost covered</b>	Fulfills legal obligations
<b>Ensures job safety and dignity</b>	Reduces legal disputes and liabilities

Workmen’s Compensation Insurance is a **social security tool** that protects both the **employer and the employee**. It ensures that injured workers or their families receive fair compensation while helping employers fulfill their legal duties.

❖ **In Need for Workmen’s Compensation Insurance Policy in Today’s India**

**1. Rising Workplace Accidents**

- With the growth of **construction, manufacturing, mining, logistics**, and other labor-intensive sectors in India, the **risk of workplace injuries and accidents** has increased.
- Workmen’s Compensation Insurance ensures that **injured workers or their families** are compensated fairly and promptly.

**2. Protection for Low-Income Workers**

- Many workers in India come from **economically weaker sections**.
- If they suffer injury or disability, they may lose their **only source of income**.
- This policy helps provide **financial security** to them and their families

**3. Legal Requirement**

- Under the **Employees’ Compensation Act, 1923**, it is **mandatory** for employers in many sectors to provide compensation for work-related accidents or diseases.

- The insurance policy helps employers **comply with the law** and avoid penalties or legal action.

#### 4. Growth of Small and Medium Enterprises (SMEs)

- India has a large number of **SMEs and startups**, which often lack proper HR or legal departments.
- A workmen's compensation policy protects these businesses from **unexpected liabilities** due to employee injuries.

#### 5. Cost Protection for Employers

- Workplace accidents can lead to **huge compensation amounts**, especially in cases of death or permanent disability.
- The policy ensures that the **insurance company pays** instead of the employer bearing the entire financial burden.

#### 6. Promotes Safe Work Culture

- When employers take this policy seriously, they are more likely to:
  - Follow **safety rules**
  - Improve **working conditions**
  - Conduct **training and risk assessments**
- This leads to **fewer accidents** and a **healthier work environment**.

#### 7. Support During Industrial Growth

- As India aims to become a global manufacturing hub through schemes like '**Make in India**', protecting labor welfare becomes important.
- Workmen's compensation policy is essential to **balance economic growth with social justice**.

#### 8. Coverage for Migrant Workers

- India has a huge population of **migrant workers** who work in dangerous jobs far from home.
- This insurance ensures they and their families are not left helpless in case of an accident.

#### Example:

A construction worker in Delhi suffers a spinal injury while lifting heavy material. His employer, a small contractor, doesn't have funds for compensation.

If covered under **Workmen's Compensation Insurance**, the insurance company pays compensation and medical bills, ensuring the worker gets help and the employer is not financially ruined.

In today's India, **Workmen's Compensation Insurance** is not just a legal formality — it is a **moral, social, and economic necessity** to:

- Protect workers
  - Support industries
  - Promote safe and responsible workplaces
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