

Is your insurance company  
listening to you?



If your complaints have not been addressed  
by your insurance company,  
please contact

IRDA Grievance Call Centre

 Toll Free No.: 155255

to register your complaints and track their status  
or you may email us at [complaints@irda.gov.in](mailto:complaints@irda.gov.in)



A public awareness initiative by

बीमा विनियामक और विकास प्राधिकरण

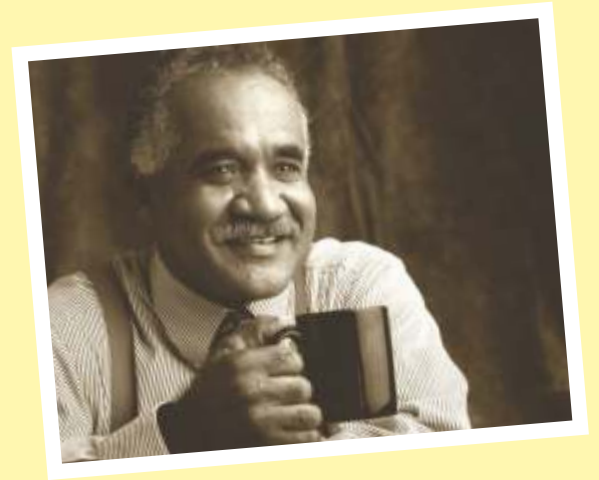
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**INSURANCE REGULATORY AND  
DEVELOPMENT AUTHORITY**



Handbook on  
**Life Insurance**

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## 1. About this handbook

This handbook is designed by the Insurance Regulatory and Development Authority (IRDA) as a guide on Life Insurance and gives general information only. No information given herein replaces or overrides the terms and conditions of an insurance policy.

Please approach a duly licensed agent or a broker or an insurance company registered with IRDA for specific information regarding a policy or for any other additional information.

## 2. Life Insurance

- Life Insurance is a financial cover for a contingency linked with human life, like death, disability, accident, retirement etc. Human life is subject to risks of death and disability due to natural and accidental causes. When human life is lost or a person is disabled permanently or temporarily, there is loss of income to the household.
- Though human life cannot be valued, a monetary sum could be determined based on the loss of income in future years. Hence, in life insurance, the Sum Assured ( or the amount guaranteed to be paid in the event of a loss) is by way of a 'benefit'. Life Insurance products provide a definite amount of money in case the life insured dies during the term of the policy or becomes disabled on account of an accident.
- Why you should buy Life Insurance:  
All of us face the following risks:  
Dying too soon  
Living too long  
Life Insurance is needed :  
To ensure that your immediate family has some financial support in the event of your demise  
To finance your children's education and other needs

To have a savings plan for the future so that you have a constant source of income after retirement

To ensure that you have extra income when your earnings are reduced due to serious illness or accident

To provide for other financial contingencies and life style requirements

- Who needs Life Insurance:  
Primarily, anyone who has a family to support and is an income earner needs Life Insurance. In view of the economic value of their contribution to the family, housewives too need life insurance cover. Even children can be considered for life insurance in view of their future income potential being at risk.
- How much Life Insurance is needed:  
The amount of Life Insurance coverage you need will depend on many factors such as:  
How many dependants you have  
Whether you have any debts or mortgages  
What kind of lifestyle you want to provide for your family  
How much you need for your children's education  
What your investment needs are  
What your affordability is  
You should seek the help of an insurance agent or broker to understand your insurance needs and suggest the right type of cover.

- Kinds of Life Insurance Policies:

#### Term Insurance

You can choose to have protection for a set period of time with Term Insurance. In the event of death or Total and Permanent Disability (if the benefit is offered), your dependants will be paid a benefit. In Term Insurance, no benefit is normally payable if the life assured survives the term.

#### Whole Life Insurance

With whole life insurance, you are guaranteed lifelong protection. Whole life insurance pays out a death benefit so you can be assured that your family is protected against financial loss that can happen after your death. It is also an ideal way of creating an estate for your heirs as an inheritance.

#### Endowment Policy

An Endowment Policy is a savings linked insurance policy with a specific maturity date. Should an unfortunate event by way of death or disability occur to you during the period, the Sum Assured will be paid to your beneficiaries. On your surviving the term, the maturity proceeds on the policy become payable.

#### Money back plans or cash back plans:

Under this plan, certain percent of the sum assured is returned to the insured person periodically as

survival benefit. On the expiry of the term, the balance amount is paid as maturity value. The life risk may be covered for the full sum assured during the term of the policy irrespective of the survival benefits paid.

#### Children Policies

These types of policies are taken on the life of the parent/children for the benefit of the child. By such policy the parent can plan to get funds when the child attains various stages in life. Some insurers offer waiver of premiums in case of unfortunate death of the parent/proposer during the term of the policy.

#### Annuity (Pension) Plans

When an employee retires he no longer gets his salary while his need for a regular income continues. Retirement benefits like Provident Fund and gratuity are paid in lump sum which are often spent too quickly or not invested prudently with the result that the employee finds himself without regular income in his post - retirement days. Pension is therefore an ideal method of retirement provision because the benefit is in the form of regular income. It is wise to provide for old age, when we have regular income during our earning period to take care of rainy days. Financial independence during old age is a must for everybody.

There are two types of annuities (pension plans).

- Immediate Annuity

In case of immediate Annuity, the Annuity payment from the Insurance Company starts immediately. Purchase price (premium) for immediate Annuity is to be paid in Lumpsum in one installment only.

- Deferred Annuity

Under deferred Annuity policy, the person pays regular contributions to the Insurance Company, till the vesting age/vesting date. He has the option to pay as single premium also. The fund will accumulate with interest and fund will be available on the vesting date. The insurance company will take care of the investment of funds and the policyholder has the option to encash 1/3rd of this corpus fund on the vesting age / vesting date tax free. The balance amount of 2/3rd of the fund will be utilized for purchase of Annuity (pension) to the Annuitant.

#### Unit Linked Insurance Policy

Unit Linked Insurance Policies (ULIPs) offer a combination of investment and protection and allow you the flexibility and choice on how your premiums are invested. IN UNIT LINKED PLANS, THE INVESTMENT RISK PORTFOLIO IS BORNE BY YOU AS YOU ARE THE INVESTOR

Typically, the policy will provide you with a choice of funds in which you may invest. You also have the flexibility to switch between different funds during the life of the policy. The value of a ULIP is linked to the prevailing value of units you have invested in the fund, which in turn depends on the fund's performance. In the event of death or permanent disability, the policy will provide the Sum Assured (to the extent you are covered) so that you can take comfort in knowing that your family is protected from sudden financial loss. A ULIP has varying degrees of risk and rewards. There are various charges applicable for Unit Linked Policies and the balance amount out of the premium is only invested in the fund/funds chosen by you. It is important to ask your insurer or agent or broker questions to understand the sum total of charges that you have to incur. It is important to assess your risk appetite and investment horizon before deciding to buy a ULIP policy. You must also read the terms and conditions of the policy carefully to understand the features of the policy including the lock-in period, surrender value, surrender charges etc.

All the types of plans mentioned above can be offered under ULIP plans.

### 3. FAQs on Life Insurance

#### CONVENTIONAL LIFE INSURANCE

- Q. What should I look for before I decide to buy a policy ?
- A. You must check and see whether or not there is availability of guarantee of return, what the lock in period is, details of premium to be paid, what would be implications of premium default, what the revival conditions are what the policy terms are, what are the charges that would be deducted, would loan be available etc
- Q. What is the importance of a proposal and the disclosures made therein ?
- A. The disclosures made in a proposal are the basis for underwriting a policy and therefore any wrong statements or disclosures can lead to denial of a claim.
- Q. What are special medical reports required to be submitted in Life insurance?
- A. In case of certain proposals, depending upon the age of entry, age at maturity, sum assured, family history and personal history, special medical reports may be necessary for consideration of a risk. E.g. if the proposer is overweight, special reports like Electro Cardiogram, Glucose Tolerance test etc could be required, while for underweight proposers, X-ray of the chest and lungs with reports could be required.
- Q. What is meant by Paid-up Value in Conventional Life Insurance Policy?

- A. After premiums are paid for a certain defined period or beyond and if subsequent premiums are not paid, the sum assured is reduced to a proportionate sum, which bears the same ratio to the full sum assured as the number of premiums actually paid bears to the total number originally stipulated in the policy. For example, if sum assured is 1 lakh and the total number of premiums is payable is 20 (20 years policy, mode of premium is assumed yearly) and default occurs after 10 yearly premiums are paid, the policy acquires the paid up value of 50,000/-.  $\text{Paid up Value} = \frac{\text{No. of Premiums Paid}}{\text{No. of Premiums Payable}} \times \text{S.A} = \frac{10}{20} \times 100000 = 50000/-$ . This means that the policy is effective as before except that from the date the 11th premium was due, the sum assured is 50,000/- instead of original 1,00,000/-. To this sum assured the bonus already vested (accrued) before the policy lapsed, is also added. Example if the bonus accrued up to the date of lapse is 35,000/-, the total paid up value is  $50000 + 35000 = 85000$ .
- Q. How is Surrender Value calculated in Conventional Life Insurance Policy?
- A. Surrender Value is allowed as a percentage of this paid up value. Surrender value is calculated as per the surrender value factor, which depends on the premiums paid and elapsed duration.
- Q. How is the Loan on Policy calculated under Conventional Life Insurance Policies?
- A. If the policy conditions permit grant of loan, loan is sanctioned as a percentage of the Surrender Value.

- Q. What are the requirements to be submitted in case of a Maturity Claim?
- A. Usually the Insurance Company will send intimation attaching the discharge voucher to the policy holder at least 2 to 3 months in advance of the date of maturity of the policy intimating the claim amount payable. The policy bond and the discharge voucher duly signed and witnessed are to be returned to the insurance company immediately so that the insurance company will be able to make payment. If the policy is assigned in favour of any other person the claim amount will be paid only to the assignee who will give the discharge
- Q. What is meant by settlement options?
- A. Settlement option means the facility made available to the policy holder to receive the maturity proceeds in a defined manner (the terms and conditions are specified in advance at the inception of the contract).
- Q. What documents are generally required to be submitted in case of death of life assured while the policy is in force?
- A. The basic documents that are generally required are death certificate, claim form and policy bond, Other documents such as medical attendant's certificate, hospital certificate, employer's certificate, police inquest report, post mortem report etc could be called for, as applicable. The claim requirements are usually disclosed in the policy bond.

Unit Linked Insurance Policies (ULIPs)

- Q. How is Surrender value calculated in Unit Linked Policies?
- A. Surrender value is usually expressed as fund value less the surrender charge.
- Q. What is the method of arriving at NAV for surrenders, maturity claim, switch etc?
- A. In respect of valid applications received (e.g. surrender, maturity claim, switch etc) up to 3.00 p.m. by the insurer, the same day's closing NAV is applicable.
- In respect of valid applications received (e.g. surrender, maturity claim, switch etc) after 3.00 p.m. by the insurer, the closing NAV of the next business day is applicable.
- Q. What is a Unit Fund?
- A. The allocated (invested) portions of the premiums after deducting for all the charges and premium for risk cover under all policies in a particular fund as chosen by the policy holders are pooled together to form a Unit fund.
- Q. What is a Unit?
- A. It is a component of the Fund in a Unit Linked Policy.
- Q. What Types of Funds do ULIP Offer?
- A. Most insurers offer a wide range of funds to suit one's investment objectives, risk profile and time horizons. Different funds have different risk profiles. The potential for returns also varies from fund to fund.

- Q. Are Investment Returns Guaranteed in a ULIP?
- A. Investment returns from ULIP may not be guaranteed.” In unit linked products/policies, the investment risk in investment portfolio is borne by the policy holder”. Depending upon the performance of the unit linked fund(s) chosen; the policy holder may achieve gains or losses on his/her investments. It should also be noted that the past returns of a fund are not necessarily indicative of the future performance of the fund.
- Q. What are the Charges, fees and deductions in a ULIP?
- A. ULIPs offered by different insurers have varying charge structures. Broadly, the different types of fees and charges are given below. However it may

| The following are some of the common types of funds available along with an indication of their risk characteristics. General Description | Nature of Investments  | Risk Category  |
|---|--|----------------|
| Equity Funds  | Primarily invested in company stocks with the general aim of capital appreciation                    | Medium to High |
| Income, Fixed Interest and Bond Funds   | Invested in corporate bonds, government securities and other fixed income instruments                | Medium         |
| Cash Funds  | Sometimes known as Money Market Funds — invested in cash, bank deposits and money market instruments | Low            |
| Balanced Funds  | Combining equity investment with fixed interest instruments  | Medium         |

be noted that insurers have the right to revise fees and charges over a period of time.

#### Premium Allocation Charge

This is a percentage of the premium appropriated towards charges before allocating the units under the policy. This charge normally includes initial and renewal expenses apart from commission expenses.

#### Mortality Charges

These are charges to provide for the cost of insurance coverage under the plan. Mortality charges depend on number of factors such as age, amount of coverage, state of health etc.

#### Fund Management Fees

These are fees levied for management of the fund(s) and are deducted before arriving at the Net Asset Value (NAV) .

#### Policy/ Administration Charges

These are the fees for administration of the plan and levied by cancellation of units. This could be flat throughout the policy term or vary at a pre-determined rate.

#### Surrender Charges

A surrender charge may be deducted for premature partial or full encashment of units wherever applicable, as mentioned in the policy conditions.

#### Fund Switching Charge

Generally a limited number of fund switches may be allowed each year without charge, with subsequent switches, subject to a charge.



### Service Tax Deductions

Before allotment of the units the applicable service tax is deducted from the risk portion of the premium.

Investors may note, that the portion of the premium after deducting for all charges and premium for risk cover is utilized for purchasing units

- Q. What should one verify before signing the proposal?
- A) One has to verify the approved sales brochure for
- all the charges deductible under the policy
  - payment on premature surrender
  - features and benefits
  - limitations and exclusions
  - lapsation and its consequences
  - other disclosures
  - Illustration projecting benefits payable in two scenarios of 6% and 10% returns as prescribed by the life insurance council.
- Q. How much of the premium is used to purchase units?
- A) The full amount of premium paid is not allocated to purchase units. Insurers allot units on the portion of the premium remaining after providing for various charges, fees and deductions. However the quantum of premium used to purchase units varies from product to product.

The total monetary value of the units allocated is invariably less than the amount of premium paid because the charges are first deducted from the

premium collected and the remaining amount is used for allocating units.

- Q. Can one seek refund of premiums if not satisfied with the policy, after purchasing it?
- A. The policyholder can seek refund of premiums if he disagrees with the terms and conditions of the policy, within 15 days of receipt of the policy document (Free Look period). The policyholder shall be refunded the fund value including charges levied through cancellation of units subject to deduction of expenses towards medical examination, stamp duty and proportionate risk premium for the period of cover.
- Q. What is Net Asset Value (NAV)?
- A. NAV is the value of each unit of the fund on a given day. The NAV of each fund is displayed on the website of the respective insurers.
- Q. What is the benefit payable in the event of risk occurring during the term of the policy?
- A. The Sum Assured and/or value of the fund units is normally payable to the beneficiaries in the event of risk to the life assured during the term as per the policy conditions.
- Q. What is the benefit payable on the maturity of the policy?
- A. The value of the fund units with bonuses, if any is payable on maturity of the policy.
- Q. Is it possible to invest additional contribution above the regular premium?
- A. Yes, one can invest additional contribution over and above the regular premiums as per their choice

subject to the feature being available in the product. This facility is known as “TOP UP” facility.

- Q. Can one switch the investment fund after taking a ULIP policy?
- A. Yes. “SWITCH” option provides for shifting the investments in a policy from one fund to another provided the feature is available in the product. While a specified number of switches are generally effected free of cost, a fee is charged for switches made beyond the specified number.
- Q. Can a partial encashment/withdrawal be made?
- A. Yes, Products may have the “Partial Withdrawal” option which facilitates withdrawal of a portion of the investment in the policy. This is done through cancellation of a part of units.
- Q. What happens if payment of premiums is discontinued?
- A. a) Discontinuance within three years of commencement – If all the premiums have not been paid for at least three consecutive years from inception, the insurance cover shall cease immediately. Insurers may give an opportunity for revival within the period allowed; if the policy is not revived within that period, surrender value shall be paid at the end of third policy anniversary or at the end of the period allowed for revival, whichever is later.
- b) Discontinuance after three years of commencement - At the end of the period allowed for revival, the contract shall be terminated by paying the surrender value. The insurer may offer

to continue the insurance cover, if so opted for by the policy holder, levying appropriate charges until the fund value is not less than one full year’s premium. When the fund value reaches an amount equivalent to one full year’s premium, the contract shall be terminated by paying the fund value.

- c) Policies having 5 year lock-in-period: - For policies bought on or after 01-09-2010, lock in period has been increased to 5 years. Upon discontinuance of the payment of premium, the policyholder has the option of i) Reviving the policy or ii) complete withdrawal without any risk cover.
- A notice shall be sent by the insurer giving the above options, within 15 days from the date of expiry of grace period, if no option or option (ii) is exercised within 30 days of such notice, the proceeds of discontinued policy shall be refunded but not before the completion of the lock-in period. If such discontinuance is within lock in period, the policy holder shall have the right to revive the policy within a period of two years from the date of discontinuance but not later than the expiry of the lock-in period.
- Q. What information related to investments is provided by the Insurer to the policyholder?
- A. The Insurers are obliged to send an annual report, covering the fund performance during previous financial year in relation to the economic scenario, market developments etc. which should include fund performance analysis, investment portfolio of the fund, investment strategies and risk control measures adopted

## Policyholder Servicing Turnaround Times as prescribed by IRDA

| Service   | Maximum Turn Around Time |
|---|--------------------------|
| <b>General</b>  |                          |
| Processing of Proposal and Communication of decisions including requirements/issue of Policy /Cancellations                   | 15 days                  |
| Obtaining copy of the proposal  | 30 days                  |
| Post Policy issue service requests concerning mistakes/refund of proposal deposit and also Non-Claim related service requests | 10 days                  |
| <b>Life Insurance</b>   |                          |
| Surrender value/annuity/pension processing  | 10 days                  |
| Maturity claim/Survival benefit/penal interest not paid   | 15 days                  |
| Raising claim requirements after lodging the Claim  | 15 days                  |
| Death claim settlement without Investigation requirement  | 30 days                  |
| Death claim settlement/repudiation with Investigation requirement   | 6 months                 |
| <b>General Insurance</b>  |                          |
| Survey report submission  | 30 days                  |
| Insurer seeking addendum report   | 15 days                  |
| Settlement/rejection of Claim after receiving first/addendum survey report  | 30 days                  |
| <b>Grievances</b>   |                          |
| Acknowledge a grievance   | 3 days                   |
| Resolve a grievance   | 15 days                  |

## 5. If you have a grievance:

The Consumer Affairs Department of the Insurance Regulatory and Development Authority (IRDA) has introduced the Integrated Grievance Management System (IGMS) which is an online system for registration and tracking of grievances. You must register your grievance first with the insurance company and in case you are not satisfied with its disposal by the company, you may escalate it to IRDA through IGMS by accessing [www.igms.irda.gov.in](http://www.igms.irda.gov.in). In case you are not able to access the insurer's grievance system directly, IGMS also provides you a gateway to register your grievance with the insurer.

Apart from registering your grievance through IGMS (i.e., web), you have several channels for grievance registration-through e-mail ([complaints@irda.gov.in](mailto:complaints@irda.gov.in)), through letter ( address your letter to Consumer Affairs Department, Insurance Regulatory and Development Authority, 3rd Floor, Parishram Bhavan, Basheerbagh, Hyderabad:4) or simply call IRDA Call Centre at Toll Free 155255 through which IRDA shall, free of cost, register your complaints against insurance companies as well as help track its status. The Call Centre assists by filling up the complaints form on the basis of the call. Wherever required, it will facilitate in filing of complaints directly with the insurance companies as the first port of call by giving information

relating to the address, telephone number, website details, contact number, e-mail id etc of the insurance company. IRDA Call Centre offers a true alternative channel for prospects and policyholders, with comprehensive tele-functionalities, serving as a 12 hours x 6 days service platform from 8 AM to 8 PM, Monday to Saturday in Hindi, English and various Indian languages.

When a complaint is registered with IRDA, it facilitates resolution by taking it up with the insurance company. The company is given 15 days time to resolve the complaint. If required, IRDA carries out investigations and enquiries. Further, wherever applicable, IRDA advises the complainant to approach the Insurance Ombudsman in terms of the Redressal of Public Grievances Rules, 1998.

Disclaimer:

This handbook is intended to provide you general information only and is not exhaustive. It is an education initiative and does not seek to give you any legal advice.

Insurance is the subject matter of solicitation