Insurance Act

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Topic- The objective of Life Insurance(Definition, Characteristics and Discussion).

Definition –

Life insurance (or life assurance, especially in the Commonwealth of Nations) is a contract between an insurance policy holder and an insurer or assurer, where the insurer promises to pay a designated beneficiary a sum of money (the benefit) in exchange for a premium, upon the death of an insured person (often the policy holder). Depending on the contract, other events such as terminal illness or critical illness can also trigger payment. The policy holder typically pays a premium, either regularly or as one lump sum. Other expenses, such as funeral expenses, can also be included in the benefits.

Life policies are legal contracts and the terms of the contract describe the limitations of the insured events. Specific exclusions are often written into the contract to limit the liability of the insurer; common examples are claims relating to suicide, fraud, war, riot, and civil commotion.

Life-based contracts tend to fall into two major categories:

- **Protection policies**: designed to provide a benefit, typically a lump sum payment, in the event of a specified occurrence. A common form—more common in years past—of a protection policy design is term insurance.

- **Investment policies:** the main objective of these policies is to facilitate the growth of capital by regular or single premiums. Common forms (in the U.S.) are whole life, universal life, and variable life policies.

Objectives of Life Insurance Corporation -

Life Insurance Corporation of India was established on 1st September 1956 with the following objectives -

1) Spread life insurance widely and in particular to the rural areas, to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.

2) The maximization of mobilization of people's savings for nation building activities.

3) Provide complete security and promote efficient service to the policy-holders at economic premium rates.

4) Conduct business with utmost economy and with the full realization that the money belongs to the policyholders.

5) Act as trustees of the insured public in their individual and collective capacities.

7) Meet the various life insurance needs of the community that would arise in the changing social and economic environment.

8) Promote amongst all agent and employees of the Corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards the achievement of Corporate objectives.

7. Involve all people working in the corporation to the best of their capability in furthering the interest of the insured public by providing efficient service with courtesy.

CHARACTERISTICS OF LIFE INSURANCE-

The following characteristics of features in life insurance may be deduced from the aforesaid def initions:

1) Offer and acceptance: Like other contracts of insurance the life insurance contract is also the outcome of an offer made by the policy owner and its acceptance by the insurer. Generally the l ife insurance is a contract is made in waiting.

2) Agreed sum of money: The insurer agrees to pay a certain sum of money either on the death o f policy owner or on the maturity of the policy whichever is earlier.

3) Premium: The policy owner is liable to pay periodically the amount of the payment in the for m of premium till the death of the policy owner or expiry of the period of policy whichever is ea rlier.

4) Not a contract of indemnity: Life insurance contract is a note a contract of indemnity as the loss caused by the death cannot be measured in terms of money is a compensation for loss of the one's life.

5) Insurable interest: In life insurance insurable interest must exist when the claim. The person who has been assigned a life policy need not have insurable interest in it as the insurable intere st was already present at time of taking policy.

6) Lending helping hand: Life insurance provides helping hand to those who are left support le ss and helps financially in case of the death of the insured. It is also considered to be than the be st alternative for making savings.

7) Covers other risks: Life insurance covered others risks which are connected with the human l ife in addition to the risk of death. For example, total and permanent disability or temporary dis ability and medical expense compulsory retirement or the economics death risks etc., have also been covered under the purview of Life insurance these days.

8) Relief sword of damocles: Life insurance relieves the insured from the sword of damocles i. e.., various risks and uncertainties which may occur before and after the death of the insured.

Advantages of Life Insurance

1. Life insurance provides an infusion of cash for dealing with the adverse financial consequences of the insured's death.
2. Life insurance enjoys favorable tax treatment unlike any other financial instrument.
3. Death benefits are generally income-tax-free to the beneficiary.
4. Death benefits may be estate-tax free if the policy is owned properly.
5. Cash values grow tax deferred during the insured's lifetime.
6. Cash value withdrawals are treated on a first-in-first-out (FIFO) basis, therefore cash value withdrawals up to the total premiums paid are generally income-tax free.
7. Policy loans are income tax free.
8. A life insurance policy may be exchanged for another life insurance policy (or for an annuity) without incurring current taxation.
9. Many life insurance policies are exceptionally flexible in terms of adjusting to the policyholder's needs. The death benefit may be decreased at any time and the premiums may be easily reduced, skipped or increased.
10. A cash value life insurance policy may be thought of as a tax-favored repository of easily accessible funds if the need arises; yet, the assets backing these funds are generally held in longer-term investments, thereby earning a higher return.

Disadvantages of Life Insurance-

1. Policyholders forego some current expenditure to pay policy premiums. Moreover, life insurance is typically purchased for the benefit of others and usually only indirectly for the insured person.
2. Cash surrender values are usually less than the premiums paid in the first several policy years and sometimes a policyowner may not recover the premiums paid if the policy is surrendered.
3. The life insurance purchase decision and the positioning of the life insurance can be complex especially if the insurance is for estate planning, business situations or complex family situations.
4. The life insurance acquisition process can be annoying and perplexing (e.g. Is the life insurance agent trustworthy? Is this the right product and carrier? How can medical underwriting be streamlined?).

The End