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L.L.B Part- 2nd

Subject- Insurance Act

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Topic- Discussion of the manner in which a lapsed policy may be revived.

What is a policy lapse? 6 important points to know about policy lapses

A policy lapse occurs when the benefits and coverage provided under an insurance policy are terminated for a policy holder. A policy is 'lapsed' when the policy holder misses the premium payments and the cash surrender value (in case of permanent life insurance) is exhausted. If your policy lapses, you and your family members who are insured under the policy are no longer eligible for insurance coverage or a death benefit in case of a term plan .

However, there are still ways to make sure your loved ones stay covered if you miss or are unable to pay your insurance premium on time. Here are six important points you need to know about policy lapses if you are a policy holder or plan to take out an insurance policy:

A policy lapse occurs only after a grace period.

If you have missed paying your insurance premium on the due date for any reason, your policy will not automatically lapse. In case of life insurance policies you get a grace period of up to 30 days after the due date, during which you and your insured family members will continue to be covered as per the insurance contract.

Once this grace period expires and your premium still remains unpaid, then the policy lapses. After this, your insurance provider is no longer under legal obligation to make a death benefit payout.

It is possible to reinstate a lapsed policy.

If your policy lapses, all is not lost. Reinstating a lapsed policy is actively encouraged and your insurance provider will facilitate the process if you approach them. Depending on your type of policy, provider, and contract terms and conditions, you will have a window (usually two years) within which you can revive a lapsed policy by paying all the missed premiums and accumulated interest on them.

The earlier you reinstate a lapsed policy, the better.

Even though you are granted a two-year window to revive a lapsed policy, it'll be a lot easier and cheaper the sooner you do it from the date of lapse. Within 30 days to 6 months since the lapse of your policy, you will require little to no underwriting (if it's under 30 days) for reinstatement. You will only need to submit a declaration of good health, along with the unpaid premiums, penalty interest, and revival fee if any. After six months you will most likely be asked to undergo fresh medical checks and your insurance provider has the right to change the terms of the contract or increase your premium.

Renewing a lapsed policy will likely cost you less than taking out a new one.

Even though reviving a lapsed policy may seem like quite an expense, taking out a new one will, in most circumstances, be even more expensive. You will have to forfeit the premiums you have already paid on a lapsed policy, which is money down the drain.

There's a possibility that your premium will remain the same when you reinstate a lapsed policy, but if you take out a new one, the premium will definitely will be higher than your lapsed policy because premiums increase as you get older. It is therefore best to reinstate your policy at the earliest.

Taking measures to ensure timely premium payment can help avoid a lapse.

Keeping track of all your investments and payments can be difficult, and you may miss a premium payment due to oversight or extenuating circumstances. A highly recommended way to ensure that all your insurance payments are made on time is to set up Electronic Clearing

Services (ECS) with your bank. With ECS, your premium payments will automatically be transferred from your bank account directly to your insurance provider at pre-decided dates. It's secure and tightly regulated, and carries no additional charges. By setting up ECS, you no longer have to worry about juggling multiple due dates and paying your insurance premiums on time.

It's advisable to completely avoid a policy lapse.

Finally, even though there are steps you can take to revive a lapsed policy, the best course of action is to never let it reach that stage. Once a policy lapses, your family members and you are no longer covered till you reinstate the policy and may have to bear extremely high medical costs in that period, or forego a death benefit in case of a term plan. Reviving a policy comes with its own attached costs, such as penalty fees and higher premiums.

If you don't revive your policy you have to forfeit all the premiums you have paid so far.

Therefore, you should take every measure to avoid a policy lapse.

The End