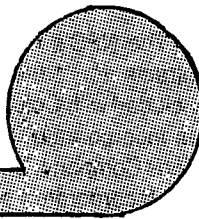


# Life Assurance as a Form of Investment for an Individual



## - A Case Study

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### I. DEVELOPMENT OF LIFE ASSURANCE

In the middle ages, according to extant records, loans of the type known as "bottomry" and "respondentia" were made use of to hedge the burden of the risk in general commerce. Evidence from Babylon also shows that contracts similar to bottomry was known to merchants in that country and originated with the expansion of commerce as far back as 4000-3000 B. C. Evidence from India also shows that "bottomry" was practiced by Hindus in 600 B. C.

In this type of contract the money lender will lend money to the merchant at a higher interest rate than the market interest rate and the merchant will pledge the cargo and the vehicle (ship) as security. If the goods and the vehicle (ship) pledged are destroyed then the money lender will stand to lose. Since the lender assumed the risk of loss the borrower enjoyed the benefit of contract. In fact the lender has provided the borrower with insurance protection.

In ancient Greece, this concept was used for maritime loans as early as the fourth century B. C. This same form of loan agreement was used by Romans on maritime loans in the middle ages and later this spread to Europe. This practice represented the seed of modern insurance contract.

The concept of Life Insurance originated in ancient Rome. The first evi-

dence of this is The Collegia tenuiorum, a guild organization for free wage earners & slaves, which provided a fund to bury its members. The principle source of income for the society was a system of monthly dues to the fund. This Guild was the forerunner of modern Life Insurance.

The Guilds which later came into existence in Middle Ages made disbursements on specified disasters such as fire, flood and robbery, in addition to the payments made at burial.

The first Life Insurance organization was established in the USA when the Presbyterian Ministers' Fund was granted a charter from the Province of Pennsylvania in 1759. For some time this company engaged in writing annuities for clergymen. Ten years later similar companies were set up in New York, New Jersey and Pennsylvania for the benefit of Episcopal Clergymen. Later more and more companies were set up to underwrite Life Insurance. The stability and security of the life underwriters were by and large judged by the underwriters paid up capital. The epidemics of smallpox, diphtheria and other diseases provided an impetus for the growth and expansion of Life Insurance as a business venture in the USA. In 1809, the Life Insurance companies further with the introduction of a number of innovations such as the requirement of an application and medical examination to determine the premium payable based on the age of the applicant. Still by 1800, the number of 100 policyholders largely due to lack of under-

standing of the benefits that can be derived from obtainment of a Life Insurance. At a later point of time, Bubble companies were organized and frauds were practised by criminals. People began to look at Life Insurance with suspicion. The control and supervision of the business were lacking. In 1837 the General Court of Massachusetts passed a law requiring Insurance Companies to maintain a fund adequate to reinsure all outstanding contracts (this is the forerunner of today's unearned premium fund). In 1851 in the state of New Hampshire legislation was enacted to establish the first board of Insurance Commissioners. Later such enactments spread to other states in the USA. With more control by the government through legislation and supervision, Life Insurance began to gain acceptance and popularity among the general public. The life assurance policy contracts were liberalized and supplementary benefits such as disability and hospital expenses cover were attached to make schemes more attractive.

Following the revolution in 1917, insurance was nationalized in the USSR and is now being administered by the organization called Gosstrakh. Personal life insurance coverage is available but on a voluntary basis. By 1959, over 10 million people were reported to have obtained life insurance.

Insurance in Japan is mainly in private hands although government agencies write insurances such as crop, livestock, forest fire, fishery, export credit, accident and health, sales credit as well as social security. The rates of premia are controlled by voluntary rating bureaus so that they are 'reasonable and non-discriminatory'. In 1968 Japan ranked as the second in the total life insurance in force.

In Sri Lanka, prior to the year of 1962, life insurance was underwritten entirely by the private sector. Companies incorporated outside Sri Lanka were also allowed to underwrite life insurance. However in 1962 insurance business was nationalized and Insurance Corporation of Sri Lanka (ICSL) was formed. In 1980 National Insurance Corporation (NIC) came into existence with a view to introduce competition and a better service. The NIC carried out business through

eight principal organizations which were private sector institutions. These eight organizations are (i) Aitken Spence Ltd. (ii) Carson Cumberbatch Ltd. (iii) Whittal Boustead Ltd. (iv) Mercantile Credit Ltd. (v) James Finlay Ltd. (vi) Protection and Indemnity Ltd (vii) Ackland Finance Ltd. and (viii) Ceylinco Ltd.

It was the view of the Government that if the private sector is allowed to underwrite insurance business, the quality and efficiency of service provided can be enhanced further. As a result the Control of Insurance Act (Amendment) of 1987 was enacted by statute outlining strict conditions to protect the investing policyholder.

As a result of the private sector being allowed to underwrite insurance business three private companies were incorporated in Sri Lanka under the Companies Act of 1982. They are (i) Union Assurance Ltd. (UAL) (ii) CTC Eagle Insurance Company Ltd. (CTC) (iii) Ceylinco Insurance Company Ltd. (CEY).

UAL is a consortium set up by Aitken Spence Ltd., Carson Cumberbatch Ltd., Mercantile Credit Ltd., & Whittal Boustead Ltd. The major shareholders are the members of the consortium, Merchant Bank of Sri Lanka, IFC, ADB & the general public. As at present no technical collaboration is established for life insurance. The reinsurance is done with Munich Reinsurance of Germany.

The major shareholders of CTC are Ceylon Tobacco Company Ltd., James Finlay Company Ltd., and the general public. The technical collaborator is Eagle Star Company of UK. The reinsurance is placed with Victory International Special Reinsurance of UK.

CEY is a member of the Ceylinco Group of companies. CEY is the first Sri Lankan Insurance Company and came into being in 1939 with the name of Ceylinco Insurance Company Ltd. No technical collaboration is established for life insurance. The reinsurance is placed with Mercantile and General of UK and Francona of Switzerland.

All the three companies are quoted in the stock exchange. Along with the three

companies, the two state owned corporations, in the business of insurance create a competitive market.

ICSL and NIC function independently. Both have not retained any technical collaborator on life insurance. However NIC places their reinsurance with ICSL. ICSL reinsures with Swiss Reinsurance Company of Switzerland.

## II. ROLE OF LIFE ASSURANCE

### 2.1 Life Assurance vs. Other Classes Of Insurance

Both Life Assurance and insurance can be considered as a form of seeking monetary compensation in the event of a loss or damage to life, if the loss or damage to the life insured takes place within the granted period of protection. Life Insurance is defined as "a contract by which the insurer, for a certain sum of money or premium proportioned to the age, health, profession, and other circumstances of the person whose life insured engages that if such person shall die within the period limited in the policy, the insurer will pay the sum specified in the policy, according to the terms thereof, to the person in whose favor such policy is granted."

However to make Life assurance schemes more competitive and more attractive to prospective policyholders, various other benefits are added on to the basic coverage of protection. Today, in addition to the basic coverage against death one can also elect compensation against total and permanent disablement, waiver of further investment of premium in such a situation, against partial disablement.

Life assurance differs from other classes of insurance (general insurance) in several ways. These differences are outlined in a broader sense though they are not clear cut.

(a) In Life Assurance the Insured agrees to invest a certain sum of money periodically (generally monthly, quarterly, half-yearly or yearly) for an agreed period of time; and during this period if the insured dies then the nominee of the insured will be awarded with a guaranteed sum of money. If death does not take place dur-

ing the specified period, the money invested is normally refunded with an added interest.

General Insurance, normally does not compensate for the loss of life. If it does then in such cases the premium is not refunded at the expiry of the policy if the policyholder is alive.

(b) Life assurance policies are normally contracted for a period of more than one calendar year (However there are Life assurance schemes which are effective only for a period as short as one calendar year though such schemes are not so popular).

General Insurance schemes on the other hand are effective only over one calendar year but they should be renewed every year.

(c) It is an accepted norm that no specific value can be placed on a given life. The sum that is assured on a life is hence decided by the prospective policyholder (unless the Life scheme has placed an upper limit).

In general insurance, compensation obtainable is automatically limited to its market value or to its reinstatement value.

(d) Life assurance compensates against death and is a contingent liability and not a contractual liability. Therefore Life assurance is not a contract of indemnity. General Insurance on the other hand is a contract of indemnity. Perhaps it is for this reason that insurance of lives is known as Life Assurance and not as Life Insurance.

### 3.2 How Life Assurance Schemes Work

An individual can choose to enter a life assurance scheme virtually at any given age. Each scheme has its unique characteristics which distinguishes it from the other schemes. However Insurance Organizations normally do not entitle a minor to enter into a Life assurance scheme. The upper age limit varies depending on the life scheme but normally does not exceed 65 years of age.

The sum payable in the event of a loss of a life due to natural causes (natural

death) is known as the 'Sum assured' (or basic coverage). A natural death is defined as any form of death except by accidental death. Accidental death is described as loss of life occurring at an unexpected time at an unexpected place under unexpected circumstances.

The prospective when he has decided to enter into a Life Assurance scheme, should invest a sum of money regularly in advance. The sum of money the policyholder has to invest is known as the "Premium". This investment can be made monthly for each given month, quarterly for each given quarter, six monthly for each given half-year or annually to cover a period of twelve months. The frequency of investment that is to be made is known as the "mode". Normally the premium payment made yearly, is lower than the annualised half yearly investment and the annualised half yearly investment is lower than the annualised quarterly investment and the annualised quarterly investment is lower than the annualised monthly investment. The premium sum varies depending on the sum assured, required, term elected, age, status of health and the type of the scheme.

Entering into a scheme commences with the signing of a presented form given by the insurance organization which acts as a contract between the client and the Insurance Organization. Insurance Organization in return issue a certificate detailing the conditions of agreement. This is called a Life Assurance 'Policy'. The holder of such a policy is known as the Policyholder (insured). Once the policy is issued by the Insurance Organization to the Policyholder, the contract becomes valid and the Insurance Organization undertakes to bear the risk of the policyholder, as defined by the policy. The policy terminates with either the death of the policyholder during the term of the policy or at the expiry of the term, or in the event that the policyholder does not keep the commitments.

For a Life Assurance scheme to work in practice, several individuals should contribute to the Life Fund. Since death is a contingency and is based on probability (chance). The premium chargeable on a given individual is computed in such a way so that the Life Fund generally does

not get depleted at any point of time, once a minimum number of individuals have entered a given scheme.

In the long run an operation of a Life Fund can be shown as follows:

premium paid to date + interest yielded on premium  
= death claims + bonus declared + surplus profits to the Co.

Under most of the schemes, money invested is refunded with an interest to the policyholder if he is alive at the end of the term of the policy. This is called the 'Maturity Value'. In certain other schemes the maturity value is paid to the policyholder in installments at defined intervals during the policy term.

In most of the schemes offered by the Insurance Corporation of Sri Lanka (ICSL), National Insurance Corporation (NIC), Ceylinco Insurance Company Ltd., the basic sum assured (in the event of a natural death) is equal to the maturity value of the policy. However in the schemes offered by CTC Insurance Company Ltd. (CTC), the sum assured is greater than the maturity value.

CTC has two maturity values. One is called the Guaranteed maturity value and the other is called the Illustrative maturity

value. Guaranteed maturity sum is the sum that is guaranteed to the policyholder under any circumstances. Illustrative sum is the sum of money CTC Insurance Co. Ltd., attempts to award the policyholder.

However there are exceptions to the rule. In the Treble Benefit Scheme offered by ICSL, in Multi Benefit Assurance Scheme offered by NIC and in the Five Benefit Scheme offered by CEY, guaranteed twice the maturity value as that of the sum assured on a natural death and the sum assured on an accidental death is thrice the maturity value. The following illustration describe sums payable under various hypothetical events, for the said schemes.

Pure Endowment Schemes on the other hand refund only the premium in the event of a loss of life but at the end of the term of the policy shall pay the assured sum (which is the maturity value in this case).

When an Insurance Organization makes profits, a part of the profits is sometimes passed on to the policyholders. This share of the profits that is to be passed on to the policyholders is called 'Bonus' and is decided by the Board of Directors. The policyholders do not have any right to decide on the bonus. When such bonus is

**Table II-1 Relationship Between Sum Assured & Maturity Value (Exception 1)**

Event	Sum Awarded (Rs)
1. Loss of life by natural causes during the term of the policy	= 2 <sup>n</sup> Maturity Value
2. Loss of life by accidental causes during the term of the policy	= 3 <sup>n</sup> Maturity Value
3. Survives till the end of the end of the term of policy	= Maturity Value

**Table II-2 Relationship Between Sum Assured & Maturity Value (Exception 2)**

Event	Sum Awarded (Rs)
(1) Loss of life by natural causes during the term of the policy	$X^* (1.05)^n / (1.05)^n$
(2) Loss of life by accidental causes during the term of the policy	$X^* (1.04)^n / (1.05)^m$
(3) Survives till the end of the	= Maturity Value

M=term in yrs. n=term year in which the event take place

**Table II-3 Relationship Between Sum Assured & Maturity Value (Exception 3)**

Event	Sum Awarded (Rs)
(1) Loss of life by natural causes during the term of the policy	Premium refunded
(2) Loss of life by accidental causes during the term of the policy	Premium refunded
(3) Survives till the end of the end of the term of policy	= Maturity Value (Sum Assured)

paid it is credited to the maturity value of the policy. However a given Life Assurance scheme should qualify to receive bonus payments, since all schemes do not qualify to receive bonus payments.

### 2.3 Extent of Protection Offered

To make Life assurance schemes more attractive, in addition to the basic death coverage many schemes offer additional benefits that can be selected by a policyholder. For example a policyholder can select: a multiple of the basic sum assured in the event of an accidental death; compensation against total and permanent physical disablement; to waive any further investment of premium while maintaining the benefits of the scheme till the end of the term of the policy during a total and a permanent disablement; compensation against partial physical disablement. Certain other schemes offer to pay a regular sum (like a monthly salary) to the nominee of the policyholder (ex. family) after the policyholder's death. There are still other schemes where one could elect compensation against partial disablement.

A number of benefits available in the market are outlined below:

#### A. Natural Death Benefit

A natural death is defined as a loss of life due to natural causes (other than accidental death). In these circumstances, only the basic sum assured is paid.

#### B. Special Term Rider

Here the nominee of the policyholder can ask for compensation equal to twice or many fold the basic sum assured if he dies naturally during the term of the policy.

#### C. Accidental Death Benefit

An accidental death is described as a death occurring at an unexpected time, place, in a manner and the policyholder succumb to death within three months after the incidence. The sum assured under an accidental death is at least the basic sum assured. The policyholder may elect for a higher death benefit.

#### D. Total and Permanent Disablement Benefit

Total and permanent disablement is

described as loss (or dysfunction) of both legs above the ankle, or loss of both arms above the elbow, or loss of eye sight in both eyes, or a combination of loss of one eye or leg or an arm. The loss (or dysfunction) should be due to an accident and not due to a disease.

If the policyholder elects total and permanent disablement cover as an additional cover such a policyholder shall be guaranteed with an amount equal to the sum assured which is an extra payment made in addition to the sum assured. This extra sum is normally paid in equal installments over a ten year period. If the term of the policy expires before the lapse of ten years, the balance sum of money due will be paid with the maturity sum payable to the policyholder at the end of the term of the policy.

#### E. Waiver of Premium Benefit

When a policyholder becomes totally and permanently disabled, it is understood that that persons earning capacity may reduce drastically and perhaps that policyholder will not be able to pay the premium due in the future and enjoy the benefits provided by the policy.

If a policyholder elects the waiver of premium benefit and in the event of a total and a permanent disablement that policyholder will not have to pay the premium due to continue with the policy after such disablement. However the policyholder will enjoy the benefits provided by the policy as before the occurrence of disablement. It should be noted that the Waiver of premium benefit can only be elected against the total and permanent disablement (not against partial disablement).

#### F. Partial Disablement Benefit

Here, compensation is paid when the policyholder becomes partially disabled as a result of an accident. Compensation provided for the following categories of disablement and the sums awarded will be as follows;

The partial disablement cover is offered by only one Insurance Organization in Sri Lanka (i.e. Ceylinco Insurance Company Ltd.). This additional benefit can be selected in any of the policies offered by Ceylinco Insurance Co. Ltd.

If a policyholder wishes to enjoy the benefits provided by the policy after the partial disablement the policyholder will have to continue paying the premium till the end of the term of the policy. No waiver of premium can be elected.

#### G. Family Income Benefit

Certain Life Assurance schemes agree to pay a sum of money monthly or quarterly to the nominee of the policyholder in the event the policyholder dies within the term of the policy.

In addition to the basic benefit (i.e. basic sum assured in the event of a death), other supplementary benefits can be elected in single or in combination, if a given scheme is tailored to offer such benefits.

It is observed that a fair number of life assurance schemes offer Accident Benefit, Total and permanent disablement benefit, Waiver of premium benefit, as supplementary benefits.

The supplementary benefits offered are specific to a given scheme. In many of the schemes each supplementary benefit will be granted only up to a certain maximum age stipulated by the scheme (ex. 65 years of age). Thereafter that supplementary benefit lapses automatically and the policyholder will not be entitled to enjoy that given benefit any further. Some schemes may not offer supplementary benefits at all.

*Contd on page 60*

**Table II-4 Sum Assured on partial Disablement**

Event	Sum Awarded (In Rs)
-of either arm	75% of basic sum assured
-of either hand (at or above the wrist)	50% of basic sum assured
-of either foot (at or above the ankle)	50% of basic sum assured
-of sight in either eye	50% of basic sum assured

Contd. from page 37

## 2.4. Benefits of a Life Assurance Scheme

### 2.4.1 Benefits to the Policyholder

#### (1) Benefit Against Death

This is the basic benefit the policyholder can receive by obtaining a Life policy. This sum of money that will devolve on to the dependents (or to the nominee).

#### (2) Benefit Against Total and Permanent Disablement

A total and a permanent disablement may cause a loss of income to the policyholder. Further the disablement can cause further expenditure on medicine and health care. The sum of money paid to the policyholder as an extra payment (in addition to the life cover) can well be used to meet such needs.

#### (3) Benefit Against Partial Disablement

Here too the policyholder will receive an extra sum of money as a lump sum payment which perhaps can be used to meet the expenditure incurred in hospitalization and health care.

#### (4) Negotiable Instrument

The life policy is accepted as a bankable instrument to use as direct security or as a collateral, when raising a loan from a financial institution.

#### (5) An Investment

In most schemes, the premium paid into the policy will obtain an interest. At the end of the term the policyholder will receive the money invested with an added interest as maturity value. In some other schemes the premium payments are refunded in parts giving opportunity to the policyholder to invest outside the insurance market (ex. as a fixed deposit).

#### (6) Surrender Value

If the policyholder so wishes, he can surrender (give back) the policy (normally after three years) to the insurance Organization and demand a refund of the premium invested along with any accrued interest after deducting a sum for the risk borne by the Insurance Organization.

Table III-1: Product Range

#### SCHEMES OFFERED BY INSURANCE CORPORATION OF SRI LANKA

Scheme	Age Range (Yrs.)	Max. Age Policy can be held	Category	Terms Available (Yrs.)	Supplementary Benefit			
					Accid. Ben	Tot. Disable. Premi.	Disab. w/iv partial Disa	
1. Whole Life Assurance	18-60	n/a	II	n/a	yes	yes	yes	no
2. Limited Payment Life Assurance	18-55	65	III	10-47	yes	yes	yes	no
3. Endowment Assurance	18-60	65	V	10-47	yes	yes	yes	no
4. Marriage Endowment	18-60	65	V	5-20	yes	yes	yes	no
5. Educational Annuity	18-60	65	V	5-20	yes	yes	yes	no
6. Pure Endowment	18-45	n/a	IV	40	no	no	no	no
7. Convertible Life Assurance	18-50	65	II	10-42	yes	yes	yes	no
8. Joint Endowment Assurance	20-50		V	10, 15, 20, 25, 30, 35				
9. Double Endowment Assurance	18-55	65	V	10-35	yes	yes	yes	no
10. Treble Benefit Plan Assurance	18-55	65	V	10, 15, 20, 25	no	no	no	no
11. Multi Purpose Assurance	18-55	65	V	10-30	yes	yes	yes	no
12. Mortgage Protection	n/a	65	V	10,15, 20,30	no	no	no	no
13. Podhu Jana Rakshana of Assurance	18-45	65	V	10, 15, 20, 25, 30, 35, 40	yes	yes	yes	no
14. Jana Setha Life Assurance	18-60	65	VI	15, 20, 25, 30, 35	yes	yes	yes	no
15. Three Stage Policy	18-60	65	VII	10, 15, 20	yes	yes	yes	no

#### SCHEMES OFFERED BY NATIONAL INSURANCE CORPORATION

1. Whole Life Assurance	18-55	n/a	II	n/a	yes	yes	yes	no
2. Limited Payment Whole Life Assurance	18-55	65	III	10-45	yes	yes	yes	no
3. Endowment Assurance	18-60	70	V	10-50	yes	yes	yes	no
4. Pure Endowment	n/a	n/a	IV	5-25	no	no	no	no
5. Joint Life Endowment	18-60	70	V	10-50	yes	yes	yes	no
6. Anticipated Endowment Assurance	18-60	70	VII	10, 15, 20	yes	yes	yes	no
7. Multi Benefit Endowment Assurance	18-60	70	VII	10, 15, 20, 25	yes	yes	yes	no

#### SCHEME OFFERED BY CEYLINCO INSURANCE CO. LTD.

1. Whole Life Unlimited Payment Policy	18-60	n/a	II	n/a	yes	yes	yes	yes
2. Whole Life Limited Payment Policy	18-60	70	n/a	II	yes	yes	yes	yes
3. Endowment Policy	18-60	70	V	5, 10, 15, 20, 25, 30	yes	yes	yes	yes
4. Advanced payment Policy	18-60	70	VII	10, 15, 20, 25	yes	yes	yes	yes
5. Five Benefit Policy	18-60	70	VII	10, 15, 20, 25	yes	yes	yes	yes

#### SCHEMES OFFERED BY UNION ASSURANCE LTD.

1. Union Endowment Policy	18-64	70	V	5-30	yes	yes	yes	no
2. Union Super Benefit Policy	18-65	70	VII	8, 9, 12, 15, 18, 21, 24, 27, 30	yes	yes	yes	no
3. Union Family Benefit Policy	18-55	70	I	10-30	no	yes	yes	no
4. Union Home Protection Policy	18-60	70	V	10-30	no	no	no	no
5. Child Welfare Benefit Policy	18-45	60	V	5-15	no	no	no	no

#### SCHEMES OFFERED BY CTC INSURANCE CO. LTD

1. Convertible Term Policy	18-60	70	I	10, 15, 20, 25, 30, 35	no	no	no	no
2. Piripun Policy	18-60	70	V	25	yes	yes	yes	no
3. Dashaka Policy	18-60	70	V	10, 15, 20	yes	yes	yes	no
4. Apeksha Policy	18-55	70	VII	12, 16, 20, 24	yes	yes	yes	no
5. Rampatha Policy	n/a	n/a	V	5	no	no	no	no

## (7) Flexibility to Operate The Policy

If the policyholder is unable to meet the payment of premium, either of the following options is available to continue with the policy;

(i) Can request a grace period and continue with the payment of premium after the grace period. The termination of the policy will be extended by the grace period obtained.

(ii) Can request a grace period and recoup the non payment of premium during the grace period. Hence the termination of the policy will effect as it was before the grace period.

## (8) Tax Benefits

A taxpayer receives additional benefits due to incidence of taxation. They are as follows:

(i) The policyholder can deduct the premium paid into the policy (except in the case of Pure Endowment Policy) from the statutory income in calculating the tax payable for a given fiscal year. The premium deducted should not exceed one third of the total statutory income or Rs 50000 whichever is lower for a given fiscal year.

(ii) The payments received as compensation or by way of maturity of the policy will be exempted from income tax or capital gains tax.

### 2.4.2. Benefits to The Economy

#### (i) Social Security

There are only a few schemes available to compensate for a loss of life or in the event of a disablement. The Life Assurance schemes meet this need which in fact is a social security scheme.

#### (ii) Economic Growth

The premium invested by the policyholders and the shareholders constitute the reserve base of an Insurance Organization. Under the Control of Insurance (Amendment) Act No. 42 of 1986, every insurer should invest 50% of its reserve funds in Government securities and the

**Table IV-1: Schemes Under Category 1**

Organization	Scheme
ICSL	n/a
NIC	n/a
CEY	n/a
UAL	Union Family Benefit Scheme
CTC	Convertible Term Policy

An illustration citing hypothetical events and the extent of compensation under each such event is given below;

**Assumptions:**

Policyholders Age at beginning of policy	= 25 years
Term (period for which policy is taken)	= 25 years
Basic Sum Assured	= Rs 100000
Accident Death Benefit elected	= n/a
Total and Permanent disablement benefit	= n/a

Event	Sum Awarded (Rs)
<b>LOSS OF LIFE</b>	
(1) occurs during term of the policy by natural causes	100,000/-
(2) occurs during term of the policy by accidental causes	100,000/-
(3) occurs after the term of the policy by natural causes	100,000/-
(4) occurs after the term of the policy by accidental causes	100,000/-
<b>TOTAL &amp; PERMANENT DISABLEMENT</b>	
(1) occurs during the term of the policy	n/a
(2) occurs after the term of the policy	n/a
<b>SURVIVAL</b>	
(1) till the end of the term of policy	n/a

**Table IV-2: Schemes Under Category II**

Organization	Scheme
ICSL	(i) Convertible Life Assurance
	(ii) Whole Life Assurance
NIC	Whole Life Assurance
CEY	Whole Life Unlimited Payment Policy
UAL	n/a
CTC	n/a

An illustration citing hypothetical events and the extent of compensation under each such event is given below;

**Assumption:**

Policyholder Age at beginning of policy	=2 years
Term (period for which policy is taken)	= till death
Basic Sum Assured	= Rs 100000
Accidental Benefit elected	2* basic sum assured
Total & Permanent disablement benefit	= elected

Hypothetical Events: Event	Sum Awarded (Rs)
<b>LOSS OF LIFE</b>	
(1) occurs during term of the policy by natural causes by natural causes	100,000/-
(2) occurs during term of the policy by accidental causes	200,000/-
(3) occurs after the term of the policy by natural causes	n/a
(4) occurs after the term of the policy by accidental causes	n/a
<b>TOTAL 7 PERMANENT DISABLEMENT (EXTRA)</b>	
(1) occurs during the term of the policy	100,000/-
(2) occurs after the term of the policy	n/a
<b>SURVIVAL</b>	
(1) till the end of the term of policy	n/a

balance 50% in investments (i.e. approved securities, deposits with commercial banks, deposits and investments with State Mortgage and Investment Bank, and in Quoted companies) approved by the government.

The money invested in the Government and in approved investments will help growth the economy by increasing the level of employment, thereby consumption and furthering demand for goods and services.

**Table IV-3: Schemes Under Category III**

Organization	Scheme
ICSL	Limited Payment Life Assurance
NIC	Limited Payment Whole Life Assurance
CEY	Whole Life Limited Payment Policy
UAL	n/a
CTC	n/a

A Policy holder can elect the accidental death benefit disability benefit and waiver of premium benefit as supplementary benefits.

An illustration citing hypothetical events and the extent of compensation under each such event is given below:

**Assumption:**

Policyholders Age at beginning of policy	= 25 years
Term (period for which policy is taken)	= 25 years
Basic Sum Assured	= Rs 100000
Accidental Death Benefit elected	= 2* basic sum assured
Total and Permanent disablement benefit	= elected

Event	Sum Awarded (Rs)
<b>LOSS OF LIFE</b>	
(1) occurs during term of the policy by natural causes	100,000/-
(2) occurs during term of the policy by accidental causes	200,000/-
(3) occurs after the term of the policy by natural causes	100,000/-
(4) occurs after the term of the policy by accidental causes	100,000/-
<b>TOTAL &amp; PERMANENT DISABLEMENT</b>	
(1) occurs during the term of the policy	100,000/-
(2) occurs after the term of the policy	0/-
<b>SURVIVAL</b>	
(1) till the end of the term of policy	n/a

**III. PRODUCT RANGE**

Individuals have varied needs but their affordability vary considerably, a number of schemes are offered to the public by Insurance Organizations with different packages of reward to suit their affordability and their needs. All Insurance Organizations have their own product range. Each product (scheme) offered by a given Insurance Organizations is matched by other Insurance Organizations by adding minor changes to their product. Some of the minor changes are the premium payable. The supplementary benefit offered and the maximum term for which a policy can be taken. Every Insurance Organization keeps monitoring and innovating different schemes to meet the changing needs of customers or to create a need or to satisfy a yet unsatisfied need offered by Life Assurance schemes.

Each scheme stipulates the minimum and the maximum age a prospective could enter a scheme. A given scheme may also stipulate the maximum term for what policy could be obtained. A scheme may be offered in two forms viz, one sub-scheme qualifying for bonus

and the other without it. The premium payable on the sub-scheme that qualifies for bonus payments is relatively higher than the scheme that does not qualify for bonus.

The following are the products available in the present market. (See Table IV-1.)

**IV. CLASSIFICATION OF SCHEMES**

For the purpose of analysis Life Assurance schemes were classified into seven broad categories. The technical classification of life assurance schemes was ignored here.

**Category I**

Here the premium is paid for an elected term and the coverage is provided for that elected term. A sum assured is not paid (only the premium paid is not refunded) for the policyholder. Hence there is no maturity value in the schemes described under this category since money is paid only at the death of the policyholder. The schemes falling into this category do not offer the accidental benefit, disablement benefit and waiver of premium benefit.

The schemes coming under this category are not very popularity and generally are suitable to individuals who look for a bigger coverage at a lower premium. The following schemes are available in the market (See Table IV -1)

**Table IV-4 Schemes Under Category IV**

Organization	Scheme
ICSL	Pure Endowment Policy
NIC	Cyre endowment Policy
CEY	n/a
UAL	n/a
CTC	n/a

An illustration citing hypothetical events and the extent of compensation under each event is given below.

**Assumption:**

Policyholder Age at beginning of policy	= 25 years
Term (period for which policy is taken)	= 25 years
Basic Sum assured	= Rs 100000
Accidental Death Benefit elected	= 2* basic sum assured
Total & Permanent disablement benefit	= elected

Event	Sum Awarded (Rs)
<b>LOSS OF LIFE</b>	
(1) occurs during term of the policy by natural causes	Premium refund
(2) occurs during term of the policy by accidental causes	Premium refund
(3) occurs after the term of the policy by natural causes	0/-
(4) occurs after the term of the policy by accidental causes	0/-
<b>TOTAL &amp; PERMANENT DISABLEMENT</b>	
(1) occurs during the term of the policy	n/a
(2) occurs after the term of the policy	n/a
<b>SURVIVAL</b>	
(1) till the end of the term of policy	100000/-

**Table IV-5: Schemes Under Category V**

Organization	Scheme
ICSL	Endowment Assurance Marriage Endowment Educational Annuity Double Endowment Assurance Multi Purpose Assurance Podhu Jana Rakshana Plan Treble Benefit Plan of Assurance
NIC	Endowment Assurance
CEY	Endowment Policy
UAL	Union Endowment Policy
CTC	Piripun Policy Dashaka Policy Ranpatha Policy

A policyholder can elect the accidental benefit, disability benefit and waiver of premium benefit as supplementary benefits.

An illustration citing hypothetical events and the extent of compensation under each such event is given below:

Assumptions:	
Policyholders Age at beginning of policy	= 25 years
Term (period for which policy is taken)	= 25 years
Basic Sum Assured	= Rs 100000
Accidental Benefit elected	= 2 basic sum assured
Total & Permanent disablement benefit	= elected

Event	Sum Awarded (Rs)
<b>LOSS OF LIFE</b>	
(1) occurs during term of the policy by natural causes	100,000/-
(2) occurs during term of the policy by accidental causes	200,000/-
(3) occurs after the term of the policy by natural causes	0/-
(4) occurs after the term of the policy by accidental causes	0/-
<b>SURVIVAL</b>	
(1) till the end of the term of policy	100,000/-

The schemes available in today's market are; (See Table IV -2)

**Category III**

The premium is payable by the policyholder for a defined term and the coverage is provided only for the term of the policy. No maturity value is available in the schemes described under this category since money is paid only at the death of the policyholder. The sum assured is paid to the nominee of the policyholder at his death.

The schemes coming under this category are normally, taken by individuals who want to ensure that their dependents' (or nominees) financial base is not eroded with their death.

The Schemes available in the market are: (See Table IV -3)

**Category IV**

A defined term can be elected on the schemes falling into this category. Only the premium invested is refunded the policy if the loss of life actualize during the term of the policy. However a matur-

**Category II**

Here the premium is payable till the time of death of the policyholder and hence the term of the policy cannot be defined (of schemes under Category I, III & IV where premium is paid only for a defined term). The sum assured is payable to the nominee of the policyholder at his death.

The policyholder can elect the accidental death benefit, disability benefit and waiver of premium benefit as supplementary benefits.

No maturity value but only a sum assured is available in the schemes described under this category since money is paid only at the death of the policyholder.

The schemes under this category can be beneficial as a measure of mitigating tax liability. The schemes offered under this category are also not so popular.

**Table IV - 6: Schemes Under Category VI**

Organization	Scheme
ICSL	Jana Setha Assurance

A policyholder can elect the accidental benefit, disability benefit and waiver of premium benefit as supplementary benefits. The benefit given at total and permanent disablement will be equal to the sum assured at the time of disablement.

An illustration citing hypothetical events and the extent of compensation under each such event is given below:

Assumption:	
Policyholders Age at beginning of policy	=25 years
Term (period for which policy is taken)	=25 years
Basic Sum Assured (at end of term)	= Rs 100000
Accidental Benefit elected	= 2* basic sum assured
Total and Permanent disablement benefit	= elected

Event	Sum Awarded (Rs)
<b>LOSS OF LIFE</b>	
(1) occurs during term of the policy by natural causes	depend on term & maturity value
(2) occurs during term of the policy by accidental causes	- do-
(3) occurs after the term of the policy by natural causes	- 0/-
(4) occurs after the term of the policy by accidental causes	- 0/-
<b>TOTAL &amp; PERMANENT DISABLEMENT</b>	
(1) occurs during the term of the policy	depend on term & maturity value
(2) occurs after the term of the policy	-0/-
<b>SURVIVAL</b>	
(1) till the end of the term of policy	100,000/-

ity sum is paid if the policyholder is still alive at the end of the term of the policy.

These schemes are not so popular especially among the tax payers since the premium paid into the schemes falling into this category redemption do not qualify the tax liability for tax.

The schemes availability under this category are listed below. (See Table IV -4)

**Category V**

The coverage is provided only during the elected term and the premium is payable during the term of the policy. The maturity value is payable to the policyholder at the end of the term.

Majority of the schemes offered in the market today fall into this category. These schemes are popular. The premium payable is relatively lower than in those schemes offered under Category V.

The Schemes available in the market: (See Table IV - 5)

A policyholder can elect the accidental benefit, disability benefit and waiver of premium benefit as supplementary benefits.

**Category VI**

Only one scheme of this category is available in the market. Here the cover-

age provided will increase by 5% of preceding year at each given year till the end of the term of the policy. However the maturity value will be equal to the maximum basic life coverage that is provided at the end of the term. If the maturity value is =X, the sum assured at a given year (n) can be shown by the following formula:

$$\text{Basic Sum Assured} = X * (1+5\%)^n$$

(m+term in years, n+term year in which the event take place)

(See Table IV -6)

A policyholder can elect the accidental benefit, disability benefit and waiver of premium benefit as supplementary benefits. The benefit give at total and permanent disablement will be equal to the sum assured at the time of disablement.

**Category VII**

Here the coverage is provided during the elected term and the premium is paid during the term of the policy. The maturity value is paid in installments at defined intervals during the term of the policy. The intervals by which the installments are paid to the policyholder are defined in the scheme chosen.

A policyholder can elect the accidental benefit, disability benefit and waiver of

premium benefit, as supplementary benefits.

A unique feature in the schemes under this category are that irrespective of the amount of installments, received by the policyholder, the basic and the supplementary coverages elected by the policyholder will continue without any abatements, till the end of the term of policy. (See Table IV - 7)

**Table IV - 7: Schemes Under Category VII**

Organization	Scheme
ICSL	Three Stage Policy
NIC	Anticipated Endowment Assurance
	Multi Benefit Assurance
CEY	Advanced Payment Policy
	Five Benefit Policy
UAL	Super Benefit Policy
CTC	Apeksha Policy

An illustration citing hypothetical events and the extent of compensation under each such event is given below:

**Assumption:**

Policyholders Age at beginning of policy	= 25 years
Term (period for which policy is taken)	= 25 years
Basic Sum Assured	= Rs 100000
Accidental Benefit elected	= 2* basic sum assured
Total Permanent disablement benefit	= elected

<b>Event</b>	<b>Sum Awarded (Rs)</b>
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**LOSS OF LIFE**

(1) occurs during term of the policy by natural causes	100,000/-
(2) occurs during term of the policy by accidental causes	200,000/-
(3) occurs after the term of the policy by natural causes	0/-
(4) occurs after the term of the policy by accidental causes	0/-

**SURVIVAL**

(1) till the end of the term of policy	100,000/-
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