

## How To Read A Life Insurance Policy Document

Life insurance is a product which offers protection against risk of death or permanent disability based on the features of the chosen product. This makes understanding your life insurance policy document fully a crucial activity.

If you are an earning member of the family and plan to purchase an insurance policy, your responsibility does not end with merely purchasing and receiving the policy document. To understand the myriad terms that are used in a life insurance policy, it is important to know some fundamentals first.

### **Benefits Of A Life Insurance Policy**

#### **Protection**

In case of death, the full sum assured is made available under a life assurance policy as long as all the due premiums are paid on time.

#### **Saving**

Life insurance can also be used as a means of saving for one's future – be it your child's education, your retirement, etc.

#### **Discipline**

Life insurance brings about disciplined savings, as payment of life insurance premiums is periodic and becomes a habit. Termination of a life insurance policy by the policyholder usually results in a substantial loss in benefits under the policy to the policyholder. One is thus encouraged to remain invested toward the non-compromising goals and promises made to loved ones and to enjoy full benefits of the product chosen.

### **Parties In A Life Insurance Policy**

Life insurance policies have a policy owner, the insured and the beneficiary or beneficiaries. The "proposer" or simply "owner" is the person who has applied for the policy and is paying the premium on it (also called the policyholder).

**Proposer:** The proposer is the only one who has access to policy information and can change the beneficiaries listed in the policy.

**Insured:** The insured or life assured is the person on whose name the policy is purchased and the one upon whose death the policy will issue payment. This is the individual whose lifestyle, age and medical information is evaluated for determining the premium and acceptance of a proposal.

**Beneficiary:** The beneficiary or nominee is the person or persons who will receive the death benefit upon the death of the insured.

The proposer and the insured are often the same individual. In some cases they can be different, as long as insurable interest can be established. For example, a husband can purchase a policy for his wife. In this case, the husband will be both the owner and the beneficiary but the wife will be life assured.

### **Benefits Of A Policy Document**

Technically, a policy document is a contract of insurance between the insurance company and the policyholder containing the key features, terms and conditions.

**Acts As a Promise:** For your dependents, the policy document is your promise to your loved ones, ensuring that the planned goal for which it was taken is achieved in a disciplined manner. Also, in case of any unforeseen event leading to death of the primary bread earner, the goals can be continued to be met.

**Covers All Details:** The policy document covers all the benefits, terms and conditions of the policy. It is important that one shares the details of the insurance and informs their loved ones, kids and their spouse about the features of the policy and how to take care of the claims in case of any eventuality.

Regardless of the type of life insurance, once you have decided to purchase a policy, it is important to understand your coverage and its benefits and obligations.

Life insurance policies typically contain standard sections to some extent.

### **Key Parts of A Policy Document**

The first part of your policy document is generally the policy schedule. This section contains information discussed during the application process. It typically includes:

The benefit amount called "Sum Assured," which is the amount payable in the event of death of the insured.

Amount you are paying, which is the premium.

Frequency of payment whether it is yearly, half yearly, quarterly or even monthly.

### **Understanding Sections In A Policy Document**

#### **Benefit Illustration**

Insurance Regulatory and Development Authority of India (IRDAI) has mandated benefit illustration to be a part of the policy document for certain products to avoid mis-selling. The benefit illustration is aimed at helping you understand how the return on your policy money

will fetch at different rates of returns (4% or 8%) or amount of investible portion of premium is computed.

### **Death Benefit**

The death benefit section spells out the details of the death benefit. The “exclusions” section should be read carefully along with other sections as it states the circumstances or factors that can invalidate or limit a death benefit, with suicide being the major one.

Most policies will not pay a death benefit if the insured commits suicide within the stipulated period. In case of riders, some of the benefits will be subject to stated exclusions.

Misstatement of personal information like age, education or medical history can also limit the death benefit. Any misrepresentation of information you provide could result in the policy being voided or could even be considered insurance fraud.

### **Free Look Period**

A prudent policyholder should go through the same to ensure seamless payment at the time of claim. You will also be able to find out if this policy is aligned to the benefits explained by the insurance representative. If not, you can return the policy document within the free look period.

In such a case, the premium collected is returned to the insured after deducting nominal charges such as the cost of medicals, stamp fees and risk premium for the number of days the risk on the insurer.

The free look period is usually 15 or 30 days from the date of receipt of “Policy Document” by the policyholder depending upon the mode of policy issuance.

### **Unit Linked Product**

In case of an unit linked product, the policy document shall contain the details of the investment fund. The insured should be aware of the fund in which the premium is allocated and in which proportion.

Generally, there is a provision to switch the fund into any other fund or a combination of funds.

### **Understanding the Legal Language**

Life insurance policies are written in legal language that can be confusing, so all policies include a definitions section that defines words used in the policy.

Refer to the “definitions” section when reading your policy and ask about anything you don’t understand. Never shy away from clearing all your doubts and queries pertaining to the policy.

## **Nomination**

The “life insured” can name the person or persons to whom the policy benefit would be payable in the event of his death. The person could be your kids, spouses or parents, for example.

## **Claims Section**

The claims section provides instruction on how a beneficiary can make a claim and the choices available for receiving the policy’s benefit.

## **Claiming the Policy**

Under a lapsed policy, the policyholder loses all his rights and benefits. However if the policyholder wishes to reinstate the policy with full benefits (full force), they can do so by payment of due premiums with a penalty as decided by the company. This procedure is called “revival.”

Revival is possible within three to five years from the date of lapse depending upon the nature of the plan.

## **Lock-in Period**

Insurance is a long-term contract, and the policyholder has entered with an agreed duration. Hence, there is a lock-in period during which the policyholder will not be able to exit or withdraw funds.

In due course, the policyholder may require funds due to some exigency and is not in a position to wait until maturity. In such exceptional cases there is a provision to surrender or encash the policy.

The terms and conditions of surrender should be read properly as it may lead to loss of policy value and the goal may remain unfulfilled.

## **Tax Benefits**

Due to the inherent benefit of a life insurance plan in providing a protection, the Income Tax Act provides tax benefit to the policyholder both on payment of premium and on the maturity amount depending on the type of plan. However, tax laws are subject to changes as per prevailing laws.

A policyholder should ideally consult a tax advisor on taxation issues.

## **Bottom Line**

An individual's financial goals do not remain constant. They may vary due to marriage, birth of a child or a change in job. Hence, it is essential to review your life insurance needs from time to time and adjust your life cover accordingly.

Please remember to factor in inflation whenever you are assessing financial goals.



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