Fathima Zehra,Dept of Commerce & Management,Paper: banking & Insurance,II Sem BBM

Meaning of ULIP: (Unit Linked Insurance Plan)

Unit linked Insurance Plan is a plan in which the policyholder pays an annual or monthly premium, where-in the ULIP acts as a life insurance product as well as an investment. It provides a life insurance cover to the policy holder along with investment options. A small amount of the premium goes to secure the life of the investor and the rest of the money is put into investments such as stocks, bonds or mutual funds.

Advantages of ULIP

- Market Linked Returns
- Life Protection Investment and Savings
- Flexibility

- Market linked returns

: Unit linked insurance plans give you an opportunity to earn market-linked returns as part of the premiums are invested in market linked funds which invest in different market instruments including debt instruments and equity in varying proportions.

- Life protection, Investment and Savings

Unit linked insurance plans offer the twin benefits of life insurance and savings at market-linked returns. Thus, you have the opportunity to invest your money to earn higher returns, while taking care of your protection needs. Investing in unit linked Insurance plans helps to inculcate a regular habit of saving and investing, which is important for building wealth over the long term.

- Flexibility

HDFC Life offers different Unit Linked Insurance Plans which are just right for you and can help you meet your specific financial objectives.

Features of ULIP

- Single Premium

The policy holder is required to pay the entire premium amount as a lump sum at the beginning of the policy term.

- Regular Premium Payment (annually, semi-annually or monthly)

The policy holder has to pay the pre-determined premium amount periodically i.e. annually, semi annually or monthly, depending upon the premium payment term opted for.

- Number of Premium Paying Years

This depends on the term of the policy that you have chosen. In most cases, the policy term and the number of premium paying years (in case of regular premiums) are the same. However, some policies give the insured the option of choosing the number of premium paying years.

ULIP Charges

The following charges are deducted from your policy towards the cost of benefits and administration services provided by HDFC Standard Life Insurance -

- Administration charges

  A fee is charged for administration of your policy every month. Administration charges are deducted by cancelling units proportionately from each of the funds you have chosen.

- Fund management charges

  These charges are towards meeting expenses related to managing the fund. This is charged as a percentage of the fund's value and is deducted before arriving at the net asset value of the fund.

- Switch charges

  You can switch between the funds available to suit your changing needs and goals. In a policy year, a fixed number of such switches are available free of cost. Subsequent to this, each switch would attract a certain charge. These charges are deducted by cancelling units proportionately from each of the funds you have chosen.

- Surrender charges

  These charges are levied for premature encashment of units. They are charged as a percentage of the fund value and depend on the policy year in which the policy has been surrendered.

- Mortality Charges

  Depending upon the age, and the amount of cover, these charges are levied towards providing a death cover to the insured.

- Premium Allocation Charge

  This charge is deducted as a fixed percentage of the premium received, and is usually charged at a higher rate in the initial years of a policy. This charge varies depending upon whether the policy is a single premium plan or regular premium policy, the size of the premium, premium frequency and payment mode.

- Partial Withdrawal Charges

Lump sum withdrawals are allowed from the fund after the lapse of three years of the policy term and subject to pre- specified conditions. However, such withdrawals attract charges, as mentioned in the respective policy brochures.

Meaning of General Insurance

General insurance or non-life insurance policies, including automobile and homeowners policies, provide payments depending on the loss from a particular financial event. General insurance is typically defined as any insurance that is not determined to be life insurance. It is called property and casualty insurance in the United States and Canada and non-life insurance in Continental Europe.

Types of General Insurance

- **Motor insurance**

Insurance for the damage or theft of your motor vehicle, two-wheeler, three-wheeler or four-wheeler, is covered under this type of insurance. The damage caused to the vehicle can be caused natural or man-made circumstances, the extent of which would change from policy to policy.

- **Home insurance**

Home and household insurance protects your home and the items inside it. A home insurance policy would also cover natural and man-made circumstances. The contents that are covered under a home insurance policy would depend on the type of policy you buy.

- **Travel insurance**

Another popular type of general insurance is travel insurance, which covers your trips abroad. Travel insurance can be taken to cover loss or theft of your valuables as well as documents. Some travel insurance policies also cover flight delays and medical emergencies. Travel insurance can be taken for personal as well as business trips.

Other types of general insurance

- Marine insurance
- Commercial insurance
- Rural insurance
- Crop insurance

Meaning of Fire Insurance

Fire insurance is property insurance that covers damage and losses caused by fire. The purchase of fire insurance in addition to homeowners or property insurance helps to cover the

cost of replacement, repair, or reconstruction of property, above the limit set by the property insurance policy.

Types of Fire Insurance

The following kinds of policies are generally issued for fire insurance:

1. Valued Policy:

In this policy the value of the subject-matter is agreed upon at the time of taking up the policy. The insurer agrees to pay a pre-determined amount if the subject-matter is destroyed or damaged by fire. The principle of indemnity is not applicable to this policy. The agreed value may be more or less than the market value at the time of loss. These policies are generally issued for those goods or property whose value cannot be determined after their loss or damage. These goods may include works of art, jewellery, paintings, etc.

2. Specific Policy:

Under this policy the risk is insured for a specific sum. In case of loss of property, the insurer will pay the loss if it is less than the specified amount.

3. Average Policy

If the 'average clause' is applicable to a policy, it is called Average Policy. Average clause is added to penalise the insured for taking up a policy for a lesser sum than the value of the property.

4. Floating Policy:

A floating policy is taken up to cover the risk of goods lying at different places. The goods should belong to the same person and one policy will cover the risk of all these goods. This policy is useful to those businessmen who are engaged in import and export of goods and the goods lie in warehouses at different places. The premium charged is generally the average of the premium that would have been paid, if specific policies would have been taken for all these goods. Average clause always applies to these policies.

5. Comprehensive Policy:

A policy may be taken up to cover up all types of risks, including fire. A policy may be issued to cover risk like fire, explosion, lightening, burglary, riots, labour disturbances etc. This is called a comprehensive policy or all-risk policy.

6. Consequential Loss Policy:

Fire may dislocate work in the factory. Production may go down while the fixed expenses continue at the same rate. A policy may be taken up to cover up consequential loss or loss of

profits. The loss of profits is calculated on the basis of loss of sales. A separate policy may be taken up for standing charges also.

7. Replacement Policy:

The underwriter provides compensation on the basis of market price of the property. The amount of compensation is calculated after taking into account the amount of depreciation. A replacement policy provides that compensation will be according to the replacement price. The new asset should be similar to the one which has been lost. The amount of compensation will depend upon the market price of the new assets so that it is replaced without additional cost to the insured.

Distribution models

There are five major models of insurance coverage for the poor:

1. **The "Partner-Agent" model**

In this model, a regulated insurance company underwrites and offers a micro insurance product, while provision or delivery of the product is done by delivery channels. Delivery channels can be a wide range of organisations.

2. **Mutual, cooperatives, and other community-based models**

In the mutual model, the insurer is owned by clients (members), who share in the benefits and costs of the insurance operations, often with members' liability limited to their premium contributions. Cooperative insurers may, but need not, be owned by clients. These models have similar characteristics, including involvement of insurance clients in management, and often serve pre-existing groups of clients, such as borrowers from a credit and savings cooperative or MFI, or residents of a limited geographic area.

3. The "one in all insurance" model

Different organisations - MFIs, insurance companies, etc. – can also sell their policies directly to the poor through agents who are paid by salary, sales commission, or both. In this model, the same entity (sometimes a licensed insurer and sometimes not) bears all costs and risks associated with the product and also performs all distribution and servicing functions.

4. The "franchise" model

In this model, the professional insurer franchises their license, assigning part of their capital to the licensee through a reinsurance treaty. The licensee is charged with designing the product, setting the prices, and handling the losses and gains.

5. The "supplier" model

This model implies that the insurer (whether formal or informal) provides all or part of the covered services, such as health care or funeral services. By providing a tool to finance use of the covered services, the supplier is able to increase access to, and demand for, these services. At the same time, as the supplier, it has control of the quality of the service provided, which is a crucial element in client satisfaction and retention.

Meaning of Direct Sales

Direct sale simply means the customers reach out to the insurer directly to buy a product. “When customers buy products online themselves by going to the insurer’s website or even when they buy products offline either by approaching the insurer directly or through their direct sales force that are salaried employees of the insurer, it’s termed as direct sale because no intermediary is involved," said C.L. Baradhwaj, executive vice-president, legal and compliance and company secretary, Future General India Life Insurance Co. Ltd.

Meaning of Insurance Agency

An Insurance Agency is the Retail or Wholesale shop that sells and services the product created by the manufacturer. An insurance agency employs people who are licensed by a state to sell insurance for one or more specific insurance companies. An insurance agency, sometimes called an insurance brokerage or independent agency, solicits, writes and binds policies through many different insurance companies. ... Agencies can decided which insurance carriers they would like to represent and which personal and business products they would like to offer.