

What you should know about Insurance – appeared in Sunday Times on 18th February 2007

The Insurance Board of Sri Lanka, the independent body set up by the Government to regulate the insurance sector, initiated a series of articles to provide information to the consumers to promote consumer understanding of the insurance system. This is its third article in the series.

In our previous articles we dealt with understanding life assurance, its importance, types of life assurance products offered to consumers and important facts in choosing a life assurance policy, rights to insure, disclosure of facts, assignment & beneficiary designation of life policies, rights of policyholders in cancellation and lapsing of life policies.

This article deals with Rider benefits, an Investment-linked Policy, Policy Loan, Loss of policy Document and Claims & Settlement of life policies.

Rider Benefits and Investment Linked Products:

A **Rider** is an endorsement or addition to a basic Life Insurance Policy that becomes a part of the insurance contract and expands or limits the benefits payable. Insurance Companies offer a variety of supplementary benefits for additional premium in the form of Riders. These riders change the basic life policy to provide some feature/features desired by the policyholder. Riders provide additional protection but do not enhance the savings element. E.g. Hospitalisation Benefit as a Rider to the Life Insurance Policy. When there are riders it will always be at an additional premium. The consumers should be aware of the fact that premium paid for rider benefits will not be refunded in case a policyholder decides to cancel his/her life policy prior to maturity. Moreover, premium charged for riders will not be taken in payment of maturity benefits to the policyholders.

Insurers offer various types of Rider benefit Schemes, the exact wording used is vital to understand the cover given under each type of scheme. The benefits payable and the basis of payment may vary depending on the policies issued by different insurance companies. It is a common practice by the insurance companies to set lower and upper age limits on most of these Riders to grant additional cover. Policyholders are entitled to attach the following additional benefits as riders to their life policy at an additional premium:

1. Additional Death Benefit

A multiplication (up to six times) of basic sum assured may be payable depending on the policy conditions under the additional death benefit, if death occurs due to accidental or natural causes.

2. Accidental Death Benefit

It is a supplementary life insurance policy benefit that provides for an amount of money in addition to the basic death benefit of a life insurance policy. This additional amount is payable only if the insured dies as a result of an accident.

3. Disablement Benefits

Disability means losing one or more limbs or loss of sight due to injury or sickness. The loss of a limb means the actual loss of limb by physical severance at or above the wrist or ankle or loss of the use of the limb. If the policyholder loses any two limbs or the sight in both eyes as a result of an accident or sickness, it is considered as Total Permanent Disability. Disablement benefits are payable to the policyholder if he/she encounters with the following:

- Total Permanent Disability due to accident
- Partial Permanent Disability due to accident
- Total Permanent Disability due to sickness

4. Critical illness benefit

It is also known as dread disease cover. The additional benefit under critical illness cover is payable if the life insured is diagnosed for the first time as suffering from a disease specified in the policy conditions. The list of such diseases differ from one insurance company to another, however all policies may cover seven core conditions. These are:

- Heart Attack (Myocardial Infarction)
- Coronary Bypass Surgery
- Stroke
- Life Threatening Cancer
- Vital Organ Transplants
- Kidney (Renal) Failure
- Multiple Sclerosis

The benefit amount of the Critical Illness Cover can be taken as a percentage of the Basic Life Cover.

5. Spouse and children cover

It is a supplementary benefit that may be added to a permanent life insurance policy to provide term insurance coverage on the insured's spouse and children.

6. Waiver of Premiums

A supplementary life insurance policy benefit under which the insurer waives renewal premiums (giving up the legal right on premiums) that become due while the insured is totally disabled. It is not necessarily mean that the policy is suspended, however it remains in force and benefits continue to remain as it is.

7. Hospitalisation Benefit

The hospitalisation benefit covers the expenses incurred by the life insured for medical and surgical treatment, which is necessitated due to sickness or accident. The types of benefits that are generally offered under the Hospitalisation benefit are subject to an overall limit for anyone event. However the insurance companies may take steps to provide benefits with or without specified limits for such expenses as given below:

- Room charges per day
- Hospital accommodation, nursing care, drugs etc.
- Fees of Surgeons, Anaesthetists and Physicians
- Charges for Operating Theatre and Intensive Care
- Fees for Specialists and Consultants
- Specialist Services such as X-rays, Scanning, Diagnostic Tests etc.
- Local Travel Expenses in the case of an emergency relating to in-patient treatment

8. Apart from the above common rider benefits there are various other rider benefits such as Family income benefits, Funeral Expenses Cover, Family Health Care Benefit etc.

The policyholders should be well aware of the policy conditions, benefits and exclusions in the Rider Benefits and how it operates along with the basic life policy in order to minimise the problems that may come up when a claim arises or a cancellation of the life policy.

An **investment-linked policy** is a life insurance plan that combines investment and protection. The premiums that a policyholder pays provide him/her not only with life insurance cover but part of the premiums will also be invested in specific investment funds of his/her choice, managed by the insurance company. As a policyholder, he/she can choose how to allocate his/her insurance premiums towards protection (life cover) and investment. The investment fund is divided into units of equal value. The price of the unit is based on the investment performance of the managed fund. The benefits will therefore depend on the realised value of the units at the maturity of the basic policy.

Policy Loan:

The policy owner has a right to borrow money from the Insurance Company, when the policy has acquired a surrender value. The loan may be obtained for any purpose up to 90% of the surrender value. The only security required for the loan is the life insurance policy. The loan may be repaid at any time during the period of contract and any unpaid portion of the loan including interest will be deducted from the claim or maturity benefit.

Loss of Policy Document:

The Policy Document is an evidence of the contract between the Insurer and the Insured. Hence the policyholder should preserve the policy document till the sum assured under the policy is settled. A loss of the Policy Document should be immediately intimated to the insurance company where it is serviced.

Claims on Life Insurance Policy:

Claim is a request for reimbursement (or compensation) filed by the insured/beneficiary under the terms of an insurance policy.

1. Maturity Claims

Generally, the insurance companies communicate with the policyholder one month in advance in order to:

- a) remind the maturity date
- b) state the amount payable
- c) list any requirements for payment

It is the responsibility of the policyholder to ensure the relevant forms including the original policy, are submitted to the insurer in order to obtain the maturity claim.

2. Death Claims

Death claim arises when the life assured dies during the term of the policy. In respect of death claims the beneficiaries of the policyholder are required to immediately notify and send the following information to the insurance company in order to obtain the death claim:

- a) Date of death – This must be established as it can affect the amount payable e.g. With decreasing term insurance and with any dividend/bonus calculation
- b) Proof of Death – Original of the Death Certificate
- c) Cause of Death – This will be normally shown on the last Medical Attendant's certificate or Inquest Proceedings or Post Mortem report
- d) Original Life Policy
- e) Proof of age
- f) Completed Claim Form

Settlement Options of a Life Policy Benefit:

These are the choices available to the policyholder or the beneficiary of a life insurance policy regarding the method by which the insurer will pay him/her policy proceeds. There are different options for the settlement of a Policy Benefit when it becomes payable for the Beneficiary and/or the policyholder.

The options are given below:

1. A lump-sum settlement as a single payment, to complete the whole contract.
2. An Interest Option, whereby the proceeds are left with the Insurer, who pays interest annually or at agreed more frequent intervals.
3. A Fixed Period option, where the proceeds are paid in instalments over an agreed period of time.
4. A Fixed Amount Option, whereby the proceeds are paid in agreed instalments as long as the benefit is fully paid in monetary terms.

Next article will explain the Principles of Insurance.

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