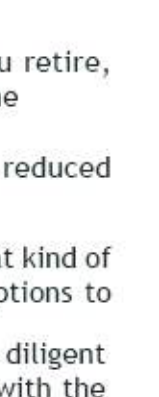


# LIFE INSURANCE



## IBSL INSURANCE BOARD OF SRI LANKA



### LIFE INSURANCE

#### Introduction

Most people seek life insurance when they get married, or buy a home, or have kids, or when other life changing events take place. When purchasing the first policy there is always a tendency to overlook the complexity of the subject. However, those who take the time to learn more usually end up with the best policy, meeting or exceeding their needs and saving a lot of money on their premiums, simply by knowing what coverage they need, and what they can do without.

#### Why do you need life insurance?

- To ensure that your immediate family members are able to finance their basic needs and are able to maintain their standard living upon your demise
- To ensure that your immediate family has cash and income after your demise to settle all bills, taxes and fulfil other obligations
- For your children to have money for their education
- For you to have a savings plan for the future so that when you retire, you receive a lump sum or you have a constant source of income
- To ensure that you have extra income when your earnings are reduced due to a serious illness or accident

After deciding to buy a life insurance, the next two questions are what kind of policy and what level of sum assured. There could be countless options to choose from, policy types, and policy conditions. You need to be diligent when choosing one to suit your needs. Always take time to discuss with the insurance company or its intermediary about the policy that fulfils your requirements.

Deciding the adequacy of the amount to be insured needs a careful consideration. Prior to deciding the policy amount, it is advised to analyze and compare the financial needs of your dependents and their potential earnings, your capacity to save and invest and its potential returns, if any. The value of the insurance policy that you decide to buy should fulfil the gap.

Affordability is an important consideration and before a policy is effected, examine carefully, bearing in mind possible future financial commitments, such as those which may arise following a change in civil status, parenthood and the like. Statistics prove that this aspect is not receiving adequate attention as is evident from the large number of policies lapsing, even after one year or several years, due to non-payment of premiums as the needs and the circumstances have changed since purchasing the policy.

#### What you need to remember

- Buying life assurance is essentially providing future financial security for your family. Therefore, it is important to ensure that you are buying from an insurance company directly or through an insurance broking company Licensed under the Regulation of Insurance Industry Act.No.43 of 2000 or through an insurance agent appointed by an insurance company or insurance broking company.
- Prior to buying a policy identify your requirements. Discuss with the insurance representative the benefits you are looking for. Review and evaluate the value before making the purchase decision.
- Fill in your application carefully. Never sign blank proposal forms or blank application forms. Ensure all information you have given in the proposal form is complete and correct to the best of your knowledge prior to placing your signature; if not sure, check it out with the company representative or the insurance broker. If the Agent is filling the application, make sure to verify the answers thoroughly. Giving incorrect, incomplete or false information may cause delay or even denial of claim. It is fraudulent to provide false information in the application form or the proposal form. Remember, proposal form is the basis of contract between you and the insurance company and any misrepresentation could make the policy void at the option of the insurance company.
- Ensure your age, occupation and health condition are stated correctly in the proposal form. In the event of a claim, if your age has not been stated correctly, the insurance company will pay you only an amount equal to the insurance that the premium would have bought at the correct age or recover outstanding premium with interest or deal with the misstatement according to the conditions prevailed at the time of acceptance of the policy.
- Avoid going for unwanted additional coverage. Buy only what you really require for the intended purpose and/or future requirements. Do not allow yourself to be pressurized into buying "packaged" products that may contain fixed coverage that you don't need. You can instead add suitable additional coverage of your choice at an additional premium, which gives better value for money.
- Ensure you understand the terms and conditions of the policy. Insurance Policy is an evidence of a legal contract between you and the insurance company. As in other contracts, make sure you understand all provisions in the policy. Ask for explanations from the insurance company, if necessary. It is always better to clear your mind at the inception of the policy rather than at the time of a claim, where you may not be there to argue your point.
- Ensure you understand the provisions relating to bonuses/dividends illustrated in the sales illustration. Bonus or dividend scales are not guaranteed and depend on the financial performance of the insurance company. Be careful if you are told that it is guaranteed. If there is a guarantee by the insurance company, ensure that it is printed clearly on the policy.
- If you are unhappy with the policy conditions, you may cancel your life insurance policy by returning the policy to your insurance company within 15 days after you received the document. The premium you paid will be refunded to you (less any medical fees incurred).
- Make sure the life policy recommended is right for you. Review the recommended policy with care to be sure it fits your personal goals. Often, an agent will provide a 'policy illustration' that shows what benefits the policy will provide. Make sure that the classification show is correct for you.
- Always check the date on which the insurance cover becomes effective. The date of commencement of cover shown in the insurance policy could be different from the date of issue of the policy. Check when the insurance becomes effective.
- Keep a note of the premium due dates. If premium is not paid when due, your life insurance policy may lapse.
- When you buy a policy, make your cheque or money order is payable to the insurance company/insurance broking company. You should never issue a cheque in the name of the agent. Always insist on a receipt as proof of payment and preserve all receipts of payments. This will help any investigation if your agent fails to forward your premium to the insurance company.
- As the policy document is a legally binding document, it should be kept safely. Have the basic information such as the name of insurance company, the type of policy, the policy number, the name of your nominee and the due date of premium payment in a separate file.
- If you cancel your policy before the end of the term, you will not receive the total amount of premiums you have paid to-date, but you will be entitled to what is called the 'surrender' value, which is usually less than what you have paid. If someone suggests to you to cancel your policy or advises you to borrow on an existing policy in order to buy another policy, you should discuss these matters with your insurance company prior to making such a decision.
- Let your nominee know about your life insurance policy and where you keep your documents. In the event of death of the nominee make sure to appoint another. Ensure that your nominee's details are documented in your policy. You are free to change or add nominees. Any cancellation of a nomination or appointment of nominee should be communicated to your insurance company in writing that would then endorse the policy with his/her details.
- When your life insurance policy lapses, you can revive or reinstate it to full force within a period of time, under certain conditions stated in your policy. Declaration of your state of health at the time of reinstatement may be required.
- All your personal information, including medical information, is confidential. Therefore, your insurance company is strictly prohibited from divulging such information to third parties.

### TRADITIONAL TYPES OF LIFE POLICIES

#### Term Assurance

This policy provides insurance protection for a selected period or term only. This is the cheapest form of life assurance cover, providing highest life cover of every rupee spent on premium.

The insurance money is payable only if insured person dies during the selected period or term, and not otherwise. This means no payment will be made if the insured person survives the selected period. Premiums are paid throughout the selected period. This policy is suitable to meet a temporary need.

#### Decreasing Term Assurance

This policy is similar to the Term Assurance Policy, except that benefit decreases annually until it is extinguished at the end of selected period. This policy is suited for a temporary need, which is reducing, such as housing loans repayable in instalments. Premium may be paid in one lump sum or over the selected period.

#### Convertible Term Assurance

This policy is a Term Assurance Policy with the option to convert to another policy (such as an endowment or whole life) without the evidence of health. The right to convert (change) is subject to certain restrictions, such as:

- Right to convert must be exercised within a specified period
- Conversion may not be permitted beyond a certain age (55 or 60)
- Premium will change after conversion

This policy is ideally suited for those who are at the threshold of their career or to suit a future need.

#### Whole Life Assurance

This policy is designed to last the whole of one's life (sometimes it is called whole of life insurance). The policy money is paid on death whenever that occurs. Premium may be payable till death or may be limited to a selected period (say up to age of 60).

#### Endowment Assurance

This policy provides for the payment of the insured amount at the end of a selected period (term) or upon earlier death. Should the insured survive the term, the policy is said to mature. Thus the insured amount becomes payable either at death or at maturity. Premium is payable throughout the selected term. If the insurance is obtained with participating in profits or dividend linked, then the maturity benefit could be higher than the sum assured.

#### Investment Linked Assurance

Under the provision of this policy part of the premium paid is invested in units of a fund managed by the insurance company. The price of the unit is based on the investment performance of the managed fund. The benefits will therefore depend on the realized value of the units at the time of claim.

Premium is payable throughout the selected period.

#### Life Annuity

The annuity is a series of periodic payments to an annuitant, for life or other agreed term. Premium may be either a single payment or series of payments. There are two types of annuities:

- Immediate Annuity

The annuity payments begin immediately within 12 months after the purchase of the annuity. This type of annuity is suitable to those who are about to retire or have already retired.

- Deferred Annuity

The annuity payment is deferred to an agreed future date. Premium may be paid single or over the deferred period. This type of annuity can be bought during working years to provide a steady income after retirement.

#### Supplementary Rider Benefit

Insurance companies offer a variety of supplementary benefits for additional premium.

They are:

- Additional payment for death due to any cause
- Additional payment for death due to accident
- Payment for permanent disability
- Payment for partial disability
- Payment for critical illness
- Hospitalization benefit
- Funeral expenses benefit
- Family Income Benefits due to Death or Total Permanent Disability
- Waiver of premium on Total Permanent Disability due to Accident or Sickness

#### Understanding important provisions in a life policy contract

##### Premium

The single or periodic payments you make to the insurance company for providing life insurance cover. You can decide on the mode (frequency) of payment on your life insurance policy (i.e. annually, semi-annually, quarterly or monthly). It is advisable to make this payment through a bank standing order to avoid non-payment.

##### Participating Policy

The policy allows you to share the surplus of the insurance company, which is usually paid as dividends or bonus. Therefore, the premium that you need to pay for a participating policy is higher than for a non-participating policy.

##### Non-Participating policy

The premium paid is less than the premium paid for the participating policy, as this does not participate in the profits of the insurance company.

##### Bonus

The surplus arising from a valuation is distributed among participating policies as Bonus. The amount to be paid is decided by the Actuary. The surplus is created due to favourable mortality, greater investment income and reduction in expenses.

##### Surrender Value

When you maintain your life insurance policy for a minimum period of three years continuously it acquires a cash value, known as a surrender value. This is the cash entitlement available when you cancel your policy before the maturity date. In addition to the surrender value, depending on the policy terms and conditions, bonus accrued also will be paid to you. Surrender value is available under Endowment or Whole Life type of policies only.

##### Paid-up Policy

If premiums are not paid after the policy has acquired a cash value, it becomes a paid-up policy. The policy will continue to remain in force for a reduced sum assured. This amount is paid either at maturity or at prior death. Paid-up value is available for Endowment or Whole Life type of policies only. Paid-up policies may or may not participate in the future profits of the company, if the policy has been obtained as a participating policy.

##### Policy loan

The insurance company could grant a loan, when the policy has acquired a cash value. Interest will be charged on such loans. You can choose how to repay the loan and the interest (as a lump sum or in instalments or not at all). Any unpaid portion of the loan including interest will be deducted from the claim or maturity benefit.

#### How to make a complaint

If you are dissatisfied with your insurance company or you feel that you have been unfairly treated, you have several avenues for redress before going to court.

##### Avenues for resolving complaints

- Complaints Unit of the insurance company**

You should first submit your complaint to the Complaints Unit of the insurance company or head of life insurance division. If you are not satisfied with the outcome of the complaint resolution, you can submit your complaint to the Insurance Ombudsman.
- Insurance Ombudsman**

143A, Vajira Road  
Colombo 05  
Telephone: 011 4528671-2, Fax: 011 4528670  
E-mail - info@insuranceombudsman.lk  
Web site - www.insuranceombudsman.lk
- If you have any further issues after consulting the Insurance Ombudsman, you can always contact the Insurance Board of Sri Lanka.**

Director General  
Insurance Board of Sri Lanka  
Level 11, East Tower, World Trade Centre  
Colombo 01  
Telephone: 011 2396184-9, Fax: 011 2396190  
E-mail - info@ibsl.gov.lk  
Web site - www.ibsl.gov.lk

#### Follow these six steps for your complaint to be handled effectively

- Make your complaint in writing; if possible provide copies of evidence;
- State essential information of your case clearly such as the name of the insurance company, policy number etc.;
- Relay your complaint in a sensible order and include relevant dates and reference numbers, e.g. the policy or claim reference number;
- Give your contact address and telephone numbers;
- Attach copies of relevant documents and retain the originals; and
- Retain a copy of your complaint letter for future reference.

### FAQ

#### Q: What are the registered insurance companies in Sri Lanka selling life insurance?

- A:
- ABC Insurance Co Ltd.
  - Amana Takaful PLC
  - Asian Alliance Insurance PLC
  - Ceytinco Insurance PLC
  - Cooperative Insurance Co. Ltd.
  - Eagle Insurance PLC
  - HIIB Assurance PLC
  - Janashakthi Insurance PLC
  - Life Insurance Corporation Lanka Ltd.
  - Seemasahitha Sanasa Rakshana Samagama
  - Sri Lanka Insurance Corporation Ltd.
  - Union Assurance PLC
  - Allianz Life Insurance Lanka Ltd.

#### Q: Who are Intermediaries?

A: Intermediaries are either agents or brokers. A person cannot be both an agent and a broker. Premium remains the same even if the business is placed through an intermediary.

#### Q: Who is an Agent?

A: An agent could represent either only one insurance company or only one insurance broking company and sells the products of that company. He cannot represent more than one company. He is not an employee of the company and receives his remuneration from the insurance company he represents by way of commission.

#### Q: Who is a Broker?

A: An insurance broker represents his clients with any insurance company, although he receives the commission from the insurance company with whom he places the business. Between agent and broker, the latter is independent and holds out as an expert on the subject.

#### Q: How do I know if the Broker and/or Agent are authorized to sell life insurance policies?

A: A life insurance agent is appointed by an insurance company or insurance broking company. Identity Card issued by the insurer or broker to the agent is proof of the fact that he is authorized to sell life insurance. One could always check with the insurance company he purports to represent. A broker is an institution licensed by the Insurance Board of Sri Lanka to carry on Life and/or General Insurance business.

#### Q: How does a life insurance company evaluate my risks?

A: The insurance company assesses your risk by analyzing your family history and other information such as sex, age, habits, your/family medical history, health condition, occupation, financial status etc. Provided by you in the proposal form and other statements and from the medical reports obtained when applicable.

#### Q: Should I pay my premiums through the Agent?

A: Always it is advisable to obtain the receipt from the insurance company. Insurance agents are not allowed to issue receipts on behalf of the insurance company. In the event you do not pay the premium on the due date, your policy will lapse, depending on the premium payment condition of the policy.

#### Q: Do I enjoy a grace period to pay the premiums?

A: Some policies grant a grace period to pay the premiums after the policy has been in force for a certain period of time without affecting the cover. However, when reinstating the policy, the overdue premiums will have to be paid with interest.

#### Q: How can I cancel my existing policy and replace it with another?

A: Generally cancelling and obtaining a new policy is uneconomical since you will not be entitled to any refund unless your existing policy has acquired surrender value, which would be very much lower than the premium that you have already paid. Further, on the new policy you may have to pay higher rate of premium since premium rate depends on the age.

#### Q: What do I do when the insurance policy has matured?

A: When the policy of insurance has a maturity date, usually, the insurance company will communicate with you in advance of the date. In addition to filling certain discharge forms, you are required to tender in the original policy and instruct the insurance company how you wish to obtain the proceeds of the policy.

#### Q: How does one deal with a claim under the life policy?

A: It is always better to keep an immediate family member apprised of your insurance policy so that they could initiate policy proceeds after your demise. It is always beneficial to nominate a person to receive the benefits under the policy which otherwise would need court proceedings to determine the disbursements. In all other cases, such as disability benefits due to sickness or accident, family income benefits, total permanent/partial disability, inform your insurance advisor (agent or broker) and the insurance company immediately to commence claim procedure.

### Disclaimer

This document is intended for your general information only. It does not contain exhaustive advice or information relating to the subject matter nor it should be used as a substitute for legal advice.

For more information, log on to [www.ibsl.gov.lk](http://www.ibsl.gov.lk)

A Public Awareness Programme by:  
**Insurance Board of Sri Lanka**  
(Ministry of Finance and Planning)