

Life Insurance

Many people view life insurance as a complex system of premiums, deductibles, inclusions and exclusions. In reality, understanding life insurance can be fairly simple.

There are two entities involved in every life insurance transaction: the insured and the insurer. The insured agrees to pay a premium for a fixed period of time. When the specified time expires, the insured is awarded the sum insured with bonuses. In the event that the insured dies during the policy period, the insurer advances the sum insured to the beneficiary designated by the insured.

Life insurance policies are like legal contracts. Several clauses are in place to protect the insurer. For example, if the insured commits suicide within two years of taking the policy, or if the insured furnishes erroneous facts, the insurer may declare the policy null and void. Additionally, if the insured dies within two years of taking the policy, the insurer has a legal right to contest the claim.

The 'face amount' is the total amount paid at the maturity of the policy. Insurance policies usually protect the financial interests of the policy owner when the insured passes away. For this reason, it is not always possible to purchase insurance in someone else's name. Since the demise of the insured is beneficial for the policy owner, the law states that the policy owner should have a legitimate reason to insure the life of another person.

Policies are usually priced in such a way that they cover both the claims to be paid and administrative expenses, with some funds left over for profit. Professionals called 'actuaries' set up the guideline premiums, determining mortality tables by considering the age, gender, health and habits of the insured. Family health and history also play a role in determining an individual's mortality table.

Insurance companies make most of their income from premiums. Many companies invest the premiums in profitable activities to meet the company's expenditure. These companies also investigate each policy thoroughly to prevent paying out large sums of money unnecessarily.

Underwriting is the investigation made by the insurer. Underwriting often includes a probe into health and lifestyle issues. If dissatisfied with the applicant's health or style of living, the insurance company has the right to reject the policy request. Additionally, insurance companies will hike premiums in cases where the risk potential is higher.

Individuals seeking life insurance are grouped in four categories: Preferred Best, Preferred, Standard and Tobacco. Preferred Best policyholders are young and in the best of health. Factors like an individual's profession, travel habits and lifestyle also lend a hand in determining the type of policy a person can buy.

If the insured person dies, the company will request an acceptable proof of death to settle the claims. The policyholder may choose to receive final payment in a single transaction or as a series of recurring payments.

Most people purchase life insurance as a source of comfort and protection for their loved ones. Knowing the facts makes it easier to understand the life insurance process, and feel confident about your decision.