

FN241

Risk Management and Insurance
Life Insurance Provisions

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Basic Parts of a Life Insurance Contract

- Declarations – name, age, premium amount, issue date
- Definitions – Insurer & insured
- Insuring agreement – Open-perils policy
- Exclusions – Suicide & killed by beneficiary
- Miscellaneous provisions

Life product provisions

- Life insurance contractual provisions
- Dividend options
- Non-forfeiture options
- Settlement options
- Additional life insurance benefits

Case application

Sonja, age 25, recently purchased a \$100,000 ordinary life insurance policy on her life. The waiver-of-premium rider and guaranteed purchase option are attached to the policy. For each of the following situations, indicate the extent of the insurer's obligation, if any, to Sonja or to Sonja's beneficiary. Identify the appropriate policy provision or rider that applies in each case. Treat each event separately.

- a. Sonja fails to pay the second annual premium due on January 1. She dies 15 days later.
- b. Sonja commits suicide three years after the policy was purchased.
- c. At Sonja's death, the life insurer discovers that Sonja deliberately lied about her age. Instead of being 25 years old, as she indicated, she was actually 26 years old at the time the policy was purchased.
- d. Two years after the policy was purchased, Sonja is told that she has leukemia. She is uninsurable but would like to obtain additional life insurance.
- e. Sonja is seriously injured in an auto accident. After six months, she is still unable to return to work. She has no income from her job, and the insurance premium payments are financially burdensome.
- f. Sonja has a mentally disabled son. She wants to make certain that her son will have a continuous income after her death.
- g. Sonja lets her policy lapse. After four years, she wants to reinstate the policy. Her health is fine. Point out to Sonja how she can reinstate her life insurance.
- h. Sonja wants to retire and does not wish to pay the premiums on her policy. Indicate the various options that are available to her.
- i. Ten years after the policy was purchased, Sonja is fired from her job. She is unemployed and is in desperate need of cash.
- j. When Sonja applied for life insurance, she concealed the fact that she had high blood pressure. She dies five years later.

Life Insurance Contractual Provisions

- Under the ownership clause, the policyowner possesses all contractual rights in the policy while the insured is living
 - Name beneficiaries
 - Surrender the policy for its cash value
 - Designate a new owner by filing an appropriate form

Life Insurance Contractual Provisions

- The entire-contract clause states that the life insurance policy and attached application constitute the entire contract between the parties
 - Prevent the insurer from making amendments without the policyholder's knowledge
 - Protect the beneficiary in case the insurer tries to deny a claim

Life Insurance Contractual Provisions

- The incontestable clause states that the insurer cannot contest the policy after it has been in force 2 years during the insured's lifetime
 - Protect the beneficiary if the insurer tries to deny payment of the claim years after the policy was first issued
 - The insurer can contest a claim after the incontestable period in limited circumstances

Life Insurance Contractual Provisions

- The suicide clause states that if the insured commits suicide within 2 years after the policy is issued, the face amount of insurance will not be paid; there is only a refund of the premiums paid
- A life insurance policy contains a grace period during which the policyholder has a period of 31 days to pay an overdue premium

Life Insurance Contractual Provisions

- The reinstatement provision permits the owner to reinstate a lapsed policy
- To reinstate a lapsed policy, some requirements must be met
- Disadvantages of reinstatement
 - Substantial cash outlay
 - It may be less costly to buy a new policy
 - The new policy may provide greater flexibility

Life Insurance Contractual Provisions

- Under the misstatement of age or sex clause, if the insured's age or sex is misstated, the amount payable is the amount that the premiums paid would have purchased at the correct age and sex

Life Insurance Contractual Provisions

- A policy loan provision allows the policyowner to borrow the cash value
 - The policyowner must pay interest on the loan
 - A policy could lapse if the policyowner does not repay a loan and the total indebtedness exceeds the available cash value
- Under the automatic premium loan provision, an overdue premium is automatically borrowed from the cash value after the grace period expires

Life Insurance Contractual Provisions

- A change-of-plan provision allows policyowners to exchange their present policies for different contracts
- Life insurance contract exclusions
 - Suicide excluded for 2 years
 - Insurers might insert a war clause to exclude payment if the insured dies as a direct result of war
 - Some policies contain aviation exclusions
- Mode of payment - Premiums can be paid annually, semiannually, quarterly, or monthly

Dividend Options

- If a policy pays dividends it is a participating policy
 - Otherwise it is a nonparticipating policy
- Dividends come from 3 main sources:

Dividend Options

- Policyowners have several ways to take dividends:
 - **Take the cash**
 - **Reduce the next premium coming due**
 - **Let the dividends accumulate** at interest and withdraw later
 - The dividend is used to purchase other insurance products

Nonforfeiture Options

- The payment to a withdrawing policyowner is known as a nonforfeiture value or cash surrender value (เงินค่าเวนคืนกรมธรรม์ประกันภัย)
 - A policyowner has a right to the policy's accumulated cash value
- Policyowners have 3 nonforfeiture options:
 - Cash value (มูลค่าเงินสด)
 - Reduced paid-up insurance (กรมธรรม์ใช้เงินสำเร็จ)
 - Extended term insurance (กรมธรรม์ขยายเวลา)

Nonforfeiture Options

- Cash value
 - Can be used if the insured no longer needs life insurance
- Reduced paid-up insurance
 - Life insurance is still needed but the policyholder does not want to pay premiums anymore
 - Face amount of insurance is reduced but protection years remain the same
- Extended term insurance
 - Life insurance is still needed
 - Face amount of insurance remains the same but protection years are reduced

Table of Guaranteed Values*
\$100,000 Ordinary Type Policy, Male Age 37

End of Policy Year	Cash Value	Alternatives to Cash Value			End of Policy Year
		Paid-Up Insurance	or	Extended Insurance	
			Years	Days	
1	*****	***	**	***	1
2	*****	***	**	***	2
3	\$400.00	\$2,400	1	18	3
4	1,400.00	7,900	3	114	4
5	2,400.00	12,900	5	62	5
6	3,500.00	17,900	6	328	6
7	4,500.00	22,000	8	55	7
8	5,600.00	26,200	9	109	8
9	6,800.00	30,400	10	121	9
10	8,000.00	34,300	11	50	10
11	9,300.00	38,100	11	321	11
12	11,000.00	43,200	12	325	12
13	12,900.00	48,500	13	323	13
14	14,800.00	53,300	14	239	14
15	16,700.00	57,700	15	91	15
16	18,700.00	61,900	15	287	16
17	20,700.00	65,800	16	73	17
18	22,700.00	69,300	16	187	18
19	24,800.00	72,800	16	291	19
20	26,900.00	75,900	16	358	20
AGE 60	32,300.00	69,400	14	319	AGE 60
AGE 65	41,700.00	77,300	13	198	AGE 65

* This table assumes premiums have been paid to the end of the policy year shown. These values do not include any dividend accumulations, paid-up additions, or policy loans.

Settlement Options

- The policyowner can choose among several options for paying the policy proceeds
 - Or, the beneficiary may be granted the choice
- The most common options include:
 - Cash (รับเป็นเงินสดครั้งเดียว)
 - Interest option (ฝากไว้กับบริษัทและรับเฉพาะดอกเบี้ย)
 - Fixed-period option (รับเป็นเงินรายงวดโดยกำหนดจำนวนงวดที่จะรับคงที่)
 - Fixed-amount option (รับเป็นเงินรายงวดโดยกำหนดจำนวนเงินที่จะรับคงที่)
 - Life income option (รับเป็นเงินได้ประจำตามการทรงชีพ)

Additional Life Insurance Benefits

Other benefits can be added to a life insurance policy (for an additional premium) including:

- Waiver-of-premium (WP) provision - if the insured becomes totally disabled, all premiums coming due during the period of disability are waived
- Guaranteed purchase option - permits the policyowner to purchase additional amounts of life insurance at specified times in the future without evidence of insurability

Additional Life Insurance Benefits

- Accidental death benefit rider - doubles the face amount of life insurance if death occurs as a result of an accident
- Accelerated death benefits rider - allows insureds who are terminally ill to collect part or all of their life insurance benefits before they die