

GROUP LIFE INSURANCE

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GROUP LIFE INSURANCE

- **1.1. Introduction:-**
- The life insurance policy can be issued to individual as well as to groups.
- We have already discussed the various plans available for individuals under life insurance products.
- Group insurance follows certain norms for issue of policies to a similar group of people.
- Under group insurance policy a large number of people are covered under a single policy.
- These types of policies are generally taken by companies for their employees or clubs for their members and so on.

1.2. Objectives

❖ After going through this lesson you will be able to;

- **Understand the meaning of Group Insurance**
- **Recall the types of Group Insurance Policies**
- **List out the special features of each policy**

1.3. GROUP INSURANCE VS. INDIVIDUAL INSURANCE

- Individual insurance is a contract between the individual and the insurance company, called the insurer.
- The decision to insure is voluntary and the terms on which the insurance cover is granted, depend upon the appraisal of risk in respect of the individual by the insurer.
- Group insurance, on the other hand, is one contract covering a group of lives.
- The terms of the contract of insurance cover depend upon the characteristics of the group as a whole.

- A master policy is issued as evidence of contract between the insurance company and another legal entity, which may be an employer, trustees, or an association.
- The master policy defines the group of lives to be covered, benefit it confers, the amount of contribution to be paid and other conditions and privileges of the participating group members.
- It is a group selection process and not a selection of individual life.
- It is recognized that every group will contain some proportion of substandard lives but group underwriting assumes that the insurer is able to reasonably assess the overall risk from the general nature of the group.
- The group is supposed to be homogeneous and contain sufficient numbers so that the number of claims by death can be reasonably estimated on the basis of the average.

- The amount of cover is determined on the basis of a formula and is not decided by individuals forming the groups.
- Insurance on the lives of all members upto a limit called “Free Cover limit” is granted on the basis of simple rules of insurability.
- ‘Simple rules of insurability’ means not being absent from duty on ground of sickness on the date of effecting insurance.
- Free cover limit does not mean free of insurance premium.
- It is free to the extent that no evidence of health is called for.

1.4. characteristics of a group

- (i) It should be homogeneous by nature of occupation. Therefore members of a social club, a political party or religious establishment cannot constitute a group for insurance purpose.
- (ii) Insurance must be incidental i.e, the group must not be formed mainly for the purpose of obtaining insurance.
- (iii) The group must have a single central administrative machinery to act on behalf of all members.

(iv) The group should be such that there is a steady stream of new entrants from year to year, so that the group is not stagnant and is not likely to lapse as a result of depletion of members. This requirement also ensures that over a period of time, the average age of the group does not become so high as to render it completely uninsurable.

(v) Another important requirement is that a large proportion of the eligible members of the group should join the group scheme. This would insure that no adverse selection is exercised against the insurance company and the proportion of impaired lives is not unduly high.

(vi) A minimum size of the group is generally prescribed.

1.5. Different types of groups

1. Employer-Employee Group :-

- In this case the employer takes out the master policy for the benefit of its employees and a trust is formed normally to administer the scheme.
- At times the employer takes such group insurance to meet the statutory need. The examples are Employee's Gratuity Benefits, Employees Deposit Linked Insurance Schemes.
- The scheme can be contributory or non-contributory or jointly contributed by the employer and employees.
- In the scheme, where the employees do not contribute and the employer bears the total cost, all eligible employees must join the scheme.
- If however, the scheme is contributory i.e. either employees alone or jointly with the employer finance the scheme, a high level of participation of the eligible employees at commencement and compulsory participation of all new employees, thereafter, is essential.

2. Creditor - Debtor group :-

- The master policy is taken out by the creditors to cover the outstanding amount of loans granted to the debtors.
- In case of the death of a debtor, the claim amount would be applied towards repayment of loan outstanding in his/her name.
- Here the creditor may be an employer, an organization giving housing loans, a cooperative credit society, a credit card company etc.

3. Professional group :-

These may be association of professionals like doctors, lawyers, accountants, engineers, journalists, pilots, insurance agents etc.

4. Other groups :-

- There may be other forms of groups which may be considered eligible for group insurance, i.e. cooperative societies, welfare funds, members of resident society, bank depositors etc.
- The group should have a reliable identity and should have been formed for some purpose other than group insurance.

1.5. Objectives of the scheme

- To provide low cost-life insurance.
- Inculcate saving habits so that nominal amount compulsorily set aside during the service period grows into a sizeable fund of savings and accrued interest compounding yearly, which on retirement acts as a cushion for financial security.
- In the event of untimely death during service period, the insurance amount with accumulated saving assist the bereaved family to tide over the financial crisis.

1.6. Insurance cover.

Depends on designation and size of group as under: 6.7

1.7. Premium.

It is decided on the basis of group size and the occupation of the group. Premium has two components i.e. Risk Premium and Savings Premium. Risk Premium is utilized to offer life cover and the Savings Premium is accumulated in members account.

1.8. Tax benefit.

Total monthly contribution entitled to Income Tax rebate under Section 80C. Receipts of saving accumulation/insurance amount are tax free.

1.9. Benefits In case of resignation/retirement.

The accumulated savings with interest @ 11% compounding yearly will be paid