



INSURANCE DOCUMENTS

2.0 INTRODUCTION

Documents are necessary to evidence the existence of a contract. In life insurance several documents are in vogue. The documents stand as a proof of the contract between the insurer and the insured. The major documents in vogue in life insurance are premium receipt, insurance policy, endorsements etc.

2.1 OBJECTIVE

After going through this lesson you will be able to

- Recall the various documents used in life insurance
- Learn the utility of each document.

2.2 NEED FOR INSURANCE DOCUMENTATION

Life insurance is a legally enforceable contract between two parties both of whom are legally qualified to contract. It is therefore, necessary that the terms and conditions of the agreement must be suitably documented in a manner that would make it clear that both parties to the contract are Ad-idem i.e., of the same mind. Ad-Idem means that both the parties understand the same thing in the same sense or are of the same mind on the same subject. There must be consensus or Ad-Idem between the parties to the contract.

This is possible provided all the terms and conditions, rights and duties - privileges and obligations are properly documented in terms which can be clearly interpreted in a court of law. Between two human beings sometime silence means an

acceptance. But as the insurer is a legal personality entitled to contract verbal discussion between parties to the contract is not possible and hence there is a need for documentation.

Insurance is also a contract of utmost good faith and enforced only in the distant future. It is therefore necessary that the declarations made by both the parties should be put in black and white for future reference. Any suppression, willful and material shall make the contract void. The insured, therefore, has a duty to declare all that he knows about himself, his health, his financial status in answering questions contained in the proposal form and other ancillary documents which may be required by the insurer.

We shall discuss in this chapter the various kinds of documents which become necessary at three stages of a policy –

- (1) at the stage of proposal, which if accepted result into a policy,
- (2) during the duration of the policy where several alterations may become necessary
- (3) at the end of the policy contract when insurer pays the final claim.

2.2.1 Documents needed at the stage of the proposal

2.2.2 Proposal form is the basic format which is filled in by the proposer who wants to take an insurance policy. It can be defined as **the application for insurance**.

A proposal form has three portions

- (1) The first gives **details about the proposer**, his name, address, occupation, the details about the type of insurance that he wants to take and the name of the nominee to whom the money is payable in case the policyholder does not survive to take the maturity amount.
- (2) The second portion relates to the **details of the insurance policy** that the proposer already possesses, the present health conditions and the personal history of his health, any sickness or accident he might have had.

This is a detailed questionnaire and the proposer is expected to reply to each question truthfully and honestly. A female proposer has to reply to certain additional questions specific to her gender.



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- (3) The last portion of the proposal form relates to the **declaration**. Through this declaration, the proposer
- (i) affirms the veracity of the statements made in the proposal form in replying to the question
 - (ii) affirms that he/she has not suppressed, misrepresented or concealed any fact which may be material to the risk
 - (iii) agrees that this declaration along with the proposal form shall form the basis of the contract and if any information is found to be false the contract will be null and void thus reinforcing the principle of “Uberimma Fides” (Utmost good faith).
 - (iv) further agrees to take the insurance on the terms and conditions decided by the insurer.

The proposer further agrees to keep the insurer informed of any changes in the position relating to his health or his occupation between now and the issuance of the first premium receipt.

It is thus clear that after the insurer has issued the first premium receipt, the contract is said to have concluded and thereafter the insurer has no right to change the terms of the contract.

However, the insurer has a right to offer any term and condition before the final acceptance of the insurance. For example, in case of a female proposer, the insurer may not agree to accept the risk of the childbirth. In case of certain hazardous occupation like commercial pilots, the insurer may like to exclude the risk to life due to such occupation.

In case of certain deformity, the risk of accident can be excluded. These exclusions of risks are not normal terms of the policy contract and therefore have to elicit consent of the proposer. In case of a substandard health, the insurer may like to accept a reduced risk during the first one or two years of the insurance. The consent of the insured is a must for such limitations to be imposed.

All such special conditions or riders are mentioned in the policy either by an endorsement or attachment to the document. If the insurer has taken a Convertible Whole Life Plan which is to be converted to an endowment plan after 5

years, the necessary condition is endorsed on the policy.

The terms and conditions as mentioned in the policy along with such endorsements as made at the back of the policy govern the insurance contract and are open to be interpreted by a court. However it may be noted that agents confidential report and the medical examination (confidential) report are not part of the contract for insurance.

**Notes**

INTEXT QUESTIONS 2.1

1. What are the different stages where documentation is required?
- 2 Define Proposal Form.

There are certain other documents which may be required at the proposal stage.

2.2.3 Age proof

Age is an important factor in deciding the quantum of premium against a policy. The document proving the age, i.e. age proof must be reliable and the insured has to undertake as to its truthfulness. An insurer accepts these documents as standard age proof -

- 1) Certified extract from municipal records, recorded at the time of birth.
- 2) Certificate of baptism or extract from Family Bible
- 3) Extract from school or college records.
- 4) Extract from service register in case of employees - Government or semi government or such other reputed institutions which insist on conclusive evidence of age at the time of recruitment.
- 5) Identity card issued by Defence department.
- 6) Marriage certificates issued by Roman Catholic Church.
- 7) Domicile certificate.
- 8) Passport.

Non-standard age proofs are those which are comparatively less reliable and therefore the insurer accepts them with a pinch of salt. In other words the insurer takes certain precautions before accepting such age proofs as final.



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For example, such age proofs are examined by a senior officer and not accepted as a matter of routine. Another safeguard is to offer a reduced term of policy so that the policy matures at a comparatively early age. The maximum age of maturity may be fixed at a lower age. The insurer even may charge an extra premium to compensate for the possible understatement of age in such age proof.

Such non-standard age proofs are (1) Horoscope, (2) service records of employers other than those mentioned above (3) ESI card, (4) Marriage Certificate in case of a Muslim proposer., (5) Elders Declaration, (6) Self Declaration, (7) Driving Licence, (8) Certificate issued by village panchayat, (9) Electoral role, (10) Ration card.

Age proof is insisted upon for completion of proposal if the declared age of the proposer is less than 20 or more than 50 or if the sum proposed is quite high, say above one lakh.

2.2.4 Proof of income

This document may become necessary whenever the sum proposed is very high. Normally a sum proposed which is seven to eight times of the declared income is acceptable for insurance. But proposals do come to the insurer when the known source of income of the proposer is much less compared to the amount of insurance desired. A service holder normally does not face this problem as his sources of income are verifiable.

In case of business people, the assessed income is at times much less compared to what is a desirable income for the amount of insurance desired. In such cases the insurer at times calls for assessed income tax returns, or Chartered Accountant's certificate etc. Such precautions are necessary to eliminate the possibility of moral hazard.

2.3 DOCUMENTS NEEDED DURING THE CONTINUANCE OF THE POLICY:

2.3.1 First Premium Receipts and Renewal Premium Receipts

The First Premium Receipt (FPR) is the **confirmation of insurance**. This document is important as it gives the date of assumption of the risk but its value is nil once the policy document has been issued.

2.3.2 Policy Contract

Policy document is a detailed document and it is the **Evidence of the insurance contract** which mentions all the terms and conditions of the insurance. The insured buys not the policy contract, but the right to the sum of money and its future delivery. The insurer on its part promises to pay a sum of money, provided of course the insured keeps its part of promise of paying the installments of premium as scheduled.

The pre-ambule to the insurance contract makes the above statement clear and states that this policy is issued subject to the conditions and privileges printed on the back of the policy. The endorsements placed on the policy shall also be part of the policy and it also makes a reference to the proposal form saying that that the statements given in the proposal form are the basis of the contract.

The schedule which is printed on the policy document identifies the office which has issued the policy. It states the name of the policyholder, the date of commencement of the policy, an identification number of the policy called policy number. This number is extremely useful for making any reference to the insurer relating to this policy. This shall avoid needless delay.

Beneficiary's name is also mentioned along with address.

It is necessary to check that it is correct and any mistake should be immediately pointed out for correction. A mistake in the address may misdirect the premium notices and any other future correspondence. It also states the name of the nominee and the date upto which premium has to be paid. The schedule goes on to mention, the type of policy, on the happening of which, the sum assured is payable and to whom it is payable. It of course also mentions when and how long the premium is to be paid.

The policy document is signed by an official of the insurer and dated and stamped as per the provision of the Stamp Act to make it a completely legally enforceable document.

2.3.3 Renewal Premium Receipts

Though it is the duty of the insured to pay the renewal premium on the due date the insurer sends a renewal premium notice to the insured out of courtesy and on receiving the



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premium issues a renewal premium receipt (**RPR**) which is an important document and has to be preserved as it is the only documentary proof that the due payment has been made.

2.3.4 Endorsements

Life insurance policy being a long term contract, it is quite likely that the conditions may so change over the time that an alteration or change in the policy conditions may be required. The insurers normally permit such changes which are in the interest of the policyholders and also simultaneously do not adversely affect the insurer's interest.

It has to be noted however, that the insurer is not authorized to make any change in the conditions of the policy during its continuance except such which has been agreed to in the beginning of the policy. An insurance policy, in this sense is called an unilateral contract.

All such alterations as are discussed hereafter are effected by endorsements on the policy document.

The following alterations are not permitted.

- (1) Alterations during the first year,
- (2) Alteration from one class of assurance to another where the premium scale is reduced.
- (3) Alteration to another plan which is more risk oriented.
- (4) Increase in sum assured in the same policy.

The following alterations are allowed

- 1) Limiting the premium paying period, but date of maturity remaining unaltered;
- 2) Change in the mode of payment of premium e.g. Half-yearly to yearly or half-yearly to quarterly;
- 3) Alteration due to age admission, if required, has to be compulsorily done;
- 4) Alteration or correction in the name of the assured/nominee;
- 5) Bringing the policy under salary savings scheme;
- 6) Replacing a limiting clause by an extra premium. For example the first pregnancy clause can be replaced by an one time extra premium of Rs.5/- per thousand;



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- 7) An extra premium imposed for specific impairment or occupational reasons can be removed or reduced. For example, an extra premium imposed for hernia or hydrocele can be removed after surgical operation. Similarly, an occupational extra premium can be removed, if there is change in occupation to a less hazardous one. However an occupational extra premium cannot be imposed, after the policy has been issued, even if the policyholder takes up a more hazardous job.

All such alterations are effected by an endorsement on the back of the policy or by a separate memo which becomes a part of the policy.

2.3.5 Duplicate policy :

A policy document is a valuable document and can be used for mortgage etc. Loss of policy document does not absolve the insurer from the liability of payment of policy proceeds when the claim arises. The claim can be settled on the claimants, furnishing an indemnity bond jointly with one surety.

If a policy is irrevocably lost, a duplicate policy can be issued, after following a certain procedure. The insurer satisfies itself of the circumstances leading to loss. Being so satisfied the insurer insists upon an advertisement in a news paper, production of an indemnity bond and payment of policy preparation charges and there after a duplicate policy is issued. The duplicate policy is stamped "Duplicate Policy".

2.3.6 Nomination:

Generally nomination is made at the time of taking a policy. In case it is not done, it is possible to make nomination subsequently by an endorsement on the policy. It is also possible to change a nomination subsequently by an endorsement. After marriage, such change in nomination is normally required.

2.3.7 Assignment

An assignment of a policy in favour of another person or institution can be effected by an endorsement on the policy. Re-assignment can also be done by a subsequent endorsement on the same policy.

**Notes**

As a nomination is automatically cancelled due to an assignment, after re-assignment, it is necessary to make a fresh nomination.

2.3.8 Renewal Notice

Keeping the policy in force is in the interest of the policyholder and also of the insurer. The insured loses the valuable protection that the life assurance policy ensures. The insurer loses because without the renewal premium coming, the heavy expenses which it incurs in the beginning of a policy cannot be compensated. Every insurer will, therefore, take all possible actions to reduce policy-lapses and if lapsed, to get the policy revived.

An insurer therefore sends out regular premium notices even though it is not a legal requirement.

- 1) Premium notice is usually sent before the due date of the premium. An insurer is not legally obliged to send a premium notice. It is a matter of courtesy and greatly helps the life assured for timely payment of premium.
- 2) Premium default notice : This notice is sent within 3 months after the due date reminding the policyholder to pay the premium to prevent the policy-lapses.
- 3) Issue of Final lapse notice : If the premium is not paid within six months of the due date, and the policy is allowed to lapse, this notice is issued to the policyholder requesting him to revive the policy to restore the full insurance cover.
- 4) Intimation to agent : Agent being vitally concerned with the continuance of a policy, he is also suitably informed every time so that he can contact the policyholder for payment of the premium.

INTEXT QUESTIONS 1.2

1. What is FPR?
 2. What is endorsement?
 3. When can a duplicate policy be issued?.
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2.4 SUMMARY

Life insurance being a legally enforceable contract, needs to be documented with details of the rights and obligations of

the parties to the contract. Proposal form duly filled in and signed by the proposer is the first document which forms the basis of the contract.

Every time, the insured pays the premium, he receives a premium receipt. The premium needs to be paid in time, non-payment of premium leads to policy-lapses. Re-instatement of the cover is called revival of the policy.

If the policy is not revived, the policy can become a paid up policy for a reduced sum assured under certain conditions.

The policy document mentions in detail all the rights and obligations of the policyholder. The agent is advised to explain the various provisions of the policy to the policyholder.

The wordings in the policy document are of technical nature and hence the need for explaining. If there are certain endorsements on the policy, that need to be explained too.

It needs to be explained that the policy is a valuable document and needs to be kept in safe custody and in the knowledge of the close relatives.

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2.5 TERMINAL QUESTIONS

1. Which document evidences the contract of insurance?
2. Which document records any changes in life insurance contract?
3. Discuss the contents of Proposal Form
4. Which are the standard age proofs?
5. Why income documents are required to take a policy?
6. What alterations are not allowed in the policy?
7. Discuss the provisions of sending renewal notices.
8. Which are non-standard age proofs?

2.6 OBJECTIVE TYPE QUESTIONS

1. Which one of the following statements is correct?
 - a. The policy is the basis of the insurance contract.
 - b. The proposal is the basis of the insurance contract.
 - c. Both (a) and (b) statements are correct.

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- d. Both (a) and (b) statements are wrong.
2. Which one of the following statements is correct?
 - a. The proposal must be written by the proposer himself/herself.
 - b. The proposal can be written by the Agent.
 - c. Both (a) and (b) statements are correct.
 - d. Both (a) and (b) statements are wrong.
3. Which one of the following statements is correct?
 - a. The information in the proposal form is used for underwriting.
 - b. Wrong information in the proposal form can nullify the insurance contract.
 - c. Both (a) and (b) statements are correct.
 - d. Both (a) and (b) statements are wrong.
4. Which of the following are confidential and will not be given to the proposer?
 - a. The medical report.
 - b. The agent's confidential report to the insurer.
 - c. The medical referee's advice.
 - d. All the above.
5. Which one of the following statements is correct?
 - a. FPR is the evidence of the insurance contract.
 - b. The medical report is the basis of the insurance contract.
 - c. Both (a) and (b) statements are correct.
 - d. Both (a) and (b) statements are wrong.
6. Which one of the following statements is correct?
 - a. The FPR is proof of commencement of risk.
 - b. Risk does not commence till the policy is signed.
 - c. Both (a) and (b) statements are correct.
 - d. Both (a) and (b) statements are wrong.
7. If a policyholder applies for cancellation of policy soon after he receives the FPR

- a. The full premium will be refunded.
 - b. The full premium after some small deduction will be refunded.
 - c. The policy will be treated as lapsed from the next premium due date.
 - d. He will be debarred from taking any further insurance policies.
8. Which one of the following statements is correct?
- a. FPR is cash receipt.
 - b. Renewal Premium cannot be paid without the renewal notice.
 - c. Both (a) and (b) statements are correct.
 - d. Both (a) and (b) statements are wrong.
9. Which one of the following statements is correct?
- a. IRDA has prescribed proposal forms for all insurers.
 - b. Renewal premium cannot be paid without the renewal notice.
 - c. Both (a) and (b) statements are correct.
 - d. Both (a) and (b) statements are wrong.
10. Which one of the following statements is correct?
- a. If policy document is lost the insurance contract becomes void.
 - b. The family history appears in the personal statement.
 - c. Both (a) and (b) statements are correct.
 - d. Both (a) and (b) statements are wrong.

2.7 ANSWERS TO INTEXT QUESTIONS

2.1

1. At the time of taking the policy, For any endorsement and at the time of claim
2. Proposal form means where all the particulars of an individual are provided to the insurance company to underwrite the policy.

**Notes**



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2.2

1. The First Premium Receipt (FPR) is the confirmation of insurance
2. Endorsement means any alteration in the policy.
3. Insurer insists upon an advertisement in a news paper, production of an indemnity bond and payment of policy preparation charges and there after a duplicate policy is issued.

2.8 ANSWERS OBJECTIVE TYPE QUESTIONS

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|------|-------|
| 1. b | 2. d |
| 3. c | 4. d |
| 5. d | 6. b |
| 7. b | 8. a |
| 9. d | 10. b |

Glossary

Proposal form is the basic format which is filled in by the proposer who wants to take an insurance policy.

First Premium Receipt is the confirmation of a concluded insurance contract.

Policy document is the evidence of the insurance contract and is a detailed document which mentions all the terms and conditions of the insurance

Duplicate Policy If a policy is irrevocably lost, a duplicate policy can be issued, after following a certain procedure. The insurer satisfies itself of the circumstances leading to loss. Being so satisfied the insurer insists upon an advertisement in a news paper, production of an indemnity bond and payment of policy preparation charges and there after a duplicate policy is issued. The duplicate policy is stamped “Duplicate Policy”.

Assignment - An assignment of a policy in favour of another person or institution can be effected by an endorsement on the policy. Re-assignment can also be done by a subsequent endorsement on the same policy.