

Now, agents can't mis-sell to you

Kiran Telang / November 28, 2010, 0:15 IST

Here are the different terms that insurers use and their meaning

Insurance policies are sold, not bought. Thus, very often the person buying the policy is not sure of what it is all about. Let us look at some terms used in these policies and what they mean.

Sum assured: It is the face value of the policy. The amount is the basic risk cover on your life. It is the amount guaranteed to be paid to the nominee in case of death.

Policy Classification

The broad classification of life insurance policies is into traditional and market-linked policies. Many different policies available in the market are combinations of a few basic type of policies.

Endowment policy: This is the commonly sold insurance product where the insured gets a lump sum on survival through the policy tenure. It is equal to the the sum assured, enhanced by the bonuses declared over the life of the policy.

Anticipated endowment: This is also known as a money-back policy. This policy pays a fixed percentage of the sum assured at pre-defined intervals. The bonuses are usually paid at maturity.

Whole life: As the name denotes, it provides a risk cover for life or up to age of 80-100 years, as opposed to the other policies which provide risk coverage till much lower ages. The sum assured along with bonuses accumulated is paid to the policy holder on survival beyond the age of 80 or 100, as defined in the policy. In case of death, the sum assured plus the accumulated bonuses are paid to the nominee of the policyholder.

Term insurance: In this policy there is no return in case of survival through policy tenure. The nominee gets a payout equal to the sum assured on the death of the policyholder. This is the cheapest form of insurance.

Ulips: Policies, whose returns are entirely linked to performance of underlying assets are called Unit-Linked Insurance Plan, or Ulips. These provide a variable risk cover. The part of the premium that is invested to give returns will have risk and returns commensurate with the underlying asset in the option that you choose. In the endowment-type of Ulips, the maturity payout is equal to the fund value on the date of maturity. In case of pension Ulips, on the vesting date, you can commute a part of the corpus (usually not more than 33 per cent) and the rest is used to pay an annuity. In case of death, the payout is either the fund value or the sum assured, whichever is higher. Some companies pay the fund value in addition to the sum assured.

Annuities: These are also called as pension products. It could be immediate or deferred. In a deferred annuity product, you save over a long period of time and after the vesting date, you get a regular income for the corpus created out of your savings.

In an immediate annuity, you invest a lump sum to get regular payouts over a long period of time.

General Terms

Insured: The person who is covered in the insurance is the insured. Normally, in case of children's' plans, the child is the insured, whereas the parent is the proposer or owner of the policy.

Vesting date: It is a terminology associated with pension plans. This is the date when your accumulation phase gets over and the distribution phase of your policy starts. On the vesting date, you are allowed to commute (withdraw as a lump sum) a part of the accumulated value (normally a third) and the rest is used to payout an annuity (pension), as in the selected options.

Participating policy: This is a plan which pays dividends generated from the profits earned by the insurance company. These are typically in the form of annual bonuses that accrue to the policy. There might also be terminal bonuses paid at the time of maturity.

Cooling-off period: A time of 15 days, from the date of receipt of the policy, where the policyholder can return the policy if he is unsatisfied with any clauses. The premium paid will be refunded, with some nominal deduction. This is a very important clause, as it provides a window of exit in case of mis-selling of products.


Riders: These are additional benefits you may buy and add to your policy at a nominal cost. The terms of riders are specific. For example a critical illness rider will entail a payout in case of occurrence of any of the illnesses as described in the product offer.

Hope you buy the insurance next time rather than an agent selling you one.


The writer is a certified financial planner

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