6

GROUP INSURANCE

6.0 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 in lesson 1 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.

6.1 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

6.2 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 age 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.

As a result of mass administration and simple underwriting practice it becomes a low cost insurance cover for a group. However, the premium rates are adjusted periodically on the basis of experience. This is called “Experience Rating”. For medium and big sized groups, sharing of profits on the basis of actual experience is a normal feature. If surplus is generated over a period of years after taking into account the premium collected and the benefit conferred, the rate of premium can be reduced in the future years. If on the other hand it results in continuous loss, the premium is rated up.

6.3 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.

6.4 DIFFERENT TYPES OF GROUPS:

6.4.1 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.

6.4.2 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.

Notes

6.4.3 Professional group :-

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

6.4.4 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.

Now a days, many nodal agencies, such as central and state government departments and welfare organizations are being allowed to take group insurance schemes covering some specific groups of weaker sections of the society. Examples of such schemes are the Landless Agricultural Labourers Group Insurance Scheme (LALGI) implemented through the state governments, IRDP Loaner's Group Insurance Scheme implemented through District Rural Development Agencies (DRDAs), milk producers group Insurance scheme, implemented through milk cooperatives etc.

INTEXT QUESTIONS 6.1

1. Define a Group.
2. List Different types of group.

6.5 GROUP GRATUITY SCHEME

Provision of the Gratuity Act, 1972, as amended from time to time

The provisions of Gratuity Act, 1972 makes it obligatory on the part of the Employer employing ten or more persons to pay gratuity to an employee on the termination of his employment after he has rendered continuous service for not less than five years @ 15/26 days wages for every completed year of service or part thereof over 6 months subject to maximum of Rs.3,50,000/- :

a) On his superannuation
b) On his retirement or resignation or

c) On his death or disablement due to accident or disease (completion of 5 years however is not necessary in case of death or disablement)

6.5.1 Need for funding gratuity liability

The gratuity whether payable in terms of the Gratuity Act or as per the service rules of the employer if he offers better benefits, is an increasing liability not only on account of increase in number of years of service put in by the employee but also on account of increase in salary and amendments to the statute. As such business acumen and sound accounting principles desire that the liability should be funded in the year in which it arises, by setting aside adequate funds under an approved Trust Fund. The Group Gratuity Scheme being marketed by Insurers has been approved under Part C of the fourth Schedule of the Income Tax Act, 1961, to assist the employer to fund the gratuity liability with the following distinct advantages:

6.5.2 Benefits to the employer

(i) Tax Benefits: 100% payments made to insurer are treated as management expenses under section 36 (ii) (v) of the Income Tax Act, 1961. Further the yield available on the contribution is not taxable under section 10 (25) (iv) of the Income Tax Act, 1961.

(ii) Statutory liability is booked year to year thus reflecting the true picture of the Profit and Loss of the Organisation.

(iii) Gratuity payment can be made without affecting the business finances.

(iv) High yield depending on the size of the fund.

(v) The Actuarial valuation to assess the gratuity liability is made free of cost.

6.5.3 Benefits to the employees

(i) Gratuity payments are secured.

(ii) In case of death of an employee, insurer pays enhanced gratuity, i.e. a gratuity an employee would have earned on his retirement based on his last drawn salary.

6.6 GROUP SUPERANNUATION SCHEME

Progressive entrepreneurs have come to acknowledge that key men who are pillars of any organisation, have vast avenues open to them, particularly in todays context of liberalised Indian economy. In order to retain his keymen and to attract better talent, the employer offers competitive remuneration and perks, and value additions in the form of Insurers Group Superannuation Schemes.

6.6.1 Need for superannuation scheme

To provide regular income to an employee after retirement. With continuous improvement in longevity the economic problem of old age is now as serious as the calamity of premature death. Retirement benefits received in lump sum are frittered away and not invested prudently, as a result the post retirement life without financial security and regular income may become an unbearable burden.

6.6.2 Who pays contribution

Either the employer (upto 27% of wages including contribution to P.F.) or both employer and employee.

6.6.3 Pension Schemes are basically of two types :

(i) Benefit purchase (Defined Benefit) Scheme, where the amount of pension and other benefits are defined in the Rules of the scheme and the contribution required to finance the benefits are determined after actuarial valuation.

(ii) Money purchase (Defined Contribution) Scheme, where the contribution rates or amounts in respect of the members are defined in the Rules of the scheme. Ultimate benefits will depend upon accumulation of the contribution actually made from time to time.

6.6.4 Benefits to the employer

- Retain key personnel.
- Attract better talent for organisational growth.
- Extend tax free perquisites to employees and win their loyalty and boost their morale.
- Employers get 100% tax benefits on contributions to superannuation fund.
- High Return on contribution.

Notes

6.6.5 Benefits to the employees:

- Regular income after retirement with a variety of options to suit individual need.
- Tax free compulsory savings.
- Tax rebate under section 80C if contribution made by employee.

6.6.6 Pension options to suit individual need

- Pension payable for guaranteed period 5, 10 or 15 years and there after for life.
- Pension payable for life (with or without return of capital).
- Joint Life Pension (with or without return of capital).

6.6.7. Other option

- Commutation of Pension (1/3 if entitled to Gratuity, 1/2 otherwise)
- On leaving service, immediate pension if eligible as per policy rules.
- Deferred pension if desired.
- Transfer of Equitable interest as per rules

6.6.8 Subsidiary benefits (Optional)

CATEGORY/ DESIGNATION	**MAXIMUM INSURANCE COVER**		
GROUP SIZE	**25-99**	**100-499**	**500+above**
A Sr.Executives	1,75,000	2,50,000	3,50,000
B Middle Management	1,25,000	2,00,000	2,50,000
C Clerical/Supervisor	80,000	1,25,000	1,75,000
D Sub Staff	40,000	60,000	80,000

Risk cover Group Insurance Scheme in conjunction with Superannuation Scheme can be offered if group size is 10 or more. The insurance cover relates to 2 months salary for each year of future service subject to a maximum of upto Rs.3 Lacs depending on the size of the Group.

6.7 GROUP SAVINGS LINKED INSURANCE SCHEME

The Central and State Governments had formulated an insurance-cum-savings scheme nomenclature. Group Insurance Scheme for the benefit of Central & State Government employees. However the employees of Public Sector, Quasi Govt. Undertakings, Universities, autonomous bodies such as Municipalities, Zilla Parishads etc. were not covered under the Govt. Scheme.

The Life Insurance Corporation of India designed the Group Saving Linked Insurance Scheme for the above sectors as detailed below:-

6.7.1 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.

6.7.2 Insurance cover

Depends on designation and size of group as under:

6.7.3 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.

6.7.4 Tax benefit

Total monthly contribution entitled to Income Tax rebate under Section 80C.

Receipts of saving accumulation/insurance amount are tax free.

6.7.5 Benefits

In case of resignation/retirement: The accumulated savings with interest @ 11% compounding yearly will be paid.

Notes

In case of unfortunate death during the service: The insurance amount together with accumulated savings and interest will be paid to the beneficiary.

6.7.7. Other conditions:

Membership: 75% of total staff strength or minimum 25 whichever is more.

Insurability condition : Not absent from duty on grounds of medical/ sick leave at the time of introduction of the scheme.

Payment of premium: Monthly contribution to be deducted from salary and remitted by the employer.

6.7.8 Accident benefit:

Double accident benefit can be allowed to the extent of the SA for an extra premium @Rs.0.75 per thousand SA per annum. Double Accident cover under all group schemes taken together should not exceed Rs.1.5 Lacs.

6.8 GROUP INSURANCE SCHEME IN LIEU OF EDLI

All employers to whom the Employees' Provident Fund and Misc. Provision Act 1952 applies have a statutory liability to provide Life Insurance benefit to all their employees by subscribing to Employees Deposit Linked Insurance (EDLI) Scheme. Under the scheme as amended with effect from 24th June,2000 the insurance benefit is equal to the average balance to the credit of the deceased employee in the Provident Fund during the last 12 months, provided that where such balance exceeds Rs.35,000, insurance cover would be equal to Rs.35,000 plus 25% of the amount in excess of Rs.35,000 subject to a maximum of Rs.60,000. Thus if the length of service is not adequate and/ or the salary is low the average balance may be substantially low and the benefit to the employee's family is either inadequate or non-existent.

The contribution @ 0.51% of each employee's salary is payable by the Employer to the Provident Fund Authorities.

6.8.1 Comparison of EDLI scheme of P.F. with group insurance scheme of LIC

In EDLI Scheme of P.F. each employee is covered for an amount equivalent to average balance in P.F. account during the preceding 12 months and the maximum cover of Rs.35,000/- is given if average balance in P.F. A/c is Rs.65,000/- or more.

In Group Insurance Scheme of LIC, each employee is insured for a minimum sum assured of Rs.11,000/- to Rs.37,000/- depending upon the current salary and service put in from day one irrespective of the balance in P.F. account.

6.8.2 Cost of premium

The cost is always more in EDLI Scheme of P.F. because it is linked to the wage bill and any increase in wage bill will lead to increase in premium. Cost borne by the employer may not be useful to the employees due to meagre balance in their P.F. account.

Under LIC's Group Insurance Scheme, the cost is always less since it is not linked with wage bill, but depends on age of the employees covered under the scheme, and the insurance cover.

6.8.3 Double Accident Benefit

There is no provision for any Double Accident Benefit under the EDLI Scheme of P.F. Department. Whereas under LIC's Group Insurance Scheme Double Accident Benefit can be availed by paying additional premium of 0.75 paise per thousand sum assured. In this case double the sum assured will be paid in case of accidental death.

6.8.4 Claim settlement

Under LIC's Group Insurance Scheme the claim settlement is simple and prompt and is settled on the strength of death certificate duly forwarded by the employer confirming the death but this is not so in P.F. Scheme, since the payment depends on the reconciliation of all the accounts of the members and hence the delay.

6.9 GROUP INSURANCE SCHEME

Group Insurance Schemes are generally term insurance schemes renewable every year and are offered to homogenous and identifiable groups at a very low cost. Progressive employers use it as tool to retain experienced and trained staff and executives in their employment thus reducing the turn over. Group Insurance Scheme provides tax benefits both to the employer and the employees.

The object of various Group Insurance Schemes is to provide for a fixed sum assured on death of a member covered under the scheme and is offered under One Year Renewable Term Assurance Plan.

6.9.1 Premium chargeable:

Group (Term) Insurance Scheme is at present offered under One Year Renewable Group Term Assurance Plan (OYRGTA). Every year on Annual Renewal date the premium is charged depending upon the changes in size and age distribution of the age group.

6.9.2 Different Schemes:

Group (term) Insurance Scheme has a number of varieties . The Scheme may provide for a uniform cover to all members of the group or graded covers for different categories of members, cover for all amounts of outstanding housing loans or vehicle advances, or some other benefits (e.g., life cover to supplement pension or PF benefits in case of death). The schemes may have add-ons like Double Accident Benefit, Critical Illness Benefit, Disability Benefit etc.

6.9.3 General features of various Group Insurance Schemes:

1. **Premium:** The premium under such scheme may be wholly paid by the employer or the Nodal Agency. However, the scheme may be contributory i.e. the members may also contribute.
2. **Double Accident Benefit:** Double Accident Benefit, i.e. payment of double the sum assured on death due to accident (without permanent disability benefit), may be allowed under Group Insurance Schemes for an extra premium.
3. **Eligibility :** For Group Insurance Scheme in lieu of EDLIS the insurability condition is that the employee should be a member of the Provident Fund Scheme of the employer. For other GI Schemes of employer-employee groups the insurability condition is that the member should not be absent on ground of sickness on the entry date. For all non-employer-employee Group Schemes the basic insurability condition is that the member should be in good health on the date of entry.

When a claim arises, the particulars of the respective member are to be intimated together with the claim form and death certificate.

6.10 GROUP LEAVE ENCASHMENT SCHEME

The Council of the Institute of Chartered Accountants of India have issued Accounting Standard (AS-15) relating to the Accounting for Retirement Benefits in the Financial Statements of the Companies. It has thus, become necessary for the companies to ascertain their various types of accrued liabilities on an appropriate basis and provide for the same in the books by debiting to the Profit & Loss Account each year.

The said scheme of the Life Insurance Corporation of India has been designed to assist the employers to meet with the provisions of these Accounting Standards. The salient features of the scheme are as under:

1) The funding will be done under the Cash Accumulation Plan i.e. a Running Account shall be maintained in respect of the scheme. All contributions (excluding Term Insurance Premium) shall be credited to this account and all claims settled (except insurance cover) shall be debited to the Running Account. Interest shall be credited as at 31st March every year at a rate to be declared by LIC under the Cash Accumulation Plan.

2) A Group Insurance cover of a flat Sum Assured subject to a minimum of Rs.5000/- and maximum of Rs.25,000/- per employee will be provided.

3) Claims in respect of Leave Encashment shall be settled as per the Rules of the Scheme on the exit of the employees. Where such exit is due to death of the employee, an additional amount of insurance cover shall also be paid to the nominee of the employee.

6.11 GROUP MORTGAGE REDEMPTION ASSURANCE SCHEME

'Group Mortgage Redemption Assurance Scheme', is a Group Insurance Scheme for the borrowers of housing/vehicle loans from financial institutions where loan is recovered under EMI. Under the scheme, the premium is payable in a single installment covering a decreasing life cover. Insurance cover every year will be almost equal to the loan outstanding at the anniversary date of each borrower.

Under the scheme, the premium depends upon:

1. Age (nearer Birthday) at entry of the member into the scheme.
2. Outstanding loan amount at entry date.
3. Term of loan.
4. Schedule of repayment.
5. Rate of interest with which the loan was availed.

Any borrower may become member of this scheme. The minimum term of assurance is 3 years. Existing borrowers can join the scheme with certain conditions within 6 months of the commencement of scheme.

In case of death of the member during the coverage period, life cover on the anniversary date preceding the date of death is payable. The claim proceeds are used to square off the outstanding loan.

6.12 SUMMARY

Group insurance is a contract of insurance with a company, or association covering a group of people who are engaged in the similar occupations. The group should be such that there would be continuous flow of new members while old members would retire. Individual members do not have to sign any papers and the benefit would be available uniformly to the entire group.

There could be a variety of group schemes, some relating to the legal requirements and some voluntary. The Group Gratuity Scheme is one such scheme in which the legal liability of gratuity to ones employees can be insured by the employer with the insurer. Similarly superannuation liability of any employer can be met by ensuring it through a Group Superannuation Scheme. Group Savings Linked Insurance Scheme is intended to provide low cost life insurance and inculcate a habit of savings in the employees and provide insurance benefit to the family in case of untimely death.

Thus, Group insurance can be designed to meet a variety of needs of a group indeed of an individual. The benefits paid through group insurance enjoy the Income Tax benefit similar to the individual insurance schemes.

6.13 TERMINAL QUESTIONS

1. What are the characterstics of a group?
2. Elucidate different types of groups
3. Differentiate between individual and group insurance.
4. Discuss the features of Group Gratuity Scheme
5. Discuss the features of Group Superannuation Scheme
6. Discuss the features of Group Savings Linked Insurance Scheme.

6.14 OBJECTIVE TYPE QUESTIONS

1. State which one of the following statement is correct.
   a. In group insurance, a single policy is issued covering many persons.
   b. A master policy covers servants of a master.
   c. Both the statements above are correct.
   d. Both the statement above are wrong.
2. State which one of the following statement is correct.
   a. In group insurance, there is only one proposal to insure many.
   b. In group insurance, there is only one policy covering many.
   c. Both the statements above are correct.
   d. Both the statement above are wrong.
3. State which one of the following statement is correct.
   a. In group insurance, the proposal is made by the employer.
   b. In group insurance, proposals are made by each of the insured.
   c. Both the statements above are correct.
   d. Both the statement above are wrong.

4. State which one of the following statement is correct.

   a. Group insurance covers a large number of persons in the policy.

   b. Group insurance is relatively cheaper than individual insurances.

   c. Both the statements above are correct.

   d. Both the statement above are wrong.

5. State which one of the following statement is correct.

   a. A bank can take out a group policy for its account holders.

   b. A finance company can take out a group policy for those taking loans from it.

   c. Both the statements above are correct.

   d. Both the statement above are wrong.

6. State which one of the following statement is correct.

   a. The amount of cover in a group policy is chosen by individual members.

   b. The amount in a group of cover for each member is fixed by the terms of the policy.

   c. Both the statements above are correct.

   d. Both the statement above are wrong.

7. State which one of the following statement is correct.

   a. A master policy is issued in a group insurance policy.

   b. Each member in a group policy pays the premium directly to the insurer.

   c. Both the statements above are correct.

   d. Both the statement above are wrong.

8. Which of the following is true for a group policy.

   a. Copies of the master policy are given to all members by the insurer.

b. The group has to be formed exclusively for the purpose of insurance.

c. Entry into the scheme and exit out of it, is at the option of the members.

d. The amount of the cover is determined by the scheme.

9. State which one of the following statement is correct.

a. A trade union can take out a group insurance policy for its members.

b. The cover for an employee can be equal to his age multiplied by a fixed number.

c. Both the statements above are correct.

d. Both the statement above are wrong.

10. State which one of the following statement is correct.

a. A group insurance contract is between the insurer and the insured persons.

b. The extent of insurance cover is chosen by each individual member.

c. Both the statements above are correct.

d. Both the statement above are wrong.

6.15 ANSWERS TO INTEXT QUESTIONS

6.1

1. Group insurance is a contract covering a group of lives.

2. Employer-employee group ,Creditor - Debtor groups, Professional groups.

6.16 ANSWERS TO OBJECTIVE TYPE QUESTIONS

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