Group Insurance in India

Dr. Seema Shokeen
Faculty of Maharaja Surajmal Institute, Affiliated to Guru Gobind Singh Indraprastha University, New Delhi, INDIA

ABSTRACT

Group Insurance is an easy way of providing Life Insurance to the employees of an organization. Group Insurance covers many people under one policy. In Group Insurance, the policy is a Single Policy named as ‘MASTER POLICY’ for the group insured. There is a contract of insurance in between the insurer & the employer called Employee Group Insurance. Thus the payment of premiums, the members to be insured & to what extent they shall be insured lies in the hands of the employer. The basis on which the employer selects employees for the Pension scheme are factors like their age, earning potential, designation and seniority. The main objective of this paper is to study the various group insurance schemes and some of the social group insurance schemes of LIC. The people who have low or no life insurance are able to get some amount of insurance coverage with group insurance.

Keywords-- Group, Homogeneous, Insurance, Policy, Premium

I. INTRODUCTION

Under Group insurance a Homogeneous group of individuals get insurance cover under a single policy called a master policy. The parties with whom the contract of insurance may be an employer or a labour union or a voluntary association & they must not only be formed for the purpose of obtaining insurance protection.

The Equitable Life Assurance Society of New York was the first organization to provide a group insurance policy issued in 1911. There was no significance of group insurance in India, till 1960’s. By 2002, LIC covered 70% of the individual lives under group insurance showing the development of group insurance in insurance sector with other new insurances covered. Group insurance then attracted new insurers to concentrate on it, as the method to expand their reach quickly.

II. FEATURES OF GROUP INSURANCE

1. In group insurance, a single policy called a master policy is issued to the employer or the authorized person who is the group policy holder & the representative of the group certificates. The master policy has detailed information of the relationship between the group policy holder and the insurer.
2. The insurer underwrites the group as a whole in group insurance. Rather than taking individual characteristics, group characteristics are given importance. Size, composition, occupation, age and stability of the group as a whole is considered rather than health or other aspects of the individuals by the underwriter. Hence large groups are more preferable than small groups.
3. The employer or the group has to pay premiums to the insurer. The premiums paid may be a contribution by the members of the group.
4. Individual insurance is more costly than Group insurance as it requires medical examination and the cost of acquisition of the insurer is also high than group insurance. There is less commission to be paid to the agents in group insurance. The employee also bear administration expenses like collection of premiums etc.
5. The group insurance is provided to the groups which are formed for other reasons and not just for the insurance coverage only. The insurance cover provided by the organization must be unrelated with the employees joining or leaving the organization.
6. Experience rate premiums are charged by the insurer when the group is too large. In group insurance premium is equal to the loss. If the loss experienced in the previous years is higher than expected loss, the amount of premium charged from the group is higher.
7. The existing members of the organization have the option to join the scheme or opt out whenever a group insurance scheme is introduced for the first time. Only the existing members of the organization have this option. The choice has to be made within specified time limits.

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Some advantages of group insurance are:
1. The people who have low or no life insurance are able to get some amount of insurance coverage with group insurance.
2. The employees who otherwise are uninsurable get coverage under group insurance.
3. Life insurance companies have opportunities to reach a large number of people in less time with the help of group insurance.
4. The employers of the organization get tax benefits for the premium paid by him on his behalf for the group insurance.

IV. LIMITATIONS OF GROUP INSURANCE
1. If once the employee is out of the group, the coverage for him finishes. Hence group insurance is temporary.
2. The premium to be paid is fixed for the group as a whole, leading to a higher premium payment for an employee who could have been charged lower premium if individual insurance had been taken.
3. Master policy is not changeable. Individuals need for insurance cannot be met.

V. ELIGIBILITY CONDITIONS
1. The homogeneous group who take group insurance should not only have been formed for the purpose of seeking insurance only.
2. For the continuity of the group new entrants should be allowed to join the group.
3. The method of determining the amount to be insured should remove the possibility of individual selection.
4. The total cost must be divided in between two parties, the insured members and the employers.

VI. ELIGIBLE GROUPS

INDIVIDUAL EMPLOYER GROUPS
Employees of a single large company, a sole trader or in a partnership firm are known as individual employer group. These employees are mostly insured because of following reasons:
1. Availability of reliable employee data
2. The employer is the representative of employees as a single person dealing with the insurance company.
3. The employer being the representative has the facility to collect the claim money and pay it to the beneficiaries who are the employees of the organization.
4. The payment of premium is easy and regular.
5. The screening of the employees would already have been conducted by the employer through a pre-recruitment medical examination.

MULTIPLE EMPLOYER GROUPS

Employers are sometimes connected to each other financially or in some other way. These employers can take a combined group policy for the employees of both the organization.

LABOUR UNION GROUPS
Under this, members of a labour union are covered by the insurer. The payment of premiums is wholly out of the union funds or jointly with the members.

CREDITOR-DEBTOR GROUPS
In this, a group policy is issued to the creditor, providing the cover for the debtors. If the debtors die, the amount of credit taken will be paid to the creditor by the insurer. The amount to be paid to creditor is paid and the outstanding amount or the balance of the policy proceeds is paid to the legal heirs of the debtor.

MISCELLANEOUS GROUPS
Miscellaneous groups have association of professionals such as doctors, lawyers, teachers, accountants, etc., association of public and private employees.

VII. GROUPS SELECTION THEORY
Individual’s health, morals or habits are not at all considered in the group for Group Selection. There are certain essential features which are inherent in the nature of the group itself or may be successfully applied in a positive way by the insurer to select the group for avoiding adverse selection by entire groups or a large proportion of the individuals within a given group. Some underwriting principles must be followed:
- Insurance must be incidental to the group. Insurance should only be a secondary or unessential feature which must motivate the formation & existence of the group.
- There is no individual selection by either the employer or employees for the amount of insurance cover are determined in automatic manner.
- Insurance cover is provided to all or substantially all eligible persons in a given group.

VIII. GROUP INSURANCE SCHEMES

1. One Year Renewable Term Assurance
In this scheme, risk covered is for one year for the premium charged. The group policy holder can renew the cover at the end of the year. This plan got this name only because of the attained age at the beginning of the policy year is the basis for the premium and the rate of premium would go on increasing year after year as the age increases.
BENEFITS- Benefits are provided on the basis of some formula mutually agreed upon between the insurer and the group policy holder. The amount of benefit given to the
group does not provide the individuals with a choice of benefit. Individuals without evidence of insurability in the form of non-medical proposal form or medical reports are granted insurance cover up to a stipulated limit. Certain broad underwriting contract provides a possible cover for every member of the group, up to the stipulated limit. All the active employees of the organization are covered and who are not active are left out. Those who are not active can only be covered on resumption of duty or on production of satisfactory evidence of health.

**Determination Of Premium Rates**

Characteristics of the group like conditions of employment working environment and occupational hazard determine the premium rates. For the first class employment, or, where pre-recruitment medical test, follows as established personnel procedures, etc., are insisted upon by the employer are applicable for more favorable tables. In other cases somewhat strict table rates are applicable.

**Experience Rating**

Cost of insurance cover depending on the mortality experience of the particular group is known as experience rating. Based on the general experience of the lives assured under group schemes, initially certain rates are charged. While charging the initial rates assumptions are made different to the actual experience of a particular group. The insurer may grant a share in his surplus, if the experience is more favorable.

**2. Term Assurance Scheme Employer**

Employee Groups. Under this scheme 25 members or employees form a group & the term assurance cover is provided up to a limit of Rs. 25,000. The scheme cover is suitably increased with the increase in the number of members. In the scheme initially for groups with at least 10 members, the amount of benefit available on death is

- Equal to salary for two months for each year of outstanding service with a maximum of salary of 24 months, or
- Rs. 1,00,000 Whichever is less.

A portion of benefit is received by the members of the family which the employee would have received if he had survived to his superannuation age.

**3. Level Premium Term Assurance**

Under this scheme, the basis of premium rates is the age at entry and the retirement age. This plan is different from the one year renewable term assurance in which premiums increase year after year. This plan is recommended where the turnover is small and does not have a large group or a rapid expandability. By using this plan, year after year the total cost remains more or less the same. In other aspects, this plan is similar to one year renewable term assurance plan. Based on the experience of the group the premium rates are not revised year after year and also the benefit of experience rating adjustment is not available. The procedure for underwriting of the group, or, the groups of administrative employees, underwriting risks have free cover limit.

**4. Group Gratuity Scheme**

Every mine, factory, plantation, oilfield, railway company and port and motor transport undertakings, clubs, chamber of commerce and industry, inland water transport establishment solicitor's office, local bodies and circus industry and in all shops and establishments employing 10 or more persons comes under the Payment of Gratuity Act, 1972.

Payment of gratuity is provided under certain conditions:

- Permanent disablement or death due to accident or disease, or
- Superannuation, or
- Resignation/termination of service.

Normally, the gratuity benefits increase on the completion of a continuous service of five years. But this condition is not applicable in cases of permanent disablement or death. Under the act, the active employees are entitled to gratuity at the rate of 15 days wages for every completed year of service. The amount of gratuity to be paid is subject to maximum of wages for 20 months. For the purpose of determining salary for 15 days, the monthly salary is deemed to be salary for 26 days excluding a 4 days holiday.

The LIC has devised a scheme of insurance which provide additional life insurance protection with the benefit of liability of the employer being funded. The amount of gratuity is payable to the dependent in case of death of the employee is on the basis of service already put in by the deceased employee at the time of death. The scheme of insurance in case of premature death provides for payment of death gratuity calculated on the basis of anticipated total service which the deceased employee would have put in but for his premature death or otherwise this amount is small and insufficient. The benefits are:

- Pure endowment policy (with return of premiums on death) is the way to provide retirement gratuity.
- One year renewable term assurance plan provides death benefits.
- As per the gratuity rules of the employer, the surrender value of assurance effected under pure endowment plan is payable and can be utilized towards the payment of benefit to the concerned employee in case of withdrawal from service.

**5. Final Salary based Schemes**

Under all insurance schemes discussed, the sum assured is based on current salary from year to year. However, the employee can attain the retirement gratuity on the basis of final salary which he is expected to draw at retirement on the basis of salary scale applicable to him, and the death gratuity is based on the current salary.

**6. Group Savings**

Linked Insurance Scheme. In this scheme, the contribution is fixed and deductible from the salary of the...
employee. The plan under which the sum assured is secured in each category is fixed and so also the premium under one year renewable term assurance. On the withdrawal of the member from the scheme, a balance fixed amount which is accumulated with interest is payable. This scheme satisfies both the needs for a substantial life cover against risk of death while in service and substantial retirement benefits. Since the scheme is administered by the employer, the cost of operation is minimal.

Grading pattern which is set according to categories of employees classified on the basis of salary scales or designations on which insurance cover is granted by LIC.

7. Group Creditor Insurance Schemes

Outstanding loan from year to year in respect of loans granted for house construction, purchase of durable consumer goods or for other commercial purpose can be covered under one year renewable term assurance. In the case of premature death of the loanee for which he/she has taken loan for, the house or goods as the case may be would be generally mortgage to the creditor would be likely to create hardship for his/her family members and the creditor would also find it cumbersome to sell off mortgaged property or goods. On the death of the loanee, the family would be able to square off the outstanding payment in annuity are made if a member survives till a particular age. Before reaching the superannuation age, the LIC in such case also offers risk coverage in the event of death. In this scheme the eligibility criterion set by the LIC for the group to be covered should at least have 10 members in the scheme at the entry stage. The amount of benefit available in case of death is equal to:

- Salary for two months for each year of outstanding service with a maximum for 24 months’ salary, or
- Rs. 1,00,000, Whichever is less.

9. Employee Deposit-Linked Insurance (EDLI) Scheme

All establishments and undertakings contributing towards provident fund under the Employee’s Provident Fund and Miscellaneous Provisions Act, 1952 with effect from August 1, 1976 unless expected under section 17(2A) of the act, the EDLI scheme is applicable. An employee can get insurance cover under this scheme, limited to his balance in the provident fund account subject to maximum of Rs. 35,000.

**INFOSYS has World’s Largest Group Insurance**

The world’s largest group insurance policy has been bought by Infosys Technologies from Life Insurance Corporation of India for a sum assured (or, cover) of around Rs. 6,000 crore. This group cover will be reinsured by LIC with Swiss Re due to the sheer size of the policy.

It has been several years since Infosys has a group policy with LIC. However, this year the sum assured is hiked several folds by the software company. The sum insured increases with the seniority of the employees and the cover ranges from Rs. 10-40 lakh. At the same time, the employee count has risen to 38,000. As a result, the sum insured has risen to close to Rs. 6,000 crore in couple of years which was Rs. 1,300 crore before.

This policy is probably the largest policy in the world because of the combination of large number of employees and a high value.

Besides the size, there are several other aspects to the policy. A significant feature is that this cover is a ‘free cover’ up to Rs. 40 lakh which in insurance industry is a cover provided without any medical examination. Secondly, the premium is around Rs. 3 crore and the cost of cover is the lowest for any corporate. Since the benefit of this policy flows directly to employees, Infosys will have to pay Fringe Benefit Tax on the premium.

Until now, the employees of Bharat Sanchar Nigam Limited had the largest group insurance policy cover issued to them by LIC. The recent cover provided by LIC to this Corporations Employees is a sum assured of about Rs. 4,770 crore. However, this sum assured is just only a fraction of that of the cover of Infosys.

**Some of the Social Group Insurance Schemes of LIC are discussed below:**

**Landless Agricultural Labourers Groups Insurance Scheme (LALGI)**

This is the largest group insurance scheme in India which is free. This scheme was introduced by our Late Prime Minister Rajiv Gandhi. However this scheme is ineffective now.

In this scheme the life assured is the head of the family who are the landless agricultural labourers between the age group of 18-60 years. No premium is paid. Risk covered at death is Rs. 2,000.

**Settlement of Claims.** Claim form is divided into four parts

i. To be filled by the claimant.

ii. To be filled by VAO.

iii. Discharge voucher on Rs. 1/- revenue stamp executed by MRO and claimant as per instructions.

iv. By MRO.

v. Xerox of ration card.

vi. Death certificate by MRO.
If submission of claims form is delayed after one year from the date of death to be certified by collector/RDO/any official authorized by Collector. Depicted LIC branch at district headquarters processes the application and settles the claim.

**Group Insurance Scheme for Integrated Rural Development Programme (IRDP) Beneficiaries**

**Eligibility.** Under integrated rural development programme all the new beneficiaries who avail subsidy or loans from the nationalized banks after 1.4.1988 are covered under the scheme.

**Amount of Cover.** Deaths arising on or after 1.1.1994, Rs. 5,000 payable on death of loanee member. Double sum assured payable in case of accidental death.

**Duration of Cover.** Attainment of age 60 by the beneficiary or 5 years reckoned from the date of distribution of loan by the bank whichever is earlier.

**Premium.** Single premium paid by the government to cover the benefits.

**Administration of the Scheme.** District Rural Development Authority (DRDA) administers this scheme. DRDA sends the list of members who have availed of loans from the banks to the LIC district headquarters branches.

**Settlement of Claims.** Necessities:
- Claim form duly filled in all respects by the claimant.
- Original certificate of registration of death.
- Certified copy of police formal investigation report and postmortem report in case of death due to accident.
- The DRDA will check the claims form and execute the discharge and forward it to LIC branch office. The claim settlement will be done after receipt of claim forms and claim amount will be paid directly to the nominee.

**Group Insurance Scheme for Economically Weaker Sections**

The social security fund of Rs. 100 crores set up as per the budget provision of 1988-89 provides 50% of the premium for this scheme. Rs. 5,000 is payable on the death of the member under this insurance cover. Rs. 25,000 is paid in case of an accidental death. Initially, Hamals, weavers and rickshaw-pullers were covered under the scheme. 23 other groups have been approved by the central government for coverage under the scheme:
- Tendu leaf collectors
- Salt growers
- Safaikaramcharis
- Rickshaw-pullers/Auto rickshaw drivers
- Primary milk producers
- Physically handicapped self-employed persons
- Pappad workers attached to SEWA
- Leather and tannery workers
- Lady tailors
- Handloom and khadi weavers
- Handloom weavers
- Handicraft artisans
- Hamals
- Cobblers
- Fishermen
- Brick-kiln workers (Jalandhar city only)
- Carpenters
- Beedi workers
- Powerloom workers
- Toddy tappers
- Sericulture workers
- Forest workers
- The urban poor.

Other sections of weaker segments of population can be brought under the scheme, on the approval of central government.

**Benefits:**
- Rs. 5,000 upon death of the insured
- Rs. 25,000 upon death due to accident
- Rs. 25,000 upon permanent total disability due to accident
  - Rs. 25,000 on loss of 2 eyes or 2 limbs or 1 eye and 1 limb in an accident Rs. 12,500 on loss of 1 eye or 1 limb in an accident

In case of physically handicapped persons who have been covered under the scheme the benefits of disablement will not be applicable and the accident cover is restricted to death only.

**IX. CONCLUSION**

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.
REFERENCES