Terminologies of Life Insurance

i. Death benefit

It is the money insured’s family or the nominee will get when insured is dead. It depends on many factors; also one can reduce it. in case one takes policy loan, Death benefit should be high.

ii. Face amount

It is also the death benefit. However in case the policy matures early while the person is still alive it is called face amount.

iii. Coverage amount

It is the amount for which one is insured. It should be sufficiently high, at least five times of insured’s annual salary as is the custom. High coverage amount however results in higher premium rates as the company would have to pay more.

iv. Premium Amount

It is the amount which the insured person pays to the company. It can be a yearly amount or quarterly amount as decided upon by the company and the customer. It should be lower as money is going from insured’s pocket into the company's pocket. It can be both inflexible and flexible depending on the type of insurance policy. If premium is not paid on time then the company can cancel the policy i.e. the policy is lapsed and insurance cover is removed.

v. Time period

It is the time for which a person is insured by the company. It can be whole life, or some fixed amount of time. It can be ten years, or fifteen years, or 25 years too. It is an important part of term insurance.

vi. Cash buildup

Some policies allows face amount to increase. The premium amount will vary but one gets more benefits when the policy matures and higher returns.

vii. Insurance owner

The person who takes out the insurance is called insurance owner. It may or may not be same as the insured person.

viii. Insured person

It is the person who is insured by the insurance.

ix. Whole life insurance

The insurance which is valid for whole life is called whole life insurance. It is hard to cancel and the policy can lapse if the premium isn't paid on time. The premium is high, the death benefits are guaranteed and the premium can stay the same. Hence it is pretty inflexible in nature. The policy will last for whole life. Its real motive is not investment but more for the security. Insured's family can be sure of a getting a fixed payment.

x. Term insurance

It is the insurance which is valid for only a specific period of time. One can take out a policy for the period as selected by him. One can get the returns after the time period. The premium rates are also a lot lower than the permanent life insurance. The advantages are the cash buildup is high and one can get a good amount after that time period. But the disadvantage is that the insurance cover is lost as soon as the policy expires. One can also take a new policy after the completion of the policy. But if a person suffers from any serious diseases the insurance company may decide to not give insurance again. The insurance will again depend on one’s health and conditions and it may also cost much more.

xi. Endowment

Endowments offer an early maturity period. It can be expensive and generally pays out when the insured person is of required age or the time period has expired.

xii. Accidental insurance

These policies do not offer complete life cover. They only give insurance and death benefits if insured is in an accident and died due to any injuries. One may not get the benefits as they rarely pay out. It is however much cheaper than the total life insurance. If one is into danger sports, chances are that the company won't insure. Sometimes ever professional racers aren't insured.

xiii. Variable life insurance

Variable life insurance combines a mortality charge with savings. Most companies offer many portfolios and various kinds of bonds too. There can be many types of portfolios on offer. Insured can either pay a fixed premium payment or a variable premium payment. Variable returns can fluctuate with the financial markets. Nowadays in current economy it is preferred that it is avoided.

xiv. Payment mode

Insured can get your returns through check. And can pay the company through either cash or check or credit card as is preferred by the insured.

xv. Nominee

It is the person you nominate to receive the money after insured’s death.

xvi. Mortality charge

It is the cost of the insurance production on a whole life product. It increases with the insured person's age.

xvii. Contestability period – Grace period

It is period when the policy can be canceled by the company. It is generally the first two years. If the company finds any disputable claims they can also refuse to pay even in case of death. After this period the policy becomes incontestable.

xviii. Beneficiary

It is same as the nominee.

xix. Annuity

An annuity is a contract with an insurance company. The insured person will pay an initial premium into a tax deferred account, which pays out a sum at predetermined intervals.

xx. Insurance bond

Insurance bond is a single premium life assurance policy. Traditionally insurance bonds were with profits policies and are called with profit bonds.

xxi. Limited pay insurance

The insured person has to pay premiums just over the period of some time period only. Premium rates are higher.