CRITERIA OF ANALYSIS OF A LIFE INSURANCE CONTRACT

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In a well known understanding, through life insurance we understand the ensemble of contracts which cover a human life risk:

• the risk of premature death, covered by death insurance
• the risk of old age (getting old), covered by life contracts

The main activity of insurers is distributing the collected funds between the victims (or beneficiaries of these). Because of the prolonged length of life and the development of pension system, the generated the feeling that the risks of life or death have become less important, the insurers followed this sociologic evolution, adapting their range of products to the new preoccupations of clients.

In present, the association of life and death contracts allows the operators on the market to propose new formulas which appear as simply investment operation.

In fact, a person who is insured can subscribe to:

• in case of life insurance which guarantees him a capital if he is alive at the due (but nothing if he dies);
• an insurance in case of death which guarantees the (beneficiaries) person a capital if he dies before the due (but nothing if he is alive).

Besides the established functions of the insurance, those regarding the prevention and the compensation of the damages and the payment of the insured sums, in the last decades the financial side of insurances has got a big importance. On one side the specialized companies are more and more involved in the financial market, looking the best investments; on the other side, they offer the clients a very wide range of life insurances with capitalized component.

In this material there are described the main products of this type and there are presented some criteria of analysis and selection of contracts depending on their adaptation to the needs and the personal situation of each insured.

Keywords: life insurance, criteria of analysis

In present this technique is widely spread in form of mixed insurances, respectively of contracts with a variable capital (“unit linked” type). These financial assembly allows the surpass of the “insurance” component and there are presented in general as saving operations. Consequently, today, life contracts respond to a double problem:

• the provision or the cover of a risk regarding the human life (death, disability, disease);
• savings through capitalization, through the investment form, realized in special in financial products.

When he concludes a contract, an insured person can follow the next objectives:

a) the cover of a risk regarding life, such as :
• the risk of premature death and letting the family in a precarious financial situation
• the risk of dying too “late”, after it consumed all his financial capacity

b) saving operation

Evolution of financial administration techniques of life contracts allows their assimilation with investments with capitalization.

Tax advantages that it enjoys (exoneration of capitalized interest and/or the insured sum, deduction of the subscribed sums from the income tax etc.) make these contracts very attractive for those who save and are active, who try to increase the invested capital, not looking for an immediately income.

c) the transmission of a heritage

Regarding the succession rights, life insurance contracts benefit in many countries of important advantages (reduction or exceptions) which allows us to consider them as meaningful heritage investments with a role in development.

There are three categories of products in life insurance:

a) insurance contracts in case of death
b) insurance contracts in case of life
c) mixed insurance contracts

a) In this first family, we can include, first of all, the known “temporary insurance”. This type of contract without a capitalized component, covers the death caused before the term stipulated in arrangement and insure the beneficiary of the capital flowing or an annuity. Temporary insurance is a contract very wide spread. Its bonus is determined by the risk covered by insurance (insured capital, age, health), depending on statistic studies synthesized in mortality tables. A different possible arrangement allows the adaptation of the contract to the followed objectives.

For example, it can be stipulated the form of annuity for education, age in case of the death of a parent, during school for a child. Also, frequently found are “temporary full life insurances” with or without counter insurance, such like the well known temporary group insurance contracts.
The person insured and his beneficiaries are sure that they will benefit from one or other provision. Depending on the goal purposed, saving or prevention, the one who subscribes can privilege one or another coverings. There are other types of joint insurances:

- ordinary mixed insurance-offers benefits equivalent in case of life or death;
- mixed combined insurance – in this case “the life capital” differs from “capital-death”. In general, the client wrongly evaluates the report between the savings and the protection part held in the contribution paid;
- insurance at a fixed term - provides the payment of a capital at a fixed date, indifferent if the insured person is or not alive at that time. This variant allows securing the necessary funds for covering some expenses planned to be done at a certain date or for a predetermined period (ex.: financing the studies for a child).

Also, besides the contractual obligations mandatory for a life insurance product, there are frequently some collateral guarantees at the different contracts:

- in case of temporary disability it can be suspended the payment of primes and it is opened the right for payment a temporary rent
- total or partial disability to be assimilated with death
- double capital in case of death through accident or tripling it if the death was caused by a traffic accident
- incapacity of work extended (including the unemployment) which gives the right to fill some periodic pays or the exoneratlon of pay of primes
- subscribing a capital for two persons, which assures the payment of sums after the death of one spouse (prime) or after the each other death (insurance with double effect).

Grouping the contracts listed already, depending on the followed objective by the insured can be presented this way:

<table>
<thead>
<tr>
<th>OBJECTIVE</th>
<th>PRODUCT OFFERS</th>
<th>OBSERVATIONS</th>
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| 1). PROVISION | • insurance with covers a mortgage loan  
• immediate or variable rent  
• insurance which covers a mortgage loan  
• fixed term insurance  
• with benefit clause “spouse” or “child” | • financing studies children |
| 2). SAVINGS | • taxation savings  
• pension savings  
• capitalization  
• anonymity  
• insurance cu variable capital  
• rents  
• mixed insurances  
• bonuses of capital  
• suppleness of due  
• it profits of the evolution on a sector (property, financial markets etc)  
• it must be evaluated the taxation cost of anonymity | |
| 3). TRANSMISSION ASSETS | • hole life insurance  
Requires a regulate saving before 60-65 years old | |
| 4). REGULATE SUPPLEMENTARY INCOMES | • immediate life rent  
For those with benefit of lowing incomes (pensions) | |

An important problem of every insurance product is represented by the way of calculating the prime (contribution). Their main principle is that the one who claim that in the establishing the prime to appeal simultaneously to techniques of repartition and capital.

Thus, the repartition technique has as purpose the mutualisation of risk, it considers the activity of the insured and it consist of distribution only between those whom the risk has been produced, the primes paid by all insured.

For exemplification, if we suppose the existence of a population of 10000 insured people at which the death cover is 100 thousands lei/insured and admitting that the risks of death in case of this population is 20 persons in an year, then the cost of this insurance is:

\[
100000 \times 20 = 200 \text{ lei for 100 thousands lei capital}
\]

\[
\frac{10000}{10000} = 100 \text{ lei per insured}
\]
Thus, the bonus paid or the commercial prime includes:

a) financial administration expenses = these represent in general a percentage from every prime paid. In practice, some contracts affect the initial bonuses only for the cover of these expenses, in exchange, the following primes being integrally invested (technique of recording) which is very penalizing for insured in case of anticipating redeeming. Another variant applicable in special at saving contracts with economic vocation, consists in getting on the way those expenses, these being fixed during the life of the contract.

b) pure prime, which integrates the following parameters:
- insured capital
- length of contract
- risk of insured

In case of life and pure death contracts, the risk of insurance is calculated after statistics included in the mortality tables (for example: for every 100 000 unborn it is given the number of survivors at an age given from 30, 40, 70, 100 years differentiated by sex) being in force in present and determined by the own range of every company of insurance.

Another important problem is that regarding the protection of the capital from monetary erosion. In case of life insurance contracts with provisions vocation and/or saving it should be taken into consideration that these are subscribed for long period of time. In conclusion, it matters the insurance of a better protection against monetary depreciating through legal ways and contractual ones.

The most affordable solution is revaluing the contract and it consists in a proportional growth of primes and the guaranteed capital. Against appearances, this operation does not penalize the insured because it produces an increase correspondent to the economy realized by this and also the guaranteed offered. The increase of primes will anticipate the power of buying, using more methods:
- revaluing after index
- revaluing on the base of contractual installment
- revaluing the prime with installment at benefit

Frequently an insurer can propose indexed contracts depending on the evolution of shares, obligations or a basket of moving values. It can be "hold" an exchange portfolio within a life insurance contract. They are a part of so called "dedicated funds" and represent risks that are not neglected.

With a view to minimizing these at an acceptable level there are proposed "multi-support contracts which allow the adaptation at all markets (obligations, shares, property) and which offers the insured the possibility to make a relocation of accumulated capital or different options of investment depending on the needs and its present objectives and the risks that he can assume.

In Romania there are already tenth, but in Europe there are thousands of insurance life contracts, inclusive with capitalizing component, which is commercialized. That is why it is illusory to analyze every contract in part, depending on its inside and outside qualities.

After our opinion they should be compared depending on the performances as well as different heritage needs of investors. Regarding this aim we propose the realization of the following steps depending on the destination that gives the insurer the funds given, respectively the typology of patrimonial needs of the investor on life contract.

Thus, the first question that we should answer is the following: what do the insurers with the primes of insurances?

In essence, the insurer gives the money (first part) to a specialist in saving on long term (society of insurance) which is mandated to administrate his savings during time (time contract), depending on the evolution of economy, and regarding the risks on the market (financial, exchange, property). Thus, the insurer will follow the disappearances of risks and diversity of investments depending on the triad: security, liquidity and profitability. It will practice financial administration of heritage for its own purpose, as well for the clients’ accounts. In fact, to be able to guarantee a capital or a rent for 10 years the insurer should divert his risks in a global investment frame. For this it is imposed publishing every year the structure of investments of the society of insurance which gives an exact image on the conception of administration a heritage adopted. The quality of financial administration of an insurance company can be appreciated in time, in relation with inflation and with the evolution of the interest rates and asset quality and exposure to the risks taken.

Thus, in European Union countries it is found that bonuses collected in the last ten years have been invested in special in modern monetary market and the obligation one, because of the persistence of the installment real positive (approximate 89% of new bonuses), the rest being shared between the shares market and the real estate one.

In conclusion, annual performances of an life insurance contract depend on the next factors:
- the structure of installment of interest: long (obligation market) and short (monetary market)
- the quality of administration reflected in the grade of exposure to risk, sensibility of portfolio, the structure of technical resources etc.

Important is also the report between the general expenses of society of insurance and the bonuses received. It is an essential report because it represents the guarantee of actual and future profitableness and of the company and it influence directly the performances of contract.

It has to be observed the fact that while the installments on market are being imposed to all participants (banks, insurance companies, companies, natural persons) the expenses of structure, inclusively those regarding to the renumbering of the distribution of circuit of insurance products varies significantly from a society to another.

In this case, insurance companies’ branches of some banks constitute an advantage, because they have lower expenses of commercializing on the
market. Distribution network already established by banking network support is an important informative, and remuneration vendor contracts will not depend exclusively on “production insurance”.

Thus, in France, the insurance company overhead (salaries, fees, management charges) are on average 28% of turnover, while in case of insurers subsidiaries of banks are only 5%.

In fact, the insurer obtains a gross rate of which has to be remunerated the factor of work (salaries of those who sale or administrate the insurance contracts and the capital accumulated), capital factor (shareholders) and state (incomes). Therefore this gross rate will not be equal with the rate of remuneration on economies invested by the insurer.

One problem is if the insurance company has the right to cover its expenses of commerce and administration when these are bigger than those initially officially announced through contract.

In order to avoid the apparition of this kind of situations it has to recourse of the to the pre-registration method. Thus, the insurer often amortize the expenses from first annual premium collected. The economies invested at the beginning of the contract practically absorb the expenses, which penalize a lot the premature redemption of the policy and the global yield of the contract. In practice, the first installment of the insured client will not be written in his own account, but will be kept by the society. Only the next pays will be accounted and will produce bonuses.

Regarding the type of patrimonial needs of the investors in life insurance contracts, it is important to be defined in a rational manner the motivations of investments, the real needs of the investor.

- Needs of transmission assets
  You can choose for the subscribing of death insurance contracts in case of death which guarantees a capital in case of producing the insured risk, with a cost relatively low until 60 years old. If the identified need is truly the transmission of the heritage it can be chosen a full life contract (the deadline of the contract is the death of the subscriber).
  - Need to promote a person or to balance heritage
    It represents the willingness to transmit an active to a previously designated beneficiary, without respecting the share which intervenes in case of normal succession. It is also a solution to be followed when the heritage is unevenly distributed between spouses (own property, common property of unequal importance).
  - Needs of pure savings
    Life insurances represent a support of savings very good from taxation of incomes of the natural people’s point of view, comparing with other solutions of investing the availability.
  - Needs regarding pension
    These contracts, within their flexible character at due time (the possibility to choose between the payment of capital or rent) represent a solution of financing the pension. It has to be noticed the possibility of concluding insurance contracts at the enterprise level, as well as the fact that a supplementary income, after the retirement can be brought and the investments made in a mutual fund, the investments in banks etc.
    After the investor has determined his needs in an exact way, he should be interested in the main qualities of the contract and the society which propose it.
    The methodological approach which we propose it is the following:
    Which is?
    - the nature of the support contract (monetary instruments, capital ones)
    - the due of it (life term, determined period of time, until the retirement)
    - the object of the contract (point agreement or an investment type pure insurance with insurance against death)
    - bonus of the contract (unique, periodical, fixed or variable)
    - the date on which realized payments produce effects \((t+a, t+7, t+30, \text{etc})\)
    - the percentage of participation at benefits
    - the expenses related to contract (fixed or variable, their way of calculation, expenses of termination and repurchase etc.)

Also the investor must take into account the fact that it utilizes some of the amounts saved by him after a long time. Because of this thing he should take into account the quality of the management of those sums and the performances obtained from this activity, but also the level of taxation which he understands to assume.

Regarding the society which administers the funds assigned, the insured investor should take into consideration the following issues:
- the structure assets and the investments, if they practice only life insurances of other types of insurances
- if it has a sufficient size
- if exists a recognition of quality management of fund raised from clients and a regularity in obtaining of good performance (thus, in a 5 or 10 year in the industry it is more significant than the results obtained in an year).
- if performance are obtained from the assignment of assets? (for example property). If yes, then performance is due to exceptional events and not to an appropriate management for a long time.

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