

EMPLOYER-EMPLOYEE INSURANCE SCHEME

CO/ACT/1637/4 DT 2/3/1998, LETTER DT 2/11/1983 REF : CO/ACT/217,

When an employee takes insurance on the life of its employees, it is known as Employer-Employee insurance. The employer himself may pay the premium or he may finance loan to employee towards payment of premium. There is no restriction on the minimum or maximum number of employees to be covered under employer -employee insurance. The employer can be any reputed company or partnership firm.

Employers have an insurable interest in his employees and vice versa. On this primary consideration alone, provided there is total absence of the moral hazard element in any given proposal, insurance cover on employee's life can be granted. There will be many reasons for employers to have his employees live covered but the main reasons for granting insurance will be as follows:-

- An enlightened employer may like to make provision as a welfare measure through life insurance for the dependents of the employee in case of employee's early and premature demise and old age provision for the employee himself. This may constitute one of the service benefits.
- An employer may hold the life insurance policy as a sufficient inducement or encouragement for the employee to continue with him since the employer has to spend considerable amount of money and time to train a new employee and moreover upon exist of such an existing employee, the employer may lose some of his trade secretes.
- An employer may desire to give certain additional benefits to his select band of employees, as a reward of good services and who could not be otherwise compensated

ADVANTAGE S TO EMPLOYER →

- The employer can reward his chosen employees by way of taking policies under this scheme whereas other benefits like group insurance , medi-claim insurance, increase in wages have to be given to all employees due to various statutory reasons.
- The employer can retain his good and talented employees. The employees will remain longer with the employer because the benefits of employer-employee scheme may not be available with other employer.
- The insurance benefits will lead to increase in loyalty towards the employer which will boost their efficiency and productivity.
- The welfare nature of employer-employee insurance will enhance the image of employer in the minds of employees, clients and other shareholders.
- The premium paid by the employer shall be an expense for the employer and should be eligible for rebate under sec 37 of the Income tax act.

ADVANTAGES TO EMPLOYEES →

- The maturity benefit will be paid to employee because the policy shall be assigned in his favour.
- In case of unfortunate death of employee the death benefit will be given to employee's family.
- Since premiums will be paid by employer, there is no fear for lapsation of policy.
- The premiums will be eligible for rebate to the individual employee under sec 88 of Income tax act. The maturity and death benefit will be exempt from tax. However, premium shall form a perquisite in the hands of the employees under sec 17 of income tax act.
- The employee will have increased status and will feel honored.

PLANS ALLOWED UNDER EMPLOYER- EMPLOYEE INSURANCE →

All type of plans is allowed under employer - employee insurance scheme. This is explained as per actuarial dept's circular dt. 11/3/2006 ref: co/act/2062/4.

As per co/ U and R/ 2/2007 dt 24/10/2007, it is clarified that while allowing insurance under employer- employee scheme , it should be ensured that the employee should not have beneficial ownership in the employer company in excess of 5%. For ascertaining the limit of 5% shareholding or ownership held by concerned employee, his/her spouse, children, son-in-law, daughter- in -law, parents, brother or sisters should be aggregated together.

The clarification issued by IRDA and vide co/act/2062 of granting insurance under term assurance cover is applicable for insurance under key man and partnership only.

QUANTUM OF INSURANCE →

The minimum/ maximum sum assured shall be determined in terms of the rules relating to financial underwriting for individual assurance taking into account the existing life insurance on the life of the individual.

REQUIREMENTS UNDER EMPLOYER-EMPLOYEE INSURANCE PROPOSAL →

1. F. no 340 should be submitted when employer is the proposer, signed by the person authorized by the company as proposer and also by life assured. The authorized person may be preferably one of the directors of company.
2. If employer may like to advance loan towards payment of premium to the employee, proposal f. no. 300 may be used. However, in such cases, policy may be assigned to employer as a collateral security and reassigned to the policyholder on redemption of debt.
3. Moral hazard is critical area and needs through examination before proposals are finally accepted. MHR in prescribed form by respective authority may be called if necessary.
4. Authorized signatory of the company as per the board resolution must affix rubber stamp of his designation below his signature on the proposal form.
5. Since the proposal will be treated as individual proposals on the life of employees concerned, irrespective of whether the proposer is employee or not, requirements of medical examination have to be decided as per status of individual employee.
6. Special reports as per SUC of the employer.
7. If the employee is the proposer, the policy shall be assigned to the life assured soon after it is issued. Separate letter from the employer stating the object of insurance, the restrictions he desire to be considered in respect of surrender, loan etc. and that he would assign the policy to the life assured, should be obtained, stating clearly that the letter will form a part of the proposal.

SOME USEFUL INFORMATION ABOUT SERVICING OF KEY MAN INSURANCE POLICIES→

1. Accident benefit / disability benefit is allowed under the policy.
2. Nomination is not allowed till the policy is assigned by the employer.
3. If the employer is the proposer, the policy shall be assigned to the life assured soon after it is issued. For this purpose, a separate letter from the employer stating the object of insurance, the restrictions he desire to be considered in respect of surrender, loan etc and undertaking that he(employer) would assignee the policy to the life assured, should be obtained, stating clearly that the letter will form a part of the proposal.
4. For assigning the policy from employer to employee, form of absolute assignment may be used with modification that being assignment "under employer- employee scheme" instead of '... consideration amount received' as a absolute assignment.
5. As per co/crm/579 dt 26/4/2007, service charge of Rs. 250/- for registering the assignment will not be charged if the assignment under employer- employee scheme is done within 3 months from date of issue of policy. Any assignment after this period will be charged with service fee.
6. After registering the assignment in favour of life assured, further nomination can be done. but office have to confirm from the undertaking submitted by employer at the time of proposal that whether he has put any restriction on further assignment of policy to any other, taking loan or surrendering the policy without consent of employer.
7. If employer is financing the loan towards payment of premium to the employee, proposal f. no 300 may be used. In such cases, after issue of policy, it may be required to assign the policy to employer as a collateral security.
8. While issuing the policy document under key man insurance following amendments should be done in :-
 - The name of proposer and life assured should appear in the schedule.
 - The word 'Nominee under sec 39 of the insurance act' should be deleted.
 - The word 'EMPLOYER- EMPLOYEE INSURANCE' should be typed prominently on the face of the policy and copy policy.
9. policies which are issued under employer- employee scheme, loan under the policies can be granted where it is allowed by letter submitted by employer at the time of proposal.

TAXATION ASPECT OF KEY MAN INSURANCE POLICY →

1. The company- proposer/ employer under the policy can claim the premium paid under key man insurance as bona fide business expenses under sect 37(1) of the income tax act hence deductible from the profit before tax.
2. As per finance act 1996, the policy money received will become the income in the hands of the company and taxed as income from the other source if policy is not assigned in favour of life assured.
3. The premiums will be eligible for rebate to the individual employee under sec 88 of Income tax act. The maturity and death benefit will be exempt from tax. However, premium shall form a perquisite in the hands of the employees under sec 17 of income tax act.

SOME PROFORMA UNDER KEY MAN INSURANCE →

ANNEXURE - A

Draft of resolution to be passed by company board for key man insurance

Copy of the resolution passed in the meeting of the board of Directors ofLtd held on.....

Resolved that the company do take key man insurance cover in the year..... in respect of sri/smt/kum.....(Designation) of this company for Rs.....with all profits , bonus and other benefits on the said policy to accrue to the company . this policy shall be taken from Life insurance corporation of India for plan and term....., the premiums of which will be paid by the company to safeguard the company from probable losses in the event of his/her demise/exit from the company.

Further resolved that shr./smt/kum.....(designation) of the company be and is authorized to negotiate the terms and conditions with Life insurance corporation of India in this behalf and sign all the papers and documents, including proposal papers, required by LIC in this behalf.

Certified true copy

For M/s.....

Signature.....

Designationseal of company

ANNEXURE B

KEY MAN QUESTIONNAIRE TO BE COMPLETED BY AUTHORISED PERSON OF COMPANY

1. Name of the Employer company:-.....

2. Detailed nature of Business/ activities of the company.

3. Name of the Key man Date of Birth.....

4. Status/ occupation of keyman.....

Give full details of the key man's duties.

5. His academic and professional qualification.....

What special knowledge/ expertise does keyman posses or why the company is so dependent on him.....

6 . What basis had been used to arrive at the sum proposed?

7. State Employer's turnover and gross and net profit over the last 3 years.

Year	turnover	gross profit	net profit
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8 what are the realistic immediate and future prospects of the keyman?

9. Give details of the keyman's salary, bonus,earned by him during last 3 years.

Year	salary	profit sharing	value of perks
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10. If the key man or member of his family, is a shareholder , what is the holding in relation of the total issued capital ?

no of shares held % to the total shares

keyman
spouse
minor children

total

11. What are the details of the key man's service agreement? Attach copy of agreement.

12 Has the Board authorized the purchase of policy? If so, attach the original copy of board resolution.

13 what is the normal retirement date of keyman?

14 (a) Does the company already hold any keyman policies/ if yes, give details

Name of keyman policy no/s DOC sum assured status

b) Has the company simultaneously proposed KMI on the lives of any other key personnel? If so , give details

C) Does company intend to effect insurance policies on the lives of any other key personnel? If yes, give details.

15) Whether the above employee is also considered as keyman in any other company? Is so, give Details thereof

16) What permanent health or other sickness insurance arrangements have been / will be made for the keyman.....

17) if the company is an unquoted public limited company or a private limited company, then give the following information:-

- 1) total no of shareholders:-
- 2) Total no of employees:-

Place:-

signature of officials authorized in
board resolution and his seal

Date

ANNEXURE C :-

Form showing details of income and insurance by the key man to be signed by key man

To
Sr. Divisional Manager
LIC of India
.....Divisional Office

Re: proposal of shri/ smt.....under key man insurance

With reference to the above proposal submitted by me , I have to informe you as follows with regard to my income , insurance particulars etc..

- 1) My permanent account no for income tax is.....
- 2) My yearly income from all sources before tax is as below

Salary
Dividends
Director fees
Interest on loan
Share on retained profits
Net income from property
Agriculture income
Any other income

3) The total insurance on my life in force.....is to the extent of Rs.....

4) The total amount of insurance premium per year for the above insurance is Rs.....

5) I give below information about the income, total insurance in force, total premium amount for my family

Yours faithfully,

(signature of life assured)

ANNEXURE - D

SPECIAL ENDORSEMENT TO BE PLACED ON THE POLICY DOCUMENT UNDER KEY MAN INSURANCE

“ it is hereby agreed and decided that in the event of the employee of assured leaving the employment of the employer, the within mentioned policy shall be :

1. Either surrendered to corporation for its cash value or
- 2 Assigned absolutely in favour of the employee life assured.

it is further agreed and decided that the within mentioned policy shall not be allowed to be assigned to anyone except the life assured himself absolutely.

SR/ BRANCH MANAGER

We hereby agree for the above condition

Signature of company