

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.

As per circular Ref: U&R / 120 / 2015 dt. 5/3/2015 in respect of granting Employer Employee cover under LIC's Jeevan Arogya (modified) Plan No. 904) / Health Insurance Plans , It has been decided to allow Employer Employee cover under LIC's Jeevan Arogya (modified), Plan No.904 / Health Insurance Plans subject to the following conditions : -

- 1) The proposer and the principal insured will be the employee.
- 2) Further if the employer is agreeable, he may extend the benefit to other members of the family i.e. spouse, minor children, parents, parents-in law.
- 3) The employer will pay premiums on behalf of the employee and his family members who are covered under the scheme.
- 4) The Employer should clearly state his objective of taking LIC's Jeevan Arogya Plan (modified)/ Health Insurance Plans under the Employer Employee scheme. Extract of Board Resolution duly signed by the authorized signatory of the company, whereby the decision to take health insurance on the lives of employee and his family members may be called for.
- 5) Assignment is not allowed under Health Insurance plans. As such the employees will propose on their own lives and the proposals will be treated as individual proposals obviating the need for assignment and the premium as usual will be paid by the employer.
- 6) Rubber stamp may be affixed on the Health Insurance policy indicating that the policy is issued under "Employer Employee scheme".
- 7) The parties to the contract may consult their own legal experts/Chartered Accountants regarding the tax implications of health insurance under the Employer Employee scheme.
- 8) The Employer Employee Questionnaire for proposals under LIC's Jeevan Arogya (modified) (Plan No.904) / Health Insurance Plans is enclosed herewith.

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.

As per co/U and R/ 20/2007 dt 24/10/2007, insurance under employer - employee scheme is allowed if the beneficial ownership of the employee in the employer company do not exceed 5% of total capital. For ascertaining the limit of 5% shareholding or ownership held by the concerned employee, his/her spouse, children, son-in-law, daughters-in-law, parents, brothers or sisters was being aggregated together.

However, this practice was reviewed on 6/8/2011 and it has been decided that insurance under the employer employee scheme can be granted sub to fulfillment of the following conditions:-

Employee's shareholding in the employer company is less than 51%

Employee's family shareholding in the employer company is less than 71%

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 EMPLOYER- EMPLOYEE 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 EMPLOYER- EMPLOYEE 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.

Conditional Assignment under Employer- Employee scheme co/crm/852/23 dt 17/2/2012

When an employer 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. As per condition of scheme, if the employer is the proposer, the policy shall be assigned to the life assured soon after it is issued. At the proposal stage, separate letter from the employer stating 1) the object of insurance, 2) that the employer will assign the policy in favour of the Life Assured 3) the restrictions he desires to be considered in respect of surrender, loan etc, and state clearly that the letter will form part of the proposal papers. Generally, the assignment which will be executed by employer after issue of policy will be of absolute nature transferring all the right, title and ownership under the policy in favour of employee/ life assured.

We have received some references enquiring whether conditional assignment is allowed under employer-employee scheme. We have referred the matter to Legal Dept, Central office and the matter has been clarified as under.

- As per sub-section (7) of section 38 of the Insurance Act, 1938 which deals with conditional assignment, notwithstanding any law or custom having the force of law to the contrary, an assignment in favour of a person made with the condition that it shall be inoperative or that the interest shall pass to some other person on the happening of a specified event during the life time of the person whose life is insured and an assignment in favour of the survivor or survivors of a number of persons shall be valid.
- The condition which will be part of conditional assignment should happen not only during the lifetime of the person whose life is insured, but also during the currency/ term of the policy and not after the term of the policy.
- Some of the conditions that can be put in such conditional assignment will be :-
 1. Employer may assign the policy with a condition that in the event of life assured leaving/ resigning his employment for any reason except death before the normal retirement age, the policy shall revert to employer with effect from date of termination of his/her service.
 2. The above condition may be like in the event of life assured leaving/resigning from the company says within 5 or 10 years from date of issue of the policy or before a date specified by the employer, the policy shall revert to employer. After completion of said period, policy will be treated as assigned in favour of life assured.
 3. Policy can be assigned with a condition that loan, surrender or further assignment under the policy can not be availed without consent of employer.

However, the employer can not put the condition in the assignment that when the maturity claim or survival benefit claim fall due or when the Life Assured dies, the title under the policy will revert to employer.

In case, policy is absolutely assigned in favour of life assured or after expiry of the period of condition stated in conditional assignment; the right, title and ownership under the policy will be transferred to life assured. Further, life assured can then deal with the policy like nomination or raising the loan under the policy. All other rules for registering the assignments issued from time to time will be applicable.

We are enclosing the specimen copy of conditional assignment form. This form may be used with proper modification, if required.

LIFE INSURANCE CORPORATION OF INDIA

.....Divisional Office.....branch name and code no-----

FORM OF CONDITIONAL ASSIGNMENT OF POLICY FROM EMPLOYER/ PROPOSER IN FAVOUR OF LIFE ASSURED /EMPLOYEE UNDER EMPLOYEE -EMPLOYEE SCHEME

I(Name of employer) in consideration of policy issued under employee-employee scheme do hereby assign the benefit of all moneys payable under the policy including survival benefit/ maturity benefit to become payable under the within policy of assurance no..... of the Life Insurance Corporation Of India, on the life oftaken under employer-employee scheme, sum assured of Rupees.....to Shri/ Smt..... and declare that his/ her receipt shall be a sufficient discharge to the Corporation for the same, provided however that in the event of

.....(mention any one condition as stated below), the benefit of the policy and the right to receive the money there under shall revert to us as if this assignment had not been made. In such event, the policy will be compulsorily surrendered to the Corporation for cash value on that day and policy contract will come to end.

- In the event of life assured leaving/ resigning his employment for any reason (except death) before the normal retirement age, the policy shall revert to employer with effect from date of termination of his/her service.
- In the event of life assured leaving/resigning from the company within 5 or 10 years from date of issue of the policy or before a date (Date to be specified by the employer), the policy shall revert to employer.
- loan, surrender or further assignment under the policy can not be done without consent of employer.

Dated atthisday of20....

Witness:-

Signature of witness:
Full name of witness

.....
(Signature of authorized person on behalf of employer/

designation proposer With proper seal of the employer)

Address

(the wording of this form, if found suitable, should be copied out either on the back of the policy itself, or in the alternative, on a proper stamp paper of the requisite value)

NOTICE OF CONDITIONAL ASSIGNMENT UNDER EMPLOYER-EMPLOYEE SCHEME

The Chief/ Sr./Branch Manager
Life Insurance Corporation Of India
.....branch

place:-
Date:-

Dear sir,

Policy no :-

I hereby give you notice that we have assigned the above policy to Sri/ Smt..... whose address is as

.....on..... please acknowledge receipt of this notice and forward the enclosed policy/ Deed of Assignment to Sri/ Smt.....after registering the assignment thereon in your books.

Yours faithfully,

Signature of witness
Name and address

(Signature of authorized person on behalf of Employer/ proposer with proper seal)

SOME PROFORMA UNDER EMPLOYER EMPLOYEE INSURANCE ->

ANNEXURE - A

EMPLOYER- EMPLOYEE QUESTIONNAIRE

1. Name of employer.....

2. What is the object of insurance contract?

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3. How many employees are working in unit.....

- 4. a) Name of the employee being insured.....
b) His Designation / Occupation
c) Nature of duties assigned.....
d) His annual income.....

5. Who will be the person authorized by the employer to sign the proposal on behalf of the employer ?

6. Do you wish to impose any restriction/ condition in respect of surrender; loans etc by the employee after you assign the policy in favour of the employee? If yes state the condition.....

7. Are you agreeable to abide by the conditions of acceptance, which shall rest solely with the LIC OF INDIA?.....

I agree that we will assign the policy in favour of the above employee and the declaration made by me will form a part of insurance contract being entered into in respect of mine.

Signature and seal of the employer
Authorized person of the employer