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Class: FY BSc

Subject : Life Insurance – Principles, Products and Practices

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Chapter: Introduction to Insurance



LIFE INSURANCE - PPP

Introduction to Insurance & Life
Insurance Products



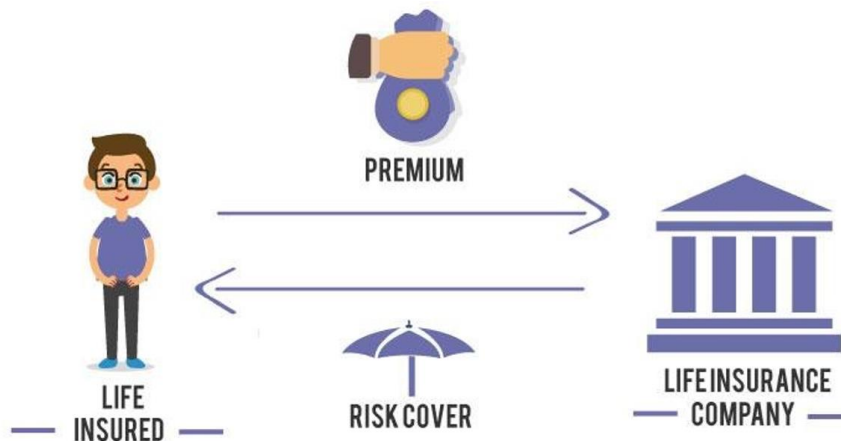
1.1 What is Insurance?



Insurance – The word originally meant an “engagement to marry”.

The word insurance is derived from the French word ‘ensurer’ and originally meant an ‘engagement to marry’.

Over time the word evolved to become ‘assurance’ and later ‘insurance’ with this modern meaning.





JEFF BEZOS

World's Richest Man

Bezos, a lifelong space enthusiast, wants to travel to space. But, nobody is willing to insure him.

"Space tourism involves significant risk, but is not an issue life insurers specifically ask about as yet because it is so rare for anyone to travel into space," Insurance Information Institute (III) spokesperson Michael Barry said.

There are yet no regulations that state operators such as Blue Origin, must insure passengers against the possibility of injury or death during a space flight.



AMERICA FERRERA

American Actress

Actress America Ferrera had her smile, including her teeth and gums, insured by her sponsor, Aquafresh, for \$10,000,000.

The policy covers "any reasonable and necessary dental treatment costs or expenses that result from accidental injury" during the term of her policy.

1 Insurance



Life insurance offers a man the only way where he can make his will before he makes money.

Buying a life insurance is liking fixing a roof..
The longer you wait the more expensive it gets.

1.2 Key parties to Life Insurance contract

- Insured
- Insurer
- Beneficiary
- Channel (agent, bank, etc.)
- Underwriter
- Medical examiner
- Regulator (IRDAI)
- Reinsurer





Case Study

Daniel plans to take a life insurance policy for himself. Therefore, he approached Jack who advises people on the various products and is the advocates of the consumer. Jack suggests him to take term life insurance from LIC. After agreeing to Jack, Daniel went to Zoya who is accountable for both the decision to offer insurance and for setting the premium. He carries all the underwriting process. He titles that if he dies then the life insurance proceeds will be received by his daughter, Rabea. To receive the best pricing for his policy, he performs an examination that lasts for about 30 mins through his family doctor named Jullie.

Identify the key parties involved.



Answers

Parties Involved		Name
The Insured		Jack
Channel of distribution		LIC
Insurance Company		Jullie
The Underwriter		Daniel
The Beneficiary		Zoya
The Medical Examiner		Rabea



Answers

Parties Involved	Name	Key words
The Insured	Daniel	“Daniel plans to take a life insurance policy <u>for himself</u> ”
Channel of distribution	Jack (Agent)	“Jack who <u>advices people on the various products and is the advocates of the consumer</u> ”
Insurance Company	LIC	“Jack suggests him to take term life insurance from <u>LIC</u> .”
The Underwriter	Zoya	“Zoya who is <u>accountable for both the decision to offer insurance and for setting the premium</u> .”
The Beneficiary	Rabea	“He titles that if he dies then <u>the life insurance proceeds will be received by his daughter, Rabea</u> .”
The Medical Examiner	Jullie	“He <u>performs an examination that lasts for about 30 mins through his family doctor named Jullie</u> .”

1.3.1 Primary Functions of Insurance

- Providing Certainty
- Providing Protection
- Risk Sharing
- Risk Assessment



1.3.2 Secondary Functions of Insurance

- Prevention of losses
- Provides Capital and Help in Economic Progress
- Saving and Investment



1.4 Insurance and Gambling

Basis	Insurance	Gambling (betting on chance)
Enforceable	A contract of insurance is legal and enforceable at law	A gamble contract has no enforceability.
Aim	The aim of taking insurance is not to gain profit but to secure protection against the risk in future	The aim is to gain profit from the uncertainty lying in the event
Happening of event	An insured event may or may not happen at all except in whole life insurance .	The event is bound to happen
Nature	Based on Mathematical predictions	Highly speculative and intuitive. (new risk creation)
Immunity	The insured is immune from loss, provided it is adequate.	Either party may win or lose. (zero sum game)

Example:



1.5 Insurance and Hedging

Basis	Insurance	Hedging
Meaning	Insurance is a contract, in which an individual receives financial protection or reimbursement against losses from an insurance company. The company <u>pools clients' risks</u> to make payments more affordable for the insured.	Is an act of preventing an investment against unforeseen price changes
Risk reduction	Insurance can reduce the objective risk of an insurer (through the Law of Large Numbers.	Hedging doesn't result in reduced risk.
Involves	Shifts risk	Offset risk
Type of risk	Insurable	Uninsurable

1.7 Benefits derived by society from Insurance

- Reduces worry and fear
- Makes available large funds for investment at low cost
- Provides employment to a large number of people
- Insurance enhances credit worthiness and reduces credit risk
- Social benefits

1.8 Costs to Society

- Increased running cost of insurance companies
- Fraudulent claims
- Inflated claims (to cover deductibles)
- Moral Hazard (link with principle of mitigation)
- Adverse Selection

1.8 Determining the amount of insurance

- Funds to cover immediate expenses after death.
- Funds for meeting expenses for education and marriage of dependent children.
- Regular income fund for meeting the day-to-day expenses of dependant spouse and children. [L]
[SEP]
- Fund for paying off debts.