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LIFE INSURANCE ASSIGNMENT
CH- 1,2,3,4,5,6

Q.1. Do you agree with the view that a bachelor without dependents needs no insurance? If you feel that he needs insurance, state the reasons in support of your view.

→ A bachelor with no dependents should buy a insurance policy for the following reasons:

a) Uncertainty of Future:- The bachelor may have dependents in the future due to the uncertainty of life. He may have family in future and his parents will also retire after a certain age. That's why he can have many upcoming dependants even though he does not have it now. To provide financial protection to his family he should by a life insurance.

b) Tax Savings: Life insurance policies also act as an effective tax saving tool. The premium paid for life insurance policies are exempted under section 80(C) and 10(10D) of the income tax act of 1961. This allows the bachelor to save money on taxes.

Q.2. Life insurance in short is concerned with two hazards that stand across the life path of every person 'that of dying prematurely leaving the dependent family to fend for itself' and 'that of living too long without visible means of support'. Of the two hazards which is more serious and difficult to manage? Give your views with reasons.

→ According to me, the risk of dying too young and living too long are almost equivalent risks.

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- But, the risk of dying prematurely and leaving the dependant family to fend for itself is more serious and difficult to manage for the whole family because the sole earner of the family dies, they face both emotional and financial loss. It becomes very difficult for the family members to do proper financial planning and management. They have to repay all the debts and dues of the dead person as well. They have to see to it that they use their resources properly and make them last longer.
- In the case of living too long, the person can atleast plan his next moves and can make certain arrangements like joining to old age homes, retirement homes, etc. Thus the risk of living too long is not as sudden and surprising as dying young but the adversities faced by the family of a person who dies prematurely are very severe and serious.

Q.6. What is adverse selection & moral hazard with respect to life insurance.

→ • Adverse Selection : In an insurance company, company provides group insurance and adverse selection occurs when one party in a transaction possesses more accuratio information compared to the other party. The other party, with less accurate information, is usually at a disadvantage since the party with more information stands to gain more from the transaction. For example, a smoker wants

wants to buy a life insurance policy for himself. Since the smoker is aware that disclosing the fact will attract high premiums, he may hide the information in order to get similar treatment as the other client with no health condition. Hiding such important information leads to adverse selection.

- Moral Hazard:

It is an idea that a party protected from risk in some way will act differently than if they didn't have the protection. In the insurace company/industry, moral hazard ~~looks~~ occurs when insured parties take more risks knowing their insurers will protect them against losses.

- In both moral hazard and adverse selection, there is information asymmetry between two parties. The main difference is when it occurs. In a moral hazard situation, the change in the behavior of one party occurs after the agreement has been made. However, in adverse selection, there is a lack of symmetric information prior to when the contract or deal is agreed upon.

Q.12. Bob is a 25-year old carpenter who is a subcontractor to various builders. He is married and has one 3-year old daughter. He earns Rs. 7,09000/- gross but pays Rs 2,00,000/- in expenses, most which are fixed expenses ie at leased car and leased equipment. Bob rents an apparentment and spends his earnings of Rs 3,00,000/- on living and entertaiment expenses. Bob saves and invests all the other money.

A. Describe briefly the features of insurances Bob

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have taken out. These insurance cover may not necessarily exist in India.

B. Why would anyone buy insurance policy?

A) 1. Life Insurance - Bob can buy a life insurance policy making his wife the beneficiary. He should choose a suitable amount which is able to meet different expenses like fund for meeting expenses for education and marriage of dependent children, fund for paying off debts - this includes outstanding house mortgage loans dues, car loans and credit dues and other miscellaneous dues.

2. Business expenses cover - As his income protection will not cover his Rs 2,00,000 of fixed expenses Bob could have taken out 12 months cover for this so that he didnot have to meet these expenses out of the Rs. 18,750 he ~~expen~~ received from his income protection.

~~B)~~ He can have many more features of ~~life~~ insurance.

B) One should buy the Insurance policy for the insurance following reasons:

1. Financial Security: No matter how much you are earning or how much you have saved; your financial position can be dented by an unexpected event in a moment. So, the best way to become financially secure is to cover yourself, your family and your assets with insurance.

2. Transfer of Risk: The contract of insurance covers on the 'principle of transfer of financial risk for the insured to the insurer'. As an insured,

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you may pay premiums to receive compensation from the insurer, in case of occurrence of an unforeseen event. So, having insurance reduces the financial burden on your shoulders.

Q.15. What undesireable consequences might follow if underwriting were not permitted in the private, voluntary markets for life and health insurance?

→ If underwriting were not permitted in private, voluntary markets for life and health insurance ~~about~~ then anything insurer and company would not have any medical detail or information about anything in specific which would lead to adverse selection, moral hazard, morale hazard cases, unfair pricing of premiums eventually company could suffer from having more bad risks and face huge losses because of unexpected higher claims. Whole life and health insurance market would get disrupted. Companies would go bankrupt disrupting whole economy significantly.

Q.18. Describe various type of life insurance a person can buy. State which reason on level of premiums (highest to lowest) charged in each case.

→ There are various types of life insurance policies depending of the criteria for receiving the sum assured.

1. Whole life Insurance :
It is a type of life insurance that provides you coverage throughout your lifetime provided the policy

is in force. You receive the death benefit whenever you die (up to 100 years). You receive tax benefits for whole life.

2. ~~Whole~~ Term life Insurance:

Term life insurance is a type of life insurance that provides a death benefit to the beneficiary only if the insured dies during a speciefied period. If the insured survives until the end of the period, the coverage ceases without value and death claim cannot be made. The premiums paid towards the term insurance plans ~~to~~are eligible for tax exemption under section 80C of Income Tax Act 1961.

3. Endowment Policy: An endowment policy is defined as a type of life insurance that is payable to the insured if he/she is still living on the policy's maturing date, or to a beneficiary if the policyholders dies. An endowment policy provides you with a dual cambination of protection and savings. Tax benefit can be availed under section 80C and 10(10D) of Income Tax Act 1961.

4. Annuity:

An annuity is a financial product that pays out a fixed stream of payments to an individual who has paid a huge lumpsum at the outset. These financial products are primarily used as an income stream for retires. Upon annuitization, the holding institution will issue a stream of payments at a later point in time.

5. Joint Life Policy:

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A Joint life policy is the insurance cover that you get on a first-death basis. It is a pay out which an insurer receives in case of death of his other insured partner during the period. Usually, when you apply for a life insurance policy, you mention a nominee or beneficiary. In Joint Life Insurance, both you and your partner will be the owner as well as the beneficiary.

6. Unit linked Contract:

In these policies the sum assured is dependant on an index like Nifty, Sensex, etc. Each policyholder receives the value of the units allocated to the policy. As each premium is paid, a specified proportion (the "allocation %" is invested in an investment fund chosen by the policyholder. When each investment allocation is made, the number of units purchased by the policyholder is recorded. The value at the date of death or survival (i.e. at the time of claim) of the cumulative no. of units purchased is the sum of under the policy.

* Premiums Charged for the same sum assured:

- Unit linked endowment product will have the highest premium because the sum assured you receive is dependend on an index fund which provides you higher returns on investment.
- Next will be unit linked whole life product as in this you receive the coverage for your entire life. It's also a participating policy and the sum assured is dependent on an investment fund.
- Next is an endowment plan. In an endowment plan you receive the death as well as maturity

benefit which increases the guarantee of the payment of the sum assured.

- Next will be the Whole life plan. In the whole life plan you receive the death benefit ~~be~~ for your entire life (up to 100 years). There is no maturity benefit. The claim may also be denied if you die after the age of 100 yrs. Thus the guirantee of the payment of the sum assured is a bit less than that of endowment plan.
- Joint life will be next in line as the partner receives the sum assured whenever the other partner dies.
- Next is ~~maturity~~ annuity which provides a regular stream of payments of the sum assured to the individual. However, if the individual dies then the annuity payments are discontinued.