LIFE INSURANCE ASSIGMENT HW. (ROSHAN MEHTA DIV-A)

ANS- 1)A bachelor with no dependants should buy a life insurance policy for the following reasons:

Uncertainty of the Future: The bachelor may have dependants in the future due to the uncertainty of life. He may decide to get married and have kids. His parents will also retire after a certain age. Thus he can have many upcoming dependants even though he has none right now. To provide financial protection to the family he should buy a life insurance policy.

- **Tax Savings:** Life insurance policies also act as an effective tax saving tool. The premiums 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 some money on taxes.
- **Cheaper premiums:** The bachelor enjoys the benefit of cheaper premiums as he has no dependants right now. Since he starts paying premiums at a young age he would be paying less than what he would have had to pay if he started at a later time. Also paying premiums would be easy for him right now as no one is financially dependant on him right now. Since he has all the income to himself he can easily manage his money to pay premiums.

ANS-3) PROFITIBALITY, MARKETABILITY, COMPETETIVENESS, FINANCIAL REQUIREMENT, RISK, ADMINISTRATION.

ANS- 4) In my opinion the risk of dying too young and living too long are almost equivalent risks. However, the risk of dying prematurely leaving the dependent family to fend for itself is more serious and difficult to manage. When the sole earner of the family dies suddenly then the family faces both emotional as well as financial loss. In the phase of mourning the family has to make a number of difficult decisions regarding their lives which include the financial decisions as well. 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 make sure to use their resources wisely and make them last longer.

However in the case of living too long, the person can at least plan his next moves and can make certain arrangements like joining old age homes, retirement homes etc. He may also become dependant on his children for financial support. Thus the risk of living too long is not as sudden and surprising as dying young. The person can plan his future suitably and make arrangements so that he can face this adversity of life.

Thus even though the risk of living too long is very important and concerning it is not as serious as dying too young as with proper planning the person may be able to face this contingency of life. The adversities faced by the family of a person who dies prematurely are very severe and serious.

ANS-6) Adverse selection occurs **when there's a lack of symmetric information prior to a deal between a buyer and a seller**. Moral hazard is the risk that one party has not entered into the contract in good faith or has provided false details about its assets, liabilities, or credit capacity.

ANS-7)ADVANTAGES OF GROUP INSURANCE:
Covers employees who otherwise would not be able to afford individual life insurance policies.
Allows higher risk individuals to be given life insurance coverage.
DISADVANTAGES/LIMITATIONS:
The employee has little to no control over their individual coverage.Coverage does not continue or follow the employee if you leave your job.
Healthier individuals pay the same premiums as those who are considered to be a higher risk within the group policy.
Most people need additional coverage to compensate for coverage not included in their company's group life insurance

ANS-8) Life insurance does not relate to a contract of indemnity **because the insurer does not promise to indemnify the insured for any loss on maturity or death of the insured but agrees to pay a sum assured in that case**.

ANS-9) Insurance companies collect premiums up front, invest those premiums in a variety of investment vehicles, and pay claims if they occur. The last benefit of insurance is **reducing social burden**.
Insurance helps reduce the burden of uncompensated accident victims and the uncertainty of society.
Insurance plays a crucial role in **alleviating people's fear of sudden misfortune by mitigating loss through services and /or financial compensation**. By extension, it contributes to the social protection of citizens by enhancing their financial security and peace of mind.

ANS-10) Based on this principle, the insured has the right to insure an insured object due to the relationship of financial interest that is legal by law between the insured and the insured object. The financial interest upon that insured object will then become the basis of the insurance contract.

ANS-11) = Whole life insurance is a permanent* cash value policy that provides coverage for your whole life, rather than for a specified term. A whole life policy can never be cancelled as long as required premiums are paid. It provides protection that can last your entire lifetime and your beneficiaries typically receive death benefit proceeds tax-free.

= Each time you pay your premium, a portion is used to provide you with life insurance coverage. The remainder, however, is set aside and allowed to accumulate. This component, called cash value or loan value, builds over time and can be taken out as a loan against the policy. Keep in mind that loans against the policy will accrue interest and decrease both death benefits and cash value by the amount of the outstanding loan and interest.

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The premiums you pay remain the same for the life of your policy, regardless of your age or health.

Death benefits

Your beneficiaries receive the face amount of the policy upon your death. However, the death benefit will be reduced by any outstanding cash value loans and interest
Cash value

Your cash value will grow each year, tax-deferred. You also have the option of borrowing against your policy's cash value.

ANS-12) A) A. The features of insurance bob could have taken out are:
1. Income Protection: Bob could have taken out income protection for 75% of his net income of Rs. 300,000 which would provide him with a monthly benefit of Rs. 18750. As he had no sick leave or savings to fall back on ideally Bob should take out the shortest waiting period of 14 days but this is also the most expensive. Other alternatives would be to take out a longer 30 day waiting period but include an accident option which would begin payments from day one if he suffered an accident. Due to his youth Bob should ideally take out an age 65 benefit period as if his injury proved to be permanent and he could not work again in his own occupation he would be paid a benefit for the remaining 40 years of his income earning capacity.
2. Business Expenses cover: As his income protection will not cover his Rs. 200,000 of fixed expenses Bob could have taken out 12 months cover for this so that he did not have to meet these expenses out of the Rs. 18750 he received from his income protection.
B. One should buy an insurance policy for the following reasons:

- **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.

- **No More Stress or Tension During Difficult Times:** Any unforeseen tragedy can leave you physically, mentally, and financially strained. So, if you have insurance to take care of the outcomes of such tragedies such as illness, injury or permanent disability, even death- you save yourself and your family from tension and stress. With insurance in place, any financial stress will be taken care of, and you can focus on your recovery.
- **Peace of Mind:** Having insurance offers you financial security and also peace of mind. No amount of money can replace your peace of mind.

ANS-13) **Claims Processing Using Machine Learning**
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ANS-14) In the case of with-profit policy, the assured gets not only the sum assured but also a share in the profits that are declared by the insurer. These profits are declared at intervals and credited to the policy holder as bonus. On the other hand, in without-profit policy, the policy holder does not get any right to share in the profit of the insurer. The rate of premium for without-profit policy is lower than the with-profit policy.

ANS-15) If underwriting were not permitted in private , voluntary markets for life and health insurance then 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 disturbed. Companies would go bankrupt disrupting whole economy significantly .

ANS-18) **A)** There are various types of life insurance policies depending of the criteria for receiving the sum assured:

1. Whole life insurance - Whole life insurance 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. 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 specified 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 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 maturity date, or to a beneficiary if the policyholder dies. An endowment policy provides you with a dual combination of protection and savings. Tax benefit can be availed under section 80C and 10(10D) of Income Tax Act 1961.

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5. Joint life policy - 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. So, in case something happens to one of you, the other will receive the benefit of the life cover.

6. Unit Linked Contracts: 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 percentage”) 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 the claim) of the cumulative number of units purchased is the sum assured under the policy.

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