LI - Assignment - I

1.

→ i) A bachelor without dependents also requires insurance because:

① Insurance can act as a source of money or a deposit in case the person is incapable of earning money.

② He may take pure endowment insurance, It can benefit him if he survives till the end of the period, then it can act as a money deposit for him at that age.

③ He may attach accelerated death benefit rider along with insurance policy so that if he falls ill then he can get some of that amount for his treatments.

4.

→ In the first case where the person dies early leaving his family to fend for itself, it would be more difficult to manage because,

① The person who earned money, the main financial pillar of the family has died. so after that family would have no support.

② If the person survives longer than the policy term then he would be there to support his family in any way.

6.

→ In insurance, adverse selection is the case that the risk on the person insured is more than that known by the company i.e. the person hasn't given the complete information to the company. On moral hazard, the person becomes reckless. After insuring his property, he became quite careless about his property. So here there is a moral hazard of the property to be damaged

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→ Types of insurance are :-

1. Term insurance
2. Whole life
3. Endowment
4. ULIP
5. Annuity

1. Term insurance :

It is for fixed term, benefit is paid to insured only if the person dies in the given policy term

2. Whole life :

- it is for whole life, guaranteed benefit. It doesn't matter whenever a person dies, he will get the benefit
- Premium is higher than term insurance

3. Endowment :

- In pure endowment, person gets the insured benefits only if he survives till the end of the period, if he dies he loses the benefit.
- In endowment insurance, the benefit is paid if the person dies or he survives till the end of the

policy term. Thus there is guaranteed benefit but the premium charged is quite higher, higher than whole life insurance because it refers both maturity & death benefit.

4) ULIP:

In ULIP, we get insurance coverage, along with profits from investment in the equities and bonds. Some part of the premium paid goes into equities so that the insured gets a profit along with sum assured.

5) Annuities:

- Annuities start with a lump sum and are in form of series of payments. It may be fixed or variable.
- Since annuities provide series of payments, this is a consistent income stream they can rely on throughout life.

Premium :-

Term Ins < ULIP < Annuity < Whole life < Endowment.

15.

→ Underwritting is the process of consideration of an insurance risk. It is assumption of liability to manage risk. it determines and quantifies the financial risk of an individual or institution. The undesirable consequences might follow if underwritting were not permitted.

- the differentiation between good risk & bad risk would be difficult. As there would be no underwritting the insurance company could sell many insurance policies to bad risk & suffer a loss.

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- Calculating the amount level of premium & charging them according to the level of risk would not be possible.

- Govt insurance companies would be at high advantage & private ones if were not allowed to underwrite. Thus there would become the undesirable consequences that might follow if underwriting were not permitted.

12.

→ A.

Whole life policy:

it provides death benefit to the insurer. Bob can be provided with this benefit. in case of untimely death, his wife and daughter would not have to face financial crisis. His daughter's education could be secured if he does so. Bob can take a loan anytime in future with life insurance policy as a lateral security. Tax benefit is also there.

Endowment policy:

it provides both death & maturity benefit. It acts as a saving policy. he can take an endowment policy as it will help him in future with his daughter's education. Since bob is a carpenter, there can any disability and maybe he would not work in future. it would help him that time by providing sum of money. Tax benefit is also provided.

B.

- Financial security : Insurance provides financial security to the policy holder in case of any loss by paying a sum of money.

- Tax benefit : all life insurance policies provide tax benefit to the insured.

- Long term goals : some policies like endowment or pure endowment provide finance for long term future plan.

- Protection : the most important & basic feature of LI policy is protection from a loss.

- Paying debts : It helps to pay house loan, car loans, mortgage.

- Medical benefit : some policies provide benefits in cases such as disability or deadly disease.