23/11/21

Life Insurance Assignment 1

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

Soln: According to me, the bachelor should have a life insurance. The reasons are:

i) For future needs, take advantage of cheaper premiums now: Although, he does not have any dependents right now, he should take into account a time in the future when there is a possibility of him to get married. With a family, in order to financially safeguard them incase he is the the only breadwinner of the family is import-ant too. But, if he decides to buy a life insurance later, at that age he will have to pay a higher premium since it increas-es with age. Whereas right now, he can get it at a much lower premium which is beneficial.

ii) Acts as a collateral for loans:
In case he needs a home loan or any other long term loan, & the his salary

→ It increases his credit worthiness.
is not that much as to support his loan amount, his life insurance amount can act as a collateral and he can get his loan and this helps him to achieve smaller goals and at a young age. In case of death, no one has to pick pieces for him incase of any debts.

iii) Additional benefits: Other than offering a life cover, insurance policies come with the additional benefits such as pension scheme, critical illness and accident rider. It can also provide him a lump sum amount along with annuity benefit.

iv) After death benefits: In case, he remains a bachelor and has no one for the after death customs to support him financially, the insuran company has funds to cover immidiete expenses after death, expenses for performances of last rites and relegious ceremonies.

Q4. According to me, both hazards seem serious and difficult to manage. But the hazard of 'living too long without visible means of support' which comes along with 'no support for dependent family' even if the person is not dead. Life insurance is a contract that pledge payment of an amount to the person assured (or his nominee) on the happening of the event insured against. The contract is valid for payment of insured. It is universall aknowledged to be an institution, which eliminates 'risk' substituting certainity to uncertainity and comes to the timely aid of the family in unfortunate event of death of the breadwinner. It's partial solut-on to the problems caused by death. Life insurance, in short, is concerned with two hazards that stand across the life-path of every person, that of dying prematurely leaving a dependent family to fend for itself and that of living till old age with-out visible means of support. It also depends on the large number of persons. This will enable the insurer to spread the losses of risk among large number of persons, thus keeping the premium rate at the minimum. Insurance is a co-operative form of distributing a certain risk over a group of person who are in it. A large number of people share the losses arising from a particular risk.

Q5. The money that Jack has won through a wager in the casino is gambling on which 30% tax is levied. The similarity between insurance and gambling is :
- promise of payment on the happening of a certain event.
- Amount receivable not commensurate or proportional to the amount paid.

in gambling none of the parties has any legal remedy.

Q6. What is adverse selection and moral hazard wrt life insurance?

Soln. Two concepts that are important in insurance are adverse selection and moral hazards. That people respond to incentives is the source of each problem. Adverse selection is the phenomenon that bad risks are more likely than good risks to buy insurance. It is seen as very important for life insurance and health insurance. It occurs before the insurance is purchased whereas moral hazards occurs afterwards. Moral hazard is the phenomenon that having insurance may change one's behaviour. If one is insured, then one might become reckless. Moral hazard is seen as somewhat important for property insurance.

depending on legistlation.

Q12. A. The risks that Bob can't take out by not buying insurance are / Features of Insurance:

i) __Providing certainity__ - Insurance provides certainity of payment for the risk of loss. There are uncertainities of happenings of time and amount of loss. Insurance removes these uncertainities and the assured receives payment of loss. The insurer charges premium for providing this certainity.

ii) Protection: The second main feature of insurance is to provide protection from probable chances of loss. It cannot stop the happening of a risk or event but can compensate for losses arising out of it.

iii) Risk sharing: On the happening of a risk event, the loss is shared by all the persons exposed to it. The share is obtained from every insured member by the way of premiums.

iv) Assist in Capital formation: The accumulated funds of the insurer received by the way of premium payments made by the insured are invested in various income generatings schemes.

B. Bob would buy insurance policy to have a peace of mind because it gives him certainity protection from future probable losses by sharing risk as a member of the insurance company. It would also help in capital formation as the premiums paid are invested in various income generating schemes like mutual funds.

15. What undesirable consequences might follow if underwriting were not permitted in the private, voluntary markets of life and health insurance.

Soln. Underwriting can be termed as 'assumption of liability' which means signing an insurance policy and thereby becoming liable in the face of a specified loss.

It will help ensure that the actual mortality experience does not depart too far from that assumed in the pricing of the contracts being sold. It aligns the risks written by the company with pricing performed by an actuary.

Hence, the person can hide his chronic illness without any health-checkups, making a huge loss since the premium is also less.

Q28 Types of Insurance and it's sub-types:

Soln. People have different requirements therefore different types of insurance policies are designed accordingly. The sub types are:

i) **Whole life insurance** - It is a type of insurance that provides you coverage throughout your lifetime provided the policy is in force. It contains a cash value component that increases over time. The cash value can be withdrawn or a loan can be taken out against it as per our convenience.

ii) **Term life Insurance** - Term insurance is a type of 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, or term, the coverage ceases without value and a payout or death claim cannot be made. Term life insurance is income replacement that remains active for specified number of years.

iii) **Endowment Policy** - It is defined as a type of life insurance that is payable to the insured if he/she is still living on the person's maturity date, or to a beneficiary otherwise. An endowment policy provides us with a mutual date, or to a beneficiary otherwise of a dual combination of protection and savings. In an endowment policy, if the insured dies during the term of the policy, the nominee receives the sum assured plus the bonus or participating profit or gaurenteed additions, if any. The bonus or profit is paid for the number of years that the insured survives in the policy term.

iv) Pure endowment Policy - An insurance contract promises to pay the insured a stated sum if he survives a specified period with nothing payable in case of prior death. It is frequently ~~s~~ used when a policyholder intends to save up money towards some specific financial goals.

v) Annuity - An annuity is a financial product that pays out a fixed stream of payments to an individual. These financial products are primarily used as income stream for retirees. Annuities are created and sold financial institu-tions, which accept and invest funds from individuals.

vi) 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. In case something happens to one of the partners, other will receive the benefit of the life cover.

vii) Unit linked contracts - Unit linked assurances have benefits that are directly linked to the value of the underlying investments. Each policyholder receives the value of units allocated to the policy. There is no pooling of investments or allocation of the pooled surplus.
As each premium is paid, a specified proportion is invested in an investment fund chosen by the policyholder. The investment fund is divided into units which are priced continuously.