Assignment-2

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Subject: Life Insurance - Principle, product and practices

(1) A life Insurance Company has recently got approved for many products from IRDAI. List various distribution channel that can be used to sell the product in the market.

Sol^n Various distribution channels are -

(i) Market Intermediaries
(ii) Direct Response
(iii) Financial Institute

(2) Outline 5 cause of lapsation of life Insurance policy.

Sol^n Causes for lapsation of the policy -

(i) Policy term is greater than ability to pay
(ii) Lack of agency professionalism
(iii) Policy mismatch
(iv) Found other better policy
(v) Worst in after sale service.

(3) Mr. Harvey applied for life Insurance. A nurse came to their home on behalf of the Insurance company to collect blood & Urine sample and fill the questionare. During their conversation, Mr. Harvey told her about iron level & his visit to hematologist. The nurse noted "blood work normal" in her report despite his disclosure. while Mr. Harvey's medical report show he has.

diagnosed with blood condition, it was not disclosure in his insurance application. However, he signed the application, along with the report prepared by nurse, confirming all the information are true. When Mr. Harvey died several Months later. Mrs Harvey claims the policy under the policy. The insurance company denied the claim for failing to disclose information about Mr. Harvey Health

a) Do you think insurance Company is right? whose fault is this?
b) Option available to Mrs. Harvey
c) What are reason for denying claim.
d) What is underwriting? why it is done?
e) List the types of underwriting.

Sol^n

(a) Insurance Company is correct in denying claim as he has signed the guistu of mistake although he knew mistake. Its a case of disclouser

(b) Mrs Harvey can Complaint against the Insurance Company.

(c) Reason for denying Claim:

(i) Avoiding Medical Test
(ii) Non-disclosure or Wrong disclosure
(iii) Operation of condition clause
(iv) Fraud

(d) Underwriting is the process of Considering of an Insurance risk.

Reason for Underwriting.

(i) Makes sure proper balance is maintained with each rate classification
(ii) avoid Moral & Morale Hazard.

(e) Types of Underwriting.

(i) Medical
(ii) Financial.

(f) Explain why the rates of Insurance are fair, adequate & not excessive.

Sol^w

→ To avoid the financial Problem & Insolvency the rats must be adequate and fair.

— Rats should not be excessive in relation to the benefits provided.

— Rate adequate means, for the given blocks of policies, total payment collected now & in future by the Insure + Invested & subtr the expenses.

→ Thus there should be eastallishment of ceiling of the rates.

(5) What are the various premium payment plans? explain them. Here are various premium payment plans in the market for life Insurance policies

Soln

→ Unit-linked plans are essentially similar to mutual fund Product wherein the premium is invested in various funds.

→ Insurance companies charge anywhere 20-35 % upfront charge for their unit-linked plans.

(6) What is the difference between the traditional cash value Insurance & universal life Insurance?

Soln → Conceptually, all life Insurance policy cash value can be derived in the same way.

→ As a practical matter, policies are viewed with different point of view.

→ In the traditional form of life Insurance, the saving element is considered by premium payment. Under this, premium is not divided into risk & saving element.

→ In Universal life Insurance, the saving element is often considered as more independent part of the policy.

→ Under this, premium is divisible in risk & Saving.

→ Under The key element of product pricing are open to the policy owner, the higher the premium the higher will be cash value.

(7) Discuss different types of claim and the Procedure to settle those claims.

Sol^n

→ Claim are to be paid either to the insured or nominee of the insured by the insurer under the agreement or the term of the contract of insurance.

→ The importance terms of the insurance contract is payment of Insurance claim after on happening of event or a date of maturity.

- different types of Claims.

1) Maturity claim
2) Death claim
3) Accident & disability claim
4) Annuity Payment

(8) What are basic requirement to settle?

(A) Death Claim
(B) Maturity claim.

Sol^n

(A)
(i) Obtaining satisfactory proof of Death
(ii) Obtaining satisfactory proof of Title

(B)

(i) Discharge Voucher - to be Sent in Advance
(ii) Policy Document
(iii) Any need of Assignment, if executed on other paper.

(9) The effectiveness of the Claim management is dependent on the important element such as well as defined structure of the department & well defined working of the department discuss.

Sol^n

→ Thus, the effectiveness of the Claim management depend on the important elem like claim settlement docume & the defined structure of the claim.

→ eg: death claim settlem

(a) Certain Death certificate.

(10) Dis

Sol^n → Th

(10) Discuss the future scenario of claim settlement.

Sol^{n} → The insurance industry has grown up to become a credible institution, with over 6000 insurance companies.

— With the deregulation of the banking & brokerage industry, large conglomerates have been formed that offer every imaginable financial serv.

— IT is helping the insurance companies to manage claim. Claim Management System is managing, Organizing & Docum mode

— Highlights of Software

(i) Internal Claim management training.

(ii) Autometic completion of State required forms.

(iii) Conversation documentation

(iv) Progress tracking

(v) Automatic complesion of state forms

(vi) Internal/external Claim information

(vii) Entries for workers

(viii) Storage of all information.

(11) What is meant by Actuarial Valuation?

Sol^{n} The process by which the value of all the existing pol... is ascertained is called valuation

→ Since the valuation of Insurance is done by 'Actuary' ... applying actuarial principle is termed as actuarial valuation

(12) Why is it necessary for a life Insurance company ... Conduct an actuarial Valuation?

Sol^{n} → At the end of a year's business the insurance company ... determine the surplus carried on from the previous ye...

→ The amount set aside for distribution as divided to ... owner is called Divisible surplus.

→ Once the divisible surplus is decided it is no more a surplus but a liability for Insurer.

→ There are certain basic norms that an Insurance Company has to abide with, are as follow:

(i) Equity
(ii) Flexibility
(iii) Simplicity
(iv) Consistency.

(13) What is

Sol^{n} Surplus is ... the pr... interest

→ When t... during

→ Source...

(i) Surplus
(ii) Surplu...
(iii) Surpl...
(iv) Surp...
(v) Distr...

(A) Stock

Sol^{n} Differe...

(i) Contri...
(ii) Simp...
(iii) Comp...
(iv) Bo...
(v) Bon...
(vi) Bonu...
(vii) Guar...
(viii) Fir...

(13) What is "Surplus" in the life Insurance Context?

Sol^{n} Surplus is accamalated when there is a favourable deviation from the projected value with respect to mortality savings, excess interest & loading saving.

→ When the actual experience overshoot the assumption made during valuation, which are very conservative estimates.

→ Source of Surplus:

(i) Surplus from investment earning
(ii) Surplus from mortality.
(iii) Surplus from loading
(iv) surplus from surrender
(v) Distribution of Surplus.

(14) State different Method of Distribution of Surplus.

Sol^{n} Different Method of Distribution of Surplus.

(i) Contribution Method
(ii) Simple Reversiory Method
(iii) Compound Reversiory Method
(iv) Bonus on Cash
(v) Bonus in Reduction of Premium
(vi) Butlin Bonus
(vii) Guaranted Bonus
(viii) Final Additional Bonus.

(15) Distinguish between surplus & Profit in life Insurance.

Sol^n

→ In life Insurance the word 'surplus' signifies an estimated profit. This is because the calculation of profit is the excess over the cost price of the product.

→ Thus, in regular business, the difference btwn the cost price & selling price decide the profit made or loss incurred.

→ Profit in the insurance company is the result of margin kept on the basis adopted for the calculation of the premium with regard to mortality & other factor.

→ When the actual experience is better than the projected, the profit achieved is not only due to margin kept during valuation of premium but is also the profit arising.

→ Furthermore the excess of assest that remain after settling current liabilities can't be termed as 'profit' as it is will be required to meet the liabilities in future.

→ After this the funds left with the company can be consider as profit.

→ The distribution of it is called surplus.