



Subject: Life Insurance - PPP

Chapter: 1,2,3,4,5,6

Category: Assignment 1

ASSIGNMENT 1 Scroll to the bottom for answers

- ✓ 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.
2. Describe the types of Insurance and state its sub types?
3. List the key factors considered in product design
- ✓ 4. 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.
5. Jack won INR 100,000 at the casino. His winnings were taxed at 30% rate. However, the maturity benefits of INR 100,000 received from his life insurance policy is tax free. He is confused over the tax treatment of the same amounts received from different sources. You being his wealth advisor, explain him the similarities and differences in an insurance and wager.
- ✓ 6. What is adverse selection & moral hazard with respect to life insurance?
7. Every company has insurance benefits for its employees. Set out the advantages and limitations of group insurance policies
8. Why is the principle of indemnity not applicable to life insurance contracts?
9. Explain the cost and benefit of insurance to the society
10. Explain how the principle of insurable interest adds legal validity to an insurance contract. Cite the instances of life insurance contracts where insurable interest has to be proved.
11. Amar, aged 30, is not married and working in a Multinational company. He is considering buying a whole life insurance policy. Describe the features of a whole life insurance Policy.

- ✓ 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. 700,000/- gross but pays Rs 200,000/- in expenses, most which are fixed expenses i.e. a leased car and leased equipment. Bob rents an apartment and spends his earnings of Rs. 300,000/- on living and entertainment expenses. Bob saves and invests all the other money.
- A. Describe briefly the features of insurances Bob could have taken out. These insurance cover may not necessarily exist in India
- B. Why would anyone buy insurance policy?
13. What is the recent product innovations brought out by insurers to enhance value of the existing policies?
14. Differentiate between with and without profit policies. Why without profit policies are seldom bought in our country?
- ✓ 15. What undesirable consequences might follow if underwriting were not permitted in the private, voluntary markets for life and health insurance?
16. How does group insurance help an employer to discharge his statutory responsibility while at the same time offering additional benefits to the employees? Discuss with two examples of group insurance where it happens.
17. Describe reinsurance. What is the importance of reinsurance & it's features?
- ✓ 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.

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.

Ans) No, I do not agree with the view that a bachelor without dependents needs no insurance. I feel that every individual should have insurance, as life isn't the only thing you can lose. An individual can insure their assets, property and their medical bills (health insurance). In this situation, even if the bachelor has no dependents, he will receive a cover for the loss he has faced. Hence, everyone should have the things important to them insured.

4. 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.

Ans) Out of the two hazards, I would say that the person 'dying prematurely, leaving the dependent family to fend for itself', is more hazardous as it causes a huge financial problem and strain on

the late person's family and they have no financial support whatsoever suddenly. I think it is more hazardous as it happens very abruptly which makes the family stranded and they can not survive by themselves.

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

Ans)

i) Adverse Selection:-

Adverse selection is a term used when the insurance applicant presents a possibility of loss greater than the average from a random sample of previous applicants. It is when the insured is misinformed by the insurer as the information presented by him is not factual.

(ii) Moral hazard:-

Moral hazard refers to the defects in a person's nature that may increase the probability of the loss. Such a character will just increase the loss for the insurance company.

For eg:- committing suicide to get insurance claim.

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. 700,000/- gross but pays Rs 200,000/- in expenses, most which are fixed expenses i.e. a leased car and leased equipment. Bob rents an apartment and spends his earnings of Rs. 300,000/- on living and entertainment expenses. Bob saves and invests all the other money.

- A. Describe briefly the features of insurances Bob could have taken out. These insurance cover may not necessarily exist in India
- B. Why would anyone buy insurance policy?

A) i) Bob can get life insurance for himself, his wife and his daughter. He can also get a child term rider for his daughter to further evaluate the cover.
(ii) He can also get his property and assets insured.

B) A person would buy an insurance policy to get risk cover and financial help during an undesired event.

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

Ans)

• Underwriting is a term used to

describe the 'consideration' given to life insurance application, to determine whether a policy applied for should be issued or there are changes to be made depending on the person's risk profile,

- The consequences that might follow if underwriting were not permitted in the private, voluntary markets for life and health insurance would be:

(i) This would result in adverse selection as each individual would be charged same premium without considering their medical reports, habits, etc.

(ii) This might result in insurance companies depleting their reserves and having tough time paying out the claims.

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.

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.

- 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.

- 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.

- Pure Endowment: 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 used when a policyholder intends to save up money towards some specific financial goals.

- 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 retirees. Upon annuitization, the holding institution will issue a stream of payments at a later point in time.

- 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.

- Unit-Linked Policy: A unit linked insurance plan (ULIP) is a multi-faceted product that offers both insurance coverage and investment exposure in equities or bonds. This product requires policyholders to make regular premium payments.

Premium charged for the same sum assured:

i. Unit-Linked Policy – Extra money to be invested is included in the premium

ii. Endowment Policy – Death as well as survival benefits

iii. Whole Life Insurance- Assured claim for the whole life (Death Benefit)

iv. Joint Life Policy – Two Lives are covered upon death

v. Pure Endowment – Only Survival benefits upon maturity.

vi. Annuity – Regular stream of payments at fixed intervals of time

vii. Term Life insurance – Death benefit withing the term of the policy