Life Insurance Assignment-1

Ques 1

(a) To prepare for uncertain future:
Since in coming years, the person will start a family at a certain point and the parents would also retire at some age so he will get some lives dependant on him and hence to protect the family from uncertain events, he needs to have a life insurance.

(b) Access benifits incase of terminal illness:
If you were to get a diagnosis of terminal illness, having a life insurance policy with the right kind of additional coverage in place could prove invaluable.

(c) Tax saving:
Since the premiums we pay are tax exempted hence taking a life insurance can help the person to save some money spend on taxes.

(d) The younger you are, the lesser the premium:
Since premium rates are comparitively low when you are young hence it is always benificial to take life insurance policy as soon as possible.

Ques 4

Ans (1) In my opinion, dying prematurely and having the dependant family to fend for itself is way too severe and serious of the two hazards given above.

(2) With the death of the sole bread earner, the family wont only face the emotional loss but also face the severe financial breakdown.

(3) When compared to a person living too long, the person dying prematurely will have more lives dependent.

Ques 8:

Ans Adverse Selection:

→ Adverse selection for insurers occurs when an applicant manages to obtain coverage at lower premiums than the insurance company would charge if it were aware of the actual risk regarding the applicant.

→ If a smoker purchases a life insurance policy by hiding the fact that he smokes. Then he would have to pay the same premium as paid by non-smoker. If insurance company would have known this fact, the premium charged would obviously be higher in case of smoker.

Moral Hazards:

→ In the insurance industry, moral hazards occurs when insured parties take more risks knowing their insurers will protect them against losses.

→ Some has insured a house, incase of a mishappening like fire, the person has less incentive to protect against the mishappening compared to when the house wasn't insured is an example of insurance moral hazard.

Ques12

Ans12: (A) → Risk sharing:

In case of a risky event, the loss is shared by all the members exposed to it, the share is obtained from every insured member by the claim from the insurer.

→ Capital formation:

In case of tradition or unit-linked policy, the extra money is invested and it accrues cash value. This cash can then be borrowed or drawn out as per insured's convenience.

→ Tax Benefits:

The premium paid for the life insurance policy is eligible to attain a maximum tax reduction up to Rs 1.5 lakh.

(B) Buying insurance is important as it ensures that you financially secure to face any type of problem in life, and this is why insurance is a very important part of financial planning.

Ques15:

Ans → Underwriting is the term used to describe the consideration given to a 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:

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

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

Ques16:

Ans — 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 recieve the death benifit whenever you die (upto 100 years). You recieve tax benifits for whole life.

— Term life Insurance:

Term life insurance is a type of life insurance that provides a death benifit to the beneficiary only if the insured dies during a specific 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 the benificiary if the policy holder dies. An endowment policy provides you with dual combination of protection and savings.

- Pure Endowment:

~~An endowment policy is defined as a type~~ An insurance contract promises to pay the insured a stated sum if he survives a specific period with nothing payable incase of prior death. It is frequently used when policy holder 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 payout which an insurer recieves 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 benificiary. In joint life insurance, both you and your partner are owner as well as benificiary.

- 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 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 within the term of policy holders.