Life Insurance

- Principles
- Products and
- Practices

Assignment 1

Ans 1. No, a bachelor without any dependents also needs insurance, because insurance helps us to save money. Major reasons to opt out for insurance even if one doesn't have any dependents are

i) **To prepare for change and take advantage of cheaper premiums :**

One might be unmarried, but can later decide to get married and further have kids. A long term investment is always cheaper then short terms investments. Therefore it is ~~good~~ ~~to~~ essential to get insurance and prepare for the change in life.

ii) Critical illness can be devastating :

A critical illness can cause an unpredicted liability & without ~~anyt~~ anyone to rely on ~~such~~ during these times can be dangerous. Insurance is important to save money by reducing the amount being paid out of one's own pocket

•) Assets that need protection :

People save money for years to buy a house ~~of~~ or car. Assets like these or even stock are prone to risk of damage or destruction. An unfortunate event can derail ~~y~~ one's future, therefore it is important to have insurance, ~~to~~ in order to share the risk of accidents.

•) There are many other ~~factors which~~ reasons to get insurance even if one has no dependents. for example -

i) ~~For~~ Investment for retirement plans

ii) Insurances ~~make~~ also help in improving credit score & helps in providing loans

iii) Accident riders

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Ans 4. In my opinion both the hazards are really difficult to manage, dying prematurely leaving a dependent family and living too long without visible means of support.

i) The sudden demise of the sole earner of the family can leave the whole family in a emotionally & financially devastating stage. On the other hand living & trying to survive in old age after retirement specially after living a good is equally tough.

According to me, it depends that if you are caring for your ~~old~~ aged parents or your young children, Because the young children can somehow cope up with life, but it is immpossible for the old parents to survive

Therefor A person should plan for his retirement in such a way that if he lives too long, he gets a financial support & if he dies early, the same becomes a support for his family.

Ans 6. **Adverse Selection**

It refers to a situation in which one party has more accurate or different information while striking a deal.

Speaking in terms of insurance, A smoker who successfully manages to take insurance ~~at~~ after hiding the fact that he smokes, Therefore he gets lower premium rates.

In this case the ~~th~~ insured person hides facts and gets insurance.

Moral Hazard

It refers to a situation in which a party changes their behaviour or facts after a deal is signed.

Moral hazard in insurance occurs when an insured party after ~~taking~~ getting insured takes additional risks knowing they'll be compensated.

For eg. a person after getting auto insurance, drives rash and stops taking care of the car; Or a home insured person ~~th~~ smokes inside the house carelessly.

Ans 12. The features of Insurance Bob could have opted for are :-

i) Protection (Life Insurance)

Bob could have insured his own life in case of a premature death. As he is the sole earner of the family

ii) Medical Insurance

Bob could have taken some heath insurance to ~~help~~ share the financial burden incase of a serious illness

iii) Term Plans

~~Bot~~ Bob could have applied for term plans, they would have created a secure life for his daughter.

iv) ~~B~~ Capital Investments

Bob could have created capital investment funds for his daughter's education or marriage

•) The basic reasons for buying insurance are :-

i) Provides Certainty :
Insurance provides certainty of payments for the risk of loss. The insured receives some compensation in case of loss

ii) Risk sharing :
Insurance helps to reduce the financial risk by sharing ones risk with many others The share is obtained from every insured member by way of premiums.

iii) Saving & Investment for Capital gain :
The accumulated funds of the insurer received by way of premiums are invested into various income generating schemes. This is a surprisingly beneficial turn of events for the policyholder at a later stage.

Ans 15 The term Underwriting means receiving remuneration for the willingness to pay a potential risk. Insurance underwriters establish pricing for accepted insurable risks. They ~~used~~ use specialized softwares & actuarial data to determine the likelihood and magnitude of a ~~risk~~ risk

• If underwriting is not permitted in the private, It would become really tough for insurance companies to evaluate risks ~~concert~~ concerned with the ~~public~~ a person. Therefore the premiums charged would be either very low with a risky person or very high from a person who takes care. This would lead to huge losses for the insurance companies.

• Without medical underwriting, Insurance companies will not be able to determine the risks associated with a person. For, eg, a person with a critical illness will take up ~~medical~~ health insurance & ~~force~~ & then take the treatment, ~~resulting in a loss into~~ creating a ~~moral~~ adverse selection.

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Ans 18. Various types of Insurances a person can buy are :-

i) Whole Life Insurance :
It provides coverage throughout your lifetime. The policy contains a cash value which can be withdrawn or taken a loan against that. It is very useful for the purpose of ~~of~~ ~~or~~ transfer of wealth to the next Generation as it reduces the inheritance tax.

ii) Term Life Insurance :
It provides a death benefit to the beneficiary only if the insured dies during a specific time. The premium paid towards term insurance are eligible for tax exemptions. It is a type of income replacement that remains active for a specified number of years.

iii) Endowment policy :
It provides a payout to the insured if he/she is still living on the policy's maturity date or to a beneficiary otherwise. It provides a combination of savings & protection. Tax benefit can also be availed.

iv) Pure Endowment :
~~A~~ It is a contract that promises to pay the insured a stated sum if he survives a specific period with nothing payable in case of premature death. It is frequently used for some specific financial goal.

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v) Annuities :

It is a financial product that provides a fixed stream of payments to an individual. These are primarily used ~~by~~ as an income stream for retirees.

vi) Joint Life Policy :

It is an insurance cover that you get on a first death basis. ~~It is~~ The payout is received by the other insured person. In joint life both you & your partner are the owners & the beneficiaries.

vii) Unit Linked Contracts :

In these policies, the sum assured is dependent on an index like NIFTY or Inflation index. With each premium, a specified amount is invested in a fund chosen by the policyholder. The value of the fund at the time of the claim is the sum assured under the policy.

Level of premiums charged in order of policies is

Endowment

i) Unit linked p will have the highest because the sum assured is dependent on a index fund therefore providing higher returns. Also it provides a garuntee of payment at the end

~~Next will be~~

ii) Next is Unit linked whole life product as it covers your entire life in addition it is a participating policy & the sum assured is dependent on an investment fund.

iii) Next is Endowment Plan. It provides a death or maturity benefit, therefore guaranting the payout.

iv) Whole life plan is next in line as it provides a death benefit up to 100 years. There is no maturity benefit, therefore it is cheaper then Endowment plan

v) Joint life is next as it also assures the payout in case any one of the insured person dies

vi) Pure Endowment is comparitively cheaper as it has only a maturity benefit.

vii) Then comes Annuities as it pays out a fixed stream of money to the individual until death

viii) The cheapest will be term plan as you only receive the death benefit within a specified term.