Uddhav Jadhav 91

Life Insurance Assignment

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Q1 ans) I disagree that a person without dependents doesn't need ~~insure~~ insurance because:-

1) To ~~prepear~~ prepare for change:- A single person might decide to marry in the future and have kids. The person may then need to buy insurance.

2) To take advantage of cheaper premiums:- When things change and you need an insurance but when you wait for too long, the premium will rise to a point where it may become unaffordable. This is why its essential to get an ~~isurance~~ insurance as soon as possible.

3) Critical illness can be devastating emotionally and economically:- If you contract a major disease like cancer, heart disease, etc., the financial strain caused can be unimaginable. Thus, its essential you have someone to rely on, such as your insurer.

4) You can avail tax benefits:- Most types of insurances such as life, health, critical illness, etc offer tax savings under Section 80(C), 80(D) and 10(10)D of Income Tax Act. These provisions ~~allow~~ allow that the amount you pay as premium and receive as maturity benefits, can be deducted up to a pre-defined limit from your taxable income.

5) Assets need protection:- Car, home, trip-abroad every one of these are prone ~~of~~ to risks of damage and destruction on a daily basis. If you do not have

an insurance, the cost for repairing each of these will have to be ~~borne~~ paid by ~~you~~ the person.

~~Thus, as~~ As we can see above, insurance is all about paying a nominal ~~amount~~ amount as premium, in return for an on-demand amount that is exponentially more than ~~whay~~ what you pay, and can protect ~~f~~ you from the financial consequences of damage and destruction to your most prized assets.

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Ans) 'Dying prematurely leaving the ~~dependents~~ family to fend for itself' ~~are~~ and 'living too long without visible means of support' are two hazardous situations. ~~Hower~~ However its impact can be reduced with the help of life insurances. ~~Agi~~ I consider 'dying prematurely ~~for~~ leaving the dependent family to fend for itself' more serious. The reason being that after the demise of breadwinner the family ~~will have los~~ would lose their only source of income. It will affect them emotionally as well as economically. The family will ~~lose their f~~ have to compromise with ~~c I~~ daily lifestyle and future of the children will be at stake. Cost of education and marriage of children will be essential in the future but ~~after the~~ ~~after~~ after the demise of breadwinner everything for family will become difficult. ~~Therefore, it is~~ The family may end up homeless and may be forced ~~t~~ to live with ~~gr~~ their parents adding on to the financial burden of parents. Therefore, it is necessary for the family to have ~~insurance~~ insurance policies ~~wit~~ which will help them in difficult situations. Being old without visible means of support is a serious problem too. In such cases, the family should ~~seek move~~ seek help from NGO

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(Non Government Organizations) ~~or h~~ and holdage homes. This ~~dir~~ ~~dt~~ tough situation can also be avoided with the help of insurance policy.

Q6ans) Adverse selection generally refers to any situation where one party in a ~~cr~~ contract or negotiation, such as a seller, possesses information relevant to the contract or negotiation that the corresponding party, such as a buyer, does not have. Typically the more knowledgeable party is the seller. Adverse selection ~~is the~~ occurs when this asymmetric information is exploited, leading the party that lacks relevant knowledge to make decisions that cause ~~t~~ it to suffer adverse effects. In the insurance industry, adverse selection refers to situations in which an insurance company extends insurance coverage to an applicant whose actual risk is substantially higher than the risk

known by the insurance company. The insurance company suffers adverse effects by offering ~~a~~ coverage at a cost that does not accurately reflect its actual risk exposure. This is known as adverse selection.
A moral hazard is an idea that a party protected from risk in some way will act differently than if they didn't have that protection. We encounter moral hazard every day - tenured professors who become indifferent lecturers, people with theft insurance becoming less vigilant about ~~where~~ where they park ~~and~~, salaried employs ~~to~~ + who take long breaks and so on. Moral hazard is usually applied to the insurance industry. Insurance companies worry that by offering payouts to protect losses from accidents, they may actually encourage risk-taking. This often forces them to pay out more ~~el~~ in claims. Insurers fear that a "don't worry, it's insured" ~~of~~ attitude often leads policy holders with collision insurance to drive recklessly or fire-insured homeowners to smoke in ~~boa~~ ~~bed~~ bed.

Q12 ans.1) Motor insurance:-

(a) Covers costs of vehicle repairs

(b) covers wide range of damage

(c) You can get accident cover for the owner or the driver

(d) Coverage against a natural disaster

2) Health insurance:-

(a) Sub-limits on room rent

(b) Pre-existing diseases

(c) Co-payment

(d) Network hospital

(e) Pre and post hospitalization expenses

(f) No claim bonus

(g) Exclusions and premiums

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3) ~~4~~ Property insurance

(a) Complete coverage against monetary liabilities arising from the damage/loss of your property and/or its contents caused due to natural or unnatural reasons.

(b) Bob can take life insurance policies for his family such as:-

1) Whole life insurance:- provides coverage ~~Tax benefits for whole life~~ throughout life

• Features are as follows:-

(a) Tax benefits for whole life

(b) Level premium

(c) Borrow against cash value

(d) Guaranteed benefit

2) ~~(e)~~ Term life insurance:- provides death ~~benefit~~ ~~t~~ benefit only to beneficiary if the insured dies during a specified period

~~Insured~~ Features are as follows:-

(a) Insured for a pre-defined term

(b) Higher sum assured

(c) Affordable

(d) Tax benefit for ~~paying~~ premium paying term

3) Endowment insurance:- provides protection and savings as well as are low-risk in nature

~~Savings + Pr~~ Features ~~at~~ are as follows:-

(a) Savings ~~+~~ and protection

(b) Comparatively higher premiums

(c) Meeting long term goals

ⓓ Tax benefits
ⓔ Surrender benefit

4) ~~Features of~~ Pure endowment:- pays the insured the Stated sum if person survives specific period

Features of pure endowment :-

ⓐ Only Survival benefit
ⓑ No mortality benefit payment
ⓒ Opposite of term insurance

5) Unit linked insurance plan:- it offers life insurances ~~policies~~ benefits along with an investment component

Features of unit linked insurance plan are as follows:-

ⓐ Savings and Protection
ⓑ Comparatively higher premium rates
ⓒ Meeting long term goals
ⓓ Tax benefits
ⓔ Surrender benefit
ⓕ Wealth creation

6) Annuity:- it pays fixed streams of payments

Features of annuity are as follows :-

ⓐ Series of payments
ⓑ Starts with a lump sum
ⓒ Deferred or immediate
ⓓ Famous as a pension product
ⓔ Fixed annuity or variable

7) Joint life product:- it pays an insurer in case of death of other insured partner

ⓐ Covers both lives in same product
ⓑ 2 term plans = 1 joint life

(c) Annuity benefits also available
(d) Prominent for young working couples
(e) Other insurances which can be taken are credit life insurance, cancer care products, child product, micro insurance, etc.

Q12B. ans) Reasons insurance is necessary are as follows:-

1) Insurance acts as financial back-up at time of emergency
2) Insurance makes retirement secure
3) Insurance secures your future
4) Insurance encourages savings
5) Insurance gives peace of mind
6) Insurance provides tax benefits
7) Protection for you and your family
8) To enjoy financial security
9) A legacy to leave behind

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Q15 ans) Undesirable consequences that might follow if underwriting were not permitted in the private, voluntary markets for life and health insurance are as follows:-

1. This can lead to serious and various types of frauds in insurance sector and insurance companies
2. Underwriting helps to set fair borrowing rates for loans, establish appropriate ~~pe~~ premiums, create market for securities by accurately pricing investment risk. Fairness will be lost in case of no underwriting.
3. If underwriting is not there investors cannot benefit from the vetting process of underwriting grants by helping them make informed investment decisions.
4. If underwriting is not there it becomes difficult to ensure that a company ~~offering~~ filing for an IPO (Initial Public Offering) will raise capital needed and provide the underwriters with a premium or profit for their services.

Q18ans) Various types of life insurances a person can buy are as follows:-

1) 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 used when a policyholder intends to save up money towards some specific financial goals. Premium is charged comparatively higher.

2) Endowment policy:-
A 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 otherwise. An endowment policy provides you with a dual combination of protection and savings. If insured dies during term of the policy, nominee receives sum assured plus bonus, if any. The bonus is paid for the number of years that the insured survives in the policy term.

3) ~~Whole life in~~ Endowment plan provides savings cum insurance coverage.

a) Tax benefit can be availed under 80C and 10(10)D of income tax Act 1961.

b) Endowment policy offers long term benefit of long term savings to policy holder.

c) Comes with rider benefits and increases coverage of policy.

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f) Comes with additional bonus facility as terminal bonus and revisionary bonus.
g) ~~R~~ Low risk investment option.
h) Used as means for transfering wealth from ~~parents to~~ parents to children. Basic idea is that parent would pay premiums but benefit would be payable to child.

3) Whole life insurance :-
It provides you coverage throughout your lifetime provided the policy is in force. whole life insurance policies contain cash value component that increases over time. You can withdraw cash value or take out a loan against it. In case of unfortunate demise before you pay back the loan, the death benefit paid to your beneficiaries will be reduced.

a) Major benefit is that it provides coverage against death for entire life of insured i.e upto 100 years of age
b) Offers loan facility to policyholder
c) Can be bought in simple hassle free way.
d) whole life insurance is used as means of protecting some of the expected transfer of wealth that a parent would be aiming to make to ~~his/herson~~ his/her children when he/she died. Without contract, wealth transfer would be likely to be very small if parent died young. Such contracts can also be tax efficient way of

transferring wealth at any ~~age~~ age, depending on legislation(often reducing liability to death duties or ~~inheritence~~ inheritance tax.

4) Unit linked insurance plan:-

Unit linked insurances have benefits that are directly linked to the value of the underlying investments. Each policyholder receives the value of the units allocated to the policy. There is no pooling of investments or allocation of pooled surplus. The investment fund is divided into units which are priced continuously.

(a) ~~A~~ It enables consumers to obtain higher ~~level of~~ expected level of benefit for a given premium or to pay a lower expected level of premium for a given level of benefit, than under a Comparable non linked version of contract.

(b) It can offer ~~high~~ flexibility in types and levels of cover included and the ability to vary premiums according to need.

5) Annuity:-

It pays fixed streams of payments to an individual. Annuities are mainly used as an income stream for retirees. Upon annuitization, holding institution will issue a stream of payments at a later point in time.

a) The period of time when an annuity is being ~~founded~~ funded and before payouts begin is referred to as the accumulation phase. Once payments begin, the contract is in annuitization phase.

6) Joint life policy:-
It is insurance cover that you get on a first-death basis. It is a pay out which an ~~is~~ insurer receives in case of death of his ~~partner~~ other insured partner during the period. In joint life insurance, ~~boul~~ both you and your partner will be owner and beneficiary.

a) Advantages are that it pays out regardless of which partner dies and is cheaper than taking ~~ou~~ out two life insurance policies. It may be good for young couples who are trying to save money on premiums, or for business partners.

7) Term life insurance:-
It provides death benefit ~~ahy~~ to beneficiary only if the insured dies during specified period. Term life insurance is income replacement that remains ~~active fo act~~ active for a specified number of years.

a) Provides life coverage and financial security to family of insured at affordable premium rate.

b) Can be bought online in simple and hassle free way.

c) ~~Premiu~~ Premiums paid ~~are tax eligible~~ towards term insurance plans are eligible for tax ~~ex~~ exemption under section 80C of ~~income to~~ Income ~~t~~ Tax Act 1961.

d) Offers additional rider benefit.

e) Where contract is taken out by an individual, it provides protection against financial loss for dependents, at a lower cost than under an endowment or whole life insurance contract for the same level of benefit.

Premiums charged on life insurance polices :-

Endowment > Whole life > Term insurance

Also, the higher the risks ~~are~~ are linked to the insured higher is the premium charged.