LIFE INSURANCE

1) A bachelor without dependents would need an insurance.

i) Suppose he has taken a loan for his higher studies and he expires before repayment of the loan, the life insurance sum can be used to repay the loan.

ii) A bachelor can buy funeral insurance, in which after his death all the funeral cost will be covered in the insurance policy.

iii) A bachelor needs a health insurance, incase he falls sick for a long time or gets serious injuries, then the hospital bill can be paid by insurance money.

---

18 ~~2~~) INSURANCES

- Life Insurance
- General Insurance
- Pensions
- Unit Linked

LIFE INSURANCE

i) Term Insurance :- In term insurance the policy holder is insured for a specific term. No insurance claim after the ~~day~~ last term day.

ii) Whole Life Insurance :- In Whole life insurance the policy holder is insured for his whole life. The premium charged is more as compared to term insurance as he is covered for life.

iii) Endowment Insurance :- In Endowment Insurance the policy holder will get both, death benefit or survival benefit.

iv) Pure Endowment :- Insurance money only on survival of policy holder.

~~v) Annuity~~ :- The premium for endowment will be highest because the holder will get money on both survival & death so, The premium for endowment will be highest. Then whole life, then term insurance.

ii) GENERAL INSURANCE

It works on indemnity basis.
Eg. Theft insurance, vehicle insurance, Fire insurance, Employers liability insurance.

• HEALTH INSURANCE - The policyholder will get money for his/her treatment. This does not work on indemnity basis. All the hospital bills can be paid by this insurance. Generally amount ceiling is defined.

iii) PENSIONS

• Annuity :- Annuities oftenly start after a specific age. The policyholder pays a lumpsum amount of money to ~~buy~~ buy it and get regular payment after specific age.
No lumpsum amount on death of policy holder

a) Defined Benefit :- Pension amount is defined from starting

ii) Defined Contribution :- The pension amount will depend on employers contribution and employee contribution (and sometimes investment return earned on the fund).

iv) Unit-Linked Insurance :- In this insurance some part of the insurance claim is linked to some specific equity / bond. It totally depends on risk consumption of the policy holder, how much proportion of his claim he wants to invest. The total risk is of the policy holder.

---

3) The key factors considered in product designing are:-

i) Profitability
ii) Marketability
iii) Competitiveness
iv) Risk characteristics
v) Sensitivity of profit
vi) Financing requirement
vii) Consistency with other product

---

4) Both of the hazards are serious and difficult to manage.
But dying prematurely is more serious.

early i) Imagine sole earner of a family dies and he is not insured, whole dependency will go the other family members.

ii) If the sole earner has insurance, but the insurance money is not sufficient for the family members to survive & continue living.
There's a limit to insurance claim & ones it is finished, what next?

iii) "Living too long without visible means of support" is serious too, what if they bought life insurance 20 years ago but due to inflation it is not sufficient?

But there could be a chance that the person might live on pension money, which can help him/her in daily life.

6) Moral Hazard - Taking wrong steps intentionally to get insurance money.

Eg. Ram & Raju are partners. They bought joint life policy. Now, Raju can plan to kill Ram & get the insurance money.
This can be categorised under moral hazard.

- Adverse Selection :- The scenario in which a policyholder knows a fault of a company which allows him to select that company as compared to others.

Eg. A company charges same premium from smoker as well as non-smoker. A smoker will definitely select that company.

---

7) ADVANTAGES

i) People with low or no insurance get coverage during employment.

ii) People with high risk can get insurance

classmate
Date
Page

iii) Coverage provided to people / employee who cannot be insured by themselves. Eg Peon.

iv) Tax benefit

DISADVANTAGES

i) Employee has no control on his insurance policy.

ii) Same premium will be charged from healthy & non-healthy lives.

iii) Insufficient coverage

iv) Coverage ends when the employee leaves the company.

8) Principle of indemnity is not applicable on life insurance, as principle of indemnity promises the policy holder to return to the position where he/she was before the incident / Loss. But the person who has died cannot be replaced with another or cannot be measured in money.

Scanned by TapScanner

9) BENEFITS

i) Reduces worry & fear
ii) Makes available large funds at lower price
iii) Provides employment to a large number of people
iv) Social benefits

COST

i) Increasing running cost of insurance companies
ii) Inflated claim
iii) Moral Hazard
iv) Adverse Selection

---

12) i) Bob could buy endowment insurance to support his daughters higher studies. Whether he lives or not, his daughter can get money for her studies.

ii) Bob could take a home loan & insure it. He could pay both EMI of loan & premium for insurance. In this way, in case of any incident (death) the loan amount will be paid.

iii) Similarly, bob could buy a car on EMI & insure it. So, incase of any mishappening, the EMI payment would be done.

iv) Bob could buy a term plan for himself, so that if he dies, the money will go to his wife.

(B) People buy insurance policy for their peace of mind.
- They know incase if any incident occurs there is someone / something which will support them by giving them money.
- Insurance policy ensures that after the policyholders death, rest of their family members will get some money to support their living.
- Insurance policy ensures that incase of any loss of their asset, they will get some money.
- Insurance is always with us in our bad times.

15) If there were no underwriting done for life & health insurances, then

i) The company would not be able to categorise people as good risk or bad risk.

ii) It would have been difficult to set premium as well as insurance claim for the policy holder.

iii) There will be no medical tests.

iv) If it was a bad risk, then how much premium is to be charged?

v) Same premium for everyone, so it is an advantage for risky people and a disadvantage for good risks.

Scanned by TapScanner