23/11/21

Assignment 1 (ch-1,2,3,4,5,6)

People usually purchase an insurance to secure their families' future even after they are no more. But, insurance policy is a must for everyone. Therefore, a bachelor without dependents should also get a life insurance.

Types of insurance are
→ life insurance or personal insurance
→ Property insurance
→ Marine insurance
→ Fire insurance
→ Liability insurance
→ Guarantee insurance.

Key factors considered in product design
→ Profitability
→ Marketibility
→ Competitiveness
→ Financing requirements.
→ Risk characteristics
→ sensitivity of profit
→ consistency with other products

For instance, if there's only one breadwinner o[f] the house, premature death of that person leaving the dependents to fend for thems[elves] is more serious and difficult to manage because the major chunk of source of income vanishe[s]. Thus, becomes too difficult for the family

Car

(5)

Insurance contract	Gambling contract
→ Parties seek to distribute loss by reason of mischance.	→ Parties contemplate gain through mere chance of winning.
→ equalizes fortune	→ increases the inequality of fortune.
→ Purchase of insurance does not create a new and non-existing risk of loss to the purchaser.	→ As soon as party makes a wager, he creates a risk of loss to himself where no such risk existed previously.

(6) Adverse selection in an insurance involves the applicant getting insurance at a cost that is below their true level of risk.

eg :- someone ~~ge~~ with a nicotine dependency getting insurance at same rate as someone without nicotine dependency.

(7) Advantages and limitations of group insurance are :-

<u>Advantages</u>

(1) Protects against the risk of credit as well as life.

→ the higher the no of people in pool, higher is the insurance.

→ customised plans with lower premium rates.

Limitations:
→ can't be customized to individual needs.
→ Restriction of coverage
→ coverage doesn't continue if the employee decides to leave the company.

(8) Principle of indemnity states that the insurer undertakes to put the insured in the event of loss, in the same position that he occupied immediately before happening of event.
Since, the value of human life can't be reversed, principle of indemnity doesn't apply, as it is not possible to quantify the loss.

(9) The most important benefit of insurance is payment of losses.
Secondly, management of uncertain cashflows.
In conclusion, insurance provides payment for covered losses when they occur.
→ Peace of mind regarding financial security.

(10) The policy will be considered valid if the insured insures the subject matter without being interested in it, at the time of effecting the policy & if he acquires interest in it after it has been lost, he can still acquire interest in it.

(11) Features of whole life insurance policy :-

→ level of premium remains same throughout one's life.

→ death benefits are guaranteed as long as guaranteed premiums are paid.

→ Policy includes guaranteed cash values that grow at a guaranteed rate.

(14) · Policies that participate in the profit of insurance companies is called 'with profit' policies, while the policies on which amount of bonus is fixed at time of issue itself are called without profit policies.

Without profit policies are seldom bought ~~in ou~~ by people is because the policyholders of without-profit policy get fixed returns on the amount they've invested.

(15) If underwriting were not permitted in the private, voluntary markets for health & life insurance, no one would be able to assess the degree of risk or establish fair rates on loans, or set right premiums.

(16)

(17) Reinsurance is an arrangement whereby an insurer so has accepted all insurance, transfers a part of risk to another insurer. Reinsurance is an ideal strategy to minimise risk.

Advantages of Reinsurance.

→ Boosts insurance business
→ limits the liability
→ Reduces risk by limiting the financial burden.
→ Protects the insurance funds

(18) Different types of insurance that a person can buy are:-

→ Term life insurance
→ whole life insurance
→ endowment policy.
→ unit linked insurance plans

→ The premium of whole life insurance is more because the coverage lasts lifetime a
so the cash value increases.

→ Term life insurance has a much lower insurance premium costs than other type of insurance policies.

Q13, Q16

(12) a) Bob should consider applying for whole life insurance because it has tax benefits for life and has guaranteed benefits.

b) Buying an insurance is important as it ensures that you are financially secure to face any type of problem in life. It not only secures life but health, travel, motor vehicle and home.