Life Insurance – PPP
Chapter : 1, 2, 3, 4, 5, 6
Assignment 1

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1. No, I do not agree that a bachelor without dependents needs no insurance.
Reason
1) The principle of life insurance, indemnity, which states that the insured is to be put in same financial position as he/she was before the happening of the event ~~as~~ insured against.
However, Indemnity, is not to be applied on life insurance.
2) A human worth to his/~~f~~ her family cannot monetarily be determined.
3) In case of a bachelor without dependents, the bachelor would get an life insurance policy, the bachelor might choose to have a lower sum assured, it is his discretion. The insurance company cannot cancel his policy just because he has no dependents.

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Q4. According to me, dying prematurely leaving the dependent family to fend for itself is more serious.

Reason

1) When an individual dies prematurely, the dependent family has no sufficient money to carry out day to day expenses. The dependent spouse (if any), dependent children and retired parents, all family member's life gets affected. The future of children may also get spoilt due to inadequate funds for quality education.

2) In case of the insured living too long, the insured person's daily expense and medical costs if incurred are only expenditure to be considered. The family members have a earning member from the next generation that would take care of other family member's expenses. So, here the insured is not in very serious situation as compared to first condition. In the second case, the problem is only that the insured has ~~beco~~ turned dependent.

Q6. <u>Adverse Selection</u> :
It refers to situation in which the insured or policy holders have information that insurer does not have.
This information ~~&~~ refers to a specific habit or behaviour of insured that has been left out either in underwriting or where underwriting is not done well.
<u>For example</u>: A smoker and non-smoker both are charged same premiums for same sum assured for same product by insurance company. Now, for Non-smoker, he/she would have got lower premium rate ~~&~~ as risk of his claim is less. Where as for ~~Non-~~ Smoker, he/she would have to give higher premium rate as risk of his claim is more. But the insurance company is not aware who is more prone to claim sum assured.

<u>Moral hazard</u> - It is not abiding to the principle of mitigation. Mitigation means the insured has to prevent loss or occurance of situation insured against as if he hasnot taken insurance policy [stepping into shoes of the insurer]
<u>Example</u>: If the insured does not try to curb and control fire of his shop, if the ~~the~~ goods of his ~~for~~ shop are secured against fire.

Q12. given : Earn : Rs 7,00,000
- Expense : Rs 2,00,000 (Lease) ①
5,00,000
- Rent : 3,00,000 (Rent) ②
2,00,000

Balance amount per year : Rs 2,00,000/-

A. i) Renters Insurance (exists in India)

- The Renters Insurance policy covers the loss or damage of the contents of the house in which tenant lives. These policies are home insurance plans that only cover the conents of the home.
- Coverage for fire, ~~&~~ theft, natural calamities, Man-made calamities, electrical breakdowns, Accidental damages
- Coverage for financial liability that tenant faces if any individual is hurt in tenant's home; medical expenses get covered.
- High-value assets like jewellery, expensive gadgets, works of art, etc are also covered.
- If the rented house is damaged then rent for an alternate accomodation

ii) Car Leasing Insurance

- Excess wear and use protection : Covers wear beyond what's considered normal to avoid charges at the end of lease.

- Credit life or disability insurance - covers your lease payments if death occurs or become disabled.

(iii) Gap Insurance on Leased Vehicle
(Guaranteed Auto Protection Insurance
- It is intended to help make up difference between amount you owe and on the leased car versus the amount your insurance company might pay if the vehicle is totaled.

(iv) Equipment Leasing insurance/ Leased Equipment Insurance
(Jewellery & Bulldozers are most Commonly insured this way abroad)
- 1) In the case of accidental damage of the equipment or theft the leased equipment insurance covers the cost incurred by the lessee.
- 2) The premium is calculated by the amount of equipment rental costs each year, type of equipment and limit of insurance you need.

B. Insurance policy is an assurance given by the insurance company in form of a contract to cover any financial losses incurred by event insured against. The risk of losses is Transferred from ~~is~~ insured to insurer. Thus insurance policy is bought.

Q15. If underwriting were not permitted in the private voluntary markets for life and health insurance:

i) It would have been difficult for the life and health insurance company to assess the risk involved in selling policy to the policyholder.

ii) Similar payment of premiums would be charged for healthy and unhealthy individuals.
The company might incur lossess as unhealthy individuals might claim larger than expected. Whereas healthy individuals would suffer as they would pay more that actual risk cover ~~is~~ needed.

iii) In absense of claims underwriting, there ~~no~~ might be fraudulent or inflated claims causing heavy losses to insurance company.

iv) Similar payment of premium would be charged for adventurous and non-adventurous client, for aviation parameter, etc.
The company would not be aware about various important parameters and factors that affect risk of claims from client.

Q18. Types of Life Insurance a person can buy:
1) Whole life Insurance: This insurance covers mortality risk till entire life (usually for 100 years which is maximum for human life generally). It provides loan facility, prevents inheritance tax and is effecient tool for transfering fixed wealth to children in tax-free manner.
2) Term life Insurance: This insurance covers mortality risk till a specified term of years. It has generally less premium rates as compared to whole life insurance of same sum assured.
3) Endowment Insurance: This insurance product is a combination of pure endowment and term insurance. So, when the term of insurance ends, the person gets a sum of money for survival or ~~and~~ the beneficiary get sum assured after death, before the term ends.
4) Annuity: This insurance product involves accumulation period when premiums are to be paid and then the annuitisation phase when there is stream of payments.
5) Pure Endowment: It promises to pay a sum assured on survival till end of the term. Here, there is survival risk. This is used when policyholder intends to save up money towards specific goals.
6) Joint life policy - It is a product that

gives sum assured, upon death of one of the individuals taking joint life insurance, to the other individual in joint life insurance

7. Unit linked contracts : (Whole life or endowment) It is an insurance product where a specified proportions of investme premium is invested into units ~~in~~ so as either to obtain a higher expected return or pay less for a particular return.

Level of Premium : (for a particular sum assured)

- The lowest is term insurance & pure endowment because the insurance company has to pay only if policyholder dies during the term / survives during term resp.
- Followed by Joint life policy in comparison with two policies for each individual as the insurance company has to pay only in case one partner dies.
- Unit linked contracts can be ~~is~~ lower because it is linked with investments. But there are no guarenteed returns.
- Whole life insurance ~~becau~~ is high because insurance company gives entire life cover and has to make guarenteed payment of claim.
- Annuity ~~Endowment~~ is higher because there is an accumulation phase where only premium are to be paid. So for short duration involved, premiums are higher.
- Endowment is highest because the insurance company bears mortality as well as survival risk.