



INSTITUTE OF ACTUARIAL
& QUANTITATIVE STUDIES

Subject: Life Insurance

Chapter: Life Insurance

Category: Case Study

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Product Design – 40 marks

What would be a sustainable insurance product idea for public interest that doesn't exist yet? Write in around 500-700 words. Think as wisely and deeply as you can.

Understanding how insurance works:

A case study about Jamie – 60 marks

By exploring a case study, you'll better understand how insurance can protect you from risks and the financial burdens that can come with these risks.

Instructions:

1. Read through Jamie's case study to understand the insurance choices she's made.
2. Review Jamie's life in the year following her insurance decisions.
3. Summarize the costs of Jamie's insurance decisions and reflect on which type(s) of insurance seems most important for a young person.
4. Write an email from Jamie's perspective offering advice to a younger cousin about how insurance works and how to make thoughtful insurance choices.

Jamie's case study*

Jamie is starting out on her own in a rural area in Illinois and wants to be responsible. She has a steady job with benefits, a car, and an apartment in an old farmhouse. She understands that insurance may help minimize some financial risks, but she can't afford to purchase every policy she wants within her budget. She has determined that she can spend up to Rs. 2,150 per year on premiums. After doing some careful research to figure out which choices would be best for her at this point in her life, here's what Jamie decided.

Medical insurance – In place Through her employer, Jamie pays a premium of Rs. 103 per month. Rs.30 copay for doctor visits Rs.10 copay for prescriptions Rs.0 copay for annual physical Rs.50 copay for emergency room visits Jamie pays 20% of the cost of medical procedures.	Dental insurance – Declined Through her employer, Jamie would have paid a premium of Rs.27 per month. Jamie brushes and flosses every day, so she felt like she could do without this insurance for a couple of years.	Vision insurance – In place Through her employer, Jamie pays a premium of Rs.2 per month. Rs.30 copay for eye doctor visits Rs.10 copay for prescriptions Rs.0 copay for annual eye exam
Renter's insurance – Declined Jamie would have paid a premium of Rs.16 per month. There is little to no crime in Jamie's area, and she can't imagine a fire or flood affecting her.	Disability insurance – In place Paid for by Jamie's employer. She doesn't have to pay a premium, deductible, or copay for this policy.	Auto insurance – In place Jamie pays an annual premium of Rs.889. This type of insurance is required by law. Jamie pays a Rs.300 deductible for claims (including coverage for glass replacement and towing).

* Note that the premiums used in this case study represent national averages and are not broken out by age, location, or other key details. Premium costs will vary based on many factors, including state requirements. While the premiums in this activity are based on national averages, they are intended to be used as examples only.

What happens

The table below details specific things that happened to Jamie during the year.

Month	What happened?	Which insurance would cover this?	Did Jamie have coverage?	How much will Jamie have to pay? (If she has insurance, what is her copay or deductible?)
January	Jamie got sick and visited the doctor. Without insurance, the appointment cost Rs.120 and the antibiotics cost Rs.110.	Medical insurance	Yes ☒ No ☐	$120 + 110 = 230$ $-10 - 30 = -40$ <u>Admissible = 190</u> $190 \times 0.2 = 38$ $230 - 38 = 192$
March	Jamie fell on ice while hiking and had to get stitches in the emergency room. Without insurance, the procedure cost Rs.250.	Medical insurance	Yes ☒ No ☐	250 -50 <u>Admissible = 200</u> $200 \times 0.2 = 40$ $250 - 40 = 210$
July	A kitchen fire in the apartment next door caused the sprinkler system to activate in Jamie's apartment as well. Her couch, her television, her computer, and her bookcase were ruined. The cost of the damage was Rs.2,500.	Renter's Insurance	Yes ☐ No ☒	2500
September	Jamie hit a deer when driving home from work. She wasn't hurt, but the damage to her car was Rs.3,400.	Auto insurance	Yes ☒ No ☐	3400 300
October	Jamie got dirt in her eye while picking fruit at a local farm. She went to the eye doctor when her eye became red and swollen, the doctor prescribed eye drops. Without insurance, the appointment cost Rs.150, and the eye drops cost Rs.90.	Medical insurance	Yes ☒ No ☐	$150 + 90 = 240$ $-10 - 30 = -40$ <u>Admissible = 200</u> $200 \times 0.2 = 40$ $240 - 40 = 200$

1. Summarize the costs

Based on the insurance coverage Jamie had in place, how much did she have to spend herself that year? How much more would it have been if she didn't have any insurance (including copays, deductibles, and the premiums)?

Jamie has four insurances in place; namely; medical, auto, vision and disability insurance. The total premium paid by her is ~~£2,149~~ ^{£2,149}, and ~~£2,149~~ ^{£2,149} as additional expenses not covered under the insurance. Had she not taken an insurance, she would have to bear ~~£6620~~ ^{£6620} in total, instead of ~~£5067~~ ^{£5067} otherwise.

2. Consider insurance in your life

Life is full of surprises. Insurance is there to help us when things go wrong. What types of unexpected life events (illness, accident, surgery, natural disaster, dental emergency, etc.) have happened to you or to your family or friends in the past year that may have caused a financial burden? Which types of insurance coverage would be most helpful to protect people in these instances?

In the past 2 years, covid 19 has ~~surrounded~~ ^{spread across} the planet and a gloomy atmosphere surrounds us. ~~In the past year~~ ^{It was less} that 6 months ago, the 2nd wave of the pandemic struck the planet. An oxygen crisis lead to several deaths across the country. My maternal grandfather could have been benefited with a medical insurance in place, since

3. Jamie gives advice

Imagine that Jamie's cousin is getting ready to graduate and start his first job in a new town. After meeting with his new employer, he's asked Jamie for advice on whether insurance is worth the cost or not. Prepare a response as if you're Jamie, giving general advice about the important role insurance can have on a person's financial life. Include at least two examples from Jamie's experiences.

Yes brother, an insurance is a must to avoid ~~surprises~~ ^{unnecessary} in life, especially when you are going to begin your career, and don't have enough savings to bear exorbitant expenses. When I suffered an accident while driving back home, and I had hit a deer. It could have cost me a fortune, ~~but~~ since I had my insurance in place, I had to worry about nothing. Also, I hope you remember my swollen eye, and how horrible I looked. The insurance supported me, since I had to no longer think of expenses I less thing to worry about.

What is insurance?

Insurance is a way to manage your risk. When you buy insurance, you purchase protection against unexpected financial losses. The insurance company pays you or someone you choose if something bad happens to you.

If you have no insurance and an accident happens, you may be responsible for all related costs. Having the right insurance for the risks you may face can make a big difference in your life.

An insurance policy is a written contract between the policyholder (the person or company that gets the policy) and the insurer (the insurance company).

The policyholder is not necessarily the insured. An individual or company may get an insurance policy (making them the policyholder) that protects another person or entity (who is the insured). For example, when a company buys life insurance for an employee, the employee is the insured, and the company is the policyholder.

How does insurance reduce your financial risk?

Imagine you're driving your car and you hit a deer, which damages your car. If you have the right kind of auto insurance policy, the insurance company will pay the costs of the car repairs (minus the deductible — the portion you must pay).

Now, imagine a water pipe bursts in your bathroom, ruining everything in that room and in the bedroom next to it. Typically, if you have homeowner's or renter's insurance, the insurance company will pay to replace some or all the damaged property once you pay your deductible. Insurance policies will only pay for things that are described in the policy. So, it's important to read a policy carefully before you buy it, so you'll know exactly what's covered.

How does an insurance policy work?

Insurance policies are often in place for a specific period. This can be referred to as the policy term. At the end of that term, you need to renew the policy or buy a new one.

When you buy an insurance policy, part of your responsibility includes paying a fee called a premium. Some premiums are paid monthly, like health insurance. Others may be paid once or twice a year, like auto or homeowner's insurance.

The cost of your premium generally depends on how much of a risk you are to the insurance company.

In addition to the premiums, most insurance policies include a deductible. That's the amount you must pay first before the insurance company pays their share. For example, if you have a Rs.500 deductible on your homeowner's policy and a storm causes Rs.3,000 in damage, you will pay Rs.500, and your insurance company will pay Rs.2,500. With some policies, you can choose your deductible. Usually, a higher deductible means a lower insurance premium.

What are common types of insurance?

There are many types of insurance, but some common types are described here.

- **Health insurance:** Helps you pay for doctor fees and sometimes prescription drugs. Once you buy health insurance coverage, you, and your health insurer each agree to pay a part of your medical expenses — usually a certain dollar amount or percentage of the expenses.
- **Life insurance:** Pays a person you select a set amount of money if or when you die. The money from your life insurance policy can help your family pay bills and cover living expenses.
- **Disability insurance:** Protects individuals and their families from financial hardship when illness or injury prevents them from earning a living. Many employers offer some form of disability coverage to employees, or you can buy an individual disability insurance policy.
- **Auto insurance:** Protects you from paying the full cost for vehicle repairs and medical expenses due to a collision. In most states, the law requires you to have auto insurance when operating a motor vehicle.
- **Homeowner's or renter's insurance:** Protects your home and personal property against damage or loss and insure you in case someone gets hurt while on your property. If you have a mortgage on your property, most lenders require you to have homeowner's insurance as a condition of the loan.

What should you consider when buying an insurance policy?

A useful rule to live by is to do your homework before you buy insurance. Research any insurance company you're thinking about buying from to be sure that the company is financially sound and provides good service. Also find out what factors matter so that you can get the coverage you need at the best price.



Stationery insurance policy

~~Loosing~~ Loosing pencils, erasers, sharpeners, pencil boxes and other kinds of stationery is quite common. Often, we fall short of these and are unable to note down the important points being discussed, or actively take part in activities.

What if you had the assurance to get your favorite pen to use even if you lose them in the middle of the class. If you had a special box, of stationery that had all the necessary and desirable stationery, incase you lose, forget or are done using your stationery you brought from home.

This product can be sold in all the institutions across the country, schools, colleges, offices, households etc. All the relevant benefits can be added using riders. For example, a customer wants to use a pen that is from a specific brand only, say, Parker, he could add a premium rider along with this insurance policy.

The premium I would like to charge for this insurance would be between ₹20 - ₹50 ~~per month~~ annually. I would place a box in every institution, and appoint agents to maintain a register of those people using stationery from the box. After one is done with his/her assignment, they can return the stationery to the agent itself.



These agents need not be new appointments, but some underutilized ~~assets~~ of human assets of the institute can do the job just as perfectly. The lesser the tendency you have to use this box, the lesser the premium charged and vice-versa.

I would use various channels to implement this policy, namely:-

(1) Direct channel:

Direct contact between customer and insurer can be done by indulging in the administrative department of the institute.

example: once a student gets admission in school, the parents can be ~~told at~~ briefed about this policy to attract customers.

(2) Internet channel: Using ~~sites~~ websites like policy bazaar

(3) Direct mail marketing: To relevant customers.

The future prospects of the product would be in the digital world, where in, writing tablets are soon conquering the market. Teachers have gradually started purchasing such smart tools, and so have students. I would like to enter this market, and help them get a box of relevant spare parts, whenever the need arises.



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The success of this product in a country like India lies in the ~~ment~~ ^{ment} ~~ment~~ ^{ment}. We as a country strongly believe in the power of pen and paper. To cater to this need, my product shall ~~enhance~~ provide necessary services and enhance for quality purposes wherever required.