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assignment - L I.

Q1) Do you agree with the view that a bachelor without dependents needs no insurance? If you feel that he needs insurance, state the reason in support of your view.

Ans No, I disagree with the view that a bachelor without dependents needs no insurance. The advantages or reasons for a bachelor to take insurance are as follows.

- To get premium at cheaper rates :- If insurance is bought at a later stage the premium rates may rise due to various factors such as medical conditions, age, inflation etc. If insurance is bought at a young age the charges for the same will be less.
- To prepare for future changes :- Maybe the person may currently be a bachelor but in future he/she may get married and have children this insurance will provide a security at that time
- Protection against future critical illness :- Maybe in future when the person is suffering from any critical illness the insurance can help by providing financial support.
- Act as a collateral for loans :- some life insurance policies can be used as a collateral for borrowing loans from the bank.
- Tax saving :- Any kind of life insurance provides a tax benefit to the insurer
- Secure future :- The maturity amount that is provided by the insurance company can be used by the insurer in his/her old days when they are unable to work.

∴ These are the various reasons for a person with that is a bachelor without dependents to buy a life insurance policy.

2 Describe the types of Insurance and state its subtypes.
~~There~~ Insurance in simple terms can be defined as engagement to marry. The term insurance is derived from a French word 'ensurer'

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which later was transformed to assurance and then insurance.
There are mainly two types of insurance:-
• Life insurance and Non-Life Insurance.

1) Life insurance - It offers man an only with way he can make a will before he makes money. It is the protection against the uncertainty of life. Life Insurance is a contract between an insurance policy holder and an insurer, where the insurer promises to pay a designated beneficiary a sum of money (the benefit) in exchange for a premium, upon the death of the insured person. The policy holder pays a premium, either regularly or as one lump sum. Other expenses, such as funeral expenses can also be included in the benefits. The types of life Insurance can be classified as:- Whole Life Insurance, Term Insurance, Unit Linked Policy, Endowment policy, Child Insurance ~~etc~~ Moneyback Policy

2) Non-Life Insurance / General Insurance:- General Insurance or non-life Insurance covers non-life assets such as your home, vehicle, health, travel - from floods, fire theft accidents and man-made disasters.
The subtypes of General Insurance are as follows:-
Health Insurance
Motor Insurance
Home Insurance
Marine Insurance
Other specific Insurance (Example Ronaldo Insured his legs).

3 List the key factors in Product Design.
There are various factors responsible while designing a product. The factors in Product Design are as follows:-
1) Profitability
2) Marketability
3) Competitiveness
4) Risk Characteristics
9) Consistency without product
5) Onerousness of any gurantee
6) Sensitivity of Profit
7) Financing Requirements
8) Administrative System.
10) Regulatory Requirement.

4 Life insurance in short is concerned with two hazards that stand across the life path of every person 'that of dying prematurely leaving the dependent family to fend for itself.' and 'that of living too long without visible means of support.' of the two hazards which is more serious & difficult to manage? Give your views with reason.

Ans Life Insurance or life assurance is a contract between an insurance policy holder and an insurer or assurer, where the insurer promises to pay a designated beneficiary a sum of money in exchange for a premium, upon the death of an insured person.
Life Insurance is in short concerned with 2 hazards' that of dying prematurely leaving the dependent family to fend for itself' (death benefit is important for the same) and 'that of living too long without visible means of support' survival benefit is important for the same.
According to me both hazard seem difficult to manage but the hazard of ~~living too long without visible means of support~~ dying prematurely leaving the dependent family ~~to~~ to fend for itself. ~~which comes along with no support for dependent family' even if the person is not dead leaving the family in this situation~~ If the person is the only bread earner of the house then
If the person is living too long without visible means of support even if he dies there would be no support to anyone further. Living without sup
may not only bring emotional imbalance but also financial crisis. If the person has children so for their education the money would not be arranged in terms of dreams.
If a person has an insurance he/she can live at peace that even after the persons death there would be some one and something for his/her family
~~If th~~ Therefore I think that the more serious & difficult to manage is the hazard of dying prematurely leaving the dependent family to fend for itself.

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5 Jack won INR 100,000 at the casino. His winnings were taxed at 30% rate. However, the maturity benefits of INR 100000 received from his life insurance policy is tax free. He is confused over the tax treatment of the ~~sam~~ same amounts received under different sources. You being his wealth advisor, explain him similarities and differences in an insurance and wager.

As The first Rs 100000 were received from a wager (by the way of gambling) where as the second was received from life insurance policy. The way both the things are taxed is different ways. The amout received by the way of gambling is taxed at the rate of 30% while insurance amount received by insurance is tax free.

There are various difference between the two of them such as:

- Gambling is betting on chance and is highly speculative. Before entering a gamble there is no chance of loss (risk). As soon as a wager is made a new risk of the prospect of the losing the wager is created where as in the case of re-insurance the risk already exists and no new risk is created.
- An insured must have an insurable interest in the subject matter of contract of insurance, which is not required in the case of gamble where the interest is only restricted to the stake won or lost.
- An insurance is guided by the principal of utmost good faith which is not required in case of gample.
- Happening of event: The insured event may or may not take place in the case of insurance (except life insurance). But in case of gamble agreement the event takes place at a fixed future date.
- Nature: Insurance is based on mathematical predictions, but gambling is highly speculative in nature.
- Enforcable: Insurance is enforcable by law where as in gambling none of the parties has any legal remedy.

The similarities / common features of wager (gambling) and insurance are
· Promise of payment on the happening of a certain event.
· Amount receivable not commensurate or proportional to the amount paid.
· These were the similarities and the differences between wager and insurance

6 What is adverse selection & moral hazard with respect to life insurance?

ANS. Adverse selection and Moral hazard are the costs to the life insurance company in respect of the society.

In todays competitive market there are various life insurance products available to the people. It opens many options for the customers to choose from thus resulting in adverse selection. So the life insurance company has to incur huge costs and try making their product better and more appealing to the customers.

Adverse selection ~~occurs when~~ refers to the situation where sellers have more information than what the buyers have provided.

Moral hazard occurs when there is asymmetric information between two parties and change in ~~one~~ behaviour of one party occurs after an agreement between two parties is reached. Asymmetric information refers to any situation where one party to a transaction has greater material knowledge than the other party.

Adverse selection occurs when asymmetric information is exploited.

For example: There is an insurance company who provides insurance to both smoker and non-smoker at the same level of premium. Then this information can lead to adverse selection. This in return would turn into a cost for the ~~society~~ insurance company with respect of the society.

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1) Every company has insurance benefits for its employees. Set out the advantages and limitations of group insurance policies.

A Group insurance developed in India in the early 1960s. It is the coverage of many people under one policy. Under group insurance, the insurer drafts a single policy known as mastered policy for the insured group.

Under employee group insurance, the contract of insurance is between the insurer and employeer.

→ There are various advantages and limitations of group insurance policies. The advantages of group insurance policy are as follows:-

1) With group insurance, people with less or no life insurance are also able to get some measure of insurance protection.

2) Coverage is also available to those employees who are otherwise uninsurable.

3) Life insurance companies can reach a vast number of clients at less cost within a short span of time.

4) It is a tax effective tool. The employer gets tax relief for the premium paid by him on behalf of the employees. Employees are also entitled to tax relief for premium paid by them if the scheme is partly contributory.

→ There are various limitations of group insurance such as:-

1) The nature of group insurance is temporary. It means once the member is out of the group, the coverage ceases. The employee also loses insurance coverage in the event of termination of group plan.

2) The master policy issued by the insurer is not very flexible. It does not meet the individual needs for insurance. The insurer under group insurance cannot focus on the financial needs of the individual, which is possible in individual insurance.

3) A few members who could have been charged fewer premiums if individual insurance has been taken, have to pay higher premium

because the premium is fixed for the group as whole

∴ These are the advantages and limitations of group insurance.

8 Why is principle of indemnity not applicable to life insurance

Ans. Under principle of indemnity the insurer undertakes to put the insured in the event of loss, in the same position that he occupied immediately before the happening of the event insured against. In other words, the insurer undertakes to compensate the insured for the loss caused to him / her due to damage or distruction of property insured. The compensation payable and the loss suffered are to be measured in terms of money. The principle of indemnity is not applicable to life insurance as a persons life cannot be measured in monetary or financial terms.

9. Explain the cost and benefit to insurance to the society.

→ There are various benefits of insurance to the society, some of those benefits can be seen below:-

1) Reduces worry and fear:- Insurance helps in reducing the anxiety and fear before and after the loss occurs, as it is known as that the insurance company will compensate the loss. Even large insurance companies gain peace of mind by reinsuring their extra risk. This way they can perform better in their operations.

2) Makes available funds for investment:- Insurance industry is a major provider of capital for business and industry. The funds of insurance companies are also available for national development activities. Details of LIC's socio purposive investments given in a seprate box tell the story of how its funds have been use in developing the infrastructure in the country.

3) People's money for people's welfare The following chart amply illustrates how the funds of insurance companies can be utilised for nation building activites. It is truly a case of 'peoples' money being use for welfare of the people.

4) Provides employment to many people. Insurance industry offer regular full-time employment to many people in the country. Besides, several agents, professionals like actuaries, accountants, brokers, medical examiners, legal advisors etc, are also engaged by the industry to render professional services. LIC, the leading life Insurance company, in the country alone has more than one lakh offices and employees and over 8 lakh agents.

5) Insurance enhance credit worthiness

6) Social benefits.

→ These are the benefits provided by the insurance company to the society. Similarly the insurance company has to suffer a cost. This cost can be termed as costs of Insurance to society.

Though insurance provides vast benefits to individuals and society, it carries social costs that must be realized. Hence Heavy expenditure is incurred in running of insurance companies which are increasing over time. This results in scare economic resources being diverted for the development of insurance industry. Insurance companies has the effect of encouraging unscrupulous individuals to resort to fraud, which is a heavy cost to the companies and the nation. Also, it has now become increasingly common to make highly inflated claims particularly in motor insurance and health insurance to cover deductibles. This results in heavy underwriting losses to insurance companies who are forced to raise premiums. In our country, most of the nationalized insurance companies all along have been incurring heavy underwriting losses. The huge increase in motor insurance & health insurance premiums is a direct result of this factor.

The costs of Insurance also includes

- Fraudulent claims
- Inflated claims
- Moral Hazard
- Adverse Selection.

10 Explain how the principal of insurable interest adds legal validity to an insurance contract. Cite the instances of life insurance contracts where insurable interest has to be proved.

The principle of insurable insterest states that the insured must have an insurable interest in the subject matter of insurance. Insurable interest means some pecuniary interest in the subject matter of insurance contract. The insured must have an interest in the preservation of the thing or life insured, so that he/she will suffer financially on the happing of the event against which he/she is insured. This way insurable interest adds as a legal validity if it is not my house, ship, machinery, life (or some one related) I cannot get insurance for the same as I have no insurable interest. The happening or non-happening of the event would not bring any ~~too~~ loss in my life. This adds legal validity. In the case of insurance of property. insurable interest of insured in the subject matter of the insurance must exist at the time of happening of the event. To name insurable interest however, it is not necessary one should be the owner of the property. Ex- a trustee holding property on behalf of others has insurable interest.

11 Amar, aged 30, is not married and working in a Multinational company. He is considering buying a whole life insurance policy. Describe the features of a whole life insurance policy.

Whole life insurance is a type of life insurance that provides you coverage through out your lifetime provided the policy is in force. Whole life insurance policy also contain a cash value component that increases over time. You can withdraw your unfortunate demise before you pay back the loan; the death benefit paid to your beneficiaries will be reduced.

- One of the major benefits of whole life insurance plan is that it provides coverage against death for the entire life of the insured i.e upto 100 years of age.

- Whole life insurance plans offer loan facility to the policy holder.
- The whole life insurance plans offer loan facility to the policyholder
- They can be bought online in a simple and hassle free way.
- For consumers it is useful as a means of providing for funeral expenses or for meeting any liability to tax, for example inheritance tax or death duties, arising on the death of the life insured. It is a general purpose contract for providing long-term protection for depandants.

Q12 Bob is a 25-year-old carpenter who is a sub-contractor to various builders. He is married and has one 5 year old daughter. He earns Rs 700000/- gross but pays Rs 200000/- in expenses, most which are fixed expenses i.e. a leased car and a leased equipment. Bob rents an apartment and spends his earnings of Rs 300000/- on living and entertainment expenses. Bob saves and invests all other money.

A) Describe briefly the features of insurances Bob would have taken out. These insurance cover may not necessarily exist in India.

B) Why would anyone buy insurance policy.

A) Whole Life Policy - Whole life policy provides death benefit to the insurer (The insurer is protected for whole life and his/her depandant gets the payment at the time of death) Bob can be provided with the benefit of this insurance in case of untimely death his wife and daughter would not have to face financial crisis. His daughters education could be secured if he does so. Bob can take a loan anytime in future with life insurance policy as a colateral security. Tax benefit is also there.

Endowment Policy:- Endowment plans provide both death benefit and maturity benefit. It acts as a saving policy. Bob can take an endowment policy as it will help him in future with his daughters education. Since Bob is a carpenter there can be any disability and maybe he would not work in future. The Endowment policy would help him that time by providing sum of money if he is alive. It has surender benefits so if incase in future he does not want to continue the policy he can cancel it any time he wants, Tax benefit is also provided with the same

B There are various reasons one would buy an insurance policy. Some of the reason are as follows:-

- Financial security:- Insurance provides financial security to the policy holder incase of any loss. Life insurance can provide financial security to the depandants of the insured in the case where the insured is the bread earner it becomes more helpful
- Tax benefit:- Life insurance policies provide tax benefit to the policy holder (All life insurance policies provides tax benefit)
- Long term goals: Some life insurance policies like Endowment policy & Pure Endowment provide finance for long term future plans like education, childs marriage etc.
- Protection: The most important and the basic objective of life insurance is protection about the risk in future
- Paying debts (if any): It helps to pay the debts, including house loans, car loans, mortgage etc. Whole life insurance also acts as a colateral for loans.
- Medical benefits - Some insurance policies provide benefits in cases such as disability or deadly de diseases.

Thus these are the various reasons to buy an insurance policy.

13) What is the recent product innovations bought out by insurers to enhance value of existing policies?

There are need for product innovation because of the growing innovation competition. Some of the recent innovation, bought out by insurers to enhance value of existing policies The product innovation bout out by insurers to enhance value of existing policies:-

- Splitsurrance • Bought By Many
- CUVVA • Dad Cover.
- Digital Risks • Oro Girl
- Back Me Up • Safety Wing
- Mango. • VIOt.

14) Differentiate between with and without product policies. Why without policies are seldom bought in our country?

Ans: Policies that participate in the profit of an insurance company are called 'with profit' policies, while the policies on which the amount of bonus is fixed at the time of issue itself are called 'without profit' polis. This means that irrespective of the profit earned by the insurers, the policyholders of without profit policies will get fixed returns on the amount they have invested. However, in the case of with profit policies the amount of bonus payable is based on the net surplus earned by the insurers. Therefore, returns on these vary from year to year & can be more or less than the return on without profit policies.

15 what undesirable consequences might follow if underwriting were not permitted in the private, voluntary markets for life & health insurance?

Ans Underwriting is the process of consideration ~~of~~ of an insurance risk. It is assumption of liability to manage risk. It is determing and quantifying the financial risk of an individual or institution. Underwriting is an important function in the financial world. The undesirable consequences might follow if underwriting were not permitted in the private, voluntary market for life & health insurance:

- The differentiation between good risk and bad risk would be difficult. As there would be no underwriting the insurance company could sell many insurance policies to bad risks and suffer a loss
- Calculating the amount / level of premium and charging different premiums according to the level of risk would not be possible.
- Adverse selection: If as an individual I came to know that ~~an individu~~ private companies are not allowed to underwrite that would effect ~~the~~ my choices.
- Formation: The proper formation of the insurance policy would not be possible. ~~No pn~~ There would be very few companies in the sector
- For example: if a company is not able to do underwriting and thus sells the insurance policy to the smoker and non smoker at the same level of premium thus increase the risk for the insurance company.
- Goverment insurance company would be at advantage if private company are not allowed to underwrite

Thus these would become the undesirable consequences ~~of~~ setting that might follow if underwriting were not permited.

16 How does a group insurance help an employer to discharge his statutory responsibility while at the same time offering additional benefits to the employees? Discuss with two example of group insurance where it happens.

Group Insurance provides many benefits the employees some of the benefits are person with no or less life insurance are also able to get some ~~mean~~measure of insurance protection, coverage available to those employees who are otherwise uninsurable. It is a tax effective tool thus this way group insurance product help employer to discharge his statutory responsibity while at the same time offering additional benefits to employees

The two group insurance scheme where it happens are gratuity scheme & group term insurance scheme.

17. Describe reinsurance, what is the importance of reinsurance & its features.

Reinsurance is the pratice of one or more insurer assuming another insurance company's risk portfolio in an effort to balance the insurance market. Reinsurance is that insurance that an insurance company purchases from ~~other~~ another insurance company to instutate itself from the risk of a major claims event.

Advantage- The company passes on some part of its own insurance liabilities to other insurance companies.

The features of ~~in~~ reinsurance are as follows:-

→ It is a contract between 2 insurance companies

→ Orginal insurer agree to transfer a part of risk to other insurance company on the same term & conditions

→ The fundamentals principals of insurace apply to reinsurance too.

→ Original insurer cannot insure the risk with a re-insurer, more the sum assured origitally by the insured.

Thus these are the features of reinsurance.

18. Describe various types of life insurance a person can buy. State which reasons on level of permium (highest to lowest) charged in each case.

The various types of life insurance a person can buy are:-

- Whole life insurance : Whole life insurance is a type of life insurance that provides you coverage throughout your lifetime provided the policy is in force. Whole life insurance policy also contain a cash value component that increases over time. The level of premium is fixed in case of whole life insurance. The premium amount is the lowest in this case.
- Term life insurance :- Term insurance is a type of life insurance that provides a death benefit to the beneficiary only if the insured dies during a specified period. The level of premium is less but not as less as compared to whole life insurance (or group insurance).
- Endowment policy :- An endowment policy is defined as a type of life insurance that is payable to the insured if he/she is still living on the maturity date, or to the beneficiary otherwise. An endowment policy provides you with a dual combination of protection and saving. The ~~pr~~ premium is highest in endowment policy as you get both maturity benefit / survival benefit and death benefit.
- Annuity policy- An annuity is a financial product of insurance that pays out a fixed stream of payment to an individual. These financial products are generally used for return ~~re'str~~ to retirees. The level of premium in annuity is less than that compared to endowment but more as compared to term life insurance as it provides a continous stream of payment.
- Joint-life policy- A Joint life policy is the insurance cover that you can get on first death basis. Two people are insured together under one policy. The premium is higher than that in whole life insurance but lesser as compared to Term Insurance (2)
- Unit-linked contracts - ~~ut~~ Unit linked policies are policies where ~~the~~ same part of premium is linked with a index. Each policyholder receives the value

of unit allocated to the policy. The premium is genraly higher depends on the amount which is linked.