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Life Insurance - Assignment

1. A bachelor without dependents will not need life insurance particularly. But he/she might need non-life insurance such as car insurance etc.

4. I believe 'that of living too long without visible means of support' will be more serious & difficult to manage. In the later case the dependents can still get support from family & friends or one of the members can start a small business. Or else the significant other can marry again. Whereas living too long without support will create a lot of financial issues and even physical health of elderly does not support for any works.

6. Adverse selection - It refers to a situation in which insurance company provides same insurance coverage to an applicant whose actual risk is substantially higher than the risk known by the insurance company.

Eg:- Same premium for a smoker & a non-smoker.

Moral hazard - Carelessness increases when a person takes life insurance

OR

It occurs when insured parties take more risk knowing their insurers will protect them against losses.

15. If underwriting were not permitted then :-

① Premium will be charged ~~same~~ equivalent for unequal risk so insured having higher risk would also pay same premium as low risk. There will be loss for the company.

② Let's suppose insured has a chronic disease like cancer & they tend to hide, the company would charge comparatively less premium & would have to pay same/high amount as a coverage.

③ If ~~they~~ companies give insurance to people who will not afford premiums in the long run, there will in loss.

18. Types:-

① Term life insurance: • It is a type insurance that provides death benefit to the beneficiary only if the insured dies during a specified / pre-defined term.

• If the insured survives until the end of the term, the claim cannot be made.

• Has an affordable premium rate
• Eligible for tax ~~expo~~ exemption
• Can be bought online in simple & hassle free way (via policybazaar.com)
• Additional rider benefit offer.

② Whole Life insurance: • Provides coverage to ~~the~~ ~~insured~~ throughout lifetime provided the policy is in force. These policies contain a cash value component that increases over time. You can withdraw your cash value or take out a loan against it as per your convenience. The death benefit paid to your benificiaries will be reduced of incase of your unfortunate demise before you pay back the loan

• Policy offers loan facility.
• Tax benefits for whole life
• Can be bought online in a simple & hassle-free way.

(3) Endowment Policy: • Type of life insurance that is payable to the insured if he/she survives on the policy's maturity date or to a beneficiary otherwise.
• Provides with a dual combination of protection & savings.
• Tax benefit can be availed
• Offers benefit of long-term savings to the policy holder.
• Rider benefits
• Comparatively low risk investment option.

(4) Pure Endowment: • Payable only if insured survives a specified period with nothing payable in case of prior death.
• Frequently used when a policyholder intends to save up money towards some specific financial goals.

(5) ~~[illegible]~~: Joint life policy: It is the insurance cover that you get on a first-death basis. It is a payout which an insurer receives in case of death of his other insured partner during the period.
• Both you & your partner will be the owner as well as the beneficiary.

- Advantages of joint life cover are that it pays out regardless of which partner dies, and is cheaper than taking out 2 individual life insurance policies.

Premiums (highest to lowest):-

Endowment > Pure endowment > Whole life > ...

↓ Endowment: because sum payable has to be given ~~case~~ if ~~to~~ in both survival & death case

↓ Pure endowment: Sum has to be given if the insured survives till the specific period. Often taken as a profit plan or investments

↓ Whole life: Sum payable has to be given for sure since the insurance is for whole life. Chance of risk/ default of payment is also high

... Joint life > Term life

↓ Joint life: 2 lives are getting secured in a 1 policy

↓ Term life: Only for a short period comparatively, might not have to pay the claim if person survives till the term end.

12. A. Out of the ₹ 2,00,000 that he invests or saves, he can use some money to pay premium for life insurance. ~~[illegible]~~ Various types of life insurances he can buy:-

- Term life insurance
- Annuity or endowment policy (but premiums are ~~comparably~~ comparatively higher)

- He could avail different riders (since his job includes a lot of risks), like guaranteed insurability rider which would allow him to increase sum assured since he has a daughter.

- He could also add accidental death rider considering the nature of his job.
- A family income benefit rider can also help his daughter & wife to obtain a steady income source.

B. Reasons to buy an insurance policy:-

① Financial Security / Protection: Providing protection from probable chances of loss. Insurance cannot stop the happening of a risk or event but can compensate for losses arising out of it.

(2) Provides certainty : Provides certainty of payment for the risk of loss. There are uncertainties, & the assured recieves payment of loss.

(3) Risk sharing : On the happening of a risk event, the loss is shared by all persons exposed to it.