

**Internal Assessment Test – II
(QP and Solution)**

Sub:	Risk Management and Insurance						Code:	20MBAFM401		
Date:	08-07-2022	Duration:	90 mins	Max Marks:	50	Sem:	IV	Branch:	MBA	
								Marks	OBE	
									CO	RBT
Part A - Answer Any Two Full Questions (2* 20 = 40 marks)										
1 (a)	Define insurance. Insurance is a device by which the loss likely to be caused by an uncertain event is spread over a number of persons who are exposed to it and who propose to insure themselves against such an event, the essence of insurance is the elimination of risk and the substitution of certainty for uncertainty						[03]	CO3	L1	
(b)	Describe the requirements of insurable risk. <ul style="list-style-type: none"> • A large number of homogeneous exposures (in order for the deviation of actual losses from expected losses to approach zero and the creditability of the prediction to approach one). • Loss must be definite in time and amount. • Loss must be fortuitous. An insured cannot cause the loss to happen; it must be due to chance. • Must not be an exposure to catastrophic loss; risks must be spread over a large geographical area to prevent their concentration. Re-insurance often is used to spread potentially catastrophic risks. • Premium must be reasonable in relation to the potential loss. In theory, one could even insure against a pencil point breaking, but the premium would be much greater than any possible loss. 						[07]	CO3	L2	
(c)	Explain the essentials of insurance contracts. <ol style="list-style-type: none"> 1. Life Insurance <ul style="list-style-type: none"> ❖ Utmost Good Faith ❖ Insurable Interest 2. General Insurance <ul style="list-style-type: none"> ❖ Utmost Good Faith ❖ Insurable Interest ❖ Indemnity ❖ Subrogation ❖ Proximate Cause 						[10]	CO3	L2	
2 (a)	Difference between insurance and hedging.						[03]	CO3	L1	

	<p style="text-align: center;">Insurance vs. Hedging</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none; vertical-align: top;"> <p style="text-align: center;">Insurance</p> <ul style="list-style-type: none"> • Risk is transferred by a contract • Insurance involves the transfer of insurable risks • Insurance can reduce the objective risk of an insurer through the Law of Large Numbers </td> <td style="width: 50%; border: none; vertical-align: top;"> <p style="text-align: center;">Hedging</p> <ul style="list-style-type: none"> • Risk is transferred by a contract • Hedging involves risks that are typically uninsurable • Hedging does not result in reduced risk </td> </tr> </table> <p style="font-size: small; margin-top: 10px;">Copyright © 2011 Pearson Prentice Hall. All rights reserved. 2-14</p>	<p style="text-align: center;">Insurance</p> <ul style="list-style-type: none"> • Risk is transferred by a contract • Insurance involves the transfer of insurable risks • Insurance can reduce the objective risk of an insurer through the Law of Large Numbers 	<p style="text-align: center;">Hedging</p> <ul style="list-style-type: none"> • Risk is transferred by a contract • Hedging involves risks that are typically uninsurable • Hedging does not result in reduced risk 			
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(b)	<p>Explain the insurance sector reforms in India.</p> <p>In 1993, the Malhotra committee was led by the RBI governor and the former finance secretary. The main objective of the committee was to create a better financial system. Some of the recommendations that were kept were:</p> <ul style="list-style-type: none"> • In every insurance company, the government should have a stake of 50% • If private companies enter the market, they should have a capital of 1 billion rupees. • One company can either deal with general insurance or with life insurance. • There should be a tie up between foreign and domestic companies in order to get the foreign companies in the Indian market. • Changes should be made in the insurance act • A regulatory body for the insurance sector should be made. 	[07]	CO3	L2		
(c)	<p>Describe the duties and powers of IRDA.</p> <p>Functions and Duties of IRDAI</p> <p>Section 14 of the IRDA Act, 1999 lays down the duties, powers and functions of IRDA.</p> <ul style="list-style-type: none"> ▪ Registering and regulating insurance companies ▪ Protecting policyholders' interests ▪ Licensing and establishing norms for insurance intermediaries ▪ Promoting professional organisations in insurance ▪ Regulating and overseeing premium rates and terms of non-life insurance covers ▪ Specifying financial reporting norms of insurance companies ▪ Regulating investment of policyholders' funds by insurance companies ▪ Ensuring the maintenance of solvency margin by insurance companies ▪ Ensuring insurance coverage in rural areas and of vulnerable sections of society. 	[10]	CO3	L2		
3 (a)	<p>Define money back policy.</p> <p>Money back plans are one of the most popular life insurance plans in India. Under these plans, the policyholders receive frequent payouts as the death benefit, in case the policyholder survives. These packages include both insurance and investment plans</p>	[03]	CO3	L1		
(b)	<p>Explain the growth of actuarial science.</p> <p>Actuaries examine historical data and use that knowledge to estimate</p>	[07]	CO3	L2		

	<p>how much money should be set aside to cover financial losses that may occur in the future. Actuaries are trained professionals who specialise in the analysis of historical data. One of the most difficult situations for an actuary to deal with is when there is no previous data or when the data is no longer applicable owing to other types of insurance or policy.</p> <p>Take, for example, vehicle accidents as an illustration. To forecast how many individuals will be involved in an accident in London in November this year, an actuary will look at the proportion of people who have been engaged in accidents in past years.</p> <p>A pattern will be identified and used by the actuary to forecast the percentage for this year and to determine how much each individual should pay for their insurance in order for it to cover the losses caused by a vehicle accident.</p> <p>Importance of Actuarial Science</p> <ul style="list-style-type: none"> • Among the most essential aspects of actuarial science is risk management, and businesses devote significant resources to finding the most qualified actuarial advisers. • A reliable way of assessing existing circumstances and identifying prospective dangers that might cause financial harm to a company is to conduct a risk assessment. • The conclusion reached as a result of the application of actuarial science makes it easier for companies to make the best decisions possible, which helps to guarantee that their operations continue to run smoothly even in the event of an unanticipated event. • In order to solve problems, an actuary must first study actuarial science extensively and then standardise his or her analysis. This is accomplished by thorough research and standardisation of the analysis. 			
(c)	<p>Describe the annuities and its classification.</p> <p>An annuity is a contract between an individual and life insurer aiming at generating a regular income for life after retirement. For annuity, lump sum payment is made by the investor, which is then invested by the life insurance company to pay back the returns generated from it.</p> <p>At its core, an annuity is a contract with which you can plan to generate a steady income at a future time, such as during the retired times. In India, people purchase annuities to prepare for their retired lives. You should also know that most people consider it a form of insurance, not an investment avenue.</p> <p>There are several types of annuity for individuals planning for a steady income source post retirement. These include the following:</p> <p>1. Deferred Annuity</p> <p>It is one of the unique types of annuity, which includes a specific interval between the premium payments and annuity payouts. The tenure for which a subscriber pays the premium is referred to as the accumulation phase of these types of annuity.</p> <p>After this phase ends, he/she utilises the accrued amount to purchase annuities to receive future payouts.</p> <p>2. Immediate Annuity</p> <p>This type of annuity requires an individual to pay a lump sum amount as a premium to become a subscriber. Once this payment is made, the payouts under these annuity plans start immediately as per the pre-defined payout criteria.</p> <p>3. Fixed Annuity</p>	[10]	CO3	L2

	<p>As the name suggests, a fixed annuity is one of the most popular types of annuity chosen by people in India. Under this annuity plan, the payouts will remain constant over the entire tenure. It is considered a conservative option, with the money being invested into fixed income instruments mostly.</p> <p>Although there is a little growth potential with the principal investment, a fixed annuity is preferred as it guarantees income to the subscribers post retirement.</p> <p>4. Variable Annuity</p> <p>In these types of annuity plans, there occur variations in the payouts between one instances to the next. The variations are majorly linked to the performance of the benchmark or the index to which the underlying investment is mapped.</p> <p>Being index-linked, variable annuity plans cannot guarantee specific payouts to the subscribers and is thus, a riskier proposition for many pensioners.</p>			
	Part B - Compulsory (01*10=10 marks)			
4	<p>Mrs X aged 35, is a single parent with a two preschool children. She does not receive any maintenance support. She earns Rs. 2,90,000.00 annually as a nurse in a community nursing home. She has no insurance policy. Although money is tight, she would like to purchase some insurance policy to protect her family. An insurance agent recently met her and presented several proposals. However Mrs X does not know how to evaluate various policies. Assume you are a financial planner who is asked to make recommendations concerning the type of insurance that Mrs X should buy:</p>			
(a)	<p>Explain which policy will meet the need for education expenses of her children? - Suggesting the child policy based on the requirement.</p>	[5]	CO3	L3
(b)	<p>Can she think if any annuity plans? Analyze the situation and suggest for the same.</p>	[5]	CO3	L3
