

Insurance

1. What are the different types of Insurance Coverage?

Insurance policy is categorized into two:

- a) General or Non-life Insurance*
- b) Life Insurance*

2. What do you mean by 'insurance coverage'?

The term 'insurance coverage' means, when an individual takes an insurance policy the insured will be covered by insurance company for a specific amount for themselves or the things that he had taken the insurance policy, for which he would be paying premiums to the insurance company. The insurance company will pay the insured in case of damage or claims made by the insured according to their 'insurance coverage'.

3. What is a premium'?

It is the amount to be paid for a contract of insurance to the insurance company. It is the sum that a person pays monthly, quarterly or annually according to their plan, in return of the coverage he/she has taken from the insurance company.

4. What do you mean by term 'Insurer' and 'Insured'?

Insured is the one who holds the policy and Insurer is the company that covers the insured.

5. Who is a beneficiary?

Beneficiary is the one whom you have nominated for the insured amount in case of your death.

6. What is the contestable period' in insurance policy?

'Contestable period' is usually 1 or 2 years, during which the insurance company holds all the right to investigate the policy and decide whether to pay or not to pay to the insured.

7. What is no-claim bonus?

No claim bonus is a benefit for those who have not claimed insurance during the preceding year of cover. This will lower the premium on the following year.

8. What do you mean by 'Loss Payee'?

The loss payee is a person or institution (Bank) that receives the insurance payment on the loss of the property or vehicle you own. It is a legal definition used to cover the investment of other parties or bank that is owned by you. For example, you have a car on loan, and also you have insurance for that car. Now you met an accident, and your car is a total loss (meaning completely damaged beyond repair). Your bank still owes money from you in such case when you claim the insurance; the insurance company will pay money directly to Bank or person you owes money. Here bank is a loss payee.

9. What do you mean by 'Deductible'?

Deductible is one of the several types of clause that are used by the insurance company as a threshold for policy payment for health insurance or travel insurance. Deductible is a decided amount that you have to pay from your pocket while claiming the insurance. For example, you have a deductible of Rs 500, and you have insurance coverage for Rs. 2000, then you are responsible for paying for Rs. 500 and the remaining amount Rs. 1500 will be paid by insurance company.

10. What is Co-insurance?

Co-insurance term is usually referred to health insurance companies. In this type of policy, you share the coverage with, the insurance company in percentage of the policy value, after paying deductible or co-payment. It is the split of insurance coverage between you and insurance company; usually the split would be 80/20 % where you are liable to pay 20% and the remaining amount by the insurance company. For example, for health policy you have claimed for Rs. 200, according to policy clause you have to pay deductible, let say \$100, now after paying deductible the remaining amount is Rs.100, now you have a co-insurance which is split into 80/20%. So you will pay Rs 20 out of Rs 100 from your pocket while the Rs. 80 will be paid by co-insurance (meaning the insurance company).

11. What do you mean by term "Annuity"?

An annuity is the term used for the regular amount paid by the insurance company to the insured, after a certain period of time. The payment can be monthly or quarterly, this is often done to supplement income after retirement.

12. What is the Surrender Value?

Surrender Value is the amount when you stop paying the premium and withdraw the entire amount. The policy ceases as soon as you withdraw the money, and the insured will lose out all the returns on it.

13. Is it advisable to replace the policy with another policy?

If it is not a long duration that you have bought the policy, then you can replace the policy. But in other case it is not advisable as you will lose all the benefits of the previous policy also the premium will go high as you go older. Also, the two-year period of contestability will also begin again.

14. How to claim the policy?

In order to claim the policy, you have to fill up the claim form and contact your financial advisor from whom you have bought the policy. You have to supplement all the required documents like original payment receipt to your insurance company. If everything is ok, you will be paid within seven days of the policy claimed.

15. What happens if you fail to make required premium payments?

Usually, Insurance Company gives a grace period of 10-15 days to the insured if they fail to pay the premium before the due date. Further, if you fail to pay a premium, then your policy will lapse. You can revive your policy by paying the outstanding premium along with the interest, counted from the date the policy got lapsed. Different Insurance Company has a different norm for reviving the policy.

However, if your policy is in force for a longer period like say more than 2-3 years, and if you fail to pay a premium, then insurance company will deduct the premium amount from your accumulated funds, especially in permanent life insurance. This will continue till there is an available fund after which your policy will be terminated.

16. Is it possible to get the full payment on cancelling the new policy in free look period?

‘Free Look Period’ is a time-period where the insured can cancel their newly bought policy in a specific period of time from the date of issuing the policy without any penalties or surrender charges.

Yes, it is possible to get the full payment in free look period; you can cancel your new policy in 15 days by returning the policy to the life Insurance company after you receive all the documents related to the policy.

17. What is the difference between the participating and non-participating policy?

Participating policy is a policy, where the profit or benefits of the insurance company is shared with the insured in the form of a dividend or reversionary bonuses. While, the non-participating policy, does not share their profit with insured.

18. Is it possible to restrict the premium payment for a lesser number of years than the duration of the policy?

Certain Insurance company have a provision of Limited Premium Payment, through which you can pay the premium in 3, 5, 7 or 10 years depend upon your income, and you still can have the coverage for the entire tenure of the policy.

19. Can beneficiary claim the policy if the insured person is missing or disappeared for several years?

It is possible to claim, if the beneficiary has court declaration that says that the insured person is missing or legally dead (disappeared for more than 7 years).

20. What do you mean by 'Additional Insured'?

'Additional Insured' is the status associated mainly with property insurance and liability insurance. The additional insured will be protected under the main policy holder. For example a vehicle insurance policy which covers all the members of family and not only the owner.

General Insurance

21. What is General Insurance policy? What does it cover?

General Insurance is basically an insurance policy that protects you from losses and damages other than covered by life insurance. For example it covers

- a) Personal property such as car or house
- b) Accident and health Insurance
- c) Liability Insurance – legal Liabilities
- d) Property against natural calamities like flood, fire, earthquake etc.

- e) Burglary and theft
- f) Coverage on transport vehicles carrying goods like Cargo Ship
- g) Coverage against machinery breakdown
- h) Travel

22. What do you mean by term 'Double Indemnity'?

'Double Indemnity' is a provision provided by certain insurance companies, where according to their policy they are liable to pay double the face amount in case of death by accidental means or murder. This type of policy does not cover suicide, and death caused by gross negligence of the insured person. For example, a person who dies due to natural causes including heart disease or cancer, Murder or conspiracy by beneficiary, or death due to an injury from sheer negligence.

23. What happens to the cash value after the policy is fully paid up?

After the policy is fully paid up, the company plans to use the cash value to pay your premium until you die. If you take the cash value out, the insurer will require you to pay the premium or reduce the amount of the death benefit so the remaining cash value will support.

Life-Insurance

24. What are the different types of Life Insurance?

There are two type of life insurance

- a) **Term Life Insurance:** Term life Insurance is a type of life Insurance, which provides coverage for fixed rate of premium for a limited period of time. Term Insurance can cover you for the term of one or two years.
- b) **Permanent Life Insurance:** Permanent Life Insurance covers an individual for the whole life; people take permanent life insurance about 25-30 years normally. The premiums are slightly higher than Term Life Insurance.

25. What is Elimination period in insurance?

In the disability income insurance or loss of income insurance, the elimination period is the amount of time you have to wait before benefits are paid. In other words, it is a

time-period between the beginning of the injury and the benefits you are paid off. Longer the Elimination period lower the premium and vice versa.

26. What is 'group life' insurance?

'Group life insurance' is a single policy that covers an entire group. Such policy is taken by an employer for the bigger organization to cover their employee, as an individual policy holder, it may cost more than a group policy.

27. Does beneficiary have to pay tax on the proceeding of life insurance policy?

Generally, the benefits on the life insurance policy are tax free and the beneficiary is not liable to pay any tax after the death of the policy holder. But if you are changing your beneficiary for monetary gain or other purposes then the beneficiary has to pay tax on it.

28. Is it possible to convert a part of term life insurance into permanent life insurance?

Yes, it is possible to convert as far as you are having a convertible life insurance policy. But there is a deadline that has to be taken care of, for converting term life insurance into permanent life insurance. Also, your premium will rise soon you convert your policy.

Auto-Insurance

29. What is Personal Accident cover? Does it cover anywhere in the world?

Personal Accident Insurance is for your personal vehicle and covers any fatal accidents to you or your family excluding driver. Most of the insurance companies give coverage anywhere in the world.

30. In what all Instances you cannot claim your Personal Accident Insurance?

- if your injuries are a result of sickness or disease
- If your injuries are self-inflicted or attempt to suicide
- Stress fractures, sprains and strains
- Injury occurred while committing crime
- Deliberately cause a car accident

31. What is the difference between the 'single limit liability' coverage and 'split liability coverage'?

'Single limit liability coverage' covers a single person for bodily injury and property damage, for instance, in case of accident only single person will be covered no matter how many persons were injured. While, in 'split liability coverage' each person is covered separately.

32. What is 'collision coverage' and 'comprehensive coverage' in Auto insurance?

Collision coverage covers when you have a collision with any other object or vehicle while comprehensive coverage covers your vehicle other than collision, when your car is not in use.

Home Insurance

33. What is the difference between the 'All perils' and 'Specified perils' coverage in home insurance coverage?

In home insurance coverage, 'All perils' protects you from the widest range of risks besides common risks while 'Specified perils' will give coverage only for the common risks, that is listed in your policy.

34. What is 'schedule of loss' in home insurance?

Schedule of loss is a document submitted to the insurance company to claim the policy; it gives the information of damaged or lost items like model number, when it was purchased, cost of the item etc.

35. What is Depreciation? What are the most common depreciation methods?

Depreciation expense is used in accounting to allocate the cost of a tangible asset over its useful life. In other words, it is the reduction of value in an asset over time due to usage, wear and tear, or obsolescence. There are several types of depreciation expense and different formulas for determining the book value of an asset. The most common depreciation methods include:

- Straight-line
- Double declining balance
- Units of production
- Sum of years digits

#1 Straight-Line Depreciation Method

Straight-line depreciation is a very common and simple method of calculating the expense. In straight-line depreciation, the expense amount is the same every year over the useful life of the asset.

Depreciation Formula for the Straight Line Method:

$$\text{Depreciation Expense} = (\text{Cost} - \text{Salvage value}) / \text{Useful life}$$

#2 Double Declining Balance Depreciation Method

Compared to other depreciation methods, double-declining-balance depreciation results in larger expense in the earlier years as opposed to the later years of an asset's useful life. The method reflects the fact that assets are more productive in its early years than in its later years. With the double-declining-balance method, the depreciation factor is 2x that of a straight line expense method.

Depreciation formula for the double declining balance method:

$$\text{Periodic Depreciation Expense} = \text{Beginning book value} \times \text{Rate of depreciation}$$

#3 Units of Production Depreciation Method

Units-of-production depreciation method depreciates assets based on the total number of hours used or the total number of units to be produced over its useful life.

The formula for the units-of-production method:

$$\text{Depreciation Expense} = (\text{Number of units produced} / \text{Life in number of units}) \times (\text{Cost} - \text{Salvage value})$$

#4 Sum-of-the-Years-Digits Depreciation Method

Sum-of-the-years-digits method is one of the accelerated depreciation methods. A higher expense is incurred in the early years while lower expense is incurred in the latter years of the asset.

In sum-of-the-years digits depreciation method, the remaining life of an asset is divided by the sum of the years and then multiplied by the depreciating base to determine the expense.

The depreciation formula for the sum-of-the-years-digits method:

$$\text{Depreciation Expense} = (\text{Remaining life} / \text{Sum of the years digits}) \times (\text{Cost} - \text{Salvage value})$$

36. What is an escrow account?

An escrow account is an account where funds are held in trust whilst two or more parties complete a transaction. This means a trusted third party such as Escrow.com will secure the funds in a trust account. The funds will be disbursed to the merchant after they have fulfilled the escrow agreement. If the merchant fails to deliver their obligation, then the funds are returned to the buyer.

37. What is Leveraged Buyout (LBO)?

A leveraged buyout (LBO) is the acquisition of another company using a significant amount of borrowed money to meet the cost of acquisition. The assets of the company being acquired are often used as collateral for the loans, along with the assets of the acquiring company.

In a LBO, there is usually a ratio of 90% debt to 10% equity. Because of this high debt/equity ratio, the bonds issued in the buyout are usually not investment grade and are referred to as junk bonds. Further, many people regard LBOs as an especially ruthless, predatory tactic. This is because it isn't usually sanctioned by the target company. It is also seen as ironic in that a company's success, in terms of assets on the balance sheet, can be used against it as collateral by a hostile company.

38. What are the major stock markets Indices?

- **S&P Global 1200:** The S&P Global 1200 Index is a free-float weighted stock market index of global equities from Standard & Poor's. The index covers 31 countries and approximately 70 percent of global stock market capitalization
- **Dow Jones Industrial Average:** The Dow Jones Industrial Average, or simply the Dow, is a stock market index that indicates the value of 30 large, publicly owned companies based in the United States, and how they have traded in the stock market during various periods of time. These 30 companies are also included in the S&P 500 Index.
- **NASDAQ Composite:** The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. Along with the Dow Jones Average and S&P 500 it is one of the three most-followed indices in US stock markets.

- NYSE Composite (DJ): The NYSE Composite is a stock market index covering all common stock listed on the New York Stock Exchange, including American depositary receipts, real estate investment trusts, tracking stocks, and foreign listings.
- FTSE 100: The Financial Times Stock Exchange 100 Index, also called the FTSE 100 Index, FTSE 100, FTSE, or, informally, the "Footsie", is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation.
- Nikkei 225: The Nikkei 225, more commonly called the Nikkei, the Nikkei index, or the Nikkei Stock Average, is a stock market index for the Tokyo Stock Exchange.
- Hang Seng Index: The Hang Seng Index is a free float-adjusted market-capitalization-weighted stock-market index in Hong Kong. It is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of the overall market performance in Hong Kong
- Shanghai Composite Index: The SSE Composite Index also known as SSE Index is a stock market index of all stocks that are traded at the Shanghai Stock Exchange. They are also SSE 180, SSE 50 and SSE Mega-Cap Indexes for top 180, 50 and 20 companies respectively