

**Module II (Exam 1) - Risk Analysis and Insurance Planning (RAIP)**

Exam 1 Topic List to the extent of 80% of Total Marks (150) i.e. 120 marks (30 marks reserved for the Module I – Introduction to Financial Planning)

**Course Description:** This module would cover the knowledge requirements relating to insurance needs and risk assessment of clients. It introduces students to various concepts and regulatory environment of insurance in India. The evolution process requires advice on decisions in selecting various types of insurance related to personal finance for clients. This includes protection against exposures to risks of mortality, health, disability, property, liability, and long term care risk.

**Learning Objectives:**

At the end of this module, a student should be able to:

1. Understand the role of the financial planner in the personal risk assessment process.
2. Integrate risk assessment and risk protection into comprehensive financial plan.
3. Analyze the individual risk areas and the extent and type of protection best suited for the client's financial situation and financial goals.
4. Implement the plan for the insurance component and integrate tax efficiency.

**Detailed Topic List:**

| Pattern of Question Bank RAIP module – 80% in Exam 1 |   |              |       |              |       |              |       |              |       |              |       |
|--|---|--------------|-------|--------------|-------|--------------|-------|--------------|-------|--------------|-------|
|  |   | Section-I    |       | Section -II  |       | Section -III |       | Section -IV  |       | Section -V   |       |
|  |   | No. of Items | Marks |
| Marks Category                                       | 1 | 10           | 10    | 3            | 3     | 3            | 3     | 4            | 4     | 8            | 8     |
|  | 2 | 4            | 8     | 2            | 4     | 2            | 4     | 2            | 4     | 2            | 4     |
|  | 3 | 0            | 0     | 5            | 15    | 5            | 15    | 2            | 6     | 0            | 0     |
|  | 4 | 0            | 0     | 1            | 4     | 4            | 16    | 3            | 12    | 0            | 0     |
| Total  |   | 14           | 18    | 11           | 26    | 14           | 38    | 11           | 26    | 10           | 12    |

Part I: Concepts of Insurance and Risk Management

|                        |  |
|------------------------|--|
| Testing Objective      | Theoretical testing knowledge: 'Grade 1'<br>Theoretical (predominantly) testing clarity of concepts or Numerical testing basic skills: 'Grade 2' |
| Total weight to Exam 1 | 12%  |
| Nature of Test Items   | 10 items: 1 mark each<br>4 items : 2 marks each  |

| Sub-parts   | Testing and Difficulty grade |
|---|------------------------------|
| <b>1.1. Introduction to Insurance</b>   | 'Grade 1& 2'                 |
| Detailed Topics   |                              |
| 1.1.1. Overview of Insurance Sector in India<br>1.1.2. Purpose and need of Insurance<br>1.1.3. Insurance as a tool to manage Risk<br>1.1.4. Cost and benefits of Insurance to individual and society  |                              |
| Sub-parts   | Testing and Difficulty grade |
| <b>1.2. Basic Concepts of Insurance</b>   | 'Grade 1'                    |
| Detailed Topics   |                              |
| 1.2.1. Perils and hazards<br>1.2.2. Law of large numbers<br>1.2.3. Adverse selection<br>1.2.4. Insurable risk<br>1.2.5. Self-insurance  |                              |
| Sub-parts   | Testing and Difficulty grade |
| <b>1.3. Insurance and Risk</b>  | 'Grade 1& 2'                 |
| Detailed Topics   |                              |
| 1.3.1. Meaning of risk<br>1.3.2. Types of pure risk<br>1.3.3. The principle of pooling of risk<br>1.3.4. Methods of handling risk<br>1.3.5. Difference between insurance and hedging<br>1.3.6. Advantages and disadvantages of insurance in handling risk<br>1.3.7. Reinsurance |                              |
| Sub-parts   | Testing and Difficulty grade |
| <b>1.4. Fundamental Principles of Insurance</b>   | 'Grade 1'                    |
| Detailed Topics   |                              |
| 1.4.1. Indemnity<br>1.4.2. Insurable Interest<br>1.4.3. Utmost Good Faith<br>1.4.4. Subrogation<br>1.4.5. Contribution<br>1.4.6. Proximate Cause  |                              |

| Sub-parts   | Testing and Difficulty grade |
|---|------------------------------|
| <b>1.5. Risk Management</b>   | 'Grade 1'                    |
| Detailed Topics   |                              |
| 1.5.1. Meaning and objective of risk management<br>1.5.2. Steps in personal risk management<br>1.5.3. Risk control and risk financing<br>1.5.4. Insurance market dynamics and the underwriting cycle<br>1.5.5. Loss forecasting using probability and regression analysis |                              |

Part II: Insurance Contract and Legal Liability

|                        |   |
|------------------------|---|
| Testing Objective      | Theoretical testing knowledge: 'Grade 1'<br>Theoretical (predominantly) testing clarity of concepts or Numerical testing basic skills: 'Grade 2'<br>Numerical testing basic skills: 'Grade 3'<br>Numerical testing analytical skills & synthesis: 'Grade 4' |
| Total weight to Exam 1 | 17.33%  |
| Nature of Test Items   | 3 items: 1 mark each<br>2 items: 2 marks each<br>5 items: 3 marks each<br>1 item : 4 marks  |

| Sub-parts  | Testing and Difficulty grade |
|--|------------------------------|
| <b>2.1. The Insurance Contract</b>   | 'Grade 1'                    |
| Detailed Topics  |                              |
| 2.1.1. Competent parties<br>2.1.2. Offer and acceptance<br>2.1.3. Consideration<br>2.1.4. Basic parts of an Insurance Contract<br>2.1.5. Distinct legal characteristics of an Insurance Contract<br>2.1.6. Performance and discharge of Insurance Contract<br>2.1.7. Insurance policy documents and their legal implications |                              |
| Sub-parts  | Testing and Difficulty grade |
| <b>2.2. Important Terms in Insurance Contract</b>  | 'Grade 1, 2 & 3'             |
| Detailed Topics  |                              |
| 2.2.1. Endorsements/riders<br>2.2.2. Deductibles 'Grade 2'<br>2.2.3. Co-insurance<br>2.2.4. Assignment<br>2.2.5. Nomination and beneficiary status<br>2.2.6. Insurance provisions- Reinstatement value basis/depreciation basis 'Grade 3'  |                              |

| Sub-parts   | Testing and Difficulty grade |
|---|------------------------------|
| <b>2.3. Insurance Pricing and Premium Calculation</b>   | 'Grade 1, 2 & 3'             |
| Detailed Topics   |                              |
| 2.3.1. Objective of rate making/rating<br>2.3.2. Important factors in rating<br>2.3.3. Risk assessment and rating<br>2.3.4. Rate making for life insurance<br>2.3.5. Rate making property and liability insurance 'Grade 3' |                              |

| Sub-parts   | Testing and Difficulty grade |
|---|------------------------------|
| <b>2.4. Analysis and Selection of Insurance Products and its Provider</b>   | 'Grade 2, 3 & 4'             |
| Detailed Topics   |                              |
| 2.4.1. Purpose of coverage 'Grade 2'<br>2.4.2. Duration of coverage 'Grade 2'<br>2.4.3. Participating or non-participating<br>2.4.4. Cost-benefit analysis<br>2.4.5. Claim settlement |                              |

| Sub-parts  | Testing and Difficulty grade |
|--|------------------------------|
| <b>2.5. Legal Liability</b>  | 'Grade 1'                    |
| Detailed Topics  |                              |
| 2.5.1. Intentional torts<br>2.5.2. Absolute liability<br>2.5.3. Law of negligence<br>2.5.4. Special tort liability problems<br>2.5.5. Civil justice system-IRDA, Insurance Ombudsman, Consumer Protection Act-1986 |                              |

Part III: Life Insurance- Analysis of Life Cover, Strategies and Products

|                        |   |
|------------------------|---|
| Testing Objective      | Theoretical testing knowledge: 'Grade 1'<br>Theoretical (predominantly) testing clarity of concepts or<br>Numerical testing basic skills: 'Grade 2'<br>Numerical testing basic skills: 'Grade 3'<br>Numerical testing analytical skills & synthesis : 'Grade 4' |
| Total weight to Exam 1 | 25.33%  |
| Nature of Test Items   | 3 items: 1 mark each<br>2 items: 2 marks each<br>5 items: 3 marks each<br>4 items: 4 marks each   |

| Sub-parts   | Testing and Difficulty grade |
|---|------------------------------|
| <b>3.1. Assessment and Identification of Risk Exposure</b>  | 'Grade 1 & 2'                |
| Detailed Topics   |                              |
| 3.1.1. Gathering data on current life insurance coverage<br>3.1.2. Identifying client's life insurance needs<br>3.1.3. Situational analysis for perils and insurance provisions   |                              |
| Sub-parts   | Testing and Difficulty grade |
| <b>3.2. Analysis of Life Insurance Needs</b>  | 'Grade 3 & 4'                |
| Detailed Topics   |                              |
| 3.2.1. Economic value of human life<br>3.2.2. Replacement of future income of the insured<br>3.2.3. Replacement of expenses and financial liabilities of the family<br>3.2.4. Provision in the life cover of certain financial goals and financial liabilities<br>3.2.5. Review of coverage for changes in income, assets and financial liabilities |                              |
| Sub-parts   | Testing and Difficulty grade |
| <b>3.3. Types of Life Insurance Policies</b>  | 'Grade 1, 2 & 3'             |
| Detailed Topics   |                              |
| 3.3.1. Term Insurance<br>3.3.2. Whole Life Policy<br>3.3.3. Endowment Policy<br>3.3.4. Investment Linked Insurance<br>3.3.5. Insurance Linked Annuities<br>3.3.6. Life insurance policy riders  |                              |
| Sub-parts   | Testing and Difficulty grade |
| <b>3.4. Calculations of Claim Amount and Other Benefits</b>   | 'Grade 2 & 3'                |
| Detailed Topics   |                              |
| 3.4.1. Bonus- revisionary, performance, maturity, etc.<br>3.4.2. Maturity claim<br>3.4.3. Death claim<br>3.4.4. Surrender value 'Grade 3'<br>3.4.5. Return on savings component 'Grade 3'<br>3.4.6. Taxation aspects of various life insurance policy 'Grade 1'   |                              |
| Sub-parts   | Testing and Difficulty grade |
| <b>3.5. Other Provisions of Life Insurance Contract</b>   | 'Grade 1 & 2'                |
| Detailed Topics   |                              |
| 3.5.1. "Free look" period and Grace period<br>3.5.2. Claim concession<br>3.5.3. Lapse, non-forfeiture provision, surrender and revival<br>3.5.4. Loans against life insurance policies<br>3.5.5. Exclusions and restrictions<br>3.5.6. Suicide clause   |                              |

Part – IV General Insurance- Property, Health and Liability Insurance

|                        |   |
|------------------------|---|
| Testing Objective      | Theoretical testing knowledge: 'Grade 1'<br>Theoretical (predominantly) testing clarity of concepts or Numerical testing basic skills: 'Grade 2'<br>Numerical testing basic skills: 'Grade 3' |
|                        | Numerical testing analytical skills & synthesis: 'Grade 4'  |
| Total weight to Exam 1 | 17.33%  |
| Nature of Test Items   | 4 items: 1 mark each<br>2 items: 2 marks each<br>2 items: 3 marks each<br>3 items: 4 marks each   |

| Sub-parts   | Testing and Difficulty grade |
|---|------------------------------|
| <b>4.1. Health Insurance and Accident Insurance</b>   | 'Grade 1, 2 & 4'             |
| Detailed Topics   |                              |
| 4.1.1. Individual Health Insurance<br>4.1.2. Family floater policy<br>4.1.3. Critical illness policy<br>4.1.4. Group health insurance policies<br>4.1.5. Pre-existing disease clause and other provisions<br>4.1.6. Personal and group accident insurance<br>4.1.7. Long-term care insurance<br>4.1.8. Income assurance- hospitalization and temporary disability   |                              |
| Sub-parts   | Testing and Difficulty grade |
| <b>4.2. Personal Disability Insurance</b>   | 'Grade 1, 2 & 3'             |
| Detailed Topics   |                              |
| 4.2.1. Disability- Permanent and Temporary<br>4.2.2. Disability- Partial and Total<br>4.2.3. Scope of benefits- Short-term and long-term disability   |                              |
| Sub-parts   | Testing and Difficulty grade |
| <b>4.3. Property and Liability Insurance</b>  | 'Grade 1, 2, 3 & 4'          |
| Detailed Topics   |                              |
| 4.3.1. Basis of property cover - Reinstatement, book or market value<br>4.3.2. Insuring house, household items, business unit, plant and machinery<br>4.3.3. Personal umbrella policy- Mortgage cover<br>4.3.4. Miscellaneous overseas travel insurance<br>4.3.5. Use of excess/deductible and franchise<br>4.3.6. Motor Insurance- Comprehensive and Mandatory Third Party Cover<br>4.3.7. Motor Insurance - No claim bonus and Claims |                              |

| Sub-parts   | Testing and Difficulty grade |
|---|------------------------------|
| <b>4.4. Other Business Specific Insurance</b>   | 'Grade 1 & 3'                |
| Detailed Topics   |                              |
| 4.4.1. Keyman Insurance<br>4.4.2. Professional Indemnity Insurance<br>4.4.3. Employee State insurance Liability<br>4.4.4. Workers' Compensation Insurance<br>4.4.5. Directors' and Officers' Liability Policy<br>4.4.6. Clinical Trials Liability Insurance<br>4.4.7. Employees' Health Insurance<br>4.4.8. Commercial Auto Policies<br>4.4.9. Marine Insurance<br>4.4.10. Cargo and Hull Insurance<br>4.4.11. Inland Transit Insurance<br>4.4.12. Crop Insurance<br>4.4.13. Poultry Insurance<br>4.4.14. Terrorism and Riot Covers |                              |

## Part V: Regulatory Framework of Insurance

|                        |  |
|------------------------|--|
| Testing Objective      | Theoretical testing knowledge: 'Grade 1'<br>Theoretical testing clarity of concepts: 'Grade 2' |
| Total weight to Exam 1 | 8%   |
| Nature of Test Items   | 8 items: 1 mark each<br>2 items: 2 marks each  |

| Sub-parts  | Testing and Difficulty grade |
|--|------------------------------|
| <b>5.1. Regulations Relating Insurance</b>   | 'Grade 1 & 2'                |
| Detailed Topics  |                              |
| 5.1.1. Insurance Regulatory and Development Authority (IRDA) Act- 1999<br>5.1.2. The Insurance Act-1938<br>5.1.3. Indian Contract Act- 1872<br>5.1.4. Public Liability Insurance Act- 1991<br>5.1.5. Motor Vehicle Act- 1988<br>5.1.6. Consumer Protection Act- 1986<br>5.1.7. Workmen's Compensation Act- 1923<br>5.1.8. Employee State Insurance Act- 1948 |                              |

| Sub-parts  | Testing and Difficulty grade |
|--|------------------------------|
| <b>5.2. Other Regulatory Aspects of Insurance and Agency Law</b>   | 'Grade 1 & 2'                |
| Detailed Topics  |                              |
| 5.2.1. Laws regarding insurance companies in India<br>5.2.2. Various intermediaries – agents, corporate agents, brokers, surveyors, loss assessors, consultants, etc.<br>5.2.3. Difference between Insurance Agents and Brokers<br>5.2.4. Agency law and functions of an agent<br>5.2.5. Doctrines of waiver and estoppels |                              |

**Terminology****AER: Annual Effective Rate****MNR: Monthly Nominal Rate****RR: Real Rate****MNRR: Monthly Nominal Real Rate****BGN or (B) = Beginning of the period calculation****END or (E) = End of the period calculation**

**SECTION – 1 Concepts of Insurance and Risk Management****Introduction to insurance**

Humans have always sought security. Families, clans, tribes and other groups were the outcome of the motivating force to get security in olden days. Even today groups exist may be employer, government, or an insurance company and the concept is the same. The physical and economic security formerly provided by the tribe or extended family diminished with industrialization. Insurance is the more formalized means to mitigate the adverse consequences of unemployment, loss of health, death, old age, law suits and destruction of property.

The insurance industry occupies a very important place among financial services all over the world. Today insurance affects people from all walks of life. Individuals as well as business firms turn to insurance for managing various risks. Everyday new coverage is added to the existing policy. The expanding scope of insurance highlights the growing importance of insurance to individuals and organizations alike. A proper appreciation of what insurance is and what it can do to help an individual or an organization is therefore necessary

**What is Insurance?**

***Insurance is a contract between the insurance company (insurer) and the policyholder (insured). In return for a consideration (the premium), the insurance company promises to pay a specified amount to the insured on the happening of a specific event.***

Insurance can be defined as a contract between two parties, where one promises the other to indemnify or make good any financial loss suffered by the latter (the insured) in consideration for an amount received by way of 'premium'. In other words, the party agreeing to pay for the losses is the 'insurer'. The party whose loss makes the 'insurer' pay the claim is the 'insured'. The consideration involved in the contract or what the insured pays to the 'insurer' is called premium. The contract of insurance is referred to as the 'policy'.

**Purpose of Insurance**

Every human being has fear in his mind. The fear whether he will be able to meet the basic needs of the life i.e. Food, Clothing and Housing. He has fear not only for himself but also for his dependents. The source of income to meet his basic needs may be through service or business. If he is able to meet his basic needs then he acquires the assets i.e. vehicles, property or jewelry etc. Then he gets additional fear of saving the assets from destruction. (The assets may be destroyed through accident, fire or earthquake etc. and the income may be cut off due to certainty i.e. old age and death or uncertainty i.e. accident, illness or disability.)

As you know, the old age and death is certain for every human being while the accident, illness, disability and destruction of assets may be by random. The number of accidents will take place but with whom is uncertain. Therefore, to overcome this problem, the Insurance plays a very important role.

## Need of Insurance

- **To provide Security and Safety:** The Life Insurance provides security against premature death and payment in old age to lead the comfortable life. Similarly in general Insurance, the property can be insured against any contingency i.e. fire, earthquake etc.
- **To provide Peace of Mind:** The uncertainty due to fire, accident, death, illness, disability in the human life, it is beyond the control of the human beings. By way of Insurance, he may be compensated financially but not emotionally. The financial compensation provides not only peace of mind but also motivates to work more and more.
- **To Eliminate Dependency:** On the death of the breadwinner, the consequences need not be explained. Similar to the destruction of property and goods the family would suffer a lot. It could lead to reduction in the standard of living or begging from relatives, friends or neighbors. The economic independence of the family is reduced. The Insurance is the only way to assist and provide them adequate at the time of sufferings.
- **To Encourage Savings:** Life Insurance provides protection and investment while general Insurance provides only protection to the human life and property respectively. Life Insurance provides systematic saving because once the policy is taken then the premium is to be regularly paid otherwise the amount will be forfeited.
- **To fulfill the needs of a person:**
  - Family needs
  - Old age needs
  - Re-adjustment needs
  - Special needs: Education, Marriage, health
  - The cleanup needs: After death, ritual ceremonies, payment of wealth tax and income taxes are certain requirements, which decreases the amount of funds of the family members.
- **To Reduce the Business Losses:** In business the huge amount is invested in the properties i.e. Building and Plant and Machinery. These properties may be destroyed due to any negligence, if it is not insured nobody would like to invest a huge amount in the business and industry. The Insurance reduced the uncertainty of business losses due to fire or accidents etc.
- **To Identify the Key man:** Key man is a particular man whose capital, expertise, energy and dutifulness make him the most valuable asset in the business and whose absence will reduce the income of the employer tremendously and upto that time when such employee is not substituted. The death or disability of such valuable lives will prove a more serious loss than that fire or any hazard. The potential loss to be suffered and the compensation to the dependents of such employee require an adequate provision, which is met by purchasing an adequate life policies.
- **To Enhance the Limit:** The business can obtain loan but pledging the policy as collateral for the loan. The insured persons are getting more loan due to certainty of payment at their death.
- **Welfare of Employees:** The welfare of the employees is the responsibility of the employer. The employer is supposed to look after the welfare of the employees.