DegreeLive Logo

B.Com Honours | Semester III | Calicut University

PERSONAL FINANCIAL PLANNING

Course Code: COM3MN205 • Module 3 Notes

Module III: Insurance & Risk Management

Insurance is a financial risk-transfer mechanism based on the principle of pooling resources to indemnify individuals against unpredictable economic losses.

Unit 9: Meaning & Need for Insurance – Risk Pooling & Indemnity

1. Meaning: A legal contract (policy) where an insurer promises to compensate the insured for specified financial losses in exchange for a premium payment.
2. Principle of Indemnity: Restores the insured to the financial position occupied immediately prior to the loss (applies to non-life insurance).

Unit 10: Insurance vs. Wagering Contracts – Insurable Interest

Distinction: Insurance requires an *Insurable Interest* (a lawful financial stake in the subject matter), promoting protection. Wagering contracts are illegal gambling bets creating artificial risk without insurable interest.

Unit 11: Types of Insurance – Life (Term, Endowment) & Non-Life (Health, Motor)

1. Life Insurance: Term Insurance (pure financial cover at low premium), Endowment / Whole Life (combines insurance with savings).
2. Non-Life Insurance: Health Insurance (floater policy covering hospitalization expenses), Motor Insurance (third-party liability mandated under Motor Vehicles Act), and Property/Fire Insurance.

Unit 12: Unit Linked Insurance Plans (ULIPs) – Structure & Asset Allocation

Hybrid financial products combining life cover with equity/debt market investment. Premium is split between mortality charges and market-linked fund units. Subject to a 5-year lock-in period.

Unit 13: Tax Benefit Schemes under Insurance (Section 80C & Section 80D)

Tax Incentives:
Section 80C: Premium paid for life insurance policies deductible up to Rs. 1,50,000 p.a. Maturity proceeds exempt under Section 10(10D).
Section 80D: Premium paid for health insurance deductible up to Rs. 25,000 (self/family) + Rs. 50,000 (senior citizen parents).

Unit 14: Benefits & Limitations of Insurance Coverage

Provides financial security and peace of mind; limitations include premium payment obligations, policy exclusion clauses, and lower investment yields in traditional endowment plans.

DegreeLive
www.degreelive.in

Practical Case Analysis (Human Life Value - HLV Calculation & Insurance Plan Selection): An individual aged 35 years earns a net annual income of Rs. 12,00,000. Annual personal living expenses = Rs. 4,00,00,000. Expected retirement age = 60 years (25 working years remaining). Discount rate / interest rate = 8% p.a. Calculate the Human Life Value (HLV) pure term cover required, and evaluate Term Plan vs. Traditional Endowment Plan cost-effectiveness.

Step-by-Step Solved Analysis:

- *Annual Surplus Available for Dependents:* Net Income (12,00,000) - Personal Expenses (4,00,00,000) = **Rs. 8,00,000 per annum**.
- *Working Years Remaining:* (60 - 35 = 25 ext{ years}).
- **Human Life Value (HLV) Computation:**

  > **HLV = Annual Surplus (8,00,000) × Present Value Annuity Factor (25 years @ 8%)**

  PVAF (25 years, 8%) = 10.675.
  HLV = (8,00,000 imes 10.675 = mathbf{ ext{Rs. 85,40,000}}) (~ Rs. 85 Lakhs Term Cover required).
- **Term Insurance vs. Endowment Comparison:**

Feature	Pure Term Life Insurance	Traditional Endowment Policy
Sum Assured Cover	Rs. 1,00,00,000 (1 Crore)	Rs. 10,00,000 (10 Lakhs)
Annual Premium	Rs. 12,000 p.a.	Rs. 50,000 p.a.
Maturity Benefit	Nil (Pure Risk Cover)	Rs. 15,00,000 (Low ~ 5% Return)
Recommendation	**Highly Recommended (Buy Term + Invest Difference in SIP)**	Inadequate Life Cover & Low Returns

www.degreelive.in
Degree

Acing your exams is just a click away!

Visit www.degreelive.in to download the next module for free.

DegreeLive

www.degreelive.in