**NMIMS**

**Insurance and risk management**

**Internal Assignment for June 2020 Examination**

**1. “An Insurance policy acts as a safeguard mechanism for an individual or organisation to reduce the effect of loss caused by various risk”. Describe the prerequisites or steps you would take for buying an insurance policy**.

**Answer**: Insurance is a mechanism by which the financial loss experienced, either due to the damage or loss of asset because of happening of some uncertainties, is transferred to an insurance pool. It is a loss distribution method in which the loss or damages suffered by one individual is distributed to all the members of the insurance pool. As such, it saves the owners from risk of one asset and balances the risk (damages or loss of the asset) by providing the compensation, i.e., making good loss. Thus, it never acts as a force to curb the prevailing risk to the asset due to happening of uncertainties, but it reduces the loss of the assets damaged. It only gives alternate benefit, payment of compensation from the common fund of insurance business capital and

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**2. Principles of Insurance forms the backbone of the entire sectors. Enumerate with examples any three such principles**.

**Answer**: **Principles of Insurance**

**Principle of insurable interest**: A fundamental legal principle that strongly supports the principle of indemnity is that of insurable interest, which holds that an insured must demonstrate a personal loss or else be unable to collect amounts due when a loss caused by an insured peril occurs. If insureds could collect without having an insurable interest, a moral hazard would exist, and the contract would be deemed contrary to public policy. The doctrine of insurable interest is also necessary to prevent insurance from becoming a gambling contract. An

**3. Jatin has recently started working with a renowned MNC after passing out of a premier BSchool. A senior colleague has suggested him to take a life insurance policy. However, Jatin is not convinced with the idea of taking a life insurance policy and is unaware of the various life insurance products which are available in the market. As a friend of Jatin You need to make Jatin understand the following:**

**a. Explain the concept of life insurance to Mr. Jatin and highlight the importance of a having life insurance policy**

**b. Help Jatin in explaining the various types of life insurance policies which are available in the market.**

**Answer**: a) Life insurance is one of the most important and expensive purchases you may ever make. When persons purchase a life-insurance policy, they enter into a contract with the life insurance company. Under the terms of the policy, the insurance company promises to pay a sum of money in the event of the policyholder’s death to the beneficiaries of the policy holder or to the policy holders themselves at the end of the policy period. The insurance company makes this promise in return for the insured’s agreement to pay it a sum of money i.e., the premium periodically.

Most of the people buy life insurance to protect their dependants from financial losses caused by their death. Their dependants