

Circumstances affecting the Risk

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Description of Module

Items	Description of Module
Subject Name	Law
Paper Name	Law of Insurance
Module Name /Title	Circumstances affecting the Risk
Module No.	V

Circumstances affecting the Risk

Objective: After reading this module, the learners will have a clear picture of :

The factors which may affect the risk are usually those factors which are affecting the mortality; they are also called factors affecting longevity of a person.

Learning Outcomes:

The mortality is not the only risk but the capacity and willingness of a person also influence the insurance decision.

Introduction:

In life insurance, the factors which may affect the risk are usually those factors which are affecting the mortality; they are also called factors affecting longevity of a person. These factors are discussed in following paragraphs:

1. Age :

The age of the life to be assured is the most important factor to affect mortality. Except for a few years of the childhood, the premium is determined at every year of the completion of age. The corporation asks for the age nearer to birthdays.

The person below six months and the person above six months older of the age will be treated of the same age. For instance, a person of 22 years 7 months and another person of 23 years 5 months will be treated the age of 23 years.

The age proof is very essential for calculating premium rate. So, unless age is proved payment of claim is not made if the age was not admitted at the time of proposal. Now it has been the common practice that the age should be admitted at the time of proposal to avoid dispute.

Minimum and Maximum limit of age:

The maximum age limit is fixed to avoid adverse selection. At advance age, the need for insurance is a doubtful proposition, i.e., the chances of moral hazard are higher.

The third reason for fixing maximum limit is the medical examination will disapprove most of the proposal at that stage. Mortality is certainly increased at that age. The minimum age limit is meant to avoid risk of infant mortality.

2. Build :

Build refers to physique of the proposed life and includes height, weight, the distribution of weight and chest expansion. There are standards of weight according to maximum weight reveal the indication of certain hidden diseases.

Therefore this sign is not favourable. The relationship between height, weight, growth and expansion of chest are the basic determinants of mortality expectations.

Overweight is dangerous in advanced age and underweight is similarly not desirable at younger age, say, below 35 years. The corporation, for example, has fixed the minimum weight, and maximum weight at a specified height.

If the assured life is not within the standard the proposal may not be accepted at the time of proposal and it may be postponed or may be accepted at extra-premium or may be rejected at all.

3. Physical Condition :

The physical condition of the age life proposed has a direct bearing on the mortality of the life. Insurers are, therefore, very particular about the conditions of an applicants' sight, hearing, heart, arteries, lungs, tonsils, teeth, kidneys, nervous system, etc. The experts in the field can assess the longevity or mortality of a person due to impairment of certain organs.

The questions are also designed to elicit information on the physical status of the applicant in the proposal form. The information is confirmed and supplemented by a medical examination. The primary purpose of the medical examination is to detect any malfunctioning of the vital organs of the body.

4. Personal History :

The personal history of the life proposed would reveal the possibility of death to him. The history may be connected with the (i) health record, (ii) past habit, (iii) previous occupation, (iv) insurance history.

(i) Health Record:

The past health record is the most important factor under personal history because it affects the longevity or mortality of a person to a greater extent. It includes any operations of the life proposed. The medical examination may reveal these facts.

This information is also given by the applicant. Particular emphasis is placed on the recent injuries and illness. It is customary to consult attending physicians.

It has been the practice not to accept the proposal form of the applicants who are suffering from illness. If the applicant has suffered from certain serious disease or operation during the past 5 years, he may be under the possibility of getting it again.

(ii) Past Habits:

The insurers want to know the past habit the life proposed, for drugs or alcohol because the cure may be only temporary. The past history is usually expected to be repeated. Therefore, past history is very cautiously examined.

(iii) History of Occupation:

If the proponent was employed in hazardous or unhealthy occupation, there is a possibility that he may still retain ill-effects there from or may revert to such occupation.

An intimate association within a person suffering from a contagious disease may influence the health of the life proposed. The past hazardous occupations generally affects, health slowly occupational diseases are contacted. Inorganic dust may create silicosis.

(iv) Insurance History:

The previous amount of insurance may disclose the degree of risk of the applicant. If he was refused insurance, it might be a suspicious factor of his insurability. If it was found that the applicant was already insured for adequate amount this request for more insurance is regarded with suspicions.

5. Family History:

Like the personal history, family history also requires information of habit, health, occupation and insurance of other family members, particularly of the parents, brother and sisters. The children's history of health is also required.

The certain diseases, like tuberculosis and insanity, etc., and longevity of the parents will be relevant factors for determining the degree of risk of the proponents. The favorable family history, however, is not considered for offsetting the adverse effect of the personal history.

The family history is considered significant to know the transmission of certain, characteristics by heredity. Hearts, lungs, build, etc., follow family.

6. Occupation:

Occupation is an important factor to affect the risk. It affects the occupation in various ways. Firstly, the nature of work may be hazardous because he may suffer an accident at any time while at work.

Secondly, the morale of the workers may go down. They may be tempted to indulge in intoxicating or liquor or other forms of immoral living.

Thirdly, the chemical effect may be poisonous. For instance, the workers may contact poison while engaged in match or chemical factories.

Fourthly, the dusty or unventilated house, unhealthy or insanitary environments may deteriorate the health of the workers.

Fifthly, in certain occupation, the occupational diseases are common.

Sixthly, excessive mental and nervous strain may cause financial worries, and lastly, the lesser income may affect the health of the worker.

7. Residence :

The residence also affects the risk. The risk will be lesser in a good climate area and more in a bad climate although the difference is narrowed down because of better medical and sanitary facilities! Information about the previous residence is equally important.

The geographical location, atmosphere, political stability, climate, construction of house, travel, etc., are important factor which may affect the risk.

8. Present Habits :

The general mode of living of the proposer affects the risk. Drunkards and non-temperate persons cause increase in mortality. Similarly, temperate habits tend to increase longevity of a person.

Excessive and careless smoking tends to shorten the life due to development of nicotine poisoning. The past habits are also considered important. The intoxication affects the health of a person and consequently his mortality. The general mode of living is also considered in habits.

9. Morals :

It has been observed that the departure from the commonly accepted standards of ethical and moral conduct involve extra mortality. Infidelity and departure from the code of sex behaviour are seriously regarded because these may affect the health. Unethical conduct is considered to be another form of moral hazard. Insurance is not generally given to bankrupt and reputed dishonest persons.

10. Race and Nationality :

The mortality rate differs from race to race and nation to nation. In India, persons of high, race or caste are expected to live longer than the scheduled castes or tribes. Similarly, countries near to equator have more mortality. The climate and way of life of a country affect the health conditions of the people.

11. Sex :

Mortality among female sex is, generally, higher than that of male sex because the physical hazard of maternity is present in the former case. Moreover, the ladies are physically more handicapped. The lesser education, conservatism and non-employment of the ladies also affect the mortality.

The absences of proper examination of the ladies also count more hazard. The chances of moral hazard are also present in the female insurance. So, unless woman has good financial reasons for insurance, her proposal is not generally conceded.

12. Economic Status

It is essential to examine that the family and business circumstances of the proponents are such as to justify the amount of insurance applied for. This investigation also reveals whether the income of the applicants bears a reasonable relationship to the amount of insurance which he proposes to carry.

The higher economic status generally provides a better field for insurance due to various reasons. Educational, financial and professional consciousness makes the

proponent insurance minded. The chance of death is also lower in higher strata of the society.

13. Defense Services:

Though there has been much improvement in defense technology, yet flying or gliding, etc., is still considered hazardous one. Sometimes, certain restrictive clauses are imposed for insuring persons engaged in such services.

In some other works, extra premiums are required. In commercial flying, no occupational extra is required. The war clause is added to avoid the occupation risk in defence, say, navy, air force and military.

14. Plan of Insurance:

Certain plans involve more responsibility to the insurer at death and so these plans are restricted to only first class lives, Similarly, some plans have lesser risk and therefore, can be issued without any extra investigations. For example, the multi-purpose policy is issued only to first class lives and the pure endowment policy can be issued to any one irrespective of health.