

Individual Assignment
FN221/FN281 Personal Finance
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1) Discuss on one Insurance product and comment on it benefits

Travel Guard Overseas Student Insurance by AIG

This insurance is for students who travelling to foreign countries for studies with age 15 to 45 years. Before applying this insurance, they have to ensure that they are accepted to study full-time in recognized educational institution outside Thailand. Also, if there is study interruption the insurer will get tuition fee paid by the company. It is obviously known that medical expenses in foreign country are more expensive than those in Thailand. Thus, this insurance cover injury accident or sickness incurred overseas which requiring medical treatment. Moreover, AIG has its own worldwide assistance company so there are multi-lingual staffs ready to assist 24/7 with guaranteed quality of services.

There are three types of plan; Platinum, Premier and Basic. These three plans differently compensate for study interruption, a trip made by a travel by a relative to visit the insured and injury from an assault. The information is following;

The insured have to pay insurance premium following the plan that they choose among platinum, premier and basic plan. The amount depends on period of time and plan. The more insured stay the larger the insurance premium.

Coverage	Benefit Amounts - Baht		
	Platinum Plan	Premier Plan	Basic Plan
1. Emergency medical expenses (Accident and sickness)	5,000,000	2,000,000	1,500,000
2. Study interruption	300,000	250,000	150,000
3. Compassionate visit	300,000	250,000	150,000
4. Accidental death and dismemberment indemnity	3,000,000	2,000,000	1,500,000
5. Emergency medical evacuation and repatriation of remains	5,000,000	4,000,000	3,000,000
6. Lost luggage and personal effects (Registered with Common Carrier)	80,000	40,000	20,000
• Excess per Claim	500	500	500
• Maximum limits per article/pair/set	8,000	4,000	2,000
7. Personal liability abroa	5,000,000	4,000,000	2,000,000
8. Felonious assault	1,500,000	1,000,000	750,000

Plan	Premium - Baht		
	Platinum Plan	Premier Plan	Basic Plan
Up to 6 months	20,607	10,422	7,524
Up to 12 months	41,212	20,842	15,046
Up to 18 months	61,819	31,264	22,568
Up to 24 months	82,424	41,684	30,090

For example, I buy premier plan costing 20,842 baht for my 1-year studying abroad. In case that I would be sick while studying there and were in the hospital for the treatment the company will reimburse up to 4,000,000 baht.

This insurance provides most benefits for those who are going to study abroad and parents who are worrying their child. However, in some country the travel insurance is one of the conditions when applying visa for entering country. There are three most concerns while studying abroad; study interruption, losing luggage and medical service. With the cover of insurance, the insured are protected after the accident happens.

In conclusion, from the data provided above those people who want to study abroad may consider this insurance policy as one of the factors. Anything could happen while travelling and studying in foreign country. They might buy this insurance for reduce their worries about what would happen in the future.

2) Which mortgage would result in higher total payments?

Mortgage A: \$970 a month for 30 years

Mortgage B: \$760 a month for 5 years and \$1005 for 25 years

Mortgage A

N		360
PMT	\$	970.00
FV		0
I/Y*		7.875%
PV	\$	<u>12,317.46</u>

Mortgage B

N1		60
PMT1	\$	760.00
N2		300
PMT2	\$	1,005.00
FV		0
I/Y*		7.875%
FV at year 5	\$	901,964.40
PV at year 5	\$	12,761.90
Sum of total payment at year 5	\$	914,726.30
PV of total payment at year 0	\$	<u>9,683.73</u>

From the calculation above, minimum retail rate is 7.875% then calculate for present value of two mortgages. It is found that mortgage A has higher total payment than mortgage B. However, if we ignore the minimum retail rate, total payment of mortgage A is still higher than total payment of mortgage B.

Total payment of mortgage A = $360 \times 970 = \$349,000$

Total payment of mortgage B = $(60 \times 760) + (300 \times 1005) = 347,100$

3) What are the two main types of consumer credit?

Consumer credit is the amount of credit used to purchase products. An individual uses credit card to pay for any goods or services and in return pays the credit card Company or banks at a due date. There are two main types of consumer credit; close-end and open-end credit

1 Close-end credit

Close-end credit is used in a specific purpose, time and amount. When consumer uses the credit card to purchase stuffs, he has to pay that specific amount within time period. For example; mortgage loans and car loans that the stores retain the title to the purchased products until payment has been fully made. If the consumer defaults on payments, the store may repossess that purchased goods back without any permission of customer.

2 Open-end credit

Open-end credit is mostly used in credit that the consumers can extend their credit limit with the financial institution whose their credit cards contract with. The amount of money to be used depends on customers' preference and they have to pay off a part, not a full amount, of credit owed at the end of the specific period.

4) What are the general rules of measuring credit capacity?

There are two general rules of measuring credit capacity; debt payments-to-income ratio (DTI) and debt-to-equity ratio

1 Debt payment-to-income ratio (DTI)

The ratio is a measurement tool how people use to compare their debt to overall income. Also, lenders measure borrower's ability to pay the debt. We can calculate the ratio by dividing total recurring monthly debt by overall monthly income. Thus, a low debt-to-income ratio shows a good balance between debt and income.

2 Debt-to-equity ratio

This ratio is used to measure financial leverage of company or people when they are applying for a loan. D/E is calculated by dividing total liability by equity. In this case, equity refers to the difference between total value of individual's asset and liabilities.

5) A few years ago, Michael Tucker purchased a home for \$100,000. Today, the home is worth \$150,000. His remaining mortgage balance is \$50,000. Assuming that Michael can borrow up to 80 percent of the market value, what is the maximum amount he can borrow?

Present market value of Michal's home	= \$150,000
Michael can borrow up to 80 percent of the market value	= $0.8 * 150,000 = \$120,000$
Michael still owes \$50,000 mortgage on his home	
Thus he can borrow a maximum of	= $(\$120,000 - \$50,000)$ = \$70,000

References

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