

FN281 Individual Assignment

1) Discuss one Insurance product and comment on its benefits

The Insurance product that I chose is “PRU whole life” offered by Prudential Life Assurance. This product offer 3 alternative plans for customers to choose where each plan compensate for the loss of customer’s life at 100% of sum assured if the death occurred before the age of 99. If the customers still alive until the age of 99, they also get the cash pay-back throughout policy term at the amount of 100% of sum assured. The payment term is different for each plan but the coverage term still the same (until the age of 99). Customers can choose the payment term of 10, 15 or 20 years and can choose the method of payment either monthly or annually. The minimum sum assured is 100,000 Baht but there is no maximum sum assured. The customers are entitled to a tax privilege of up to 100,000 Baht/year.

ข้อกำหนดทั่วไป

แบบประกันชีวิต	PRUตลอดชีพ 99/10	PRUตลอดชีพ 99/15	PRUตลอดชีพ 99/20
อายุรับประกันภัย	1 เดือน - 65 ปี	1 เดือน - 60 ปี	1 เดือน - 60 ปี
ทุนประกันภัยขั้นต่ำ	100,000 บาท		
เบี้ยประกันภัยขั้นต่ำ	500 บาท		
ระยะเวลาคุ้มครอง	ถึงอายุ 99 ปี		
ระยะเวลาชำระเบี้ยฯ	10 ปี	15 ปี	20 ปี

งวดการชำระเบี้ยประกันภัย

- รายปี ราย 6 เดือน และรายเดือน

ส่วนลดเบี้ยประกันภัย

อัตราส่วนลด เบี้ยประกันภัย ต่อทุนประกันภัย 1,000 บาท	ทุนประกันภัย (บาท)	อัตราส่วนลด (บาท)
	250,000 - 499,999	1.5
	500,000 ขึ้นไป	2.5

Therefore, the most obvious benefit that the insured will get is the cash pay-back at 100% of sum assured whether they die before the age of 99 or not. There are various plans to choose either the customers want short or medium period of payment term, depending on their financial behavior. Even though the payment terms are different among these plans, but the coverage term still the same, which is very long. The long or whole life coverage term make the customers ensure that they can have some heritages to their child from the benefits at maturity. The maximum sum assured is optional for customers to make a decision which is quite good for them to manage and plan their future returns. The tax benefit is very satisfied since the customers can save up to 100,000 Baht/year as the tax privilege. The customers will gain higher benefit as the sum assured is higher. They will get higher premium discount rate as the amount of sum assured is higher, which means that they will have less burden on the premium that they have to pay.

2) Which mortgage would result in higher total payments?

Mortgage A: \$970 a month for 30 years

Total payment = $\$970 * 12 \text{ months} * 30 \text{ years} = \$349,200$

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

Total payment = $(\$760 * 12 \text{ months} * 5 \text{ years}) + (\$1005 * 12 \text{ months} * 25 \text{ years}) = \$347,100$

Therefore, Mortgage A would result in higher total payments.

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

There are two main types of consumer credit, which are Closed-End Credit and Open-End Credit.

Closed-end credit includes debt instruments that are acquired for a particular purpose and for a set amount of time. At the end of a set period, the entirety of the loan must be repaid, including any interest payments or maintenance fees. The most common types of closed-end credit instruments are mortgages and car loans. Both are loans taken out for a specific period when the consumer is required to make regular payments. The issuing bank retains some ownership rights over the asset in question as a means of guaranteeing repayment. If a customer fails to repay an auto loan, the bank may seize the vehicle as compensation for the default.

Open-end credit is not restricted to a specific use or duration. Credit card accounts, home equity lines of credit and debit cards are all common examples of open-end credit. The issuing bank allows the consumer to utilize borrowed funds in exchange for the promise to repay any debt in a timely manner. Unlike closed-end credit, there is no set date when the consumer must repay all of his debts. Instead, these debt instruments have a maximum amount that can be borrowed, though this is often revisable and require monthly payments based on the amount of credit used.

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

There are two indicators that can measure credit capacity, the debt payment to income ratio and the debt to equity ratio.

The debt payment to income ratio, it measures to compare an individual's debt payment to his or her overall income, and can indicate an individual's ability to manage monthly payment and repay debts. It is calculated by dividing monthly debt payments by monthly income payment and is expressed by percentage. The low percentage meaning a good balance between debt and income, conversely, the high percentage is the signal of too much debt for a certain amount of income an individual has. The recommendation is that the ratio should not be exceeded 20%.

The debt to equity ratio, it measures the amount of debt an individual has for each of equity he or she has. It can be calculated by dividing liabilities by net worth or equity which is the difference between the total value of an individual's assets and liabilities. With a high personal debt to equity ratio, it indicate a high amount of debt relative to the available equity, which means the low ability to repay the loan. On the other hand, with a low personal debt to equity ratio, it create a high ability to repay the loan. The recommendation is that the ratio should not be exceeded 0.5.

Therefore, the general rules of measuring credit capacity are the debt payment to income ratio should not be exceeded 20% and the debt to equity ratio should not be exceeded 0.5.

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?

The market value of Michael's home = \$150,000. Michael can borrow up to 80 percent of the market value, or \$120,000. Michael still owe \$50,000 mortgage on his home. Therefore, he can borrow a maximum of $\$120,000 - \$50,000 = \$70,000$.