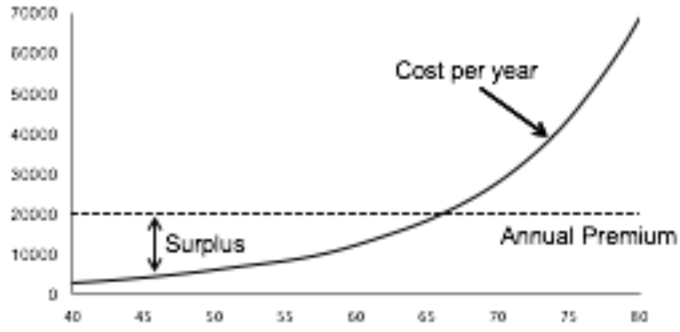

Investment of surplus:

- Some contracts allow the policy holder to determine how the surplus is invested
- There are tax deferral advantages compared to a normal investment as there is no tax paid until the payout policy

Annuity contracts:

- Usually a lump sum is used to buy a lifetime annuity
- It can be fixed or variable
- Can start immediately or be deferred
- Accumulated value can depend in a complicated way on the value of stock indices
- There may be penalty free withdrawals

Property-casualty insurance:

- Conerned with the loss or damage to property (fire, theft accident etc)
- Concerned with legal liability exposures
- Risk of fraud etc

When do premiums change:

- For life insurance, premiums usually stay the same throughout the life of the contract
- For property-casualty insurance, the premiums change from year to year as risks are reassessed
- For health insurance, premiums can rise because of overall rise in cost of healthcare but not because the health risks of policy holder increases - that risk assessment is done when the contract is signed

Moral hazard and adverse selection:

- Moral hazard - risk that the existence of the insurance policy causes the policy holder to take more risks
- Adverse selection - tendency for insurance company to attract bad risks because they cannot distinguish between good and bad risks