

THE ABCs OF INSURANCE

Introduction

Life is full of risks- some are preventable or can at least be minimized, some are avoidable and some are completely unforeseeable. But some unexpected risks can really set you back. That is where insurance comes in. Insurance is appropriate when you want to protect against a significant monetary loss.

What is insurance?

Insurance is a risk transfer mechanism; it is used to protect against a possible unwanted outcome in life and in business. Insurance helps to protect people and the things we value, such as our homes, our cars and other valuables, from the financial impact of risks, big and small- from fire, flood, earthquake, to theft, car accidents and travel mishaps. Insurance cannot prevent something from going wrong, but it can help protect you and your assets from the financial risk if something does happen. Insurance can help us financially recover if a risk should damage the things we value.

How insurance works?

When things go wrong it can be expensive and so, for many of these eventualities, insurance is there to take the financial risk on our behalf. Insurance spreads the cost of risk among a large group of people who share similar risks.

A business that provides insurance coverage agrees to take on risks on behalf of a company or individual, in exchange for a fee. It does this by providing the business or individual concerned with an insurance contract, sometimes called a 'policy', for which it charges a "premium".

This policy will cover a person or business for many of the costs they have to meet as a result of a risk occurring and provides the policyholder with some security should the worst happen.

Different Types of Insurance

Insurance comes in many forms and types depending on the risks to be covered. For example, there is liability, life, health, auto or property insurance and much more. However, broadly speaking there are two main kinds of insurance:

Life insurance -protects you and your family from the financial consequences of sickness and injury. Essentially, life insurance pays an insurance benefit when the person who is insured dies;

General insurance- Many of us may already have some kind of general insurance, particularly if we own a car. General insurance provides protection for the loss of your assets. This includes things like your home and its contents, your car, and even travel insurance.

What is an Insurance Policy?

An insurance policy is a legal agreement between an individual or business and an insurance company which stipulates what is being insured.

The insurance policy sets out exactly:

- what is being insured and the risk being insured against (terms and conditions)
- any exclusions
- how much the policy will cost you (premium)
- how much the insurer will pay if you make a claim.

Insurance premiums

When you buy an insurance policy, you pay a premium. This joins the premiums of many other policyholders in a large pool of funds which the insurer then invests to increase the amount of money held. With any luck, you will never need to draw on that pool. But if you happen to be one of the unlucky ones affected by an unexpected event, perhaps through severe weather or accident, that pool of funds can be used to help you up to the limit you have selected in your policy.

The insurer is in business to make a profit and will be hoping that the total premiums it receives in any one year, together with any money it can make through investments, will exceed the total claims it has to pay out.

Claims

Once you have entered into an insurance contract and paid your premium, you are entitled to compensation from the insurance company for any damage or loss suffered. The extent of compensation will depend on the type of insurance and the terms of the policy.

If something unexpected happens to property you have insured, you can lodge a claim with the insurer. If you have bought the right cover in your policy, the insurer will assist you through rebuilding or repairing your property, replacing your possessions or providing other compensation.

Remember, you can only claim on your insurance if the thing that goes wrong is covered in your insurance policy.

How can you get Insurance?

You can buy insurance directly from a licensed insurer or an insurance broker. Insurance brokers are normally not employed by a particular insurer but act on behalf of their clients and provide advice in the interests of their clients. A broker will help you identify your individual and/or business risks to help you decide what to insure and can help you find the most appropriate cover for your own circumstances.

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