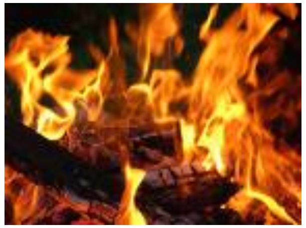
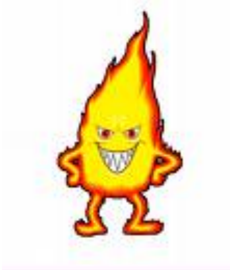
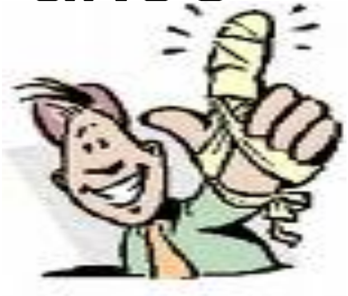
Insurance

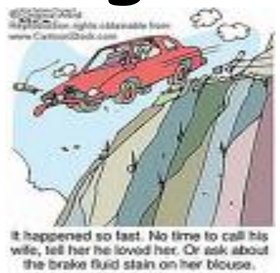



Insurance

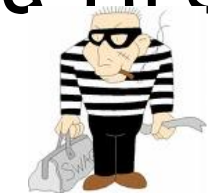




❑Insurance

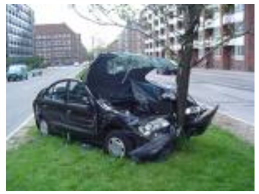
- This is protection against something that might happen

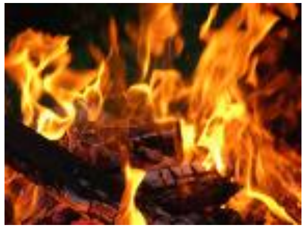


eg: a road accident, a fire, theft.

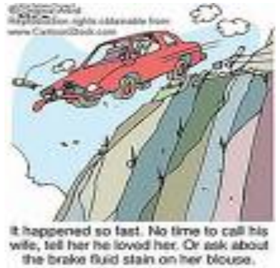




- Insurance is needed to reduce the financial risk when a household is faced with problems caused by damage to property, personal injury or death.



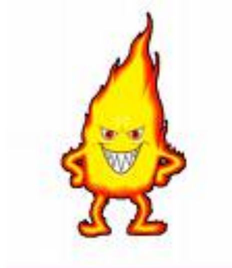


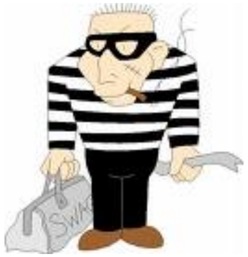
Insurance

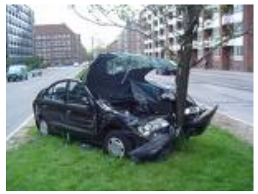


❑Insurance

- It is an agreement between an individual who is afraid of incurring a loss (*insured*), and an insurance company (*insurer*). In return for a fee (*called a premium*), the insurer will make good to the insured (*compensate*) if this loss occurs.







Insurance

□ The Insurer

- This is the insurance company who sells insurance/assurance

□ The Insured

- This is the person purchasing insurance/ assurance.
- They are protecting themselves against possible financial loss.

Insurance

◻ The Premium

- This is the fee paid by the insured to the insurer to purchase insurance
- The greater the risk (the more likely it is that the insurance company has to pay out compensation) the higher the premium

◻ To Compensate

- This means to make a payment to make a
to make good
- Compensation is the money paid out if damage or loss occurs

Insurance

Incoming Money

Outgoing Money

Investment of Premiums

Premiums

INSURANCE FUND

Payment of Expenses

Profits on Investments

Payment of Compensation

PROFIT FOR THE INSURANCE COMPANY

Insurance

- **Assurance**

- Assurance means making provision for something which will happen.

eg.: death

Insurance

- **Whole life Assurance**
  - This provides an agreed sum of money for your family after your death.

- **Endowment Assurance**
  - This pays an agreed sum of money upon reaching a certain age or at your death if it comes first.
  - It can be a useful way of saving money

Insurance

- **<u>Term/Temporary Assurance</u>**

- This provides cover for an agreed period of time. The Insurance company guarantees to pay an agreed sum of money to the dependents of an insured person if the person dies before a certain age. Once the age has been reached the cover ceases.
- It is used to cover the period when children are growing up and being educated, or when the mortgage is being paid. It provides for those left behind if the main income earner dies

Insurance

- **What is the surrender value?**
  - The insured stops paying the premiums on an endowment assurance policy and cashes it in for a sum less than the agreed amount

Insurance

- **Life Assurance and Insurance differ in two ways**

i. - With <u>insurance</u> there is a possibility of the event occurring

- With <u>life assurance</u> there is certainty that the person will die or reach a certain age

ii. <u>- Insurance</u> is taken out on an annual basis.

<u>- Life Assurance</u> is taken out over a definite number of years

Insurance

- **What is meant by Adequate Assurance?**

- Adequate assurance should:

1. Cover all possible risks
2. Be enough to cover any loss that might occur

eg.: if a house is worth €250,000, it should be insured for €250,000 and no less

Insurance

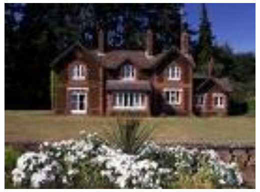
- **What is Risk?**
- This is the danger or chance that damage, loss or injury could occur.

Insurance

❑ Insurable Risks

- These are risks that can be insured against

eg.: you can insure your own house as its loss would cause you financial suffering



❑ Non Insurable Risks

- These are risks that cannot be insured against

eg.: it's impossible to calculate the risk

You cannot insure your neighbours house as it's loss wouldn't cause you financial suffering

eg.: competition, new laws, strikes, changes in tastes, increases in costs, etc

Insurance

- Not all situations can be covered by insurance.
- For a risk to be insurable, the following conditions must be present:

Insurance

1. There must be an **Insurable Interest** (ownership) in the thing or person being insured

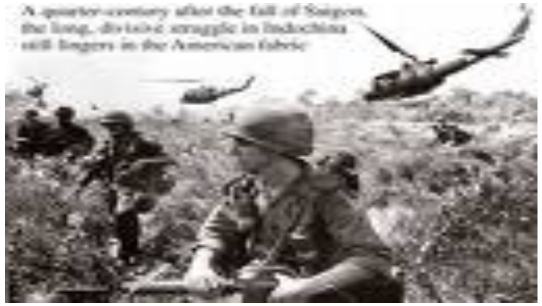
- The Insurable Interest Principle states that the insured must gain from its existence and suffer from its loss.

2. There must be enough other people wanting to take out insurance against a similar risk.
3. Any loss incurred must be accidental and not certain.
4. The possible losses should not be too great as to ruin the insurance company
5. It must be possible to calculate the risk of a loss occurring

Insurance

- If any one of the five conditions is missing, the risk is uninsurable

Insurance



❑ Exclusion Clause

- Most insurance and assurance policies have an exclusion clause, which states the conditions under which certain situations are not covered by insurance

eg.: Life assurance policies will not cover death from taking drug, or during a war or riot.

Motor insurance will not cover a private car used for speed testing

Insurance

An Insurance Broker

- This is an agent who sells insurance for several insurance companies.
- They give advice to people seeking insurance and help people to find a policy that suits their needs and which is has the most competitive premium.
- You submit your proposal and claim forms to the broker.
- These act as a medium/middle man between the insured and the insurance company. A small commission, called brokerage, is charged for this service.

Insurance

❑ A Proposal Form

- This is an application form for an insurance company.
- It gives the insurer essential details needed to assess the risk and calculate the premium

Insurance

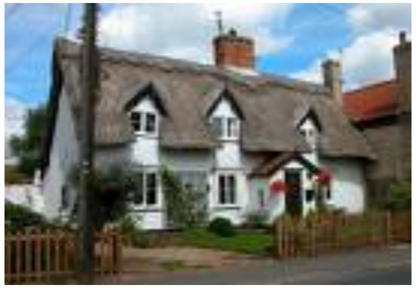
- On receiving the completed proposal form, the insurer can then:

1. Accept/reject the proposal
2. Calculate the premium to be charged

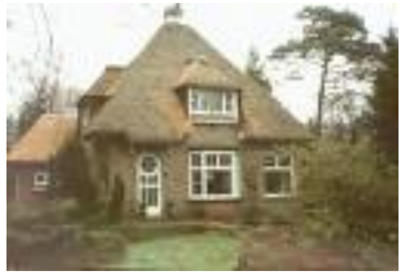
- It must be completed truthfully and accurately, as the principle of **Utmost Good Faith** applies

Insurance

- Two important principles of insurance are relevant when applying for insurance:
  1. Utmost good faith
  2. Insurable interest



Insurance

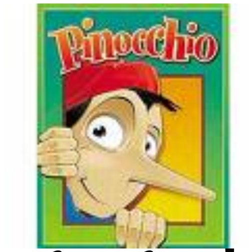


❑Principle of Utmost Good Faith

- This states that you must give all information on the proposal form which could influence the insurer's decision to give you insurance cover
- The proposal form must be answer accurately and truthfully, and all relevant information must be provided

eg.: that your home has a thatched roof

Insurance



- If lies are told and a claim arises, the insurer will not pay any compensation because the principle of utmost good faith will have been broken.

- The insured agrees to this principle when signing the proposal form

Insurance

❑ Insurable Interest Principle

- This states that the person seeking insurance must gain from the existence and suffer from the loss of the person or item being insured

Insurance

- The proposal form requires the following details:

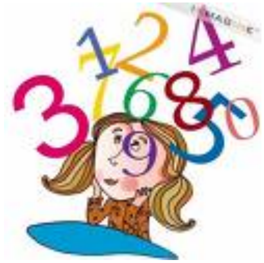
1. The persons name and address
2. The type of cover required

Insurance

3. It will also require some of the following information:

CAR INSURANCE	LIFE ASSURANCE	HOUSE CONTENTS
Age & Gender of Driver	Age of Person	Value of House
Occupation	Occupation	Value of Contents
Type of Licence	Hobbies	Alarm Systems
Details of Car	Medical Condition	
No Claims Bonus	Drinker or Smoker	

Insurance

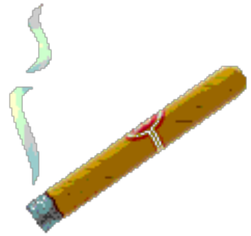


❑ **<u>An Actuary</u>**

- This is the insurance official who calculates the appropriate premium to charge each client

- The calculation of the premium depends on:

1. The number of people seeking insurance
2. The risk involved,
3. The amount to be covered
4. The number of claims being made



Insurance

❑ **Loadings**

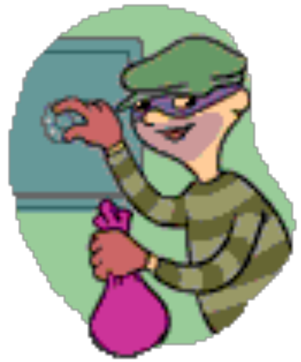
- These increase the premium being paid.
- The increased premium is a result of the increased financial risk attached to the item(s)/asset(s)/person(s) being insured.

eg.: a young male driver seeking car insurance pays a higher premium

eg.: a house having a thatched roof increases the premium

eg.: a smoker wishing to take out a life assurance policy

Insurance



❑Deductions

- These reduce the amount of premium being paid.
- The reduced premium is a result of the reduced financial risk attached to the item(s)/asset(s)/person(s) being insured.

eg.: a burglar alarm installed on a house

eg.: having a no-claims bonus

Insurance

CAR	LIFE	PROPERTY
Loadings	***Loadings***	***Loadings***
First insurance	Dangerous occupation	Type of construction
Under 25 years old	Dangerous hobby	Nature of business
Provisional Licence	Medical Condition	
Use of car for business purposes	Travelling abroad	
Deductions	***Deductions***	***Deductions***
No claims bonus	Non-smoker	Fire alarms
Non-drinker	Non-drinker	Burglar alarms
		Member of Neighbourhood watch

Insurance

- **A Cover Note**

- This is issued by the insurers when it is not possible to issue a policy immediately.
- This is mainly used in the motor insurance industry
- It acts as proof that the person has insurance cover.

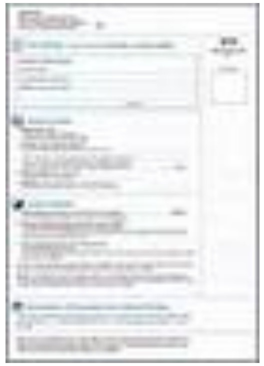
- With car insurance, **an insurance disk** must be displayed on the window screen to show that the car is insured

Insurance

A No Claims Bonus

- This is a reward individuals get for not claiming compensation from the insurer.
- This bonus usually results in a lower premium.

Insurance



❑Insurance Policy

- This is an insurance document that gives full details of the cover being given

❑A Policy Excess Clause

- This states that a certain amount of the loss must be paid for by the insured

eg.: the first €200 or 10%.

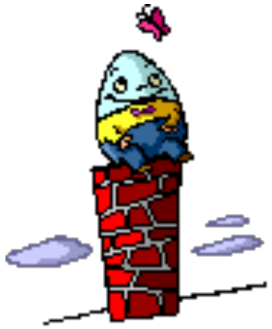
- This stops small claims being made

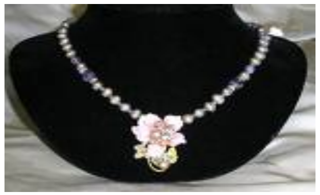
Insurance

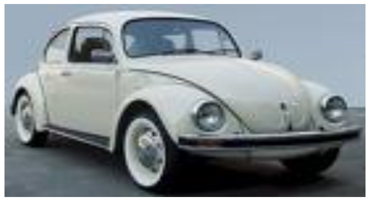
Types of Insurance

- There are 5 main types of insurance

1. Personal Insurance
2. Property Insurance
3. Life Assurance
4. Motor Vehicle Insurance &
5. Insurance for Businesses







Insurance

<u>1 Personal Insurance</u>

i. <u>Personal Accident Insurance</u> is when people receive compensation because they are injured and unable to work

ii. <u>Medical Insurance</u> covers the cost of doctors, hospitals and other expenses in times of illness.

The V.H.I., Quinn, an Vivas are the main medical insurers

Insurance

1 Personal Insurance

iii. Salary Protection Insurance gives extra protection to someone who has to go out on early retirement with a small pension

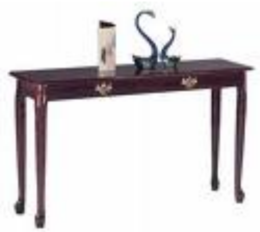
iv. PRSI (Pay Related Social Insurance) is a state or social insurance which covers people who are out of work through illness, disability, maternity leave, unemployment, etc.

Insurance

1 Personal Insurance

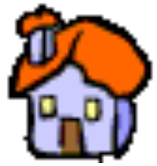
v. Travel Insurance gives compensation in the event of a trip being cancelled, a person becoming ill or having an accident whilst away. It can cover goods being stolen whilst away, lost baggage, etc

Insurance



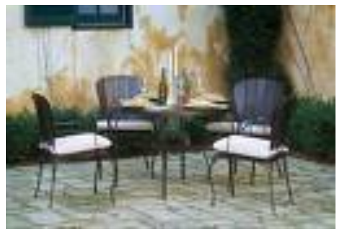
<u>2 Property Insurance</u>

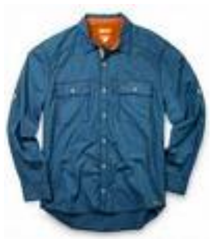
i. <u>House Insurance</u> covers if its damaged by fire or during a break in.

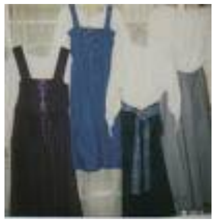


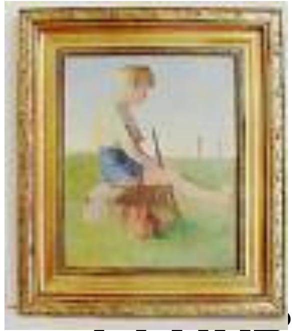
ii. <u>House Contents Insurance</u> gives compensation if household contents are stolen or damaged

eg.: furniture, clothes, etc

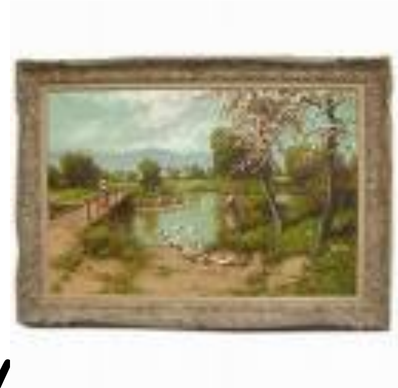








Insurance



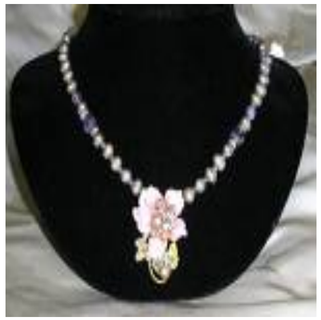
2 Property Insurance

iii. <u>All Risks Insurance</u> covers any accidental loss or damage to household property.

It covers loss or damage to selected items anywhere in Ireland or Europe.

Each item must be named when taking out the insurance cover.

eg.: a valuable painting or necklace



Insurance

3 Life Assurance

i. Whole Life

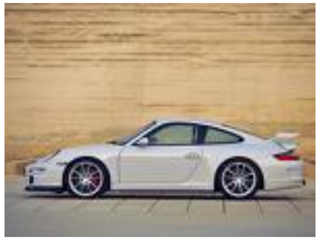
- Protection for those left behind

ii. Term

- Protection for those left behind

iii. Endowment

- Savings or retirement



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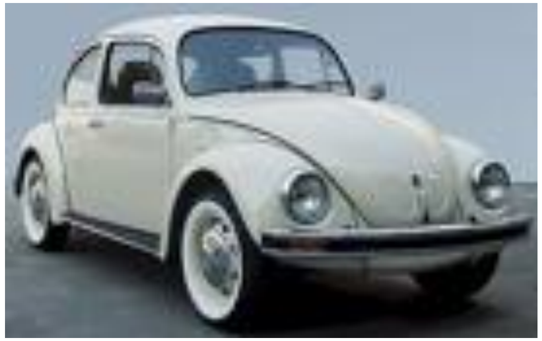
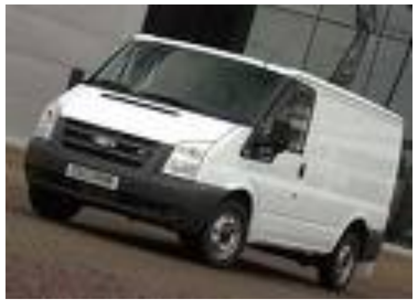


4 Motor Vehicle Insurance

- By law any person who drives a car must have insurance for any claims made by third parties

i.e. hence the name third party insurance.

- Third party covers damage to all people and property other than the driver of the car and the car they were driving



Insurance

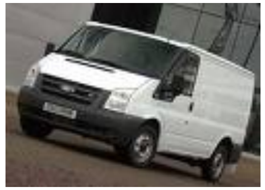
<u>4 Motor Vehicle Insurance</u>

- Motorists can also take out the following:

ii. <u>Fire and theft Insurance</u> compensates the insured in the case of the car going on fire or being stolen. It also provides third party cover.

iii. <u>Comprehensive Insurance</u> which gives third party, fire and theft cover as well as accidental damage cover (for damage to the car driver and the motorist's own car)

Insurance



5. Insurance for Businesses

1. **Motor Insurance** protects against damage or injury caused by their motor vehicles

Third party insurance is compulsory on all motor vehicle owned by a business

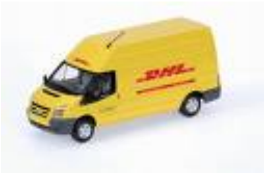
2. **Fire Insurance** covers damage to property, stock, etc due to fire
3. **Burglary Insurance** insures against the theft of stock, cash, equipment, etc.
4. **Key Person Insurance** provides life assurance policies for key members of staff

eg.: managing director, key sales person

Insurance

5. <u>**Insurance for Businesses**</u>

5. **Employers Liability Insurance** protects employers against claims made by employees who are injured at work.
6. **Public Liability Insurance** protects businesses against claims made by members of the public who were injured on the businesses premises
7. **Product Liability Insurance** protects businesses against claims made by members of the public who are injured using a business's product

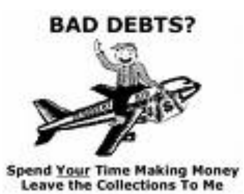


Insurance

5. Insurance for Businesses

8. **Goods in Transit** insures against any loss, damage or theft of goods being transported.

9. **Fidelity Guarantee** protects against any theft by employees
10. **Consequential Loss** covers the business against loss of profits and temporary closure due to a flood or fire say.
11. **Bad Debts** protects against any losses due to customers not paying their debts.



Insurance

Risks a business cannot insure against (what are these risks called?)

a. Losses due to poor management
b. Goods going out of date or no longer needed
c. Legal changes affecting the business

eg.: loss of profits due to smoking ban

Insurance

- By law PRSI and third party insurance must be paid

Insurance

Making a Claim

- In the event of a loss, an injured person can claim compensation from the insurer.
- This compensation can come in the form of money or replacement of the item insured.

❑ **A Claim**

- When an insured person suffers an injury or loss, they have a right make a demand/to call for compensation.

Insurance

An Assessor

- This is an insurance official who inspects the damage or loss and recommends the amount of compensation to be paid

Insurance

How to make a claim

1. Inform the insurer (and Gardai of the loss)
2. Obtain estimates to repair or replace what is lost
3. Complete a claims form truthfully
4. The assessor inspects the damage or loss and estimates the compensation (taking in mind the estimate
5. Compensation is agreed and payment or replacement is made

Insurance

Claim Form

- This must be completed when compensation for a loss/damage is sought.
- It must be completed fully and truthfully.
- Questions vary, but will include:

  Name and address, policy number, details of claim, replacement costs, etc
- This form is then used to determine:
- if the loss was accidental/deliberate,
- if the proximate clause policy applies and
- the amount off compensation to be paid

Insurance

The Proximate Clause Policy

- The cause of the loss must be what was insured against

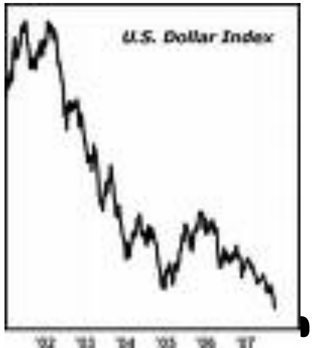
eg.: fire as opposed to theft

Insurance

- Certain principles apply when making a claim and calculating the compensation to be paid

1. Indemnity
2. Contribution
3. Subrogation
4. Average Clause

Insurance



The Principle of Indemnity

- This states that the insured cannot gain/make profit from making an insurance claim.
- Because of this principle there is no point of insuring something for more than it is worth.

Insurance

The Principle of Indemnity Example

- A house valued at €300,000 which is insured for €450,000 burns down.
- The insurer will only pay €300,000 because the loss incurred was only €300,000.
- If €450,000 compensation is paid then the insured would gain €150,000 from the house burning down.

Insurance

The Principle of Contribution

- This states that if a risk is insured by two or more insurance companies, any compensation payable will be shared between the companies.
- Each company pays compensation in relation to the amount of risk it covered
- Compensation paid by each insurance company is calculated by the following formula

$$\frac{\text{Sum insured with individual company}}{\text{Total sum insured}} \times \text{Loss}$$

Insurance

The Principle of Contribution Example

- A person insures a house valued at €300,000 with two insurance companies for €300,000 each.
- The person will only receive €300,000 if the house burns down.
- Each insurer will only contribute €150,000 each.
- If each paid €300,000, then the individual would gain from the house burning down; this goes against what principle?

Insurance

The Principle of Contribution Example

- A house is worth €300,000
- It is insured with Company A for €125,000
- It is insured with Company B for €175,000
- The house is damaged by fire and the damage amounts to €42,000

- Company A would pay €17,500 compensation

$$\frac{125{,}000}{300{,}000} \times 42{,}000 = €17{,}500$$

- Company B would pay €24,500 compensation

$$\frac{175{,}000}{300{,}000} \times 42{,}000 = €24{,}500$$

Insurance

The Principle of Subrogation

- This passes on the legal right to recover any loss suffered from the insured over to the insurer
- When the insurer pays out compensation, the insurer can claim from someone else who might have caused the loss.
- After paying compensation for a loss suffered, the insurance company is entitled to take over any property.

Insurance

The Principle of Subrogation Example

- An insurance company pays compensation to a business whose stock is destroyed by a fire caused by a negligent electrician.
- The insurance company can sue the electrician for the amount of compensation it had to pay out.
- The insurance company can sell any remaining stock to recover some of its compensation

Insurance

Under-insurance (Average Clause)

- This means to insure an item for less than it's worth and can be used to keep premiums down.
- If an item is not insured for its full value, then the amount of compensation paid, in the case of partial loss, will be reduced.
- The formula for calculating the compensation when an item is underinsured is

$$\frac{\text{Sum Insured}}{\text{Market Value}} \times \text{Loss incurred}$$

Insurance

<u>Under-insurance (Average Clause)</u>

<u>example</u>

- A house is worth €300,000
- It is only insured for €150,000 **i.e.** ½ of its value
- If fire destroys the house, the most one could receive in compensation is €150,000 (**i.e.** ½ of its value)

Insurance

- **Under-insurance (Average Clause) example**
  - A house is worth €300,000
  - It is only insured for €225,000 i.e. ¾ of its value
  - If fire caused €100,000 worth of damage, the most one could receive in compensation is €75,000 (i.e. ¾ of €100,000)

Insurance

Over-insurance

- The principle of indemnity prevents one from over-insuring. ***WHY?***

i.e. for insuring something for more than it is worth.

Insurance

- **Why have insurance costs increased?**
- Insurance companies point to higher costs and increased spending as the main reason for increasing their prices.

eg.: more compensation paid out, government taxes, etc

- Prices of cars, houses, etc have risen in recent years, these items are worth more and need to be insured for a larger amount. This increases the cost of insurance.