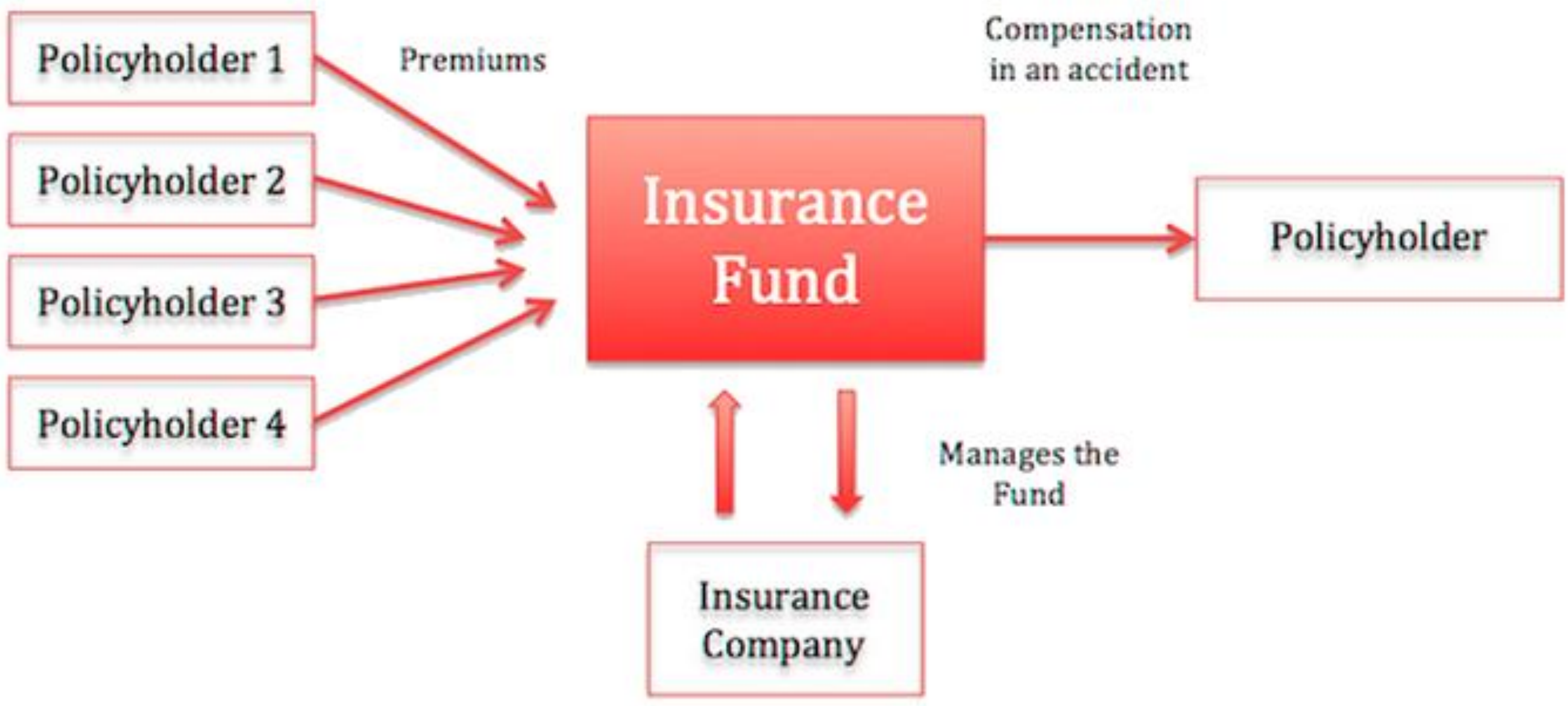
Insurance
1.6

How Insurance Works



Risks

- Insurable Risk: A risk that can be insured against, e.g. House against fire or theft

- Non-Insurable Risk: A **risk** an insurance company deems too hazardous or financially impractical to take on. **Non-insurable risks** usually have extremely high probabilities of loss for the insurance company

Principles of Insurance

- **Insurable Interest:** You must have a financial interest in the item you wish to insure. You must benefit from its existence and would suffer financially from its loss, e.g. You can insure your house but not your neighbour's house
- **Utmost good faith:** You must tell the truth and disclose all relevant information when filling out the proposal form and the claim form
- **Indemnity:** You cannot make a profit from insurance. Insurance is only there to cover actual losses

Principles of Insurance

- **<u>Subrogation:</u>** When an insurance company compensates the insured for the loss, it can proceed to claim the compensation from the person responsible for the loss, and also the damaged item becomes the property of the insurance company
- **<u>Contribution:</u>** If a person has the same risk insured with two companies, he/she cannot claim full compensation from both. Each company will contribute to the compensation

Taking out Insurance

- **<u>Insurance Broker:</u>** Works for him/herself and tries to find the best quote for you from a number of insurance companies
- **<u>Proposal form:</u>** The application form for insurance. Must be filled out truthfully
- **<u>Actuary:</u>** The person in the Insurance Company who assesses the risk and calculates the premium

Taking out Insurance

- **Premium:** The annual cost of the insurance
- **Policy:** The written evidence of the contract of insurance. It contains details of risks covered
- **Cover Note:** Sometimes there may be a delay in the preparation of the policy. In the mean time the insured is issued with a cover note as evidence of insurance cover.
- **Certificate of Insurance:** Used in motor insurance as evidence of insurance. A portion of the document is detached and placed on the car windscreen
- **Renewal Notice:** A notice to remind you that your cover is ending and that the next premium is due

Making a claim

- Notify your insurance company and give them your policy number
- The insurance company will send you a **claim form** to return with details of the loss suffered
- An **assessor/loss adjuster**may be sent to examine the damage to the item and calculate the compensation due

Motor Insurance

- **Third Party Insurance**
  - Pays compensation to the victims for damage, but not to the person who caused the damage
- **Third Party, Fire and Theft Insurance**
  - Same as third party, except the insured receives compensation when loss is suffered by fire or theft
- **Comprehensive**
  - Pays compensation to the victim of the damage to their car and also covers the insured person's car, even if they are at fault

Motor Insurance

- Factors that affect the size of a motor insurance premium
  - Type of Licence (Full or Provisional)
  - Penalty Points on licence
  - Age of Insured
  - Occupation of the Insured
  - Value of car/make
  - Age of Car
  - Purpose/use of the car
  - Engine Size
  - Accident History
  - Where the car is parked
  - Address the car is registered at

Over Insured/Under-insured

- If you are over-insured, you will only receive compensation amounting to market value of the item
- If you are under-insured and the item is completely destroyed, you will receive only the compensation amounting to the value for which the item is insured
- Therefore, it is important to make sure you have **adequate insurance**

Average Clause

- Used where an item is partially damaged and the item is under-insured
- Formula

$$\frac{\text{Sum Insured}}{\text{Market Value}} \quad X \quad \frac{\text{Amount of Loss}}{1}$$

- E.g. House valued at €200,000, insured for 160,000. Fire causes €20,000 worth of damage

$$\frac{160{,}000}{200{,}000} \quad X \quad \frac{20{,}000}{1}$$

=€16,000 compensation paid

Compensation

- Compensation is the money an insurance company give in regnition of your loss.
- Policy Excess: The amount you will have to pay when you make a claim. For example, this may be the first €50 of a €500 claim for damage caused by a storm. In this case you will only receive €450

Personal Insurance

- **Salary Protection Insurance**
  - Provides payment of part of your salary if you have to give up work because of accident or illness
- **Health Insurance**
  - Covers medical costs in case of illness
  - Laya/VHI/Irish Life
- **PRSI**
  - Covers loss of income due to illness or unemployment
- **Travel Insurance**
  - Covers goods or luggage stolen while abroad. Also covers medical bills abroad
- **Wedding Insurance**
- **Pet Insurance**
- **Gadget Insurance**

Property/Home Insurance

- Most people who own their own homes insure against damage to the building by fire, storm or other risks. It’s obligatory for anyone who has a mortgage on their home to have this cover
- All Risks Policy
  - Covers building and contents from fire, burglary, public liability, flooding
- Don’t‘ Over or Under insure
  - You must have the correct rebuild cost of your home
  - This calculator helps

Life Assurance

- **Mortgage Protection**
  - This is a very common form of life assurance policy, as it's a requirement for anyone obtaining a mortgage to buy a home for themselves. A Mortgage Protection policy will pay off the balance of your mortgage in the event of your death, or in the event of the first death where a couple take out a joint policy. It is obligatory for anyone who has a mortgage to have this cover.
- **Term Assurance**
  - This type of policy is taken out for an agreed term, e.g. twenty years. It will pay a fixed lump sum in the event of your death within the term of the policy, or on the first death on a joint policy. Typically, a family will hold this form of cover until retirement age, or until the youngest child is old enough to fend for themselves without parental financial support.
- **Guaranteed Whole of Life**
  - This type of policy will pay a lump sum in the event of your death at any time. You continue paying the premiums for the rest of your life. The cost is fixed from the start. This type of cover will be a lot more expensive than Term Assurance as the insurance company knows it will have to pay out a claim at some point.

Calculating Premiums

- Loadings: Additional costs added to the premium because of extra risk
- No Claims Bonus: A reduction on your premium for not making a claim
- Have a go!
  - https://www.chill.ie/car-insurance/