

Overview of Insurance

Overview of Insurance – Key Concepts & Structure

1. What Is Insurance?

- **Definition:** A risk transfer mechanism where an insurer (company) agrees to compensate the insured (person or entity) for specified losses in exchange for a premium.
 - **Purpose:** Protect individuals, businesses, and assets from financial hardship caused by unforeseen events (e.g., accidents, natural disasters, illness, liability).
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2. Core Principles of Insurance

Principle	Explanation	Practical Example
Utmost Good Faith (Uberrimae Fidei)	Both parties must disclose all material facts honestly.	A driver must reveal any prior accidents when applying for auto coverage.
Insurable Interest	The insured must stand to suffer a genuine financial loss if the event occurs.	A homeowner insures their own house, not a neighbor's.
Indemnity	Compensation restores the insured to the pre-loss financial position, not to profit.	A repaired car's value is covered, not the full market price of a new car.
Contribution	When multiple policies cover the same risk, each insurer pays a proportionate share.	Two policies covering a building each pay 50% of the loss.
Subrogation	After paying a claim, the insurer may pursue a third party responsible for the loss.	An insurer recovers damages from a negligent driver who caused an accident.
Proximate Cause	The loss must be directly caused by an insured risk, not by an excluded event.	Flood damage is covered only if flood is an insured peril.

3. Types of Insurance (Major Categories)

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Category	Subtypes	Typical Coverage
Life Insurance	Term, Whole Life, Universal Life, Variable Life	Pays a death benefit to beneficiaries; may accumulate cash value.
Health Insurance	Individual, Group, Medicare/Medicaid, Supplemental	Covers medical expenses, hospital stays, prescriptions.
Property & Casualty (P&C)	Homeowners, Renters, Commercial Property, Auto, Boat, Aviation	Protects physical assets and liability for damage or injury.
Liability Insurance	General Liability, Professional (E&O), Directors & Officers (D&O), Cyber	Covers legal costs and damages when the insured is held responsible.
Specialty / Niche	Travel, Pet, Title, Crop, Business Interruption, Weather	Tailored to specific risks not covered by standard policies.

4. How Insurance Works – The Process Flow

1. Risk Assessment & Underwriting

- Insurer evaluates applicant's risk profile (age, health, driving record, location, etc.).
- Determines eligibility, premium, and policy terms.

2. Policy Issuance

- Contract (policy) outlines covered perils, exclusions, limits, deductibles, and conditions.
- Premium is the price paid for coverage (monthly, quarterly, annually).

3. Premium Collection

- Paid by the insured; can be adjusted for experience rating, claims history, or changes in risk.

4. Claims Reporting

- Insured notifies insurer of a loss, providing documentation (photos, police reports, medical bills).

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5. Claims Investigation & Adjustment

- Adjuster verifies coverage, assesses damage, and determines the payable amount.

6. Settlement

- Payment is made up to the policy limit, minus any deductible.
 - If disputed, may involve mediation, arbitration, or litigation.
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5. Key Policy Components

| Component | Description