

Introduction to Insurance

Introduction to Insurance – Study Notes

1. What Is Insurance?

Aspect	Description
Definition	A risk transfer mechanism where an insurer promises to compensate the insured for specified losses in exchange for a premium.
Purpose	• Protect individuals and businesses from financial hardship. • Promote economic stability and encourage investment.
Key Parties	• Insured / Policyholder – the person or entity buying coverage. • Insurer – the company that underwrites the risk and pays claims. • Beneficiary – the person who receives the claim benefit (often the insured).
Core Principle	Risk pooling – many policyholders contribute premiums, creating a fund that can cover the losses of a few.

2. Fundamental Concepts

Term	Meaning
Risk	The chance of a loss occurring.
Premium	The price paid for coverage, usually paid periodically (monthly, quarterly, annually).
Policy	The contract that outlines coverage, exclusions, limits, and conditions.
Coverage	The specific risks or events that the insurer agrees to indemnify.
Deductible / Retention	The amount the insured must pay out of pocket before the insurer pays.
Limit of Liability	Maximum amount the insurer will pay for a claim.
Exclusion	Situations or perils that are not covered.
Underwriting	The process of evaluating risk and setting premium rates.
Claims	Formal requests by the insured for payment under the policy.

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3. Types of Insurance (Major Categories)

Category	Typical Coverage	Example Policies
Life Insurance	Death benefit to beneficiaries; sometimes cash value accumulation.	Term life, whole life, universal life.
Health Insurance	Medical expenses, hospitalization, prescription drugs.	Individual health plans, employer-provided group plans, Medicare/Medicaid.
Property & Casualty (P&C)	Damage to physical assets and liability for third-party injuries or losses.	Homeowners, renters, automobile, commercial property, general liability.
Business / Commercial	Risks specific to business operations.	Professional liability (E&O), workers' compensation, product liability, cyber risk.
Specialty	Niche or high-risk exposures.	Aviation, marine, pet, travel, event cancellation.

4. How Insurance Works – Step-by-Step Flow

1. **Risk Identification** – Insured determines which risks need protection.
2. **Application & Underwriting** – Insurer evaluates risk factors (age, health, location, claims history) and decides whether to offer coverage and at what price.
3. **Policy Issuance** – Contract is created, specifying coverage, premium, limits, deductibles, and exclusions.
4. **Premium Payment** – Insured pays the agreed amount (often via automatic billing).
5. **Risk Management** – Both parties may take steps to reduce loss (e.g., safety programs, fire alarms).
6. **Loss Occurs** – Insured experiences a covered event.
7. **Claims Reporting** – Insured notifies insurer, provides documentation (photos, police reports, medical bills).
8. **Claims Adjustment** – Insurer investigates, verifies coverage, and determines the payable amount.

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9. **Claim Settlement** – Payment is made to insured or beneficiary, up to policy limits.

5. Key Principles Governing Insurance Contracts

| Principle |