**Insurance and Assurance**

**Insurance** is the protection against something that ***might*** happen, e.g. having car insurance for a car crash or house insurance for your house going on fire.

**Assurance** is protection against something that **will** happen, e.g. life assurance because everybody will die at some time.



**Key Terms in Insurance**

With insurance/ assurance, the worry of the risk is sharedin a fund run by the insurance company. We will look at how these risks are calculated later.

A consumer should always shop around when choosing which insurance company to purchase from. Once you have selected your insurance company, you will fill in an application form for insurance known as a ***proposal form***, and will be issued with a ***policy*** (certificate of insurance) from the insurance company stating that your insurance now exists.

The price you pay for insurance is known as a ***premium.*** The person who calculates the premiumis the ***actuary,*** who works on behalf of the insurance company***.***

A person’s premium may go up and down depending on whether they have a***no claims bonus*** (reduction in the premium for not making a claim, like no accidents for car insurance), or a ***loading*** (increase in the premium due to an extra risk, like smoking for health insurance).

The people who suffer a loss claim ***compensation****.* An insured person will look for compensation by filling in a ***claim form***.

This form is assessed on behalf of the insurance company by the ***assessor*** who calculates the damage and decides the value of the claim. Compensation be in the form of money or replacement item, e.g. €2000 for car crash injury or replacement phone if you have lost yours

**Types of Personal Insurance**

**1. House Insurance**

A householder can get Building insurance, which covers damage to the building itself, or Contents Insurance, which covers the contents that are inside the home

A householder must also get Mortgage Protection Insurance- Compulsory before buying a house. If the person dies before the mortgage is paid, the insurance company will pay the remainder



**2. Life Assurance**

Life Assurance pays a sum of money to a policy holders family in the even of their death

*-There are different types including:*

1. **Term Assurance-** pays out a lump sum if the agreed person dies before the end of the term
2. **Whole Life Assurance-** Pays a lump sum when the insured person dies
3. **Endowment Insurance-** pays out a lump sum when the agreed person dies or reaches a certain age, but can be cashed in earlier. The longer this policy continues, the more money they will receive

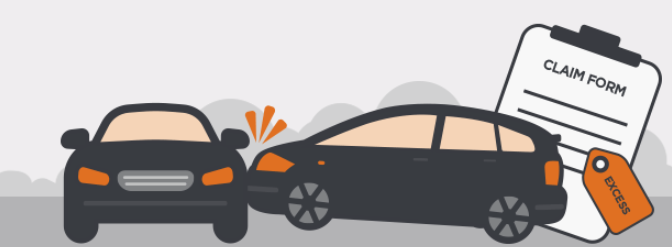


**3. Car Insurance**

This insurance covers a driver in case of an accident.

-*There are 3 types:*

* **Third Party:** This covers the other driver (3rd Party). Minimum required by law
* **Third Party Fire and Theft:** This covers the other driver (3rd Party) and any fire or damage to your car
* **Fully Comprehensive:** Everyone involved



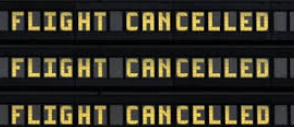
**4. Personal Insurance**

Personal Insurance covers the insured person in the event they become ill or suffer injury. Some of the types include:

**Health Insurance:** Private health insurance such as VHI covers hospital bills

**Travel Insurance:** Covers any losses while travelling, such as cancelled flights (Máistir Murtagh 26 hour cancellation)

**Pay Related Social Insurance:** Pay as part of statutory taxes on income, employees will receive weekly payments if they cannot work due to reasons such as being sick from work, unemployed, or going on maternity leave



**The Principles of Insurance**

Sometimes, people can make fraudulent claims for insurance. To prevent this from happening, the insurance industry has rules, known as the ***5 Principles of Insurance***

***These principles are:***

**1. Utmost Good Faith (truth)**

**2. Insurable Interest (benefit)**

**3. Indemnity (no profit)**

**4. Contribution (split)**

**5. Subrogation (salvage rights)**

**1. Utmost Good Faith**

**You must disclose all facts and tell the *truth* when applying for insurance- You must also disclose all material facts; this is any information that the insurance company has not asked you but should know.**

***Example:* if you apply for health insurance and are a smoker, you must disclose this to the insurance company. Failure to do this may mean no compensation if you develop a related illness**



**2. Insurable Interest**

**You are responsible for it- you must *benefit* from its existence and suffer from its loss.**

***Example:* I have an insurable interest on my I-Phone as I benefit from its existence and suffer from its loss. I do not have an insurable interest on anybody else’s phone as it is not my property**



**3. Indemnity**

**The insured person *cannot* make a *profit* from insurance**. **You must be put back into the original position before the loss occurred and you only get compensation for the value of the loss or damage suffered by the insured person**

***Example:* If you insure this and it crashes, you are not entitled to a more expensive Ferrari as a replacement**

**4. Contribution**

**The insurance company will split the compensation if you insure with more than one company.**

***Example:* If I fully insure my car with two insurance companies, they will both give me half in compensation. Otherwise I would have made a profit from insurance, which I cannot do as part of Indemnity.**



**5. Subrogation**

**Once the insurance company fully pays out to the insured person, then *all savage rights* pass to the insurance company**

***Example:* If your car is written off as a result of a crash, your insurance company fully indemnifies you (put you back in original position before loss occurred). The insurance company now has the right to sell off scraps from the car as otherwise you would have made a profit**



**Calculating Compensation**

**Average Clause**

This limits the value of the claim if you are under insured, and related to the insurance principle of Indemnity as you cannot make a profit from insurance.

***Formula= Sum Insured/True Value x Loss***

**Example: House worth= €200,000**

**Insured For= €100,000**

**Damage= €25,000**

**100,000 (Sum Insured) /200000 (True Value) = 0.5**

**25000 x 0.5 = *€12500***

***We will now practice more of the Average Clause Questions on the board*.**

**Calculating Premiums**

***House Insurance Calculation***

***Example 1: Without Loading***

*Megan Jones wants to insure her house and contents. Her house is valued at €500,000 and contents at €20,000. She has a burglar alarm and is a member of a Community Alert Scheme.*

*On November 15th she received the following quotation from Property Insurance Ltd:*

|  |  |
| --- | --- |
| ***Insurance*** | ***Quote*** |
| *Buildings* | *€10 per €50,000* |
| *Contents* | *€5 per €2000* |
| *Alarm Discount* | *10%* |
| *Community Alert Scheme* | *10%* |

**Step 1:**

Buildings are worth €500,000. It will cost us €10 to insure every €50,000 worth of buildings, so we must find out how many €50,000 are in €500,000 and multiply by €10.

€500,000/ €50,000 =  **10**

x €10 ***=€100***

**Step 2:**

Contents are worth €20,000. It will cost us €5 to insure every €2,000 worth of contents, so we must find out how many €2,000 are in €20,000 and multiply by €5.

€20,000/€2000 = **10**

x €5 ***=€50***

**Step 3:**

Add 2 figures together= €100 + €50= **€150**

**Step 4:**

Add discounts 10% + 10%= 20%

**Step 5:**

Get 20% of €150= 150 x.20= €30

**Step 6:**

Total – Discounts = €150- €30 = ***€120*** (Premium Due)

***House Insurance Calculation***

***Example 2: With a Loading***

*Mark Lee wants to insure her house and contents. His house is valued at €400,000 and contents at €50,000. He has a burglar alarm and is a member of a Community Alert Scheme. He often leaves the house unattended.*

*On November 15th she received the following quotation from Property Insurance Ltd:*

|  |  |
| --- | --- |
| ***Insurance*** | ***Quote*** |
| *Buildings* | *€10 per €50,000* |
| *Contents* | *€8 per €2000* |
| *Alarm Discount* | *10%* |
| *Community Alert Scheme* | *10%* |
| *Loading* | *50%* |

**Step 1:**

Buildings are worth €400,000. It will cost us €10 to insure every €50,000 worth of buildings, so we must find out how many €50,000 are in €400,000 and multiply by €10.

€400,000/ €50,000 =  **8**

x €10 ***=€80***

**Step 2:**

Contents are worth €50,000. It will cost us €8 to insure every €2,000 worth of contents, so we must find out how many €2,000 are in €50,000 and multiply by €8.

€50,000/€2000 = **25**

x €8***=€200***

**Step 3:**

Add 2 figures together= €80 + €200= **€280**

**\*Step 4:**

Add 50% loading for risk. €280 x 50% = 140

280 +140 = **€420**

**Step 5:**

**Add discounts: 10% +10% =20%**

Get 20% of €420 = 420 x 20% = **€84**

**Step 6:**

420 – 84 = **€336**

***Car Insurance Calculation***

Alison Wall wants to insure her car for 10,000 euro. She is 22 years old. She would like to comprehensive insurance. Her car has an alarm.

She received the following quotation:

* Basic premium is 100 euro per 1000 insured
* There is a 200 euro charge for Fully Comprehensive
* There is a 20% loading for people under 25
* There is a 5% discount for the alarm
* There is a 20% No Claims Bonus

**Step 1**

10,000 (value of car)/ 1000 = 10

10 x 100 = 1,000 euro premium

**Step 2**

Add Fully Comprehensive Charge = 1000 +200 = 1200 euro

**Step 3**

*Get the Loading*

1200 x 20% = 240

1200 +240 =1440

**Step 4**

**Add Discounts**

5%+ 20% = 25%

1440 x 25% =360

**Step 5**

1440 – 360 =**1080 euro**

**Life Assurance Calculations**

**Life Assurance Calculations**

Jurgen Klopp wants to take out health insurance. He is 53 but has no history of illness. He wants to get a life assurance policy for himself and received the following quotation:

|  |  |
| --- | --- |
| Assurance | Quote |
| Basic Premium | €50 per year of his age |
| Loading for being older | 30% |
| No claims discount | 20% |

**Step 1**

53 x 50 =2650 euro

**Step 2**

Add Loading

2650 x 30% = 795

2650 +795 = 3445

**Step 3**

Take away the discount

3445 x 20% =689

3445 – 689 = **2756 euro**