Intro to INSURANCE

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Insurance is a contract

that offers full or partial financial compensation for loss or damage caused by an uncontrollable event. In exchange, the insured individual pays a sum of money known as a premium.

THERE'S INSURANCE FOR ALMOST ANYTHING!

Common insurance types include

- AUTO
- BUSINESS
- CONTENTS
- FLOOD
- HEALTH
- HOME
- LIFE
- MORTGAGE
- PET
- TRAVEL

Plus many more!

HOW DOES INSURANCE WORK?

By taking out an insurance policy, you are actually paying the insurer to assume your financial risk in the situation specified in your contract

LET'S LOOK AT PET INSURANCE

1. The pet owner pays $20 a month to have her cat insured against accidents and illnesses, thus transferring her personal financial risk, should her cat need medical attention
2. Unfortunately, the insured cat suffers a broken leg and the pet owner incurs $2,000 in vet bills for visits, X-rays and treatment
3. Thankfully, the pet insurance policy covers broken bones, so the insurance provider reimburses the pet owner for the medical expenses after she files a claim

HOW DO INSURANCE PROVIDERS MAKE MONEY?

Insurance providers operate by pooling the risk of a large number of policyholders

A policyholder is just one of many people paying premiums on an ongoing basis

Over the lifetime of an insurance policy, some policyholders will make claims, but most will not

The premiums of many are pooled to pay for the claims of a few

DOES EVERYONE PAY THE SAME PREMIUM?

No, insurance providers set premiums that allow the system to function and generate a profit

PREMIUMS ARE BASED ON MANY FACTORS

If premiums are set too low, if emergency costs are higher than anticipated or if more individuals make claims than expected, the insurance provider will lose money

Insurance providers apply statistics to understand the amount of risk their policyholders represent, and then adjust their premiums accordingly

It's why your age or gender can influence your car insurance rates, or why your family medical history or lifestyle can influence your life insurance premiums

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Sources: Investopedia.com, LifeHappens.org

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