

Insurance Basics

What is insurance? A system or a method of providing financial protection or paying compensation for a loss occurred accidentally. In other words Insurance is a way of protecting yourself and your belongings against a particular adverse event, for example, a fire accident, a flood loss, a theft or burglary, or losing your income because of an accident. If this happens, insurance will pay out an agreed amount or an amount to cover the damage, as appropriate subject to the terms and conditions of the policy. Otherwise you have to decide whether you're willing or able to take that risk on you or to transfer it to the insurance company.

Is insurance a myth? No. It is a time tested, wonderful and an amazing concept (to provide financial protection or pay compensation)

Why do you need insurance? Because the unexpected sometimes happens and puts into financial losses. One should plan insurance only to protect his major financial losses which would be beyond his normal capacity to manage by himself. Otherwise you would be paying more for insurance to cover every unexpected losses and this would not be a prudent decision one can make.

Does insurance pay all losses? No, it would pay only for covered perils* / losses (*perils mean dangers)

Why insurance does not pay all losses ? The cost of insurance for such requirement would be very high and no one would buy insurance. The basic concept of insurance is to pool the collection of *small contributions* from many to pay for one or few claims from the pool of collection.

How insurance is created to a prospective buyer: Two factors determine what you pay for your insurance. These factors analyse your characteristics and determine the risk you present to the insurer. Underwriting and rating are these two factors. Underwriting is the process used by insurers to decide whether the proposer will be offered the insurance coverage, only a limited form of coverage or declined based on the informations supplied by the proposer. On the other hand, rating is decided based on the underwriting process. The rating assigns a price based on what the insurer believes it will cost to assume the financial responsibility for the proposer's potential claim

How does insurance work? The amount you pay for insurance will be based on the information you give the insurance company (the insurer) and the type of risk you want to insure. Insurance companies use underwriting criteria, such as the business activity, location, occupation, type of construction, the value accumulation, and in case of individuals, your health conditions, your personal habits etc.

You might find that some insurance companies may not be able to give you a price for the cover you need. This could be because that particular insurance company doesn't offer insurance for the type of risk you want to insure (for example comprehensive insurance for cars aged beyond 10 years). If you want this type of insurance you might have to go to an insurance broker (insuranzone) who can organise from the market.

The insurance company agrees to pay out if the event which you're insuring against happens. It is important that you give the insurance company the correct information when buying insurance as incorrect information might affect your claim. You can choose which company's policy to buy yourself or you can go to an insurance broker, who'll help you choose.

Generally all insurance policies last for one year at a time and you can renew your policy when it ends, or go somewhere else for a better deal. But make sure you don't lose out by switching and always check that a new policy covers what you need it for. Always compare what's covered by a policy, not just the price. Some might be cheaper than others, but they may not offer the same level of protection.

How does it help? Everyday life has its problems, and accidents can happen. Your business premises may be burnt or burgled, your car may be damaged, or you or your partner may suffer a serious injury or illness.

But your fixed expenses or EMIs still have to be paid. If things get tough, the last thing you'll need is a growing pile of money problems. Of course, it may not happen, and only you can decide whether you're willing or able to take the risk. You may have enough savings to cover you. But if not, **insurance** may help. There are lots of different types of insurance available and it can be confusing. Only **Qualified Practicing Insurance Broker (QPIB)** will help you think about your needs and advise professionally

Buying without advice? Firms selling insurance & their agents and those providing insurance services, say brokers, surveyors and TPAs are regulated by IRDA. List of regulated firms and their details are displayed in IRDA's website. Always make sure that the firm you use is on the list of the regulator before you commence any transaction. You can directly approach any insurer for buying your insurance but be aware that they sell only their products and can not provide comparisons of coverage, terms and conditions but it is up to you to decide whether the policy is suitable for you or not. *You may have less ground for complaint if the product turns out to be unsuitable*

Read your policy: Make sure you read your policy carefully to check that it provides the cover you need and to note any significant terms, warranties and exclusions.

Where can I buy insurance? Insurance products can be purchased in many ways. Qualified Practicing Insurance brokers (QPIB) like 'insuranzone' will be able to offer you advice about choosing between a variety of products to get one that suits your circumstances. Alternatively, you might do your own research and buy a product directly from the insurer or thro' insurance company's Agents where you get advice for one company product only and at times it may not suit you completely.

Commonly used terminologies in an insurance transaction

Who is an Insured

Insured means the policy holder. (many think it as the Insurance company).

Who is an Insurer

Insurer means the insurance company or the risk carrier (many think it as the policy holder)

What is actually paid from an insurance policy... say 50% to 60% or 100%? Not exactly. The policy should pay the exact loss amount, which means it should not pay more than the loss nor less than its actual value and not the replacement cost

What is actual value? The as is where is condition value of your property/vehicle just before the accident / loss / damage. The depreciated value as calculated for asset valuations and not the written down value (wdv) as calculated in the IT dept or in ROC

The depreciated value is calculated by deducting a reasonable percentage from the new market value based on its age and usage.

What is a market value? Insurers used to arrive at the market value by finding out the similar type of asset / property with same features / configurations available in the market and determine the value based on the demand and supply basis or in otherwords market Value is the value of an asset which is available for a sale or for a purchase in as where is condition at a particular point of time. This is also based on the demand and supply conditions based on usage, wear and tear and depreciation, and / or based on arriving the market value as described in the depreciated value definition above whichever is fair and reasonable.

What is Book Value or Written Down Value (WDV)? Book Value is the value of an asset calculated for Income tax or for ROC purpose and has no relevance with insurance requirement.

What is the Re-Instatement Value (RIV)? The amount needed to replace the used or damaged property by a new property of same origin, specifications, features, quality, type and output and location without deducting a value for depreciation. Replacement value of an asset is the new market price as described in RIV and not the market value nor the book value nor WDV.



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