Insurance

Insurance is a means of protection from financial loss in which, in exchange for a fee, a party agrees to compensate another party in the event of a certain loss, damage, or injury. It is a form of risk management, primarily used to hedge against the risk of a contingent or uncertain loss.An entity which provides insurance is known as an insurer, insurance company, insurance carrier, or underwriter. A person or entity who buys insurance is known as a policyholder, while a person or entity covered under the policy is called an insured. The insurance transaction involves the policyholder assuming a guaranteed, known, and relatively small loss in the form of a payment to the insurer (a premium) in exchange for the insurer's promise to compensate the insured in the event of a covered loss. The loss may or may not be financial, but it must be reducible to financial terms. Furthermore, it usually involves something in which the insured has an insurable interest established by ownership, possession, or pre-existing relationship.The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insurer will compensate the insured, or their designated beneficiary or assignee. The amount of money charged by the insurer to the policyholder for the coverage set forth in the insurance policy is called the premium. If the insured experiences a loss which is potentially covered by the insurance policy, the insured submits a claim to the insurer for processing by a claims adjuster. A mandatory out-of-pocket expense required by an insurance policy before an insurer will pay a claim is called a deductible (or if required by a health insurance policy, a copayment). The insurer may hedge its own risk by taking out reinsurance, whereby another insurance company agrees to carry some of the risks, especially if the primary insurer deems the risk too large for it to carry.History[edit]Main article: History of insuranceEarly methods[edit]Merchants have sought methods to minimize risks since early times. Pictured, Governors of the Wine Merchant's Guild by Ferdinand Bol, c. 1680.Methods for transferring or distributing risk were practiced by Babylonian, Chinese and Indian traders as long ago as the 3rd and 2nd millennia BC, respectively.[1][2] Chinese merchants travelling treacherous river rapids would redistribute their wares across many vessels to limit the loss due to any single vessel capsizing.Codex Hammurabi Law 238 (c. 1755–1750 BC) stipulated that a sea captain, ship-manager, or ship charterer that saved a ship from total loss was only required to pay one-half the value of the ship to the ship-owner.[3][4][5] In the Digesta seu Pandectae (533), the second volume of the codification of laws ordered by Justinian I (527–565), a legal opinion written by the Roman jurist Paulus in 235 AD was included about the Lex Rhodia ("Rhodian law"). It articulates the general average principle of marine insurance established on the island of Rhodes in approximately 1000 to 800 BC, plausibly by the Phoenicians during the proposed Dorian invasion and emergence of the purported Sea Peoples during the Greek Dark Ages (c. 1100–c. 750).[6][7][8]The law of general average is the fundamental principle that underlies all insurance.[7] In 1816, an archeological excavation in Minya, Egypt produced a Nerva–Antonine dynasty-era tablet from the ruins of the Temple of Antinous in Antinoöpolis, Aegyptus. The tablet prescribed the rules and membership dues of a burial society collegium established in Lanuvium, Italia in approximately 133 AD during the reign of Hadrian (117–138) of the Roman

Empire.[7] In 1851 AD, future U.S. Supreme Court Associate Justice Joseph P. Bradley (1870–1892 AD), once employed as an actuary for the Mutual Benefit Life Insurance Company, submitted an article to the Journal of the Institute of Actuaries. His article detailed an historical account of a Severan dynasty-era life table compiled by the Roman jurist Ulpian in approximately 220 AD that was also included in the Digesta.[9]Concepts of insurance has been also found in 3rd century BC Hindu scriptures such as Dharmasastra, Arthashastra and Manusmriti.[10] The ancient Greeks had marine loans. Money was advanced on a ship or cargo, to be repaid with large interest if the voyage prospers. However, the money would not be repaid at all if the ship were lost, thus making the rate of interest high enough to pay for not only for the use of the capital but also for the risk of losing it (fully described by Demosthenes). Loans of this character have ever since been common in maritime lands under the name of bottomry and respondentia bonds.[11]The direct insurance of sea-risks for a premium paid independently of loans began in Belgium about 1300 AD.[11]Separate insurance contracts (i.e., insurance policies not bundled with loans or other kinds of contracts) were invented in Genoa in the 14th century, as were insurance pools backed by pledges of landed estates. The first known insurance contract dates from Genoa in 1347. In the next century, maritime insurance developed widely, and premiums were varied with risks.[12] These new insurance contracts allowed insurance to be separated from investment, a separation of roles that first proved useful in marine insurance.The earliest known policy of life insurance was made in the Royal Exchange, London, on the 18th of June 1583, for £383, 6s. 8d. for twelve months on the life of William Gibbons.[11]Modern methods[edit]Insurance became far more sophisticated in Enlightenment-era Europe, where specialized varieties developed.Lloyd's Coffee House was the first organized market for marine insurance.Property insurance as we know it today can be traced to the Great Fire of London, which in 1666 devoured more than 13,000 houses. The devastating effects of the fire converted the development of insurance "from a matter of convenience into one of urgency, a change of opinion reflected in Sir Christopher Wren's inclusion of a site for "the Insurance Office" in his new plan for London in 1667."[13] A number of attempted fire insurance schemes came to nothing, but in 1681, economist Nicholas Barbon and eleven associates established the first fire insurance company, the "Insurance Office for Houses", at the back of the Royal Exchange to insure brick and frame homes. Initially, 5,000 homes were insured by his Insurance Office.[14]At the same time, the first insurance schemes for the underwriting of business ventures became available. By the end of the seventeenth century, London's growth as a centre for trade was increasing due to the demand for marine insurance. In the late 1680s, Edward Lloyd opened a coffee house, which became the meeting place for parties in the shipping industry wishing to insure cargoes and ships, including those willing to underwrite such ventures. These informal beginnings led to the establishment of the insurance market Lloyd's of London and several related shipping and insurance businesses.[15]Leaflet promoting the National Insurance Act 1911Life insurance policies were taken out in the early 18th century. The first company to offer life insurance was the Amicable Society for a Perpetual Assurance Office, founded in London in 1706 by William Talbot and Sir Thomas Allen.[16][17] Upon the same principle, Edward Rowe Mores established the Society for Equitable Assurances on

Lives and Survivorship in 1762.It was the world's first mutual insurer and it pioneered age based premiums based on mortality rate laying "the framework for scientific insurance practice and development" and "the basis of modern life assurance upon which all life assurance schemes were subsequently based."[18]In the late 19th century "accident insurance" began to become available.[19] The first company to offer accident insurance was the Railway Passengers Assurance Company, formed in 1848 in England to insure against the rising number of fatalities on the nascent railway system.The first international insurance rule was the York Antwerp Rules (YAR) for the distribution of costs between ship and cargo in the event of general average. In 1873 the "Association for the Reform and Codification of the Law of Nations", the forerunner of the International Law Association (ILA), was founded in Brussels. It published the first YAR in 1890, before switching to the present title of the "International Law Association" in 1895.[20][21]By the late 19th century governments began to initiate national insurance programs against sickness and old age. Germany built on a tradition of welfare programs in Prussia and Saxony that began as early as in the 1840s. In the 1880s Chancellor Otto von Bismarck introduced old age pensions, accident insurance and medical care that formed the basis for Germany's welfare state.[22][23] In Britain more extensive legislation was introduced by the Liberal government in the 1911 National Insurance Act. This gave the British working classes the first contributory system of insurance against illness and unemployment.[24] This system was greatly expanded after the Second World War under the influence of the Beveridge Report, to form the first modern welfare state.[22][25]In 2008, the International Network of Insurance Associations (INIA), then an informal network, became active and it has been succeeded by the Global Federation of Insurance Associations (GFIA), which was formally founded in 2012 to aim to increase insurance industry effectiveness in providing input to international regulatory bodies and to contribute more effectively to the international dialogue on issues of common interest. It consists of its 40 member associations and 1 observer association in 67 countries, which companies account for around 89% of total insurance premiums worldwide.[26]Principles[edit]Insurance involves pooling funds from many insured entities (known as exposures) to pay for the losses that only some insureds may incur. The insured entities are therefore protected from risk for a fee, with the fee being dependent upon the frequency and severity of the event occurring. In order to be an insurable risk, the risk insured against must meet certain characteristics. Insurance as a financial intermediary is a commercial enterprise and a major part of the financial services industry, but individual entities can also self-insure through saving money for possible future losses.[27]Insurability[edit]Main article: InsurabilityRisk which can be insured by private companies typically share seven common characteristics:[28]A large number of similar exposure units: Since insurance operates through pooling resources, the majority of insurance policies cover individual members of large classes, allowing insurers to benefit from the law of large numbers in which predicted losses are similar to the actual losses. Exceptions include Lloyd's of London, which is famous for insuring the life or health of actors, sports figures, and other famous individuals. However, all exposures will have distinct differences, which may lead to different premium rates.Definite loss: This type of loss takes place at a known time and place from a known cause. The classic example involves the death of an insured person on a life insurance policy. Fire, automobile accidents, and worker injuries may all easily meet this criterion. Other types of losses may only be definite in theory. Occupational disease, for instance, may involve prolonged exposure to injurious conditions where no specific time, place, or cause is identifiable. Ideally, the time, place, and cause of a loss should be clear enough that a reasonable person, with sufficient information, could objectively verify all three elements.Accidental loss: The event that constitutes the trigger of a claim should be fortuitous, or at least outside the control of the beneficiary of the insurance. The loss should be pure because it results from an event for which there is only the opportunity for cost. Events that contain speculative elements such as ordinary business risks or even purchasing a lottery ticket are generally not considered insurable.Large loss: The size of the loss must be meaningful from the perspective of the insured. Insurance premiums need to cover both the expected cost of losses, plus the cost of issuing and administering the policy, adjusting losses, and supplying the capital needed to reasonably assure that the insurer will be able to pay claims. For small losses, these latter costs may be several times the size of the expected cost of losses. There is hardly any point in paying such costs unless the protection offered has real value to a buyer.Affordable premium: If the likelihood of an insured event is so high, or the cost of the event so large, that the resulting premium is large relative to the amount of protection offered, then it is not likely that insurance will be purchased, even if on offer. Furthermore, as the accounting profession formally recognizes in financial accounting standards, the premium cannot be so large that there is not a reasonable chance of a significant loss to the insurer. Suppose there is no such chance of loss. In that case, the transaction may have the form of insurance, but not the substance (see the U.S. Financial Accounting Standards Board pronouncement number 113: "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts").Calculable loss: There are two elements that must be at least estimable, if not formally calculable: the probability of loss and the attendant cost. Probability of loss is generally an empirical exercise, while cost has more to do with the ability of a reasonable person in possession of a copy of the insurance policy and a proof of loss associated with a claim presented under that policy to make a reasonably definite and objective evaluation of the amount of the loss recoverable as a result of the claim.Limited risk of catastrophically large losses: Insurable losses are ideally independent and non-catastrophic, meaning that the losses do not happen all at once and that individual losses are not severe enough to bankrupt the insurer; insurers may prefer to limit their exposure to a loss from a single event to some small portion of their capital base. Capital constrains insurers' ability to sell earthquake insurance as well as wind insurance in hurricane zones. In the United States, the federal government insures flood risk in specifically identified areas. In commercial fire insurance, it is possible to find single properties whose total exposed value is well in excess of any individual insurer's capital constraint. Such properties are generally shared among several insurers or are insured by a single insurer which syndicates the risk into the reinsurance market.Legal[edit]When a company insures an individual entity, there are basic legal requirements and regulations. Several commonly cited legal principles of insurance include:[29]Indemnity – the insurance company indemnifies or compensates the insured in the case of certain losses only up to the insured's interest.Benefit insurance – as it is stated in the study books of The Chartered

Insurance Institute, the insurance company does not have the right of recovery from the party who caused the injury and must compensate the Insured regardless of the fact that Insured had already sued the negligent party for the damages (for example, personal accident insurance)Insurable interest – the insured typically must directly suffer from the loss. Insurable interest must exist whether property insurance or insurance on a person is involved. The concept requires that the insured have a "stake" in the loss or damage to the life or property insured. What that "stake" is will be determined by the kind of insurance involved and the nature of the property ownership or relationship between the persons. The requirement of an insurable interest is what distinguishes insurance from gambling.Utmost good faith – (Uberrima fides) the insured and the insurer are bound by a good faith bond of honesty and fairness. Material facts must be disclosed.Contribution – insurers, which have similar obligations to the insured, contribute in the indemnification, according to some method.Subrogation – the insurance company acquires legal rights to pursue recoveries on behalf of the insured; for example, the insurer may sue those liable for the insured's loss. The Insurers can waive their subrogation rights by using the special clauses.Causa proxima, or proximate cause – the cause of loss (the peril) must be covered under the insuring agreement of the policy, and the dominant cause must not be excludedMitigation – In case of any loss or casualty, the asset owner must attempt to keep loss to a minimum, as if the asset was not insured.Indemnification[edit]Main article: IndemnityTo "indemnify" means to make whole again, or to be reinstated to the position that one was in, to the extent possible, prior to the happening of a specified event or peril. Accordingly, life insurance is generally not considered to be indemnity insurance, but rather "contingent" insurance (i.e., a claim arises on the occurrence of a specified event). There are generally three types of insurance contracts that seek to indemnify an insured:A "reimbursement" policyA "pay on behalf" or "on behalf of policy"[30]An "indemnification" policyFrom an insured's standpoint, the result is usually the same: the insurer pays the loss and claims expenses.If the Insured has a "reimbursement" policy, the insured can be required to pay for a loss and then be "reimbursed" by the insurance carrier for the loss and out of pocket costs including, with the permission of the insurer, claim expenses.[30][note 1]Under a "pay on behalf" policy, the insurance carrier would defend and pay a claim on behalf of the insured who would not be out of pocket for anything. Most modern liability insurance is written on the basis of "pay on behalf" language, which enables the insurance carrier to manage and control the claim.Under an "indemnification" policy, the insurance carrier can generally either "reimburse" or "pay on behalf of", whichever is more beneficial to it and the insured in the claim handling process.An entity seeking to transfer risk (an individual, corporation, or association of any type, etc.) becomes the "insured" party once risk is assumed by an "insurer", the insuring party, by means of a contract, called an insurance policy. Generally, an insurance contract includes, at a minimum, the following elements: identification of participating parties (the insurer, the insured, the beneficiaries), the premium, the period of coverage, the particular loss event covered, the amount of coverage (i.e., the amount to be paid to the insured or beneficiary in the event of a loss), and exclusions (events not covered). An insured is thus said to be "indemnified" against the loss covered in the policy.When insured parties experience a loss for a specified peril, the coverage entitles the policyholder to make a claim against the insurer for the covered amount of loss as specified by the policy. The fee paid by the insured to the insurer for assuming the risk is called the premium. Insurance premiums from many insureds are used to fund accounts reserved for later payment of claims – in theory for a relatively few claimants – and for overhead costs. So long as an insurer maintains adequate funds set aside for anticipated losses (called reserves), the remaining margin is an insurer's profit.Exclusions[edit]Policies typically include a number of exclusions, for example:Nuclear exclusion clause, excluding damage caused by nuclear and radiation accidentsWar exclusion clause, excluding damage from acts of war or terrorism.[31][32]Insurers may prohibit certain activities which are considered dangerous and therefore excluded from coverage. One system for classifying activities according to whether they are authorised by insurers refers to "green light" approved activities and events, "yellow light" activities and events which require insurer consultation and/or waivers of liability, and "red light" activities and events which are prohibited and outside the scope of insurance cover.[33]Social effects[edit]Insurance can have various effects on society through the way that it changes who bears the cost of losses and damage. On one hand it can increase fraud; on the other it can help societies and individuals prepare for catastrophes and mitigate the effects of catastrophes on both households and societies.Insurance can influence the probability of losses through moral hazard, insurance fraud, and preventive steps by the insurance company. Insurance scholars have typically used moral hazard to refer to the increased loss due to unintentional carelessness and insurance fraud to refer to increased risk due to intentional carelessness or indifference.[34] Insurers attempt to address carelessness through inspections, policy provisions requiring certain types of maintenance, and possible discounts for loss mitigation efforts. While in theory insurers could encourage investment in loss reduction, some commentators have argued that in practice insurers had historically not aggressively pursued loss control measures—particularly to prevent disaster losses such as hurricanes—because of concerns over rate reductions and legal battles. However, since about 1996 insurers have begun to take a more active role in loss mitigation, such as through building codes.[35]Methods of insurance[edit]According to the study books of The Chartered Insurance Institute, there are variant methods of insurance as follows:Co-insurance – risks shared between insurers (sometimes referred to as "Retention")Dual insurance – having two or more policies with overlapping coverage of a risk (both the individual policies would not pay separately – under a concept named contribution, they would contribute together to make up the policyholder's losses. However, in case of contingency insurances such as life insurance, dual payment is allowed)Self-insurance – situations where risk is not transferred to insurance companies and solely retained by the entities or individuals themselvesReinsurance – situations when the insurer passes some part of or all risks to another Insurer, called the reinsurerInsurers' business model[edit]Accidents will happen (William H. Watson, 1922) is a slapstick silent film about the methods and mishaps of an insurance broker. Collection EYE Film Institute Netherlands.Insurers may use the subscription business model, collecting premium payments periodically in return for on-going and/or compounding benefits offered to policyholders.Underwriting and investing[edit]Insurers' business model aims to collect more in premium and investment income than is paid out in losses, and to also offer a competitive price which consumers will accept. Profit can be reduced to a simple equation:Profit = earned premium + investment income – incurred loss – underwriting expenses.Insurers make money in two ways:Through underwriting, the process by which insurers select the risks to insure and decide how much in premiums to charge for accepting those risks, and taking the brunt of the risk should it come to fruition.By investing the premiums they collect from insured partiesThe most complicated aspect of insuring is the actuarial science of ratemaking (price-setting) of policies, which uses statistics and probability to approximate the rate of future claims based on a given risk. After producing rates, the insurer will use discretion to reject or accept risks through the underwriting process.At the most basic level, initial rate-making involves looking at the frequency and severity of insured perils and the expected average payout resulting from these perils. Thereafter an insurance company will collect historical loss-data, bring the loss data to present value, and compare these prior losses to the premium collected in order to assess rate adequacy.[36] Loss ratios and expense loads are also used. Rating for different risk characteristics involves—at the most basic level—comparing the losses with "loss relativities"—a policy with twice as many losses would, therefore, be charged twice as much. More complex multivariate analyses are sometimes used when multiple characteristics are involved and a univariate analysis could produce confounded results. Other statistical methods may be used in assessing the probability of future losses.Upon termination of a given policy, the amount of premium collected minus the amount paid out in claims is the insurer's underwriting profit on that policy. Underwriting performance is measured by something called the "combined ratio", which is the ratio of expenses/losses to premiums.[37] A combined ratio of less than 100% indicates an underwriting profit, while anything over 100 indicates an underwriting loss. A company with a combined ratio over 100% may nevertheless remain profitable due to investment earnings.Insurance companies earn investment profits on "float". Float, or available reserve, is the amount of money on hand at any given moment that an insurer has collected in insurance premiums but has not paid out in claims. Insurers start investing insurance premiums as soon as they are collected and continue to earn interest or other income on them until claims are paid out. The Association of British Insurers (grouping together 400 insurance companies and 94% of UK insurance services) has almost 20% of the investments in the London Stock Exchange.[38] In 2007, U.S. industry profits from float totaled $58 billion. In a 2009 letter to investors, Warren Buffett wrote, "we were paid $2.8 billion to hold our float in 2008".[39]In the United States, the underwriting loss of property and casualty insurance companies was $142.3 billion in the five years ending 2003. But overall profit for the same period was $68.4 billion, as the result of float. Some insurance-industry insiders, most notably Hank Greenberg, do not believe that it is possible to sustain a profit from float forever without an underwriting profit as well, but this opinion is not universally held. Reliance on float for profit has led some industry experts to call insurance companies "investment companies that raise the money for their investments by selling insurance".[40]Naturally, the float method is difficult to carry out in an economically depressed period. Bear markets do cause insurers to shift away from investments and to toughen up their underwriting standards, so a poor economy generally means high insurance-premiums. This tendency to swing between profitable and unprofitable periods over time is commonly known[by whom?] as the underwriting, or insurance, cycle.[41]Claims[edit]Claims and loss handling is the materialized utility of insurance; it is the actual "product" paid for. Claims may be filed by insureds directly with the insurer or through brokers or agents. The insurer may require that the claim be filed on its own proprietary forms, or may accept claims on a standard industry form, such as those produced by ACORD.Insurance-company claims departments employ a large number of claims adjusters, supported by a staff of records-management and data-entry clerks. Incoming claims are classified based on severity and are assigned to adjusters, whose settlement authority varies with their knowledge and experience. An adjuster undertakes an investigation of each claim, usually in close cooperation with the insured, determines if coverage is available under the terms of the insurance contract (and if so, the reasonable monetary value of the claim), and authorizes payment.Policyholders may hire their own public adjusters to negotiate settlements with the insurance company on their behalf. For policies that are complicated, where claims may be complex, the insured may take out a separate insurance-policy add-on, called loss-recovery insurance, which covers the cost of a public adjuster in the case of a claim.Adjusting liability-insurance claims is particularly difficult because they involve a third party, the plaintiff, who is under no contractual obligation to cooperate with the insurer and may in fact regard the insurer as a deep pocket. The adjuster must obtain legal counsel for the insured—either inside ("house") counsel or outside ("panel") counsel, monitor litigation that may take years to complete, and appear in person or over the telephone with settlement authority at a mandatory settlement-conference when requested by a judge.If a claims adjuster suspects under-insurance, the condition of average may come into play to limit the insurance company's exposure.In managing the claims-handling function, insurers seek to balance the elements of customer satisfaction, administrative handling expenses, and claims overpayment leakages. In addition to this balancing act, fraudulent insurance practices are a major business risk that insurers must manage and overcome. Disputes between insurers and insureds over the validity of claims or claims-handling practices occasionally escalate into litigation (see insurance bad faith).Marketing[edit]Insurers will often use insurance agents to initially market or underwrite their customers. Agents can be captive, meaning they write only for one company, or independent, meaning that they can issue policies from several companies. The existence and success of companies using insurance agents is likely due to the availability of improved and personalised services. Companies also use Broking firms, Banks and other corporate entities (like Self Help Groups, Microfinance Institutions, NGOs, etc.) to market their products.[42]Types[edit]Any risk that can be quantified can potentially be insured. Specific kinds of risk that may give rise to claims are known as perils. An insurance policy will set out in detail which perils are covered by the policy and which are not. Below are non-exhaustive lists of the many different types of insurance that exist. A single policy may cover risks in one or more of the categories set out below. For example, vehicle insurance would typically cover both the property risk (theft or damage to the vehicle) and the liability risk (legal claims arising from an accident). A home insurance policy in the United States typically includes coverage for damage to the home and the owner's belongings, certain legal claims against the owner, and even a small amount of coverage for medical expenses of guests who are injured on the owner's property.Business insurance can take a number of different forms, such as the various kinds of professional liability insurance, also called professional indemnity (PI), which are discussed below under that name; and the business owner's policy (BOP), which packages into one policy many of the kinds of coverage that a business owner needs, in a way analogous to how homeowners' insurance packages the coverages that a homeowner needs.[43]Vehicle insurance[edit]Main article: Vehicle insuranceA wrecked vehicle in CopenhagenVehicle insurance protects the policyholder against financial loss in the event of an incident involving a vehicle they own, such as in a traffic collision.Coverage typically includes:Property coverage, for damage to or theft of the carLiability coverage, for the legal responsibility to others for bodily injury or property damageMedical coverage, for the cost of treating injuries, rehabilitation and sometimes lost wages and funeral expensesGap insurance[edit]Main article: Gap insuranceGap insurance covers the excess amount on an auto loan in an instance where the policyholder's insurance company does not cover the entire loan. Depending on the company's specific policies it might or might not cover the deductible as well. This coverage is marketed for those who put low down payments, have high interest rates on their loans, and those with 60-month or longer terms. Gap insurance is typically offered by a finance company when the vehicle owner purchases their vehicle, but many auto insurance companies offer this coverage to consumers as well.Health insurance[edit]Main articles: Health insurance and Dental insuranceGreat Western Hospital, SwindonHealth insurance policies cover the cost of medical treatments. Dental insurance, like medical insurance, protects policyholders for dental costs. In most developed countries, all citizens receive some health coverage from their governments, paid through taxation. In most countries, health insurance is often part of an employer's benefits.Income protection insurance[edit]Workers' compensation, or employers' liability insurance, is compulsory in some countries.Disability insurance policies provide financial support in the event of the policyholder becoming unable to work because of disabling illness or injury. It provides monthly support to help pay such obligations as mortgage loans and credit cards. Short-term and long-term disability policies are available to individuals, but considering the expense, long-term policies are generally obtained only by those with at least six-figure incomes, such as doctors, lawyers, etc. Short-term disability insurance covers a person for a period typically up to six months, paying a stipend each month to cover medical bills and other necessities.Long-term disability insurance covers an individual's expenses for the long term, up until such time as they are considered permanently disabled and thereafter Insurance companies will often try to encourage the person back into employment in preference to and before declaring them unable to work at all and therefore totally disabled.Disability overhead insurance allows business owners to cover the overhead expenses of their business while they are unable to work.Total permanent disability insurance provides benefits when a person is permanently disabled and can no longer work in their profession, often taken as an adjunct to life insurance.Workers' compensation insurance replaces all or part of a worker's wages lost and accompanying medical expenses incurred because of a jobrelated injury.Casualty insurance[edit]Main article: Casualty insuranceCasualty insurance insures against accidents, not necessarily tied to any specific property. It is a broad spectrum of insurance that a number of other types of insurance could be classified, such as auto, workers compensation, and some liability insurances.Crime insurance is a form of casualty insurance that covers the policyholder against losses arising from the criminal acts of third parties. For example, a company can obtain crime insurance to cover losses arising from theft or embezzlement.Terrorism insurance provides protection against any loss or damage caused by terrorist activities. In the United States in the wake of 9/11, the Terrorism Risk Insurance Act 2002 (TRIA) set up a federal program providing a transparent system of shared public and private compensation for insured losses resulting from acts of terrorism. The program was extended until the end of 2014 by the Terrorism Risk Insurance Program Reauthorization Act 2007 (TRIPRA).Kidnap and ransom insurance is designed to protect individuals and corporations operating in high-risk areas around the world against the perils of kidnap, extortion, wrongful detention and hijacking.Political risk insurance is a form of casualty insurance that can be taken out by businesses with operations in countries in which there is a risk that revolution or other political conditions could result in a loss.Life insurance[edit]Main article: Life insuranceAmicable Society for a Perpetual Assurance Office, Serjeants' Inn, Fleet Street, London, 1801Life insurance provides a monetary benefit to a decedent's family or other designated beneficiary, and may specifically provide for income to an insured person's family, burial, funeral and other final expenses. Life insurance policies often allow the option of having the proceeds paid to the beneficiary either in a lump sum cash payment or an annuity. In most states, a person cannot purchase a policy on another person without their knowledge.Annuities provide a stream of payments and are generally classified as insurance because they are issued by insurance companies, are regulated as insurance, and require the same kinds of actuarial and investment management expertise that life insurance requires. Annuities and pensions that pay a benefit for life are sometimes regarded as insurance against the possibility that a retiree will outlive his or her financial resources. In that sense, they are the complement of life insurance and, from an underwriting perspective, are the mirror image of life insurance.Certain life insurance contracts accumulate cash values, which may be taken by the insured if the policy is surrendered or which may be borrowed against. Some policies, such as annuities and endowment policies, are financial instruments to accumulate or liquidate wealth when it is needed.In many countries, such as the United States and the UK, the tax law provides that the interest on this cash value is not taxable under certain circumstances. This leads to widespread use of life insurance as a tax-efficient method of saving as well as protection in the event of early death.In the United States, the tax on interest income on life insurance policies and annuities is generally deferred. However, in some cases the benefit derived from tax deferral may be offset by a low return. This depends upon the insuring company, the type of policy and other variables (mortality, market return, etc.). Moreover, other income tax saving vehicles (e.g., IRAs, 401(k) plans, Roth IRAs) may be better alternatives for value accumulation.Burial insurance[edit]Burial insurance is an old type of life insurance which is paid out upon death to cover final expenses, such as the cost of a funeral. The Greeks and Romans introduced burial insurance c. 600 CE when they organized guilds called "benevolent societies" which cared for the surviving families and paid funeral expenses of members upon death. Guilds in the Middle Ages served a similar purpose, as did friendly societies during Victorian times.Property[edit]Main article: Property insuranceThis tornado damage to an Illinois home would be considered an "Act of God" for insurance purposes.Property insurance provides protection against risks to property, such as fire, theft or weather damage. This may include specialized forms of insurance such as fire insurance, flood insurance, earthquake insurance, home insurance, inland marine insurance or boiler insurance. The term property insurance may, like casualty insurance, be used as a broad category of various subtypes of insurance, some of which are listed below:US Airways Flight 1549 was written off after ditching into the Hudson River.Aviation insurance protects aircraft hulls and spares, and associated liability risks, such as passenger and third-party liability. Airports may also appear under this subcategory, including air traffic control and refuelling operations for international airports through to smaller domestic exposures.Boiler insurance (also known as boiler and machinery insurance, or equipment breakdown insurance) insures against accidental physical damage to boilers, equipment or machinery.Builder's risk insurance insures against the risk of physical loss or damage to property during construction. Builder's risk insurance is typically written on an "all risk" basis covering damage arising from any cause (including the negligence of the insured) not otherwise expressly excluded. Builder's risk insurance is coverage that protects a person's or organization's insurable interest in materials, fixtures or equipment being used in the construction or renovation of a building or structure should those items sustain physical loss or damage from an insured peril.[44]Crop insurance may be purchased by farmers to reduce or manage various risks associated with growing crops. Such risks include crop loss or damage caused by weather, hail, drought, frost damage, pests[45] (including especially insects), or disease[46][45]—some of these being termed named perils.[45] Index-based insurance uses models of how climate extremes affect crop production to define certain climate triggers that if surpassed have high probabilities of causing substantial crop loss. When harvest losses occur associated with exceeding the climate trigger threshold, the index-insured farmer is entitled to a compensation payment.[47]Earthquake insurance is a form of property insurance that pays the policyholder in the event of an earthquake that causes damage to the property. Most ordinary home insurance policies do not cover earthquake damage. Earthquake insurance policies generally feature a high deductible. Rates depend on location and hence the likelihood of an earthquake, as well as the construction of the home.Fidelity bond is a form of casualty insurance that covers policyholders for losses incurred as a result of fraudulent acts by specified individuals. It usually insures a business for losses caused by the dishonest acts of its employees.Hurricane Katrina caused over $80 billion of storm and flood damage.Flood insurance protects against property loss due to flooding. Many U.S. insurers do not provide flood insurance in some parts of the country. In response to this, the federal government created the National Flood Insurance Program which serves as the insurer of last resort.Home insurance, also commonly called hazard insurance or homeowners insurance (often abbreviated in the real estate industry as HOI), provides coverage for damage or destruction of the policyholder's home. In some geographical areas, the policy may exclude certain types of risks, such as flood or earthquake, that require additional coverage. Maintenance-related issues are typically the homeowner's responsibility. The policy may include inventory, or this can be bought as a separate policy, especially for people who rent housing. In some countries, insurers offer a package which may include liability and legal responsibility for injuries and property damage caused by members of the household, including pets.[48]Landlord insurance covers residential or commercial property that is rented to tenants. It also covers the landlord's liability for the occupants at the property. Most homeowners' insurance, meanwhile, cover only owner-occupied homes and not liability or damages related to tenants.[49]Marine insurance and marine cargo insurance cover the loss or damage of vessels at sea or on inland waterways, and of cargo in transit, regardless of the method of transit. When the owner of the cargo and the carrier are separate corporations, marine cargo insurance typically compensates the owner of cargo for losses sustained from fire, shipwreck, etc., but excludes losses that can be recovered from the carrier or the carrier's insurance. Many marine insurance underwriters will include "time element" coverage in such policies, which extends the indemnity to cover loss of profit and other business expenses attributable to the delay caused by a covered loss.Renters' insurance, often called tenants' insurance, is an insurance policy that provides some of the benefits of homeowners' insurance, but does not include coverage for the dwelling, or structure, with the exception of small alterations that a tenant makes to the structure.Supplemental natural disaster insurance covers specified expenses after a natural disaster renders the policyholder's home uninhabitable. Periodic payments are made directly to the insured until the home is rebuilt or a specified time period has elapsed.Surety bond insurance is a three-party insurance guaranteeing the performance of the principal.The demand for terrorism insurance surged after 9/11.Volcano insurance is a specialized insurance protecting against damage arising specifically from volcanic eruptions.Windstorm insurance is an insurance covering the damage that can be caused by wind events such as hurricanes.Liability[edit]Main article: Liability insuranceLiability insurance is a broad superset that covers legal claims against the insured. Many types of insurance include an aspect of liability coverage. For example, a homeowner's insurance policy will normally include liability coverage which protects the insured in the event of a claim brought by someone who slips and falls on the property; automobile insurance also includes an aspect of liability insurance that indemnifies against the harm that a crashing car can cause to others' lives, health, or property. The protection offered by a liability insurance policy is twofold: a legal defense in the event of a lawsuit commenced against the policyholder and indemnification (payment on behalf of the insured) with respect to a settlement or court verdict. Liability policies typically cover only the negligence of the insured, and will not apply to results of wilful or intentional acts by the insured.The subprime mortgage crisis was the source of many liability insurance losses.Public liability insurance or general liability insurance covers a business or organization against claims should its operations injure a member of the public or damage their property in some way.Directors and officers liability insurance (D&O) protects an organization (usually a corporation) from costs associated with litigation resulting from errors made by directors and officers for which they are liable.Environmental liability or environmental impairment insurance protects the insured from bodily injury, property damage and cleanup costs as a result of the dispersal, release or escape of pollutants.Errors and omissions insurance (E&O) is business liability insurance for professionals such as insurance agents, real estate agents and brokers, architects, third-party administrators (TPAs) and other business professionals.Prize indemnity insurance protects the insured from giving away a large prize at a specific event. Examples would include offering prizes to contestants who can make a half-court shot at a basketball game, or a hole-in-one at a golf tournament.Professional liability insurance, also called professional indemnity insurance (PI), protects insured professionals such as architectural corporations and medical practitioners against potential negligence claims made by their patients/clients. Professional liability insurance may take on different names depending on the profession. For example, professional liability insurance in reference to the medical profession may be called medical malpractice insurance.Often a commercial insured's liability insurance program consists of several layers. The first layer of insurance generally consists of primary insurance, which provides first dollar indemnity for judgments and settlements up to the limits of liability of the primary policy. Generally, primary insurance is subject to a deductible and obligates the insurer to defend the insured against lawsuits, which is normally accomplished by assigning counsel to defend the insured. In many instances, a commercial insured may elect to self-insure. Above the primary insurance or self-insured retention, the insured may have one or more layers of excess insurance to provide coverage additional limits of indemnity protection. There are a variety of types of excess insurance, including "stand-alone" excess policies (policies that contain their own terms, conditions, and exclusions), "follow form" excess insurance (policies that follow the terms of the underlying policy except as specifically provided), and "umbrella" insurance policies (excess insurance that in some circumstances could provide coverage that is broader than the underlying insurance).[50]Credit[edit]Main article: Payment protection insuranceCredit insurance repays some or all of a loan when the borrower is insolvent.Mortgage insurance insures the lender against default by the borrower. Mortgage insurance is a form of credit insurance, although the name "credit insurance" more often is used to refer to policies that cover other kinds of debt.Many credit cards offer payment protection plans which are a form of credit insurance.Trade credit insurance is business insurance over the accounts receivable of the insured. The policy pays the policy holder for covered accounts receivable if the debtor defaults on payment.Collateral protection insurance (CPI) insures property (primarily vehicles) held as collateral for loans made by lending institutions.Cyber attack insurance[edit]Cyber-insurance is a business lines insurance product intended to provide coverage to corporations from Internet-based risks, and more generally from risks relating to information technology infrastructure, information privacy, information governance liability, and activities related thereto.