➢ Insurance Domain Knowledge: Basics Of Insurance Domain For Testers

Insurance Domain Knowledge for testers:

We live in an unstable world and the catastrophic events like the Tsunami Disaster, earthquake, flood, volcanic eruptions etc., remind us that anything may happen anytime.

And the compensation against such loses is a remarkable one. Thus Insurance is the sole factor that supports human beings under such losses. This tutorial will explain you all the basic facts that you need to know about the Insurance domain.

I hope that everyone is aware of the term "Insurance" and each one of you would have mostly covered your life, property or any other entity using different "Insurance policies". The insurance industry is a vast one and there are several types of insurance and various terminologies that are used in this industry.

Let us now understand all about insurance through this tutorial.

Insurance Domain Knowledge and Basics

The purpose of an Insurance is to provide protection against the risk of any financial loss.

Insurance is a contract between the **insurer** and the **insured person or a Group**. Insured person means the person who is covered by the insurance policy or the one who avails the benefit of the policy and the insurer is the insurance company who sells the policies.

Insurance is a form of risk management in which an insurer agrees to take the risk of the insured entity against future events, uncertain loss etc. Also in return for this transfer of risk, the insured person exchanges a monetary compensation to the insurance company which is termed as "**Premium**".

Individuals, businesses, or any other entity can take a protection using the insurance policy against the significant losses, financial suffering etc., and the premium is paid by the insured to the insurance company. As the risk increases, there is a significant increase in the premium amount as well.

Importance of Insurance

Nowadays, insurance has become an important part of every human being's life. Mostly everyone is covered under some type of insurance policy but not everyone knows why an insurance is important? The basic answer is – insurance gives financial protection against an uncertain loss.

The absence of a breadwinner make things unfortunate but thanks to "Insurance" which assures to the insured person that in a worst-case scenario, if the insured person is no more, their business or family members will get benefits agreed upon in the policy agreement.

For Example, in case of the death of an insured person, their dependents will get a lump sum amount agreed upon, as per the policy. Insurance adds a financial security to one's life and helps in maintaining their family's standard of living.

How does Insurance work?

Nothing is permanent in today's world, everything is temporary. Insurance can't prevent something which is going wrong. However, there is always a good time and a bad time in everyone's life or business.

Hence it is always good to prepare for the worst. And Insurance helps to protect you and your assets from the financial risk or loss when something goes wrong.

Insurance is a business which includes various operations or transactions that must be performed in such a way that it generates sufficient income to pay the claims and also generates profit to the insurance company to remain in the market competition.

Let us see how insurance works, rather we will learn how insurance companies do their business and are able to accept the risks in case of life, health, automobile etc., and generate income.

Given below are few points that explain how an insurance works:

- To run any business there is a cost involved in it. The insurance company takes the risk of the insured person and for such "risk management," cost is required for an insurance company.
- The cost of risk is spread across a large group of people who share the similar risks.
- When you buy an insurance policy, you transfer your risk to the insurance company. In exchange for this risk, you pay a premium to the company. Similarly, there are other groups of people who also share the similar risk and pay a premium to the same company.
- This, in turn, will create a big pool of funding, which will be used to cover the claim in case of occurrence of any unexpected event in anyone's life.
- After the claim acceptance, the insurer will assist to settle down the claim after the concerned process and verification.
- If you need any clarification or you have any conflict with regards to claiming the settlement then you can contact your insurer immediately.
- If you are still not happy with the solution provided by the insurer then you can contact the Financial Ombudsman which is an independent and free service provider to their consumers.

Types of Insurance

There are several types of insurance that are available in the market. Similarly, there are many insurance companies who provide service to their customers for different policies. In every organization, there are different teams which are involved in testing every Line of Business (LoB).

Given below are some of the important types of Insurance:

#1) Life Insurance

Life Insurance is a contract between a policyholder and the insurance company wherein the insurance company agrees to pay monetary benefits either upon the death of an insured person or upon the maturity of the policy.

Policy agreement is a legal document and it gives an exhaustive list of all items, events included & excluded from the policy coverage.

#2) Property Insurance

Property insurance provides protection to any property against fire accidents, damage due to weather or loss due to theft. If you have a property such as a building, flat or any other personal property like personal office equipment etc then property insurance covers these items against the unforeseen events.

#3) Health Insurance

Health insurance provides coverage against the medical expenses or surgical operation of an individual.

It includes coverage for disability or accidental death and dismemberment. It is also a contract between an insurer and an insured person i.e. an individual and this contract is renewable as per the rules and regulation of an insurance company.

#4) Travel Insurance

There are mainly two reasons for buying Travel Insurance – Personal or Business. Travel Insurance covers financial losses caused due to baggage damage, death benefits, any medical expenses and loss of any personal belongings while traveling.

Travel insurance coverage is applicable before the start of the trip, during or even after the trip based on the policy coverage and conditions mentioned in the policy document.

#5) Auto Insurance

Automobile insurance covers all road vehicles like truck, car, motorcycle etc and it covers damage to the vehicle. Also, it covers the liability occurred due to the collision.

#6) Worker's Compensation

This type of insurance coverage is taken by the companies in which if an employee is injured while on-the-job then this policy covers all the medical expenses of the employee and also provides wages to the injured employee.

#7) Reinsurance

Reinsurance is the transfer of risk from one insurance company to the other insurance company. Reinsurance is an insurance that is purchased by one insurance company (ceding company) from one or more other insurance companies (reinsurer) for the risk management.

Here two parties are involved in a contract, one is ceding company and the other is the reinsurer. In this agreement, reinsurer agrees to pay a share of claims incurred by the ceding company upon fulfilling few conditions as per the agreement.
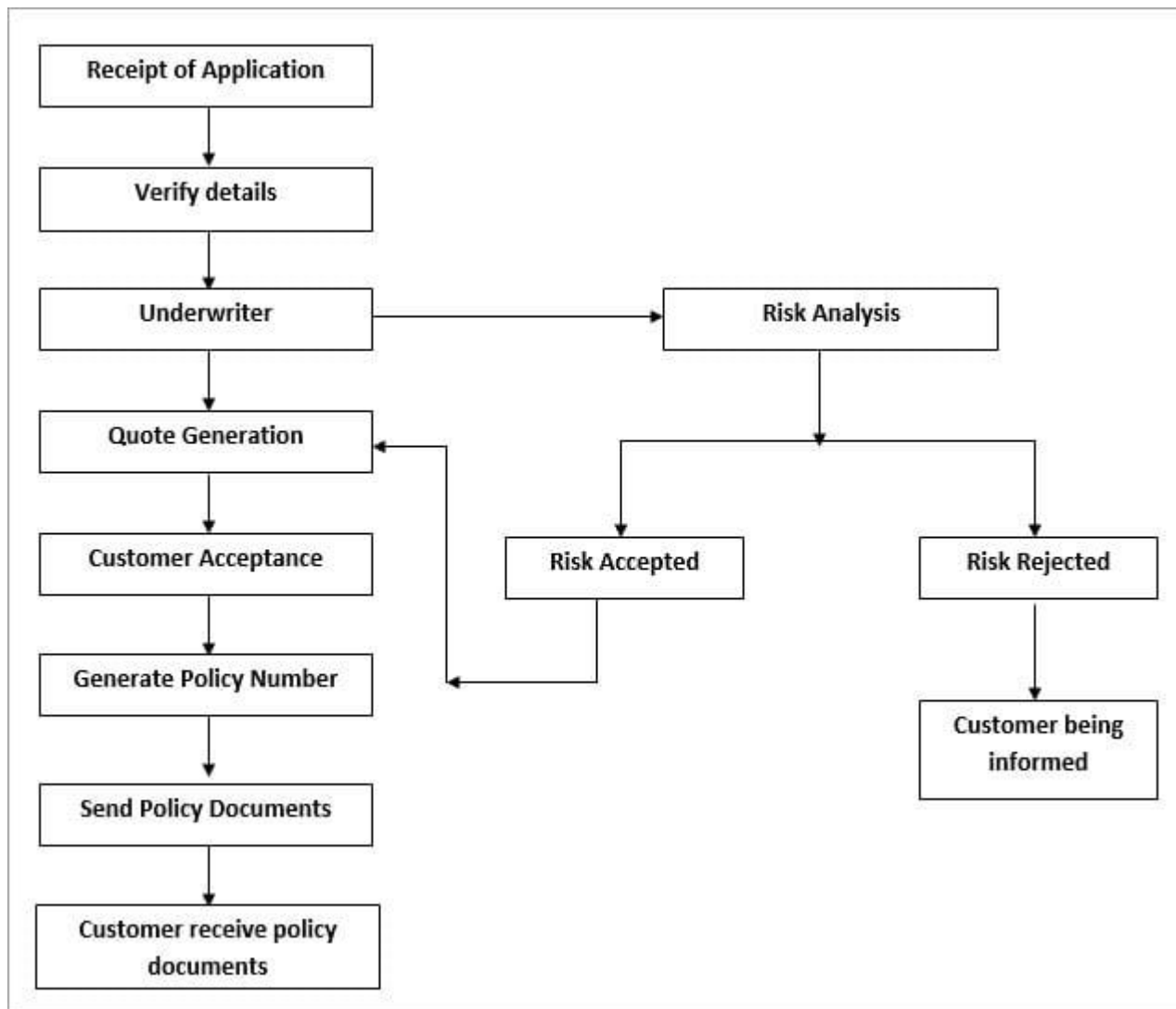
#8) Home Insurance

If you own a house or flat, then Home Insurance protects financial losses incurred due to damage. Home insurance policies mostly cover garage, dwelling etc as per the policy agreement. The Home insurance also depends upon the area in which you are living.

For Example, if you are living in an earthquake-prone area or flood prone area then most of the insurance companies will not offer you such insurance where the risk is higher or they will offer you insurance with maximum premium.

There are still many other types of insurance like – Disability Insurance, Agricultural Insurance, Fire Insurance, Flood Insurance, Aviation Insurance, Marine Insurance etc.

Process Flow for Enrolling an Insurance Policy

The image given below shows the high-level process flow for policy enrollment and how it is processed through different insurance applications.

A one-liner about these terminologies is given below for your reference:

- **Policy**: A written contract or an agreement between the insurance company and a policyholder. The policy document includes legal details/wordings about what is included in the coverage and what is excluded from the policy coverage.
- **Premium**: The price of an insurance policy.
- **Claim**: It is the Insurance benefit amount that is to be settled to the beneficiary as per the policy document.
- **Intermediaries**: Brokers, Agents etc.
- **Commission**: The amount to be paid by an insurance company to the agent who sold the policy.
- **Beneficiary**: The person who is entitled to get the policy benefits in case of unforeseen events.
- **Rider**: It is an additional benefit to the existing policy, which usually modifies the policy for additional coverage.
- **In force**: Insurance policy on which the premium is fully paid.
- **Grace Period**: It is the time period after the due date of the premium in which the policy remains in force.
- **Lapse**: It is the termination of the policy in case the premium amount is not being paid before the end of the grace period.
- **Reinstatement**: By paying the past due premium if any, lapsed policy is once again put into force by providing sufficient evidence as per the insurance company rule
- **Deductible**: It is the flat amount which an insured person needs to pay before the insurance company starts providing the policy benefits.
- **Co-Insurance**: After the deductible has been paid by an insured person, the insured person has to pay a specific percentage of the billing amount (let's say 20%) only then the insurer or insurance company will pay the remaining 80% of the amount.
- **Co-Payment**: As per the policy agreement, the policyholder pays a specific fixed amount (let's say $50) other than the deductible and co-insurance payment,
- **Out-of-pocket maximum**: This is the maximum amount required to be paid in a year by the policyholder for a deductible, co-insurance, and co-payment. Once this maximum amount is reached, the insurance company starts providing policy benefits.

- **Third Party Administrator** (TPA): It is an individual or firm hired by an employer to deal with claim handling, claims to process. TPA is not an insurer or a policyholder.
- **Underwriter**: Underwriter is a professional who analyses and classifies the risk for an insurance company. Based on this assessment the decision is made as to whether to accept or reject the application.
- **Actuary**: Actuary is a professional person who is appointed by an insurance company. Actuaries are highly skilled statisticians who evaluate all types of risk and financial impact of risks. Actuaries are specialist mathematicians who calculate the premium for an insurance company.

The insurance industry is spread across many lines of business (LoB) and each LoB has its own specific application.

Software testing plays a very important role in the Insurance sector. In order to run their business, insurance companies hugely rely on the software, which in turn supports them in managing customer data, developing forms etc.