Summary

Insurance

In this session, you learnt about the basics of insurance. You first learnt about the basic principle on which insurance is based. This principle is known as the **law of large numbers**. It states that if the number of trials of an event is increased, the chance of an event occurring gets closer to the average.

In insurance, a large number of people pool in their money in the form of a recurring payment called **premium**. In case a loss is incurred by one or a few individuals, this pooled money is used to pay for the loss.

Next, you looked into the terminology used in modern insurance. Insured entities pool their funds with the insurer and the insurer indemnifies or restores them to their approximate financial position, in case of a loss. This security is ensured by payment of recurring payments called premium.

The amount paid to the insured if a loss occurs is called **sum insured,** in case of general insurance. It is called **sum assured** for life and health insurance. It is also known as **death benefits** in life insurance. This amount is paid to the insured or their nominees and it is pre-decided. All the features of an insurance policy, such as premium amounts, duration of the policy, sum insured, sum assured, etc., are defined using the process of underwriting and are enshrined under an insurance contract.

Insurable Risks

Next, you looked at the various characteristics of risks that can be insured. For a risk to be deemed insurable, it has to uphold the law of large numbers. This means that there needs to be a large number of identical exposure units. On all of these units, risk exists and loss can occur. Secondly, the loss occurring should originate as an accident and should not be intentional. Then, for the risk to be insurable, the loss occurring should be **determinable, measurable and predictable**. It should be definite, such that the time, cause, severity, etc., could be determined with reasonable accuracy. And finally, the loss should not be catastrophic in nature. This is because in the case of catastrophic losses, the pooling technique fails and insurance ceases to remain a viable option.

Now, as there are a variety of risks that can affect an individual or a business entity, there are different types of insurances pertaining to these risks.

Insurance is classified into two broad categories, based on what is being insured: **Life and Health Insurance and General Insurance.**

Life and Health Insurance

Life insurance pays death benefits to the nominee or beneficiary when the insured dies. The insured pays premiums, once or recurrently, for a short duration or indefinitely, based on the type of policy.

Life insurance is further divided into **permanent and temporary life insurance**. A temporary life insurance is for a small and fixed policy duration. On the other hand, permanent life insurance is for as long as the individual lives.

You will learn about permanent and temporary life insurance in-detail in the next module.

Apart from life insurance, we have **health insurance**, which covers medical expenses in case of a disease or physical accident. Health insurance can be an individual policy or it can be provided as a group policy by an employer. Health insurance can also be provided as a social welfare policy by the government of a country or a state.

Besides life and health insurance, there is the second class of insurance: **General Insurance.**

General Insurance

General insurance is again classified into two major forms.

When insurance is taken by an individual for their own property, it is called **personal general insurance**. Otherwise, when insurance is taken by a business entity for its assets and property, it is called **commercial general insurance**.

In the next module, we will dive deeper into insurance and look into its different types. First, you will learn about insurance that deals with losses that originate from a risk to life and health. Then, you will look at insurance that pertains to losses, which are the effects of risk to property, both personal and commercial.