

Concept of Insurance

On the one hand, human life is subject to various risks—risk of death or disability due to natural or accidental causes. Humans are also prone to diseases, the treatment of which may involve huge expenditure. On the other hand, property owned by man is exposed to various hazards, natural and man-made.

When human life is lost or a person is disabled permanently or temporarily, there is a loss of income to the household. The family is put to hardship. Sometimes survival itself is at stake for the dependants.

When it comes to property, loss or damage to property results in either whole or partial loss in income to the person or entity.

Risk has the element of unpredictability. Death/disability or loss/damage could occur at anytime. Losses can be mitigated through insurance. Insurance is a commodity which offers protection against various contingencies.

Insurance products available for life and non-life are many. In non-life, apart from personal covers such as accident covers and health insurance, there are products covering liabilities under a particular law and or common law. The various products are designed to cater to different needs of an individual or industry such as fire insurance policy on multi-storeyed building, householder's policy.

An insurance contract promises to make good to the insured a certain sum in consideration for a payment in the form of premium from the insured.

Human life cannot be valued. Hence the sum assured (or the amount guaranteed to be paid in the event of a loss) is by way of a 'benefit' in the case of life

insurance. Life insurance products provide a definite amount of money to the dependants of the insured in case the life insured dies during his active income earning period or becomes disabled on account of an accident causing reduction/complete loss in his income earnings. An individual can also protect his old age when he ceases to earn and has no other means of income by purchasing an annuity product.

A Personal Accident cover is also for protection. In the event of death or disability, permanent or temporary, of the insured, it provides for compensation which is either the whole or a percentage of the Capital Sum Insured depending on the kind of loss.

In the case of Health Insurance, the policy seeks to cover expenses towards of treatment of diseases and or injury upto the Sum Insured opted for by the insured.

In respect of insurance relating to property, there are many products available. Property may be covered against fire and perils of nature including flood, earthquake etc. Machinery may be insured for breakdown. Goods in transit can be insured under a marine cargo insurance cover. Insurance covers are also available for ships and other vessels. A motor insurance policy covers third party damage as well as damage to the vehicle.

Insurance of property is based on the principle of indemnity. The idea is to bring the insured to the same financial position as he /she was before the loss occurred. It safeguards the investment in the property. Where there is no insurance, losses can mar a project or an industry. General Insurance offers stability to the economy and to the society.

Insurance offers security and so peace of mind to the individual. The concept of insurance is that the losses of

a few are made good by contribution from many. It is based on the law of large numbers. It stemmed from the need of man to find a solution for mitigation of losses. It also reflects the nature of man to find a solution collectively.

It is important for all to understand the various products that life and general insurance companies offer before they make a choice as to the product they want to buy.

As per regulations, insurers have to give the various features of the products at the point of sale. The insured should also go through the various terms and conditions of the products and understand what they have bought and met their insurance needs. They ought to understand the claim procedures so that they know what to do in the event of a loss.