

Insurance

Life can be a risky business. Every day you and members of your family face the possibility of a financial loss. A car may be damaged in an accident, or it may cause injury to people; a home and all its contents could be destroyed by fire or a flood. Personal possessions may be stolen. Income may be lost as a result of an injury, disability or death.

People protect themselves from such situations by taking out insurance. This means paying an annual or monthly amount to an insurance company in return for the company's guarantee to pay for certain damages or losses.

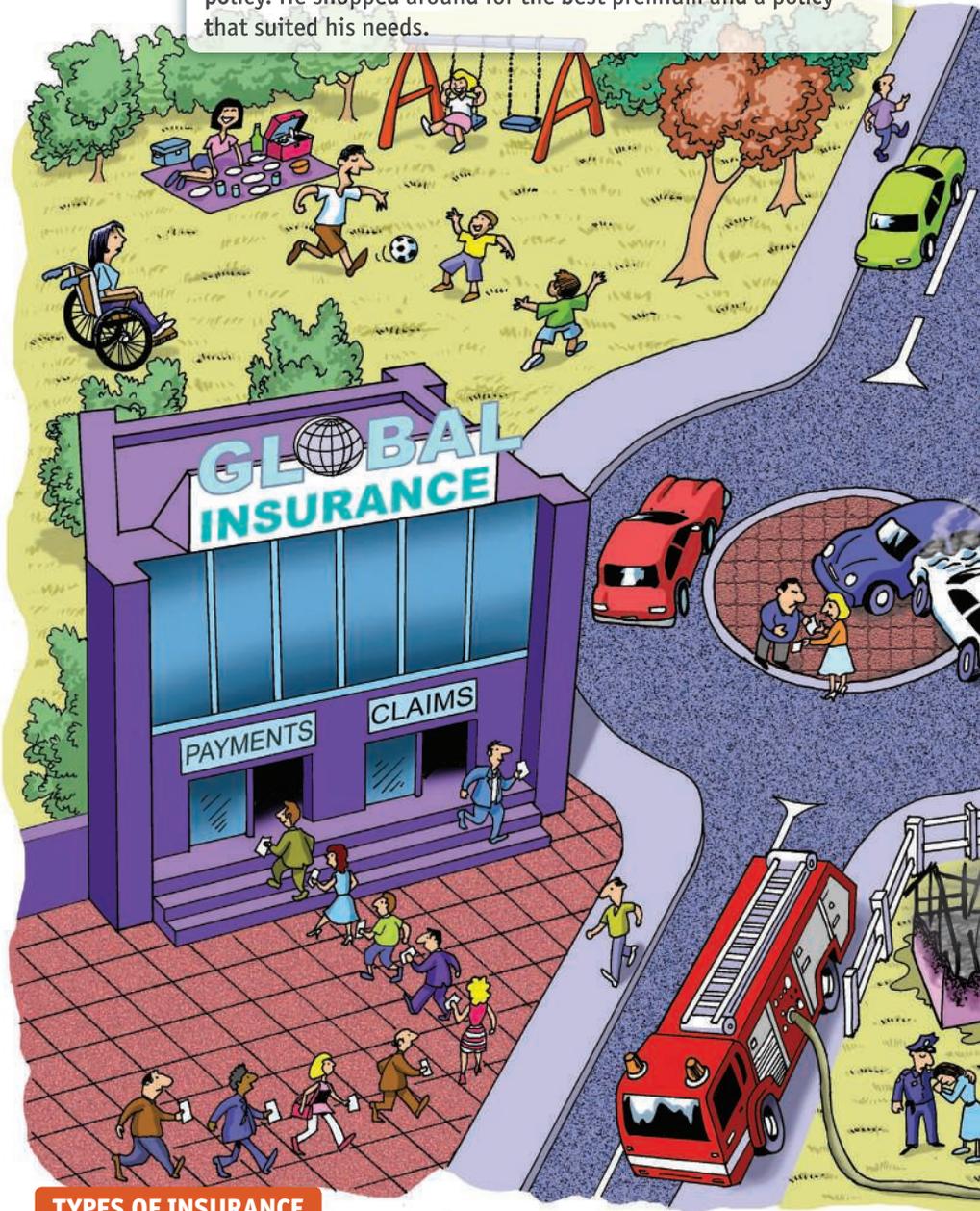
Insurance is simply a system of protection that works by spreading risks. Instead of one person taking all the risk, an individual pays other people to share some of the risk. When people purchase any type of insurance, they pay a **premium** (a sum of money) to an insurance company to protect them against a possible future loss.

The cost of insurance

The level of risk involved is the main factor determining the amount of the premium. The greater the risk, the higher the premium will be. Insurance companies study their records of past losses to determine what they might have to pay for future losses. From their records, for example, they can estimate how many of their policy holders will *probably* have a car accident; how many homes will *probably* catch fire and what the average loss will be; how many will *probably* become ill and so on. These estimates determine the amount to charge in premiums.

Life insurance

Hanwar, 35, was cautious by nature. He wanted to make sure that if he died unexpectedly his wife and two young children would not be left with debts and with insufficient money to support themselves. Hanwar decided to take out a life insurance policy. He shopped around for the best premium and a policy that suited his needs.



TYPES OF INSURANCE

Income protection

Rachael had a car loan of \$30 000 and a credit card debt of \$3500. As a single person, she was concerned about how she could meet the repayments if she was to suffer a long-term illness or accident. After contacting a local insurance company, she decided to take out insurance for sickness and accident. This would provide her with some income if she could not work for a while.

Health insurance

As a regular player in the local football team, Steve considered himself to be fit and healthy. However, before the start of the season he had taken the advice of a friend to join a private health insurance fund, just in case he was injured while playing. As he lay in hospital awaiting an operation for a knee reconstruction, he felt relieved that his health insurance would cover most of the cost of the doctor's fees, the hospital bill and future visits to the physiotherapist.

Car insurance

Shaun was involved in an accident with another car at a roundabout. Fortunately, no-one was injured but both cars were extensively damaged — and the accident was Shaun's fault. Shaun was relieved that he had recently upgraded his motor vehicle insurance to a comprehensive policy.

Home insurance

The fire officer comforted Mrs Rideau as the Captain of the Tarlo Rural Bushfire Brigade, Angelika, and her crew worked hard to save the house. However, the wind was too strong and there was very little they could do. Mrs Rideau was devastated. She had meant to insure her home and contents but had not got around to doing it. She had lost it all!

Glossary

premium the amount of money to be paid to receive insurance cover

Activities

Understand

- 1 What is the purpose of insurance?
- 2 Identify some economic risks that people face daily.
- 3 What is the difference between *health insurance* and *life insurance*?
- 4 How does an insurance company determine what premium it must charge policyholders?
- 5 Determine whether the following statements are *True* or *False*.
 - (a) The main purpose of insurance is to spread the risk.
 - (b) All insurance companies charge the same premium for similar types of policy.
 - (c) Comprehensive motor vehicle insurance covers only damage to other people's property.
 - (d) A premium is the amount of money a person has to pay for an insurance policy.
 - (e) Accident and sickness insurance will protect a person's income.
- 6 In small groups, discuss and decide if you agree or disagree with the following statements about insurance. Be able to provide a reason for your selection.
 - (a) Insurance is for only wealthy people.
 - (b) Life insurance is more important for a man than a woman.
 - (c) You do not need to worry about insurance if you are young.
 - (d) It is better to take a risk than pay a premium for insurance.
 - (e) Insurance is a better protection than savings against possible personal losses.

Investigate

- 7 Look through newspapers and business magazines and cut out five advertisements for insurance companies. Paste them into your notebook. Beside each one, identify what type of insurance is being offered.

eBook plus

- 8 Mike, a 20-year-old apprentice carpenter who lives at Dubbo, wants to take out comprehensive motor vehicle insurance for his 5-year-old V8 Holden which is valued at \$25 000. Research the cost of the premium. To help you, use the **National Road and Motorists' Association (NRMA)** weblink in your eBookPLUS for information about motor vehicle insurance.
 - (a) Change things to see if you can lower the premium; for example, a smaller engine size or a newer model.
 - (b) What is the premium if Mike decides to take out insurance only for third party property damage?
 - (c) Which type of insurance would you recommend for Mike?
 - (d) Compare the cost of an identical policy from another insurance company.