**Insurance**

**Understand**

**1 What is the purpose of insurance?**

The purpose of insurance is to protect people against certain misfortunes such as injury, burglary or accidental damage. A person pays an annual fee to an insurance company which in turn will pay for any costs relating to a misfortune.

**2 Identify some economic risks that people face daily.**

Some economic risks that people face daily are:

• property being stolen or damaged

• motor vehicle accidents

• accidents that affect people’s health and their ability

to work.

**3 What is the difference between *health insurance* and *life insurance*?**

*Health insurance* pays for doctors’ fees, hospital bills and other expenses relating to medical needs. *Life insurance* provides a payment for relatives or family members when a person dies.

**4 How does an insurance company determine what premium it**

**must charge policyholders?**

Premiums are determined by calculations of expected loss for the insurance company. The estimate for the loss will determine how much each individual person has to pay for coverage.

**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.**

(a) False: the main purpose of insurance is for individuals to protect themselves against unforseen circumstances that could result in financial losses.

(b) False: each insurance company will charge a different amount for the cover they offer.

(c) False: comprehensive car insurance covers damage to both vehicles.

(d) True

(e) True

**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.**

(a) The purpose of insurance policies is to protect people. Regardless of wealth, if a family loses everything, they need financial assistance to get back on their feet. Therefore it is vital that everyone has an insurance policy to help them when misfortune strikes.

(b) This statement assumes that men are still the breadwinners but this is not always the case. In a family where both parents are working, it would be sensible for both the man and the woman to have life insurance.

(c) Accidents happen to everyone, even young people.

(d) You never know what is around the corner. People who live by this statement will probably live to regret it when an accident happens.

(e) You can never predict what financial losses you are going to experience and you will not be able to calculate how much savings you need to have in your bank account to cover any potential financial losses.