

A Exercise 5 (Track 1)

What is insurance?

Insurance is a system for transferring financial responsibilities caused by a loss from one party, the insured, to another party, the insurer. You, the customer, assess the risks in your life and buy insurance cover for those risks which would cause you financial difficulty if they occurred.

You begin by asking insurance companies for a quotation or quote, which is the amount it will cost you to buy this insurance cover for a particular length of time. The company will need information from you first, which you or the company's agent fill in on a proposal form. With many insurance companies it is also possible to do this online. With this information, they can calculate the premium, which is the amount you have to pay for the insurance. You can get quotes from several insurance companies and compare them. At this point, you are called *the proposer*.

When you accept one of these quotes, you receive a written contract, or policy, from the insurance company that sets out the conditions under which the insurer will pay you compensation. By accepting – or *underwriting*, as it is called – your risks, the insurer guarantees payment if a particular loss happens. You are now known as the *policyholder* and have to pay the premium, at stipulated times, to the insurer.

When arranging insurance you must be sure that the risks you have identified are covered in the policy. If they are not, then you will not receive compensation for them. The policy contains important small print which you must read as it includes the terms and conditions of the contract. Then you will find out what the exclusions are – these are the losses that are not covered. For example, if you leave your front door unlocked, you cannot make a claim for compensation – a request for payment – if someone burgles your home.

If you suffer a loss or damage that is covered in the policy then you must make the claim within a certain time period. The insurer will then decide whether your claim is valid or not.

If your claim is valid, you will receive payment minus any excess. An excess is the amount that you must pay for each claim you make and you can usually negotiate this. The higher the excess, the lower the premium.