Chapter 6: Insurance

Buying insurance is a means of protecting yourself and your family from the financial losses that can result from events such as theft, illness, accidents, disability, or death.

For potential harmful events, you have the option of **accepting, reducing, or transferring risk**. Accepting risk is also called self-insurance and means that you set money aside in case such an event occurs. Reducing risk means taking precautionary steps, such as adopting a healthy lifestyle or driving carefully. Obviously, these have more than financial benefits! The third option, transferring risk, means taking out an insurance policy.

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The fundamental principle is that you should seek to insure events that would have serious financial consequences on you or your family. The exact choice will depend on your personal circumstances, the availability of government support, and the terms and costs of insurance on offer. Some insurance policies are also required by law, for example for car owners.

Here are some key terms you should know: you pay an annual **PREMIUM** to the insurer. In exchange, the insurer promises to reimburse you in case of certain events stipulated in the insurance contract (e.g., fire, theft, accident, etc.) and affecting certain items (house, car, etc.). When a covered event occurs, you file a **CLAIM** with the insurer. If the claim is found valid, the insurer will pay for your loss, i.e., repair or replace the damaged item or cover the costs incurred, with the following limitations: (a) up to the coverage **LIMIT** agreed in the policy, (b) after deducting any **CO-PAYMENT**, and (c) after meeting the yearly **DEDUCTIBLE**.

Some types of insurance are legally required. For example, drivers are typically required to have **THIRD-PARTY LIABILITY** coverage for damage caused to other people's cars; businesses may need **WORKERS' COMPENSATION** to cover pay and medical costs for employees suffering work accidents, or **PROFESSIONAL LIABILITY** for damage caused by their products.

Homeowners should have **PROPERTY OR HOME INSURANCE**. This is generally required by mortgage lenders. Home insurance normally covers calamities such as fire, storms, explosions, water damage, etc., though practices vary between countries and each policy is different. Make sure you read the fine print and understand the exclusions list of your policy. You can purchase additional insurance for events that are not normally covered in the place you live in, for example earthquakes or acts of terrorism.

TENANTS OR RENTERS INSURANCE exists for those who are renting a flat or house. It can cover contents of the home or liability for damage caused to others. Renters insurance may be required by your landlord even if it is not mandated by law.

The cost of your insurance depends on many factors, some of which you can influence. Factors include:

- *Extent and amount of coverage*
- *Yearly deductible*
- *Co-payment if applicable*
- *Age and residence of the insured*
- *Track record of the insured*
- *Condition of the items insured*
- *Precautionary measures taken*

There are trade-offs to consider: by accepting a larger deductible, you may reduce the annual premium, though you'll be out of pocket by a larger amount before the insurance kicks in; a smaller insurance limit also reduces the premium, but leaves you uncovered beyond the agreed limit.

LIFE INSURANCE provides a lump sum or regular payments to designated beneficiaries upon death of the insured. Life insurance policies can have an investment component and accrue a "cash value" which is funded by part of the premium. You can cash in some of this value tax-free under certain circumstances.

A complete insurance plan should INCLUDE **ESTATE PLANNING**, i.e., provisions for how your wealth will be distributed after death. This should be planned as soon as you have a family or an important cause that you care for.

ONLINE FRAUD and identify theft are growing concerns in today's world. Hackers, cyber-criminals and internet fraudsters are in a constant race against governments, businesses, and cyber-security experts who try to thwart them. The methods used by cyber-criminals, and the protection measures needed, continue to evolve. You should keep yourself abreast of developments, exercise caution at all times, and don't share sensitive information with anyone you don't know and are not sure you can trust.