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CLASS: VI-VIII Financial Literacy

UNDERSTANDING INSURANCE AND RISK MANAGEMENT

Insurance:

It is an agreement in which you pay money to a company and they pay your costs if you have an accident, injury etc.
It is a means of protection from financial loss.
It is a contract, represented by a policy, in which an individual or entity receives financial protection or reimbursement against losses from an insurance company.

Premium:

It is the amount of money that an individual or business must pay for an insurance policy.
It is the amount paid periodically to the insurer (company which give protection of loss) by the insured (the one who take insurance policy) for covering the risk.

Indemnity:

It means making compensation payment to one party by the other for the loss occurred.
The concept of indemnity is based on a contractual agreement made between two parties, in which one party agrees to pay for potential losses or damages caused to the other party.
A best example of indemnity is an insurance contract, whereby one party (the insurer) agrees to compensate the other (the insured) for any damages or losses, in return of **premium** paid by the insured to the insurer.

Pure Risk:

It is the risk involved in situations that present an opportunity for loss but no opportunity for gain.
It is that category of risk in which loss is the only possible outcome.

Predictable risk:

These can be predicted and can also be insured by covering future losses, e.g., seasonal changes in demand, change in technology etc.

Risk Management:

It is the process of identification, analysis and acceptance or mitigation of uncertainty in investments decisions. Essentially, risk management occurs any time, an investor (one who invest fund) or fund manager(one who manages our invested fund) analyzes and attempt to protect or minimize the risk.
It is the process of evaluating the chances of loss or harm and then taking steps to combat the potential risk.

Investment Risk:

It is the probability of occurrence of losses relative to the expected return on any particular investment.
When we make an investment, it can be difficult to say with certainty what we get back when we cash our investment, because of many reasons such as fluctuation in share prices, changes in interest rates, inflation etc.

Sum Assured:

It is the maximum amount that an insurance company will pay to someone who makes a claim .
It is the amount of money an insurance policy guarantees to pay up.

It is the guaranteed amount the policy holder (insured) receives from insurance company.

Life Insurance:

A protection against the loss of income that would result if the insured passes away. The nominee receives the proceeds and is thereby safeguarded from the financial impact of the death of the insured.

Term Life Insurance:

It is little different from Life insurance, in which a policy is taken with a set duration limit on the coverage period. Once the policy is expired, it is up to the policy owner to decide whether to renew the term life insurance policy or to let the coverage end.

Endowment Plan:

These policies provide for periodic payment of premiums and a lump sum amount either in the event of death of the insured or on the date of expiry of the policy, whichever occurs earlier.

Money Back policy:

The money back policy from Life Insurance Corporation in India is a popular insurance policy. It provides life coverage during the term of the policy and the maturity benefits are paid in installments by way of survival benefits in every 5 years.

This plan is available with 20 years and 25 years term. In the event of death within the policy term, the death claim is made up of full sum assured without deducting any of the survival benefit amounts already paid.

Mediclaim:

This policy re-imburses expenses of treatment during hospitalization and other medical bills incurred because of specific diseases.

Property Insurance:

It provide protection to property against most risks such as fire, theft and some weather damages.

It is a policy that provides financial reimbursement to the owner or renter of a structure and its contents, in the event of damage or theft. It include homeowners insurance, renters insurance, floods insurance and earthquake insurance.

Disability insurance:

This insurance policy covers the risk of physical disability. The insured is provided compensation depending upon the type and extent of disability.

It is a form of insurance that insures the beneficiary’s earned income against the risk that a disability creates a barrier for a worker to complete the core functions of their work.

Vehicle Insurance:

Under this, vehicles such as motors, trucks, cars etc. are insured. If the insured vehicle is lost or damaged by accident, the insurance company compensates for the actual loss or the amount of the policy, which-ever is lower.

IRDA(Insurance Regulatory and Development Authority):

It is an autonomous apex statutory body which regulates and develops the insurance industry in India.

Whole Life Insurance Policy:

It represents a contract between the insured and the insurer that as long as the contract terms are met, the insurer will pay the death benefit of the policy to the policies beneficiaries when the insured dies.

ULIP(Unit Linked Insurance Plan):

It is a product offered by insurance companies that, unlike a pure insurance policy, gives investors both insurance and investment under a single integrated plan.