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# 1.6

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## Managing Resources

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### Insurance

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#### Learning Outcome Notes

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LO 1.6 - Identify appropriate types of insurance for particular personal needs and consider costs, benefits and risks

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### CHAPTER QUESTIONS

By the end of this learning outcome, you should be able to do the following -

1. Explain the term insurance.
2. Describe the principles of insurance.
3. List the different types of insurance and explain when you might need them.
4. Define different terms associate with insurance.
5. Identify different jobs in insurance.
6. Calculate the premium.
7. Fill in a proposal form.

### WHAT IS INSURANCE

**Insurance**

**Def** This is financial protection against a loss that might occur in the future. It will pace the insured person back in the same financial position they were in before they suffered the loss.

Insurance only provides financial compensation and sometimes it is not possible to put people life back together after a loss. Insurance us based on sharing of risk. People pool their money together in the form of a premium and when someone form the group suffers a loss, they will receive compensation for this pool of money. Not everyone will suffer a loss, and this allows the company to make a profit while still paying out compensation.

**Premium**

**Def** This is the fee or money that people pay to insurance companies for insurance.

**Compensation**

**Def** This is the financial payment - what a person will receive if they suffer a loss.

### PRINCIPALS OF INSURANCE

There are 5 principals of #insurance and they include the following -

### 1. Insurable Interest

**Insurable Interest** <sup>Def</sup> This means that you must benefit from the existence and suffer from its loss. You must have an interest in the item being insured.

For example - you can't insure your neighbour's car - because if there is a loss you don't benefit from the existence of the car or suffer the loss if an accident happens.

### 2. Utmost Good Faith

**Utmost Good Faith** <sup>Def</sup> This means that when you are applying for insurance you must give all material facts to the company. A material fact is a fact that you affect the price of the premium that they would charge.

For example - if you are applying for health insurance you must fill in the proposal form truthfully that includes if you smoke you must say you smoke even though it may result in you paying a high premium. This is because you are a higher risk to the company.

### 3. Indemnity

**Indemnity** <sup>Def</sup> This means that you can't make a profit from insurance. You must be put back into the same financial position you were in before you suffer the loss.

For Example - If you bought a car for €20,000 and after a few years it was stolen but the value of the car was now only worth €15,000. The compensation you would get is €15,000 and not €20,000. This is because you must be put back into the same financial position you were in before you suffer the loss.

### 4. Subrogation

**Subrogation** <sup>Def</sup> This means that once an insurance company has paid compensation the ownership of that item passes to the insurance company

For Example - if an insurance company pays out €20,000 for a car that is written off. They then own the car and can sell it for scrap to try and make back some of the money that they paid out in compensation.

The insurance company is also entitled to sue any third party responsible for the loss in order to recover any compensation paid.

### 5. Contribution

#### **Contribution**

**Def** This means that if you insure the same risk with two insurance companies, they will divide the cost of the claim between them. You will not receive the full compensation from both companies. This is because of Indemnity

For Example - you insure your phone under you house insurance and you also take out mobile phone insurance. You lose your phone, and it is worth €200. This doesn't mean you will receive €400 (€200 from each insurance company) but you will receive €100 from each insurance Company totalling €200. This means you are put back into the same financial position you were in before you suffer the loss

## TYPES OF HOUSEHOLD AND PERSONAL INSURANCE

It is too expensive for household to take out every type of insurance, so they need to decide Which policies meet their needs and financial resources. The following are some of the common types of insurance that household choose from

### 1. Life Assurance

#### **Assurance**

**Def** This is something that will happen in the future for example death and the policy pays out when the person dies not if they die.

The following are the different types of Assurance policies that the people can take out -

#### **Term Policy**

**Def** This is for a fixed term. It usually covers the duration of a mortgage. So, if the insured person dies during the term of the mortgage the balance is paid off.

#### **Whole Life Policy**

**Def** This means compensation is paid when the insured person dies.

#### **Endowment Policy**

**Def** This means compensation is paid on a certain date in the future or when the insured person dies which ever happen first.

### 2. Motor Insurance

This type of insurance is compulsory in Ireland, and it is a criminal offence to drive a car in Ireland without insurance

There are 3 different types of insurance that people can choose from in Ireland -

**Third Party** <sup>Def</sup> This pays compensation to another injured person or damage to their car if it is caused by the insured driver. It does not cover the insured driver's vehicle. This is the basic level of insurance that is required in Ireland.

**Third Party fire and Theft** <sup>Def</sup> This includes the above but also the insured persons car catches fire or is stolen.

**Fully Comprehensive** <sup>Def</sup> This means that all parties and vehicle that suffer a loss are covered. It should be noted that insurance companies will offer different premium, so it is worth shopping around to get the best value for money.

**No Claims Bonus** <sup>Def</sup> This is when a policy holder doesn't make a claim on their insurance the insurance company will give them a discount on their premium. It is a reward for not making a claim.

**Loading** <sup>Def</sup> This is an extra amount added to the basic premium to cover increased risk.

### 3. Home Insurance (Building Cover)

This covers the buildings in the event of fire, flood and storm damage. Compensation is paid to Fixed the damage.

### 4. Home Contents Insurance

This covers all the contents of the house from damage. It also covers burglary. Most home Insurance cover both Home and contents Insurance.

### 5. Personal Accident Insurance

This covers a person in the event of an accident.

### 6. Health Insurance

This covers the cost of hospital care and some medical bills. It can also cover for hospital stay and operations.

### 7. Critical Illness Cover

This covers in the event of a serious illness. It pays out a tax-free lump sum if you are diagnosed with a serious illness that is covered by your policy. For example - heart attack or cancer

### 8. Holiday/travel Insurance

This covers the insured person while they are on holiday or travelling the world. For example cancelled flights

### 9. Mortgage protection Insurance

This type of insurance will repay your mortgage if you die during the repayments. It is needed for the full term of the mortgage.

### 10. Income protection insurance

This type of insurance protects the insured if they get sick. The insurance company will pay part of the income. This will last until the insured gets better and returns to work or retires.

### 11. Mobile phone Insurance

This protected an insured mobile phone if it is lost or stolen.

### 12. Pay Related Social Insurance

This must be paid by all employees. It entitles them to illness cover; job seekers benefit and maternity benefit if they need it. This payment is paid to the Government and Self-employed people pay it as part of their tax return. It is deducted at source by the business and sent on to the Government.

## JOB IN THE INSURANCE INDUSTRY

### **Insurance Broker**

<sup>Def</sup> They help households to get the best type of insurance to meet their needs at the best price. They research the market to find the best policy and are paid a commission.

**Agent** Def These are people who sell policies for a particular insurance company.

**Actuary** Def They calculate the premium that must be paid by the insured. The fee takes into consideration the risk or loss occurring. The greater the risk the higher the premium.

**Loss adjuster** Def They will investigate a claim and decide if compensation will be paid. They also advise how much compensation to pay.

### TAKING OUT INSURANCE

**Proposal Form** Def This is a form that is filled out by the person looking for insurance. It is like an application form. It must be filled out truthfully (Utmost good faith)

See the class website for an example of filling an application of proposal form.

**Policy** Def This is the document that is sent by the insurance company to inform the insured that they have been given insurance -

It contains the following -

1. What is insured
2. The value of the item insured
3. Type of loss covered.
4. the excess
5. Exclusion

**Policy Excess** Def This is the amount that the insured must pay before compensation is paid by the insurance company.

**Exclusions** Def These are items that are not covered.

### HOW TO CALCULATE A HOUSE INSURANCE PREMIUM

See the class website for an example of how to calculate house insurance premium.

**MAKING A CLAIM**

**Claim form**      <sup>Def</sup> This will be filled out by an insured if they are seeking compensation after a loss has occurred.

See the class website for an example of filling a claim form.

**AVERAGE CLAUSE**

**Average Clause**      <sup>Def</sup> This is used when an item is underinsured, or partial loss has occurred

See the class website for an example calculating the average clause.

**RENEWING AN INSURANCE POLICY**

**Renewal Notice**      <sup>Def</sup> This is sent to an insured when their renewal policy is due.

It is a good idea to shop around to the best possible deal and save money on your premium.

**IS INSURANCE NECESSARY**

Advantages

1. It can prevent accidents from happening.
2. It can help household and business to recover some of the losses

Disadvantage

1. Can be expensive.



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# Managing Resources

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## Insurance

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### Past Exam Questions and Answers

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**NOTE - Very Important**

It is very important when answering exams questions use the following steps -

1. That you know the information for the learning outcome
2. That you understand the information from the learning outcome
3. That you can apply the information from the learning outcome to the question
4. Be able to give at least two full sentences for your answer (Fill up the space)

Questions are changing from rote learning to applying the knowledge to the Question

**QUESTIONS**

**2022 - Question 18 - Part A**

(a) Kevin lives with his parents in Emo, Co. Laois. He recently passed his driving test and bought a car. He is now considering his motor insurance options.

(i) Read the following definitions of some of the principle of insurance

	Explanations
A	A profit cannot be made from insurance
B	When the same risk is insured with more than one insurer, they will divide the cost of any claim between them
C	When applying for insurance, all material facts relating to the policy must be disclosed

Match the definition above with the correct principle by placing A, B and C in the correct box -

Utmost good Faith	Indemnity	Contribution

(iv) Outline one responsibility Kevin has as a consumer, While shopping for insurance


(v) Kevin purchased comprehensive insurance, with a policy excess of €500. Unfortunately, Kevin had an accident, which led to damage of €2,500 to his car.

Use the box below to calculate how much compensation Kevin will receive from his insurance company. Show your workings.

Workings	Answer
	€

(vi) Describe the impact this claim will have on Kevin's insurance premium next year.


#### **2019 - Question 4**

Gerard is 21 years of age and has recently passed his driving test. He has now purchased an old car and needs to insure it.

Outline two factors that the insurance company will take into account when calculating the cost of Gerard's car insurance

1.
2.

#### **2019 - Sample Paper (SEC) - Question 11**

Tom and Michelle have been renting an apartment for the last 5 years. They currently have insurance for the contents of their apartment valued at €25,000. They have been reviewing their insurance requirements to save some money. They have received a quote for contents from BE Insurance Ltd as follows -

€6.50 per €1,000

There is also a discount of 25% for online applications.

They decide to accept the quote and apply online.

Calculate the cost of Tom and Michelle's contents insurance

Workings

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Answer

<b>SUGGESTED ANSWERS</b>
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**2022 - Question 18 - Part A**

(b) Kevin lives with his parents in Emo, Co. Laois. He recently passed his driving test and bought a car. He is now considering his motor insurance options.

(ii) Read the following definitions of some of the principle of insurance.

	Explanations
A	A profit cannot be made from insurance
B	When the same risk is insured with more than one insurer, they will divide the cost of any claim between them
C	When applying for insurance, all material facts relating to the policy must be disclosed

Match the definition above with the correct principle by placing A, B and C in the correct box -

Utmost good Faith	Indemnity	Contribution
C	A	B

(vii) Outline one responsibility Kevin has as a consumer, While shopping for insurance

Shop around - Kevin should shop around so that he will get the best quote for his car
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Insurance. He should ring at least 3 insurance companies and select the company the best
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Meet his needs. He could use a website such as chill.ie or contact an insurance broker who
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Will find the best quote for him
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(viii) Kevin purchased comprehensive insurance, with a policy excess of €500. Unfortunately, Kevin had an accident, which led to damage of €2,500 to his car.

Use the box below to calculate how much compensation Kevin will receive from his insurance company. Show your workings.

<p>Workings</p> <p>Damage - Excess = Compensation</p> <p>€2,500 - €500 = €2,000</p>	<p>Answer</p> <p>€ 2,000</p>
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(ix) Describe the impact this claim will have on Kevin's insurance premium next year.

Increased Premiums - Kevin will have to pay more for his car insurance next year. This will
Result in Kevin's insurance premiums increasing, and he will be paying more. Kevin will also
Lose his no claims bonus as he has now made a claim on his insurance as he has suffered a
loss

#### **2019 - Question 4**

Gerard is 21 years of age and has recently passed his driving test. He has now purchased an old car and needs to insure it.

Outline two factors that the insurance company will take into account when calculating the cost of Gerard's car insurance.

1. <b>Age</b> - Gerard is 21 and is a young driver who doesn't have many years experience driving on
his own. This means the insurance company will see him being a higher risk and will charge
A higher premium
2. <b>How old the car is</b> - the age of the car will also be taken into consideration when
calculating the premium that Gerard has to pay. The older the car the higher the risk of
Something happening

#### **2019 - Sample Paper (SEC) - Question 11**

Tom and Michelle have been renting an apartment for the last 5 years. They currently have insurance for the contents of their apartment valued at €25,000. They have been reviewing their insurance requirements to save some money. They have received a quote for contents from BE Insurance Ltd as follows -

€6.50 per €1,000

There is also a discount of 25% for online applications.

They decide to accept the quote and apply online.

Calculate the cost of Tom and Michelle's contents insurance

Workings

€25,000

€1,000

= 25

25 x €6.50

=€162.50 x 25% = €40.63

€162.50 - €40.63

= €121.87

Answer

€121.87