



1BP333 – MODERN TRENDS IN BANKING AND FINANCIAL SECTOR



WWW.VSE.CZ

Source: <https://www.livewireindia.com/blog/data-science-training-trivandrum/>

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Insurance I

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VŠE v Praze



EVROPSKÁ UNIE
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What is Insurance?

- “Insurance . . . its cringe factor ranks right up there with such joys as filling out your income tax return. Or balancing your checkbook when the bank says you’re \$500 overdrawn. Or perhaps shopping for your own cemetery plot.”
- provides protection against financial losses by pooling the resources of policyholders

“Insurance allows individuals or organizations to exchange the risk of a large loss for the certainty of smaller periodic payments, known as premiums. The exchange (or transfer) of risk is laid out in a legal contract called the insurance policy, which spells out the coverage, compensation, and/or other benefits.”

Source: Insurance Information Institute



Source:

<https://www.corkathletics.org/events/eventdetail/2538/-/insurance-risk-assessment-child-protection-briefing.html>

History of Insurance

- “The Code of Hammurabi” created by the Babylonians around 2100 B.C. to guarantee safe arrival of their goods by caravan
- As history progressed, the need for insurance increased
- The Phoenicians and Greeks used insurance for their seaborne commerce
- The Romans were the first to use burial insurance

- The first Insurance Company was formed in 1688 in London (Lloyds of London)
- Merchants, Ship-owners, and Underwriters met at a coffeehouse to discuss how to protect the sea voyages
- Marine insurance in the late middle ages
 - ▣ Merchants / bankers concerned with loss due to piracy and storms
 - ▣ Bankers provided guarantees against loss; merchants paid the bankers in exchange for protection




Source:

<https://reneeduke.wordpress.com/2014/07/29/historic-failures-spanish-armada-tries-to-invade-england/>

- Modern insurance traced back to the “Great Fire of London” in 1666
 - 13,200 houses were destroyed
 - Societies were formed to pool money for losses
 - Also created the need for modernizing fire fighting



Source: http://www.bigsmonkewalks.com/walk_trial_fire.html

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- The first American Insurance Company was formed in Charleston, South Carolina in 1735
 - Fire Insurance Companies began spreading to New York City and Philadelphia

Benjamin Franklin



Source:

<http://amystestshow.weebly.com/images-of-ben-franklin.html>

- ❑ Founded America's first successful insurance company in 1752
- ❑ Founded the first mutual insurance company
- ❑ Encouraged prevention by educating the public about fire hazards
- ❑ Refused to insure wooden buildings
- ❑ "An ounce of prevention is worth a pound of cure"

Insurance is Big Business

- United States Insurance Industry
- Trillion dollar business
- Employs over 2.5 million people in US
- As the population ages and wealth grows the industry will continue to expand

Basic Insurance Principles

- INDEMNITY - property insurance is a contract of indemnity - it returns insured to financial position prior to loss. No profit permitted. Life ins. is not indemnity: it pays total sum if loss (death) occurs.
- LIABILITY - legal responsibility for a loss to someone else (3rd party). BI or PD. Casualty insurance provides this type of coverage.

- INSURABLE INTEREST must exist in order to have a legally enforceable contract
 - ▣ Life Insurance - not required if insured purchases policy: if other party purchases, must have I.I. at the time of purchase
 - ▣ Property/Casualty Insurance - all parties named must have I.I. at time of loss. Each party with interest is covered only up to that amount.

- COINSURANCE - requirement that property be insured to at least 80% of replacement cost or be penalized in the event of a partial loss.
- VALUED POLICY - In Texas full policy amount is paid in the event of a total loss.
- BASIS OF COINSURANCE
 - Actual Cash Value - what item(s) worth at time of loss (value of used goods).
 - Replacement Cost - what it would cost to replace item(s) at today's prices

□ CALCULATING COINSURANCE

- Amount of insurance the client purchased
- Divided by amount of insurance client should have purchased
- Multiplied by the amount of the loss
- Less the deductible
- Equals the amount which will be paid on the loss

- **AMBIGUITY** in policy language is interpreted in the insured's favor by the courts. The state and/or insurance company writes the insurance contract and it's assumed that they write it in their favor.
- **IMPORTANCE OF COURTS IN INSURANCE DECISIONS** - new policy language and provisions are tested through court system

Table of Content

1. History of insurance

2. Risks and insurance



Why is risk important for insurance?

- Risk = the possibility of financial loss
- Risk is what makes you decide whether or not you need insurance.
- Risk is what insurance companies measure when determining whether to offer you insurance and how much it will cost.

HOW DO WE HANDLE RISK?

- Avoidance: Choosing not to participate in an activity because of the risk involved, e.g. not getting a driver's license;
- Retention: Saving money in case of future losses, e.g. putting \$1000 in a savings account in case of a car accident;
- Transfer: Passing the risk on to an insurance company, e.g. paying a monthly fee for an insurance policy and expecting the insurance company to protect your assets.

WHAT TYPES OF RISKS DOES INSURANCE COVER?

Risk	Insurance	Coverage
1. You lose your job	Mortgage and Credit	Will cover your debts for a fixed period while you are unemployed
2. Your stocks lose value	None	None
3. You have a car crash	Auto	Will pay for damage to your car and other damaged vehicles and property. Will pay for medical expenses for you and other parties.

Source: Author

WHAT TYPES OF RISKS DOES INSURANCE COVER? (Cont.)

Risk	Insurance	Coverage
1. Your friend falls in your home and breaks his leg	Homeowners, renters, condo owners	Will pay fixed amount for his medical expenses
2. A pipe bursts in your apartment building and ruins your sofa	Renters	Will pay to replace your sofa or for the sofa's value
3. The police give you a speeding ticket	None	None
4. You are hurt on the job	Disability; workers' compensation	Disability: Will pay your lost wages and medical expenses

Source: Author

WHAT TYPES OF RISKS DOES INSURANCE COVER? (Cont.)

Risk	Insurance	Coverage
1. A necklace is stolen from your home	Homeowners; renters/ condo; mobile home	Will pay to replace your necklace up to a fixed amount
2. You die	Life Insurance	Will distribute money to your beneficiaries and cover household expenses
3. Other suggestions?	???	???

Source: Author

- Risk factors determine whether you will be able to buy a policy and how much it will cost.

Generally speaking:

> Risk = > Cost

Risk Factors: Auto Insurance

- Age of driver
- Gender of driver
- Number of drivers on policy
- Accident / Incident history
- Where auto is parked
- Annual mileage
- Number of traffic violations
- Prior insurance record
- Years of driving experience
- Address, City, State
- How auto is used (commute, business, pleasure)
- Mileage per year
- Year, make and model of car
- Special safety features in car
- Owned or financed
- Academic performance (if currently in school)
- Credit rating of policyholder
- ****Amount of coverage required****

Risk Factors for Homeowners/Renters

Insurance

- Type of home (single family, town home, high-rise)
- Square footage
- Number of rooms
- Floor level (if in high-rise)
- Address (city, state, county)
- Pets
- Pool
- Proximity to fire station and fire hydrant
- Business being conducted on premises?
- Personal property (including furniture, electronics, high value items, etc.)
- Special safety features (security, alarms, sprinklers)
- Credit rating of policyholder
- Prior insurance history (claims filed, etc.)
- Construction type (brick, frame, etc.)
- Roof type (shingle, tile, metal, flat, etc)
- **Amount of coverage required**

Risk Factors: Life Insurance

- Age
- Gender
- Height & Weight
- Medical record
- Personal habits (smoker, drinker, drug use)
- Occupation
- ****Amount of coverage required****

Categories of Risk

- The things you can and cannot change that affect your insurance

The Choices You've Made (Traits You Can Control)

- Where you live, own property or drive (city/state)
- Property type and value
- Safety precautions/features on your property
- Profession
- Grades in school
- Driving record & habits
- At – fault accidents
- Personal habits (smoking, drinking)
- Marital Status
- Number of children or dependents
- Credit history

Fault of Another

(Incidents You Cannot Change)

- Crash
- Damage to Your Property
- Loss of Property, Injury or Death
- Theft of Your Property
- Credit History of Spouse/Dependent

“Acts of God”

- Flood
- Hurricane
- Earthquake
- Windstorm
- Lightening

LIFE EVENT CHALLENGES

- Become a driver
- Get married
- Graduate from high school
- Get engaged
- Buy a home
- Move to own apartment
- Have a baby
- Graduate from college
- Turn 25
- Get a new job
- Buy a car
- Move to a new city