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Global Certificate in Risk and Insurance Management

# Insurance Principles and Practices

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## Insurance Principles and Practices

Insurance is a crucial component of risk management, providing individuals and organizations with financial protection against unforeseen events. To understand the complexities of insurance, it is essential to grasp the key terms and vocabulary associated with insurance principles and practices. In this course, the Global Certificate in Risk and Insurance Management, students will delve into the world of insurance, exploring fundamental concepts that underpin the industry.

### Key Terms and Vocabulary

1. **Insurance:** Insurance is a contract between an individual or organization (the insured) and an insurance company (the insurer), in which the insurer agrees to provide financial compensation to the insured in the event of a covered loss.
2. **Premium:** The premium is the amount of money paid by the insured to the insurer in exchange for insurance coverage. Premiums can be paid monthly, quarterly, annually, or in a lump sum, depending on the insurance policy.
3. **Policy:** The policy is a legal document that outlines the terms and conditions of the insurance coverage. It specifies the risks covered, the exclusions, the limits of coverage, and the premium amount.
4. **Insurer:** The insurer is the insurance company that provides insurance coverage to the insured. Insurers assess risks, set premiums, and pay out claims to policyholders.
5. **Insured:** The insured is the individual or organization that purchases an insurance policy to protect against financial losses. The insured pays premiums to the insurer in exchange for coverage.
6. **Risk:** Risk is the potential for loss or harm that an individual or organization faces. Insurance is designed to mitigate or transfer risk from the insured to the insurer.
7. **Underwriting:** Underwriting is the process by which insurers evaluate the risks associated with insuring a particular individual or organization. Insurers assess factors such as the applicant's age, health, occupation, and past insurance claims to determine the premium and coverage.
8. **Claim:** A claim is a request made by the insured to the insurer for payment of a covered loss. Insurers investigate claims to determine their validity and may negotiate settlements with policyholders.
9. **Deductible:** The deductible is the amount of money that the insured is required to pay out of pocket before the insurance coverage kicks in. Higher deductibles typically result in lower premiums.
10. **Indemnity:** Indemnity is the principle that insurance is designed to compensate the insured for their

actual financial losses, up to the policy limits. Insurers aim to restore the insured to the same financial position they were in before the loss occurred.

11. Policyholder: The policyholder is the individual or organization that owns an insurance policy. The policyholder may or may not be the insured party.

12. Limit of Liability: The limit of liability is the maximum amount that an insurer will pay out for a covered loss. Policyholders can choose different limits of liability based on their needs and budget.

13. Exclusion: An exclusion is a specific circumstance or event that is not covered by an insurance policy. Policyholders should carefully review policy exclusions to understand the scope of coverage.

14. Underinsurance: Underinsurance occurs when the insured's coverage limits are insufficient to fully compensate for a loss. Policyholders should regularly review their insurance coverage to ensure they are adequately protected.

15. Reinsurance: Reinsurance is a strategy used by insurers to transfer a portion of their risk to another insurance company. Reinsurers help insurers manage large or catastrophic losses.

16. Actuary: An actuary is a professional who uses mathematical and statistical methods to assess risk and determine insurance premiums. Actuaries play a critical role in pricing insurance policies accurately.

17. Loss Ratio: The loss ratio is a measure of an insurer's claims payouts relative to the premiums collected. A high loss ratio may indicate that an insurer is paying out more in claims than it is receiving in premiums.

18. Underwriter: An underwriter is an individual responsible for evaluating insurance applications and determining the terms and conditions of coverage. Underwriters assess risks and set premiums based on their analysis.

19. Subrogation: Subrogation is the legal right of an insurer to pursue a third party that is responsible for a loss covered by the insurance policy. Insurers seek to recover their claim payouts through subrogation.

20. Captive Insurance: Captive insurance is a form of self-insurance in which a company creates its own insurance company to provide coverage for its risks. Captive insurance can offer cost savings and greater control over insurance programs.

21. Adverse Selection: Adverse selection occurs when individuals with a higher risk of loss are more likely to purchase insurance than those with a lower risk. Insurers use underwriting to mitigate adverse selection.

22. Insurance Broker: An insurance broker is a licensed intermediary who helps individuals and organizations find the right insurance coverage. Brokers work with multiple insurers to provide clients with competitive quotes and advice.

23. Coinsurance: Coinsurance is a provision in an insurance policy that requires the insured to share a percentage of the covered losses with the insurer. Coinsurance encourages policyholders to maintain adequate coverage.

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24. **Loss Adjuster:** A loss adjuster is a professional who investigates insurance claims on behalf of insurers. Loss adjusters assess the extent of the loss, determine coverage, and negotiate settlements with policyholders.
25. **Aggregate Limit:** The aggregate limit is the maximum amount that an insurer will pay out for all covered losses during a policy period. Policyholders should consider their potential aggregate losses when selecting coverage limits.
26. **Risk Management:** Risk management is the process of identifying, assessing, and mitigating risks to minimize the impact of potential losses. Insurance is a key tool in an organization's risk management strategy.
27. **Policy Term:** The policy term is the duration for which an insurance policy is in effect. Policyholders must renew their policies at the end of the term to maintain coverage.
28. **Endorsement:** An endorsement is a written amendment to an insurance policy that changes the terms or coverage. Policyholders can request endorsements to add or remove coverage as needed.
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### Practical Applications

Understanding the key terms and vocabulary of insurance principles and practices is essential for students pursuing a career in risk and insurance management. By mastering these concepts, individuals can effectively navigate the complexities of the insurance industry and make informed decisions when purchasing insurance coverage. Let's explore some practical applications of these key terms:

1. Premium Calculation: When determining insurance premiums, insurers take into account factors such as the insured's age, health, occupation, and past insurance claims. Understanding the underwriting process can help individuals negotiate lower premiums by demonstrating lower risks.
2. Policy Review: Policy