

# INSURANCE

Insurance is an aid to trade where by people contribute money towards a common pool against various risks for compensation should the risk occur.

## Basic Terms used in Insurance

### 1. Pooling of risks.

This is where persons exposed to a common risk contribute small amounts of money called premiums towards a common pool from which those few who actually suffer loss as a result of the risk are compensated.

2. **Premium.** This is the amount paid periodically by the insured to the insurer as consideration for the insurance cover provided by the insurer. This money constitutes the pool from which compensation is made to those who suffer losses.
3. **Insured.** This is a person, firm or any business organization that takes out an insurance cover and is promised by the insurance company compensation in the event loss.
4. **The Insurer.** This is the insurance company granting insurance policy/cover e.g. NIC, Excel insurance, Gold star Insurance, United Assurance, Swico etc.
5. **Risk.** This is an event against which an insurance is taken out e.g. fire, accident, robbery etc. risks are divided into two;-
  - a) **Insurable risks.** These are risks whose probability of occurrence can statistically be determined from past experience e.g. accident, theft, fire etc.
  - b) **Non-Insurable risks.** These are risks whose probability of occurrence cannot be accurately determined by statistical information i.e. records on which to carry out calculations are missing e.g. floods, earthquakes, war etc.
6. **An actuary.** This is a professional person who calculates the premium rates basing on the information given and statistics.
7. **Loss.** This is the occurrence of the event against which insurance is taken out. If the entire property insured is destroyed the loss is said to be total loss, if part of the property insured is destroyed then it is a partial loss.
8. **Assurance.** This refers to the insurance cover against an event that is bound to happen eg. death
9. **Sum insured.** This is the value of the property to be insured as stated by the owner at the time of applying for insurance.
10. **Over insurance.** This is when the insured over declares the value of his/her property at the time of taking out the insurance policy. He/she will be required to pay a higher premium, but in event of total loss, he/she will be paid the correct or actual value of a commodity.
11. **Under Insurance.** This is when the insured under declares the value of his/her property. He is charged a lower premium, but in event of total loss, he/she is paid only the sum insured which is less than the actual value of the property i.e. he/she is not fully compensated.
12. **Re-insurance.** This is when an insurance company insures a risk with a second insurance company or with more than one insurance company. This is true when the property insured is very valuable to be handled by the first insurance company i.e. when the risk is so heavy that one company can't carry it alone, so it insurers part or all of it with another insurance company.
13. **Co-Insurance (Double insurance).** This is when the article/property is insured against similar risks with a number of insurance companies i.e. the owner of the property insurers it with various companies anticipating that in case of loss, the various companies contribute the sum insured. However, it is unwise because in case of a loss, only the amount for the loss is contributed by all the insurance companies like it would have been with one company.

14. **Insurance underwriter.** This is a person who negotiates and enters into insurance contract on his behalf. An underwriter is an official of the insurance company who is given authority to accept risks on behalf of his office.
15. **An Insurance policy.** This is a document that contains all conditions and terms of the insurance contract.
16. **Insurance Broker.** This is a specialist who brings the insurer in contact with the insured and negotiates on behalf of the insured for the best terms and amount of premium.
17. **Adjustor/Assessor.** This is a skilled person who is given the responsibility of calculating the losses, he estimates the extent of the loss suffered by the insured when the claim is made.
18. **Life Authority.** This refers to the contract with the insurance company that will provide a person with regular income in future beginning at a certain age. The main difference between life annuity and life assurance is that life assurance protects the family and dependents while life annuity protects the individual.
19. **Beneficiary.** Is a person entitled to receive compensation from a certain insurance policy.
20. **Surrender value.** This is the money paid back to the insured party when he/she decides to cease or cancel the insurance cover before the period specified expires. Usually the refund is less than the full value of the premiums already paid because the insurer has to meet expenses of documentation and issuing of the policy.
21. **Renewal advice.** This is the advise sent by the insurer to the insured reminding him that his insurance policy requires renewing. Once the policy is not renewed it is automatically terminated.
22. **No claim bonus.** This is a discount given to the insured who makes no claims from his policy. In the long run this reduces amount of premiums to be paid by the insured towards the policy.

#### **Factors considered when determining the Amount of Premium**

1. The number of people insuring against a certain risk. The bigger the number the lower the premium because the spread of the risk is larger than when the number is small.
2. The nature of the property being insured. Delicate and fragile property in handling e.g. flammable articles like petrol stations and glass entail higher premiums.
3. Duration of the policy. The longer the duration, the higher the amount of premium paid and vice versa.
4. Frequency of the occurrence of the risk. The higher the frequency of occurrence of the risk, the higher the amount of premium paid and vice versa. E.g. a taxi driver is more likely to be involved in accidents.
5. The age of the property or person. Old articles and items face higher chances of damage than new ones. In case of life assurance, the lower the person's age, the lower the premium paid. This is because the chances of one dying at a tender age are minimal compared to when one is old.
6. Operating expenses of the insurer. High administrative costs and high rates of claims for compensation lead to payment of high premiums, while low premiums cost and lead to payment of low premiums.
7. The profit margins of the insurance company. If the insurer aims at making high profits, then he will charge higher premiums.
8. Precautions taken by the insured to reduce the risk. If precautions are taken to reduce risk by the insured, the premium will be low but if no precautions are taken then the premium will be high e.g. availability of fire extinguishers in a building reduces the premium paid for fire insurance.

9. The value of the property. Valuable and expensive items attract higher premiums. So the more expensive the property the higher the amount of premium paid and vice versa.

### **Principles/Doctrines of Insurance**

These are regulations/rules governing /guiding the insurance business. It is the protection by guarantee of compensation for events that may/may not occur and the occurrence of which could create financial loss.

1. **Utmost Good Faith (Uberrima Fides).** According to this principle, the person applying for insurance is required to disclose all relevant and material facts about the property being insured so as to help the insurance company assess its suitability for insurance and calculate premium accurately. If a person gives wrong information and he/she is discovered by the insurance company, the company has a right to refuse to pay the insured therefore to pay, the insured is required to display Utmost Good Faith.
2. **Indemnity.** This principle states that the insurance does not aim at benefitting a person, but its objective is to restore the person to the financial position he/she was in before the occurrence of the event. Therefore the insured must be compensated for only the amount of loss so that he is restored to his financial position and not gain from the insurer in anyway.
3. **Insurable Interest.** In this principle a person can only insure that property whose destruction could result into a financial loss to himself. The property should be one's own or one in which he/she has financial interest. The importance of this principle is to limit people to insure only their properties. If they are allowed to insure other people's properties, they would be tempted to destroy them so that they gain from the destruction.
4. **Proximate cause.** This principle states that there must be a fairly close connection between the cause of the loss and the actual risk insured against to enable an insured to seek compensation e.g. if you insure your vehicle against fire and it gets an accident the catches fire, the owner of the vehicle will not be compensated because the cause of the fire is an accident.
5. **Subrogation.** This principle states that in the event of total loss and after the insurer has fully settled the claim, the insurer acquires the rights that the insured had in the property destroyed. It implies that if any gain can be made out of the loss, then such gain belongs to the insurer e.g. in case of accident, after compensation the scrap is taken by the insurer.

### **TYPES OF INSURANCE**

Insurance can be broadly divided into two classes i.e.

1. Life Insurance (assurance)
2. General/property Insurance

### **LIFE ASSURANCE**

This covers insurance of human life. A person can only insure life in which he has insurable interest. The term "assurance" confirms that the event insured against must take place, the only uncertainty is when it will happen.

### **Types of life Insurance (Assurance) Policies**

1. **Whole life Policy.** This is a life assurance policy which requires payment of premium for the entire lifetime or a specified period of time until an agreed age. The total sum insured is only

paid after the death of the insured. This policy provides money for the dependants who are the beneficiaries after the death of the insured. E.g. in this policy there is a policy called nomination. This is when the insured names the people who will benefit from the policy after his death.

2. **Endowment Policy (Term Assurance).** This policy requires payment of premium for a specified period. The sum insured is payable for the dependants or the holder at the expiry of the period or at death. E.g. one may undertake endowment policy up to the age of 60. If the holder dies at 50 years, the policy comes to an end and payment is made to dependants.
3. **Group Life Policy.** This policy is organized for groups of workers in an industry. Premium is paid through monthly deductions from their wages so that they may be paid after retirement. In this case the insured and his beneficiaries will enjoy the payment from the insurer.
4. **Life Annuity.** This insurance contract provides the insured with a future regular income beginning at a certain age and continuing for life or a specified number of years. It is also a form of life assurance aimed at insuring against living too long.
5. **Temporary Life Policy.** This is when a person insures him/herself for a short period. E.g. when one is going for a journey and after the journey the policy expires e.g. a businessman travelling by air from Entebbe to Dubai.
6. **Sickness Policy.** This may be arranged for a specified disease such that the insurance company can cater for the medical bills.

### **Importance of life assurance**

These include the following;

1. Life insurance helps to cover critical hardships such as serious illnesses and death of the family key member who is the bread winner.
2. It may also be used as security to obtain a loan from financial institutions.
3. The endowment policy serves as a saving scheme which benefits the assured at retirement age or old age.

### **GENERAL INSURANCE**

This type of insurance covers risks to property. An individual can insure property as long as he/she has an insurable interest in it. General insurance can be divided into three major forms i.e. accidents, fire and marine insurance.

### **ACCIDENT INSURANCE**

This department insures vehicles covering a wide range of risks. Under the accident department the following policies are offered.

1. Motor vehicle policy. This covers vehicles damaged or lost in accidents. Motor vehicle policy may be third party or comprehensive.
  - a) Comprehensive Motor Insurance Policy. This policy aims at compensating all those involved in an accident i.e. both the vehicle and third party.
  - b) Third Party Risk Policy. This is compulsory for all motor vehicle owners. Here only loss inflicted upon a third party is covered i.e. compensation is made to the parties insured by the vehicle but not the vehicle itself.
2. Fidelity Guarantee. This policy protects the employer and employee against financial loss caused by dishonest workers. The policy is used by financial institutions whose employees are exposed

to a large sum of money in the conduct of their duties e.g. a bank can undertake a fidelity guarantee policy against dishonest cashiers, accountants and bank managers.

3. Personal accident policy. This policy covers an individual who gets injured as a result of an accident. It is sometimes taken as part of life assurance. If the insured is hospitalized he is paid an equivalent of his salary for the days he is in hospital. The medical bill is also paid by the insurer.
4. Employers Liability Policy (workman's compensation). This policy covers compensation to workers who may sustain injuries while at the work place. E.g. a construction company can undertake this policy to cover injuries sustained by the employees while at the place of work.
5. Machine breakdown and consequential loss policy. This policy compensates a firm or owner for the loss incurred as a result of breakdown of machines. This policy is supposed to cater for the loss of profits when machines have broken down.
6. Bad debts policy. This policy protects businessmen against losses caused by failure of their customers to pay their debts.
7. Aviation and Aviation hull. This policy covers loss or damage to an aircraft i.e. it covers individuals against losses resulting from air accidents on delayed flights which can cause losses. E.g. if a trader is transporting flowers and there is a delay in flight, losses are likely to be incurred, so this policy covers such losses.
8. Cash or goods in transit policy. This policy covers any risks against goods or cash while being transported from one place to another.
9. Public Liability Insurance. This covers for any possible claims for damages from the public e.g. when the public is injured as a result of faulty goods sold by a producer or injury which may occur to a person while passing near the property of the insured e.g. at the construction site.
10. Cash in safe overnight. This policy covers loss of money which has been kept in the office overnight. Some companies receive large sums of money after banks have closed, hence need for this policy to cover such money.

### **FIRE INSURANCE**

The fire department insures people against losses resulting from fire outbreak. Under this department we have the following policies;

1. Fire outbreak and consequential loss. This policy compensates an individual/firm against loss resulting from fire. The fire should not have been intentionally caused by the insured. Consequential loss policy covers losses as repairs are being made to fire damaged property e.g. loss of profits following fire.
2. Burglary and theft policy. This policy covers the holder against breakage into premises and theft of goods. It is normally undertaken by businessmen, banks, landlords etc.
3. All risks office equipment policy. This covers equipment and office machinery such as computers, printers etc.
4. All risk household policy. This insures household property against damage or loss e.g. household furniture, electrical appliances etc.

### **MARINE INSURANCE**

This refers to the insurance of ships or water vessels, cargo or goods and passengers being carried or involved against damage, injury or loss due to water body disasters like storms. Marine insurance is divided into two sections i.e.

- a) Marine hull section. This offers insurance against the ship or vessel itself and not the goods on the ship. Damage may be brought about by storms, collisions of the ships etc. the owner of the

ship is the one who has the insurable interest in this policy. It may also take third party policy to cover damage caused to/on other vessels.

- b) Marine Cargo Section. This offers cover against any risk that may occur to the cargo on the ship while in transit. When cargo is in transit it may get lost or damaged. A certificate of insurance is often issued by an insurance company as proof that insurance cover has been granted to the cargo on the ship.

#### **Policies offered by Marine Cargo Insurance**

1. Voyage policy. This is a policy which is issued to cover one specified journey. E.g. Mombasa to Cape town. The insurance company is only liable to losses covered during that particular voyage. The insurers' responsibility ends as soon as the voyage is completed.
2. Time Policy. This covers loss that may be incurred within a specified period of time. It can be a month to a year. The insurance agreement ends as soon as the time has expired.
3. Mixed Policy. This combines both the journey and time policy into one policy. E.g. one can insure Cargo being transported from Mombasa to Cape Town for a month.
4. Floating/Declaration Policy. This covers losses on a particular route for a specified period of time and all ships that sail along this route during that particular period are covered by that policy.
5. Open policy. This is where the owner of the vessel insures it against any risk which may occur on any journey at any time.
6. Valued Policy. Under this policy the insured is compensated with that value which is agreed upon at the time of taking up the policy i.e. before the voyage is undertaken.
7. Unvalued Policy. In this policy compensation to be paid is calculated after the risk insured against has occurred. Most marine policies are unvalued.
8. Port risk policy. This covers a ship while in a port for a specified period of time.
9. Fleet policy. This is an insurance policy covering a number of ships belonging to one another; hence suitable for fleet charter.
10. Construction policy. This policy covers a ship during its construction.

#### **LOSSES IN MARINE INSURANCE**

1. Actual total loss. This is a term used in marine insurance to refer to the complete loss of a ship or if cargo is completely destroyed and can't be recovered. I.e. Where the ship or cargo is totally destroyed.
2. Constructive total loss. This is when the ship is not lost but has to be abandoned or if the cargo is so seriously damaged as to be of no practical use as intended. I.e. damaged beyond repair.
3. Average loss. This is where a ship suffers only partial damage. The ship can be repaired and even the goods can be used, it is of two types;-
  - a) General Average loss. This is where the loss is shared by the ship owner and the owner of the cargo e.g. some cargo may have been thrown overboard (jettisoned) to prevent the ship from sinking (securing the safety of the the vessel and cargo). Hence, to be fair to all the loss has to be shared by the ship owner and the owner of the cargo.
  - b) Particular Average Loss. This occurs when part of the cargo or the ship suffers damage and a partial loss is suffered by either the ship owner or the owner of the cargo as the case may be.

## **Differences Between Insurance and Assurance**

1. Insurance covers events that may or may not happen hence all general policies are insurance policies while assurance covers events that are bound to happen whose uncertainty is on hence they will happen, hence all life policies are assurance policies.
2. Insurance means indemnity against loss which can be calculated, while the term assurance means that the loss can't be calculated.

## **PROCEDURE/STEPS FOLLOWED WHEN TAKING OUT AN INSURANCE**

1. An intending applicant makes an inquiry directly or indirectly through an insurance broker or on how to get cover for a risk.
2. Filling in a proposal form. This form constitutes an application for insurance and signifies willingness of the applicant to pay the premium.
3. Calculation and payment of premium basing on the information obtained from a proposed form.
4. Issue of a cover note (binder). This is issued as proof that the premium has been accepted by the insurer who now undertakes to indemnity (compensate) the insured.
5. Issue of an Insurance Policy. This document constitutes a contract between the insured and insurer. It is issued 30 days after the cover note.
6. Filling a claim form. If the event insured against happens, the insured has to inform the insurer and fill a claim form to claim compensation.
7. The insurance company will arrange to survey the property to assess the extent of loss and on receipt of the survey report due compensation is paid to the insured.

## **ROLE/IMPORTANCE OF INSURANCE IN THE DEVELOPMENT OF A COUNTRY**

1. It protects businessmen and other individuals against loss of property by paying them when loss.
2. It is a means of saving. In life insurance individuals are encouraged to save for old age and retirement. E.g. under whole life policy an individual saves money to cater for their family needs after his death.
3. Businessmen can use insurance policies as security for loans from other financial institutions.
4. It is a source of government revenue. Insurance companies pay taxes to the government in form of corporation taxes.
5. Insurance creates employment opportunities. Insurance companies provide employment to people e.g. those qualified in business management, accountants, auditors etc.
6. Insurance contributes to a country's invisible exports hence earning foreign exchange.
7. Insurance promotes trade. Businessmen are able to export or import without fear of loss.
8. It educates the public about the possible risks in trade. When insurance companies advertise their services, they also inform the public about the possible risks in the business.
9. Compensation in case of sickness or loss of life of the employees leads to reduction of costs of businessmen (through workman's compensation policy).
10. Insurance contributes to the growth of the economy through pooled resources which are invested in development projects and infrastructure.

11. Compensation in case of sickness or loss of life leads to reduction of social costs to the government because funds are provided by the insurers to assist the victims.
12. Insurance companies act as trustees for traders i.e. can stand for them in case of reference.

### **DISADVANTAGES OF INSURANCE**

1. It is not a guarantee that the sum insured will be paid when the risk occurs, one can either get compensated or lose all the money insured.
2. Insurance does not cover all risks, there are some non-insurable risks like war.
3. The principles of insurance tend to be confusing e.g. subrogation, proximate cause etc.
4. Compensation is not obtained immediately. Some time may be taken before the insured is compensated.
5. The doctrine of insurable interest limits the scope of items to be insured.

### **Problems facing the Insurance Industry in Uganda**

1. A majority of Ugandans are ignorant about the services offered by the insurers companies. There is limited education about insurance activities. Most people think insurance is a means of taking away their wealth.
2. Limited market for insurance services, this is because there are very few large scale enterprises that have heavy risks to be covered. A majority of the people are poor and can't afford the insurance premium.
3. Insufficient capital. Insurance companies require large sums of money to cover big risks. However, this is not always the case. This makes the small insurer leave business for the big international insurance companies.
4. The poor performance of Uganda's economy. Uganda's economy is largely agricultural with a small industrial sector. Very few farmers take up insurance policies and very few insurers are willing to insure the agricultural sector.
5. High rates of inflation. This reduces the value of money overtime. This makes compensation meaningless. In most cases the insured receives compensation when money has lost value as a result of inflation.
6. Decline in life assurance policies. Many Ugandans are not interested in life assurance. This forces insurance companies to concentrate on general insurance policies which limit the coverage of insurance in the country.
7. Loss of confidence in insurance by many people because of reluctance to compensate in case of loss.
8. The benefits of insurance are invisible i.e. can only be realized when there is a loss. This makes the public look at insurance as a venture which has no tangible results.

## **INSURANCE AND GAMBLING**

Gambling is a practice of doing something risky that may either result into loss of money or gain something. It is basically a game of chance or probability.

### **Similarities Between Insurance and Gambling**

1. There is financial contribution to a common pool in both.
2. The two are based on probability or chance.
3. In both, membership or entry is voluntary and out of free consent.
4. In both at least two parties are involved who must agree on principles and negotiations to guide the conduct of the business.

### **Differences Between Insurance and Gambling**

1. Insurance aims at helping the unfortunate who suffer loss by restoring them to the financial position they were before the loss, while in gambling one has to gain or lose. The financial position of a gambler improves after winning.
2. In Insurance one must have an insurable interest in the property insured while in gambling insurable interest is not a condition.
3. In insurance, the event insured may never happen e.g. one may insure his house against fire and it may never be destroyed by fire, while in gambling the event speculated must happen to decide the winner.
4. In Insurance there is neither winner nor loser, while in gambling there is a winner and a loser.
5. Insurance is legal and recognized by the authority and business community, gambling is sometimes illegal especially if the act engaged in is unlawful.
6. Insurance is a form of contract while gambling is not.

