Why Insurance

Note: We in Finitor Insurance Marketing Private Limited have tried to put a brief insight on the need of insurance as per the prevailing structure based on our understanding and knowledge. We in Finitor do not claim to be an expert on the subject. Please read the Disclaimer & Risk Factors at the end.

FINITOR INSURANCE MARKETING PRIVATE LIMITED

Insurance is a contract, represented by a policy, in which an individual or entity receives financial protection or reimbursement against specified losses, damages, illness or loss of life from an insurance company (insurer). Insurer could be a company that contracts to indemnify the policy holder by way of insurance underwriting. A primary insurer (from which an insured buys the policy) may transfer the risks to one or more reinsurer(s) through a process called cession. Just as an insured (policy holder) buys insurance policy from an insurance company and pays premium, primary insurer pays premium to a reinsurer to transfer all or some risks to reinsurers. The insurer pools clients' risks to make payments more affordable for the insured.

In simple words a policy holder (insured) pays premium and receives a guarantee of compensation for specified risks for specified value (insured value of assets: life, health properties) within specified time. Insured has the right for compensation and insurer has the obligation to compensate.

Thus, an insurance policy mitigates some or entire financial risks arising out of uncertainties and eventualities.

Insurance becomes tricky as it is quite different from buying a merchandise or a service that is bought to experience immediate pleasure through its consumption and usance; insurance is a contract and an intangible that is bought out of fear of possible tragedy and contingency, given a choice no one would like to ever experience the eventuality to enjoy the benefits of an insurance. Yet insurance is so very important to counter the accidents and catastrophic events that are sudden and unforeseen. They bring devastation, enormous loss of lives and properties. Insurance acts as a hedge against the financial risk arising out of such uncertainties. It is important to understand that the insurance is not the means to make profit but to achieve protection against the financial risks. Even if the sum assured is higher but the compensation will not exceed the amount of loss except in case of Life Insurance where sum assured is payable to the insured, subject to other conditions specified in the policy document. Insured must have established insurable interest by pre-existing relationship, possession or ownership.

Uberrima Fides: Uberrima Fides is the legal doctrine that governs insurance, it means utmost good faith and there is no deceit and fraud in hiding information. Both, the insured and the insurer are held under the legal obligation by utmost good faith bond of honesty and fairness. All relevant and material facts must be disclosed. Non-disclosure of material fact by the insured whether fraudulent or innocent, has the same effect, therefore insured must provide all the material facts that might influence the decision of the insurer in underwriting that can affect Risk and Cost (premium). The doctrine of Uberrima Fides is said to be in breach if there is,

a) **Misrepresentation and**
b) **Concealment or suppression of facts**

Therefore, it is advised to all seeking insurance to disclose all material facts within their knowledge to the insurer.

Having understood the concept of Insurance let us look at the broader canvas that represents life and various assets tangibles or intangibles where insurance is inevitable for financial stability. We all toil hard not only to make both ends meet but to do better to have the best and provide the best to our family and dear ones. Everyone has limited financial resources including super rich and we live in enormous uncertainties poised by natural disaster, socio-political, economic, health, terrorism, accident, business uncertainties etc. In such uncertainties, how do we ensure that we continue to live a normal life. Let us look at some of the reasons that help us conclude that Insurance is Important,

1. Financial Stability of the loved ones

Family is dependent on the earning members for financial support even when they are not around. Not all in family would be source of income at any given point of time. There would be sudden stoppage/depletion of the income in case of incidents like loss of life, accident that cripples or critical illness that incapacitates the earning member(s). In addition, there might be huge cost of medical and health. Adequate insurance ensures that the spouse, dependent children and other family members do not have to deal with double trouble (emotional and financial). After all no one wants their family to suffer. The financial stability helps family to deal with the emotional loss a lot better. Ensuring children's education is another major motivation for taking insurance.
Life Insurance acts as hedge against financial risk imposed by the uncertainties of human life or death.

2. Debt Risk Management

Life insurance is also an important risk management tool for outstanding liabilities. In today's world, a family may have mortgages (commercial and residential), business loan, motor loan, personal loan, outstanding credit card liabilities. The family members may have to deal with these liabilities after the sudden demise of the earning member of the family. They might lose out their dear home if they are unable to pay off the outstanding home loan after the death of the bread-earner. Life insurance is also a hedge against debt. It is important to note that some financial institutions may insist on adequate life coverage to the person they are extending loan.

3. Long Term Goals and Targets

Setting goals and targets are important because they help us plan our finances and investments better to achieve them in stipulated time. It starts with identifying various short to long-term goals. Saving for an annual vacation and buying a car could be a short-term objective, renovation of house or saving for down payment a medium-term target whereas long-term goals may include child higher education, marriage and self-retirement.

There should be clarity of thought and planning in setting goals with a well-defined time horizon to achieve them. This is important because linking a short-term goal with a long-term investment instrument could be disastrous. Any temptation to divert funds away from the said objectives also get curbed.

Life insurance is a long-term risk management and saving instrument, therefore should be used to achieve long term goals. If child's higher education requirement is the long-term objective and the instrument chosen is life insurance then the funds continue to divert in the said life insurance instrument; brings discipline in investment and spending. Insurance also takes care of the risk associated with such goals.

ULIP a market linked insurance product may be suitable for certain customers. However, one should weigh his requirements in relation to risk and return (guaranteed/variable) an insurance policy offers. Before buying Unit Linked Insurance Plan one needs to keep in mind coverage offered by the chosen plan, your risk appetite, performance of the plan in the past, switching flexibility, and reputation of the company, premium payment options, charges, limitations and exclusions as well.

Similarly, there are insurance policies that helps you plan your retirement; contributing some money regularly in such life insurance products may give a steady flow of income every month even after retirement.

4. Buying Life Insurance early is economical

One needs to understand that an insurance is primarily a risk management instrument not an outright investment product. Therefore, risk coverage is always in relation to financial risk it imposes on an asset including human life. Therefore, an asset worth Rs. 10 million is unlikely to get a cover of Rs. 100 million. Insurance should not be a priority for a young student still pursuing his studies and does not generate income.

However, a young entrepreneur, professional, a student having study loan should consider taking insurance. Taking insurance at an early age costs less because the risk it imposes on the insurer is relatively less. Cost of insurance also depends on number of dependents. Cost of insurance may also be cheaper to a female compare to male counterpart of the same age as life expectancy of a female is more than the male.

The characteristics of an asset being insurable is called insurability. It is sum total of all conditions and circumstances pertaining to an asset. In case of life insurance health of the person, life expectancy, risk profile and susceptibility to injury, judged by the underwriters of the insurance company in order to determine insurability. When one is young and healthy should take insurance because later he may fall ill or detected with some serious sickness, in such scenario insurance company may charge hefty premium or even refuse to provide insurance cover. Riders like accident cover and critical illness also are cheaper when young and healthy.

5. Business Risk

Ever since liberalisation the Indian economy has grown at a rapid pace where industrial and commercial prospects including business of small and medium enterprises, start-ups have multiplied and so are the uncertainties. We have seen one of the worst recession, Global Recession 2008 (2007-2012) since the 1930s Great Depression. However, post liberalisation Indian enterprises have presented tremendous opportunities for growth and the country has scaled newer heights. India has emerged as new powerful economy touching every section across the country and presenting new vistas for trades, manufacturing and services to the world.

The new opportunities, technologies and growth have also presented huge business and operational risks. Add to that risks such as natural calamities, fraud, accident, legal, error, omissions and commissions, loss of key management personnel, credit risk, liquidity risk etc. These risks can put huge financial pressure on an enterprise. To minimize losses and prevent disruption to business operations, it is imperative to have a comprehensive and well-developed insurance market offering array of insurance products in India. Today various insurance companies offer wide range of general insurance products in India. Indian business community can choose the kind of insurance they need to protect their business interests from uncertainties.

Some of the business insurance products are,

Property Insurance
Mortgage Insurance
Marine Insurance
Commercial Insurance
Keyman Insurance
Credit Insurance
Liability Insurance
Product Liability Insurance
Professional Liability Insurance
Commercial Vehicle Insurance
General Liability Insurance for Small Businesses
General Liability Insurance
Marine Hull Insurance
Crop Insurance
Weather Insurance
Trade Credit Insurance
Travel Insurance

6. Tax Saving

Though tax saving should not be the reason to buy an insurance policy, however in India this is one of the major reasons why people buy Insurance.

Tax Saving is an important aspect of financial planning to meet financial goal, an intelligent and well-planned strategy can serve the dual purpose, on one hand you can buy a policy that meets your risk objective and simultaneously save tax.

i. **Life Insurance**: Regardless of the type of life insurance plans, be it Term Plan, Endowment, ULIP, Money Back, premium paid towards the policy uptoRs. 150000 (one lakh fifty thousand) in a single financial year is covered under section 80C and proceeds of maturity or death benefits are tax free under section 10D of the Income Tax Act. If the policy is surrendered or terminated within five years, deductions claimed are added to your income and taxed accordingly.

ii. **Health Insurance**:Health insurance is also popularly known as **Mediclaim**. Premium paid upto INR 30000 (thirty thousand) by senior citizens and INR 25000 (twenty-five thousand) by other than senior citizens are covered under section 80D of the Income Tax Act. An Indian citizen may claim tax benefit uptoRs. 50000 (fifty thousand), Rs. 55000 (fifty-five thousand) and Rs. 60000 (sixty thousand) if he pays INR 25000 (twenty-five thousand) towards self-family health insurance (non-senior citizens)andINR 25000 (twenty-five thousand) for parent's (non-senior citizens),INR 25000 (twenty-five thousand) self-family insurance (non-senior citizens)andINR 30000 (thirty thousand) for parents (senior citizens)andINR 30000 (thirty thousand) self-family health insurance (senior citizens)andINR 30000 (thirty thousand) for parents (senior citizens)respectively.

For better understanding please consider the explanation in tabular form,

Health Insurance (Mediclaim) – Section 80D *Amount in INR*			
Scenario	Self-family (husband, wife and dependent children)	Parents	Total Deduction
No one is above 60 years	25000	25000	50000
No one in the Self-family is above 60 years, Either parent is above 60 years	25000	30000	55000
One member in the Self-family is above 60 years, Either parent is above 60 years	30000	30000	60000

**Person above 60 years is considered as senior citizen*

Proceeds/sum assured received through critical illness insurance is also tax-free.

Companies taking group health insurance for employees get tax benefit under section 80D not the employees.

iii. **Others**:Premium paid for any **annuity plan** of LIC (Life Insurance Corporation of India) or any other Life Insurance Company is covered under section 80CCC of Income Tax Act. The maximum deduction limit is upto Rs. 150000 (one lakh fifty thousand).

The premium paid by the company buying the **Keyman insurance policy** is an allowable business expenditure for the company under section 37(1) of the Income-Tax Act. In case there is a claim (on death of the insured), the claim proceeds are taxable as business income in the hands of the company.

7. Satisfaction

Death, accident, tragedies and risks because of complexities of modern business are inevitable and no one knows the timing. Therefore, insurance is a great tool to protect the financial risk associated with any individual or corporate.

Where the insurance fails to fill is the emotional gap because of the loss of a life of near and dear one or a thing that is very close to the heart of an individual but it does help to mitigate the financial risk associated.

Insurance is a must.

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Summary: All investments/trading activities carry risks and they can be classified under two categories systematic and unsystematic risk. Investors/traders should have complete understanding of both the risks before they undertake investment and trading activities.