

## What is insurance & how does insurance protect?

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[Wikipedia](#) article documents insurance as "In law and economics, insurance is a **form of risk management** primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another in exchange for payment.

An insurance contract is between two entities: first the insurer and the second party is the insured.

An insurer is a company selling the insurance; an insured, or policyholder, is the person or entity buying the insurance policy. The insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage, called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice."

The transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate (**indemnify**) the insured in the case of a financial (**personal**) loss. The insured receives a contract, called the **insurance policy**, which details the conditions and circumstances under which the insured will be financially compensated.

### What is Insurance Definition?

**in-sur-ance noun** /in?SHo?or?ns/  
**insurances, plural**

1. A practice or arrangement by which a company or government agency provides a guarantee of compensation for specified loss, damage, illness, or death in return for payment of a premium
  - many new borrowers take out insurance against unemployment or sickness
2. The business of providing such an arrangement
  - Howard is in insurance
3. Money paid for this

- my insurance has gone up
- 4. Money paid out as compensation under such an arrangement
  - when will I be able to collect the insurance?
- 5. An insurance policy
- 6. A thing providing protection against a possible eventuality
  - adherence to high personal standards of conduct is excellent insurance against personal problems
  - young people are not an insurance against loneliness in old age

### Basic principles of insurance?

**Insurance** involves pooling funds from many insured entities (known as exposures) to pay for the losses that some may incur. The insured entities are therefore protected from risk for a fee, with the fee being dependent upon the frequency and severity of the event occurring. In order to be insurable, the risk insured against must meet certain characteristics in order to be an insurable risk. Insurance is a commercial enterprise and a major part of the financial services industry, but individual entities can also self-insure through saving money for possible future losses.

### Assurance

"**Assurance**" is the provision of coverage for an event that is certain to happen. In the United States both forms of coverage are called "**insurance**", for reasons of simplicity in companies selling both products.

### Indemnity

To "indemnify" means to make whole again, or to be reinstated to the position that one was in, to the extent possible, prior to the happening of a specified event or peril. Accordingly, life insurance is generally not considered to be indemnity insurance, but rather "contingent" insurance (i.e., a claim arises on the occurrence of a specified event). There are generally two types of insurance contracts that seek to indemnify an insured:

1. an "indemnity" policy, and
2. a "pay on behalf" or "on behalf of" policy.