

COURSE : DISASTER MANAGEMENT (MA/ MSc PART I)

Paper : V

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Topic : Role and Importance of Insurance

INTRODUCTION :

Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. 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 large, possibly devastating loss. The insured receives a contract called the insurance policy which details the conditions and circumstances under which the insured will be compensated.

ROLE & IMPORTANCE :

Insurance has become an integral aspect in everyone's life today. It is a written contract of insurance that offers protection against future loss. The life insurance generally helps to insure the life of people. A definite compensation is provided by the insurer to the insured person. The nonlife insurance provides financial support to people or companies and helps them to overcome the losses. The basic human trait is to be averse to the idea of taking risks. There is always an urge to minimize the risks and provide protection against possible failure. The risk includes fire, the perils of sea, death, accidents and burglary. Any risk may be insured against at a premium commensurate with the risk involved. Thus collective bearing of risk is insurance that provides reasonable degree of security and assurance that insured will be protected in the event of a calamity or failure of any sort.

The process of insurance has been evolved to safeguard the interests of people from uncertainty by providing certainty of payment at a given contingency. Insurance not only serve the ends of individuals, or of special groups of individuals, it tends to pervade and transform our modern social order, too. The **role and importance of insurance**, here, has been discussed from an individual, business and society's view.



1.Importance of Insurance to Individuals

Insurance provides security and safety: Insurance provides safety and security against the loss on a particular event. In case of life insurance, payment is made when death occurs or the term of insurance expires. The loss to the family at a premature death and payment in old age are adequately provided by insurance. In other words security against premature death and old age sufferings are provided by life insurance. In other insurance, too, this security is provided against the loss at a given contingency. foreg. property of insured is secured against loss due to fire in fire insurance.

Insurance affords peace of mind: Insurance provide security which is the prime motivating factor. It tends to stimulate an individual do more work.

Insurance protects mortgaged property: At the death of the owner of the mortgaged property, the property is taken over by the lender of money and the family is deprived of the use of the property. On the other hand, the mortgagee wishes to get the property insured because at the damage or destruction of the property he may lose his right. Insurance provides adequate amount to the dependents at the early death and the property-owner to pay off the unpaid loans. Similarly, the mortgagee gets adequate amount at the loss of the property.

Insurance eliminates dependency: At the death of the husband or father or earning mother, the loss to the family needs no elaboration. Similarly, at destruction of property and goods, the family would suffer a lot. The economic independence of the family is reduced or, sometimes, lost totally. Insurance tries to eliminate dependency.

Life Insurance encourages saving: The elements of protection and investment are present only in case of life insurance. In property insurance, only protection element exists. In most of the life policies elements of saving predominates. Systematic saving is possible because regular premiums are required to be compulsorily paid. In insurance the deposited premium cannot be withdrawn easily before the expiry of the term of the policy. The compulsion to pay premium in insurance is so high that if the policy-holder fails to pay premiums within the days of grace, he subjects his policy to lapsation and

may get back only a very nominal portion of the total premiums paid on the policy. For the preservation of the policy, he has to try his level best to pay the premium.

Life Insurance provides profitable investment: Individuals unwilling or unable to handle their own funds are pleased to find an outlet for their investment in life insurance policies. The elements of investment i.e. regular saving, capital formation, and return of capital along with certain additional return are perfectly observed in life insurance. Life insurance fulfills all these requirements at a low cost.

2.Importance of Insurance to Business

Business efficiency is increased with insurance: When the owner of a business is free from the botheration of losses, he will certainly devote much time to the business. The carefree owner can work better for the maximization of the profit. The new as well as old businessmen are guaranteed payment of certain amount with the insurance policies at the death of the person; at the damage, destruction or disappearance of the property or goods. The uncertainty of loss may affect the mind of the businessman adversely. Insurance removes the uncertainty and stimulates the businessmen to work hard.

Enhancement of Credit: Business can obtain loan by pledging the policy as collateral for the loan. And persons can get more loans due to certainty of payment at their deaths. The insurance properties are the best collateral and adequate loans are granted by the lenders.

Business continuation: In partnership, business may discontinue at the death of any partner although the surviving partners can re-start the businesses, but in both the cases the business and the partners will suffer economically. Insurance policies provide adequate fund at the time of death. Each partner may be insured for the amount of his interest in the partnership and his dependents may get that amount at the death of partner. With the help of property insurance, the property of the business is protected against disasters and the chance of disclosure of the business is reduced.

Welfare of Employee: The welfare of employees is the responsibility of the employer. The former work for the latter. Therefore, the latter has to look after the welfare of the former which can be provision for early death, provision for disability and provision for old age. These requirements are easily met by the life insurance, accident and sickness benefit and pensions which are generally provided by group insurance. The premium for group insurance is generally paid by the employer. This plan is the cheapest form of insurance for employers to fulfill their responsibilities. The employees will devote their maximum capacities to complete their jobs when they are assured of the above benefits. The struggle and strife between employees and employer can be minimized easily with the help of such schemes.

3. Importance of Insurance to Society

Wealth of the society is protected: The loss of a particular wealth can be protected with insurance. Life insurance provides for loss of human wealth. The human force, if it is strong, educated and carefree, will generate more income. Similarly, the loss of damage of property at fire, accident etc., can well indemnified by property insurance, cattle, crop, profit and machines are also protected against their accidental and economical losses. With the advancement of the society, the wealth or the property of the society attracts more hazard and so new types of insurance are also invented to protect them against possible losses. Through the prevention of economic losses, insurance protects the society against degradation. Through stabilization and expansion of business and industry, the economic security is maximized. The present, future and potential human and the property resources are well protected.

Economic Growth of the country: For the economic growth of the country, insurance provides protection against loss of property and adequate capital to produce more wealth. Welfare of employees creates a conducive atmosphere to work. Adequate capital from insurers accelerates production cycle. Similarly in business, too, the property and human materials are protected against certain losses, capital and credit are expanded with the help of insurance. Thus, the insurance meets all the requirements for the economic growth of a country.