

Understanding Insurance needs for Your business

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The need of Buying Insurance

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**Role of
insurance**



Benefits of insurance



Quote ‘ Needing insurance is like needing a parachute. If it isn't there the first time, chances are you won't need it again’.

Source unknown



RISK AND INSURANCE

What is Risk?

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- There is no universally accepted definition of risk but it can be **defined as the possibility or the uncertainty of loss.**
- **Risk** is pervasive or widespread and hence people must find proper ways of dealing with it.
- The world we live in is characterized by **risk and uncertainty.**

- Insurance operates on the basic understanding that **risks** are ever present in life and that losses and set backs do occur from time to time.
- The **core position of insurance** is that it is better to be prepared financially for misfortunes and other major occurrences if and when they occur/happen.

- **In simpler terms, this is called **planning**. We plan what to do and when to do it, but we should remain alive to the fact that things could go wrong. And they often do.**

What is insurance?

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- ▶ Insurance is a **form of management** primarily used to offer a financial payment when unplanned or unexpected losses or misfortunes occur;
- ▶ It is defined as **an equitable transfer of the risk** of a potential loss from one entity (that is exposed to risks) to another (the insurer) in exchange of payment of a premium;
- ▶ Insurance does not prevent losses from occurring but it assists in **transferring the financial consequences** of losses.
- ▶ Insurance is part of a broad discipline called **Risk Management**-the practice of appraising, controlling, and providing a financial payment for **unexpected and unplanned losses**.

- **Insurance** has evolved as one of the most important ways of **handling risks**.
- It offers **financial protection** based on the principle of mutual co-operation, sharing of losses and building a fund over a period of time.

All societies have some forms of traditional types of insurances

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- **All societies have some form of risk mitigation practices. This includes the African traditional societies e.g by way of the clan, tribe etc**
- **Modern insurance exists in all countries.**
- **This can obviously be because insurance meets certain specific needs in societies.**

YES,

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*Insurance can be summed up as
"Praying for the best while...
...being **PREPARED** for the
Worst.*



From Risks to Losses

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- **For a risk to become a loss, there has to be a peril. A peril is the primary cause of loss. Thus, fire, theft, accident, storm, death etc are perils;**
- **In most cases, the occurrence of a peril is beyond the control of anyone who may be affected by it.**

Risks that we all face:

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- **Dying too soon- at least for those with dependants.**
- **Becoming physically challenged from accident or disease.**
- **Having our assets lost or destroyed- as individuals and businesses.**
- **Do the following look familiar?**

A motor cycle accident



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Police reports now show that motor cycles are only second to matatus in accident rate.

A road accident



Applicable classes of insurance: motor, personal accident, work injury, group personal accident, life assurance etc

A house on fire



**Material damage –applicable classes of insurance:
fire, theft, all risks, goods in transit etc.**

A plane crash



**Applicable classes of insurance:
aviation cargo, hull and liabilities.**

Insurance for the physically challenged

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Applicable classes of insurance:

- Personal accident;
- Medical/Health;
- Income protection;
- Group accident.



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How does insurance operate?

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- **It is the duty of insurance to financially mitigate such losses.**
- **This is done through creation of a fund out of which losses are paid.**
- **Those who opt to insure choose to incur a small loss (premium) rather than face the uncertainty of a major loss.**
- **The amount of premium payable to the fund is determined by the probability of occurrence of losses which is scientifically worked out by specifically trained professional called actuaries, among others.**

INSURANCE NEEDS

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- Insurance needs can be broadly classified into either **economic needs or social needs**.
- Insurance satisfy the economic need by encourages people to invest.
- Insurance will make sure that jobs are not lost and goods as well as services will still be available after losses hence satisfies the social needs.

Economic needs

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1. Peace of mind

- Insurance exists to meet financial consequences of risks; hence when an individual has insurance there is a form of peace of mind which subsequently enable the policyholder to concentrate on investments.

2. Asset protection.

Material damage, loss or destruction to assets can be protected by various insurance policies.

Examples; Fire & Perils, Theft/Burglary, All risks, GIT, Money, Fidelity Guarantee, Marine, Contractor's All Risks, Motor Insurances, Machinery Breakdown, Domestic Package etc.

3. Consequential Loss protection

Business Interruption Ins.

4. Legal Liability Protection

- Every business person is exposed to potential legal liability in connection to their business activities.
- Insurance meets the need for legal liability protection by way of **Liability Insurances**.

Examples:- WIBA, Public liability, Product Liability, Professional Indemnity, Fiduciary, Director's and Officer's Liability etc

5. Savings/Investment

- Insurance gives an alternative investment vehicle/source of collaterals.
- Premiums paid for life assurance constitute income saved now for future consumption.
- Life policies is all about financial protection and investment. **Applicable policies; Unit linked policies, With profit policies**

5. Partnership protection

It provides cash to enable the surviving partner to buy the shares of the deceased partner.

6. Tax Planning

Saving for retirement is a very tax efficient way of saving because contributions made, returns from them & the benefits at maturity receive favorable tax treatment.

7. Credit protection

This is by way credit Insurance policies. It offers financial protection in the event of death or disability of the debtor before redeeming the loan.

8. Key person protection

Social needs

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So far we have talked about the Role of insurance in the event of a misfortune.

However, insurance can also be used in planning and providing for the three key challenges of life. These are:

- **Buying a house;**
- **Educating children at colleges/universities; and**
- **Living in financial freedom after retirement.**

Buying a house

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Applicable policies: life policies, mortgage protection policies, fire and other perils policies etc.



Educating children

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Appropriate Policies

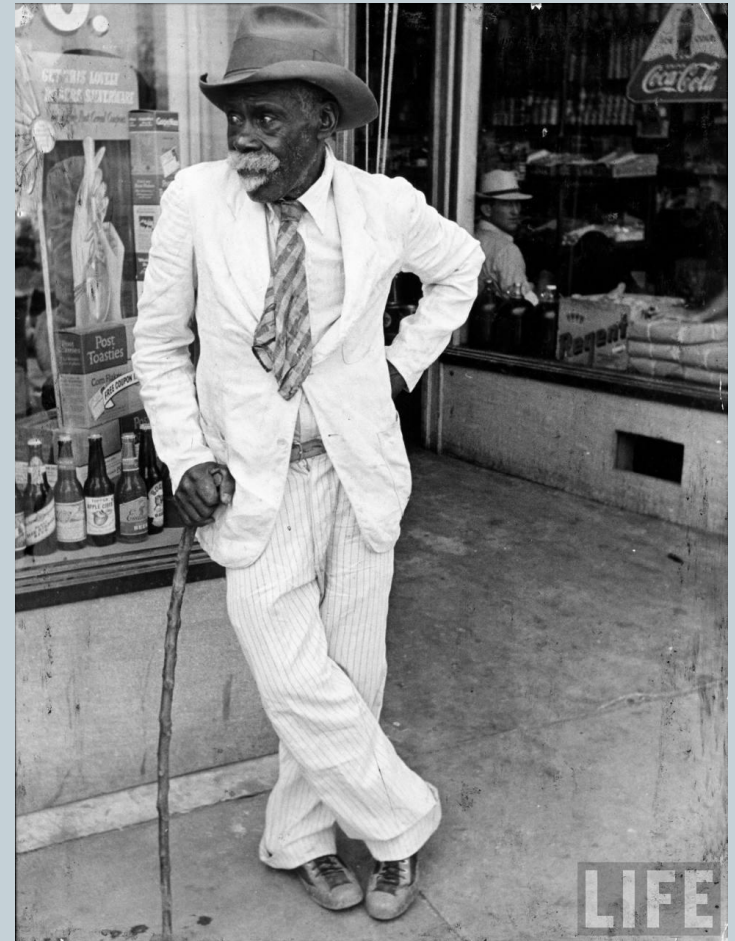
- **Life assurance saving products**
- **Maturing when a child is entering university;**
- **Unit linked policies;**
- **Education policies that provides**
- **Cash **on** death or disablement of breadwinner while the child is in college/ university .**

Living in financial freedom in retirement

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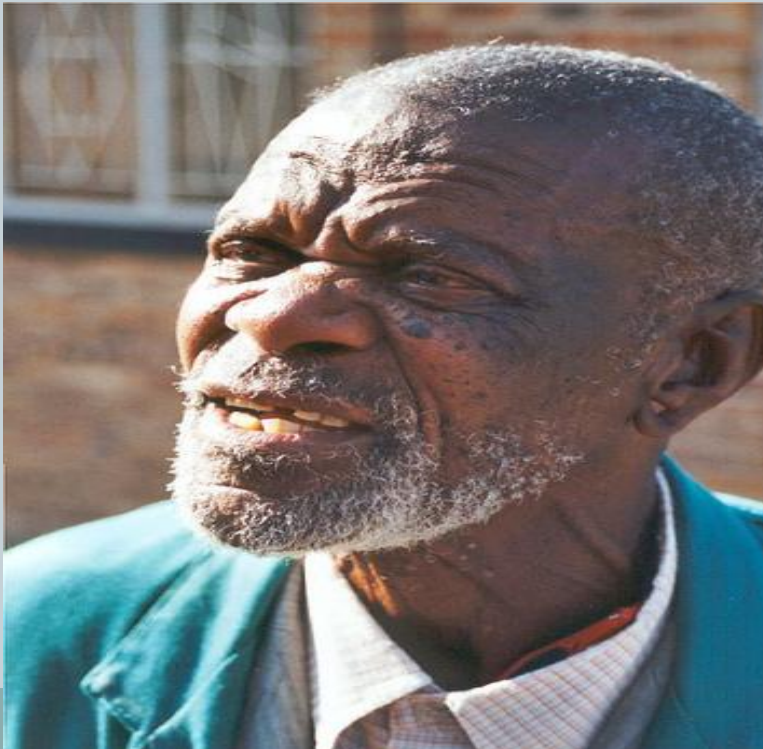


- We shall grow old; we shall not die young!
- You may live longer in retirement than your entire working life!





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Solutions for financial freedom in old age:

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- **Employers'/ occupational benefit schemes.**
- **Personal retirement benefit policies- these are pure investment policies and one can choose their retirement dates.**
- **Both of these are regulated by the Retirement Benefit Authority (RBA).**
- **Life assurance products maturing at retirement age.**

Insurance is a superior method of handling risks because:

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It anticipate losses and plans for them.

- **It creates a reliable fund out of which losses are paid.**
- **It employers trained personnel.**
- **It spread risks nationally, regionally, and internationally.**

REMEMBER

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- **You can't stop bad things from happening. But you can protect yourself financially by purchasing insurance.**
- **How much insurance you need depends on a lot of factors including how much you own, how much your assets are worth, whether you have dependents, your age, and how much out-of-pocket cost you could afford to bear. You can estimate your coverage needs.**

Insurance is technical

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- **An insurance policy is a legal contract that may be loaded with technical terms that may be sometimes difficult to understand.**
- **However, IRA is in the process of preparing simplified or plain English policies.**
- **In all cases, read the policy before signing to find out about the coverage you're buying. For instance, the policy will tell you:**

CAN TELL YOU:

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- **Who or what is covered.**
- **What coverage, exclusions and limitations apply.**
- **When coverage begins and ends.**
- **How much coverage is provided.**
- **How much you'll pay for coverage (the premium).**
- **How you report a loss or file a claim.**
- **It's always a good idea to ask an insurance professional to explain any terms, conditions, or benefits that you do not understand.**

USING INSURANCE AS AN INVESTMENT VEHICLE

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- **Understand yourself and your financial circumstances and decide the type of policies that you need to buy.**
- **Decide what you want to achieve e.g. have another form of security other than land or stock, old age protection etc.**
- **Choose a insurance policy that serves you and not the agent or the company or any one else.**

Must have **insurances**

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- **Health insurance for your self and family- you never know when it might help you in an emergency.**
- **Insurances that the law require.**
- **Insurance for critical assets e.g. car, domestic assets etc.**
- **Education policies for children college/university education.**
- **Investment policies to diversify investment risks e.g. unit linked policies.**

Conclusion

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- **Insurance plays a critical role in the life of each individual as well as in the socio-economic growth of the nation.**
- **Insurance involves helping individuals and businesses to manage risks so as to protect themselves from catastrophic losses.**
- **It also entails anticipating potential risks and putting in place mechanisms to manage them.**
- **Life insurance can be used to provide for the key challenges of life.**
- **One should have some form of insurance which serves their needs.**

THE END

Q & A?

no question off limits

The End

**GOD
BLESS
YOU
ALL!**