

BRIEF CASE

How Insurance Works

Insurance is a financial product that provides some financial or other safeguard to the insured in the event of a loss. Insurance is something many individuals purchase on a regular basis, but often with only some understanding of the detail. However, when purchasing insurance on behalf of an organisation, it's important to understand exactly what insurance is, how it works and what it offers.

What is Insurance?

Insurance is a financial product. It is sold by insurance companies to individuals and organisations to provide security in the event of a loss; the insurer agrees to provide certain compensation in the event of a loss detailed in the policy, provided the insured adheres to any conditions in the policy.

Insurance is generally considered a tool for risk management. Where risks cannot be eliminated or reduced to a satisfactorily low level (whatever the individual organisation believes is satisfactorily low-risk), insurance can be used to mitigate the risk by passing most of the financial burden onto the insurer.

How does Insurance work?

When you decide that insurance may be suitable to protect your organisation against certain eventualities, you will provide details of your organisation and activities and what cover you require to an insurer. You should think about what activities, risks, eventualities you want cover for; the length of cover; who you want to be covered and in what capacity (e.g. volunteers insured as if they were employees). The insurer will provide a policy that matches your requirements and calculate a quotation for the insurance premium.

Insurers use the information you have provided to calculate the likelihood of their having to pay a claim; this is then used to calculate your premium which is the amount you pay to buy the insurance product, normally for the period of one year.

What does Insurance do?

The basic premise of insurance is that it provides compensation in the event of a loss. However, what your insurance policy 'does' is limited and governed by your Policy Wording and your Schedule of Insurance. The Policy Wording is the document detailing the terms and conditions of your insurance contract. It is issued by the insurer, who may also issue a Policy Summary or Summary of Cover, which will provide the same information in a more succinct form. Your Schedule is the document detailing specific information

related to your risk and may include further additions or exclusions in relation to your cover.

Within the confines of your Policy Wording and Schedule, your insurance will provide the agreed compensation in the event of an insured loss providing you adhere to any conditions detailed in the Wording or Schedule.

What do I have to do?

To be correctly covered, there are a few key things that you must do. Initially, you must provide all the relevant information to the insurer; you shouldn't leave anything out and everything you provide should be accurate. And if anything material changes during your Period of Insurance you should inform your insurer as soon as practicable.

You should adhere to any conditions or stipulations detailed in your insurance policy. Ideally you should document this to prove your cooperation in the event of claim.

If you are paying your insurance premium in monthly instalments, you should ensure you continue doing so every month.

And in the event of an insured incident occurring, you should make every effort to minimise the loss. You should contact your insurer as soon as reasonably possible, once everybody is safe, and follow their advice.

Links

There are various other resources available on-line. You could start by looking at ...

[Money Advice Service – What is insurance?](#)

[Charity Commission Guidance on Insurance](#)