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THE OMBUDSMAN FOR SHORT-TERM INSURANCE: WHAT IS INSURANCE?

The Ombudsman for Short-Term Insurance, Brian Martin, explains the origins of insurance, what is insurance and provides consumers with useful information to consider when taking out an insurance policy.

Origins of Insurance

The origins of insurance can be traced back to 1347 where the earliest authenticated insurance contract, namely a marine insurance contract for a ship "The Santa Clara" in Genoa, was found. The policy was written in Italian and appeared in the form of a maritime loan to avoid church prohibition against usury. Interestingly, the earliest insurers were merchants underwriting risks for fellow merchants, on a part-time basis.

What is insurance?

Essentially insurance is a sharing of a risk of loss or damage. When you take out insurance you are entering into a contract with another party that is subject to certain terms and conditions. You agree to share the risk of harm arising from uncertain events and to compensate for that loss.

Different kinds of insurance

There are different kinds of insurance depending on what is being insured. Insurance is divided into the first instance, long-term insurance and short-term insurance. Long-term insurance is generally defined as being insurance to cover a certain event that will happen at an uncertain time, for example, life insurance. Remember the saying "death like taxes is inevitable"? The only uncertainty is when will it occur! Whereas short-term insurance is different as it is the event that is uncertain, for example, there may not even be an event, which gives rise to a claim. Generally in short-term insurance, the period of insurance is for a fixed period of time.

Entering into a Contract or Agreement

When a policy is taken out, the insurer (the insurance company) is being asked to enter into a contract with the insured (person wishing to take out insurance) and they will want to know from the insured all relevant information to enable them to decide whether or not to enter into an agreement with the insured and if so on what terms. This implies two issues for the insurer, namely:

- Risk (how likely is it that the event you will insure against will arise within the given period of the policy) and
- Premium (what premium should be charged).

