COURSE : DISASTER MANAGEMENT (MA/ MSc PART I)
Paper : V
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Topic : Insurance, Assurance and Reinsurance

Insurance is defined as an arrangement, in which the insurer commits to indemnify the loss or damage caused to the insured due to natural calamity or any other event whose happening is not certain, for special consideration. The term insurance is often juxtaposed with assurance, as these two are financial products sold by the company to people so as to protect their interest, however, they are different.

Assurance

A form of financial coverage, which provides reimbursement, for an event that is sure to happen (sooner or later), is known as assurance.

One of the best examples of assurance is life insurance, which covers the risk of the life of the policyholder. On the demise of the insured, the nominee will get the sum assured. In life insurance, insurance policy amount is payable only the occurrence of the event, i.e. death. Although, the life insurance also provides for payment of the policy amount at the maturity of the policy by installments. Life insurance is classified into three types:

- **Whole life assurance**: When the sum assured is payable only on the event of the death of the insured is the whole life assurance.
- **Term life assurance**: When the sum assured is paid in lump sum on the maturity of the policy term is called term life assurance.
- **Annuity**: When the sum assured is disbursed in the installment on the maturity, rather than one shot payment is called annuity.

Reinsurance

Reinsurance is used to mean an insurance contract between the ceding company and the reinsurer, whereby the two parties agrees to transfer and accept respectively, a definite proportion of risk or liability, as defined in the agreement.

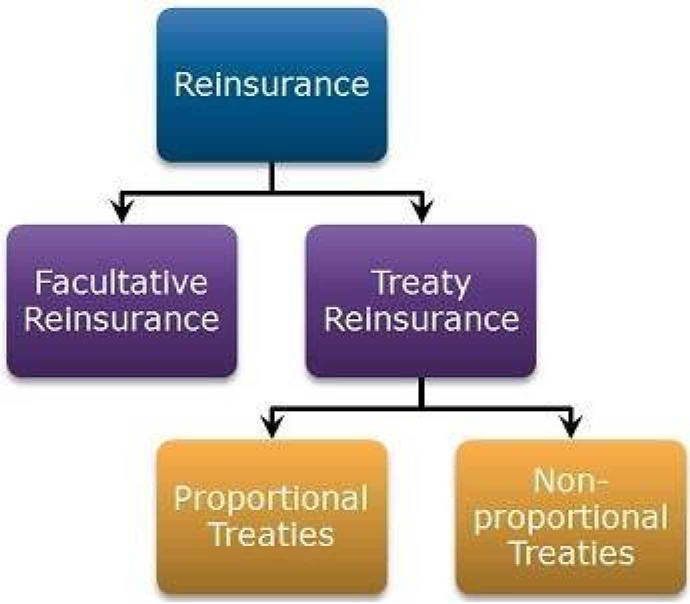
The original insurance company which agreed to indemnify the risk and also to 'cede' or transfer the risk/liability to another insurance company is called ceding company. Moreover, the other insurance company is the reinsurer.

In general insurance, some risks are so high, that it is not possible for one insurance company to bear alone. In such a case the company insures the complete risk itself and pass on a specified portion of the risk to another insurance company and retains only that amount of risk, which it can bear. The premium received from the insured is shared by both the companies, in the agreed ratio.

Difference between Insurance and Assurance

The following points describe the differences between insurance and assurance:

1. A contract, which provides cover for an event that can happen but not necessarily, like flood, theft, fire, etc. is known as insurance. A provision for coverage of an event, whose happening is certain, such as death, is called assurance.
2. While insurance is based on the principle of indemnity, assurance is a bit different, which relies on the principle of certainty.
3. Insurance provides protection against an anticipated event. On the other hand, Assurance tends to provide protection against a definite event.
4. In the case of insurance, the reimbursement of the loss or damage will be paid only on the occurrence of the uncertain event. Conversely, in assurance, the insurable amount is paid either on the death of insured or at the maturity of the policy.
5. The duration of insurance is only one year, in essence, the policy is renewed on the expiry of the term. On the flip side, assurance is for the long term, which operates over a number of years.
6. Insurance, covers general insurance, i.e. fire insurance, marine insurance or miscellaneous insurance. Assurance covers life insurance, such as whole life insurance, term life insurance and annuity.
7. Insurance aims at identifying the insured against any risk. On the contrary, the main purpose of assurance is to assure payment, on the happening of the specified event.
8. Insurance policy prevents the specified risk or provides protection against it. Unlike assurance, wherein the policy is taken against a definite event.
9. In insurance, the insurer commits to reinstate the insured to his/her previous position; that was occupied before the event took place. In contrast, assurance commits to pay the sum assured, when the event takes place.
10. In insurance, it is the duty of the insured to pay premiums at regular intervals so as to receive indemnity against risk. As opposed to assurance, in which the insured undertakes timely payment of premium, in return for the benefit, on the happening of the event covered.



There are two types of reinsurance, given as follows:

- **Facultative Reinsurance**: A type of reinsurance contract,that covers the loss of a specific risk, which is expressed in the agreement.
- **Treaty Reinsurance**: In this contract, the two companies, i.e. the ceding company and the reinsurer enters into a treaty agreement, and the reinsurance is under the confines of the treaty. The limits may be related to money, business, geography, etc.

Difference between insurance and Reinsurance

1. A contract between the insurer and insured wherein the former assures to indemnify the latter in the case of loss or death is known as insurance. Reinsurance refers to the insurance taken up by an insurance company to mitigate heavy losses when it does not wish to bear the entire risk of loss and thus shares it with some other insurer.

2. In insurance, the protection is either provided to an individual or things. On the other hand, in the case of reinsurance, the protection is taken by the large insurance companies to survive huge losses.

3. In the case of insurance, the premium paid by the individual is received by the insurance company only. As against this, in the case of reinsurance the premium paid by the insured, is shared by the insurance companies in a specified ratio.