INSURANCE.

Insurance-This is an undertaking or contract between an individual or business and an insurance an occurrence of risk(s) (i.e. against events whose occurrences are unforeseen but causes financial losses or suffering to the affected parties.

Risks are also referred to as **contingencies, hazards or perils and include:**

-Fire outbreak

-Accidents

-Thefts

-Deaths

-Disabilities

-Risks are real and unforseen.Methods to eliminate such risks has achieved very little and thus has necessitated the need for insurance.

Importance of insurance

1. **Continuity of business**

Every business enterprise is exposed to a variety of risks e.g. fire, theft e.t.c.The occurrence of such risks often result in financial losses to the business. Insurance provides adequate protection against such risks in that, if a trader suffers losses as a result of insured risk, she/he is compensated, thus he/she is able to continue with business operations.

2. **Investment projects**

Insurance enables investors to invest in profitable yet risky business projects that would otherwise avoided.

Not all the money received as premiums (by the insurance companies) is used up for compensation to those who have been exposed to risk and suffered losses. The rest of the money is invested in other businesses to earn profits.

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3. **Creation of employment**

Insurance does provide employment opportunities to members of the public.

4. **Government policy**

The profits earned are a source of revenue for the government i.e. insurance companies are profit-making organizations which generate revenue to the government through payments of taxes

5. **Credit facilities**

The insurance industry have also established credit or lending facilities which the business community uses by borrowing. Loans are made available to the public for different investment projects in different sectors of the economy and also for personal requirements.

6. **Development of infrastructures**

The insurance industry plays a crucial role in the development of urban facilities in major towns. Both residential and office buildings have been developed by insurance firms. The firms also participate in development projects in the areas where they operate. They contribute to development of a region by constructing and infrastructural facilities

7. Life policies can be used as security for loans from either the insurance company or other financial institutions.
8. Provision of life and general insurance policies encourages Kenyans to plan ahead for their dependants thereby reducing the number of needy future students.
9. **Loss prevention-**The insurance companies encourage the insured not to cause accidents thus channeling the unclaimed resources into the economy.

THE THEORY OF INSURANCE

The insurance business relies on the law of large numbers in its operations. According to this law, there should be a large group of people faced with similar risks and these risks spread over a certain given geographical area.

Every person in the group contributes at regular intervals, small amounts of money called premium into a “common pool”. The pool is administered and controlled by the insurance company.

i) The fact that risks are geographically spread ensures that insurance does not have a concentration of risks in one particular area.
ii) The law of large numbers enables the insurance to accurately estimate the future probably losses and the number of people who are likely to apply for insurance. This is done in order to determine the appropriate premiums to be paid by the person taking out insurance.

Pooling of risks

The insurance operation is based on the theory that just a few people out of a given lot may suffer a loss. There is therefore a “pooling of risks” i.e the loss of the unfortunate few is spread over all the contributors of the group, each bearing a small portion of the total loss. This is why the burden of loss is not felt by the individuals because it is “shared” by a large group.

Benefits of the “pooling of Risks” to insurance company

i) Pooling of risks enables an insurance company to create a common pool of funds from the regular premiums from different risks.
ii) It enables the insurance company to compensate those who suffer loss when the risks occur
iii) The insurance company is able to spread risks over a large number of insured people
iv) Surplus funds can be invested in for example, giving out loans or buying shares in real estates
v) It enables the insurance company to meet its operating costs by using the pool funds
vi) It enables the insurance company to calculate to be paid by each client
vii) It enables the company to re-insure itself with another insurance company.

Terms used in Insurance

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Insurance

This is a written contract that transfers to an insurer the financial responsibility for losses arising from insured risk.

Premium

This is the specified amount of money paid at regular intervals by the insured to the insurer for coverage against losses arising from a particular risk.

Risk

These are perils or events against which an insurance cover is taken. It is the calamity or problem a person or business faces and results into losses.

Note: The calculation of premiums depends upon the type of risk insured against. The higher the probability of the risk occurring, the higher the premium. The more the risks the business or person is exposed to the more the premiums payable.

Pure risk

This is a risk which results in a loss if it occurs and results in no gains if it does not occur. For example, if a car is involved in an accident, there will be a loss and if the accident does not occur there will be no gain or loss

Speculative risk

This is a risk which when it occurs, may result in a loss or a profit. For example, a person may buy shares at ksh.50 each, one year later the shares may be valued at ksh40 each meaning a loss of ksh.10

Alternatively, their value might not have changed or might have increased to ksh.45 each. Speculative risk lures people to venture into business in the first place.

Insured

This is the individual or the business that takes out the insurance cover and therefore becomes the policy holder

The insured pays premiums to the insurance company to be compensated should the risk insured against occur or cause loss.

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Insurer

This is the business company that undertakes to provide cover or protection to the people who suffer loss as a result of occurrence of risks

Actuaries

These are people employed by an insurance company to complete expected losses and calculate the value of premiums.

Claim

This is a demand by the insured for payment from the insurer due to some loss arising from an insured risk.

Policy

This is a document that contains the terms and conditions of the contract between the insurer and the insured. Its issued upon payment of the first premium.

Information contained in a policy includes;

- Name, address and occupation
- Policy number of the insured
- Details of risks insured
- Value of property insured
- Premiums payable
- Other special conditions of the insurance, for example nominees

Actual value

This is the true value of the property insured

Sum insured

This is the value for which property is insured, as stated by the insured at the time of taking the policy.

Surrender value

This is the amount of money that is refunded to the insured by the insurer incase the former(i.e. the insured) terminates payment of the premiums before the insurance contract matures. The policy holder is paid an amount less than the total amount of the premium paid.

Grace period

This is term allowed between the date of signing the contract and the date of payment of the first premium. During this period the insurance contract remains valid. This period is usually a maximum of thirty (30) days.

Proposer

This is a person wishing to take out an insurance cover (prospective insured)

Cover note (Binder)

This is a document given by the insurance company to an insured on payment of the first premium while awaiting for the policy to be processed. It is proof of evidence that the insurer has accepted to cover a proposed risk.

Annuity

This is a fixed amount of money that an insurer agrees to pay the insured annually until the latter's death. It occurs when a person saves a lumpsum amount of money with an insurer in return for a guaranteed payment which will continue until he/she dies.

Consequential loss

This is loss incurred by a business as a result of disruption of business in the event of the insured risk occurring.

Assignment

This is the transfer of an insurance policy by an insured to another person. Any claims arising from the transferred policy passes to the new policy holder called an assignee

Beneficiaries

These are people named in a life assurance policy who are to be paid by the insurer in the event of the insured

Nomination

This is the act of designing one or more people who would be the beneficiaries in the event of death of the insured. These people are called nominees

Average clause

This clause is usually included in policies to discourage under-insurance. The clause provides that the insured can only recover such proportions of the loss as the value of the policy bears on the property insured. It is usually included in marine or fire insurance policies.

The amounts recoverable are arrived at using the following formulae:

$$\text{Compensation} = \frac{\text{value of the policy loss}}{\text{Value of property}}$$

Example:

If a house worth kshs.800,000 and insured against fire for kshs.600,000 was damaged by fire to the tune of kshs.400,000,the insured would be compensated;

Compensation= (600,000 x 400,000)

800,00

(value insured x Actual loss)

Double insurance

This is taking of insurance policies with more than one company in respect to the same subject matter and the risk. It is significant because if one of the insurers is insolvent at the time the claim arises the insured can enforce his/her claim against the solvent insurer or if both insurers are solvent then they share compensation.

(Insolvency is a state where a business is not able to pay all its liabilities from its existing assets)

Co-insurance

This is an undertaking by more than one insurance company to provide insurance cover for the same risk for an insured. This will usually occur for properties that have great value and face great risk exposures that an insurer cannot successfully make compensation for e.g. value of aeroplanes, ships e.t.c

Co-insurance help spread risks to several insurers, each insurer covering only a certain proportion of the total value. The insurance company with the largest share is called the “leader” and acts on behalf of all the participating insurance companies’ e.g. in collecting premiums from the insured and carrying out documentation work, making claim after collecting each insurers premium contribution e.t.c

Note: Co-insurance is different from double-insurance in that in co-insurance company approaches another insurance company to help in covering the insured property while in double-insurance; it’s the insured who decides to approach different insurance companies to insure the same property against the same risk.

Re-insurance

‘Re-insurance’ means insuring again. This is a situation where an insurance company insures itself with a bigger insurance company called **le-insurer** for all or part of the risks insured with it by members of the public

Re-insurance indirectly insure an individuals risks.Re-insurance helps to reduce the burden on an insurance company when the loss is too high for a single insurer. When such losses occurs, the claim is met by both the insurer and re-insurer(s) proportionately (according to agreed percentages)

Note:

Re-insurance deal with the protection of insurance companies only, while insurance companies protect individuals and business organizations.

Factors that may make it necessary for an insurance company to Re-insure

i. **Value of property-**When the value of property is great, such as ship, the risk is too high to be borne by a single insurer
ii. **High risk of loss-**When chances of loss through the insured risks are high, it becomes necessary to re-insure.
iii. **Number of risks covered-**When the insurance company has insured many different risks, it would be too costly to compensate many claims at once, hence the need for re-insurance
iv. **Need to spread the risk-**When the insurance company wishes to share liability in the event of a major loss occurring
v. **Government policy-**The government may make a legal requirement for an insurance company to re-insure

Under-insurance

This occurs when the sum insured as contained in the policy is less than the actual value of the property e.g. A property of shs.500, 000 can be offered for insurance as having a value of shs.400, 000

Over-insurance

This is a situation where the sum insured is more than the correct value of property e.g. a person insures property of shs.300,000 for shs.600,000.If total loss occurs, he is compensated the correct value of the property i.e. that which he has lost

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Agents

These are people who sell insurance policies on behalf of the insurance company. They are paid on commission that is dependent upon the total value of policies sold

Insurance Brokers

These are professional middlemen in the insurance process. They connect the people wishing to take insurance with the insurers. They act on behalf of many different insurance firms, unlike agents. Their activities include:

- Examination of insurance market trends
- Correspondence between the insured and his clients
- Advising the insured and would be policy holders on the best policies for their property e.t.c.
  He receives a commission (reward) known as **brokerage.**

PRINCIPLES OF INSURANCE

Principles of insurance provide guidance to the insurance firms at the time they are entering into a contract with the person taking the cover. These insurance principles include:

i. Help to determine whether a valid insurance contract exists between the two parties at the time claims are made.
ii. Provide checks and controls to ensure successful operations of insurance for the benefit of both the parties

It is therefore important that a prospective insured (person wishing to take insurance policy) has basic knowledge of these principles as stated in the insurance law.

The insurance principles include;

i) Insurable Interest

This principle states that an insurance claim cannot be valid unless the insured person can prove that he has directly suffered a financial loss and not just because the insured risk has occurred.

Going by this principle one cannot insure his parents or friends or other people's property since he/she has no insurable interest in them. If such properties are damaged or completely destroyed, he/she will not suffer any financial loss.

For example, Mr.x has no insurable interest in the property of his neighbours.He does not suffer any financial loss should they be destroyed. This principle ensures that people are not deliberately destroying other people's properties/life in order for them to receive compensation.

In life insurance (life assurance) it is assumed that a person has unlimited interest in his/her own life. Similarly it is assumed that one has insurable in the life of spouse and children e.g. a wife may insure the life of her husband, a father the life of his child because there is sufficient insurable interest.

ii) Indemnity

The essence of this principle is that the insurer will only pay the "replacement value" of the property when the insured suffers loss as a result of an insured risk.

This principle thus puts the insured back to the financial position he enjoyed immediately before the loss occurred.

It is therefore not possible, then, for anybody to gain from a misfortune by getting compensation exceeding the actual financial loss suffered as this will make him gain from a misfortune.

This principle does not apply in life assurance since it is not possible to value one's life or a part of the body in terms of money. Instead, the insurance policy states the amount of money the insured can claim in the event of death.

iii) Utmost good faith (uberrima fides)

In this principle the person taking out a policy is supposed to disclose the required relevant material facts concerning the property or life to be

insured with all honesty. Failure to comply to this may render the contract null and void hence no compensation.

e.g.

-A person suffering from a terminal illness should reveal this information to the insurer.

-One should not under-insure or over-insure his/her property.

iv) Subrogation

This principle compliments the principle of indemnity. It does so by ensuring that a person does not benefit from the occurrence of loss.

According to this principle, whatever remains of the property insured after the insured has been compensated according to the terms of the policy, becomes the property of the insure.

Example

Assuming that Daisy's car is completely damaged in an accident and the insurance compensates for the full value of the loss, whatever remains of the old car (now scrap), belongs to the insurance company

Scrap metal can be sold for some values and should Daisy take the amount she would end up getting more amount than the value of the car which will be against the principle of indemnity.

Note: This principle cannot be applicable to life assurance since there is nothing to subrogate.

v) Proximate cause

This principle states that for the insured to be compensated there must be a very close relationship between the loss suffered and risk insured i.e. the loss must arise directly from the risk insured or be connected to the risk insured.

Example

i) If a property is insured against fire then fire occurs and looters take advantage of the situation and steal some of the property, the insured will suffer loss from 'theft' which is a different risk from the one insured against, so he/she will not be compensated.

However if the property burns down as a result of sparks from the fire-place, the proximate cause of the loss is sparks which are directly related to fire. So the insured is entitled for compensation.

CLASSES OF INSURANCE

Insurance covers are mainly classified into two,

1. Property (non-life) general insurance
2. Life assurance

1. Life Assurance

The term assurance is used in respect of life contracts. It is used to mean that life contracts are not contracts of indemnity as life cannot be indemnified i.e. put back to the same financial position he was in before the occurrence of loss.(life has no money value, no amount of money can give back a lost or injured life)

Life insurance (assurance) is entered by the two parties in utmost good faith and the premiums payable in such life contracts depend on:

i) **Age;** The higher the age the higher the premiums as the age factor increase the chances of occurrence of death.

ii) **Health condition;** A person with poor health i.e. sickly person pays higher premiums as opposed to one in good health.

iii) **Exposure to health risks;** The nature of a person's occupation can make him susceptible to health problems and death.

Types of policies

i) **Whole life assurance-**In whole life assurance, the assured pays regular premiums until he/she dies. The sum assured is payable to the beneficiaries upon the death of the assured.
-Whole life assurance covers disabilities due to illness or accidents i.e. if the insured is disabled during the life of the policy due to illness or accidents, the insurer will pay him/her for the income lost.

ii) Endownment policy/insurance

This is whereby the insured pays regular premiums over a specified period of time. The sum assured is payable either at the expiry of the period (maturity of policy) or on death of the insured, whichever comes first.

The insured, at expiry of policy is given the total sum assured to use for activities of his own choice.(ordinary endownment policy)

-Where the insured dies before maturity of contract, the beneficiaries are given these amounts.

Note; The assured person may be paid a certain percentage of the sum assured at intervals until the expiry of the policy according to the terms of contract. Such an arrangement is known as **Anticipated Endownment policy.**

Advantages of Endownment policies

i. They are a form of saving by the insured, for future investments
ii. Premiums are payable over a specified period of time which can be determined to suit his/her needs e.g. retirement time
iii. Where the assured lives and time policy matures, he receives the value of sum assured.
iv. Policy can be used as security for loans from financial institutions.

Differences Between a whole life policy and an Endownment policy

Whole life	**Endownment**
i) Compensation is paid after the death of the assured	**i)** Compensation is paid after the expiry of an agreed period
ii) Premiums are paid throughout the life of the assured	Premiums are paid only during an agreed period
iii) Benefits go to the dependants rather than the assured	The assured benefits unless death proceeds the expiry of the agreed

		period
iv)	Aims at financial security of dependants	Aims at financial security of the assured and dependants

iii)Term insurance

The insured here covers his life against death for a given time period e.g. 1yr, 5yrs e.t.c.

If the policy holder dies within this period, his/her dependants are compensated.

If the insured does not die within this specified period, there is no compensation.However, a renewal can be taken.

IV) Education plan/policies

This policy is normally taken by parents for their children's future educational needs.

The policy gives details of when the payments are due.

v) Statutory schemes

The Government offers some types of insurance schemes which are aimed at improving/providing welfare to the members of the scheme such as medical services and retirement benefits.

A member and the employer contribute, at regular intervals, certain amounts of money towards the scheme.

Examples

1. N.S.S.F
2. N.H.I.F
3. Widows and children pension scheme (W.C.P.S)

Annuity

Characteristics of life Assurance

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- It is a cover for life until death or for a specified period of time
- It may be a saving plan
- It is normally a long term contract and does not require an annual renewal
- It has a surrender value
- It has a maturity date when the assured is paid the sum assured bonuses and interests.
- A life assurance policy can be assigned to beneficiaries
- The policy can be any amount depending on the assureds' financial ability to pay premiums
- The policy can be used as security for a loan

2.General insurance (property insurance)

This type of insurance covers any form of property against the risks of loss or damage. A person can insure any property he has an insurable interest in

General insurance is usually divided into;

i. Fire insurance/department
ii. Accident insurance/department
iii. Marine insurance/department

i) **Accident insurance**

This department covers all sorts of risks which occur by accident and includes the following;

a) Motor policies

-These provide compensation for partial or total loss to a vehicle if the loss results from an accident.

-The policy could either be **third party or comprehensive.**

-Third party policies cover all damages caused by the vehicle to people and property other than the owner and his/her vehicle. This includes pedestrians, fare-paying passengers, cows, fences and other vehicles

In Kenya, a motor-vehicle owner is required by law to have this policy before the vehicle is allowed on the roads. One can also take a third party, fire and theft policy.

Comprehensive policy covers damages caused not only to the third party but also to the vehicle itself and injuries suffered by the owner. Comprehensive policies include full third party, fire, theft and malicious damage to the vehicle.

b) Personal accident policy

-These policies are issued by insurance companies to protect the insured against personal accidents causing;

- Injury to the person
- Partial or total physical disability as a result of the injury
- Loss of income as a result of death

-If death occurs due to an accident, the insured's beneficiaries are paid the total sum assured.

In case of a partial or total disability as a result of accident, the insured can be paid on regular periods, e.gmonthly as stipulated in the policy.

Compensation for injuries where one loses a part of his/her body can be done on a lumpsum basis.

The insured is also paid the value of hospital expenses incurred if hospitalized as a result of an accident.

c) Cash and / or Goods in Transit policies

These are policies that specifically provide cover for loss of cash and goods in transit between any two locations.

E.g. Goods and cash moved from business to the markets, from suppliers to business e.t.c

d) Burglary and Theft policies

These policies cover losses caused by robbers and thieves

Burglary policies are enforceable only if the insured has met the specified safety and precautionary measures for protection of the insured items.

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E.g.-How much money should be maintained in different kinds of safety boxes

-Positioning of each of the cash boxes is also an important precautionary measure.

NB: The control measures are aimed at reducing both the extent and probability of loss occurring

e) Fidelity Guarantee policies

These policies cover the employers against loss of money and/or goods caused by their employees in the cause of duty.

-The losses may be as a result of embezzlement, fraud, arithmetical errors e.t.c

-The policies may cover specified employees or all the employees

7) Workmen's compensation (Employer's Accident liability)

These policies provide compensation for employees who suffer injuries in the course of carrying out their duties.

The employer insures his employee against industrial injuries i.e the employer is only liable for the compensation of workers who suffer injuries at work.

f) Public liability

This insurance covers injury, damages or losses which the business or its employees cause to the public through accidents.

The insurer pays all claims from the public upto an agreed maximum

g) Bad debts

This policy covers firms against losses that might result from debtor's failure to pay their debts.

iii)Marine Insurance

This type of insurance covers ships and cargo against the risk of damage or destruction at the sea. The main risks sea vessels are exposed to include; fire, theft, collision with others, stormy weather, sinking e.t.c

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Types of Marine Insurance policies

The marine insurance covers are classified as Hull, cargo, freight and ship owners' liability.

a) Marine Hull

This policy covers the body of the ship against loss or damage that might be caused by sea perils.

Included here are any equipment, furniture or machinery on the ship.

A special type of marine hull is the part policy, which is for a specified period when the ship is loading, unloading or at service.

b) Marine Cargo

This type of policy covers the cargo or goods carried by the ship

The policy is taken by the owners of the sea vessels to cover the cargo being transported. It has the following sub-divisions.

i. **Voyage policy-**Here cargo and ship are insured for a specific voyage/journey. The policy terminates automatically once the ship reaches the destination.
ii. **Time policy-**Here insurance is taken to cover losses that may occur within a specified period of time, irrespective of the voyage taken
iii. **Fleet policy-**This covers a fleet of ships,i.e several ships belonging to one person, under one policy.
iv. **Floating policy-**This policy covers losses that may occur on a particular route, covering all the ships insured along that route for a specified period
v. **Mixed policy-**This policy provides insurance for the ship and cargo on specified voyages and for a particular period of time. No compensation can be made if the ship was on a voyage different from the ones specified even if time has not expired
vi. **Composite policy-**This is where several insurance companies have insured one policy of a particular ship especially when the sum insured is too large to be adequately covered by one insurer.
vii. **Construction policy/builders policy-**This covers risks that a ship is exposed to while it is either being constructed, tested or being delivered.

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c) **Freight policy-**This is an insurance cover taken by the owner of the ship for compensation against failure to pay hiring charges by a hirer of the ship.
d) **Third parties liability-**This is an insurance policy taken by the owner of the ship to cover claims that might arise from damage caused to other people's property.

Description of marine losses

The following are some of the losses encountered in marine insurance.

i. **Total loss,**

This occurs where there is complete loss or damage to the ship and cargo insured. Total loss can be constructive or actual.

In **Actual total loss,** the claims are as a result of the ships and/or cargos complete destruction. It could also occur;

-When a ship and its cargo are so damaged that what is salvaged is of no market value to both the insurer and the insured.

-When a ship is missing for a considerable period of time enough to assume that it has sunk.

-**Constructive total loss occurs** when the ship and/or cargo are totally damaged but retrieved. It may also occur;

-Where a ship and its cargo are damaged but of market value. This could be as a result of decision to abandon the ship and cargo as the probability of total loss appears imminent.

-If the cost of preventing total loss may be higher than that of the ship and its cargo when retrieved e.g many lives may be lost in the process of trying to prevent total loss.

ii) **General average-**This is a loss that occurs as a result of some of the cargo being thrown into the sea deliberately to save the ship and the rest of the cargo from sinking. The losses made are shared

by the ship owners and the cargo owners proportionately as the effort was in the interest of both.

iii) **Particular average-**This occurs where there is a partial but accidental loss to either the ship or the cargo. When this happens each of the affected party is soldy responsible for the loss that has occurred to his property. A claim can, however be made if the loss incurred amounts to more than 3% of the value insured.
Fire insurance-This type of insurance covers property damage or loss caused by accidental fire. Cover is offered to domestic commercial and industrial premises, plant and machinery, equipment, furniture fittings stock e.t.c

-In order to claim for compensation as a result of loss by fire, the following conditions must be fulfilled;

- Fire must be accidental
- Fire must be immediate cause of loss
- There must be actual fire.

There are several types of types of fire insurance policies. These include;

a) **Consequential loss policy;(profit interruption policy)**

This covers or compensates the insured for the loss of profit suffered when business operations have

It is offered to protect future earnings of an enterprice after fire damage.

b) **Sprinkler leakage policy-**This provides cover against loss or damage caused to goods or premises by accidental leakages from fire fighting sprinklers
c) **Fire and Related perils policy-**This covers buildings which include factories, warehouses, shops, offices and their contents. The policy does not cover loss of profit arising from fire damage.

CHARACTERISTICS OF GENERAL INSURANCE

- It’s a contract of indemnity
- It cannot be assigned even to ones relatives
- The insured must have an insurable interest in the property to be insured
- Premiums charged depends on the degree of risk, the higher the premium charged.

- Compensation for loss can only be upto a maximum of the value of the insured property or the sum insured in case of under insurance.
- It has no surrender value
- It's normally a short term contract which can be renewed periodically, usually after one year.

Factors to be considered when Determining Premiums to be charged

- Health of the person
- Frequency of occurrence of previous losses
- Extent of the previous losses
- Value of the property insured
- Occupation of the insured
- Age of the person or of the property in question
- Location of the insured(address and geographical location)
- Period to be covered by the policy
- Residence of the insured.

Procedure for taking a policy

i) Filling a proposal form
ii) Calculation of the premium to be paid
iii) Issuing of cover note (Binder)
iv) Issuing of the policy

Procedure of claiming compensation

i) **Notification to the insurer-**The insurer has to be notified about the occurrence of any incident immediately.
ii) **Filling a claim form-**The insurer provides the insured with a claim form which he fills to give details of the risk that has occurred
iii) **Investigation of the claim-**The insurer arranges to investigate the cause of the incident and to assess the extent of the loss incurred. The insurer is then able to establish whether the insured is to be compensated and if so, for how much.
iv) **Payment of claim-**On receipt of the report of the assessor, the insurer pays the due compensation to the insured. (Payment of the

compensation shows that both the insurer and the insured have agreed on the extent of the loss and the payment is the settlement of the claim)

INSURANCE AND GAMBLING

In most cases, insurance is erroneously taken to be the same as gambling in that small amounts are contributed by many people into a common fund which later benefits just a few people. They are however different and their differences include;

Insurance	**Gambling**
-The insured must have insurable interest	-A gambler has no insurable interest
-Reinstates the insured back to the financial position just before loss	-Aims at improving the winners financial position
-The insured is expected to pay regular premiums for the insurance cover to remain in force	-Gambling money is paid only once
-Insurance involves pure risks	-Gambling involves speculative risks
-The event of loss might never occur	-The event of bet must happen to determine the winner and the loser.

PAST KCSE QUESTONS

1. 1995 Describe the procedures that should be followed when taking an insurance policy.

(10mks)

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2. 1996 explain four ways in which the insurance industry promotes the growth of business enterprises.
(5mks)

3. 1997 Explain four ways in which the insurance industry contributes to the development of Kenya's economy.
(10mks)

4. 1998 Discuss various insurance policies under which an insurance company would not compensate the insured in the event of the loss.
(10mks)

5. 1999 Discuss various insurance policies that the owner of a supermarket may find it useful for the business.
(12mks)

6. 2000 Explain four benefits of the 'pooling of risks' to an insurance company.
(8mks)

7. 2001 Explain the factors that may make it necessary for an insurance company re-ensure.

8. 2002 Explain the meaning of the following terms as used in insurance
(10mks)

i) Uberrimae fidei

ii) Indemnity

i) Third party motor vehicle insurance

iv) Contribution.

v) Subrogation

9. 2003 Discuss four circumstances under which an insurance contract may be terminated.

(8mks)

10. 2004 Explain five benefits that could be enjoyed by a person who decided to take out an endowment policy.
(10mks

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