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Mid Term Assignment

**Iqra National University**

**Q1. Write down the detail history of Insurance from the beginning uptil now?**

**Answer:**

**Insurance:** In simple words it is safeguarding yourself from any financial loss in which you handle, control the risk and it is utilized in a way to finance the unexpected loss if occurs.

**History of Insurance**

The concept of insurance was emerged from China. As Chinese traders or dealers used to travel dangerously because they used to carry their goods and export them to other places by river and they scared that their goods could be lost, robbed on the way. In order to reduce the risk of loss they started distributing their products among number of containers, boats so that they could reduce the loss of carrying all the commodities in one ship, boat. The loss could happen if the single ship would tumble or collapsed. So this way they attempted to decrease the chance of loss of their goods. In 1750 Babylonians formed a system which was registered as code of Hammurabi 1750 and was an agreement. It was mentioned that if a trader borrows money from lender or usurer to finance his shipment or for the delivery of his commodities, he should pay some extra amount to usurer for a guarantee to overcome the loan in case the shipment is lost or robbed. As the goods could be robbed during its transportation, shipment through ships on the sea. The people of Rhodes generated a concept which was all merchants would share any losses incurring from transportation of goods. Therefore, the groups of merchants paid a collective amount in order to insure their commodities would be transported together or for the collective shipment of their products. The amount would be utilized to compensate the loss of any trader who loses his commodities during shipment because of any storm, wind, robbery or any other natural disaster. Different insurance agreements were formulated in Genoa and group of merchants, smalls firms were joined together to secure better insurance rates and were backed by undertaking land properties. The first insurance agreement took place in Genoa in 1347. Later on marine insurance was introduced that covered the loss of any harm to ships, cargo. Insurance became more advanced as time proceeded. Lloyds Coffee House was a place in London where merchants used to meet and discussed about their shipping of goods, damages that could probably happen to their commodities, they discussed marine insurance. Dealings relevant to insurance took place. Later on proper insurance agreement was introduced when 13000 houses burned in 1666 and is called the great fire of London. Property insurance covered the losses happened to property, land. The first fire insurance company was found in 1681. In 1911 proper agreement of insurance by the name of National Insurance Act London emerged. This national insurance used to insure and provide health insurance to different companies employees where employees’ health used to be insured. Later in 1696 hand in hand fire and life insurance was developed at Tom’s Coffee house in London. It was a method of insurance that insured the loss and damages incurred to buildings, homes, apartment due to fire. The life insurance covered the financial loss from a person’s death by providing monitory fund to the family. Many other insurance policies were introduced later.

As we know today there are many forms of insurance. When you purchase insurance, you see lots of people paying money to insurance company. The amount is utilized by the insurance companies and the customers, entities that are insured can claim for the loss. The risk, losses are shared. The purchaser of insurance obtains a policy which is a legal agreement that includes what you buy, what is covered, the premium amount and every relevant thing. Most of the business are insured even most of the people have insure themselves nowadays.

**Q2. Explain all old and and new methods of Insurance. Furnish your answer with modern day examples. Moreover, give two examples at least for each method.**

**Answer:**

**Old Methods of Insurance**

1. Distributions of goods to a number of containers, ships to reduce the risk were practiced.
2. Introduction of code of Hammurabi which was an agreement. A method was used that borrower had to pay the extra amount to usurer or lender in case the shipment is lost as merchants used to borrow money from lender.
3. Collective amount was collected from merchants. The amount was used to compensate the loss of any merchant who lost his commodities.
4. Marine insurance method was introduced that covered the loss of ships, cargo. This method was usually discussed when merchants gathered in Lloyds Coffee Shop.
5. Property and Fire insurance was introduced after great fire of London where 13000 houses, building were burned.
6. National Insurance Act London 1911 where health insurance method was introduced.

**New methods of Insurance**

1. **Co­-insurance**

 It is the money or monetary value a person pays for the service he/ she receives after deductible which is the money being paid by the insured person before the insurance company does the payment. Co-insurance is the proportion of something you purchase or a bill which you have to pay. It is the cost shared between the person who is insured and the insurance company. Co-insurance is the percentage of charges, expenses that is divided between the individual who is insured and the insurance company.

**Example 1**

Ali is a heart patient. He has insured himself in Health Insurance Company. The percentage of his medical and health expenses shared between the company and Ali is 70/30 because he bears a health insurance policy with 70/30 co-insurance. It means that 70% of his health expenses are paid by insurance company and the remaining 30% is paid by him. Ali recently operationed his heart. The total expenses incurred were 5 lac rupees. Out of total 5 lacs Ali paid Rs. 150000 and the remaining Rs. 350000 was paid by the health insurance company.

**Example 2**

Adeel has insured himself in a health insurance company and has a health insurance contract of 80/20. Every time he visits the clinic for checkup. He pays the deductible 20% of 100% and the rest is paid by the insurance company under the legal policy and contract.

1. **Dual Insurance**

It is also called double insurance or paired insurance. When something or a subject that matters is insured by two insurers or insurance companies. It is said to be dual insurance. The individual insures the risk of his business to two insurance companies and two insurance policies. At the time of loss the insured can ask the insurers and can claim the amount for the loss. The insured cannot claim and does not receive money more than the real or actual cost. The amount provided by the insurance companies would not be more than the actual cost. Everything is according to their policies.

**Example 1**

Ahmad has made fire insurance policy over his commodities for two lacs. The individual has made two lacs insurance policy from Mr. A and 2 lacs from Mr. B and pays the amount to both of them. Therefore, we can say that Ahmad has made a dual insurance. He has purchased an insurance policy of 2 lacs. If Ahmad makes a loss of 2 lacs, he cannot recover 2 lacs from A and 2 lacs from B separately. He can recover half portion of his loss from Mr. A and half from B. This way he can recover the total 2 lacs not more than that, because the motive or purchase of insurance is to recover that loss not more than that to make profit.

**Example 2**

Haseeb insures his house against fire for Rs.100000 with United insurance company and Rs.50000 with Adamjee insurance company. Now if Haseeb’s house gets fire and face a loss of Rs.150000. Here he can recover that loss of Rs.150000 from these insurance companies under their policies but cannot get more the actual cost. He can claim Rs.100000 from United insurance while Rs.50000 from Adamjee insurance company.

1. **Self-Insurance**

By self-insurance we mean that it is a circumstance where an individual, firm does not insure itself to an insurance company. The firm, customer bears all the risk itself for the loss that could happen. Here the firm or individual preserve a sufficient amount with itself separately in order to utilize and cover the loss that may occur to him or to firm. It could be any kind of loss and loss solely refers to the firm or the individual.

**Example 1**

The landlord of a property who owns an apartment does not opt to insure its property to an insurance company. His apartment may face damages due to earthquake. He saves and keeps money for its repairment with himself if his apartment faces any loss he will be able to repair it.

**Example 2**

An individual does not insure himself to a health insurance company, policy. Instead he keeps an amount of money with himself so that he could utilize it to cover his medical treatment and expenses.

1. **Reinsurance**

It is a kind of insurance that insurance companies purchase to reduce the risk, loss that could possibly occur. The benefit of reinsurance is that it helps insurer financially, because it prevents big losses in terms of monitory that could possibly the insurer suffers. Insurance companies use reinsurance. The need for reinsurance comes in to existence when the insurance companies insure the property they think is more risky. Therefore, the insurance company insures the property to another insurance company again and this time an insurance company takes insurance from another insurance company.

**Example 1**

I insure my house against fire for Rs.100000 to Adamjee insurance company. Adamjee insurance company in order to be safer, reduce the risk and to be safe from any liability under the agreement reinsures a part of my house to United insures company.

**Example 2**

A has a property and has insured it with insurance company B. Here insurance company B thinks that it is more risky therefore insures the property again to another insurance company C. Original insured is A, B is reinsured while C is the insurer.