

Guide To The Common Insurance Products



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN



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**Guide To The Common
Insurance Products**

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GUIDE TO THE COMMON INSURANCE PRODUCTS

1 AUTO INSURANCE

There is a legal requirement that every car owner must have at least some kind of third party liability insurance to compensate the losses and take care of the needs in the event of an accident. The scope of this cover is to pay compensation for death of or bodily injuries to third parties, while the Insured is treated as the first party and the Insurance Company second party, all others would be third parties. Before purchasing auto insurance, car owner must consider a variety of factors including what kind of car he own, his driving record and the amount of money he is willing to pay.

Types of Insurance

There are three basic types of cover;

- **Comprehensive Insurance**
This is the widest form of cover; the policyholder is protected against financial losses of all kinds, accidental loss to vehicle, theft of car and third party liability claims. Comprehensive insurance, besides covering accidental damage & collision, also covers overturning, fire, theft and natural disaster including earthquake & hail.
- **Third Party Motor Vehicle Insurance**
This cover protects the policyholder from all financial losses arising due to accidental damage liability of all forms to third party, property damage or bodily injury, death or both.
- **Act only Liability Insurance**
This cover meets the minimum legal insurance requirement. In this cover the policyholder is protected against financial

losses due to liability of accidental bodily injury or death to third party.

List of coverage for each type of policy

Coverage	Act Only Liability Policy	Third Party Motor Policy	Comprehensive Policy
Third Party Personal Injury & Death	✓	✓	✓
Third Party Property Damage	✗	✓	✓
Theft / Own Damage, Constructive Total Loss	✗	✗	✓

Tips on Buying Right Auto Insurance Policy:

Firstly as soon as a car is purchased, the owner must buy an insurance cover. If a used car is purchased, the new owner needs to know that the cover of the previous owner is null and void, as it is non-transferable. The insured value or sum insured depends on the market value of the vehicle. Underinsurance or over-insurance occurs when this value is not correctly mentioned.

Over insurance occurs when sum insured is higher than the market value, maximum compensation is the market value of the vehicle. Under insurance occurs if sum insured is less than the market values, you are as self-insuring the difference. In the event of a loss, you will only be partially compensated.

Average clause is applied when you suffer damage to your vehicle which is under insured. Your claim will be reduced proportionately by the uninsured portion, e.g. if you have insured your vehicle up to 70% of the market value, the insurance company will only pay 70% of total repair cost.

Reporting an Accident


After an accident, you should inform your insurer as quickly as possible, to help you complete a claim form, determine what exactly happened and evaluate any damages or injuries. Your insurer then will contact and appoint insurance surveyor, whose job is to work with you to fix the problem. While compensating you for auto repairs or medical expenses is easy and immediate, determining liability is more complicated. The surveyor will begin the settlement process, the length of which will depend on the cooperation of the other party.

The amount of compensation for your loss can vary according to the surveyor's analysis of the damage. You do not have to accept the first amount of money you are offered, if it is lower than the cost of your repair or recovery. While you may have to do some homework to prove your reported loss is valid, it's worth it to be certain your insurer lives up to the provisions of your policy.

2 FIRE INSURANCE

Fire insurance is a form of property insurance which protects people from the costs incurred by fires. When a structure is covered by fire insurance, the insurance policy will pay out in the event that the structure is damaged or destroyed by fire. Some standard property insurance policies include fire insurance in their coverage, while in other cases, fire insurance may need to be purchased separately. Property owners should check with their insurance companies if they are not sure whether or not fire insurance is part of their policies, and if fire insurance is not included, it should be purchased.

Depending on the terms of the policy, fire insurance may pay out the actual value of the property after the fire, or it may pay out the replacement value. In a replacement value policy, the structure will be replaced in the event of a fire, whether it has



depreciated or appreciated: in other words, if homeowners purchase a home and the value increases, as long as it is covered by a replacement value policy, the insurance company will replace it. An actual cash value policy covers the structure, less depreciation. Most accounts come with coverage limits which may need to be adjusted as property values rise and fall.

Depending on the terms of the policy, the contents of the home as well as the structure may be covered in the event of a fire. Some policies also provide a living allowance which allows the victims of a fire to rent temporary housing while their homes are repaired. These clauses in an insurance policy typically cause the policy to become more expensive, since they will represent additional costs to the insurance company in the event of a fire. However, they can be extremely useful if a fire occurs.

The cost of fire insurance varies widely. The use of fire alarms, sprinkler systems, and other safety measures can decrease the cost of the policy, and may even be required for some policies. The existence of a property in a region / area prone to this risk will increase the cost of the insurance, as the risk of a payout is greatly increased.

When purchasing fire insurance, people should be aware that some types of fires may not be covered. For example, a fire caused by an earthquake might be excluded from a fire insurance policy, as might a fire caused by an act of God. It is important to read the terms of the policy carefully, and to ask for clarification from the insurance representative if the terms are not clear. If a policy does not appear to meet the need, it should be renegotiated until it is satisfactory.

3 **MARINE INSURANCE**

Marine Insurance covers the loss or damage of ships, cargo, terminals, and any transport by which property is transferred, acquired, or held between the points of origin and final destination.

Marine also includes Onshore and Offshore exposed property (container terminals, ports, oil platforms, pipelines); Hull; Marine Casualty; and Marine Liability.

Common Products

Following products are commonly available from the insurers:

➤ **Marine Hull Coverage**

This policy covers losses / damages to the shell and machinery of the vessel caused by maritime perils. This insurance policy may cover the following perils,

- Perils of the seas, rivers, lakes or other navigable waters,
- Fire and explosion,
- Violent theft by outside persons: Jettison or Piracy,
- Contact with land conveyance, dock or harbor equipment or installation,
- Earthquake, Volcanic eruption or lightning,
- Accidents in loading, discharging or shifting cargo or fuel,
- Bursting of boilers, breakage of shafts or any latent defect in the machinery or hull,
- Negligence of Master Officers, Crew or Pilots,
- Negligence of repairers or charterers,
- Barratry of Master Officers or Crew Contact with aircrafts, helicopters or similar objects, or objects falling there from,
- Salvage charges when general average is declared.

➤ **Marine Cargo Coverage**

Marine Cargo coverage provides protection against losses or damages pertaining to cargo / freight during transit by sea, air, road and rail. The policy may provide all risks coverage as well as coverage for limited risks depending upon the needs of the customers.

➤ **Marine Umbrella Coverage**

Marine Umbrella Liability is a broad spectrum cover offering protection against liabilities to shipping / logistics and transport related companies. This insurance could be of substantial benefit to Ship or vessel Operators, Freight Forwarders, Road Transport Operators, NVOC, Railway Operators, Carriers by Air, Ware house Depot operators, Ship agents, Brokers and the services associated with shipping transportation, Terminal Operators, Stevedores Operators, Operators of Container/Trailer, Storage and Repairers, Port Harbors or Port Authorities.

4 MISCELLANEOUS INSURANCE

This class of insurance business encompasses various types of insurance coverage including but not limited to the following:

➤ **Cash Insurance**

The cash policy is designed to cover Cash in Safe, Cash in Transit and Cash in Counter.

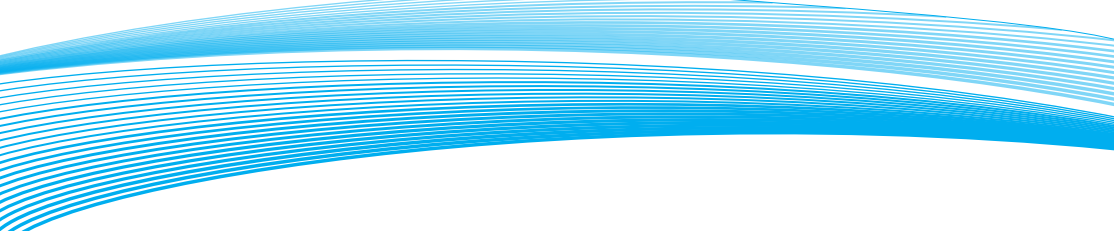
➤ **Fidelity Guarantee Insurance**

This policy covers misappropriation or embezzlement committed by a permanent employee of the organization during the course of his employment.

- **Householder's Comprehensive Insurance**
This insurance policy is available to provide cover to building of a bungalow or an apartment. It covers the entire furniture, fixture, electronic items, carpets, etc.
- **Neon Sign**
The advertisement neon sign can be covered under insurance against perils like fire, accidental damage and others.
- **Plate Glass**
The expensive plate glass may be covered under insurance against perils like fire, accidental damage, burglary, riot and strike and others.
- **Travel Insurance**
Travel Insurance covers medical expenses and financial (such as money invested in nonrefundable pre-payments) and other losses incurred while traveling, either within one's own country, or internationally.
- **Others**
Others may include Workman Compensation, General Public Liability, Product Liability, Aviation Insurance and Baggage Insurance etc.

5. HEALTH INSURANCE

Health insurance is an inevitable part of modern life due to extremely expensive medical care. Health insurance can be a vital source of funds while waiting for a personal injury claim to be processed.. However health insurance costs rise day by day and the majority of the population still do not avail health insurance cover. All reputable health insurance companies provide various health insurance plans and



programs according to the needs of people falling in various income groups.

Types of Health Insurance

- Individual health insurance,
- Family health insurance and
- Group health insurance.

Higher health insurance premiums which is to be paid every month and the process of purchasing individual health insurance are the main differences between individual health insurance and family and group health insurance.

While purchasing individual health insurance one has to pass medical examinations and answer certain set of questions concerning his/her state of health. Family health insurance is designed to provide medical care for married couples and their children. Group health insurance is usually provided by employers to their staff to enable employees receive medical help and health care they need without paying out high premiums every month. Group health insurance coverage is considered to be the most affordable as the spouse and the children can also be included.

Choosing a Health Plan

Following steps would be helpful in buying a health plan.

- It is very important to choose a reputable and experienced health insurance company to be sure that all necessary health care services will be provided when needed.
- Search for appropriate health insurance quotes, compare them in order to see what is more available to you.
- Before purchasing any health insurance plan also consider

the factors such as health insurance coverage. There are two types of coverage: basic and comprehensive.

- i) Basic health insurance coverage covers only hospitalization and surgery care costs.
 - ii) Comprehensive health insurance coverage is much more expensive in comparison with basic coverage and covers preventive care, regular check-ups and prescription drugs.
- Before signing any agreements and health insurance policy, make sure that both the health insurance company and its agents are licensed.
 - Don't hesitate to ask any questions concerning health insurance policy, plan or coverage.
 - Sign your policy only if you understand every word written in it.

6 LIFE INSURANCE

Life insurance or life assurance is a contract between the Policyholder and the insurer, where commonly the insurer agrees to pay to the nominated beneficiary a sum of money upon the occurrence of the assured person(s)' death or any other defined event such as 'terminal illness' or 'critical illness', in return the policyholder agrees to periodically pay to insurer an appropriate premium.

The fundamental purpose of Life Assurance is to provide money to meet financial losses caused by death, disability and illnesses. However, Life Assurance policies may also provide investment benefits that is, money payable on survival of the life assured rather than only on death. In some circumstances you can also have policies that pay out benefits if the policyholder suffers a critical illness. There are two main elements of Life Assurance. These are:

- i. Protection - Financial support to the dependents of assured after his death.
- ii. Investment - Return on the premiums invested with the insurer.

A life assurance product can be made up of either first or both of these two elements. Life Assurance policies are paid for by premiums. A premium is made up of five elements.

- i. Basic Premium
- ii. Extra Ratings: The amounts levied for the sub-standard risk profile
- iii. Contingencies: Cushion amount for the worst loss scenario.
- iv. Expenses: Management of Insurance Organization.
- v. Profits: The ultimate share left for the insurer for putting in order the whole venture.


The Proportion of each element mentioned above, varies according to the type of policy.

Types of Life Insurance

All policies are not the same. Some give coverage for your lifetime and others cover you or a specific number of years. Some build up cash values and others do not. Some policies combine different kinds of insurance, and others let you change from one kind of insurance to another. Some policies may offer other benefits while you are still living. Your choice should be based on your needs and what you can afford.

Buying Life Insurance

When you buy life insurance, you want coverage that fits your needs. First, decide how much you need - and for how long - and how much you can afford to pay. Keep in mind the major reason you buy life insurance is to cover the financial effects of unexpected or untimely



death. Life insurance can also be one of many ways you plan for the future.

Next, learn what kinds of policies will meet your needs and pick the one that best suits you, your family size and economic conditions. Then, choose the combination of policy premium and benefits and match up to protection in case of early death, or benefits in case of long life, or a combination of both.

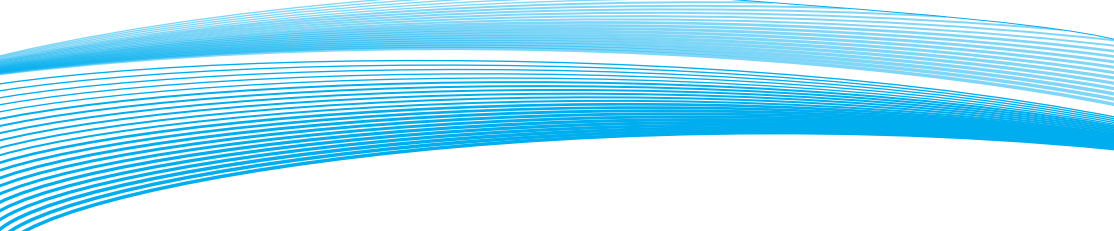
It makes good sense to ask an Insurance Company's representative to help you. An agent can help you review your insurance needs and give you information about the available policies. If one kind of policy does not seem to fit your needs, ask about others.

Term Assurance

Term Insurance covers for a term of one or more years. It pays a death benefit only in case of death during the term. Term insurance generally offers the largest insurance protection for premium. It does not build up a cash value and the premiums are fully consumed up to the completion of term.

Most term insurance policies can be renewed for one or more terms even if insurer health has changed. Each time one renews the policy for a new term, premiums may be higher. Ask what the premiums will be if you continue to renew the policy. Also ask if you will lose the right to renew the policy at some age. For a higher premium, some companies will give you the right to keep the policy in force for a guaranteed period at the same price each year. At the end of that time you may need to pass a physical examination to continue coverage, and premiums may increase.

You may be able to convert a term insurance policy into a cash value during a conversion period - even if you are not in good health.



Premiums for the new policy will be higher than you have been paying for the term insurance.

Cash Value Life Insurance

Cash Value Life Insurance is a type of insurance where the premiums charged are higher at the beginning than they would be for the same amount of term insurance. The part of the premium that is not used for the cost of insurance is invested by the company and builds up a cash value that may be used in a variety of ways.

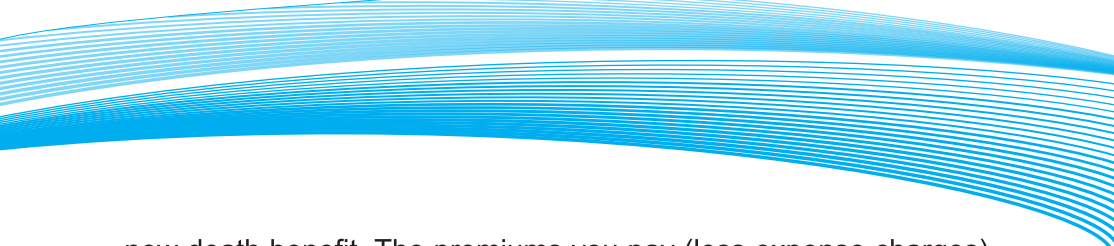
You may borrow against a policy's cash value by taking a policy loan. If you don't pay back the loan and the interest on it, the amount you owe will be subtracted from the benefits when you die, or from the cash value. You can also use your cash value to keep insurance protection for a limited time or to buy a reduced amount without having to pay more premiums. You also can use the cash value to increase your income in retirement or to help pay for needs such as a child's tuition without canceling the policy. Cash value life insurance may be one of several types; whole life, universal life and variable life are all types of cash value insurance.

Whole Life Insurance

Whole Life Insurance covers you for as long as you live if your premiums are paid. You generally pay the same amount in premiums for as long as you live. When you first take out the policy, premiums can be higher than you would pay initially for the same amount of term insurance. But they are smaller than the premiums you would eventually pay if you were to keep renewing a term policy until your later years.

Universal Life Insurance

Universal Life Insurance is a kind of flexible policy that lets you vary your premium payments. You can also adjust the face amount of your coverage. Increases may require proof that you qualify for the



new death benefit. The premiums you pay (less expense charges) go into a policy account that earns profit. Charges are deducted from the account. If your yearly premium payment plus the profit your account earns is less than the charges, your account value will become lower. If it keeps dropping, eventually your coverage will end. To prevent that, you may need to start making premium payments, or increase your premium payments, or lower your death benefits. Even if there is enough in your account to pay the premiums, continuing to pay premiums yourself means that you build up more cash value.

Variable Life Insurance

Variable Life Insurance is a kind of insurance where the death benefits and cash values depend on the investment performance of one or more separate accounts, which may be invested in mutual funds or other investments allowed under the policy. Be sure to get the prospectus from the company when buying this kind of policy and study it carefully. You will have higher death benefits and cash value if the underlying investments do well. Your benefits and cash value will be lower or may disappear if the investments you chose didn't do as well as you expected. You may pay an extra premium for a guaranteed death benefit.

Important Things to Consider

Review your own insurance needs and circumstances.

- Choose the kind of policy that has benefits that most closely fit your needs. Ask an agent of a company to help you.
- Be sure that you can handle premium payments. Can you afford the initial premium? If the premium increases later and you still need insurance, can you still afford it?
- Don't sign an insurance application until you review it carefully to be sure all the answers are complete and accurate.

- Don't buy life insurance unless you intend to stick with your plan. It may be very costly if you quit during the early years of the policy.
- Don't drop one policy and buy another without a thorough study of the new policy and the one you have now. Replacing your insurance may be costly.
- Read your policy clauses carefully. Ask your insurer about anything that is not clear to you.
- Review your life insurance program with your insurer every few years to keep up with changes in your income and your needs.

Life Insurance Illustrations

You may be thinking of buying a policy where cash values, death benefits, bonuses or premiums may vary based on events or situations the company does not guarantee (such as interest rates). If so, you may get an illustration from the agent or company that helps explain how the policy works.

The illustration will show how the benefits that are not guaranteed will change as interest rates and other factors change. The illustration will show you what the company guarantees. It will also show you what could happen in the future.

Remember that nobody knows what will happen in the future. You should be ready to adjust your financial plans if the cash value doesn't increase as quickly as shown in the illustration. You will be asked to sign a statement that says you understand that the growth impact given in the illustration is assumed and may differ from the actual.



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