

An Introduction to Insurance

The purpose of insurance is to protect the financial well-being of you and your dependents in the case of unexpected loss. There are many different types of insurance; some forms are required by law and some are optional. When you agree to the terms of an insurance policy, you are creating a contract between yourself and the company. You pay the company periodic payments, called premiums, and in return the company will pay you a sum of money upon the occurrence of a specific event.

Once you have contacted an insurance company and asked about the different policy types they offer, you'll receive a quote which outlines the total amount of money you'll need to pay over the term of the policy. After you have agreed to pay this amount and the insurance company has agreed to insure you, you'll receive a copy of the policy listing the terms and conditions of the policy.

In the unfortunate event that an insured incident occurs, you'll make a claim for the payment from your insurance company. You'll receive the amount for which incident you are insured, minus a deductible that you must pay for each claim. When purchasing insurance coverage, it's important to keep in mind that higher deductibles are associated with lower premiums and vice versa.

Choosing the right type(s) of insurance and coverage is a very important part of managing your money efficiently. Paying too much for insurance or for insurance you don't need can drain on your finances. Carefully research all potential insurance policies based on your own needs at the time of purchase and throughout the term of the policy. Try to select an insurance company with a good independent rating from Standard & Poors or another leading rating service. This is a good idea because it can tell you whether the company is likely to be able to payoff claims in the event of a disaster where they could be saddled with an abundance of payouts. When deciding on an insurance company, look for information on their customer service. Recommendations from friends, family or the company's website are always helpful.

Source: "Insurance Basics" by InvestorGuide