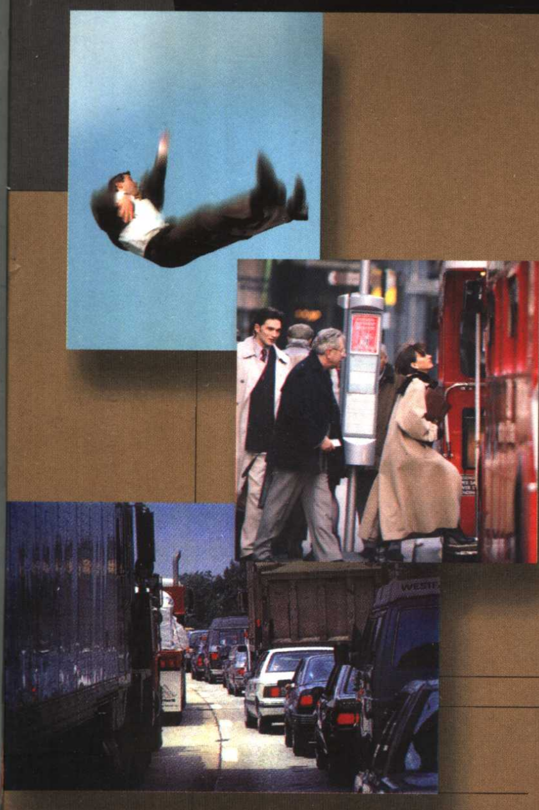
GENERAL INSURANCE

保险系列教材

Southwestern University of Finance & Economics Press

袁建华 编著

郭颂平 主审



Essence of Insurance

The Principle of Insurable Interest

The Principle of Utmost Good Faith

The Principle of Proximate Cause

The Principle of Indemnity

Property Insurance

Life Insurance

Structure of Insurance Company

Regulation of Insurance

西南财经大学出版社

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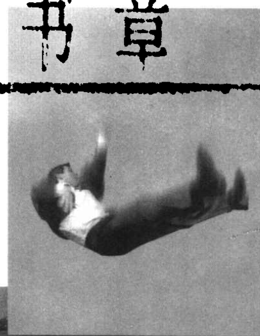

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前　言

本教材是为了适应金融高等院校的教学要求,培养更多的跨国型、应用型金融与保险专业人才而编写的双语教材。本教材适合金融与保险专业本科学生使用,也可作为保险公司管理人员的培训教材、各保险公司高层次专业人员的出国前培训教材和专业英语选拔考试的参考教材;同时也适合各高等院校英语专业的学生以及有兴趣自学金融与保险专业知识的学生自学使用。

本教材共有12章,内容包括风险与保险、保险的职能与作用、保险的基本原理等。除了正常的课文注解、课后练习之外,还在课后增加了案例分析,以便学生课堂讨论或课后分析这些案例。为了方便学生课前预习,本书在附录中列出了保险专业术语和专业英语词汇。学生通过对该双语课程的学习,能提高阅读金融与保险方面英文原著的能力,更多地了解国外的金融与保险市场,进而更多地了解金融与保险方面最前沿的理论与实务,为我国金融与保险业的进一步发展做出贡献。

本书在编写过程中,得到了广东金融学院副院长郭颂平教授、副院长杨海涛教授、保险系系主任刘连生教授以及教务处宋启林处长的关心与支持;同时,本书在出版过程中,还得到了西南财经大学出版社方英仁总编的大力支持;在此谨向他们表示衷心的感谢。

由于编者水平有限,书中难免有不妥之处,希望使用本书的教师和学生以及广大读者提出宝贵的意见。

袁建华

2007年6月

Preface

This textbook is edited and written on the base of *Insurance English*, published by the Weather Publishing House in Beijing in 1998 and on *a Brief Introduction to Insurance*, published by the Southwestern University of Finance & Economics Press in 2005. The author revised some phrases, paragraphs in each chapter and put more updated insurance information in each chapter, especially added more paragraphs and more chapters in the textbook.

Totally there are 12 chapters in the textbook. The main contents include risk and insurance, the basic principle of insurance, insurance contract, property insurance, life insurance, reinsurance, insurance market, the structure of insurance companies and the insurance regulation, etc. Besides the normal "Notes to the Chapter" and Exercises of each chapter arranged at the end of each chapter, some practical case studies are added at the end of it in order to be discussed and analyzed by the students in class or after class. Vocabulary and Special Terms are edited as appendix in order to be learned by readers in their spare time.

This textbook is compulsory for the students of finance and insurance. It can be used as the training textbook for the insurance employees who are engaged in international insurance business in the insurance companies in China. It can also be used as the examination book for those who are going abroad for a short training class for insurance in foreign countries, especially in European countries.

During the edition and compile of this textbook, Guo Songping, professor & vice president of Guangdong University of Finance, Yang Haitao, professor & vice president of this university, Liu Liansheng, professor & dean of Insurance Department and Song Qilin, director of Educational Administration Division have given me a lot of valuable suggestions and opinions. In the process of publishing the textbook, Fang Yingren, general editor of the Southwestern University of Finance & Economics Press gave me strong supports. I would like to offer my sincere thanks to all of them.

Yuan Jianhua
June 2007

Contents

Contents

Chapter 1 The Nature of Risk

Section 1 The Meaning of Risk

Risk refers to the cause of a result or an outcome. In this way, we can say that fire is a risk, theft is a risk and personal injury is a risk and so on.

What is the meaning of risk? Some American scholars have given a number of definitions about risk in the following.

Risk is the possibility of an unfortunate occurrence. Risk is a combination of hazards. Risk is unpredictability: the tendency that the actual results may differ from predicted results. Risk is uncertainty of loss or the possibility of loss.

After studying the definitions, we know that there does seem to emerge some kind of common thread running through each of them. Firstly, there is an underlying idea of uncertainty, what we have referred to as doubt about the future. Secondly, there is the implication that there are differing levels or degrees of risk. Thirdly, there is the idea of a result having been brought by a cause or causes.

1.1 The Uncertainty

Uncertainty means not certain about something. Uncertainty can exist in the abstract. It exists not depending on whether you recognize it or not. It always exists around us. For example, if a child is playing in the middle of a busy road, what will happen to him? If a workman is using a machine while he is unaware that it is faulty and dangerous, what would happen to him? If a pedestrian is unaware that a wall running alongside a pavement is in a dangerous condition and about to collapse, what will happen to him? There are elements of risk and uncertainty in all of these situations. We may say that the child may escape from an accident, not to be injured by a car, the machine may hold out until the workman has finished using it and the wall may not collapse and injure the passerby. Otherwise, there could be serious injury or death to the child, to the workman and to the pedestrian.

1.2 The Basic Element of Risk

We have studied the concept of uncertainty and know the fact that there are different levels of risk and the final component of risk is the cause of the eventual loss.

We often use the word "risk" to mean both the event which will give rise to some loss and factors which may influence the outcome of a loss. When we think about cause, we must be clear that there are at least these two aspects to it. For example, a house on the riverbank and it faces the risk of flood. If flood happens, it will cause the loss or damage of the house.

Perils will give rise to the loss or damage. It is often beyond the control of anyone who may be involved. The peril is the prime cause of the loss.

Flood is the peril and the house near to the bank of the river is the hazard. The peril is the prime cause. It will give rise to the loss or damage. Often it is beyond the control of anyone who may be involved. In this way, we can say that the storm, lightning, fire, theft, motor accident and explosion are all perils.

Hazard will influence the outcome. These hazards are not themselves the cause of the loss, but they can increase or decrease the effect if a peril operates. The consideration of hazard is important when an insurance company is deciding whether or not it should insure some risk and what premium to charge.

Loss means the reduction of financial value non-deliberately, unexpectedly. It includes direct loss and indirect loss.

Hazard can be physical or moral.

Physical hazard: physical hazard relates to the physical characteristics of the risk, such as the nature of construction of a building, the location of a storehouse, security protection at a shop or factory, or the proximity of houses to a riverbank.

Moral hazard: moral hazard concerns the human aspects which may influence the result or the outcome. This usually refers to the attitude of the insured person, such as fraudulence, non-disclosure or destruction of the subject matter of insurance on purpose or deliberately.

Section 2 The Classification of Risk

2.1 Financial and Non-financial Risk

A financial risk is one where the result or the outcome can be measured by money. For example, material damage to property, theft of property, house damaged because of a fire, etc. All of these belong to financial risks. In case of the risk of personal injury, it can also be possible to measure the financial loss in the court by the judge awarding damages to the insured or make the settlement of the financial loss by negotiating between lawyers and insurers.

There are other situations where this kind of measurement is not possible. For example, if you choose a new car from a car dealer, or select an item from a restaurant menu, we cannot say that they belong to financial risks. Other examples are the selection of your career, the choice of your marriage partner or spouse. All of these are non-financial risks because they cannot be measured by money.

2.2 Pure and Speculative Risk

Pure risk: pure risk refers loss or a break-even situation. There is no chance of gaining profits. The outcome is unfavorable to us or leaves us in the same position as we enjoy before the event occurs. For example, machinery may break down and take some time to repair and will loss of production. More examples are the risk of a motor accident, fire at a company, theft of goods from the factory, or injury at work. They are all pure risks.

Speculative risk: speculative risk refers to a loss, a break-even or the chance of gaining profits. For example, when you invest money in stock and security market, you may result in a loss, or a beak-even. If you are lucky, you may have the chance of gaining profits in the investment. Another example is that manufacturer who provides credit to customers may face a risky venture. The goods have been sold by him in the hope of gaining profits, but the client or the customer may not be able to pay for them and the result is a loss.

2.3 Fundamental and Particular Risks

Fundamental risks: fundamental risks are those which arise from causes outside the control of any one individual or even a group of individuals. In addition, the effect of fundamental risk affects large number of people. This kind of classification includes earthquakes, floods, famine, volcanoes and other natural disasters. Besides, social changes, political interventions and war can be explained as fundamental risks.

Particular risks: particular risks refer to personal risks. They are much more personal both in the cause and effect. This includes many of the risks we have already mentioned above such as fire, theft, injury and motor accidents. All of these risks arise from individual causes and affect individuals in their outcomes.

In the early part of 17th century, unemployment was regarded as a particular risk in the US, it was believed or implicated that being unemployed was the fault of individual himself. However, people's viewpoint to technological unemployment of eighties and nineties has changed. It happened because of the changes in industrial and commercial world. People no longer emphasized the fault of individual himself, but focused on the society as the reason for unemployment. Generally speaking, particular risks are insurable while fundamental risks are not insurable.

Section 3 Risk Management

We might as well know that all of us are surrounded by risks. For example, we face risks when we travel around the world, when we engage in recreational activities somewhere, even when we breathe in some polluted areas. Some risks are significant. Others are very small. When we decide to leave an umbrella at home, we face the risk that we might get caught in a rain shower. Of course, such a risk is insignificant, but what about the risks in the following situations?

Tom is 22 years old and a single man. If he is working through college with part-time job, what would happen if he becomes ill and requires a long hospital stay and expensive medical treatment?

Lisa and Smith are working parents who have two school-aged children, what would happen if either Lisa or Smith becomes disabled and cannot work to support the family?

John and David own and manage a store. What would happen if a fire damages their building?

In each situation, the individual, family or company can make use of risk management to deal with the financial risk it faces. The method and practice of risk management involve the followings.

3.1 Identifying Risk

Identifying risk refers to the process that a financial unit or an individual estimates or judges, classifies and determines the potential risks. Identifying risk is the first step for the risk management. Because the risks are complex and anfractuous, it is necessary for us to take effective measures to identify the potential risks either by perceptual knowledge, experience judgment or by financial analysis, technical process analysis and on-site investigation.

3.2 Avoiding Risk

After we identify the risk, we should analyze it. The most obvious method of managing risk is simply to avoid risk altogether. We can avoid the risk of personal injury that may result from an earthquake or volcanic eruption by not traveling there, and we can avoid the risk of financial loss in the stock & security market by not investing money into the market. Sometimes, however, avoiding risk is not effective or practical because people have to go there for the purpose of business transaction, sightseeing, doing some research work or attending an international meeting.

3.3 Controlling Risk

Thirdly, since avoiding risk is not practical sometimes, we can control risk by taking several steps to prevent or reduce losses. Still taking John and David for example, they could reduce the likelihood of a fire in their store by banning smoking in their building and not storing boxes or papers near the building. In addition, they could install smoke detectors and a sprinkling system in their building to lessen the extent of damage if there is a fire. In these ways, they are attempting to control risk by reducing the likelihood of a loss and lessening the severity of a potential loss.

3.4 Accepting Risk

A fourth method of managing risk is to accept or retain risk. In other words, to accept a risk is to assume all financial responsibility for that risk. Sometimes, in the event of an insignificant risk, the financial loss is not great enough to show much concern. For example, if we loss an umbrella, we can afford the cost of replacing the umbrella by ourselves. Some people consciously choose to accept more significant risks. For instance, the couple Lisa and Smith may decide not to purchase disability income insurance because they believe they can just reduce their standard of living if one of them becomes disabled.

Individuals, enterprises or companies sometimes decide to accept total responsibility for a given risk rather than purchasing insurance to cover that risk. In this situation, the person or enterprise is said to self-insure against the risk. Self-insurance is a risk-management technique by which a person or enterprise accepts financial responsibility for losses associated with specific risks. For example, many employers provide medical expense benefits to their employees. An employer can self-insure the benefit plan by setting aside money to pay employees' medical expenses or can pay those expenses out of its current income. Individuals and enterprises can also decide to accept only part of a risk. For instance, an employer can partially self-insure a medical expense benefit plan by paying its employees' medical expenses up to a fixed amount and buying insurance to cover all expenses in excess of that fixed amount. Many employers now use self-insurance to fund their employees' health insurance plans.

3.5 Transferring Risk

Transferring risk is the fifth method of risk management. When you transfer risk to another party, you are shifting the financial responsibility for that risk to the other party, generally in exchange for a cost. The most common way for individuals, families, and enterprises to transfer risk is to purchase insurance coverage, transferring risk to the insurer.

When an insurance company agrees to provide a person or an enterprise with insurance coverage, the insurer issues an insurance policy. The policy is a written document that contains the terms of the agreement between the insurance company and the owner of the policy. The agreement is a legally enforceable contract under which the insurance company agrees to pay a certain amount of money, which is called the policy benefit or the policy proceeds. When a specific loss occurs, the insurer has to pay the specified amount of money to the insured.

In general, individuals and enterprises can purchase insurance policies to cover three types of risk: property damage risk, liability risk and personal risk.

Property damage risk: these types of financial losses typically include damage to your motor car, destruction of a house or a building, or personal belongings if accident, theft, fire or natural disaster occurs.

Liability risk: liability risk includes financial losses that arise from your responsibility of harming others' life or damaging their property. For example, you are held liable for damage that you cause to another person's vehicle in a traffic accident. An enterprise can be held liable for injury to an employee who slips and falls while working in workshop of the enterprise.

Personal risk: personal risk includes the risk of financial loss associated with death, poor health and outliving one's savings.

Companies that sell insurance policies to provide financial security for property damage risk and liability risk are called property-casualty or property-liability insurance companies. Property insurance provides indemnity if insured items are damaged or lost because of various specified perils, such as fire, theft, accident. Liability insurance provides a benefit payable on behalf of a covered party who is legally responsible for unintentionally harming others or their property. Property insurance and liability insurance are commonly sold together in one policy. For example, if you are driving a car that is covered by the property-liability policy and you accidentally crash through your neighbor's front door. The damage to your neighbor's home will be paid by your policy's liability coverage; the money to repair your car will come from your policy's property coverage.

Insurers that sell insurance policies to provide financial security from personal risk are called life and health insurance companies. It is the transfer of personal risk to life and health insurances. Both individuals and enterprises purchase life and health insurance policies in order to provide themselves with the financial security by these products.

Section 4 Managing Personal Risks through Insurance

An insurance company can afford to be financially responsible for these personal risks. Insurance companies use a concept called risk pooling. With risk pooling, individuals can face the uncertainty of a particular financial loss, for example, the loss of income because of a disability, and can transfer this risk to an insurance company. Of course, not everyone who is issued a policy can cover the risk of financial loss caused by disability. In reality, only a small percentage of the individuals who purchase this type of insurance will actually become disabled at some time during the period of insurance coverage.

If the financial losses that actually result from a given peril can be shared by large numbers of people who are all subject to such losses and the probability of loss is relatively small for each person, then the cost to each person will be relatively small.

Characteristics of Insurance Risks

Insurance products are designed in accordance with some basic principles that define which risks are insurable. In order for a risk or a potential loss to be considered insurable, it must have certain characteristics.