

Types of Insurance

Many types of insurance policies are available to families and organizations that do not wish to retain their own risks. The following questions may be raised about an insurance policy:

1. Is it personal, group, or commercial?
2. Is it life/health or property/casualty?
3. Is it issued by a private insurer or a government agency?
4. Is it purchased voluntarily or involuntarily?

Personal, Group, or Commercial Insurance

Personal insurance is insurance that is purchased by individuals and families for their risk needs. Such insurance includes life, health, disability, auto, homeowner, and long-term care. **Group insurance** is insurance provided by the employer for the benefit of employees. Group insurance coverage includes life, disability, health, and pension plans. **Commercial insurance** is property/casualty insurance for businesses and other organizations.

An insurance company is likely to have separate divisions within its underwriting department for personal lines, group lines, and commercial business. The criterion to assign insureds into their appropriate risk pool for rating purposes is different for each type of insurance. Staff in the personal lines division are trained to look for risk factors (e.g., driving records and types of home construction) that influence the frequency and severity of claims among individuals and families. Group underwriting looks at the

characteristics and demographics, including prior experience, of the employee group. The commercial division has underwriting experts on risks faced by organizations. Personnel in other functional areas such as claims adjustment may also specialize in personal, group, or commercial lines.

Life/Health or Property/Casualty Insurance

Life/health insurance covers exposures to the perils of death, medical expenses, disability, and old age. Private life insurance companies provide insurance for these perils, and individuals voluntarily decide whether or not to buy their products. Health insurance is provided primarily by life/health insurers but is also sold by some property/casualty insurers. All of these are available on an individual and a group basis. The Social Security program provides substantial amounts of life/health insurance on an involuntary basis.

Property/casualty insurance covers property exposures such as direct and indirect losses of property caused by perils like fire, windstorm, and theft. It also includes insurance to cover the possibility of being held legally liable to pay damages to another person. Before the passage of multiple-line underwriting laws in the late 1940s and early 1950s, property/casualty insurance had to be written by different insurers. Now they frequently are written in the same contract (e.g., homeowner's and commercial package policies, which will be discussed in later chapters).

A private insurer can be classified as either a life/health or a property/casualty insurer. Health insurance may be sold by either. Some insurers specialize in a particular type of insurance, such as property insurance. Others are affiliated insurers, in which several insurers (and sometimes noninsurance businesses) are controlled by a holding company; all or almost all types of insurance are offered by some company in the group.

Private or Government Insurance

Insurance is provided both by privately owned organizations and by state and federal agencies. Measured by premium income, the bulk of property/casualty insurance is provided by private insurers. Largely because of the magnitude of the Social Security program, however, government provides about one-third

more personal insurance than the private sector. Our society has elected to provide certain levels of death, health, retirement, and unemployment insurance on an involuntary basis through governmental (federal and state) agencies. If we desire to supplement the benefit levels of social insurance or to buy property/casualty insurance, some of which is required, private insurers provide the protection.

Voluntary or Involuntary Insurance

Most private insurance is purchased voluntarily, although some types, such as automobile insurance or insurance on mortgages and car loans, are required by law or contracts. In many states, the purchase of automobile liability insurance is mandatory, and if the car is financed, the lender requires property damage coverage.

Government insurance is involuntary under certain conditions for certain people. Most people are required by law to participate in the Social Security program, which provides life, health, disability, and retirement coverage. Unemployment and workers' compensation insurance are also forms of involuntary social insurance provided by the government. Some government insurance, such as flood insurance, is available to those who want it, but no one is required to buy it.