

CONCEPT OF INSURABLE RISK AND UNINSURABLE RISK

Insurable risk

- It is a type of risk that the chance of occurrence can be deduced from the available information on the frequency of similar past occurrences.
- It is a risk that conforms to the norms and specifications of the insurance policy in such a way that the criterion for insurance is fulfilled.
- Insurable risks are risks that insurance companies will cover. These include a wide range of losses, including those from fire, theft, or lawsuits.

Uninsurable risk

- Uninsurable risk is a type of risk which the insurer is not ready to insure against simply because the likely future loss cannot be estimated and calculated.
- It is a risk that holds the prospect of gain as well as loss.
- It is a risk that cannot be forecast and measured.
- Uninsurable risks are those that fall within the definition of speculative risks and fundamental risks which have to do with situation centered by the society we live in.

Insurable risk in life

- Risk of pre-mature death
- Risk of disability
- Risk of retirement
- Risk of medical expenses etc.

Insurable risk in property

Motor vehicle; chance of the vehicle being involved in accidents

Buildings; risk of fire outbreak

Buildings; risk of burglary

Characteristics of insurable risk

- ✓ The risk is potentially costly enough that a business is willing to pay a premium to protect against it.
- ✓ The risk can't be so catastrophic that the insurer would never be able to pay for the loss.
- ✓ The risk is well-defined and has a clear, measurable value that can't be influenced by the policyholder.
- ✓ The risk is random, not within the policyholder's control, and the policyholder cannot cause or influence the loss.
- ✓ The risk must involve element of uncertainty resulting to financial loss.
- ✓ There must be large number of similar risks.

Examples of insurable risk

- Risk of pre-mature death
- Risk of disability
- Risk of retirement
- Risk of medical expenses
- Theft of properties

- Boiler and pressure explosion
- Motor vehicle accidents
- Buildings; risk of fire outbreak
- Marine risk; perils of the sea
- Aviation risk; damage to aircraft and bodily injuries for passengers and personnel
- Engineering risk; loss from mechanical breakdown,
- Loss of income as a result of a sudden interruption

Examples of uninsurable risks

- Act of God; all risks involving natural disasters such as: Earthquake, Tsunami, War, and Flood
- Gambling
- Loss of profit through competition
- Launching of new product
- Loss incurred as a result of inefficient management
- Poor location of business
- Loss of profit as a result of fall in demand
- Opening of a new office
- Change in fashion