Introduction to Insurance

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Learning Objectives & Outline

Learning objectives
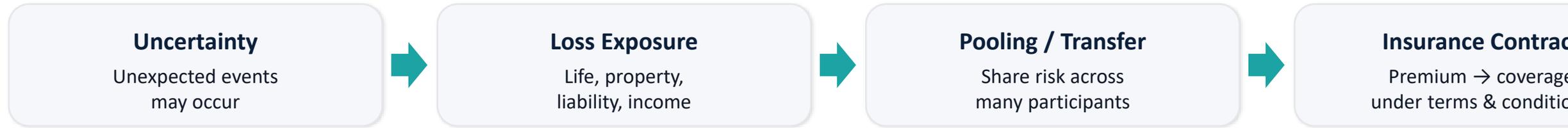
By the end of this session, students should be able to:
• Explain why insurance exists (risk transfer).
• Describe key milestones in insurance history (global & Thailand).
• Distinguish risk, loss, peril, and hazard.
• Classify risks and outline a basic risk management process.

Topics

1) Why insurance exists
2) International history
3) Insurance in Thailand
4) Regulatory framework
5) Benefits of insurance
6) Risk concepts & classification
7) Risk management process

Why Insurance Exists

Core idea: transfer financial consequences of uncertain loss

Uncertainty
Unexpected events
may occur

Loss Exposure
Life, property,
liability, income

Pooling / Transfer
Share risk across
many participants

Insurance Contrac
Premium → coverage
under terms & conditic

Result: greater stability for households, firms, and the economy

International Origins (High-Level Timeline)

Selected milestones commonly cited in the notes

~3000 years ago　　　　　　　　　　**Classical era**　　　　　　　　　　**1583 (England)**

Early risk-sharing
arrangements linked
to trade/transport

Ideas adopted
and refined;
marine insurance roots

Early life insurance
policy form noted
in the material

Insurance in Thailand (Selected Milestones)

Non-life insurance (overview)

- Early trade eras: foreign merchants/companies played major roles
- B.E. 2368 (Rama III): insurance arranged for imported printing press transit
- Rama IV: foreign insurers represented via commercial houses (agents)

Life insurance (overview)

- Began during Rama V (permission sought by foreign firm/mission)
- Slow early growth (documents issued from abroad; limited demand)
- Post–World War I: foreign life insurers re-expanded
- B.E. 2471: Civil and Commercial Code provisions for insurance

Early Thai Insurance Companies (Examples from Notes)

Non-life insurance

- First Thai non-life insurer: Tia An Pao Hiam Co., Ltd. (B.E. 2472)
- Same period: Seng Chiang Lee Insurance; Thanakit and Commerce; Chiang An (Fire & Flood)
- Post–World War II: foreign insurers re-entered Thailand

Life insurance

- First Thai life insurer: Thai Life Insurance Co., Ltd. (B.E. 2485)
- Other Thai firms mentioned in the notes (various years)
- Examples of foreign re-entry after WWII include AIA (as noted)

Laws Regulating the Insurance Business (Thailand)

Key acts and reforms highlighted in the notes

- Non-Life Insurance Act B.E. 2535 (1992)
- Life Insurance Act B.E. 2535 (1992)
- Reforms aimed at flexibility, policyholder protection, and stronger supervision
- B.E. 2540 (1997): further liberalization of the insurance business
- B.E. 2551 (2008): improvements and amendments

Practical takeaway: regulation focuses on solvency, fair treatment, and market stability.

Benefits and Importance of Insurance

Financial security

Reduces anxiety by providing a financial safety net when loss occurs.

Saving & investment

Encourages long-term financial planning and accumulation of funds (esp. life insurance products).

Supports commerce

Facilitates trade and business activity by reducing uncertainty and enabling credit/transactions.

Resource allocation

Helps manage and price risk, improving efficiency in decision-making and resource use.

Core Concepts: Risk and Loss

Risk (general meaning)

- Uncertainty about outcomes
- Possibility that an undesirable event occurs
- In insurance usage, often linked to perils and hazards

Loss / damage

When risk materializes, it may cause loss:
- Direct loss: damage to the property itself
- Indirect loss: consequential costs (e.g., medical expenses, business interruption)
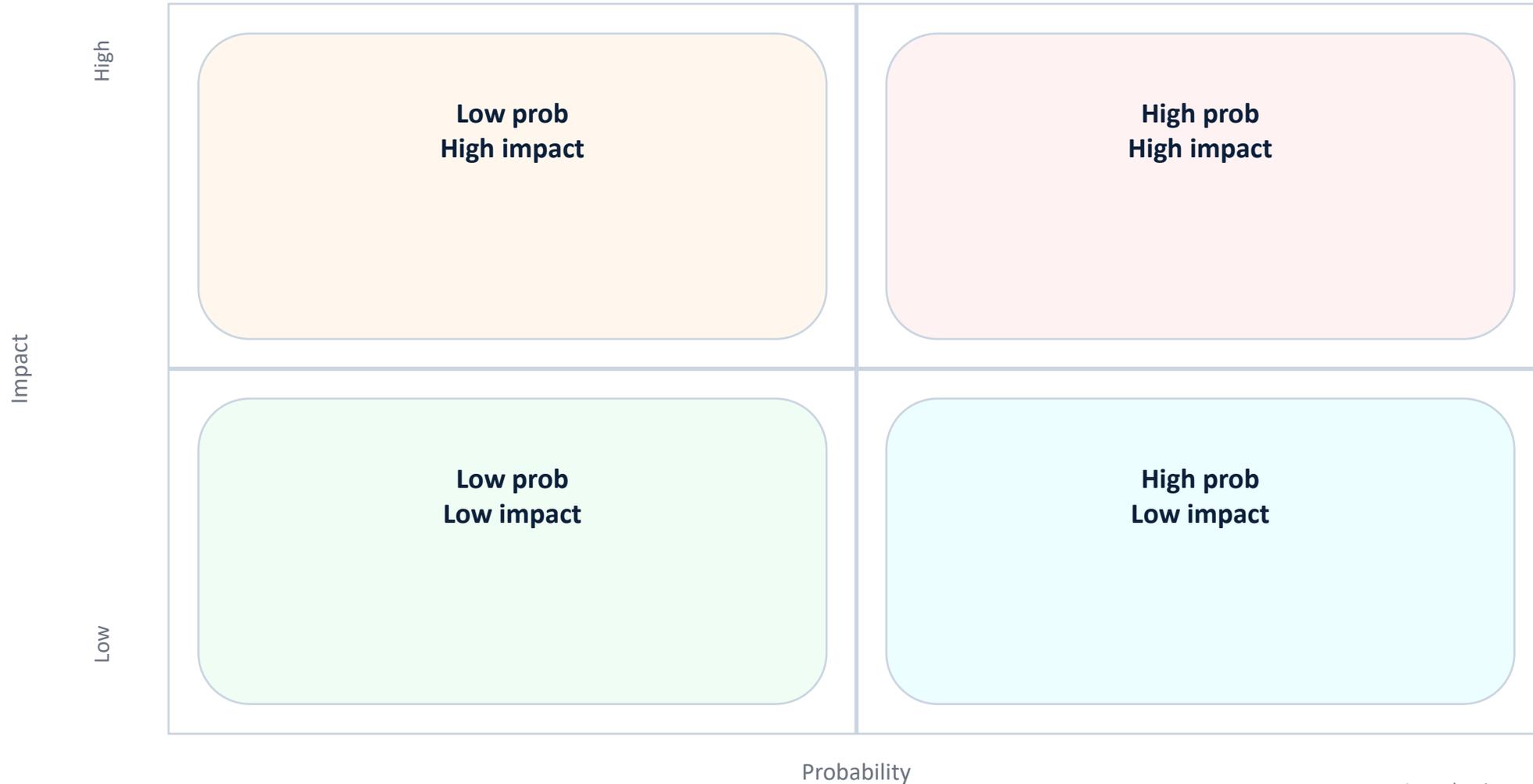
Example (Fire)

- Direct: building and contents damaged by fire
- Indirect: injuries to employees + medical expenses; downtime and lost revenue

Risk Level = Probability × Impact

Two key variables used to assess risk severity

Use the matrix to prioritize attention and resources.

High (Impact)	**Low prob** **High impact**	**High prob** **High impact**
Low (Impact)	**Low prob** **Low impact**	**High prob** **Low impact**

Impact

Probability

Low · High

Peril vs. Hazard

Peril (cause of loss)

Peril refers to the cause of loss.

Types (examples):
• Natural perils (earthquake, flood, tsunami)
• Human-caused perils (theft, strike, robbery)
• Economic perils (inflation, deflation)

Hazard (risk-enhancing condition)

Hazard refers to conditions that increase the likelihood and/or size of loss.

Types (examples):
• Physical hazards (slippery road, faulty wiring)
• Carelessness after being insured (reduced prevention)
• Moral hazard / dishonesty (fraudulent claims)

Classification of Risk (Common Categories)

Measurable vs. Non-measurable

Measurable: can be valued in money (e.g., building flood damage).
Non-measurable: hard to value (e.g., grief).

Dynamic vs. Static

Dynamic: changes with economic conditions.
Static: not driven by economic change (e.g., flood).

Fundamental vs. Particular

Fundamental: impacts many people/economy (e.g., war, unemployment).
Particular: impacts a specific person or firm.

Pure vs. Speculative

Pure: loss or no loss (no gain).
Examples: personal, property, liability risks.

Risk Management Process (Overview)

Identify risk indicators → Identify risks (interviews, surveys) → Assess & rank (probability, impact) → Develop alternatives (control & financing) → Select method → Implement plan → Monitor & revie[w]

Two major toolsets

Risk control (reduce frequency/severity):
• Avoidance • Loss prevention • Loss reduction

Risk financing (pay for losses):
• Retention • Transfer • Insurance • Hedging

Implementation tip

Enterprise risk management works best when information is communicated clearly across the organization (shared understanding, timely updates, and accountability).

Recap & Discussion

Key takeaways

- Insurance exists to manage uncertainty by pooling and transferring risk.
- Risk assessment focuses on probability and impact.
- Peril = cause of loss; hazard = condition that increases loss likelihood/size.
- Risk classification helps decide which tools to use.
- Risk management is a cycle: identify → assess → act → monitor.

Discussion questions

1) Give one example of direct vs. indirect loss in your daily life.
2) For a high-impact but low-probability risk, what control and financing options make sense?
3) Identify one peril and one hazard related to road accidents.

Thank you