How Insurance Works

Money

Pooled risk, and why the expected value is always against you.

Many people pay a small, certain premium so that the few who suffer a large loss are compensated from the pool. The insurer must charge more than expected claims to survive.

EXPECTED VALUE	WHAT YOU BUY	INSURE
negative	**certainty**	**the unaffordable**

- On average you get back less than you pay in — that is the business model.
- You buy certainty, not profit.
- Insure catastrophic losses; self-insure small ones.
- A higher excess lowers the premium.
- Underinsuring can void a claim entirely.
- Non-disclosure is the most common reason claims fail.

LOOK FOR IT

Extended warranty on a £200 appliance is a poor bet. Home insurance on a £300,000 house is not.

General education, not financial advice.