



Insurance Basics

Without insurance, driving a car, buying a home or starting a business would be an unaffordable risk.

Risk Happens. Insurance Can Help.

A car collision, a basement damaged by water and a business interrupted by vandalism are risks that people face each day. After a loss happens, everyday life can change in big ways.

At difficult times, insurance is there to help people recover, get back to their normal routine and provide peace of mind.

What Is Insurance and How Does It Help?

When people buy insurance, they put money into a [premium](#) (</on/insurance-101/insurance-basics/how-premiums-are-calculated>) pool with many others. Some of that pool of money helps people who suffer an unexpected insured hardship due to loss from a home fire, vehicle collision or [business interruption](#) (</on/business/risk-management/business-interruption>) in that year. Payouts for these hardships are called claims.

Insurers are required by law to have sufficient funds to pay for claims. To better understand this concept, read our piece on insurer solvency.

Why Should I Have Insurance?

Insurance claims for Canadians who suffer losses from severe weather are on the rise.

To cover losses related to the multiple natural catastrophes in 2013, insurers anticipate paying out \$3.2 billion in claims across the country. This number is more than double the previous year's and is the highest for insured losses in Canadian history. [Natural disaster](#) (</on/disaster>) claims cost nearly \$1 billion or more each year in 2011, 2010 and 2009.

Without insurance, [driving a vehicle](#) (</on/auto>), [buying a home](#) (</on/home>) or [starting a business](#) (</on/business>) would present an unaffordable risk, since people would have to pay for any mishaps that took place. The bottom line: [Canada's economy depends on insurance](http://www.insureconomy.ca/) (<http://www.insureconomy.ca/>).

Why Do I Pay Annually?

With some exceptions, an insurance policy is an annual contract. The premium pool operates for only one year at a time. Insurance companies predict how much money they will need to pay the coming year's claims. Your premiums do not build up over time.

Calculating insurance premiums is complicated. It involves a process that requires a risk assessment based on actuarial science. Premiums are based on informed predictions about how much money may be needed to pay future claims. Insurers gather information that they know from experience will help them set fair but accurate premium prices.