

# Example of health insurance essay

[Business](#), [Company](#)



Insurance refers to contract entered between two parties where one party obligates to compensate the other for a particular loss or damage. The agreement put forward usually has considerations which are in the form of regular payments. Parties involved in the contract process include insurer and insured. Insurer, usually a company, is a party that provides insurance cover to another party and provides protection for any loss that may occur in the future. Alternatively, the insured is the party that seeks protection from the insurer. Therefore, the insured agrees to pay a certain amount of money for protection against risks. This amount paid by the insured is usually termed as premium. The party that benefits from the compensation is referred to as the beneficiary. A beneficiary can be the insured party or another party as directed by the insured. The insured party can take insurance on various subjects such as a building, vehicle, and life among others. Therefore, he/she can, claim compensation for upon facing a certain risk or loss covered in the insurance policy contract. Generally, insurance companies charge premium differently. The amount of premium paid depends on the type of risk associated with a particular subject.

In this perspective, moral hazard is a term commonly used in insurance. After entering into a contract with an insurance company, the insured party may behave differently from expected terms and conditions of the contract. The insured party's behavior may be different compared to when the party is not insured for a certain risk or damage. Therefore, a change in behavior of the insured party amounts to the commission of a moral hazard.

On the other hand, adverse selection is another challenge faced by insurance companies when giving out insurance covers to their customers.

Persons buying insurance covers are usually in a better position to acknowledge the risks they face compared to the insurer. The adverse selection problem can also be referred to as screening problem. Basically, screening refers to the procedure involved in gathering information about the persons acquiring insurance cover. Screening helps to determine recipients with high probability of facing loss and recipients with a very low probability of risk. Therefore, insurance companies tend to create balance between the recipients with a higher risk probability and the ones with low probability.

Accordingly, the adverse selection problem is a major hindrance in insurance. Therefore, insurance companies are obliged to come up with different policies and strategies to prevent adverse selection problem. Insurance companies conduct tests and interviews to determine a customer's eligibility of insurance cover. Many insurance companies scrutinize the customers in order to clearly determine the type of risks and probability of its occurrence. Usually, most of the insurance companies are private entities hence tend to maximize their profit as much as possible. Screening process helps in determining the amount of premium to be paid thereafter by the insured party. For instance, let us say two parties take insurance cover for life. There are high chances that the two parties are charged different insurance premiums. Factors such as age and medical records of the parties will cause variations in the amount paid for life insurance. Old aged persons tend to be charged a higher premium relative to the youth; this is as a result of the risk factor. The probability of death occurring among older people is great compared with youth. Therefore, due

to greater risk involved with older people, premium paid also tend to be high. A similar case applies to persons whose medical reports show consistent ailments. Persons experiencing frequent ailments also tend to pay a relative higher premium. This is also as a result of the risks involved.

Thus, if insurance companies find it necessary, they can undertake signaling and screening procedures in order to find more about their customers.

Conducting screening procedures helps an insurance company to determine consequent risks. It is based upon the screening procedure results that payments for the insurance cover are to be determined. However, screening out customers is an expensive procedure. Insurance companies apply methods such as interviews and document verification which are time consuming and costly. In addition, customers usually have more information and knowledge pertaining a certain risk. The risks are well known by the recipient, hence unknown to the insured party. Information related problems are common in the process of issuing insurance cover. Information provided out by the recipients may not be reliable. Information can be twisted to fit the needs of the person acquiring insurance cover. Therefore, the insurer has to come up with measures to find the truthfulness of information provided by the person acquiring insurance cover. Terms and conditions are hence necessary in an insurance contract policy. Both parties should then come into agreement with the laid contract's term and conditions.

On the same aspect, the moral hazard problem has been a major challenge in insurance companies. People tend to behave in a very different manner when they acquire insurance cover compared to when they are not insured. Insurance cover encourages people to get into careless behavior simply

because the insurance will cover for the loss to be incurred. For instance, losing a more valuable asset only to be compensated less than the original value makes the insured party to take more caution on the subject matter. Alternatively, if compensation is more than the value of the subject before the loss; insured party is less cautious of any occurrence of risk. Therefore, when the compensation is higher than the value of the subject insured, people will tend to behave in an ignorant and careless manner. According to law, it is illegal for anyone to perpetuate an insured risk. The insurer would hence not insure a risk which has a great moral hazard problem.

Therefore, it is as a result of the reason mentioned above that insurer's compensation has no added advantage. Thus, when compensated, insured party neither gains nor loses. It therefore, allows one to be in the same wealth position he/she was before the risk occurred. This is an efficient way of dealing with the issue of moral hazards especially for insurance of valuable property. In this perspective, insurance cover comes with certain terms and conditions. However, insurance companies should try to come up with more stringent contract terms. These conditions also play an important role in mitigating the problem of moral hazards. For instance, one can insure his/her private vehicle. An accident caused by another party rather than the party in the contract becomes responsible for the accident and hence insurance cover withdrawn.

On the front of solutions, there exist a myriad of avenues viable for solving the aforementioned problems. However, solutions offered to the problem of moral hazards are partial coverage of loss and through observation.

Presence of partial coverage of the risks, insurance companies will ensure

that an insured party takes great caution to prevent the occurrence of risk. Secondly, through observation the insurer can monitor the insured hence minimize chances of a risk occurring. The methods involved in solving the moral hazard problem also tend to have flaws. The observation method proves to be time consuming and costly too.

Regarding the case of the youth being insured, a lot of controversies arise. Youth have over the recent past shown no interest in insurance. However, the old aged people have shown greater interests in acquiring insurance covers. The youth have a lower probability of having major risks when compared to older people. Some youth are, therefore, of the opinion that it is worthless to take insurance. Apparently, people with high chances of facing risks tend to apply for the insurance cover more than people with lower chances of facing risks. However, insurance companies are firms which their main objective is to maximize profits like any other business entity. It is therefore, important to equalize insurance between the youth and the old population.

Insurance firms should vehemently educate the youth on importance of having insurance cover. Insurance firms should also organize youth forums, where youth raise different ideas and their perception towards the importance of insurance. It is through such forums that the youth can be compelled in having an insurance cover. Everyone is prone to different risks, and hence it is of importance that everyone gets an insurance cover despite the chances of risks involved. Therefore, insurance companies should actively be involved in urging the youth to acquire insurance covers through education and social forums.

In addition, there is the role of the parents. Most youth are usually do not adequate knowledge about insurance. It is for this reason that parents should intervene in their childrens' well being. Parents should take responsibility of buying insurance covers for their children. In practice, there shall be an increase in the number of the youth buying insurance.

Insurance firms can ensure a wide advertisement coverage. Through advertisement, information about insurance will reach most people. It is therefore, important for the insurance companies to reach out to youth by all means of advertisement. For instance, through social media information about insurance can adequately reach out to the youth, thus compelling a great number of the youth in buying insurance covers.

Moreover, insurance companies can give out incentives. Insurance companies can decide to encourage more youth in buying insurance covers by giving them incentives. For instance, insurance firms can give the youth an added advantage over other applicants. In so doing, there shall be a large number of youth turning up for insurance cover just to get the incentives.

Alternatively, the government can intervene to ensure youth get insurance covers. As the local authority body, the government can formulate and implement certain legislations to ensure that every youth is insured. The youth will therefore, have no choice but to adhere to the government's rules and regulations. In so doing, the number of youth buying insurance covers will increase.

Insurance companies employ different measures in preventing the moral hazard problem. The problem of moral hazard works differently. The insured party will tend to be careless, hence indulge in any risky behavior, simply

because of the fact that he or she has insurance cover over a particular risk.

On the other hand, persons without insurance covers tend to be cautious.

There is always no compensation for uninsured party; hence persons not insured to take greater caution relative to the insured party.

On the same issue, government insurance is similar to private issued insurance. Both insurances are aimed at compensating the affected party that is the party which incurs damage. However, in government insurance recipients do not pay premiums like in the case of private insurance. It is also worthy mentioning that the level of coverage by the private insurance companies is usually higher compared to the government insurance.

In a nutshell, it is evident that the privately issued insurance is worthwhile. In addition, insurance companies should take the policies in preventing challenges involved in insurance industries. Proper and thorough scrutiny of the recipients should be conducted to minimize adverse selection problem. Strict terms and conditions should be included in contract agreement to avoid the moral hazard behavior.