Why Is Insurance Important?

Insurance is important because it is designed to pay various types of claims depending on the type of policy that applies. Important types of insurance typically include policies that are purchased for an automobile, a home and those provided by an employer, such as a group health insurance policy.

Mandatory Requirements

- Insurance is mandatory depending on the type of insurance and why it is needed. Individuals in all states are required to have an automobile insurance policy in force for the vehicle they drive. Insurers are also required to place minimum amounts of liability on a policy. A homeowner's insurance policy is typically required by a lender for a person with a mortgage.

Automobile

- In addition to being required in each state, an automobile insurance policy protects an individual when an accident occurs. Coverage is provided to repair or replace a vehicle after a collision or other damage such as hitting a deer. An automobile insurance policy will also pay medical costs for people who are injured in an accident. The liability portion of a policy will even pay legal costs in the event that a driver is sued.

Personal Property

- Having a personal property or homeowner's policy is important because one of the biggest expenses a person can make is buying a home. Homeowner's policies provide protection from damage that is caused by fire, storms, vandalism and theft. Protection is also provided if someone gets hurt on the policyholder's property. The liability coverage on the policy will pay for injuries that are sustained and pay for legal costs if a policyholder is sued.

Health

- The most important type of insurance an individual or family can have is a health insurance policy. Health insurance can pay for unexpected medical problems that can arise as well as certain types of routine health services. This can include going to the doctor and the costs for surgeries that result in stays in a hospital. Without health insurance, individuals would need to pay for health-care costs out of their own pocket.

Supplemental Insurance

- When an individual gets hurt and is unable to work, a supplemental insurance or a disability income policy is available to replace a lost paycheck. Supplemental or disability income insurance will typically pay 50 percent to 60 percent of an individual's gross income. The benefit amount paid by the policy will not be taxed as income. This type of insurance is important for every working person, including those who are self-employed.