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Topic- Difference between Insurance and Gambling.

Insurance

Insurance is a means of protection from financial loss. It is a form of risk management, primarily used to hedge against the risk of a contingent or uncertain loss.

An entity which provides insurance is known as an insurer, insurance company, insurance carrier or underwriter. A person or entity who buys insurance is known as an insured or as a policyholder. The insurance transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate the insured in the event of a covered loss. The loss may or may not be financial, but it must be reducible to financial terms, and usually involves something in which the insured has an insurable interest established by ownership, possession, or pre-existing relationship.

The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insurer will compensate the insured. The amount of money charged by the insurer to the policyholder for the coverage set forth in the insurance policy is called the premium. If the insured experiences a loss which is potentially covered by the insurance policy, the insured submits a claim to the insurer for processing by a claims adjuster. The insurer may hedge its own risk by taking out reinsurance, whereby another insurance company agrees to carry some of the risks, especially if the primary insurer deems the risk too large for it to carry.

Gambling

Gambling (also known as **betting**) is the wagering of money or something of value (referred to as "the stakes") on an event with an uncertain outcome, with the primary intent of winning money or material goods. Gambling thus requires three elements to be present: consideration (an amount wagered), risk (chance), and a prize. The outcome of the wager is often immediate, such as a single roll of dice, a spin of a roulette wheel, or a horse crossing the finish line, but longer time frames are also common, allowing wagers on the outcome of a future sports contest or even an entire sports season.

The term "gaming" in this context typically refers to instances in which the activity has been specifically permitted by law. The two words are not mutually exclusive; i.e., a "gaming" company offers (legal) "gambling" activities to the public and may be regulated by one of many gaming control boards, for example, the Nevada Gaming Control Board. However, this distinction is not universally observed in the English-speaking world. For instance, in the United Kingdom, the regulator of gambling activities is called the Gambling Commission (not the Gaming Commission). The word gaming is used more frequently since the rise of computer and video games to describe activities that do not necessarily involve wagering, especially online gaming, with the new usage still not having displaced the old usage as the primary definition in common dictionaries. "Gaming" has also been used to circumvent laws against "gambling". The media and others have used one term or the other to frame conversations around the subjects, resulting in a shift of perceptions among their audiences.

Insurance vs Gambling

The worlds of gambling and insurance are similar in many ways. Both are built upon elements of probability, modeling and quantification of risk. Both use a variety of means to attract individuals to participate. Professional gamblers are well informed as to the odds of one play versus another; an understanding of modelling can improve those odds to improve the chances of winning. Professional underwriters and actuaries understand premiums must be adequate to pay future claims and expenses; an understanding of modelling helps quantify risk and improve the ratemaking process.

Gambling and insurance each deal with potential outcomes involving large dollar payouts for rare events. Casinos must anticipate adverse results if and when there is a sporting event involving an unexpected upset or jackpots paid on a slot machine with greater frequency than expected. Likewise, insurers deal with large, unexpected claims all the time. Despite knowing the “expected” outcome, actual outcomes in both worlds will deviate (sometimes significantly) on certain days, weeks or months.

Both worlds try to mitigate the potential for such variability by embracing the law of large numbers. By increasing the number of participants (placing wagers or buying insurance policies), the difference between expectations and actual results (i.e., risk) is diversified but not eliminated. Neither wants to win or lose based on a small number of participants.

There are also psychological similarities between the worlds of gambling and insurance. Individuals make conscious choices to participate. Despite laws mandating the purchase of certain types of insurance, many make the choice to go uninsured. Such individuals recognize the distinct possibility of loss, but are “betting” an otherwise covered event will not happen to them. Likewise, those engaging in a game of chance are well aware that a likely outcome is a loss. Each hopes, however, to beat the odds and come home a winner.

Psychological bias influences individual decisions in insurance and gambling. Participants on the other side of the table – insurance companies and gambling venues – understand the law of large numbers and will supplement their underwriting of such risk. That may mean purchasing reinsurance or laying off certain bets that are deemed a risk to underlying capital and surplus. These may be one-off decisions on a particular risk or a management decision regarding the aggregate risk assumed over a period of time.

Yet, there are many differences between gambling and insurance. In particular, providing insurance coverage is assuming risk for a predetermined price. The insured seeking coverage has a chance for no loss (other than payment of the premium) but zero chance for gain. Mitigating the potential for a large loss is the primary motivation to pay premiums in advance. Gambling is a speculative risk with hopes for a gain. In both worlds, the ultimate gain or loss is dependent, in part, on the player's ability to accurately predict future outcomes.

A second significant difference between gambling and insurance is timing. Cost, gain and payout in gambling happens immediately. Conversely, timing is a significant risk factor for insurance companies. Insurance companies will not know the outcome of a policy's profitability until years after the premium has been paid. It may take many years until all claims arising during a policy's coverage period become known, are reported, settled and paid.

Gambling and insurance inherently involve risk. In gambling, the risk is speculative, while the world of insurance deals with underwriting and timing risk. Both are conversant in probabilities, modeling and the law of large numbers. But both systems deal with people and their very human decisions to participate in each world.

The End