

## Insurance

Property and Liability

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## Types of Risk

- Speculative Risks
  - Potential for gain or loss
- Pure Risk
  - Potential for loss ONLY

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## People & Risks

- Risk takers
- Risk neutral
- Risk adverse

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## Risk Management

- Process of identifying and evaluating situations involving pure risk.
  - Gather information about potential losses
  - Evaluate potential losses
  - Decide best way to handle risk
  - Administer
  - Evaluate and adjust

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## Ways of Handling Risk

- Risk avoidance (don't skydive)
- Risk retention (accept that it could happen)
- Loss control (put in smoke detectors)
- Transferring risk (buying insurance)
- Risk reduction (buying some insurance)

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## Insurance?

- Mechanism for transferring and reducing pure risk.
- Premium – the fee that you pay
- Insurance Policy – contract between the insured and the insurance company

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## Principle of Indemnity

- Insurance will pay no more than the actual financial losses suffered.
- Prevents insurance from becoming profitable for the insured.

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## Factors related to the cost

- Deductibles
  - An initial portion of any loss
- Co-insurance
  - The insured and insurer share proportionately in the payment for example 80/20
- Hazard Reduction/Loss Reduction
  - Smoke alarms, not having attack dogs

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## Who Sells Insurance?

- Independent Insurance Agents
- Exclusive Insurance Agents
- Chartered Life Underwriter (CLU)
- Chartered Property and Casualty Underwriter (CPCU)

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## More Terms

- Perils – bad things that could happen
- Property covered – some may be – some may not
- Types of losses covered – loss of property, loss of income, extra expenses
- People covered – who is covered?

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## More Terms Still

- Locations covered
- Time period covered
- Loss control requirements
- Amount of coverage

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## Homeowners Insurance

- Property Insurance – protects from financial loss of property or possessions.
- Liability Insurance – when you are held liable for the losses of others.

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## Basic Coverages

- Named perils
- All-risk policies
- HO-1 – basic form 11 property damage causing perils
- HO-2 – broad form 18 property damage
- HO-3 – special form no glass breakage
- HO-4 - Renters

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## Basic Coverages (cont.)

- HO- 6 Condominium owners
- HO- 8 Older homes
  
- Who knows why 5 and 7 are missing? It's a mystery.

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## Buying Homeowners Insurance

- Replacement Cost Requirement –
  - R = Reimbursement
  - L = the amount of loss
  - D = deductible
  - I = amount of insurance actually covered
  - RV = replacement value
  - Do the formula and p. 287

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## Actual Cash Value vs. Replacement

- P = purchase price
- CA = current age
- LE = life expectancy
  
- $ACV = P - (CA * P/LE)$
- $ACV = 500 - (8 * 500/10)$
- $ACV = 100$

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## Automobile Insurance

- Four types – three of which are required.
- Liability insurance
- Medical payments
- Uninsured and underinsured
- Physical damage (not required)

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## Automobile Liability Insurance

- 100/300/50
- 1<sup>st</sup> one is per person bodily injury limit
- 2<sup>nd</sup> one is per accident bodily injury limit
- 3<sup>rd</sup> one is per accident property damage

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## Automobile Medical Payments

- Covers bodily injury losses suffered by the driver and passengers.
- PIP personal injury protection - wages and rehabilitation
- Subrogation – take action against negligent party.

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## Uninsured/ Underinsured

- Protects the insured and the insured's passengers from bodily injury losses (and some states property losses) resulting from an automobile accident caused by an uninsured motorist.
- Underinsured – is the same principle.

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## Physical Damage Insurance

- Physical damage insurance - protects your CAR from collision, theft, and other perils.
- Collision insurance – reimburses an insured from losses resulting from a collision with another car or object or from a rollover. The insurer pays regardless of whose fault it is. If it is the other person's fault "subrogation" comes into play.

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## Comprehensive Automobile Insurance

- Covers losses by perils other than collision and rollover. Covered perils include wind, fire, theft, vandalism, hail and wind.

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## Other Protection

- Towing coverage
- Rental reimbursement coverage

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## Automobile Insurance Policies

- Family automobile policy – several drivers
- Personal automobile policy – only one driver

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## Automobile Insurance Plans

- High risk drivers
- Companies writing auto insurance in a state are assigned by the state department of insurance to take on a certain proportion of high risk drivers

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## Buying Auto Insurance

- Get the best bang for you buck
  - Solid financial reputation
  - Low complaint ratio
  - Premium/deductible/coverage all affordable

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