

LESSON 6

risk of loss

FAQS ABOUT INSURANCE

1. What is insurance?

A good way to understand insurance is to think of it as a pool. When an insurance company insures us, the money we pay in the form of insurance premiums goes into a big pool with money from other insurance consumers. Then, in the event that something happens, the money needed to recover from an insurance loss can be withdrawn from that pool. Most of us never pay enough money through our premiums to cover the amounts needed to pay for our own losses. By pooling all the money from all the consumers, the insurance company is able to spread the losses of the few among the premiums of the many.

2. What is an insurance premium?

A premium is the amount of money you pay for being insured. It is the price of insurance protection for a specific period of time, usually one year. Your premium is calculated using a number of criteria. First and foremost is the probability that a loss might occur. This is based on a thorough analysis of your risk. The second is the number of risks being insured. As more people pay for the same type of insurance, more money is going into the pool, and the amount charged each person can be lowered. Insurance companies also have to take into account the cost of operating their business, including production costs, overhead and profit.

3. What is a claim?

A claim is a notification of a loss under an insurance policy. For example, if you have fire insurance on your house and contents, you would make a claim for the damage to the house and the loss of the contents after a fire occurs. The objective of the insurance company is to put you back into the same position you were in before the loss. In this case the policy will cover the costs of repairing the damage to the house and replacing the contents that were destroyed in the fire. An insurance claim is usually subject to a deductible. This is the portion of the loss that you agree to pay. Insurance companies use deductibles to control the cost of small claims and, by doing so, keep premiums affordable.

4. Must I always claim when something is stolen or damaged?

The insurance industry is based on the concept of “utmost good faith.” This means that it expects you to act in good faith, and it is expected to act in the same manner. When you apply for insurance, the insurance company expects that you are telling the truth about the items you wish to have insured, and about your level of risk. If you experience a loss, whether something is stolen or damaged, you are ethically bound to make a claim. You are expected to tell the truth about the circumstances around the loss. Only in this way can the insurance company accurately determine the risk involved in providing you with insurance.

LESSON 6

risk of loss

FAQS ABOUT INSURANCE

5. What is an endorsement?

An endorsement is an attachment to a policy. It may also be called a “rider.” That means you do not take out a separate policy for each item being insured, rather, you attach it to a policy already in existence. For your first apartment, you will likely take out an insurance policy to protect your contents against various risks. Perhaps you will bring a bicycle from home. This could be added to your parents’ home policy on an endorsement for a slightly increased premium.

6. What is liability?

Liability is another word for legal responsibility. If, due to your carelessness, someone is injured or something is damaged, you are responsible for the consequences. Liability is a legal term. It means that people are responsible for their actions as defined by provincial or federal law.

Legal liability is to be taken very seriously. For example, if you do something that causes damage and you are over 18, you are considered liable for the consequences. If you are under 18, your parents are liable if they give you permission or tell you to do something. If you have a part-time job, your employer is liable if you are asked to do something unsafe or you are not properly trained. And if something bad happens at an event such as a concert, or in a building that is in some way unsafe or not properly secured, the owner of the event or the building is liable for the consequences – if it was the owner’s fault, that is, the owner was legally responsible.

7. Is insurance necessary?

Insurance is essential for most people and businesses. Most importantly, it provides peace-of-mind for the people and things we value. There are many forms of insurance and most of us have at least one type of policy. Many people have life insurance, which provides money to their loved ones in the event of their death. Automobile insurance is mandatory in Canada for all people who drive a motorized vehicle, such as a car, truck or motorcycle. Property insurance protects the owners of a property from the financial impact of damage or loss. In order to run a business, a sporting event or a concert, insurance must be obtained. There are many forms of insurance and it touches all our lives in many ways.

LESSON 6

risk of loss

GROUP ACTIVITY SHEET

Discuss this scenario with your group. Use the sheet “FAQS About Insurance” to help you answer the questions.

Daniel has driven to school every day since he turned 16 and got a car. His car is a bit like his locker, jammed full of all of his stuff. He keeps his snowboarding equipment in the trunk, his CD collection in the glove compartment, his portable stereo plugged into the car sound system. He also has his gym clothes in the car, and has just purchased a new pair of running shoes, which he has left visible in the box on the back seat. Daniel always parks on school property in the students’ parking lot and makes sure his car is locked.

After school one day, Daniel goes to his car and realizes to his horror that someone has smashed the window and broken in. All of his stuff has been stolen. Daniel is heartbroken. A close friend, who has since moved out of town, gave him some CD’s of his own band. His snowboarding equipment was a gift from his family. And he worked at a part-time job to pay for the portable stereo.

When he returns home, he has to face his father with the news. Fortunately, his father took out an endorsement (or rider) to cover the contents in Daniel’s car as part of his house insurance policy. However, making a claim could cause Daniel’s car insurance premiums to increase substantially, especially as Daniel smashed into another car only three months ago. There is also a \$500 deductible on the endorsement to the house insurance policy and Daniel is going to have to pay this himself. He adds up his belongings and the cost to replace them is well over \$1 500. This is in addition to the damage to his car.

LESSON 6

risk of loss

GROUP ACTIVITY SHEET

Answer the following:

- 1) Who do you believe is liable (legally responsible) for this loss? Explain why.

- 2) What were the risk factors involved in this situation?

- 3) What did Daniel do to protect himself?

- 4) What are the benefits to Daniel if he claims for the loss? Is he ethically bound to do so? Why or why not?

- 5) What is the benefit of having an endorsement to his father's house insurance in addition to the mandatory car insurance?

LESSON 6

risk of loss

INDIVIDUAL ACTIVITY SHEET

List your 10 favourite personal items. Estimate the cost of each. Add up the total replacement costs.

No.	Favourite Personal Items	Estimated Costs
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
	Total Estimated Cost:	

1. How can you protect against the loss of these items?

2. Do you have insurance coverage that would ensure their replacement?

3. How could you prove that you own these items?

4. Could some of these items ever be truly replaced?
