

CHAPTER 14

AUTOMOBILE AND HOME INSURANCE

Sharing the Risk

WHAT'S AHEAD

14.1 Insurance Basics

14.2 Automobile Insurance

14.3 Home Insurance Coverage

14.4 Providers and the Claims Process

LESSON 14.1

Insurance Basics

GOALS

- ▶ Describe how insurance works to protect consumers.
- ▶ Explain the basic kinds of insurance and how to determine the amount to buy.

KEY TERMS

- insurance
- premium
- policy
- claim
- shared risk
- insurable interest
- appraisal
- rider
- property insurance
- liability insurance
- personal insurance

How Insurance Works

- ▶ Risk management
- ▶ Premiums and statistics
- ▶ What insurance protects
- ▶ The insurance trade-off
- ▶ Role of insurance in the economy

Types of Insurance

- ▶ Property insurance
- ▶ Liability insurance
- ▶ Personal Insurance

CHECKPOINT 14.1

- How does insurance protect individuals from losses they cannot handle on their own?
- What are the three basic types of insurance? What does each one cover?

CHECKPOINT 14.1 ANSWERS

- How does insurance protect individuals from losses they cannot handle on their own?
- Insurance provides protection through the principle of shared risk.
- The insurance company collects premiums from many policyholders and uses these funds to pay insured people for their covered losses.

CHECKPOINT 14.1 ANSWERS

- What are the three basic types of insurance?
What does each one cover?
- Property insurance protects against financial loss when your things are stolen, damaged, or destroyed.
 - Liability insurance protects against financial loss if your actions cause other people to suffer.
 - Personal insurance protects you and members of your family from financial loss due to illness, disability, or death.

LESSON 14.2

Automobile Insurance

GOALS

- ▶ Identify basic types of auto insurance coverage.
- ▶ Explain factors that contribute to the cost of auto insurance.

KEY TERMS

- bodily injury liability coverage
- property damage liability coverage
- medical payments coverage
- uninsured/underinsured motorist coverage
- comprehensive coverage
- collision coverage
- deductible
- point
- assigned risk

Types of Automobile Insurance Coverage

- ▶ Bodily injury liability coverage
- ▶ Property damage liability coverage
- ▶ Medical payments coverage
- ▶ Uninsured/underinsured motorist coverage
- ▶ Comprehensive coverage
- ▶ Collision coverage
- ▶ Additional coverage options

How Much Insurance Should You Buy?

- ▶ Liability and medical
- ▶ Collision and comprehensive

Cost of Automobile Insurance

- ▶ Causes of increasing insurance costs
- ▶ Factors affecting your premium
 - ▶ Driver classification
 - ▶ Rating territory
 - ▶ Driving record
 - ▶ Type of car
 - ▶ Claims history
- ▶ Reduce your premiums

CHECKPOINT 14.2

- What are three types of insurance protection every driver should purchase?
- What do insurance companies consider in determining your auto insurance premium?

CHECKPOINT 14.2 ANSWERS

➤ What are three types of insurance protection every driver should purchase?

1. Property damage liability
2. Bodily injury liability
3. Medical payment coverage

*(Buying uninsured/underinsured motorist coverage is also desirable.)

CHECKPOINT 14.2 ANSWERS

- What do insurance companies consider in determining your auto insurance premium?
- Age
 - Gender
 - Marital status
 - Driving record
 - Where you live
 - Type of car you drive

LESSON 14.3

Home Insurance Coverage

GOALS

- ▶ Discuss types of homeowner's insurance.
- ▶ Explain how to control the cost of insuring your home.

KEY TERMS

- homeowner's insurance
- umbrella policy
- renter's insurance
- 80 percent rule

How to Choose Home Insurance

- ▶ Types of coverage
 - ▶ Personal property
 - ▶ Exclusions
 - ▶ Liability
- ▶ Umbrella policy
- ▶ Special risk coverage
- ▶ Basic forms of homeowner's insurance
- ▶ Renter's insurance
- ▶ How much insurance should you buy?

Basic Forms of Homeowner's Insurance

- ▶ Basic form
- ▶ Broad form
- ▶ Comprehensive form
- ▶ Special form
- ▶ Renter's form
- ▶ Condominium form

Cost of Homeowner's Insurance

- ▶ **Factors affecting your premium**
 - ▶ Location
 - ▶ Age of the house
 - ▶ Distance to a fire station or hydrant
- ▶ **Reduce your premium**
 - ▶ Increase your deductible
 - ▶ Upgrade your home
 - ▶ Install smoke detectors
 - ▶ Install more security
 - ▶ Special discounts

CHECKPOINT 14.3

- What are two basic types of coverage that homeowner's insurance provides? What additional special coverages should you consider?
- What are ways you can reduce your insurance premium for your home?

CHECKPOINT 14.3 ANSWERS

- What are two basic types of coverage that homeowner's insurance provides? What additional special coverages should you consider?
- Homeowner's insurance provides property and liability coverage.
 - People should consider buying riders to insure valuable property that is not covered by a basic homeowner's policy.

CHECKPOINT 14.3 ANSWERS

- What are ways you can reduce your insurance premium for your home?
- Install safety/security devices.
 - Replace old plumbing or electrical systems.
 - Use fire resistant materials in construction.

LESSON 14.4

Providers and the Claims Process

GOALS

- ▶ Discuss how to evaluate insurance agents and companies.
- ▶ Describe how to file a claim for a loss.

KEY TERM

- no-fault insurance

How to Choose an Insurance Provider

- ▶ How to choose an agent
- ▶ How to choose an insurance company
 - ▶ Financial health
 - ▶ Claims service

How to File a Claim

- ▶ Homeowner's claims
 - ▶ Home inventory
 - ▶ Claims process
- ▶ Automobile claims
 - ▶ When a loss occurs
 - ▶ No-fault insurance
- ▶ Insurance fraud

CHECKPOINT 14.4

- How should you evaluate insurance companies and agents before buying a policy?
- What steps should you take to file a claim if you suffer a loss to your home or automobile?

CHECKPOINT 14.4 ANSWERS

- How should you evaluate insurance companies and agents before buying a policy?
- Check the company's financial strength through publications such as *Best's Insurance Reports*.
- Read evaluations of firm's service quality on sites such as FreeAdvice.
- Chose agents according to the types of insurance they sell and their ability to communicate and serve your insurance needs.

CHECKPOINT 14.4 ANSWERS

- What steps should you take to file a claim if you suffer a loss to your home or automobile?
- Contact your insurance company or agent.
- Provide information about how a loss took place and about the property that was damaged, stolen, or destroyed.
- Have an adjuster from the insurance company confirm your claim and recommend a settlement.