



General insurance concepts

- ✓ **Risk types**
 - ✓ **Pure:** Only loss possible; insurable. Insurance restores, it does not create profit (principle of indemnity)
 - ✓ **Speculative:** Loss or gain possible; not insurable (e.g., gambling, investing)
- ✓ **How to manage risk**
 - ✓ **Avoid:** Eliminate the risk entirely (e.g., don't drive)
 - ✓ **Reduce:** Lower the chance or severity of risk (e.g., healthy habits)
 - ✓ **Retain:** Accept and pay for the risk yourself (e.g., deductibles)
 - ✓ **Share:** Spread the risk with others (e.g., business partners)
 - ✓ **Transfer:** Shift the risk to another party (e.g., buying insurance)
- ✓ **Law of large numbers**
 - ✓ The larger the group, the more accurately insurers can predict losses and set premiums. It's the statistical foundation of insurance
- ✓ **Insurable interest**
 - ✓ Must have a financial or personal stake in the insured at time of application (e.g., self, family, business)
- ✓ **Free look period:** Policy owners have 10 days (or as required by state law) to cancel a new policy and receive a full refund.



Insurance contracts

- ✓ **Four elements of a valid contract**
 - ✓ **Offer:** An offer is made when the applicant completes the application; it's accepted when the insurer issues the policy
 - ✓ **Acceptance:** Acceptance occurs when the insurer agrees to the offer as written or with counter-offers
 - ✓ **Consideration:** Consideration is the exchange of value — the applicant's premium for the insurer's promise to pay claims
 - ✓ **Legal capacity and purpose:** Both parties must be legally able to enter the contract, and the purpose must be legal (no fraudulent intent)
- ✓ **Key features**
 - ✓ **Adhesion:** "Take it or leave it", the insurer sets terms
 - ✓ **Aleatory:** Unequal value exchange (small premium for large benefit)
 - ✓ **Unilateral:** Only the insurer makes a binding promise (the insured does not promise anything in return)
 - ✓ **Conditional:** Terms and conditions must be met to receive benefits
- ✓ **Utmost good faith**
 - ✓ Both parties must act honestly and rely on each other's representations
- ✓ **Representations vs. warranties**
 - ✓ **Representation:** Statements believed to be true to the best of the applicant's knowledge
 - ✓ **Warranty:** Guaranteed truth; false = void policy
 - ✓ **Misrepresentation:** Knowingly false information may void the contract
- ✓ **Doctrine of adhesion**
 - ✓ If contract terms are ambiguous, they are interpreted in favor of the insured
- ✓ **Principle of indemnity**
 - ✓ Insurance restores the insured to their financial position before the loss; no opportunity for gain.