Achievable

PROPERTY INSURANCE DUMP SHEET

Concepts and contracts

Risk and risk management

- **Risk** is uncertainty about the possibility of loss:
  - **Pure:** loss or no loss, never gain — the only insurable kind
  - **Speculative:** loss or gain both possible (gambling, investing) — uninsurable
- Five ways to manage a risk:
  - **Avoid:** drop the exposure entirely (don't drive)
  - **Reduce:** lower the chance or severity of loss (sprinklers, deadbolts)
  - **Retain:** carry the cost yourself — a deductible is retention
  - **Share:** spread the exposure across several parties (business partners)
  - **Transfer:** shift it to someone else; insurance is the usual transfer
- **Law of large numbers:** the more exposure units in the pool, the more accurately the insurer predicts the GROUP's losses. It never predicts the loss of any one unit

Perils, hazards and insurable risk

- **Peril:** the cause of loss — fire, theft, collision, windstorm
- **Hazard:** a condition that makes a peril likelier or worse
  - **Physical:** a condition of the property or person (faulty wiring, icy steps)
  - **Moral:** dishonesty — lying on an application, staging a loss
  - **Morale:** carelessness because the property is insured
- Six marks of an insurable risk:
  - The loss must be **uncertain** — a certain loss is not insurable
  - A **large number of similar exposure units**
  - The loss must pose real **economic hardship**
  - The loss must be **ascertainable** — measurable in money
  - The loss must be **accidental and unintentional**
  - The loss must **not be catastrophic** to the insurer

The four policy sections — DICE

- **D — Declarations:** who and what is insured
  Named insured, the property and its location, limits, deductible, policy period, premium and mortgagee.
- **I — Insuring agreement:** the insurer's promise, the parties to it, and the perils covered
- **C — Conditions:** what each party must do
  Break one, such as failing to report a new swimming pool, and the insurer may deny the claim or refuse to renew.
- **E — Exclusions:** the property and perils not covered — what keeps one catastrophe from taking the insurer down

Insurance contracts

- Four essential elements:
  - **Consideration:** the applicant's premium for the insurer's promise to pay
  - **Offer and acceptance:** the application is the offer; the insurer accepts it as written or counteroffers. Acceptance is unconditional — the "meeting of the minds"
  - **Legal capacity:** the insurer must be admitted; a minor, an incompetent person or someone intoxicated cannot contract
  - **Legal purpose:** the contract may not be against public policy
- **Insurable interest:** a financial stake in the property or person insured
  For property and casualty it must exist at the TIME OF LOSS; for life insurance, only at application.

What every insurance contract is

- **Adhesion:** the insurer writes it and the applicant takes it or leaves it, so ambiguity is read in favor of the insured
- **Aleatory:** the values exchanged are unequal and turn on chance
- **Unilateral:** only the insurer makes an enforceable promise
- **Conditional:** benefits are owed only once the conditions are met
- **Utmost good faith:** each may rely on the other's statements; neither may conceal a material fact
- Statements on the application:
  - **Representation:** true to the best of the applicant's knowledge
  - **Warranty:** guaranteed true; a material breach can void the policy
  - **Misrepresentation:** false — and if the insurer proves it was intentional, it may void the contract and be prosecuted as fraud