

## Checkpoint 1.1

1. What is risk?

*Answer:* The probability of an event occurring and the possible consequences of that event.

2. What are four ways to manage risk?

*Answer:* Reduce risk, avoid risk, retain risk, and transfer risk.

3. Describe the concept of risk transfer.

*Answer:* In return for a premium, an insurance carrier takes on the policyholder's risk of financial loss.

4. What is the basic intent of insurance?

*Answer:* To make the policyholder "whole."

5. When an insurance carrier takes on a risk for you, what do you give the carrier in return?

*Answer:* A premium (fee or money).

## Checkpoint 1.2

1. What is a life stage?

*Answer:* A distinct phase in a person's life, such as entering adulthood or getting married.

2. How does an individual's life stage affect his or her need for insurance?

*Answer:* As a person progresses through different life stages, the risks they face change. For example, having kids adds the need to provide financial security if a parent dies.

3. List three risks that a young person faces when entering the life stage of adulthood.

*Answer:* (any three; other answers possible) Potential loss of earning power, unexpected health care costs, property loss, and premature death.

4. What are the kinds of life decisions that can affect your insurance coverage?

*Answer:* (other answers possible) Engaging in dangerous activities, such as skydiving or riding a motorcycle, or leading an unhealthy lifestyle, such as being overweight or using tobacco.

5. Describe the difference between a peril and a hazard.

*Answer:* A peril is a potential cause of loss, while a hazard is a condition that increases the likelihood or extent of a loss.

### **Checkpoint 1.3**

1. How do you find out about the financial health of an insurance carrier?

*Answer:* Investigating the company through various independent ratings agencies.

2. Do independent ratings agencies score insurance carriers on customer service?

*Answer:* No.

3. What is an example of customer service in the insurance industry?

*Answer:* (other answers possible) How promptly the company responds to a claim, how often the company denies claims, how quickly the company pays claims, and how promptly and professionally the company addresses billing questions or disputes.

4. Where can you find information about an insurer's record of customer service?

*Answer:* Through the state's website or through the NAIC.

5. Explain why buying insurance based on the lowest premium may not be a good idea.

*Answer:* The company offering the lowest premium may have a record of poor customer service. So, it may be better to pay a higher premium to receive a higher level of customer service.