

## Chapter 10

### Checkpoint 10.1

1. What is the term for the mutual trust between a policyholder and an insurance carrier?

Answer: Utmost good faith.

2. Which basic element of an insurance policy lists a policy number, the name of the policyholder, the insurance carrier, what the policy covers, and the start and end dates of the coverage?

Answer: Declarations.

3. What kind of information is included in the definitions section of an insurance policy?

Answer: Terms used in the contract along with clear definitions of those terms.

4. What is the term for losses the insurance carrier will not cover?

Answer: Exclusions.

5. What element of an insurance contract would need to be added an existing homeowner's insurance policy to make sure a new 55-inch flat panel television is covered if it was ever stolen or damaged?

Answer: An endorsement.

### Checkpoint 10.2

1. What principle is based on the idea that the greater the pool of policyholders the lower the risk is to the insurance company?

Answer: The law of large numbers.

2. What essential process determines the risk an applicant poses to an insurance carrier?

Answer: Underwriting.

3. From what source do insurance companies receive information regarding industry-wide claims and losses?

Answer: Ratings bureaus.

4. What insurance professional uses statistics, math, computer science, and finance to determine the probability of claims being made?

Answer: An actuary.

5. How do insurance companies transfer their risk?

Answer: By purchasing reinsurance.

### Checkpoint 10.3

1. What is the process of documenting a loss against the policy?

Answer: A claim.

2. What insurance professional is responsible for arriving at a final settlement with the policyholder after a claim has been made?

Answer: Loss adjuster.

3. The result of what dispute resolution process is binding on both sides?

Answer: Arbitration.

4. When are the services of a mediator needed?

Answer: When a policyholder objects to an insurance claim decision.

5. What should a policyholder carefully consider before filing a claim?

Answer: The impact to their insurance coverage.

### Checkpoint 10.4

1. What service do ratings agencies perform?

Answer: They evaluate and report their opinion on the financial health of an insurance company.

2. What role does the financial analyst play in a ratings agency?

Answer: He or she researches companies to determine their ability to pay their debts.

3. How do ratings agencies give their opinion of a company's financial health?

Answer: A letter-based grade.

4. What professional collects and analyzes numerical data for ratings agencies and other companies?

Answer: A statistician.

5. What entities supervise and regulate insurers?

Answer: State insurance departments.