Chapter 11

Checkpoint 11.1

1. What is the fee a policyholder pays in return for insurance coverage?

Answer: A premium

2. What is meant by gross premium?

Answer: The amount a policyholder pays--the load plus the pure premium.

3. What strategy does the insurance industry use to help project costs that may be associated with huge disasters?

Answer: Catastrophe modeling.

4. When an actuary formulates a rate for a unit of insurance, what is it expected to cover?

Answer: Losses and expenses.

5. What actuarial tool helps set life insurance premiums?

Answer: Mortality tables.

Checkpoint 11.2

1. Committing money to something with the expectation of getting more money back in return is called what?

Answer: Investing

2. In addition to money collected from premiums, how else do insurance companies make money?

Answer: Through investing.

3. What is the time between when the premium is received and when a claim is paid?

Answer: The tail.

4. What is the money that insurers may invest that has been collected but has not yet been paid out in claims?

Answer: The float.

5. What advantage does a long-tail policy have over a short-tail policy for

the insurance company?

Answer: Because the time between when the premium is collected and when it is paid out is longer than it is in a short-tail policy, insurance companies can invest the “tail” for a longer period and yield more money.