

## Chapter 14

### Checkpoint 14.1

1. What is the principle of mutual trust between the insurer and the policyholder called?

*Answer:* Utmost good faith.

2. List three reasons for an insurer to void a policy.

*Answer:* Concealment, material misrepresentation, and violation of warranty.

3. When an insurance sales agent withholds important coverage information from a client, it is an example of what?

*Answer:* Acting in bad faith.

4. When a potential policyholder provides information during the insurance application process he or she knows to be untrue, it is an example of what?

*Answer:* Concealment

5. If you get into an accident while street racing your motorcycle, your insurance company can refuse to pay your claim or even void your policy under what principle?

*Answer:* Breach of warranty.

### Checkpoint 14.2

1. What is the concept that a policyholder must have a financial interest in the property being insured known as?

*Answer:* insurable interest

2. In an insurance context, what does *liable* mean?

*Answer:* Responsible according to the law.

3. What is the purpose of insurance?

*Answer:* To compensate a person for his or her loss.

4. Insurable interest in a life insurance context does not require what factor that is required with other kinds of insurance?

*Answer:* A financial interest.

5. If an insurable interest exists between a policyholder and a beneficiary at the beginning of the insurance contract it does what?

*Answer:* Continues even if the relationship ends.

### **Checkpoint 14.3**

1. What insurance principle is meant to prevent policyholders from profiting through insurance contracts?

*Answer:* Indemnity

2. Replacement value minus depreciation is known as what?

*Answer:* Actual cash value

3. What kind of policy pays out the full face value of the policy?

*Answer:* A valued policy

4. If you purchased a lamp four years ago for \$50, and it was destroyed by fire this year, what type of insurance would pay the cost of purchasing a new lamp just like it?

*Answer:* Replacement cost insurance.

5. What insurance principle allows an insurance company to go after the responsible third party for damages and prohibits the policyholder from getting paid by the insurance company.

*Answer:* Subrogation