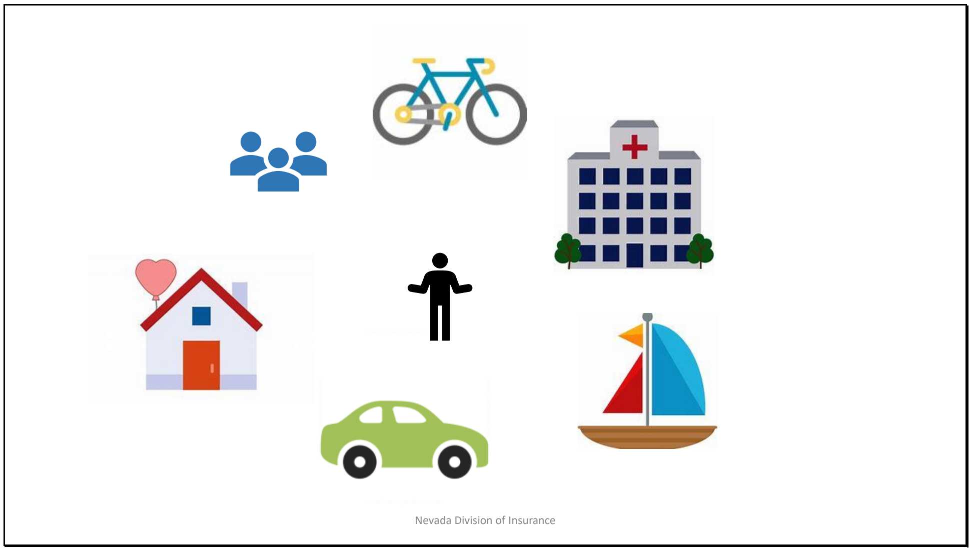
Slide 1

The Basics of Insurance

Slide 2



Insurance is used to protect a person's assets or loved ones.

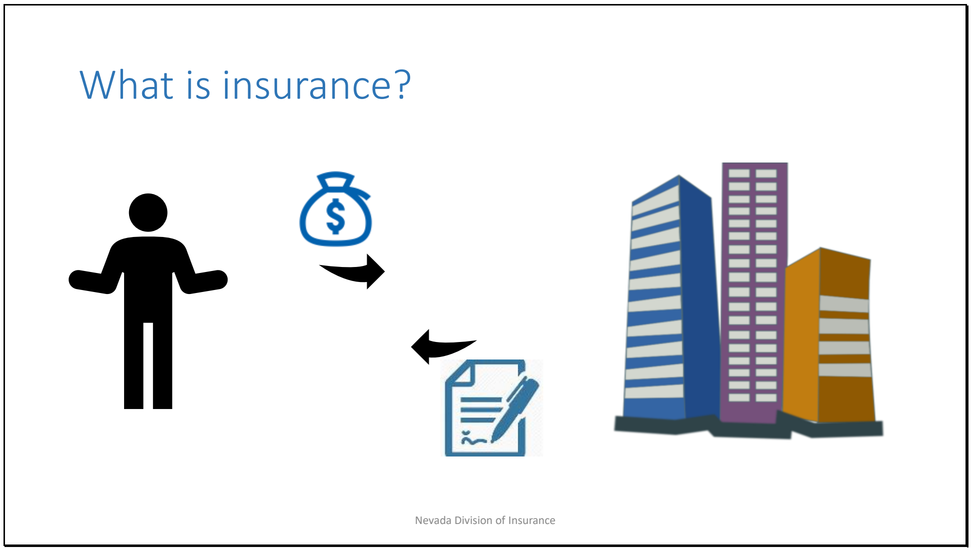
CLICK: When you're just starting out, you might buy a car or some fun toys.
CLICK: At some point, you might purchase a house or condo.

What happens if there is an accident or fire? Could you afford to replace everything?

CLICK: What if you earn the only income in a family? What would happen to your family if you were disabled for several months to several years or if death occurred?

CLICK: How would your family pay for a medical emergency where costs could exceed $100,000?

Slide 3



Insurance can offset the financial impacts caused by accidents, fire, theft, illness, or the death of a family income provider.

Simply put, insurance is the transfer of risk; it is effectively a large group of people pooling their money through an insurance company, so the person or family that suffers a significant loss can be made whole. Insurance is a safety net against the unknowns and can keep a family from suffering financial ruin in the event of a loss.

CLICK: When purchasing insurance, a consumer pays a fee, called a premium, to an insurance company and

CLICK: receives an insurance policy, which is a legally binding contract. The policy states what is covered, what is excluded, and the maximum amounts the insurance company is required to pay in the event of a loss.

Instead of the policyholder potentially losing all of their assets due to a loss, the insurer assumes the risk for covered losses.

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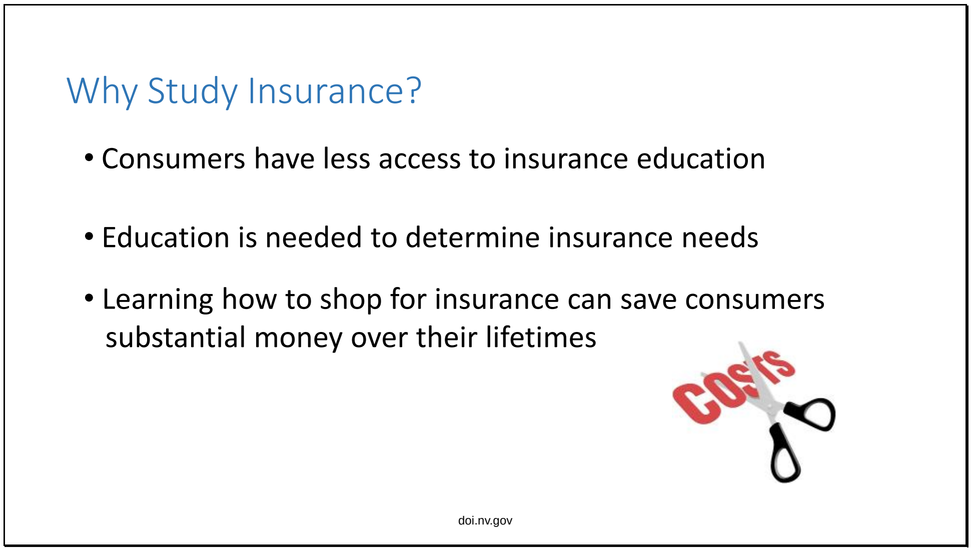

Why Insurance Education is Important

CLICK: Consumers have less access to insurance education
In recent years, more of the insurance-buying public has been choosing to purchase insurance directly, through the internet or dealing directly with an insurance carrier by telephone. GEICO and Progressive are now the No. 2 and 3 auto insurers in the country. Today, many consumers are basing their insurance buying decisions on commercials and do not have access to education about insurance products and coverages.

CLICK: Education is needed to determine insurance needs.
How do I protect my assets from a lawsuit? How much insurance do I need to replace my home in the event of a fire? What happens if I am disabled and can’t work for 1 or more years? Learning how to determine the appropriate levels and types of insurance can protect consumers from financial devastation.

CLICK: Learning how to shop for insurance can save consumers substantial money
The cost for insurance may vary dramatically between insurance carriers. The Commonwealth Fund found that the average American family spends 10.1% of its income on health insurance premiums and deductibles. Add in auto premiums and homeowner premiums, and it adds up quickly. Learning how to shop for insurance can save you substantial money over your lifetimes.

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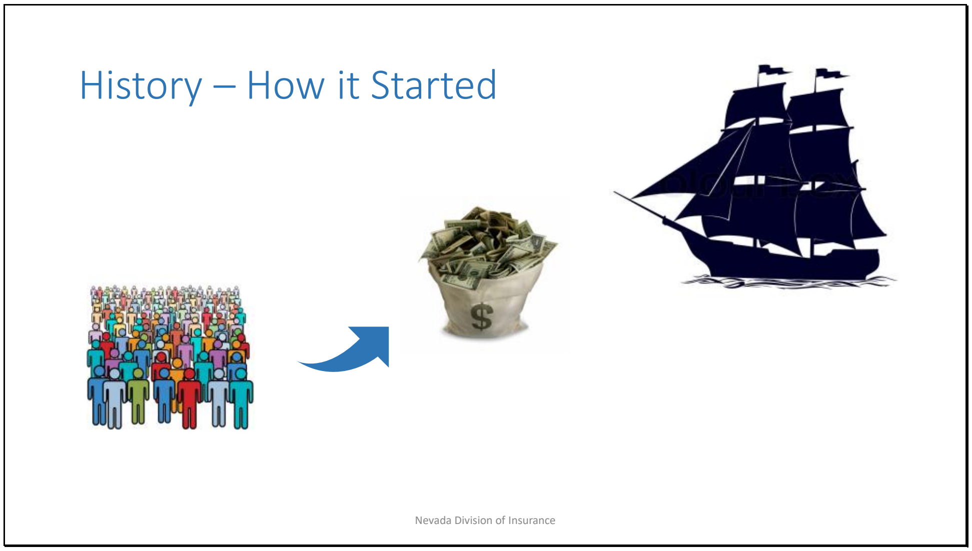

Modern insurance started with the shipping industry, when the risk of losing the cargo (and investment) at sea was high. If cargoes were lost, investors were just out of luck before the development of insurance.

CLICK: Modern insurance started at a coffee house in London owned by Edward Lloyd as early as 1683. At Lloyd’s of London, wealthy Englanders would buy shares of risk from shipping merchants, on both the value of a ship and the cargo it was carrying. If the ship made it to port, those who bought shares would share in the profits; if the ship sank they would lose the money they pledged. Lloyd’s of London still exists today, and it is still a market where members form syndicates to insure risks that traditional insurance companies are not comfortable writing.

This continued to develop over time. In 1751, Benjamin Franklin helped form the Philadelphia Contributionship. Homeowners in Philadelphia could subscribe; in the event of a fire, the losses were paid out of the deposits of the subscribers.

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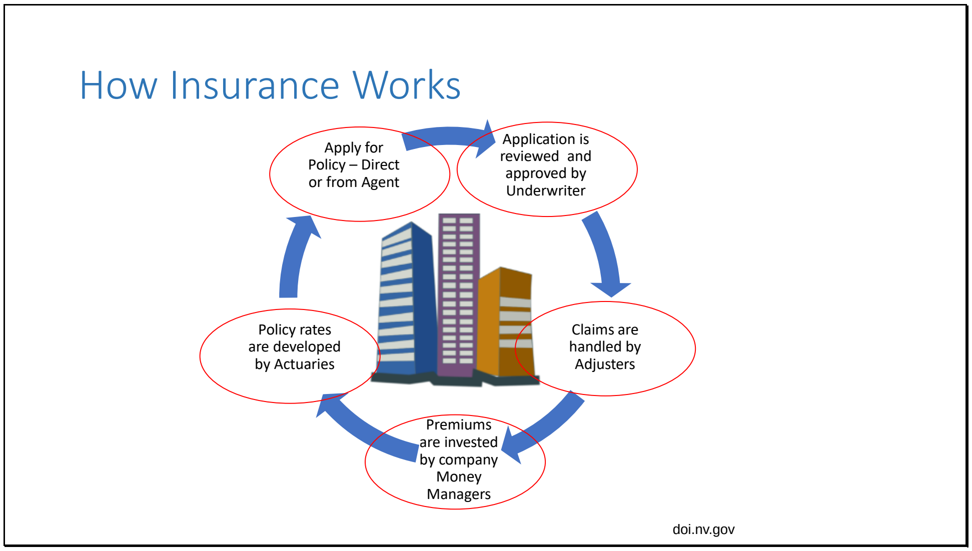

On the surface, insurance seems pretty simple. A person buys a policy from an agent or broker. If a qualified loss occurs, the insurer pays, according to the policy.

However, there is a lot that happens behind the scenes.

CLICK: First, the insurer has to develop a product. Actuaries examine statistics, use prior history and probability to determine expected losses, returns on investment, and the premiums to charge consumers. The insurer also works out the rules and rates as well as the policy language for the product and may have to submit these to the state for approval.

CLICK: Once approved, the insurer begins to market the product, either directly using technology or through agents. This is the stage when people purchase policies. Remember that agents and brokers are paid a commission by the insurer (the commission is built into the premium) and an additional 10% to 15% of premium goes to marketing.

CLICK: Then applications are underwritten, by a person or computer, and the insurer decides whether to accept the risk or modify the terms of the contract based on the risk. If the risk is accepted, the policy is issued, and the consumer pays the premium.

CLICK: If there is a loss, the claims are handled by adjusters, who determine the correct amount to pay to honor the contract. Some type of claims are handled by computers.

CLICK: Premiums are dollars paid for policy. Insurance companies are required to keep enough surplus to cover expected future claims. In order to have enough money to pay claims, especially for policies with longer periods, the money managers invest the money to match the timing and risk. Because the vast majority of insured people do not suffer losses or only small losses, the insurance companies have substantial investments to help them to pay out the occasional huge claim. As an example, so far the insurance costs for the 2018 California wildfires have exceeded $12 billion.

(CLICK to finish building image.)

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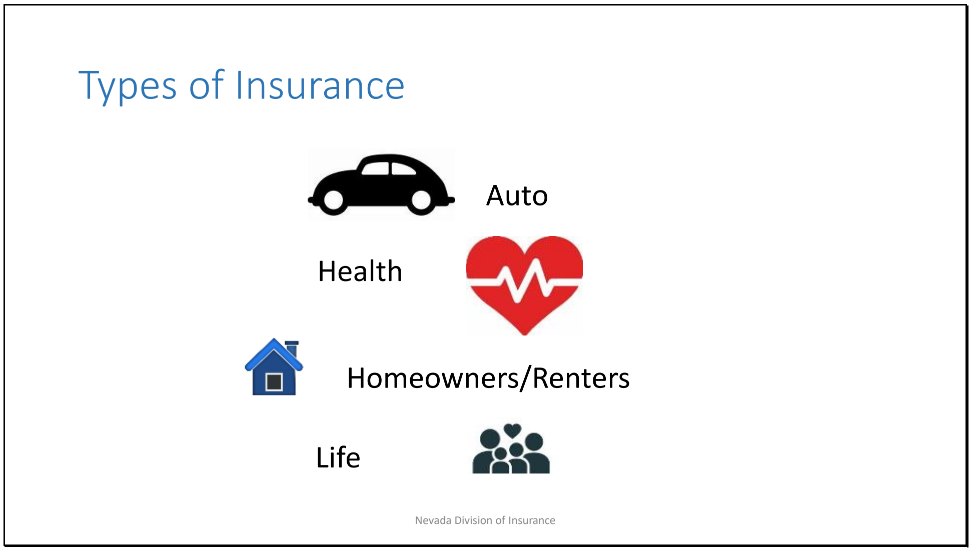

Some examples of common types of insurance are:

CLICK: Auto insurance, where the insurer may pay to repair or replace your vehicle after an accident.

CLICK: Health insurance, which may cover routine and preventive care as well as emergency treatment.

CLICK: Home insurance would cover damage to a home and the personal property inside the home if caused by a fire.

CLICK: Life insurance to replace lost income in the event of a death of a parent or primary income earner.

These are all personal lines of insurance.

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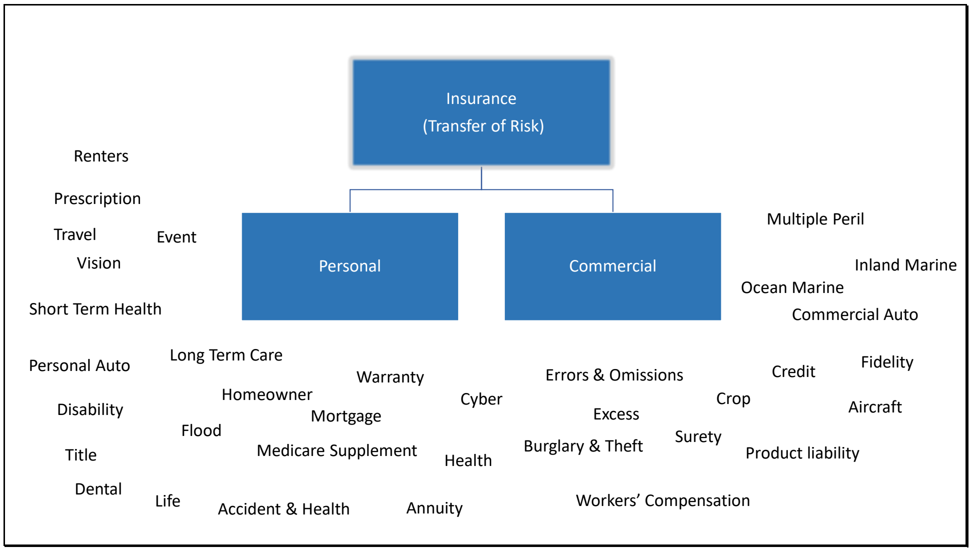

However, there are many more types of insurance. Insurance is typically split into categories of personal and commercial (business) lines. Can you suggest more lines or types of insurance? (Take 4-5 suggestions.)

CLICK: Let's just take that in. This is not an exhaustive list. As you can see, insurance is a huge topic.

Remember, the upfront financial costs of insurance and impacts of underinsurance are significant. It's important to know types and amounts of insurance you may need, either in your personal life or as a business owner.

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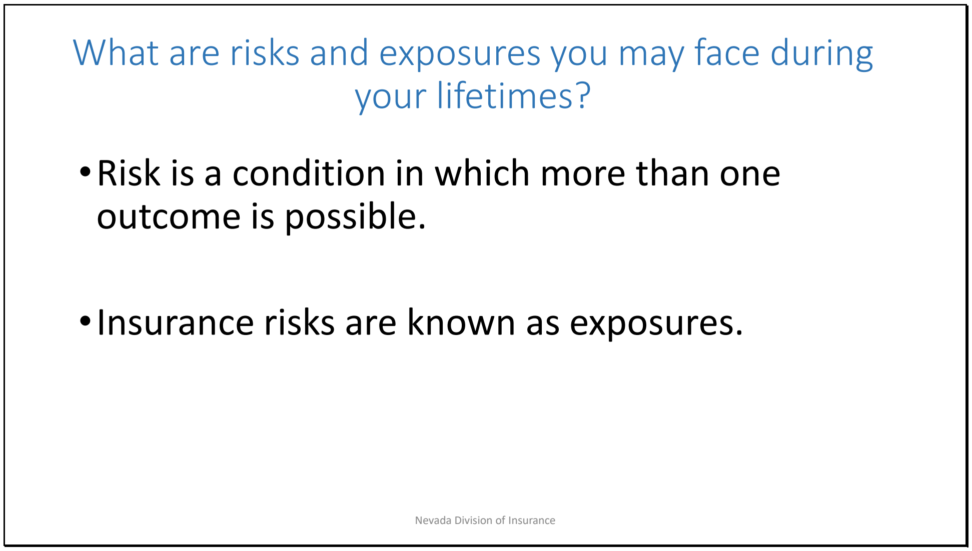

CLICK: A “risk” is a condition in which more than one outcome is possible.

CLICK: Insurance risks are known as exposures.

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The most common insurance risks are automobile accidents

Slide 11

and storm-related damages to homes.

[Teacher notes: Have a class discussion to generate idea list of risks. What do you have to lose? (house, car, lifestyle… How could you protect it?)

Slide 12

Understanding the Impact of Perils

- Loss of value
- Cost of debris removal
- Rebuilding costs
- Replacement of equipment
- Loss of income
- Attorney fees
- Space rental
- Cost of substitute goods
- Loss of clients, employees

A peril is the cause of a loss. Examples are fire, theft, vandalism, collision, and wind. Perils can have numerous impacts to insureds; some are obvious and immediate, while the impact of others may only be evident after the immediate event.

Imagine a small business that experienced a fire. What are some of the ways the business would be impacted? (Take suggestions)

CLICK: Loss of value, cost of debris removal, cost to replace, loss of income, extra expenses such as attorney/space rental/substitute goods.

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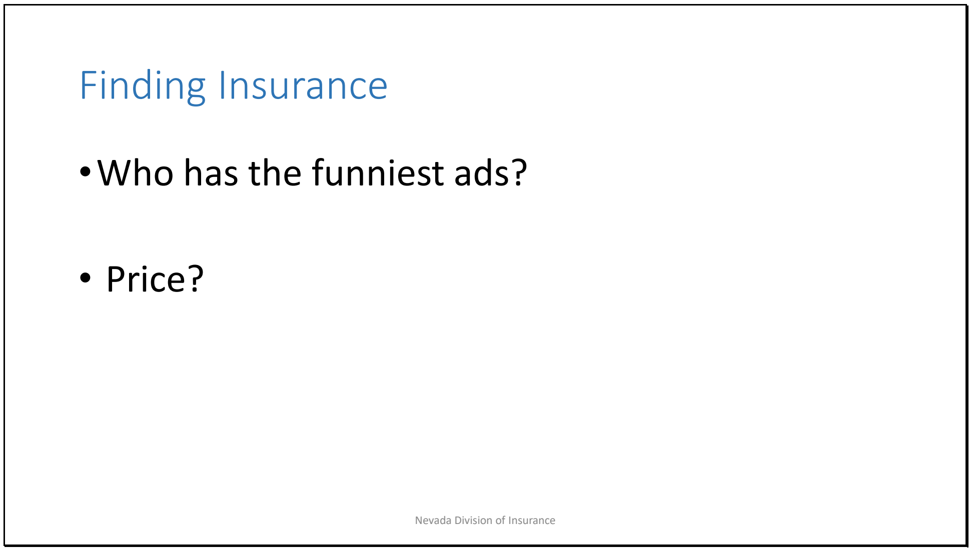

Choosing an insurer and required coverages can be overwhelming. What should you consider when making a decision?

CLICK: Who has the funniest ads? Direct marketing and advertising don’t always teach consumers what they need to know or what they are purchasing.

CLICK: Can you just consider the price? Policies frequently contain different exclusions. Unless you read the exclusions, or the fine print, you may not be comparing equivalent coverages.

[Teacher note: More practical information on working with agents, brokers, direct marketing, etc. is included in the Auto lesson plan.]

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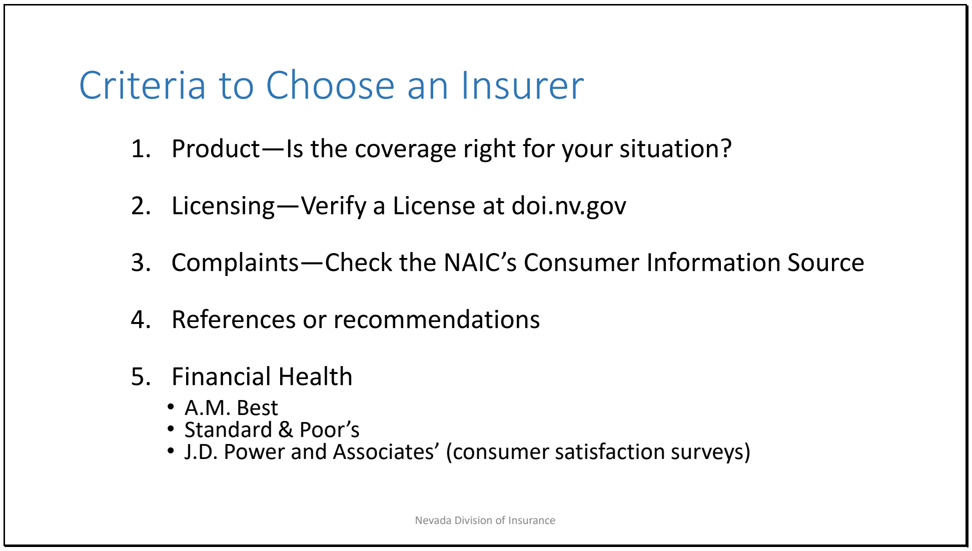

There are other ways to determine the quality of an insurance provider.

CLICK: Does the insurer offer a product that meets your specific needs and applies to your situation? Consider whether the product right for you. Verify that the coverages appropriate for you are included in the cost. A low cost could indicate the policy excludes more circumstances. Could you afford the deductible or non-covered costs in the event of a claim? You need to read the fine print!

CLICK: Is the insurer licensed to do business in Nevada? Insurance is regulated at the state level, and you can use the Verify a License tool at doi.nv.gov to verify the licenses of insurers, agents, and many other insurance entities.

CLICK: You can check complaints through the NAIC's Consumer Information Source look-up tool. **

CLICK: Ask for recommendations. Ask about how claims were handled and about the person's customer service experiences. Also consider whether the coverage right for your situation. Your neighbor may have recommended an insurer, but think through whether your situation is similar enough to your neighbor's situation.

CLICK: An insurer has to be able to pay claims. You can check the financial health of an insurer through A.M. Best or Standard & Poor's, who rate the financial health of insurance companies. You have probably seen an insurance company advertise being A+ rated. Consumer satisfaction surveys are available from J.D Power and Associates.

**[Teacher note: See the enrichment section of The Basics lesson plan for further lesson ideas.]

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Wrapping it Up

Wrapping it up

Remember, insurance transfers risk from you to an insurance company; in the event of a significant loss, the insurer would pay for qualified claims, limiting your financial losses.

We will look at the main types of personal insurance in subsequent lessons.