

Chapter 1

Principles of Insurance

1

Risk – The chance or uncertainty of
loss

2

Five Methods for Managing Risk ***"STARR" with Two "R's"***

- S**hare
- T**ransfer
- A**void
- R**educe (Control)
- R**etain

3

Insurance

- The purpose of insurance is not to avoid or eliminate risk, but to transfer it.
- We transfer the risk and responsibility for loss payment to an insurance company in exchange for a premium. The insurance company invests these premiums and pays for covered losses out of accumulated premiums.

4

Law of Large Numbers

The more samples used to develop any statistic, the more reliable the statistic will be.

5

Two Types of Risk

- Speculative – chance of gain or loss
- Pure – chance of loss or no loss

6

Insurable Interest

- Before you can benefit from insurance, you must have a chance of financial loss or a financial interest in the property.
- Must exist not only at the time of application in order to acquire the coverage, but at the time of loss in order to collect.

7

Rules Regarding Suitable Risks for Insurance:

- Definite
- Unexpected
- Financial hardship
- Calculable
- Affordable
- Large number of insureds so losses become predictable
- Spread of risk

8

- **Peril** – Cause of loss (the thing we insure against)
- **Hazard** – Anything that increases the risk

M & **M** **P'nuts**
O **O** **H**
R **R** **Y**
A **A** **S**
L **L** **I**
E **A**
L

9
