

Lesson 6: Insurance



risk: a chance of harm, loss, or damage

liability insurance: insurance for what the policyholder is legally obligated to pay because of bodily injury or property damage caused by the policyholder to another person

In the previous lesson you examined the process of borrowing money. When people borrow a large sum of money—perhaps to buy a house or car—they often include *life and health insurance* to lower their **risk** of not being able to repay the money.

You probably know other reasons that people buy insurance, for example, to protect their personal possessions against the risk of theft or damage. This kind is called *property and casualty insurance*, and it includes another type you may know about, **liability insurance**.

In this lesson you will focus on buying insurance. Insurance involves paying a fee to a company in return for its guarantee to compensate you by a specific amount if you suffer a loss or damage due to some risk in your life.

Insurance and Risk

Life is made up of risks. When you reflect on your insurance requirements, you need to consider the many potential risks in your life. Risks exist in the physical, emotional, and financial aspects of your life—in everyday situations and in choices you make. Most kinds of risk are covered under the two main insurance categories you just read about, *property and casualty insurance* or *life and health insurance*.



Types of Insurance

To discover the basics of the insurance industry in Canada and the types of insurance available, investigate the following websites. Use the information from these websites to answer the questions that come after the list of websites.



- Insurance Bureau of Canada

<http://www.abc.ca/>

- Insurance Canada

<http://www.insurance-canada.ca/index.php>

- AFN Insurance Brokers (First Nations Insurance Programs and Services)

<http://www.afnib.com/>

- Many Nations Financial Services Ltd.

<http://www.mannations.com/>

1. List at least ten types of insurance you discovered during your investigation of insurance websites.
2. With a partner or small group, brainstorm a list of potential risks in life. Create as extensive a list as possible. Then categorize your list according to *risks that can be insured against* (insurable risks) and *risks that are not insurable* (uninsurable risks). Based on the types of insurance you listed for question 1, decide what kind of insurance would be appropriate for each type of insurable risk on your list.
3. Insurance is available for circumstances that have a degree of risk. You can, however, take action to reduce the risk. Consider various forms of insurance. Identify some actions you can take to reduce risk with each of the following:
 - vehicle insurance
 - life insurance
 - motorcycle insurance
 - tenant/homeowner insurance



Compare your answers with the Suggested Responses at the end of the lesson.

Buying Insurance

When you purchase insurance, you have some decisions to make:

- how much insurance **coverage** to buy

Generally, the more assets you have, the more insurance you need to protect them. For example, you need additional tenant insurance as you acquire possessions.

- the amount of **deductible** you wish to have

The higher the deductible, the lower the insurance **premiums**, so you need to decide if the deductible is an amount you could pay if something should happen.

coverage: a synonym for insurance, indicating how much protection the insurance provides

deductible: the initial portion of a covered expense that must be paid by the insured person before the insurance policy pays its part of the expense

premiums: the monthly payments to the insurance company to keep the insurance in effect



Did You Know?

The cost of your insurance is determined by the amount of risk an insurance company is taking on by insuring you—the greater the risk, the higher the cost of your insurance. For example, if you have a serious health condition and want to purchase life insurance, you will have to pay a lot more than if you are in good health. Some insurance companies may even refuse to give you any coverage at all!



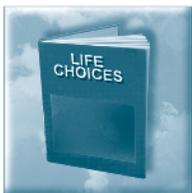
You may be thinking, “But I’m a student. Why should I bother about insurance right now?” Whether you live at home or away from home, talking with your family about what you are insured for is a good idea.

Do you own a laptop, camera, drum set, or bicycle? How about clothing, jewellery, or an antique dresser from your grandparents? You might not think you own much of value, but what would you do if someone broke into your home and destroyed or stole it all? You have acquired items over a period of years, but could you afford to replace them all at once? Most people could not, and that’s why they buy *contents insurance*.

As long as you live at home, the insurance policy that covers the rest of your house will cover your possessions too. If you move away for school, most home insurance policies still cover your things while you are there—but make sure this is true for your family’s policy. Get it out and read it, or call your insurance company to find out.

If you are not covered in your present living situation, and you own electronics or other valuables worth \$1000 or more, you can buy *basic tenant’s insurance* to cover what you have in your apartment, residence room, or rental unit. You will find the cost quite reasonable and well worth your peace of mind.

As you itemize your belongings for the insurance policy, you may be startled to discover that you own more of value than you realized!



To gain a better understanding of different kinds of insurance and the terminology that goes with them, read “FAQ: Insurance” on page 86 of *Venturing Out*. Take particular note of these terms: *peril*, *claim*, *adjuster*, *replacement value*, *appraisal*, and *rider*.

4. In your notebook, write definitions for the following important insurance terms. For help, refer to a dictionary and to the article “FAQ: Insurance.”
 - a. peril
 - b. claim
 - c. adjuster
 - d. replacement value
 - e. appraisal
 - f. rider

Compare your answers with the Suggested Responses at the end of the lesson.

Automobile Insurance

Alberta law requires that all vehicles have the following types of insurance:

- **Third-Party Liability.** This kind of insurance—also called public liability—provides you with coverage if you are legally responsible for a collision that causes injury or death to another person or damages someone else’s property.
- **Accident Benefits.** This insurance provides compensation that you, certain family members, and passengers are entitled to receive if injured or killed in a collision. The benefits include income replacement and payment for medical treatment, rehabilitation, funeral expenses, or grief counselling.

Insurance companies also sell optional vehicle insurance, such as the following:

- **Collision.** This kind of insurance reimburses you for damages caused by a rollover or by a collision with another vehicle or object.
- **Comprehensive.** This kind reimburses you for damage to your vehicle caused by other hazards such as fire, theft, vandalism, or collision with an animal.

Did You Know?

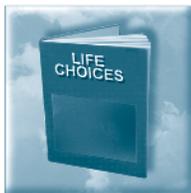
The type of vehicle you drive, where you live, and the level of insurance you desire will all affect your vehicle insurance cost. Before October 1, 2004, young drivers in Alberta were charged much higher insurance rates than older drivers. However, the laws have changed. Now new drivers begin paying insurance at a set premium, and your insurance will only increase if you have a poor driving record including speeding tickets or at-fault claims. If you maintain a clean driving record, your premiums will actually go down as you gain experience.



To learn more about automobile insurance in Alberta, visit the following website:

<http://www.autoinsurance.gov.ab.ca/>

Also read the following excerpts from *Venturing Out*:



- “FAQ: Car Insurance” on page 4 provides information and advice regarding car insurance across Canada, as well as some definitions.
- “Car Collision Musts” on page 62 outlines step-by-step guidelines for what to do in the event of a car collision.

Insurance Fraud

insurance fraud: obtaining insurance benefits illegally

Many people complain about insurance rates, but few consider that part of the cost has nothing to do with them personally; instead, it is related to **insurance fraud**, for which all consumers pay. Some estimates state that each year Canadians pay more than ten percent of their premiums to cover over a billion dollars of insurance fraud.

The insurance industry bases policy premiums on the costs of doing business, and one of those costs is paying out claims. If your insurance company pays out more in fraudulent claims, then you will pay increased premiums—just as customers in a retail store pay higher prices to cover shoplifting. People who commit insurance fraud are costing honest policy holders money. Be aware that fraud exists, and report it if you see it. You can report insurance fraud anonymously by contacting Crime Stoppers at 1-800-222-TIPS (8477) or online:



<http://www.cenabcs.ca/>

Types of insurance fraud include the following:

- “padding” claims (claiming more than you are actually entitled to)
- writing false statements on insurance application forms
- making up completely false claims

Did You Know?

Staged collisions and other extreme measures taken to commit insurance fraud can seem humorous, but insurance fraud is no laughing matter. To read about some real cases, use the search term *insurance fraud* to investigate cases on the Internet.

5. Insurance fraud has been called a “victimless crime” because it does not affect individual people, only wealthy insurance companies that can afford the loss. Do you agree with this opinion? Explain why.

Compare your answer with the Suggested Responses at the end of the lesson.

Go to page 16 of Assignment Booklet 2A and respond to question 11 of Section 1.

Looking Back; Looking Ahead

In this lesson your focused on buying insurance.

Glossary

coverage: a synonym for insurance, indicating how much protection the insurance provides

deductible: the initial portion of a covered expense that must be paid by the insured person before the insurance policy pays its part of the expense

insurance fraud: obtaining insurance benefits illegally

liability insurance: insurance for what the policyholder is legally obligated to pay because of bodily injury or property damage caused by the policyholder to another person

premiums: the monthly payments to the insurance company to keep the insurance in effect

risk: a chance of harm, loss, or damage

Suggested Responses

1. The kinds of insurance you discovered in your website search could include the following:

- accident insurance
- business insurance
- contents insurance
- dental insurance
- dependent life insurance
- disability insurance
- employment insurance
- health insurance
- home insurance
- homeowner's insurance
- liability insurance
- life insurance
- mortgage insurance
- property insurance
- tenant insurance
- travel insurance
- vehicle insurance

In addition to these basic types of insurance, you may have noted special kinds like sports accident insurance, pet insurance, boat insurance, or environmental impairment liability.

2. Your list of insurable and uninsurable risks will vary, as people perceive risks differently. Insurance companies insure for fairly standard risks, such as the following:

- illness/injury
- liability
- theft
- job loss
- vandalism
- accidental death
- disaster such as flood or fire
- vehicle collisions
- wind, hail, or lightning damage
- smoke or water damage

As you categorize your list, consider risks that may be associated with each type of insurance in question 1. For example, theft, vandalism, and liability could be associated with homeowner's and vehicle insurance. Risk of illness could be associated with employment and travel insurance.

3. You can take the following actions to reduce risk in these situations:
 - vehicle insurance—wear seat belts; maintain your vehicle; drive safely
 - life insurance—look after your physical health; avoid risky behaviours such as smoking
 - motorcycle insurance—wear a helmet and protective clothing; do not speed
 - tenant/homeowner insurance—install smoke alarms, a security system, and secure locks

4. Your definitions should be similar to the following:
 - a. peril: the losses or damages that are covered by your insurance policy
 - b. claim: the contact you make and papers you file with your insurance company if something happens that is covered by your policy
 - c. adjuster: the person from the insurance company who examines the damage or injury you have suffered and decides what the company will pay you
 - d. replacement value: insurance coverage that gives you enough money to replace an older lost or damaged item at today's prices and not at its depreciated value
 - e. appraisal: an expert's judgment of the value of an item for insurance purposes
 - f. rider: an addition to an insurance policy that covers a particular item (perhaps something very valuable or rare) that is not covered in a general policy

5. It is possible that you disagreed with the opinion that insurance fraud has no victims. It hurts insurance companies, of course, but they pass the extra expense down to their individual clients by way of higher insurance premiums. In that way, all consumers are victims. If you own a policy, you too may be a victim of the crime of insurance fraud.

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