

Part 1 Unscramble

Directions Unscramble the following vocabulary words from 10.1, 10.2.

- 1. coomicenskir (2 words)
- 2. gansimaemkrnet (2 words)
- 3. naruinsce
- 4. yioplc
- 5. sunirde
- 6. rerunis
- 7. lerip
- 8. hollycilopred
- 9. inetebarsitsnualer (2 words)
- 10. ddeeblytuc

Answers

- 1. _____
- 2. _____
- 3. _____
- 4. _____
- 5. _____
- 6. _____
- 7. _____
- 8. _____
- 9. _____
- 10. _____

Part 2 Matching

Directions In the Answers column, write the word or phrase from Part 1 above that correctly matches each definition below.

Answers

- 11. A legal contract through which insurance is implemented. 11. _____
- 12. The individual or organization to whom the policy is issued. 12. _____
- 13. Has a potential financial impact. 13. _____
- 14. The cause of a loss. 14. _____
- 15. A contract providing financial protection against a specified loss. 15. _____
- 16. An identified amount of a loss that must be paid by the insured before the insurer pays. 16. _____
- 17. The insured will suffer a financial loss if the insured event occurs. 17. _____
- 18. The process of systematically identifying potential risks and making plans to reduce the impact of the risk on individuals and companies. 18. _____
- 19. The company that assumes the risk and agrees to pay losses covered by the policy. 19. _____

Part 3 Yes or No

Directions Indicate your answer to each of the following questions by placing a check mark on the line under *yes* or *no* at the right.

Yes **No**

- 20. Each day as you go through your typical routine do you face uncertainty and risk? _____
- 21. Are people willing to take risks because of the opportunities presented? _____
- 22. Can some risks actually be avoided? _____

23. Might a company choose to assume a risk if it is relatively small or unlikely to occur? _____
24. With insurance, does the risk facing any one business increase in order to reduce the risk for all of the businesses that are insured? _____
25. Insurance is not a legally enforceable contract, so if the insurance company chooses not to pay is there little the policyholder can do? _____
26. Is it possible to accurately estimate the amount of losses that an insurance company must pay? _____
27. In order for a risk to be insurable, must the losses from the perils be controllable and certain to occur? _____
28. Does an adjuster work for an insurance company and determine the extent of a loss and the liability of the insurer? _____

Part 4 Activities

29. Both individuals and businesses face risks. The four methods of dealing with risks are

AV = avoid the risk TR = transfer the risk
 RE = reduce the risk AS = assume the risk

Read each of the statements below and identify the method the business used to deal with the risk described. Write the letters for the method you selected in the Answers column.

Answers

- a. Safety research shows a new children's toy may break when used incorrectly. The company decides not to market the product until further product development can be completed. a. _____
- b. A construction company hires smaller firms to complete some of the work on the homes it builds. It purchases a surety bond to assure customers that work will be completed as specified. b. _____
- c. Due the inability of a new interior design business to predict the amount of credit sales and the cost of collections, it decides to contract with a credit specialist to design and administer a credit system. c. _____
- d. An irrigation company approaches the owner of a 1,000-acre vegetable farm in South Florida to sell a misting system that protects crops against freezing temperatures. Since on average the temperature in the area falls below freezing only once in 20 years, the farmer decides not to purchase the equipment. e. _____
- e. An airline is concerned that fuel prices will double in the next year, so it contracts for a year's supply of fuel on the futures market at 15 percent above the current price. f. _____

Part 5 Short Answer

30. Describe the relationship between an insurance premium and an insurance deductible. How should somebody choose between a high deductible and a low deductible? Is a low deductible always better?