

THE PRINCIPLES OF INSURANCE



Insurance **protects** people in many ways and against many threats. However, certain **principles** apply throughout the industry.



utmost good faith

1

Insurers offer **indemnity** against clients' losses. That is, they provide **funds** to **compensate** clients for losses.

2

Neither the insurer nor the insured may violate the terms of a policy. Both **entities** enter an agreement with **utmost good faith**. For example, the insurer must not charge excessive **fees**. Similarly, the insured must be honest about his or her **insurable interest**.

3

An insurer's prices are **dependent on** the nature of a risk. Insurers assess both the **frequency** and the **severity** of a loss. These factors determine the premium.

Get ready!

1 Before you read the passage, talk about these questions.

- How do insurers set their fees?
- What is the importance of utmost good faith in an insurance agreement?

Reading

2 Read the textbook excerpt. Then, complete the table.

Principle	How the principle affects insurers
Indemnity	Insurers compensate clients for losses.
1 _____	<ul style="list-style-type: none"> Insurers must not charge excessive fees. 2 _____
Nature of the Risk	3 _____

Vocabulary

3 Match the words or phrases (1-8) with the definitions (A-H).

- | | |
|--------------------|--------------------------|
| 1 ___ dependent on | 5 ___ insurable interest |
| 2 ___ compensate | 6 ___ principle |
| 3 ___ fee | 7 ___ utmost good faith |
| 4 ___ frequency | 8 ___ severity |

- A a basic idea or theory that affects the way that something is done
- B the measurable value of something, which is the factor that allows it to be insured
- C directly affected or determined by something else
- D the number of times that something happens in a specific time period
- E to give someone money to replace something that was lost
- F the quality of approaching an agreement with honesty
- G a measure of how bad or serious something is
- H an amount of money that someone pays for a professional service

4 Choose the sentence that uses the underlined part correctly.

- 1 **A** Most companies refuse to cover situations with high insurable interest.
B The policy protects the insured from financial loss.
- 2 **A** An insurer must have sufficient funds to pay for losses.
B The policyholder paid the principle every month.
- 3 **A** Both the insurer and the insured are examples of entities.
B The insured suffered a fee during the storm.
- 4 **A** People usually like to increase the frequency of their losses.
B Auto insurance provides indemnity against damage to a vehicle.

5 **Listen and read the textbook excerpt again. What factors determine the price of a premium?**

Listening

6 **Listen to a conversation between a professor and a student. Choose the correct answers.**

- 1 What is the conversation mostly about?
A the system that insurers use to determine their fees
B common examples of insurable interest
C ways to measure the frequency and severity of losses
D the role of utmost good faith in insurance agreements
- 2 What will the speakers likely discuss next?
A examples of entities
B the responsibilities of an insurer
C how insurers manage funds
D the definition of 'indemnity'

7 **Listen again and complete the conversation.**

Professor: Okay, class. We're having a quiz tomorrow. Who remembers one of the **1** _____ ?

Student: Um, both entities must enter the agreement with **2** _____ .

Professor: Right. Now, what **3** _____ by "entities"?

Student: The two entities are the insurer and **4** _____ .

Professor: Yes. So, give me **5** _____ of the insured's good faith.

Student: Well, the insured **6** _____ accurate insurable interest.

Speaking

8 **With a partner, act out the roles below based on Task 7. Then, switch roles.**

USE LANGUAGE SUCH AS:

Who remembers ...?

What do you mean by ...?

The insurer/insured must ...

Student A: You are a professor. Talk to Student B about:

- a principle of insurance
- a definition of a term
- how the principle affects insurance agreements

Student B: You are a student. Talk to Student A about a principle of insurance.

Writing

9 **Use the textbook excerpt and the conversation from Task 8 to complete the student's notes.**

Notes Notes Notes

Important Principles in Insurance

Principle 1: It must be possible to check that an insurance loss occurred.

Principle 2: _____

Principle 3: _____



15 Credit Insurance

Get ready!

1 Before you read the passage, talk about these questions.

- 1 What are the risks of being a lender?
- 2 What are some types of credit insurance policies?



Reading

2 Read the advertisement. Then, mark the following statements as true (T) or false (F).

- 1 ___ According to the ad, offering trade credit increases a business's risk of financial loss.
- 2 ___ The ad recommends the Gold Plan for banks and other lenders.
- 3 ___ Mortgage insurance is part of the standard Platinum Plan.

Vocabulary

3 Match the words or phrases (1-6) with the definitions (A-F).

- 1 ___ debt
- 2 ___ lender
- 3 ___ default
- 4 ___ bankruptcy
- 5 ___ credit insurance
- 6 ___ accounts receivable

- A to fail to pay money that is owed
- B money that customers or clients owe to a company
- C coverage that protects a company from loss when it fails to receive a payment
- D any amount of money that someone owes to someone else
- E a person or company that gives people money with the promise of repayment
- F a legal status indicating that a person is insolvent

W&C Attention Business Owners!

Do you think **credit insurance** is a waste of money?

Think again!

Credit insurance is vital for any business that offers **trade credit**. Do your customers receive your services now and pay for them later? If so, you are at risk for financial loss. You need protection!

The W&C Business Gold Plan is great for small-to-medium sized businesses. It offers full coverage for your **accounts receivable**. In other words, you're protected if customers fail to pay their **debts**.

For banks and other **lenders**, we recommend the W&C Business Platinum Plan. It offers additional protection for businesses that handle large amounts of money. **Borrowers** can **default** on **loans** for a variety of reasons. Some declare **bankruptcy** due to financial **insolvency**. Others simply refuse to pay. Whatever the reason, the Platinum Plan is your best defense. It includes **payment protection insurance** in case the borrower becomes ill. You may also choose the **mortgage insurance** add-on if your business issues loans on real estate purchases.

Call W&C today for a free consultation!

4 Read the sentence pairs. Choose which word or phrase best fits each blank.

- 1 mortgage insurance / payment protection insurance**
 A _____ specifically covers a borrower's illness or injury.
 B Real estate lenders particularly benefit from _____.
- 2 insolvency / trade credit**
 A The borrower is on the verge of _____.
 B Many business customers purchase services on _____.
- 3 loan / borrower**
 A The home buyer needed a _____ to afford the house.
 B The _____ repaid his debt at the required time.

5 Listen and read the advertisement again. Who is protected by mortgage insurance?

Listening

6 Listen to a conversation between two company managers. Choose the correct answers.

- 1** What is the conversation mostly about?
 A reasons to purchase a new credit insurance policy
 B the money that the speakers owe to other companies
 C debts to the company that have not been repaid
 D whether the speakers' company will become insolvent
- 2** What will the woman likely do next?
 A attempt to reach a bankrupt client
 B contact the insurer about a payment protection claim
 C review the coverage options in several credit insurance plans
 D calculate the amount owed from accounts receivable

7 Listen again and complete the conversation.

Manager 1: We have a couple of problems. The Miller account is still unpaid.

Manager 2: Still? That was a huge loan. Did the Millers **1** _____ ?

Manager 1: Not that I know of. I can't **2** _____ from them by phone or by mail.

Manager 2: We'd better contact our insurance agent. We might be able to file a claim under our **3** _____.

Manager 1: Ah, yes. That's a good idea. We might **4** _____ for another account, too.

Manager 2: Really? **5** _____ ?

Manager 1: The Kramer account. Mr. Kramer is extremely ill, and his company is **6** _____.

Speaking

8 With a partner, act out the roles below based on Task 7. Then, switch roles.

USE LANGUAGE SUCH AS:

We have a couple of problems.
We'd better ...
That's a good idea.

Student A: You are a company manager. Talk to Student B about:

- unpaid debts to your company
- the status of a particular account
- whether the insurance will cover the debt

Student B: You are a company manager. Talk to Student A about unpaid debts to your company.

Writing

9 Use the conversation in Task 8 to complete the meeting notes.

Notes January 10

Meeting Topic:

Status of Accounts Receivable

Unfortunately, there are several unpaid debts to our company.

One unpaid account is _____

Reason for default: _____

Actions needed: _____

Another unpaid account is _____

Reason for default: _____

Actions needed: _____

Glossary

- firearm** [N-COUNT-U8] A **firearm** is a powerful weapon that shoots something with great force, and may be used to seriously hurt or kill someone.
- float** [N-UNCOUNT-U3] **Float** is an amount of money that someone receives in exchange for a service, but is not expected to render that service or repay the money until later. This allows the float to be used for investments in the meantime.
- flood** [N-COUNT-U6] A **flood** is an event in which a large amount of water flows into an area that is usually dry, often causing damage or injury.
- friendly** [ADJ-U5] If a fire is **friendly**, it occurs in an area where it was intended to take place, such as a fireplace or a grill, and is often considered safe.
- general liability insurance** [N-UNCOUNT-U11] **General liability insurance** is a type of insurance that protects the insured from being held liable for bodily injury or property damage.
- glow** [N-COUNT-U5] A **glow** is a low, steady light that is given off by a fire.
- good faith** [N-UNCOUNT-U14] **Good faith** is the state of approaching an interaction or business agreement with honesty and positive intentions.
- hail** [N-UNCOUNT-U6] **Hail** is an event in which pieces of ice fall to the ground from clouds.
- hard fraud** [N-UNCOUNT-U15] **Hard fraud** is a type of insurance fraud in which someone intentionally causes a loss, or stages a damaging event.
- hazard** [N-COUNT-U6] A **hazard** is a danger, or a source of possible injury or harm.
- hidden defect** [N-COUNT-U8] A **hidden defect** is a problem with a piece of property that could not have been discovered by regular methods of inspection.
- hostile** [ADJ-U5] If a fire is **hostile**, it occurs in an area where it was not intended to take place, and is likely to cause damage or injuries.
- hurricane** [N-COUNT-U7] A **hurricane** is a major, destructive storm that is characterized by high winds and heavy precipitation.
- improperly** [ADV-U14] If something is done **improperly**, it is not done correctly, according to accepted rules and procedures.
- indemnity insurance** [N-UNCOUNT-U9] **Indemnity insurance** is a type of insurance that provides protection from legal actions related to his or her misjudgment or other types of events.
- inherent vice** [N-COUNT-U8] An **inherent vice** is a problem with a property that fundamentally affects its quality or function. It is typically excluded from property insurance coverage.
- in-network provider** [N-COUNT-U13] An **in-network provider** is a medical provider who has a contract with an insurance company, and therefore can offer lower rates to patients with that company's coverage.
- insurance fraud** [N-UNCOUNT-U15] **Insurance fraud** is the act of claiming benefits under an insurance contract by lying or otherwise violating the terms of the contract. Insurance fraud is illegal.
- insurance law** [N-UNCOUNT-U14] **Insurance law** is a field that deals with legal concerns surrounding insurance coverage and claims.
- insure** [V-T-U2] To **insure** someone is to provide financial assistance if a certain event occurs.
- intended** [ADJ-U5] If an action is **intended**, it is done purposely.
- Internet** [N-COUNT-U4] The **Internet** is a worldwide network that allows information to move between computers and other devices.
- invalid** [ADJ-U9] If something is **invalid**, it is not supported by truth or law.
- investing** [N-UNCOUNT-U3] **Investing** is the practice of funding a financial venture with the hope of receiving a profit in the future.
- jewelry** [N-UNCOUNT-U8] **Jewelry** is a type of accessory that is worn for decoration on some part of the body. Rings, bracelets, and necklaces are examples of jewelry.
- lawsuit** [N-COUNT-U11] A **lawsuit** is a dispute between two people or groups that is resolved by a court of law.
- legal defense** [N-COUNT-U11] A **legal defense** is something that legally excuses someone from liability for something.
- legitimate** [ADJ-U15] If something is **legitimate**, it is acceptable according to particular rules or standards.
- lie** [V-I-U15] To **lie** is to make a statement that is not true.
- lien** [N-COUNT-U9] A **lien** is a right to possess a piece of property if the person who has assumed ownership does not meet the obligations of his or her mortgage.