

Insurance Study Questions

1. To allow people to shift naturally-occurring risk by contract among a pool of people.
2. In gambling, risk is artificially created for the mere purpose of assuming it for the sport. With insurance, we are dealing with real life, naturally occurring risk. In return for an insurance premium, the insurance company agrees to shoulder a portion of the economic risk associated with certain aspects of life (e.g. health problems, accidental death, auto accidents, etc.)
3. It is a pecuniary (financial) interest in the person or thing insured.
4. Rosemary should win since regarding life insurance, the insurable interest only has to exist when the policy is first taken out and not necessarily when the death occurs. Since she had an insurable interest at the time the policy was purchased (i.e. she was Steve's wife at that time), she met this requirement and kept her premiums up.
5. No – First, you creeps didn't have any insurable interest in my life. Second, even if you did, a murderer cannot collect anything on a policy on the life of his victim. Both of these rules are designed to discourage murder.
6. You should win since in the case of property insurance, the critical point regarding the existence of an insurable interest is when the loss occurs not when the policy is originally purchased. This is the opposite of the timing regarding life insurance. Under the UCC Article 2 covered in Business Law 1, an insurable interest arises when the goods are "identified" (i.e. the goods are owned by the seller and have been marked or segregated as being the ones to be used to satisfy the contract with the buyer.)

Note: you would also have claim against the common carrier unless the loss fit within one of the few areas that exempts them from liability (e..g acts of god, spoilage, acts of the shipper, public authority, rebellion, etc.)
7. Yes – the face amount of the policy. A beneficiary of a life insurance policy only has to have an insurable interest in the life of the insured when the beneficiary is the one who bought the policy. If the insured himself bought the policy, he can designate anybody as the beneficiary whether or not the beneficiary would be deemed to have an insurable interest in the insured's life.
8. They will have to go up in order to compensate for the added risk. In effect, such state laws impose a type of "social tax" on all people who buy policies to cover this social problem. This is an indirect tax on the healthy. In a normal market setting the insurance company would assess individual risk and customize a premium rate accordingly. An insurance company is in business to make a profit. If the government artificially mandates that they incur certain risks that they otherwise would not have been willing to bear, it must make extra profits from other policy holders to compensate their losses due to legislative fiat. This issue will probably become more visible as science gets better at identifying gene defects associated with specific diseases and maladies. President Clinton in his 1998 state of the union address committed that nobody will be

Insurance Study Questions

allowed to discriminate on the basis of genetic defects. What that means to me is that the federal government will most likely follow California's lead and prohibit genetic testing as part of the life and health insurance application process. It seems to me that the natural long term consequence (perverse incentive) of this will be that low risk people will opt out of the insurance system by not buying insurance because they will stand to lose more by way of artificially high insurance premiums than they face relative to disease and death. Hence, the insurance pool will shrink over time with ever increasing percentages of high-risk people necessitating ever increasing insurance premiums until people finally cry for government to directly bail everybody out with national health insurance. So these attempts by states to tie the hands of the insurance companies is just one more indication of our espousal of socialist philosophy.

9. You will likely win since a common rule of contractual interpretation is that ambiguities in a contract should be interpreted against the interest of the drafter and in favor of the other party.

10. The insurance company will probably win since your lies regarding things material to its risk assessment would probably void your insurance coverage. If you want effective insurance coverage, don't lie on the application form which is generally considered to be part of the contract.

11. Six months. The insurance contract will probably be interpreted as though the six month limit appeared within the insurance contract itself. This contrasts with the way most state courts treat the lack of the FTC rule 433 language in consumer credit transactions. In that instance, the mandated language is not "read into the contract" like it is generally in the insurance context. This may just be an indignant response by state courts regarding what they consider to be unwarranted federal intrusion into an area of state regulatory powers. Who knows? But in this context, we have state law being injected by state courts into the insurance contract.

12. Probably not unless the agent issued an immediate binder for temporary coverage. Normally, the insurance application form is viewed as an offer which will only become effective as a contract when accepted by the insurance company, which in most cases accepts by issuing a policy. If it is not obligated to pay the face of the policy, it would at least have to refund the initial premium received. However, you may be able to successfully argue that when the company cashed your first premium check, it accepted your offer and extended coverage. It is worth a try – especially if you can find an attorney to take your case on a contingent fee basis.

13. Most states require insurance companies to grant a 30-day grace period after a premium date is missed. If the state in question mandated such a grace period, your spouse should be able to resurrect coverage by paying the late premium within the applicable grace period. Some states don't even require such action—they will force coverage and let the insurance company reduce its payout by the amount of the last unpaid premium. But to be safe, your spouse should immediately send in the premium anyway.

Insurance Study Questions

14. The result is uncertain but I saw a case where under very similar facts, the court ignored the exclusionary language since it could find no causal connection between the driver's expired license and the damages. So just because exclusionary language seems to clearly void coverage, you may still be able to collect under the policy if you can show a similar lack of causal connection.

15. This depends on which state you are in. Many states treat these notice provisions as true conditions to coverage. In those states, your failure to meet these provisions would effectively void your insurance coverage. However, in many other states, courts will interpret these notice provisions as mere "covenants", the violation of which entitles the insurance company to offsetting damages it can prove resulted from your tardiness, but the bulk of the insurance cover will still be in place in your favor. Since you probably don't know what the law is your state, play it safe and have your insurance representative walk you through the applicable notice provisions, forms and deadlines as soon as you have a loss you think is covered by the policy.

16. Yes – through 'subrogation' your insurance company steps into your legal shoes relative to the tortfeasor.

17. If you only have standard coverage, there is probably an exclusion for civil commotion. So probably no. If you wanted to have such coverage you would probably have had to buy extended coverage through an appropriate "rider."

18. Probably not, for the same reason as above, earthquake coverage probably requires special coverage through riders.

19. $\$200,000 \times 80\% = \$160,000$ $\$120,000/\$160,000 = 75\%$

$75\% \times \$10,000 = \$7,500$ of insurance coverage and you will have to co-insure or absorb \$2,500 of the loss yourself.

20. Unless an exclusion covers this situation, then probably yes since such policies cover negligently caused injuries even off the homeowner's premises. However, such policies do not usually cover things that are traditionally covered by other forms of insurance like automobile accidents.

21. Probably not since basic insurance coverage only covers the liability you incur through your negligent operation of your car. It does not usually include collision insurance which is what people have to look to for such coverage.

22. No assuming all you have is basic liability coverage. On the other hand, if you had no fault, uninsured, or under insured motorist coverage, it might owe you some coverage but not any third parties.

Insurance Study Questions

23. Probably not since your culpability level is higher than mere negligence. Insurance policies generally exclude coverage for intentional misconduct.
24. Most policies provide DOC (Drive Other Car) coverage so yes.
25. Probably yes since most policies include “omnibus” or “other driver” coverage. If the neighbor also has insurance, his insurance company should be the one that ultimately pays. But if the damages exceed his policy limits, I believe your insurer would also be called upon to pay.
26. Probably not since you made some very damaging admissions against interest which violates your duty to co-operate with the insurance company in the defense of the lawsuit. Whatever is admitted against interest is no longer a triable issue at trial. Rather than make statements like that, just stick to the facts when you talk to the other party, his insurance company or the police. Tell the other party that he will have to contact your insurance company to resolve the matter and give him the name of your insurer. To be polite, just say that not knowing the legal ramifications of things, you have been advised to take this course of action in order to maximize your chances of obtaining insurance coverage on the matter.
27. Because so many people are driving without any insurance or with inadequate insurance. This extra coverage allows you to obtain some coverage from your own insurance company regarding your own personal injuries (and sometimes even property damage) rather than having to rely upon the other guy’s personal assets and insurance coverage which may be grossly inadequate to cover all the damages he caused you.
28. The No-fault insurance model is trying to change the insurance focus inward where your insurance company pays for your damages and the other guy’s insurance (if he has any) pays for his regardless of fault. Under this approach, responsible drivers who buy insurance will be covered regardless of whether or not the other guy has been responsible enough to buy insurance coverage. If he hasn’t, he is out of luck in collecting anything from your insurance company (and maybe even you (?)) even if you were at fault in the accident. Most states have not yet gone very far down the No-fault path and have a hybrid approach where there are elements of both types of coverage involved in basic insurance coverage.
29. Under these circumstances the minimum insurance coverage will not provide you with very much relative protection. You will have to pay the lion’s share of the debt. This is why you may want to discuss with your insurance representative how much it would cost to buy extended coverage. You will be surprised at how relatively inexpensive, when compared to the basic coverage charges, it is to buy large amounts of extended coverage. I recommend you seriously consider buying such coverage for the reasons illustrated in this problem – in the right circumstances, the basic coverage is woefully inadequate.
30. Probably term insurance. It is pure insurance coverage that is the cheapest for you to buy. There is no savings portion associated with it like there is with whole life or universal life

Insurance Study Questions

insurance. While these other types start out with higher premiums, at some time down the road, the term insurance premiums pass the cross over point and become more expensive for the rest of your covered life. But hopefully, by this point, you will have accumulated some estate and will not have as much of a pressing need for insurance as you did when you were younger and had nothing to help your loved ones continue on in the absence of your lost future stream of income.