

CHAPTER **13**

**Home and Motor
Vehicle Insurance**



Chapter 13

Home and Motor Vehicle Insurance

What You'll Learn

■ Section 13.1

- Identify types of risks and risk management methods.
- Explain how an insurance program can help manage risks.
- Describe the importance of property and liability insurance.

■ Section 13.2

- Identify the types of insurance coverage and policies available to homeowners and renters.
- Analyze the factors that influence the amount of coverage and cost of home insurance.

■ Section 13.3

- Identify the important types of motor vehicle insurance coverage.
- Explain factors that affect the cost of motor vehicle insurance.

Insurance Rates

- **Q:** My brother is 17 and has an excellent driving record. Why are his motor vehicle insurance rates higher than rates for females in his same age group?
- **A:** Insurance rates are based on an analysis of accident statistics for all types of drivers. Since young men have a higher incidence of being involved in accidents than young women have, insurance rates for young men are more expensive. Some insurance companies offer discounts for young adults covered on a parent's policy.

Go to finance07.glencoe.com to complete the Standard & Poor's Financial Focus activity.

Section 13.1

Insurance and Risk Management

*Before
You Read*



PREDICT

What do you think are the benefits of having a good insurance program?

Main Idea

Recognizing the importance of insurance and knowing how to develop an insurance program can protect you from financial loss.

Section 13.1

Insurance and Risk Management

insurance

protection against possible financial loss

policy

a contract between an insurance company and a person by which that person joins a risk-sharing group

premium

a fee for insurance

What Is Insurance?

Insurance provides protection against many risks, such as:

- Unexpected property loss
- Illness
- Injury

When you purchase an insurance **policy**, your insurance company agrees to pay for losses that may happen to you.

In return, you will pay the company a **premium**.

Section 13.1

Insurance and Risk Management

risk

the chance of loss or injury

peril

anything that may possibly cause a loss

hazard

anything that increases the likelihood of loss through peril

Types of Risk

Some important terms in insurance that you should know are:

- Risk
- Peril
- Hazard

Section 13.1

Insurance and Risk Management

negligence

the failure to take ordinary or reasonable care to prevent accidents from happening

Common Risks

The most common risks are:

- Personal risks
- Property risks
- Liability risks

Liability risks involve losses caused by **negligence** that leads to injury or property damage.

Section 13.1

Insurance and Risk Management

Risk-Management Methods

Risk management is an organized plan for protecting:

- Yourself
- Your family
- Your property

It helps reduce financial losses caused by destructive events.

Insurance is not the only way of dealing with risk.

Section 13.1

Insurance and Risk Management

Risk Avoidance

Sometimes the ways you choose to avoid risks will involve serious trade-offs.

In some cases, though, risk avoidance is practical. For example:

- By taking precautions in high-crime areas, you might avoid the risk of being robbed.
- By installing a security system in your car, you might avoid the risk of having your car stolen.

Section 13.1

Insurance and Risk Management

Risk Reduction

Although you cannot avoid risks completely, you can decrease the likelihood that they will cause you harm.

Some ways of reducing risk include:

- Wearing a seat belt while riding in a car
- Not smoking
- Installing fire extinguishers in your home
- Eating properly and exercising regularly

Section 13.1

Insurance and Risk Management

Risk Assumption

Risk assumption means taking on responsibility for the negative results of a risk.

It makes sense to assume a risk if:

- You know that the possible loss will be small.
- You have taken all the precautions you can to avoid or reduce the risk.

Although self-insurance will not eliminate risks, it does provide a way of covering losses as an alternative to an insurance policy.

Section 13.1

Insurance and Risk Management

deductible

the set amount that the policyholder must pay per loss on an insurance policy

Risk Shifting

The most common method of dealing with risk is to shift it, which means to transfer it to an insurance company.

In exchange for the fee you pay, the insurance company agrees to pay for your losses.

Most types of insurance policies include **deductibles**. Deductions are a combination of:

- Risk assumption
- Risk shifting

Section 13.1

Insurance and Risk Management

Planning an Insurance Program

Your personal insurance program should change along with your:

- Needs
- Goals

The following four steps outline how to plan your insurance program to meet your needs and goals.

Section 13.1

Insurance and Risk Management

Step 1: Set Insurance Goals

You should try to come up with a basic risk-management plan that achieves the following goals:

- Reduces possible loss of income caused by premature death, illness, accident, or unemployment
- Reduces possible loss of property caused by perils, such as fire or theft, or hazards
- Reduces possible loss of income, savings, and property caused by personal negligence

Section 13.1

Insurance and Risk Management

Step 2: Develop a Plan

Planning is a way of taking control of your life instead of just letting life happen to you.

You must ask four questions as you develop your risk-management plan:

- What do you need to insure?
- For how much should you insure it?
- What kind of insurance should you buy?
- Which insurance company should you choose?

Section 13.1

Insurance and Risk Management

Step 3: Put Your Plan into Action

As you put your plan into action, you might discover that you do not have enough insurance protection. If that is the case, you can:

- Purchase additional coverage.
- Change the kind of coverage you have.
- Adjust your budget to cover the cost of additional insurance.

Your goal should be to create an insurance program that can grow or shrink as your protection needs change.

Section 13.1

Insurance and Risk Management

Step 4: Review Your Results

You should take time to review a risk-management program:

- Every two or three years
- Whenever family circumstances change

When you are developing or reviewing a risk-management plan, ask yourself if you are providing the financial resources you will need to protect:

- Yourself
- Your family
- Your property

Section 13.1

Insurance and Risk Management

Property and Liability Insurance in Your Financial Plan

Most people spend a great deal of money on their:

- Houses
- Vehicles
- Furniture
- Clothing
- Other personal property

Protecting these items from loss is extremely important.

Section 13.1

Insurance and Risk Management

Protecting Against Financial Losses

Think of the price you pay for insurance as an investment in the protection of your most valuable possessions.

The two main types of risks related to your personal property are:

- The risk of damage to or loss of your property
- Your responsibility for injuries to other people or damage to their property

Section 13.1

Insurance and Risk Management

Property Damage or Loss

Property owners face two basic types of risks. These risks are:

- Physical damage caused by perils such as fire, wind, and flooding
- Loss or damage caused by criminal behavior

Insurance can help you protect yourself from loss of or damage to your property.



DISASTROUS RESULTS Events such as hurricanes and tornados can cause widespread devastation. *What can you do to protect your property against natural disasters?*

Section 13.1

Insurance and Risk Management

liability

legal responsibility for the financial cost of another person's losses or injuries

Liability

You can be judged legally responsible for the financial cost of another person's losses or injuries even if the injury or damage was not your fault.

Usually, if you are found liable in a situation, it is because negligence on your part caused the mishap. Examples of such negligence include:

- Letting young children swim in a pool without supervision
- Cluttering a staircase with things that could cause someone to slip and fall

Section 13.2

Home and Property Insurance

*Before
You Read*



PREDICT

Why would it be important to have homeowners insurance?

Main Idea

You need an effective risk management plan for your home or apartment and your personal belongings. When purchasing insurance, your goal is to get the best protection at the lowest cost.

Section 13.2

Home and Property Insurance

homeowners insurance

coverage that provides protection for your residence and its associated financial risks

Homeowners Insurance Coverage

Insuring your residence and its contents is absolutely necessary to protect your investment.

A **homeowners insurance** policy provides coverage for the following:

- The home, building, or any other structures on the property
- Additional living expenses
- Personal property
- Personal liability and related coverages
- Specialized coverages

Section 13.2

Home and Property Insurance

Buildings and Other Structures

The main purpose of homeowners insurance is to protect you against financial loss in case your home is:

- Damaged
- Destroyed

Detached structures on your property are also covered under a homeowners insurance policy.

Section 13.2

Home and Property Insurance

Additional Living Expenses

If a fire or other event damages your home, additional living expense coverage pays for you to stay somewhere else.

Some policies limit:

- Additional living expense coverage to 10 to 20 percent of the home's total coverage amount
- The payment period to a maximum of six to nine months

Section 13.2

Home and Property Insurance

Personal Property

Household belongings covered by the personal property portion of a homeowners insurance policy include:

- Furniture
- Appliances
- Clothing

Personal property coverage also provides protection against the loss or damage of articles that you take with you when you are away from home.

Section 13.2

Home and Property Insurance

Household Inventories

If something does happen to your personal property, you must prove:

- How much it was worth
- That it belonged to you

To make the process easier, you can create a household inventory, including:

- Video recordings
- Photographs
- Inventory lists

Section 13.2

Home and Property Insurance

personal property floater
additional property insurance that covers the damage or loss of a specific item of high value

Additional Property Insurance

You can purchase a **personal property floater** if you:

- Own valuable items, such as expensive musical instruments
- Need added protection for computers and related equipment

The insurance company will require a detailed description of the item and its worth.

Section 13.2

Home and Property Insurance

medical payments coverage

insurance that pays the costs of minor accidental injuries to visitors on your property

Personal Liability and Related Coverages

The personal liability portion of a homeowners policy protects you and members of your family if others sue you for:

- Injuries they suffer
- Damage to their property

Medical payments coverage pays the costs of minor accidental injuries to visitors on your property.

Section 13.2

Home and Property Insurance

Specialized Coverages

Homeowners insurance usually does not cover losses from:

- Floods
- Earthquakes

If you purchase a home in an area that has a high risk of earthquakes or floods, you may have to buy insurance for those risks.

Section 13.2

Home and Property Insurance

Renters Insurance

For people who rent, home insurance coverages include:

- Personal property protection
- Additional living expenses coverage
- Personal liability and related coverages

Renters insurance does not provide coverage on the building or other structures.

Section 13.2

Home and Property Insurance

Home Insurance Policy Forms

Home insurance policies are available in several forms. The forms provide different combinations of coverage and include:

- The basic form (HO-1)
- The special form (HO-3)
- The tenants' form (HO-4)
- The comprehensive form (HO-5)
- Condominium owners insurance (HO-6)

Section 13.2

Home and Property Insurance

Additional Home Insurance Policy Costs

Though some risks are not covered by home insurance, home insurance policies do include coverage for additional costs:

- Credit card fraud, check forgery, and counterfeit money
- Removal of damaged property
- Emergency removal of property to protect it from damage
- Temporary repairs after a loss to prevent further damage
- Fire department charges in areas with such fees

Section 13.2

Home and Property Insurance

How Much Coverage Do You Need?

You can get the best insurance value by:

- Choosing the right amount of coverage
- Knowing the factors that affect insurance costs

Your insurance should be based on the amount of money you would need to rebuild or repair your house, not the amount you paid for it.

Section 13.2

Home and Property Insurance

actual cash value

the replacement cost of an item minus depreciation

replacement value

the full cost of repairing or replacing an item

Methods of Claim Settlements

Insurance companies base claim settlements on one of two methods. These methods are:

- The **actual cash value** method
- The **replacement value** method

Depreciation is the loss of value of an item as it gets older.

Section 13.2

Home and Property Insurance

Home Insurance Cost Factors

The cost of your home insurance will depend on several factors, such as:

- The location of the home
- The type of structure and construction materials used

The amount of coverage and type of policy you choose will also affect the cost of your home insurance.

Section 13.2

Home and Property Insurance

Location of Home

Insurance companies offer lower rates to people whose homes are close to:

- A water supply
- A fire hydrant
- A good fire department

Rates are higher in areas where crime or severe weather conditions are common.

Section 13.2

Home and Property Insurance

Type of Structure

The price of insurance coverage is also influenced by:

- The type of structure
- The structure's construction

Section 13.2

Home and Property Insurance

Price, Coverage Amount, Policy Type

The purchase price of a house directly affects how much you pay for insurance.

The amount of premium you pay is also affected by:

- The type of policy you choose
- The amount of coverage you select
- The deductible amount listed on the policy

Section 13.2

Home and Property Insurance

Home Insurance Discounts

Most companies offer discounts if a homeowner takes action to reduce risks to a home.

Your premium and insurance costs may be lower if you have:

- Smoke detectors
- A fire extinguisher
- Dead-bolt locks
- Alarm systems

Section 13.2

Home and Property Insurance

Company Differences

A homeowner can save up to 25 percent on homeowners insurance by:

- Comparing rates from several companies
- Considering service and coverage

State insurance commissions and consumer organizations can give you information about different insurance companies.

Section 13.3

Motor Vehicle Insurance

*Before
You Read*



PREDICT

Do you think your driving record affects your car insurance rates? Why?

Main Idea

Various types of motor vehicle insurance offer different coverages. A variety of factors affect the cost of insurance.

Section 13.3

Motor Vehicle Insurance

Motor Vehicle Bodily Injury Coverages

Most of the money that motor vehicle insurance companies pay out in claims goes for:

- Legal expenses
- Medical expenses
- Other costs that arise when someone is injured

Section 13.3

Motor Vehicle Insurance

Types of Bodily Injury Coverages

The main types of bodily injury coverages are:

- Bodily injury liability
- Medical payments
- Uninsured motorist's protection

Section 13.3

Motor Vehicle Insurance

bodily injury liability

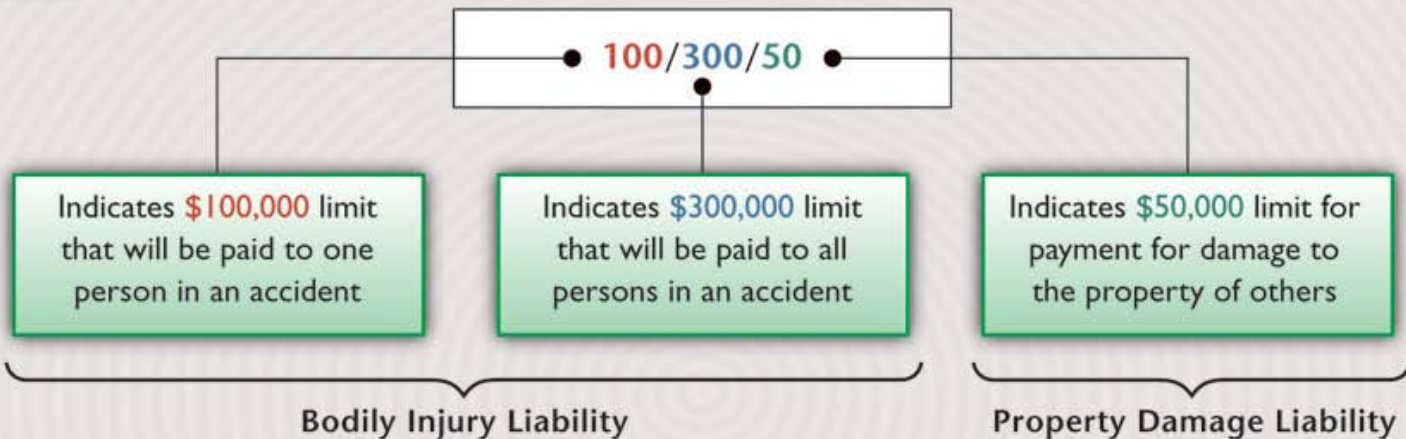
insurance that covers physical injuries caused by a vehicle accident for which you were responsible

Bodily Injury Liability

Bodily injury liability coverage pays for expenses related to a crash if pedestrians, people in other vehicles, or passengers in your vehicle are injured or killed.

Figure 13.5

Motor Vehicle Insurance Coverage



Liability Coverage

The three numbers used to describe liability coverage refers to the limits on different types of payments.

Why do you think the middle number of the liability coverage amounts is the highest?

Section 13.3

Motor Vehicle Insurance

Medical Payments Coverage

Medical payments coverage is insurance for medical expenses of anyone injured in your vehicle, including you.

This coverage also provides medical benefits for you and members of your family:

- While riding in another person's vehicle
- If any of you are hit by a vehicle

Section 13.3

Motor Vehicle Insurance

uninsured motorist's protection

insurance that covers you and your family members if you are involved in an accident with an uninsured or hit-and-run driver

Uninsured Motorist's Protection

You can guard yourself and your passengers against the risk of getting into an accident with someone who has no insurance by having **uninsured motorist's protection**.

Penalties for driving without insurance generally include:

- Stiff fines
- The suspension of driving privileges

Section 13.3

Motor Vehicle Insurance

Motor Vehicle Property Damage Coverages

Property damage coverage protects you from financial loss if:

- You damage someone else's property.
- Your vehicle is damaged.

It includes property damage liability, collision, and comprehensive physical damage.

Section 13.3

Motor Vehicle Insurance

property damage liability

motor vehicle insurance that applies when you damage the property of others

Property Damage Liability

Property damage liability coverage extends to:

- Vehicles
- Buildings
- Equipment such as street signs and telephone poles

It also protects you when you are driving another person's vehicle with the owner's permission.

Section 13.3

Motor Vehicle Insurance

collision insurance

insurance that covers damage to your vehicle when it is involved in an accident

Collision

With **collision insurance**, you will collect money no matter who is at fault.

The amount that you can collect is limited to the actual cash value of your vehicle at the time of the accident.

Section 13.3

Motor Vehicle Insurance

Comprehensive Physical Damage

Comprehensive physical damage insurance protects you if your vehicle is damaged in a non-accident situation.

It covers your vehicle against risks such as:

- Fire
- Theft
- Falling objects
- Vandalism
- Hail
- Floods, tornadoes, earthquakes, and avalanches

Section 13.3

Motor Vehicle Insurance

no-fault system

an arrangement whereby drivers who are involved in accidents collect money from their own insurance companies

No-Fault Insurance

To reduce the time and cost of settling vehicle injury cases, some states are trying a number of alternatives, including the **no-fault system**.

In the no-fault system:

- It does not matter who caused the accident.
- Each company pays the insured up to the limits of his or her coverage.

Section 13.3

Motor Vehicle Insurance

Other Coverages

Other kinds of available motor vehicle insurance include:

- Rental reimbursement coverage
- Wage-loss insurance
- Emergency road service coverage

Section 13.3

Motor Vehicle Insurance

Motor Vehicle Insurance Costs

The average household spends more than \$1,000 for motor vehicle insurance yearly.

To get the best insurance value, you need to consider:

- Amount of coverage
- Insurance premium factors
- Ways to reduce insurance premiums

Section 13.3

Motor Vehicle Insurance

Amount of Coverage

The amount that you will pay for insurance depends on the amount of coverage you require.

You need enough coverage to protect yourself:

- Legally
- Financially

Section 13.3

Motor Vehicle Insurance

assigned risk pool

a group of people who cannot get motor vehicle insurance

Motor Vehicle Insurance Premium Factors

Three other factors that influence your insurance costs are:

- Vehicle type
- Rating territory
- Driver classification

To deal with driver classification problems, every state has an **assigned risk pool**. These policyholders pay several times the normal rates.

Section 13.3

Motor Vehicle Insurance

Reducing Vehicle Insurance Premiums

Two ways in which you can reduce your vehicle insurance costs are by:

- Comparing companies
- Taking advantage of discounts

No matter what coverage you choose, motor vehicle insurance is a valuable and mandatory protection to include in any personal finance plan.



Student Discounts

Many places, such as theaters, zoos, and museums, offer discount prices to students. You can also get discounts for buses and subways, movies, and cultural and sporting events. Be sure to ask before paying full price.

Why do you think businesses offer discounts to students?

Chapter 13

Home and Motor Vehicle Insurance

Key Term Review

- insurance
- policy
- premium
- risk
- peril
- hazard
- negligence
- deductible
- liability
- homeowners insurance
- personal property floater
- medical payments coverage
- actual cash value
- replacement value
- bodily injury liability
- uninsured motorist's protection
- property damage liability
- collision
- no-fault system
- assigned risk pool

Chapter 13

Home and Motor Vehicle Insurance

Reviewing Key Concepts

1. Identify each type of risk and list the four methods of managing risk.

Risk is the probability of loss or injury.

Peril is something that may cause a loss.

Hazards increase the probability of loss.

Negligence is failing to take reasonable care to prevent accidents.

Ways of managing risk are:

- Risk avoidance
- Risk reduction
- Risk assumption
- Risk shifting

Chapter 13

Home and Motor Vehicle Insurance

Reviewing Key Concepts

2. Describe how insurance uses different risk management methods to reduce risk.

Insurance involves the risk management method of shifting risk: In exchange for fees, the insurance company pays for losses.

Chapter 13

Home and Motor Vehicle Insurance

Reviewing Key Concepts

3. Explain how property and liability insurance protect.

Property insurance protects from losses resulting from:

- Natural causes
- Fire
- Criminal activity

Liability insurance covers legal responsibility for the cost of losses to others.

Chapter 13

Home and Motor Vehicle Insurance

Reviewing Key Concepts

4. Identify reasons that home mortgage lenders require homeowners insurance.

A homeowners insurance policy provides coverage for the following:

- The home, building, or any other structures on the property
- Additional living expenses
- Personal property
- Personal liability and related coverages
- Specialized coverages

Chapter 13

Home and Motor Vehicle Insurance

Reviewing Key Concepts

5. Explain the difference between actual cash value and replacement value.

Actual cash value is the replacement cost of an item minus depreciation.

Replacement value is the full cost of repairing or replacing an item.

Chapter 13

Home and Motor Vehicle Insurance

Reviewing Key Concepts

6. List advantages and disadvantages of the no-fault insurance system.

In the no-fault system:

- It does not matter who caused the accident.
- Each company pays the insured up to the limits of his or her coverage.

Chapter 13

Home and Motor Vehicle Insurance

Reviewing Key Concepts

7. Discuss why lenders require drivers to carry bodily injury and property damage coverage.

Bodily injury liability coverage pays for expenses related to a crash if pedestrians, people in other vehicles, or passengers in your vehicle are injured or killed.

Property damage coverage protects you from financial loss if:

- You damage someone else's property.
- Your vehicle is damaged.

Newsclip: Higher Rates

Car Insurance companies charge higher rates for male teenagers than for female teenagers.

Log On Go to finance07.glencoe.com and open Chapter 13. Learn about why insurance companies raise rates for males and not females. Write a list of reasons for this practice.