

# Insurance Basics

A Primer for Purchasing Professionals

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## What is Insurance?

- A means of protection from financial loss
- A Risk Management technique used to hedge against a contingent, uncertain loss

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## Risk Management Techniques

- Avoidance (Don't do it!)
- Reduction (Mitigation)
- Transfer (Insurance)
- Retention (Proceed but be willing to assume the loss)

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### How Does It Work?

- In exchange for the payment of premium, the company agrees to pay what the insured is legally obligated to pay

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### Coverage Term

- Must fall within the effective dates of the policy

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### Parts of an Insurance Policy

- Declarations Page
- Insuring Agreement
- Who is an Insured
- Exclusions
- Conditions
- Definitions
- Endorsements

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### “All Risks” v. Named Peril

- Does your insurance cover “all risks”?
- Does your insurance only cover perils that are specifically listed in the policy?
- It really does make a difference!

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### Occurrence Coverage v. Claims Made Coverage

- The policy will spell out what ‘triggers’ coverage and it makes a big difference which type of policy you buy
- Claims Made Coverage is typically cheaper when you first purchase it, but will require an extended reporting period when you change policies
- Certain types of insurance are offered in Claims Made Coverage. It’s OK to accept if you understand what you need to do to protect yourself
- Occurrence Coverage is the coverage that we prefer

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### Types of Insurance Claims

- There are two main types:
  - First Party
  - Third Party

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### First Party

- First party is the insured and the second party is the insurer
- Insured is presenting a claim to the insurer based on the insurance contract language
- Liability is not an issue that needs to be addressed

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### Third Party

- The third party is someone not privy to the contract of insurance who has a claim to make against the insured
- Liability must be determined before payment can be considered

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### Types of Coverage to Consider

- Comprehensive General Liability
- Auto Liability
- Workers' Compensation & Employer's Liability
- Cyber Liability
- Builder's Risk & Installation Floater
- Professional Liability
- Commercial Crime/3<sup>rd</sup> Party Fidelity
- Pollution
- Aircraft Liability

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