



## Chapter 1

### Vocabulary

**Risk** - Uncertainty regarding loss

- **Pure Risk** – only the chance of loss; Insurable
- **Speculative Risk** – chance for both loss or gain; Not insurable

**Peril** – the event that causes the loss

**Hazard** – increases the chance of a peril

- **Physical** – blindness; obesity;
- **Moral** – lifestyles; alcoholism & drug addiction.
- **Morale** – attitude or state of mind causing indifference;

### Treatment of Risk

- **Avoidance** – not doing the risk at all...ex. never, ever flying
- **Reduction** – wearing a seatbelt; wearing a helmet
- **Retain** – self-insuring;
- **Transfer** – buying insurance

### Elements of an Insurable Risk

- **Loss must be due to chance** – may or may not happen
- **Loss must be definite & measurable** – as to time & place
- **Loss must be predictable** – law of large numbers
- **Cannot be catastrophic** – to the insurance company
- **Risk exposures must be large** – good risks to offset the bad risks
- **Randomly selected** – prevents adverse selection