

Think Critically

1. What is the difference between a pure risk and a speculative risk?

2. Why are some risks uninsurable?

3. Tim Stanton has just opened a surf shop on the beach in South Florida. He has purchased property insurance to cover possible losses against his building, fixtures, equipment, merchandise, and other assets. Against what additional risks should he consider insuring his business?

True or False

- ____ 1. A payment made to an insurance company to cover the cost of insurance is a premium.
- ____ 2. All risks are insurable.
- ____ 3. A pure risk presents the chance of loss but no opportunity for gain.
- ____ 4. The most important type of insurance you will need for your business is probably life insurance.
- ____ 5. Liability insurance covers fire, robbery, storm damage, and floods.
- ____ 6. Business interruption insurance covers the loss of income resulting from a fire or other catastrophe that disrupts the operation of the business.
- ____ 7. It is always a good idea to have extra insurance so every risk is more than covered.
- ____ 8. To get the best price for insurance, compare policies from different insurance agents.
- ____ 9. Employers, not employees, must pay the cost of workers' compensation insurance.
- ____ 10. All injuries suffered on the job are covered by workers' compensation insurance.

Multiple Choice

- ____ 1. Which type of risk offers you the chance to gain as well as lose from the event or activity? (a) Speculative, (b) Pure, (c) Controllable, (d) Uncontrollable.
- ____ 2. Which of the following would generally not be considered an uninsurable business risk? (a) Unpredictable economic factors, (b) Competitor's actions, (c) Fire, (d) None of these because all risks are insurable.

- _____ 3. Property insurance usually does not cover losses due to (a) fire, (b) floods, (c) storm damage, (d) all of these.
- _____ 4. The location of your business determines whether or not you need (a) property insurance, (b) life insurance, (c) flood insurance, (d) fire insurance.
- _____ 5. This type of insurance covers your company's legal responsibility for the harm it may cause to others. (a) Life, (b) Liability, (c) Property, (d) Business interruption.
- _____ 6. Your insurance agent should (a) be someone you trust, (b) work for many different insurance companies, (c) work for a single insurance company, (d) live near your business.
- _____ 7. The second step in buying insurance is to (a) determine the kind of coverage you think you need, (b) select an insurance company, (c) determine how much coverage you need, (d) identify the kinds of risks you would like to insure against.
- _____ 8. Uninsurable risks are tied to all of the following except (a) economic conditions, (b) technology changes, (c) competitors' actions, (d) robberies.
- _____ 9. An unsecured loan is (a) granted based on the credit history of the individual, (b) a type of installment loan, (c) backed by collateral, (d) all of these.
- _____ 10. Which of the following injuries are not covered by workers' compensation insurance? (a) Self-inflicted injuries, (b) Injuries suffered during fights started by the injured, (c) Injuries suffered while disobeying employer policies, (d) All of these.

Problem Solving

1. The first column of the following table lists business risks. Complete the table by identifying the type of insurance that covers each risk.

Risk	Type of Insurance
Death of owner	
Lawsuit due to accident on premises	
Earthquake	
Robbery	
Lawsuit claiming that a defect in a product manufactured or sold caused bodily injury	
Fire	
Storm damage	
Extra expense of operating out of a temporary location after fire has destroyed the building	

2. Why would a business decide to accept credit cards issued by banks and credit card companies instead of issuing its own credit card?

what went wrong?

GOODBYE, GORGEOUS!

Edie opened her beauty salon "Hello, Gorgeous!" by taking out a \$40,000 loan to help pay for the renovations and equipment she needed. She had two hair stylists working in the salon as contract employees. They paid her monthly rent to use space in the salon. The combined rent they were paying helped cover about 50 percent of the monthly operating expenses.

Edie took out a business owner's insurance policy for \$20,000 worth of coverage. Edie was making enough money to pay her monthly expenses, but not enough to save at this point. After six months of being in business, there was a fire in the salon. Hello, Gorgeous! was completely destroyed. The cause of the fire was a curling iron that Edie left on over the weekend.

Edie still owed over \$35,000 on the business loan she obtained. Her contracted employees immediately

moved to another salon. Suddenly, Edie was all alone without any income or savings and not enough insurance to cover her loan. She was forced to close Hello, Gorgeous! and take a job working at another salon to pay off her debt.

THINK CRITICALLY

1. Do you think Edie was prepared to deal with business risks?
2. What mistake did Edie make when purchasing insurance?



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Don't trim costs by buying less insurance coverage than you need.