What is Insurance?

Q1 Complete the sentences using the words in the box. Each word is used once. Answers in **BOLD**.

1. A RISK is the chance that something unexpected could happen which could cost a person money.
2. The payments made for insurance cover are called a PREMIUM, and they are all POOLED together by the insurance company for any payouts.
3. When an insured person suffers a loss, they make a CLAIM to the insurance company.
4. The insurance company pays COMPENSATION to help the person repair or replace the item that was damaged.
5. Risks that cannot be insured against are called UNINSURABLE risks.

Q2 Tick whether each risk **can** or **cannot** be insured against.

Risk	Can be insured	Cannot be insured
A storm damaging the roof of a house	✓	
A person deliberately setting fire to their own shed		✓
A mobile phone being stolen	✓	
A driver crashing their car	✓	
Falling ill when on holiday	✓	

Why Do People Get Insurance?

Q3 Outline three reasons why people take out insurance. Give the reason, then explain the benefit.

Reason	Benefit of it
1. Insurance provides cover against risks that could cost a lot...	...so a person is not left with a large unexpected bill that they can't afford.
2. Motor insurance is a legal requirement...	...so a driver can legally drive on the road and avoid penalties.
3. Insurance reduces financial stress...	...so a person worries less/improves their wellbeing, knowing financial risks are covered if something goes wrong.

Types of Insurance

Q4 Match each type of insurance with its correct description.

Type of insurance	Description
1. House and contents	C. Covers damage to the structure of a home and the items inside it from fire, theft or flooding
2. Health	E. Covers the cost of private medical treatment, including hospital stays and consultant fees
3. Travel	A. Covers unexpected costs when travelling, such as medical emergencies, lost luggage and trip cancellations
4. Gadget	D. Covers accidental damage, liquid damage and theft of devices such as mobile phones and tablets
5. Pet	B. Covers the cost of vet bills if an animal is injured or becomes ill

1	2	3	4	5
C	E	A	D	B

Q5 (i) The Nolan family own a dog and are planning a holiday abroad. Identify three types of insurance not listed in the Exam Corner (Health, Motor, Gadget).

1. Pet insurance (they own a dog).
2. Travel insurance (they are holidaying abroad).
3. House and contents insurance.

Q5 (ii) Choose one, and outline what cover it provides.

Travel insurance: it covers unexpected costs when travelling abroad, such as medical emergencies on holiday, lost luggage and trip cancellations.

Q6 Lorcan has heard of third party insurance. Name and explain one other type of motor insurance.

Name of motor insurance: Fully comprehensive.	
Explanation: It covers damage to the insured person's own vehicle as well as everyone else involved, regardless of who is at fault in an accident. (Also acceptable: Third party, fire and theft, which adds cover if the insured's own vehicle is stolen or damaged by fire.)	

Q7 (i) Maeve is offered third party cover and fully comprehensive cover at the same price. Recommend which she should choose and give a reason.

Recommendation: Fully comprehensive cover.

Reason: At the same price it covers far more, including damage to her own vehicle as well as to others, so she gets much better value and protection for the same premium.	

Q7 (ii) Outline what health insurance would cover, and one reason Maeve should consider it.

Health Insurance cover: The cost of private medical treatment and operations, including hospital stays and consultant fees.	
Reason: It would let her access private treatment quickly and avoid long public waiting lists, and she is being offered it at a reduced premium.	

Principles of Insurance

Q8 Complete the sentences using the words in the box. Each term is used once. Answers in BOLD.

1. Under UTMOST GOOD FAITH, all material facts must be disclosed when applying for insurance.	
2. INSURABLE INTEREST means a person must have a financial interest in the item being insured.	
3. INDEMNITY means a profit cannot be made from insurance. The insured is restored to the same financial position as before the loss.	
4. Under CONTRIBUTION, if the same risk is insured with more than one insurer, the companies share the cost of any claim between them.	
5. SUBROGATION allows the insurance company, after paying out on a claim, to take legal action against the party responsible for the loss to recover its costs.	

Q9 Name the principle of insurance each example relates to.

Example	Principle
1. Eoin does not mention his penalty points on his motor insurance proposal form. Which principle has he broken?	Utmost Good Faith
2. Rachel's three-year-old television is destroyed in a fire. Her insurer pays its current value, not the price of a new model.	Indemnity
3. Niall wants to take out an insurance policy on his friend's motorbike. Which principle prevents this?	Insurable Interest
4. Orla's insurer pays to repair her car, then takes legal action against the driver at fault to recover the cost.	Subrogation
5. A jeweller insures the same stock with two companies. When a claim is made, each company pays half.	Contribution

Factors That Affect the Cost of a Premium

Q10 Glencara Insurance Ltd table of average motor premiums by driving experience.

(i) Insurance premium: the amount of money a person pays to an insurance company to be covered against a risk.
(ii) What the table shows: premiums fall as driving experience rises. For example, a driver with 0-1 years' experience pays an average of €1,600, while a driver with 20+ years' experience pays only €560.

Q11 Tick whether each factor will **increase** or **decrease** a motor insurance premium.

Factor	Increase	Decrease
Niall is 18 and passed his driving test last month	✓	
A car owner buys a new car worth €45,000 instead of the car they were driving that was worth €5,000	✓	
Orla has not made a claim in five years		✓
Cathal has six penalty points on his licence	✓	
A car alarm and immobiliser are fitted to the car		✓
The driver lives in a quiet rural area with little traffic		✓

Q12 Tick whether each factor will **increase** or **decrease** a house insurance premium.

Factor	Increase	Decrease
The house is in an area prone to flooding	✓	
A burglar alarm and smoke alarms are fitted		✓
Expensive jewellery is added to the contents cover	✓	
The house gets re-valued at €400,000 from the old valuation of €250,000	✓	
The owners have never made a claim		✓

Q13 Niamh (55), 20 years' experience, no claims, new electric SUV worth €55,000, lives in Galway city centre. Outline three factors the insurer will take into account.

The factor	How it impacts the premium
1. Niamh is 55 years old...	...so would have a lower premium compared to an 18 year old due to her age.
2. Her car is a new SUV worth €55,000...	...so a higher-value car costs more to repair or replace, which raises the premium.

3. She has never made a claim / has 20 years' experience...	...so her no claims bonus and experience lower the premium. (Galway city centre, a higher-risk location, would raise it.)

Q14 Two drivers apply for fully comprehensive motor insurance. Identify who is likely to pay the higher premium and give two reasons, with an explanation for each.

Driver: Driver A.
Reason 1: Age and experience. Explanation: Driver A is 20 and passed only six months ago, so less experience means a higher risk of a claim and a higher premium.
Reason 2: Penalty points and no claims bonus. Explanation: Driver A has 3 penalty points and no no-claims bonus, while Driver B has a clean record and 5 years' bonus, so Driver A is the higher risk. (Also: higher car value €30,000 and Cork city-centre location.)

Q15 Two homeowners apply for house and contents insurance. Identify which house is likely to cost more to insure and give two reasons, with an explanation for each.

House: House A.
Reason 1: Location and flood risk. Explanation: House A is beside a river that has flooded before, so the chance of a flood claim is higher, raising the premium.
Reason 2: Security and claims history. Explanation: House A has no alarm and two previous claims, while House B has alarms and no claims, so House A is the higher risk. (Also: higher value €550,000.)

Calculating Premiums - Loadings and Reductions

Q16 Tomás: base premium €750, 40% loading for six penalty points. Calculate the premium after the loading.

Base premium	No workings	€750
Loading	€750 × 0.40 = €300	€300
Premium after loading	€750 + €300	€1,050

Q17 Maria has not claimed and has driven for 5 years.

(i) No claims bonus: a discount/reduction on an insurance premium given to a driver who has not made a claim over a number of years.
(ii) Premium Maria pays: €540 Workings: €900 × 0.40 = €360 discount. €900 - €360 = €540

Q18 Shannon Insurance: Buildings €2 per €1,000; burglar alarm 10% discount. The Quinns insure for €280,000 with no alarm.

(i) Cost of insurance: €560 Workings: €280,000 ÷ €1,000 = 280. 280 × €2 = €560
(ii) Saving with a burglar alarm: €56 Workings: €560 × 0.10 = €56

Q19 Jakub is quoted €640; 10% discount for buying online. Calculate the saving and the premium paid online.

Saving	€640 × 0.10	€64
Premium paid online	€640 - €64	€576

Policy Excess

Q20 Ciara has fully comprehensive cover with a €400 policy excess. An accident causes €2,000 of damage.

(i) Policy excess: the amount the insured person must pay first towards a claim before the insurance company covers the rest.
(ii) Compensation Ciara receives: €1,600 Workings: €2,000 - €400 = €1,600
(iii) Impact on next year's premium: her premium is likely to increase, because making a claim means she loses some or all of her no claims bonus and is seen as a higher risk.

Q21 Darragh compares two policies and chooses Policy B (premium €700, excess €600). An accident causes €1,000 of damage.

(i) Insurance company pays out: €400 Workings: €1,000 - €600 = €400
(ii) Why Policy B is cheaper: Policy B has a much higher excess (€600 v €150), so Darragh pays more of any claim himself and the insurer pays less, which is why the annual premium is lower.
(iii) Why Policy A might be better: Policy A has a far lower excess (€150), so if Darragh has a claim he pays much less himself and receives more compensation.

Reducing the Cost of Your Insurance

Q22 Sorcha wants the best quote for her travel insurance. Outline one method of research.

She could use a price comparison website to compare quotes from several insurers at once (Also acceptable: use an insurance broker to shop around on her behalf.)

Q23 Identify two things Sorcha could do to lower the cost of her house insurance.

1. Install security devices such as a burglar alarm and smoke alarms.
2. Increase her policy excess, build up a no claims bonus, pay annually, or buy the policy online.

Underinsurance and the Average Clause

Q24 Holly's bicycle is worth €1,200 but insured for €600. She claims €400 of repairs. Calculate the compensation.

Compensation paid out: €200 Workings: (€600 ÷ €1,200) × €400 = 0.5 × €400 = €200

Q25 Conor's car is worth €20,000 but insured for €15,000. Repairs cost €8,000. Calculate the compensation.

Compensation paid out: €6,000 Workings: (€15,000 ÷ €20,000) × €8,000 = 0.75 × €8,000 = €6,000

Q26 Ella can save €80 a year by not adding her €900 camera to the house and contents insurance. Outline the opportunity cost if her camera is stolen.

(i) The opportunity cost is the €900 compensation she would have received to replace the camera. By saving €80, she goes without any payout and must pay the full €900 to replace it herself. (ii) Student's own answer, eg: I would pay the €80. It is a small annual cost compared with the €900 I would lose if the camera was stolen, so the protection is worth more than the saving.

Q27 Aisling (19) from Athlone passed her test and bought a second-hand car, choosing cover that protects her own car as well as others.

(a) Type of motor insurance (circled): Fully comprehensive.		
(b) Base premium	No workings	€1,100
Loading (30%)	€1,100 × 0.30 = €330	€330
Premium after loading	€1,100 + €330	€1,430
(c) Compensation: €1,100 Workings: €1,500 - €400 excess = €1,100		
(d) Impact on next year's premium: it will likely increase, as she loses some or all of her no claims bonus after making a claim and is treated as a higher risk.		
(e) One way to reduce her premium: shop around using price comparison websites or a broker at renewal. (Also acceptable: build up a no claims bonus, increase the excess, pay annually, fit security devices.)		

Q28 The Keane family from Tralee insure their home with Harbour Insurance: Buildings €2 per €1,000; burglar alarm 10% discount. They insure for €300,000 and have an alarm.

(a) Premium before discount - Workings	€300,000 ÷ €1,000 = 300. 300 × €2 = €600
(a) Premium	€600

(b) Premium after 10% alarm discount - Workings	€600 × 0.10 = €60 discount. €600 - €60 = €540
(b) Premium	€540
(c) Bicycle (avg clause): worth €2,000, insured €1,000, claim €700 - Workings	(€1,000 ÷ €2,000) × €700 = €350
(c) Compensation	€350
(d) Principle broken (flood not disclosed): Utmost Good Faith.	

Keyword Recap - Fill in the Blanks

Sentence	Answer
A ________ is the amount a person pays an insurer to be covered against a risk.	PREMIUM
A ________ is the chance that something unexpected could happen which could cost money.	RISK
A ________ is the request an insured person makes to the insurer after suffering a loss.	CLAIM
________ is the payout the insurer gives to help repair or replace what was lost.	COMPENSATION
A ________ is an extra charge added to a premium because the risk is higher.	LOADING
A ________ is a discount applied to bring a premium down.	REDUCTION
The policy ________ is the amount the insured must pay first before the insurer pays the rest.	EXCESS
A no claims ________ is a discount for a driver who has not made a claim over a number of years.	BONUS
________ Good Faith means all material facts must be disclosed when applying for insurance.	UTMOST
Insurable ________ means a person must have a financial interest in the item being insured.	INTEREST
________ means a profit cannot be made from insurance.	INDEMNITY
________ allows the insurer to recover its costs from the party responsible after paying a claim.	SUBROGATION