

# Insurance and Risk

# Countdown

1 Look at the photos of typical risks people face.

- 1 What kinds of risk do you associate with each photo?
- 2 Match the photos a–g with the types of personal insurance you can take 1–7.

1 health insurance

2 personal possessions insurance

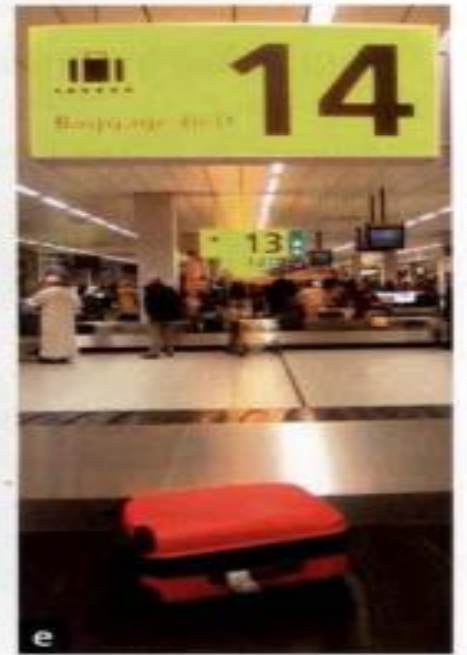
3 motor insurance

4 travel insurance

5 life insurance to protect a family

6 property insurance

7 credit card insurance



**2** Discuss with a partner. Which of these features should a car insurance policy include and which could be excluded? Mark them I (include) or E (exclude).

- 1 protection against theft \_\_\_\_
- 2 your medical costs if you have an accident \_\_\_\_
- 3 paying compensation if you cause damage to another vehicle \_\_\_\_
- 4 full cost of all repairs to your car \_\_\_\_
- 5 a refund of the original price of your car if it is destroyed \_\_\_\_
- 6 a free replacement car if your car breaks down \_\_\_\_

# Vocabulary

## Personal insurance

1 Match the key insurance terms with their definitions.

- |                    |                   |
|--------------------|-------------------|
| 1 a claim          | 5 no-claims bonus |
| 2 an excess        | 6 an exclusion    |
| 3 a premium        | 7 the cover       |
| 4 insurance policy |                   |
- a a discount the client can get if they make no claim for a period of time
  - b the fixed sum of money the client must pay towards the costs of a loss before the insurance company pays compensation (e.g. 'the first £200')
  - c the things you are protected against by the insurance policy
  - d the charge you pay annually or monthly to the insurance company
  - e something that is not covered by the insurance
  - f the written contract that defines the terms of your insurance
  - g informing the insurance company about a loss and requesting compensation (= 'making \_\_\_\_\_')

2 Complete the advice from a broker's advice site with the insurance expressions in the list.

claim	claims form	cover
damage	excess	exclusions
quote	no-claims bonus	premiums
insurance policy		

3 Match the verbs with the nouns to create word partnerships for these insurance expressions.

1 build up	a a claim
2 fill in	b a quote
3 impose	c exclusions
4 obtain	d an insurance policy
5 settle	e a no-claims bonus
6 take out	f a claims form

If you drive a car, go on holiday or rent a flat, you need to take out an \_\_\_\_\_<sup>1</sup> in order to get protective \_\_\_\_\_<sup>2</sup> against losses or accidents.

You can usually reduce the \_\_\_\_\_<sup>3</sup> you pay each year if you select only the cover you need. But it's important to read the policy carefully because many companies impose \_\_\_\_\_<sup>4</sup> which do not pay for some risks. Others require you to pay an \_\_\_\_\_<sup>5</sup>, a fixed amount of any claim you make, before they pay you compensation.

If you make no claims, however, you can often build a \_\_\_\_\_<sup>6</sup> that gives you a discount on the premiums, the costs you pay each year.

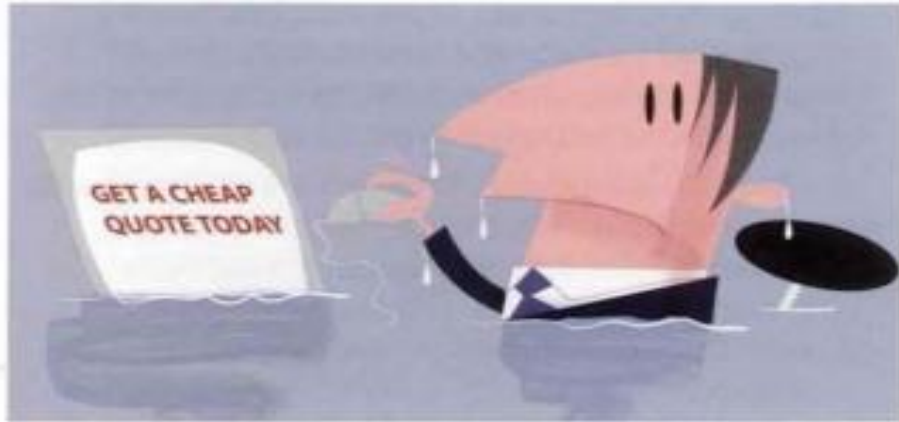
If you have to make a claim, it's important to notify the insurance company as quickly as possible and fill in a \_\_\_\_\_<sup>7</sup>.

Often they will require you to obtain a \_\_\_\_\_<sup>8</sup> from different service providers for the cost of repairing the damage and the insurance company may send out a loss adjustor to assess the value of the \_\_\_\_\_<sup>9</sup> or losses you have suffered.

When the work is completed, the insurance company will settle the \_\_\_\_\_<sup>10</sup> by either sending you a cheque or paying the provider directly.

## Professional skills

### Tips on getting the best insurance policy



- 1 Look at this tip sheet from an insurance broker on finding the best insurance policy. Which of the tips are new for you? Which do you think are most effective?
- 2 Discuss the questions.
  - 1 Do the tips above apply to where you live?
  - 2 Which areas of personal insurance are important for a family to have in your country (e.g. health, life, etc.)?

**What kind of cover do you really need?** Many people find they pay more than they need for their insurance because they don't take the time to **compare prices** from different companies. But you can find a whole range of quotes very quickly by going online.

**Look at all the exclusions.** Often people think they have obtained a cheaper quote but find when they want to make a claim that they are not insured for that risk.

See if you can reduce the cost by **increasing the excess**, the amount you agree to pay before the insurance company gives you compensation for your loss.

**Think about putting all your insurance needs with one company.** Often you will get a better quote if you insure your possessions, flat, and car with the same company.

**Build up a no-claims bonus.** That will often give you a big discount. Remember if you make a lot of small claims on your policy, you may lose your no-claims bonus.

**Understand how the insurance companies work.** The higher the risk, the more you pay. If you are young and want motor insurance for a fast car, you will probably pay top prices. But you can cut the cost if you keep the car in a secure location like a garage, or you can install anti-theft devices on the car. Or switch to a smaller car!

# Reading

## How do companies manage risk?

- 1 All companies face many types of risk in running their business. Look at the four examples below. What kind of risks should companies consider when planning these activities? What could go wrong?

  - a bank lending money to customers to buy property
  - a car company launching a new model of car
  - a construction company building a high-rise office tower
  - a food company producing cooked food for sale in supermarkets
- 2 To eliminate or manage risks, companies carry out regular risk audits of their business. A risk audit usually divides risks into four categories. What do you think these categories refer to?

financial risks	natural disaster risks
operational risks	strategic risks

Now read the text opposite on managing risk and match the four categories to the correct paragraphs. Write the title above each paragraph.

3 In which category of risk would you place each of these problems? Mark each item **O** (operational), **S** (strategic), **F** (financial), or **N** (natural disaster).

- 1 launching new products \_\_\_\_\_
- 2 computer virus attacks \_\_\_\_\_
- 3 human errors \_\_\_\_\_
- 4 managing customer credits \_\_\_\_\_
- 5 takeovers and mergers \_\_\_\_\_
- 6 understanding consumer trends \_\_\_\_\_
- 7 compliance with health and safety regulations \_\_\_\_\_
- 8 key staff resignations \_\_\_\_\_
- 9 flooding or fire \_\_\_\_\_

## Managing Risk

1 \_\_\_\_\_

A first priority for every risk manager conducting a risk audit is to identify the risks that could affect the daily working of the business. For example, any failure in the system, loss of data, or virus attack can quickly damage the business. Also staff can make mistakes, commit fraud, or resign unexpectedly. A company must make sure that it follows government health and safety regulations, both for employees and also the products it sells to consumers.

2 \_\_\_\_\_

But managers in all companies have to make daily decisions about their product range and markets. What new products do we want to launch? What kind of clients should we target? Do we want to buy any other companies? In each case, they must compare the opportunities with the risks of failure. In a fast-moving consumer market, like mobile phones, failing to understand consumer and design trends can eliminate a company permanently from the market.

3 \_\_\_\_\_

The biggest cause of bankruptcy in small businesses is the failure of companies to manage their cash flow and credit operations. If a customer does not pay on time, if a bank stops the overdraft facility, if it is impossible to borrow any money, can the company survive? For any company working on the financial markets sudden changes in prices of shares or commodities create special daily risks. A broker must know at every moment what is the 'value at risk' – that is to say, how much money the company could potentially lose if things go wrong.

4 \_\_\_\_\_

But if a catastrophe happens, a hurricane or flooding, even the best-managed companies are at risk. Companies must plan ahead to survive. Staff must know what to do and be ready to move to safe locations. Computer systems must be backed up to remote servers. Companies can then ask their insurers to help restore their operations when the crisis is over.



## • Language spot

### *should have done* and Third Conditional

1 Work in pairs. Look at the newspaper headlines below about companies whose risk strategies failed. Discuss the questions.

1 What do you think the company did wrong?

EXAMPLE

*They sold water with chemicals in it.*

2 What should the companies have done?

EXAMPLE

*They should have tested the water properly before they sold it.*

Drinks manufacturer announces huge product recall after chemicals found in product

**BANK COLLAPSES AS ROGUE TRADER LOSES \$ BILLIONS**

**Record losses at US car company as customers reject big engine cars**

**TWO WORKERS DIE AFTER CHEMICAL COMPANY STOPS SAFETY CHECKS**

**CEO resigns as advertising campaign fails to attract new customers**

When we talk about mistakes people made in the past, or things they didn't do correctly, we can use *should have* + past participle.

*They should have backed up their computer system.*

(= 'They didn't back up their computer system. It was a mistake not to do it.'))

*They shouldn't have launched the software without more tests.*

(= 'They launched the software without more tests. It was a mistake to do it.'))

**2** Look at these mistakes which companies made in the past and write one or two sentences about each mistake using *should have* or *shouldn't have*. The first one is done for you.

1 The company rented a warehouse near the river and didn't check the risk of flooding.

*They shouldn't have rented the warehouse.*

*They should have checked the risk of flooding.*

2 The company didn't check the credit position of the customer. When the customer didn't pay, they lost a lot of money.

3 The company launched the new product without testing its safety for children.

4 The company used only one supplier for some materials. When the supplier's workforce went on strike, they had no materials for production.

5 The company did not issue safety glasses and two production workers were injured.

If we want to show the consequences of **not** doing something, we can add comments by using the **Third Conditional** to describe past events.

*If + past perfect, past conditional (would (not) have + past participle)*

*If they had backed up the computer system, ...*

*... they would not have lost the data.*

*... they would have saved the data.*

**3** Now write sentences about each mistake using *If they had ...*

1 They didn't test the software so they didn't find the faults.

2 They didn't practise the fire drill so workers didn't know the fire procedure.

3 They didn't respect the safety guidelines so they received a big fine.

4 They didn't maintain the machines so the machines broke down.

5 They didn't visit the factory so they didn't see the working conditions.

## Webquest

*Lloyd's of London* is a specialist insurance market. It insures against risks that no ordinary insurance company will cover. Lloyd's started out in Edward Lloyd's Coffee House over 300 years ago. It insures everything from oil rigs and hurricanes to the body parts of famous people; from airlines and space travel to major sporting events.

- 1** Find out how the Lloyd's market works. Visit the website and match the jobs 1–3 with what they do a–c.
  - 1 brokers
  - 2 managing agents, underwriters
  - 3 a syndicate, members, 'names'
  - a They provide the capital to guarantee the insurance.
  - b They represent clients and bring business to the market.
  - c They evaluate the risks and decide the premium to pay.
- 2** Find examples of the kinds of insurance Lloyd's offers for
  - sport and sports events
  - climate change
  - space travel.
- 3** What is 'reinsurance' and how does it work?

## It's my job

- 1** Joanna works for an insurance brokers in London. Read her blog and find out what activities she does in her job.
- 2** Now answer and discuss these questions:
  - 1 Which team is Joanna working in?
  - 2 What do you think 'emerging risks' are?
  - 3 What other examples of emerging risks can you think of?
  - 4 Why do you think insurers study history?
  - 5 How can insurance help to contribute to safety?

## Joanna Rodgers

Trainee risk manager

Insurance brokers

When I go to a party and tell people that I work in insurance they are often unimpressed. But when I tell them I am working on the effects of climate change on sea levels they suddenly get excited. In fact, there are some three billion people in the world whose lives could be dramatically affected by a rise in sea levels. That's why insurance can be so exciting.

When I joined the company my first placement was in the risks department and in our team we are studying emerging risks like extreme weather conditions. It's our job to advise the underwriters – the people who assess risks and evaluate their financial impact – on the probability of events that may happen in the future. With this information they can decide if the company wants to take on the risk and what level of premiums to charge for providing insurance cover.

This means talking to experts in insurance and universities, and researching historical records, in order to build a picture of the damage caused by previous events, so the underwriters can quantify the financial impact.

Currently, in the risk department, we are also working on a project to study the potential insurance risks for the next World Cup football championship. We have to look at all the things that could go wrong: terrorist attacks, the collapse of a stadium, or the effects of extreme weather conditions like flooding or storms. Some of our clients in the construction sector have to understand these risks not just to insure the company against losses but also to design the buildings so as to protect the public. In this way, as insurers, we are also helping to make the world safer for people to enjoy great events.

