

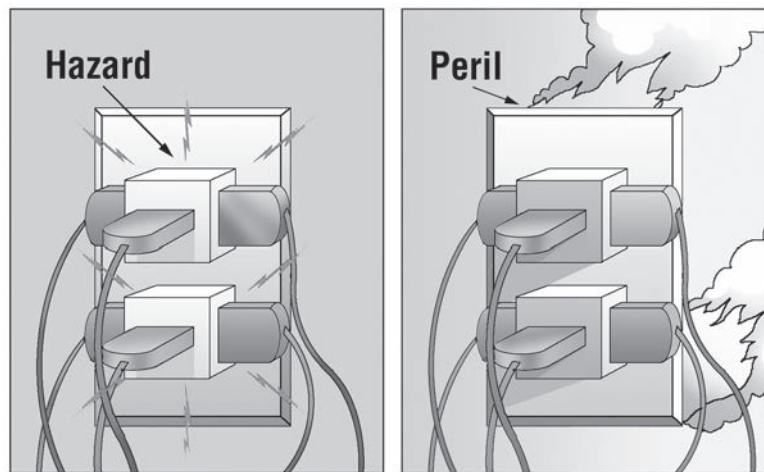
1.8. OTHER INSURANCE TERMS

1.8.1. Peril

You've learned that risk is the uncertainty of loss. A **peril** is the cause of loss. Fire and collision are both examples of perils.

1.8.2. Hazard

Now that you understand the difference between risk and peril, let's discuss another important term: hazard. A **hazard** is anything that increases the chance of loss.



Suppose Georgia was injured when a furnace exploded as the result of a poorly tightened gas connection. The peril was explosion; the hazard was a poorly tightened gas connection.

1.8.2.1. Physical, Morale, and Moral Hazards

There are three different types of hazards.

A **physical hazard** is a hazard that arises from the condition, occupancy, or use of the property itself. An example of a physical hazard is a skateboard left on the porch steps.

The second type of hazard is called a **morale hazard**. This means that an individual, through carelessness or by irresponsible actions, can increase the possibility for a loss. An example of a morale hazard is a person who drives a car carelessly because he knows a loss will be insured if an accident occurs.

The third type of hazard, closely related to the morale hazard, is the **moral hazard**. A moral hazard means that a person might create a loss situation on purpose just to collect from the insurance company. An example of a moral hazard is a prearranged, faked theft of an older vehicle so the owner could collect the insurance money and buy something new.