

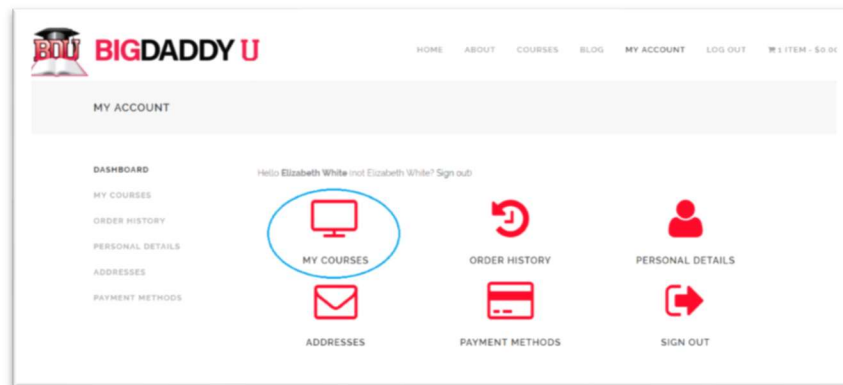


How to stream your **BIGDADDY U** videos

Step 1 Visit our website www.bigdaddyu.com

Step 2 Click the “Login” link on the top navigation menu and login.

Step 3 From the My Account Dashboard, click the “My Courses” icon.



Step 4 Click the “View” button to the right of the course title to stream the videos.

Before taking your exam, please review the:

-Test Bank-
-Practice Exam-

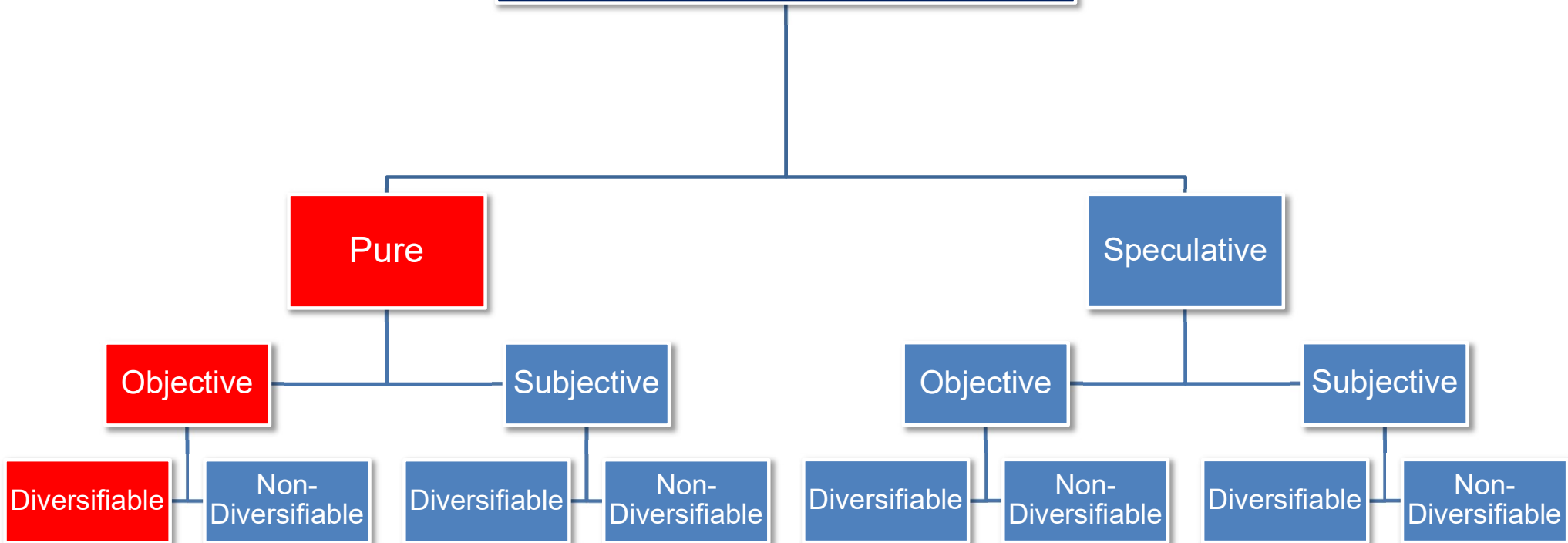
These are located at the back of the study guide and on our website!

Please email help@bigdaddyu.com if you have any questions or need assistance!

CPCU® and AIC™ are trademarks of the American Institute For Chartered Property Casualty Underwriters, d/b/a The Institutes. BigDaddy U is not affiliated or associated with The Institutes in any way, and The Institutes do not endorse, approve, support, or otherwise recognize BigDaddy U or its products or services. CLU® and ChFC® are trademarks of The American College. BigDaddy U is not affiliated or associated with The American College in any way, and The American College does not endorse, approve, support, or otherwise recognize BigDaddy U or its products or services.



Classifications of Risk





Risk Quadrants

	HAZARD	OPERATIONAL
PURE	<p>Property risk Liability risk Personnel loss exposures</p>	<p>People risk Process risk Systems risk External events</p>
SPECULATIVE	<p>Market risk -Interest rate risk- -Exchange rate risk- -Liquidity risk- Credit risk Price risk</p>	<p>Competition risk Economic risk Marketing risk Procurement risk Regulatory risk</p>
	FINANCIAL	STRATEGIC



Prouty Matrix

Loss Severity	Severe	TRANSFER	MODIFY	MODIFY	AVOID
	Significant	RETAIN	TRANSFER	MODIFY	AVOID
	Slight	RETAIN	TRANSFER	MODIFY	MODIFY
		Almost no chance	Slight chance	Moderate chance	Definite

Loss Probability



Risk Management Goals

	Risk Control	Risk Financing
Goals	<u>B</u> usiness Continuity <u>E</u> ffective/Efficient Measures <u>L</u> egal Requirements <u>L</u> ife Safety	Pay for Losses Maintain Liquidity Manage Uncertainty Legal Requirements Manage Cost of Risk
Techniques	Loss <u>P</u> revention (Modification) Loss <u>R</u> eduction (Modification) <u>S</u> eparation <u>A</u> voidance <u>D</u> uplication <u>D</u> iversification	Retention (Deductibles) Transfer (Insurance, Hedging)

Ability of Retention and Transfer to Meet Risk Financing Goals

Goal	Retention	Transfer
Paying for Losses	Depends on size of loss, management of retention measure, and strength of cash flows	Meets Goal (Primary Benefit of Risk Transfer is Paying for Losses)
Maintaining Appropriate Liquidity	Depends on size of loss and management of retention measure, and strength of cash flows	Reduces liquidity need
Managing Uncertainty	Results in Higher Variability of Cash Flow	Results in Lower Variability of Cash Flow
Complying with Legal Req.	Depends on structure and management of retention measure	Secondary benefits
Managing Cost of Risk	Meets Goal (Primary Benefit of Risk Retention is Managing Cost of Risk)	Rarely option that is most cost effective

BLUE - Meets Goal



Balance Sheet

Assets

Current Assets

Cash	50,000	
Accounts Receivable	125,000	
Inventory	1,500,000	
Marketable Securities	25,075,000	
Total Current Assets	26,750,000	

Non-Current Assets

Buildings & Equipment	300,000,000	
Less: Accumulated Depreciation	(10,000,000)	
Intangible Assets	5,000,000	
Total Assets	321,750,000	

Liabilities and Shareholders' Equity

Current Liabilities

Accounts Payable	6,250,000	
Short-Term Debt	4,000,000	

Non-Current Liabilities

Long-Term Debt	200,000,000	
----------------	-------------	--

Total Liabilities	210,250,000	
--------------------------	--------------------	--

Shareholders' Equity

		111,500,000
--	--	--------------------

Total Liabilities and Equity

	321,750,000	
--	--------------------	--

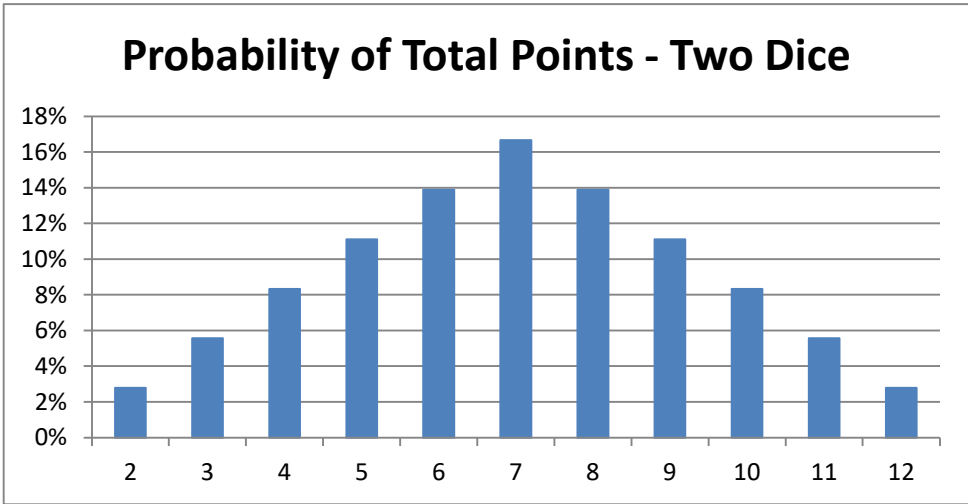
Financial Ratios

Liquidity Ratios		Leverage Ratios	
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Debt-to-Equity	$\frac{\text{Long-Term Debt}}{\text{Shareholders' Equity}}$
Acid-Test (or Quick) Ratio	$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$	Debt-to-Assets	$\frac{\text{Total Liabilities}}{\text{Total Assets}}$



Probability Distribution - Theoretical/Discreet

Total Points Two Dice	Occurrences	Probability
2	1	2.78%
3	2	5.56%
4	3	8.33%
5	4	11.11%
6	5	13.89%
7	6	16.67%
8	5	13.89%
9	4	11.11%
10	3	8.33%
11	2	5.56%
12	1	2.78%
Sum	36	100.00%



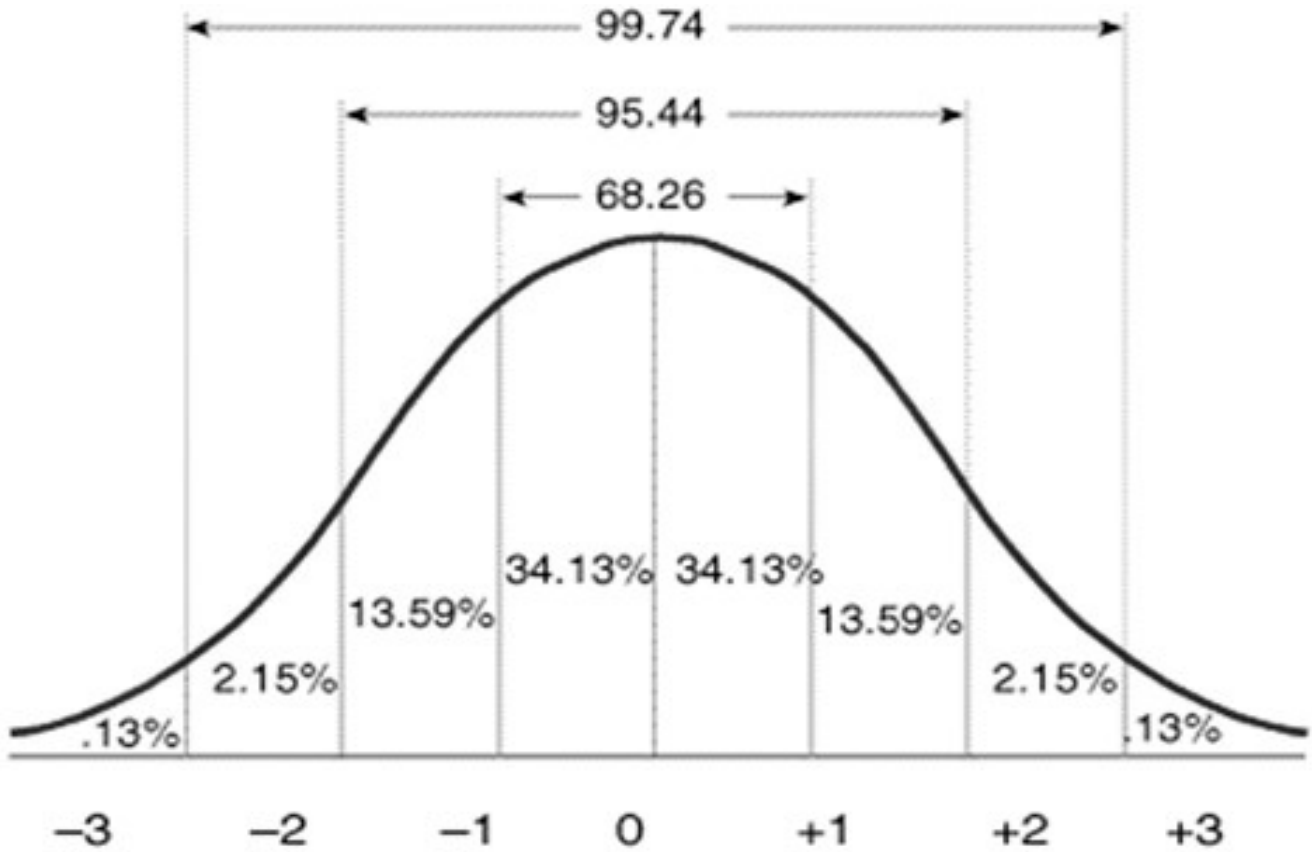
Probability Distribution - Empirical/Continuous

Size of Loss	Number of Losses	Percentage of Losses	Dollar Amount	Percentage of Dollar
\$0-\$4,000	9	45.00%	\$22,000	20.00%
\$4,001-\$8,000	7	35.00%	34,000	30.91%
\$8,001-\$12,000	2	10.00%	23,000	20.91%
\$12,001-\$16,000	1	5.00%	13,000	11.82%
\$16,001+	1	5.00%	18,000	16.36%
Sum	20	100.00%	\$110,000	100.00%

Mean dollar amount: **\$5,500**

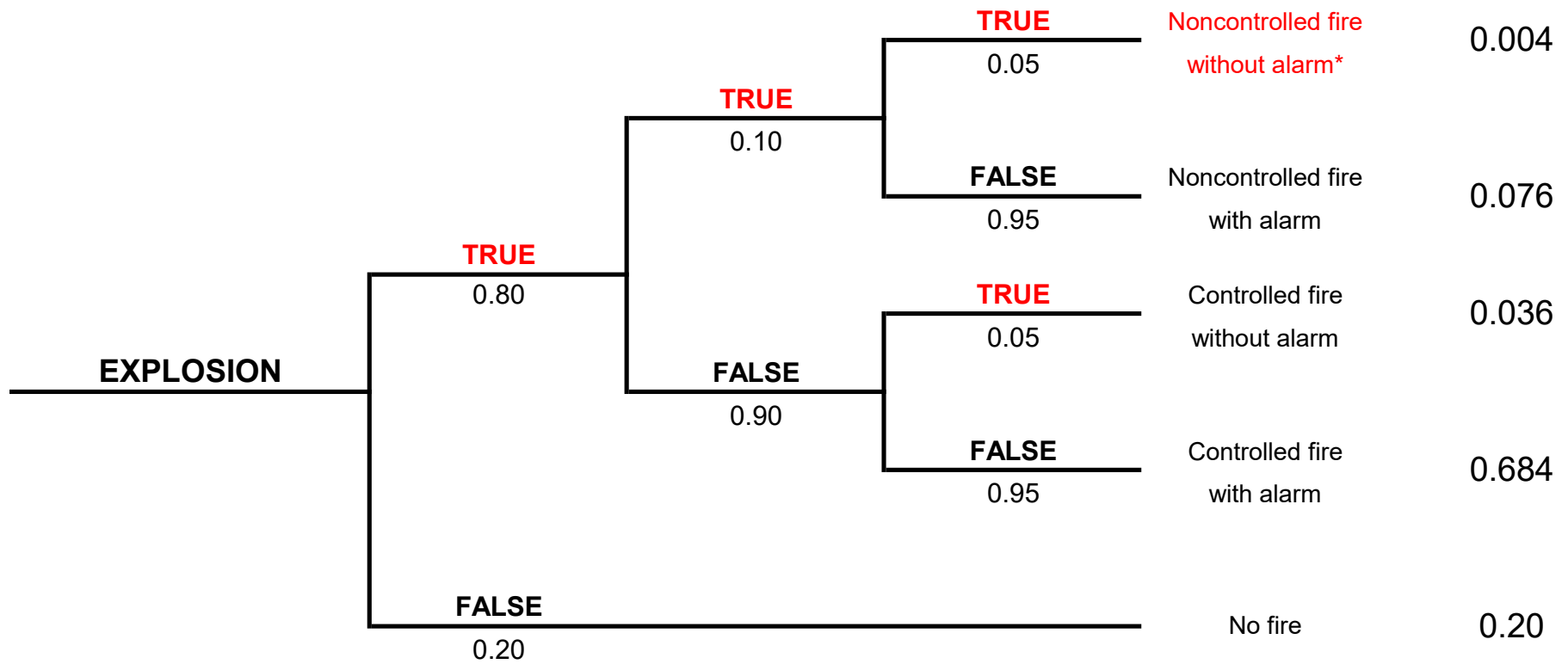


Normal Distribution





Initiation Event	Fire Origin	Sprinkler Broken	Alarm Not Activated	Outcomes	Annual Frequency
------------------	-------------	------------------	---------------------	----------	------------------



***Worst case scenario**



Ideally Insurable Characteristics

Loss Exposure	Pure Risk	Fortuitous	Definite and Measurable	Large Number of Exposure Units	Independent and Not Catastrophic	Affordable Premiums
Fire	Yes (Not Arson)	Yes (Not Arson)	Yes	Personal - Yes Commercial - Depends on type, location, use	Yes	Yes
Windstorm	Yes	Yes	Yes	Personal - Yes Commercial - Depends on type, location, use	Potentially catastrophic	Depends on location
Flood	Yes	Yes	Yes	Personal - Yes Commercial - Depends on type, location, use	Potentially catastrophic	Depends on location
Premises & Operations Liability	Yes	Yes	Yes	Yes	Yes	Yes
Products Liability	Yes	Yes	Depends on product	Depends on product	Potentially catastrophic	Depends on product
Automobile Liability	Yes	Yes	Yes	Yes	Yes	Yes
Net Income Loss Associated With Property Loss	Yes	Yes	Yes	Yes	Potentially catastrophic	Yes
Net Income Loss Associated With Liability Loss	Yes	Yes	May not be definite	Yes	Yes	N/A
Death	Yes	Yes (Except suicide)	Personal - Yes Commercial - Depends on personnel	Personal - Yes Commercial - Depends on personnel	Yes	Personal - Usually Commercial - Yes
Health	Yes	Depends on cause of loss	Depends on cause of loss	Yes	Yes	Usually
Retirement	Yes	Depends on circumstances & personnel	Personal - Yes Commercial - Depends on personnel	Personal - Yes Commercial - Depends on personnel	Yes	N/A