Module 1

Building the Foundation

INSURANCE INDUSTRY

IN ACTION

-EFFECTS OF INSURANCE
-PERCEPTION VS REALITY
-WHAT IS RISK
-LAW OF LARGE NUMBERS
-RISK CONSULTING
-PREDICT AND PREVENT

EVOLUTION

-DECISION MAKING
-INSURER RESPONSES:
  -LIABILITY CRISIS
  -THREAT OF TERRORISM
  -SOCIAL INFLATION
  -GROWTH OF E-COMMERCE
  -CLIMATE CHANGE
  -COVID-19

KEY PLAYERS

-AGENTS, BROKERS, SALES
-CLAIMS
-UNDERWRITERS
-MARKETING

Building the Foundation

Module 1
Chapter 1

1

1

Objectives

- Obj I: Insurance in Action
- Obj II: Vital Role of Risk Management and Insurance
- Obj III: The Evolving Insurance Industry
- Obj IV: Becoming a Key Player in the Insurance Value Chain

2

2

Insurance in Action

Objective I

3

3

Effect of Insurance

- Insurance is vital to managing risk.
  - Transforms potentially dire circumstances into manageable scenarios.
  - Drives economic growth.
    - Premiums paid first and losses paid later.
    - Lag between two allows insurers to invest premiums and offer loans.

4

4

Negative Perceptions of Insurance

- Media often focuses on consumers' negative experiences with insurance.
- Incorrect negative perceptions include:
  - "Insurers keep more premiums for profit than they spend on claims."
  - "If you don't have an accident, insurance is a bad investment."
  - "Insurance is too expensive."
  - "Insurers are incapable of or slow to change"

5

5

Negative Perceptions of Insurance

- Incorrect negative perceptions include:
  - "Insurance fraud is a victimless crime."
  - "Insurers can only compete on price."
  - "Insurers will become irrelevant as technology further empowers the prediction and prevention of insurable losses."

6

6

Risk

- Insurance is used to manage risk.
  - Risk is the uncertainty of outcomes.
- Risk is typically used to describe:
  - A potential loss, and/or
  - Something that is insurable.
- Insurable risk can only result in loss or no loss.
  - Cannot insure risks with potential for gain.

7

7

Pooling and Law of Large Numbers

- Main benefit of insurance is the transfer of financial consequences of loss.
- Pooling of risks and premiums spread the risk among members of a large group.
  - Allows insurers to charge affordable premiums and still pay large losses.
- Law of large numbers helps project losses.
  - As number of independent events increases, there is an increased chance that the actual results will be close to the expected results.

8

8

Risk Consulting Role

- Risk consultants provide customized blends of risk management strategies and insurance coverage.
  - Helps insured save money, improve safety, and gain a competitive edge.
- Insurers who can adopt consultant role can cement profitable, long-term relationships.
  - Must start by gaining a holistic understanding of a customer's goals.

9

9

Predict and Prevent

- Foundation of Predict and Prevent mindset is technology used in insurtech and risktech.
  - Technology designed to improve risk management efforts and insurance programs.
  - Driven by customer demands to reduce premiums and lessen fallout from losses.
- Examples of insurtech and risktech include:
  - Smart products, sensors, wireless sensor networks, big data, Internet of Things.

10

10

Predict and Prevent

- Insurtech and risktech combine technology with predictive analytics and data science to anticipate losses and trigger actions.
  - Predictive analytics – used to develop models that predict future events or behaviors.
  - Data science – provides knowledge based on very large amounts of data from a variety of sources.

11

11

Practice

- A "predict and prevent" mindset is currently permeating the insurance value chain. The foundation of this mindset is:
  - A. Increases in liability claims.
  - B. Technology enhancements.
  - C. Evolving competition.
  - D. Cash flow deficiencies.

12

12

Vital Role of Risk Management and Insurance

Objective II

13

13

Societal Benefits

- Risk management and insurance benefits society.
- Insurance industry exists to help people:
  - Take calculated risks.
  - Prevent and mitigate losses.
  - Get back on their feet after a loss.

14

14

Multi-faceted Approach

- Risk management plans must account for wide variety of scenarios.
  - Local catastrophe – affects local operations.
  - Foreign catastrophe – affects supply chains.
- Helping companies devise strategies to deal with exposures is a major way insurance industry benefits society.

15

15

Practice

- All of the following are ways in which the insurance industry makes a positive impact on the world, EXCEPT:
  - A. Helps people take calculated risks.
  - B. Prevents losses.
  - C. Mitigates losses.
  - D. Prevents people from being made whole after a loss.

16

16

The Evolving Insurance Industry

Objective III

17

17

Effects of Decision Making

- Small decisions can add up and have major impacts over time.
  - Affect insurer's loss ratio, which can in turn affect underwriting, marketing plans, etc.
- Effective leadership requires critical thinking.
  - Be familiar with various insurer functions.
  - Understand how their decisions will affect those functions and the customers.

18

18

Effects of Decision Making

- Microdecisions that can have big effects include determining:
  - Appropriate coverage limits.
  - What data to include in a predictive model.
  - Whether to refer claims to special investigation unit for fraud.
  - Best type of empathetic response to customer's claim.
  - How to describe an ideal job candidate to a hiring manager.

19

19

Liability Crisis

- Rapid increase in tort litigation and class action lawsuits in 1980s.
  - Large settlements led to large losses on liability policies.
- These settlements resulted in:
  - Insolvencies.
  - Increase in liability premiums.
  - Reduction in available coverage.
- Made it difficult for some organizations to obtain liability coverage.

20

20

Liability Crisis

- Insurers' responses:
  - Changed coverage from occurrence (losses happening during policy period) to claims-made basis.
  - Revised underwriting guidelines.
  - Expanded exclusions.
  - Lowered single claim limits and established general aggregate limits.
  - Promoted risk management methods.
  - Lobbied for tort reforms.

21

21

Threat of Terrorism

- Many of the enormous financial consequences of the 9/11 terrorist attacks were borne by the insurance industry.
  - Affected property, liability, business interruption, workers comp., aviation, and life insurance lines.
- Spurred insurers to insert terrorism exclusions in nearly all commercial policies.
  - Left organizations with gaps in coverage.

22

22

Threat of Terrorism

- Insurers' responses:
  - Terrorism Risk Insurance Act of 2002.
    - Shares cost of terrorism-related losses with federal government.
  - Developed stand-alone terrorism policies for high-risk exposures.
  - Defined "act of terrorism" to clearly delineate what is and isn't covered.
  - Improved assessment of and underwriting for risk correlation.

23

23

Social Inflation

- Social inflation is the rising cost of insurance claims due to:
  - Increase in nuclear jury verdicts.
    - Driven by juries' increasing distrust of corporate entities.
  - Longer legal proceedings.
  - Increase in tort litigation and class actions.
- It is estimated that non-health insurance fraud costs the industry tens of billions annually.
  - Results in premium increases.

24

24

Social Inflation

- Insurers' responses:
  - Revised commercial liability underwriting guidelines and claims procedures.
  - Minimized loss exposures in areas known for juries that seek outsized verdicts.
  - Raised public awareness of the effect of social inflation on policyholders.
  - Promoted corporate social responsibility and public relations campaigns to counteract anti-corporate sentiment.

25

25

Rapid Growth of E-Commerce

- The internet has changed customers' expectations.
  - Insurers must adapt or lose ground to competitors.
- Role of insurance agents and brokers upended by customers' demands for instant access to information and self-service tools.

26

26

Rapid Growth of E-Commerce

- Insurers' responses:
  - Transformed functions via websites & apps.
  - Created self-service insurance tools.
  - Reduced dependency on manual processes.
  - Captured and analyzed customer data to create more personalized products.
  - Directed agents and brokers to offer more risk consulting/client advisory services.
  - Enhanced fraud detection through data mining and analysis.

27

27

Climate Change

- Weather patterns are different now than what is predicted from historical data.
- Losses are more frequent and severe than insurers have anticipated.
  - Increases claim costs.
- Insurers need to change how they predict and analyze weather-related exposures.

28

28

Climate Change

- Insurers' responses:
  - Recalibrated predictive models to add more weight to recent events.
  - Supplemented historical data with more forward-looking data.
  - Advocated building code updates.
  - Improved assessment of and underwriting for concentrations of risks.
  - Revised reinsurance strategies.
  - Reexamined property risk underwriting.

29

29

Coronavirus Pandemic

- The pandemic ground most business to a halt.
  - Reduced miles driven.
  - Reshaped work/life balance.
  - Triggered mass business interruption claims.
  - Threatened reputation of insurance industry due to widespread denial of business interruption claims.

30

30

Coronavirus Pandemic

- Insurers' responses:
  - Revised policy wording regarding business interruption/business income coverage.
  - Identified the risks of "black swan" events.
  - Issued premium rebates to auto insureds commensurate with their reduction in risk.
  - Revised homeowners and auto coverages to accommodate risks associated with the rise in home-sharing and ride-sharing activities.
  - Redefined traditions and guidelines related to insurer workplace culture.

31

31

Practice

- Which one of the following insurance industry responses to the liability insurance crisis of the 1980s had the effect of limiting an insurer's long-term exposure to liability claims?
  - A. Changing liability coverage from an occurrence basis to a claims-made basis.
  - B. Expanding policy exclusions.
  - C. Lobbying for tort reforms, such as caps on punitive damages.
  - D. Lowering single claim limits and establishing general aggregate limits.

32

32

Becoming a Key Player in the Insurance Value Chain

Objective IV

33

33

Key Players

- Many skills are transferable between roles in the insurance industry.
  - It is common for people within the insurance industry to switch roles.
  - Critical for every insurer function to include individuals who can work with data and collaborate with data science teams.
- Industry leaders come from both within and outside the field of insurance.

34

34

Key Players

- Key players include:
  - Actuarial science professionals – help insurers make data-driven predictions and decisions.
  - Agents, brokers, sales, & marketing representatives – often work directly with insureds.
  - Underwriters – creative & problem-solving.
  - Claims professionals – empathetic, communicative, and resourceful.

35

35

Practice

- Which one of the following statements is correct regarding the key players in the insurance value chain?
  - A. Many skills are transferable and interchangeable between roles in the insurance industry.
  - B. Industry leaders are almost exclusively recruited from outside fields.
  - C. It is rare for people within the insurance industry to switch roles.
  - D. Claims adjusters are more likely to work with data science than underwriters.

36

36

Module 2

Risk Essentials

RISK

CLASSIFICATIONS

-PURE AND SPECULATIVE
-SUBJECTIVE AND OBJECTIVE
-DIVERSIFIABLE AND NONDIVERSIFIABLE

QUADRANTS

-HAZARD RISKS
-OPERATIONAL RISKS
-FINANCIAL RISKS
-STRATEGIC RISKS

RISK MANAGEMENT

PROCESS

-RISK MANAGEMENT FRAMEWORK
-STEPS:
  -SCAN ENVIRONMENT
  -IDENTIFY RISKS
  -ANALYZE RISKS
  -TREAT RISKS:
    -AVOIDANCE
    -MODIFICATION
    -TRANSFER
    -RETENTION
    -EXPLOITATION
  -MONITOR AND REVIEW PLAN

HOLISTIC APPROACH

-OVERVIEW
-ENTERPRISE-WIDE RISKS
-EFFECT OF TECHNOLOGY
  -IoT DEVICES
-MEASURING RISK VARIABLES:
  -COVARIANCE
  -VARIANCE
  -CORRELATION
-MONTE CARLO SIMULATION

Risk Essentials

Module 2
Chapter 2

1

1

Objectives

- Obj I: Risk Classifications and Categories
- Obj II: Process for Managing Risks
- Obj III: Holistic Risk Identification

2

2

Risk Classifications and Categories

Objective I

3

3

Risk Classifications

- Classifications of risk:
  - Pure and speculative risk.
  - Subjective and objective risk.
  - Diversifiable and nondiversifiable risk.
- The classifications are not mutually exclusive.
  - Insurable risks are generally categorized as pure, objective, and diversifiable.

4

4

Pure and Speculative Risk

- Pure risk is the possibility of loss.
  - No chance of gain.
  - Insurance is primarily designed for pure risk.
- Speculative risk is possibility of gain or loss.
  - Market risk – fluctuations in securities prices.
  - Inflation risk – loss of purchasing power.
  - Price risk – changes in the cost of raw materials and other inputs.
  - Credit risk – customers fail to make promised payments.

5

5

Subjective and Objective Risk

- Objective risk is based on fact.
  - Objective risks are generally insurable.
- Subjective risk is based on opinion.
  - Can exist even where objective risk does not.
  - Based on the organization, not the risk.
    - Organizations have different risk awareness.
  - Familiarity and control influence this risk.
- Risk assessment relies on objective facts combined with subjective opinions of the future.

6

6

Diversifiable & Nondiversifiable

- Diversifiable risks only affect one or a small number of people or businesses.
  - Risks tend not to be correlated.
  - Focus of private insurance.
- Nondiversifiable risks are correlated, and therefore diversification will not lower the risk.
  - Inflation, natural disasters, and unemployment.
  - Focus of government insurance.
  - Includes systemic risk.

7

7

Risk Quadrants

- One approach to categorizing risks involves dividing risks into quadrants.
- Pure risk quadrants (generally diversifiable):
  - Hazard risks – includes property damage, legal risk, and personnel risk.
    - Risk often transferred through insurance.
  - Operational risks – product recall, embezzlement, and IT risk.
    - Arise from people or failure of process.

8

8

Risk Quadrants

- Speculative risk quadrants:
  - Financial risks – includes liquidity, interest rate, and market risk.
    - May be diversifiable or nondiversifiable.
  - Strategic risks – includes intellectual property, competitors, ethics, and media.
    - Generally diversifiable risks.
    - Arise from trends in the economy or society.

9

9

Practice

- Insurable risks are generally categorized as:
  - A. Pure, objective, and diversifiable.
  - B. Speculative, subjective, and diversifiable.
  - C. Pure, objective, and nondiversifiable.
  - D. Speculative, objective, and nondiversifiable.

10

10

Practice

- XYZ Battery Company manufactures home appliances. They discovered a defect in their new line of blenders, and management decided to recall all new blenders. Based on the quadrants of risk, what type of risk does this represent?
  - A. Hazard risk.
  - B. Financial risk.
  - C. Strategic risk.
  - D. Operational risk.

11

11

Process for Managing Risks

Objective II

12

12

Risk Management Process

- The risk management process is a set of interconnected activities.
  - Defines an organization's holistic approach to managing risks.
  - Success of the process depends on effective communication and collaboration.
- Risk management framework is a foundation for applying the risk management process throughout an organization.

13

13

Risk Management Process

- Steps of the risk management process:
  - Scan the environment.
  - Identify risks.
  - Analyze risks.
  - Treat risks.
  - Monitor and review the plan.
- These "steps" are really more of a set of interconnected activities occurring simultaneously.

14

14

Scan Environment

- Risk management professionals should conduct detailed review of the environment.
  - Both internal and external environment.
- Risk management professionals should evaluate how each one of an organization's processes aligns with overall objectives.

15

15

Scan Environment

- Risk management professionals should collaborate with stakeholders to define risk criteria.
  - Information used as a basis for measuring the significance of a risk.
- Factors to consider:
  - Causes and effects of risk.
  - Metrics used to measure effects of risk.
  - Methods to determine level of risk.

16

16

Identify Risks

- Risk identification involves developing a list of risks that could affect the organization.
  - Not feasible to identify all risks.
  - Important to identify key risks.
- Methods that can be used:
  - Document analysis.
  - Compliance reviews.
  - Inspections.
  - Expertise with and outside of the organization.

17

17

Analyze Risks

- Risk analysis involves applying the risk criteria to determine the cause, probability, and consequences of each risk.
  - Loss exposures are analyzed based on frequency, severity, amount, and timing.
- Analysis can be quantitative, qualitative, or both.
  - Quantitative analysis may involve working with experts.

18

18

Treat Risk

- Risks can be addressed through risk control and risk financing techniques.
  - Risk control – include risk avoidance and loss reduction.
    - Minimize frequency or severity of losses.
  - Risk financing – includes insurance and hedging techniques.
    - Generate funds to finance losses.

19

19

Treat Risk

- Selecting the appropriate techniques is based on quantitative and qualitative considerations.
  - Technique should be effective and economical.
- Major options available for risks:
  - Avoidance.
  - Modification.
  - Transfer.
  - Retention.
  - Exploitation.

20

20

Monitor and Review

- Monitoring the plan involves:
  - Determining effectiveness of controls.
  - Obtaining information to improve risk assessment.
  - Analyzing events and their consequences.
  - Observing changes in environments.
  - Identifying emerging risks.

21

21

Practice

- Which one of the following statements is correct regarding an organization's risk management framework?
  - A. It is the foundation for applying the risk management process throughout the organization.
  - B. It is applied in the same manner in every organization.
  - C. It is a set of discrete sequential steps.
  - D. It can be successfully implemented by a single stakeholder.

22

22

Practice

- Making the decision to avoid, transfer, retain, or exploit a risk is a characteristic of which step in the risk management process?
  - A. Risk identification.
  - B. Risk analysis.
  - C. Risk treatment.
  - D. Risk monitoring.

23

23

Holistic Risk Identification

Objective III

24

24

Holistic Approach

- Traditionally, risk management has involved the prevention of property damage and injuries.
  - Holistic approach is broader in scope.
- Holistic approach examines all areas of the business.
  - Encompasses the analysis of business processes and organizational decisions.
  - Looks at all possible results.
  - Involves collaboration of internal and external stakeholders to identify and treat risks.

25

25

Holistic Approach

- Advances in technology provide risk managers with more tools to analyze data.
  - Also allows for better tracking of safety and the movement of people and products.
- Organizations can now assess the potential outcomes of a wider scope of activities.
  - Can help minimize business risk.
  - Can potentially help turn risks into financial and reputational gains.

26

26

Enterprise-Wide Risks

- Risk quadrant includes hazard risks and:
  - Strategic risk – risk associated with long-term goals and management decisions.
  - Operational risk – risk associated with policies, procedures, and systems.
  - Financial risk – risk associated with financial activities.
- Taking risks is fundamentally necessary for growth.

27

27

Enterprise-Wide Risks

- Managing financial risks can be straightforward.
  - May just involve the monitoring of cash flow and interest rates.
- Managing financial risks could also be complex.
  - Could involve managing foreign exchange transactions.
  - Could also involve costs of raw materials, depreciation of assets, loans, and liquidity.

28

28

Effect of Technology

- Risk management has benefited from advances in technology.
  - Increased ability to capture, store, and analyze data.
- Technology can uncover previously imperceptible risk factors.
  - Predictive modeling combines better data with better software that can analyze and predict outcomes.

29

29

Effect of Technology

- IoT devices generate data needed for modeling:
  - Telematics – measure acceleration, speed, braking, and distance.
  - Sensors in buildings – monitor noise, heat, and quality of air.
  - Drones – can access difficult-to-reach areas.
  - Smartphones – connect with others.
  - Health trackers – measure steps, heart rate.
  - Robots – assess damage, monitor hazards.
  - Cameras – inspect buildings.

30

30

Measuring Risk Variables

- Risk managers use measurements to assess interactions between risk factors.
  - Covariance – measure of how two random risk variables will change in relation to each other.
  - Variance – how far apart the numbers are in relation to the average.
  - Correlation – strength of association between two variables.

31

31

Measuring Risk Variables

- Reasons risk professionals measure correlation and covariance:
  - Identify relationships among various sources of risk.
  - Determine the degree of uncertainty in a risk portfolio.
  - Prioritize investments in loss control.
  - Optimize risk financing.
  - Evaluate effectiveness of risk management program.

32

32

Measuring Risk Variables

- Monte Carlo simulation can also be used to predict outcomes.
  - Statistical computer model.
  - Simulates effects that various types of uncertainty may have on a process.
- Monte Carlo involves random selection of values for variables.
  - Results are assembled into probability distributions representing possible outcomes.

33

33

Practice

- Which one of the following statements is correct regarding types of IoT devices currently in use?
  - A. High-definition cameras connect with others through text and voice.
  - B. Drones measure heart rate and sleep patterns.
  - C. Telematics create a picture of an insured's driving habits.
  - D. Sensors assess damage and monitor hazards and environmental conditions.

34

34

Practice

- Prime Processing plant is reviewing its risk management approach. During a meeting with company executives, the risk manager presents data indicating that as employee training increases, on-the-job accidents decrease. This relationship is known as a:
  - A. Negative covariance.
  - B. Positive variance.
  - C. Random correlation.
  - D. Strategic risk.

35

35

Module 3

Anticipating Negative Outcomes

LOSS EXPOSURES

PROPERTY EXPOSURES

-NATURAL RISK SOURCES
-HUMAN RISK SOURCES

LIABILITY EXPOSURES

-PERSONAL LIABILITY
-PREMISES AND OPERATIONS
-PRODUCTS AND COMPLETED OPERATIONS
-AUTO
-WORKERS COMPENSATION

LIABILITY RISK

MANAGEMENT RISK

-DIRECTORS/OFFICERS LIABILITY
-EMPLOYMENT PRACTICES RISK
  -DISCRIMINATION
  -WRONGFUL TERMINATION
  -HARASSMENT
  -RETALIATION
-FIDUCIARY DUTY RISK

HUMAN RESOURCE RISK

-WORK INJURY:
  -MACHINERY USE
  -MATERIALS HANDLING
  -FLEET OPERATION
  -PREMISES CONDITION
-WORK ILLNESS:
  -CHEMICAL EXPOSURE
  -RADIATION
  -NOISE
  -ERGONOMIC STRESS
  -TEMPERATURE
  -AIR QUALITY
-RETIREMENT/RESIGNATION
-VIOLENCE

OPERATIONAL AND FINANCIAL RISK

-OPERATIONAL:
  -PEOPLE
  -PROCESS
  -SYSTEMS
  -EXTERNAL EVENTS
-FINANCIAL:
  -MARKET
  -CREDIT
  -PRICE

Anticipating Negative Outcomes

Module 3
Chapter 3

1

1

Objectives

- Obj I: Property Loss Exposures
- Obj II: Liability Loss Exposures
- Obj III: Management Liability and Human Resource Risks
- Obj IV: Operational and Financial Risks

2

2

Property Loss Exposures

Objective I

3

3

Sources of Property Risk

- Categorizing sources of risk can help provide a framework for managing risk exposures.
  - No categorization method is perfect.
  - Some sources can fall into more than one category.
- Physical risks can generally be categorized as:
  - Natural risk.
  - Human risk.

4

4

Natural Risk

- Natural risks occur randomly in nature.
  - Encompasses natural disasters that can affect communities.
  - May include events that just affect a single organization.
- Natural risk sources are typically beyond human control.
  - Risk management has little effect on reducing the likelihood of an event.

5

5

Natural Risk

- Loss reduction measures can be implemented.
  - Can control the consequences of events.
- Types of natural risk sources:
  - Earthquake, landslide, volcanic eruption.
  - Fire, flood, hail.
  - Ice, mold, mildew.
  - Lightning, perils of the air or sea.
  - Rust, rot, tidal waves.
  - Vermin.

6

6

Human Risk

- Human risk sources include deliberate acts of individuals or groups.
  - Also includes events that are not deliberate but involve human intervention.
- Risk control techniques can typically manage the likelihood and consequences.

7

7

Human Risk

- Sources of human risk:
  - Arson, embezzlement, terrorism.
  - Collapse, explosion, sonic boom.
  - Strikes, riot, vandalism, theft.
  - Power outage, electrical overload.
  - Contamination, pollution.
  - War.

8

8

Practice

- Which one of the following statements is correct regarding natural risk sources?
  - A. They can be easily controlled and prevented.
  - B. They can include events that affect just one organization.
  - C. They include deliberate acts of individuals or groups.
  - D. There is no way to reduce their impact.

9

9

Liability Loss Exposures

Objective II

10

10

Liability Loss Exposures

- Individuals, families, and organizations have liability loss exposures.
  - Possibility of a claim alleging legal responsibility of a person or business for damage suffered by another.
- Liability loss exposures include:
  - Personal liability loss exposures.
  - Commercial liability loss exposures.

11

11

Personal Liability Loss Exposure

- In theory, the financial consequences can be limitless.
  - Cost of legal investigation and defense.
  - Money damages awarded.
- In actuality, the consequences are limited to the total wealth of the responsible party.
  - Some jurisdictions limit the amount that can be collected in a claim.

12

12

Personal Liability Loss Exposure

- Liability loss usually results from:
  - Breach of duty involving ownership or use of property.
  - Contractual liability.
  - Statutory liability.
- Damages awarded could include:
  - Special damages.
  - General damages.
  - Punitive damages.

13

13

Damages

- Special damages are compensation for expenses incurred due to an injury.
  - Particular damages.
- Special damages can include:
  - Medical expenses.
  - Loss of wages & earnings.
  - Amount spent to restore lost property.

14

14

Damages

- General damages are compensation for losses that don't have a specific cost.
  - Compensate a plaintiff for intangible costs.
  - Highly subjective.
  - Direct damages or necessary damages.
- General damages include compensation for:
  - Pain and suffering.
  - Loss of a limb, sight, or hearing.
  - Emotional distress.

15

15

Tort Liability

- Civil law provides the legal foundation of insurance.
  - Criminal acts are generally not the subject of insurance.
- The most common personal liability claims under civil law involve:
  - Tort liability.
  - Contract liability.
  - Statutory liability.

16

16

Tort Liability

- Tort damages can be based on:
  - Negligence – failure to exercise reasonable care.
  - Intentional tort – a tort committed by a person who should be able to foresee the act will cause harm to another.
  - Strict liability – liability imposed by a court or by a statute in the absence of fault.

17

17

Loss Exposures

- Categories of commercial liability exposures:
  - Premises and operations liability.
  - Products and completed operations liability.
  - Auto liability.
  - Workers compensation and employers liability.
  - Professional liability, management liability.
  - Marine liability, aircraft liability.
  - Cyber liability.

18

18

Premises and Operations Liability

- Premises and operations liability arises from bodily injury or property damage caused by:
  - An accident occurring on an organization's owned, leased, or rented premises.
  - An accident arising from organization's ongoing operations away from the premises.
  - Certain mobile equipment, such as cranes.
- Liability is usually based on negligence.
  - In some cases, can be based on strict liability.

19

19

Products Liability

- Products liability arises out of the manufacture, distribution, or sale of an unsafe, dangerous, or defective product.
- For negligence actions, the plaintiff must prove:
  - Product was defective when it left the manufacturer's or supplier's control.
  - Condition made the product dangerous.
  - Product was proximate cause of injury.
- Strict liability can be imposed on manufacturer.

20

20

Completed Operations Liability

- Completed operations liability is the liability of an entity arising out of their completed work.
  - Under the common-law accepted work doctrine, a contractor was not held liable once owner had accepted work.
  - Many courts have abandoned the accepted work doctrine.

21

21

Automobile Liability

- Automobile liability arises out of the ownership, maintenance, or use of automobiles.
  - Many states make the owner liable for damages arising from any person's operation of the auto with the owner's permission.
  - Liability can also arise from negligent maintenance of a commercial auto.
- Anyone injured has a right of action against the operator of the auto.
  - Operator's employer can also be held liable.

22

22

Workers Compensation

- An employer's responsibility to pay claims under workers compensation liability is generally imposed by statute.
- The typical workers compensation statute is intended to provide an exclusive remedy for occupational injury or illness to all employees.
  - Only remedy available is to recover the benefits required by the applicable statute.
  - No-fault basis.

23

23

Workers Compensation

- An employer's liability for the injuries of employees can also be assumed under contract.
  - Hold-harmless agreement.
- An employer who agrees to indemnify another party may be agreeing to indemnify the other party for claims made by the employer's own employees.

24

24

Practice

- Irene was visiting a local artist's studio to pick out some art for her office. While she was perusing the art, a sculpture of hubcaps fell over and injured her arm. From the commercial liability standpoint of the artist, this is an example of:
  - A. Completed operations liability.
  - B. Products liability.
  - C. Premises and operations liability.
  - D. Professional liability.

25

25

Management Liability and Human Resource Risks

Objective III

26

26

Directors and Officers Liability

- Directors can be held liable for failing to fulfill the following responsibilities:
  - Establishing organization's basic goals.
  - Electing/appointing officers.
  - Safeguarding and approving changes in the organization's assets.
  - Approving important financial matters.
  - Maintaining the corporate charter and bylaws.
  - Delegating special powers to others.
  - Acting as a fiduciary to shareholders.

27

27

Directors and Officers Liability

- Directors and officers have a fiduciary duty:
  - Duty of care – must act in good faith and in the organization's best interest.
  - Duty of loyalty – cannot take business opportunities away from the organization.
  - Duty of disclosure – material facts must be disclosed to those who have a right to know.
  - Duty of obedience – must perform duties in accordance with laws and corporate charter.

28

28

Employment Practices Risks

- Employment practices liability risks:
  - Discrimination – includes overt, disparate treatment, and disparate acts.
  - Wrongful termination.
  - Sexual harassment – some risks come from the perception that the employer created a hostile work environment.
  - Retaliation – member of the management team retaliates against an employee because of a legitimate action taken by the employee.

29

29

Fiduciary Duty Risks

- Fiduciary liability risks generally apply to employee benefit plans.
  - Beneficiaries may file a lawsuit against employers.
  - Applies to retirement plans and other employee benefit plans.
- Fiduciary duties imply a high standard of care.
  - Fiduciary is personally liable for losses resulting from a breach of duty.

30

30

Fiduciary Duty Risks

- Duties of a plan fiduciary are similar to fiduciary duties of an officer:
  - Loyalty – actions must be in best interest of the plan and participants.
  - Prudence – duties must be carried out with care and skill.
  - Diversification – investments must be diversified to minimize risk of large losses.
  - Adherence – must act according to plan documents and laws.

31

31

Human Resource Risk

- An organization faces many liability risks arising from employee behavior.
  - Work-related injury and illness.
  - Retirement and resignation.
  - Work-related violence.
- Risk managers must try to limit the hazard risks presented in the course of employment.

32

32

Work-related Injury and Illness

- Injury usually occurs due to an external physical force exerting stress on the body.
  - Illnesses tend to happen over time.
- Risk control depends on whether a disability is caused suddenly or by prolonged exposure.
  - Personal inspection is a valuable method to help determine if there are workplace hazards.

33

33

Work-related Injury and Illness

- Major categories of work-related injury:
  - Machinery and equipment use – sensors can help prevent injuries.
  - Materials handling – wearables can monitor posture and weight load.
  - Vehicle fleet operations – telematics can measure driver safety.
  - Physical condition of premises – sensors and alarms can notify management of danger.

34

34

Work-related Injury and Illness

- Sources of work-related illness risk:
  - Long-term chemical exposure.
  - Radiation.
  - Noise levels.
  - Ergonomic stress.
  - Extreme temperatures.
  - Poor air quality.

35

35

Retirement and Resignation

- If an employee retires, the loss to the organization is the future value the individual would have provided.
- For larger corporations, this risk must be considered from an enterprise-wide perspective.
  - Workforce demographics should be reviewed.
  - A predominately young workforce can result in mass resignations.
  - Older workforce can result in retirements.

36

36

Work-related Violence

- Violence can occur despite an employer's best efforts to provide a safe environment.
  - Violence can create financial consequences, such as lost productivity and lawsuits.
- Some employers face the risk that employees will be kidnapped.
  - Severity of loss depends on whether the employee is a key employee.

37

37

Treating Human Resource Risk

- Techniques to manage injury/illness loss:
  - Avoidance – reduces loss potential to zero.
  - Loss prevention – includes safety engineering and workplace design.
  - Loss reduction – having a plan to restore injured person to a level of independence.
  - Separation – arranging activities so no single event can cause multiple losses.
  - Duplication – creating backup facilities, such as cross-training employees.

38

38

Practice

- All of the following represent types of human resource risk, EXCEPT:
  - A. Work-related injury.
  - B. Retirement.
  - C. Work-related violence.
  - D. Embezzlement.

39

39

Practice

- Which one of the following represents a duty that a corporate director owes to the shareholders of the corporation?
  - A. Duty of integrity.
  - B. Duty of obedience.
  - C. Duty of diligence.
  - D. Duty of independence.

40

40

Operational and Financial Risks

Objective IV

41

41

Operational Risk

- All organizations encounter some type of operational risk.
  - Risk manager must help the organization deal with this risk.
- Categories of operational risk:
  - People.
  - Process.
  - Systems.
  - External events.

42

42

People

- People category includes employees.
  - Also includes vendors, clients, & contractors.
  - Each person presents an opportunity for growth, but also has downside risk.
- Many of the risks are insurable.
  - Discrimination or harassment.
  - Employee theft.
  - Errors and omissions.
- Damage to reputation cannot be insured.

43

43

People

- Strategies to mitigate people risk:
  - Recruitment – seeking candidates matching organization's needs and culture.
  - Selection – checking references and criminal background.
  - Training and development – aimed at risks associated with a given job position.
  - Performance management – reviewing performance and providing feedback regularly.

44

44

People

- Strategies to mitigate people risk:
  - Incentives – developing programs to encourage risk taking and discourage inappropriate behavior.
  - Succession planning – creating a plan for replacement of crucial employees and executives.

45

45

Process

- Process risk typically includes procedures and practices used to conduct business activities.
  - Managing these risks involves a framework of procedures.
- Risk often stems from the possibility that a practice will depart from procedure.
  - Sometimes departures are innovative and effective.
  - Many departures create a negative risk.

46

46

Process

- Procedures should be based on best practices.
  - Should be designed with highest level of safety.
  - Should be monitored continually with the intention of diagnosing issues.
- Procedures should be redesigned as necessary.

47

47

Systems

- Systems risk involves the function of technology and its security.
  - Greater recognition of operational risk has occurred due to the evolution of technology.
  - Data breach can threaten an organization's existence.
  - Blockchain can help reduce this risk.
- Equipment failure also presents a risk for an organization's continuing operations.
  - Some aspects of this risk are insurable.

48

48

External Events

- External events can include natural disasters.
  - From the standpoint of operational risk, external events can include loss of property and business interruption.
  - Can include the loss of a key supplier or customer.

49

49

Financial Risk

- Financial risk includes market risk, credit risk, and price risks.
- Market risk is risk that investment value will change because of changes in the market.
  - Interest rate risk – risk associated with the movement of interest rates.
  - Exchange rate risk – risk associated with foreign currency.
  - Liquidity risk – risk that an investment cannot be converted into cash quickly.

50

50

Financial Risk

- Credit risk – uncertainty related to a party obligated to pay money per a binding agreement.
  - Both principal and interest are at risk.
- Price risk – uncertainty of accurately setting price.
  - Input risk – price of resources used in production.
  - Output risk – price the product can be sold for.

51

51

Practice

- Which one of the following statements is correct regarding categories of operational risk?
  - A. Systems risk includes procedures and practices organizations use to conduct their business activities.
  - B. External events risk includes risks associated with technology and equipment.
  - C. People risk typically includes all employees of an organization, as well as vendors and clients.
  - D. Process risk includes business interruptions and loss of property.

52

52

Module 4

Insurance Markets and Solutions

INSURANCE CATEGORIES

PERSONAL

-HOMEOWNERS
-AUTO
-OTHER PERSONAL:
 -MOBILE HOME
 -WATERCRAFT

COMMERCIAL PROPERTY

-BUILDING AND PERSONAL PROPERTY COVERAGE FORM
-EQUIPMENT BREAKDOWN
-BUSINESS INCOME AND EXTRA EXPENSE
-INLAND MARINE
-COMMERICAL CRIME

COMMERICAL LIABILITY

-GENERAL LIABILITY
-AUTO LIABILITY
-WORKERS COMPENSATION
-EMPLOYERS LIABILITY:
 -THIRD-PARTY-OVER ACTION
 -LOSS OF CONSORTIUM
 -DUAL CAPACITY DOCTRINE

RISK TRANSFER

INSURANCE

-GUARANTEED COST INSURANCE
-LOSS CHARACTERISTICS:
 -PURE RISK
 -FORTUITOUS LOSS
 -MEASURABLE AND DEFINITE
 -LARGE NUMBER OF UNITS
 -INDEPENDENT
 -AFFORDABLE
-RISK FINANCING GOALS

LANGUAGE

-INSURABLE INTEREST
-RATEMAKING
-COINSURANCE
-PROPERTY VALUATION
-INSURER'S RIGHTS

NONINSURANCE

-RISK CONTROL:
 -LEASING
 -WAIVER
 -CONTRACTING FOR SERVICES
 -DISCLAIMER OF WARRANTIES
-RISK FINANCING:
 -HOLD-HARMLESS AGREEMENTS

Insurance Markets and Solutions

Module 4
Chapter 4

1

1

Objectives

- Obj I: Examining the Personal Lines Market
- Obj II: How Businesses Integrate Insurance and Risk Management
- Obj III: The Commercial Property Lines Market
- Obj IV: The Commercial Liability Lines Market
- Obj V: How to Speak Insurance
- Obj VI: Noninsurance Contractual Risk Transfer

2

2

Examining the Personal Lines Market

Objective I

3

3

Personal Risk Management

- Individuals face a variety of loss exposures.
  - Loss exposure – any condition or situation that presents a possibility of loss, whether or not an actual loss occurs.
- Many personal loss exposures covered by homeowners insurance and auto insurance.
  - Endorsements to homeowners and auto insurance policies can enhance protection.

4

4

Named Perils vs Open Perils

- Coverage needs can vary greatly from homeowner to homeowner.
  - Several homeowners forms are available.
- Causes of loss covered:
  - Named perils coverage (aka Broad Form).
    - Lists the causes of loss covered.
  - Open perils coverage (aka Special Form).
    - Insure against all causes of loss except those specifically excluded or limited by the policy.

5

5

ISO Homeowners Coverage

- ISO policy forms are designed to meet the risk management needs of:
  - Individuals and families owning a private home in which they reside.
  - People renting a premises in which they reside (HO-4).
  - Individuals and families owning private condominium units used for residential purposes (HO-6).

6

6

ISO Homeowners Coverage

- ISO Homeowners forms:
  - HO-2 – Broad Form: named perils coverage for dwellings, other structures, and personal property.
  - HO-3 – Special Form: open perils (special form) coverage on dwellings and other structures, and named perils coverage on personal property.

7

7

ISO Homeowners Coverage

- ISO Homeowners forms:
  - HO-4 – Contents Broad Form: named perils coverage for tenant's personal property.
  - HO-5 – Comprehensive Form: open perils coverage on dwellings, other structures, and personal property.
    - Similar to HO-3 policy, but with more broad coverage of personal property.
    - Broadest possible coverage for home and contents.

8

8

ISO Homeowners Coverage

- ISO Homeowners forms:
  - HO-6 – Unit-Owners Form: named perils coverage for personal property, with limited dwelling coverage.
  - HO-8 – Modified Coverage Form: limited named perils coverage for a dwelling, other structures, and personal property.
    - Designed for dwellings that may not meet underwriting standards for other policies.
    - Historic homes (replacement cost > FMV).

9

9

ISO Homeowners Policies

- HO-14–Contents Comprehensive Form.
  - Provides broader coverage for renters' personal property than HO-4.
    - Property insured on open-perils basis.
      - Replacement cost instead of actual cash value of HO-4.
    - Provides coverage for home-sharing exposures.

10

10

No-Fault Automobile Laws

- No-fault laws authorize or mandate auto no-fault insurance.
  - Often referred to as personal injury protection (PIP).
  - Laws define the benefits that insurers can or must provide.
- Insurers in no-fault states avoid process of determining legal responsibility for accidents.
  - Instead handle claims quickly.

11

11

Types of No-Fault Laws

- Types of no-fault laws:
  - Pure no-fault – injured person does not need to establish fault or prove negligence.
    - Abolishes use of tort liability system for bodily injuries resulting from accidents.
    - No state has enacted a pure no-fault law.
  - Modified no-fault.
  - Add-on plans.
  - Choice no-fault plans.

12

12

Modified No-Fault Plans

- Modified no-fault plans place some restrictions on the right to sue an at-fault driver.
  - Do not entirely eliminate the right to sue.
- Injured motorists collect economic losses from their own insurers through PIP benefits mandated by the plan.
  - Can sue at-fault drivers for economic losses that exceed the no-fault (PIP) coverage limits.

13

13

Modified No-Fault Plans

- Injured motorists can also sue at-fault drivers for noneconomic losses, such as pain and suffering, if injuries exceed a threshold.
  - Monetary threshold – victim can sue for noneconomic losses if economic losses exceed stated dollar amount.
  - Verbal threshold – victim can sue for noneconomic losses if his or her injuries meet a verbal description of serious injuries.
    - Example – permanent disfigurement.

14

14

Add-on Plans

- An add-on plan adds no-fault benefits to auto insurance policies.
  - Differs from modified no-fault plan because it places no restrictions on the injured person's right to sue a negligent party for damages.
  - Offers insured the option of collecting for economic losses through his or her own insurer.

15

15

Choice No-Fault Plans

- Under a choice no-fault plan, when a policy is purchased or renewed, insured can choose to be covered on a modified no-fault basis.
  - Modified no-fault option provides premium reductions in exchange for restrictions on right to sue.
  - Insureds who choose not to be covered under modified no-fault are choosing the traditional tort system.

16

16

Summary

Description	Right to Sue?
Pure No-Fault	No
Modified No-Fault	Yes, with restrictions
Add-on Plan	Yes
Choice No-Fault (if selection of Modified No-Fault made)	Yes, with restrictions
Traditional Tort System	Yes

17

17

Personal Auto Policy

- ISO PAP is designed for private passenger autos.
  - Consists of Declarations page, Agreement and Definitions page, and six sections.
- Sections of PAP:
  - A – Liability Coverage
  - B – Medical Payments Coverage
  - C – Uninsured Motorists Coverage
  - D – Damage to Your Auto Coverage
  - E – Insured Duties Following Accident or Loss
  - F – General Provisions

18

18

Overview of Coverages

- Parts of the PAP:
  - Part A – Liability Coverage protects against claims for bodily injury or property damage.
  - Part B – Medical Payments Coverage compensates for medical expenses because of bodily injury to the insured.
  - Part C – Uninsured Motorists Coverage pays damages if injury caused by uninsured.

19

19

Overview of Coverages

- Parts of the PAP:
  - Part D – Coverage for Damage to Your Auto compensates for physical damage to a covered auto and to certain nonowned autos.
  - Part E – Duties After an Accident or Loss outlines duties required of an insured after an accident or a loss.
  - Part F – General Provisions contains information such as how changes to the policy can be made.

20

20

Other Personal Lines Coverages

- Mobile homes.
  - Covered by mobile home policies or a mobile home endorsement to homeowners policy.
- Watercraft.
  - Policy availability depends on size of watercraft.
  - May have protection under homeowners or auto policies.

21

21

Practice

- Happy Time Insurance Agency has had a recent influx of condominium owners reach out about purchasing insurance for their condos. Which one of the following homeowners insurance policies is the best fit for these customers?
  - A. HO-3 Form.
  - B. HO-4 Form.
  - C. HO-6 Form.
  - D. HO-8 Form.

22

22

Practice

- Maria was driving to the bank when a pickup truck failed to yield the right of way and ran into her car. The other car drove off, but Maria was seriously injured and taken to the hospital. Maria was insured under her personal auto policy (PAP) and carried the coverage and limits required by her state. Which one of the following parts of her PAP will provide coverage for Maria's injuries?
  - A. Part A – Liability Coverage.
  - B. Part B – Medical Payments.
  - C. Part C – Uninsured Motorists Coverage.
  - D. Part D – Coverage for Damage to Your Auto.

23

23

How Businesses Integrate Insurance and Risk Management

Objective II

24

24

Insurable Loss Exposures

- Insurance is often the best technique for losses with high severity and low frequency.
- Ideally insurable loss exposure characteristics:
  - Pure risk.
  - Fortuitous loss.
  - Measurable and definite.
  - Large number of exposure units.
  - Independent and not catastrophic.
  - Affordable premiums – otherwise, nobody would purchase insurance.

25

25

Pure Risk

- An ideally insurable loss exposure involves pure risk, not speculative risk.
  - Chance of loss or no loss.
  - Hazard risk and operational risk.
- If speculative risk was insured, insurer would have to charge an excessive premium.
  - Premium would eliminate any expected profits of the insured.
  - Financial risk and strategic risk.

26

26

Fortuitous Loss

- An ideally insurable loss exposure involves a fortuitous loss, which is accidental/unexpected.
  - Fortuitous from one point of view – vandalism, theft.
  - Fortuitous from both points of view – fire, weather, storm.
- Insurance is suitable when there is reasonable uncertainty about probability or timing of a loss, without the threat of moral or morale hazard.

27

27

Definite and Measurable

- An ideally insurable loss exposure involves a loss that is definite and measurable.
  - Definite in time, cause, and location.
- Liability policies written on an occurrence basis require the insurer to be able to determine that the event occurred during the policy period.

28

28

Large Number of Exposure Units

- An ideally insurable loss exposure involves a large number of similar exposure units.
  - Insurance spreads risk among a large number of similar exposure units within same period.
- Law of large numbers requires that past events occur under the same conditions in the future.

29

29

Not Catastrophic/Affordable

- Exposure units must be independent and not catastrophic to the insurer.
  - Windstorm and flood can be catastrophic.
  - Multimillion-dollar property can be catastrophic to small insurer.
- Insurer must charge affordable premium.
  - Possibly the most important characteristic of insurance.
  - Small losses or high probability losses are generally uninsurable.

30

30

Risk Financing Goals

- Before using guaranteed cost insurance, it must be determined if insurance meets the organization's risk financing goals.
- Common risk financing goals include:
  - Paying for losses.
  - Managing the cost of risk.
  - Managing variability of cash flow.
  - Maintaining liquidity.
  - Complying with legal requirements.

31

31

Practice

- Which one of the following statements is correct regarding characteristics of ideally insurable loss exposures?
  - A. Private insurance is most suitable when there is reasonable certainty regarding the timing of a loss.
  - B. Theft is considered a fortuitous loss from the standpoint of the thief.
  - C. The insurer can only determine an appropriate premium if losses are fortuitous.
  - D. The probability of a fortuitous loss increases as more policies are written.

32

32

The Commercial Property Lines Market

Objective III

33

33

Coverage Forms

- The Commercial Package Policy (CPP) can include several coverage forms.
  - Package discount may be offered if many coverage forms are included.
- Building and Personal Property (BPP) Coverage Form can be used to insure:
  - Buildings.
  - Business personal property of the insured.
  - Property of others in insured's custody.

34

34

Building

- Buildings or structures described in the declarations are covered, including:
  - Fixtures and completed additions.
  - Permanently installed equipment.
  - Personal property owned by the insured and used to maintain the building.
  - Building materials within 100 feet of building.
- If not otherwise insured, alterations and repairs in progress are also covered.

35

35

Business Personal Property

- Your Business Personal Property covers personal property owned by the insured:
  - Furniture, fixtures, and equipment.
  - Stock – merchandise held for storage or sale.
  - Other owned, business personal property.
  - Labor or materials on property of others.
  - Improvements and betterments (even though they are technically real property).
  - Leased personal property for which the insured is required to obtain coverage.

36

36

Business Personal Property

- A landlord's interest in any improvements and betterments is insured by the landlord's building coverage.
  - Improvements and betterments are additions to real property that generally change the property and enhance its value.
- Landlord and tenant have simultaneous but separate insurable interests in same property.
  - Each may buy insurance.

37

37

Personal Property of Others

- Personal Property of Others coverage provides coverage for property of others in insured's care, custody, or control.
  - Property must be located in/on the building or within 100 feet of the building.
- Payment under this coverage is made to the owner of the property, not to the insured.
  - Coverage applies regardless of whether the insured is legally liable for the loss.

38

38

Where Coverage Applies

- Building – coverage applies to locations described in the declarations.
  - Materials, equipment, and supplies are covered while located on or within 100 feet of the described premises.
- Your Business Personal Property and Personal Property of Others – property covered while in or on the building, or within 100 feet.

39

39

Insurance for Equipment Breakdown

- Equipment breakdown insurance covers loss resulting from the accidental breakdown of covered equipment.
  - Also called boiler and machinery insurance.
- Many insurers include equipment breakdown coverage in their commercial package policies.
  - Then reinsure the coverage with an insurer that specializes in that line.
- Most states have laws requiring inspection of boilers by licensed inspectors.

40

40

Business Income Insurance

- Business income losses are measured in terms of net income.
  - Difference between revenues and expenses.
- Business income insurance covers the reduction in a firm's net income caused by accidental property damage.
  - Reduction = Net income a business could reasonably have been expected to earn -less-
  - Net income a business actually earned in a period of interruption.

41

41

Business Expenses

- During a business interruption, a company may have the following expenses:
  - Continuing – continue during shutdown.
    - Payroll of key employees, debt repayments, taxes, insurance.
  - Noncontinuing – expenses that cease.
  - Extra – expenses incurred to mitigate effects of a business interruption.

42

42

Business Income Insurance

	Expected	Actual
Revenue	$100,000	$0
Expenses	60,000	50,000
Net Income (Loss)	$40,000	($50,000)

43

43

BIC Insuring Agreements

- **Two ISO coverage forms are provided to cover business income losses:**
  - **Business Income (and Extra Expense).**
    - **Contains both Business Income insuring agreement and Extra Expense insuring agreement.**
  - **Business Income (Without Extra Expense).**
    - **Contains only Business Income insuring agreement.**

44

44

Inland Marine Insurance

- **Inland marine policies provide solutions often not found on other commercial forms.**
  - **Covers property in transit, kept at other locations, and floating property.**
- **Inland marine policies for property in transit:**
  - **Annual Transit Policy – covers all shipments made/received for a one-year policy period.**
  - **Trip Transit Policy – covers cargo on a specified trip.**
  - **Motor Truck Cargo Liability Policy – covers a trucker's liability for damage to cargo.**

45

45

Inland Marine Policies

- Additional types of inland marine policies:
  - Contractors Equipment Floater – covers contractors' equipment.
  - Builder's Risk Policy – covers a building during the course of construction.
  - Bailee's Customer Policy – covers damage to customers' goods while in the possession of the insured, regardless of legal liability.
  - Dealer's Policy – covers the inventory and property of dealers, such as jewelers.

46

46

Commercial Crime Coverage

- Covers money, securities, and other property against a variety of criminal acts.
  - Employment theft, robbery, forgery, extortion, computer fraud.
- Three basic coverages:
  - Commercial crime – covers organizations other than financial institutions & gov'ts.
  - Government crime – covers governments.
  - Employee theft and forgery – covers employee theft and forgery.

47

47

Practice

- Which one of the following would be covered by the Building and Personal Property (BPP) coverage form?
  - A. Outdoor radio or television antennas.
  - B. Currency.
  - C. A pet store's stock of animals.
  - D. Outdoor fences.

48

48

Practice

- Davis Hardware Store had a fire, forcing them to close for one month. During the business interruption, they had no revenue, and their total expenses were $15,000 (including extra expenses incurred). Had the fire not occurred, their expected revenue would have been $40,000 and their expected expenses would have been $32,000. What is the amount of their business income loss?
  - A. $0.
  - B. $8,000.
  - C. $15,000.
  - D. $23,000.

49

49

The Commercial Liability Lines Market

Objective IV

50

50

Overview of CGL

- All businesses face the possibility of liability losses arising out of their premises, operations, products, and other sources.
  - The ISO Commercial General Liability Coverage Form is widely used.
- Two broad categories of coverage:
  - Bodily injury and property damage liability.
  - Personal and advertising injury liability.

51

51

Bodily Injury and Property Damage

- The primary type of liability loss covered is Coverage A – Bodily Injury and Property Damage Liability.
  - Premises and Operations – accident on the premises or arising from ongoing operations.
  - Products and Completed Operations – accident arising out of products sold or arising out of completed work.
- Separate premium rates typically apply for each of the two exposures.

52

52

Personal and Advertising Injury

- Coverage B – Personal and Advertising Injury Liability covers the insured's liability for personal and advertising injury.
  - Exposure can be omitted if the insured does not want to purchase it.
- Covered perils include liability for:
  - False arrest.
  - Wrongful eviction.
  - Libel, slander.
  - Copyright infringement in advertisement.

53

53

Medical Payments

- Coverage C – Medical Payments pays medical expenses of others in certain circumstances.
  - Does not require insured to be legally liable.
  - Technically not liability insurance.
  - Pays small bodily injury claims without having to establish liability.
- Medical expenses must result from bodily injury due to an accident on the insured's premises or arising out of the insured's operations.

54

54

Commercial Auto Coverage Part

- A commercial auto coverage part includes declarations, coverage forms, and endorsements.
  - Can be included in a commercial package policy or issued as a monoline policy.
- Commercial auto declarations forms include various schedules for recording applicable coverages, covered autos, applicable limits, etc.

55

55

Commercial Auto Coverage Part

- Insurers use the Business Auto Coverage Form to insure the auto loss exposures of businesses.
  - Not used for motor carriers or auto dealers.
  - BACF provides liability insurance, and may also insure physical damage to autos.
- Auto dealers are eligible for the Auto Dealers Coverage Form.
  - Provides the equivalent of general liability and auto insurance in a single form.
  - Includes garagekeepers coverage.

56

56

Workers Compensation Liability

- Workers compensation insurance covers occupational injury or disease.
  - Must arise in the course of employment.
  - Covers employer's obligation to pay benefits required by workers compensation statutes.
- Policies generally do not show a dollar limit.
  - Payments limited by what is required by the applicable workers compensation law.

57

57

Workers Compensation Liability

- Insurer has duty to defend the insured against claims seeking benefits payable by the policy.
  - Also agrees to pay additional costs, such as for investigating a claim.
- Insured is required to reimburse insurer for penalties applied by law due to:
  - Willful misconduct.
  - Knowing employment of anyone illegally.
  - Failure to comply with safety laws.
  - Discrimination against employees.

58

58

Employers Liability Insurance

- Covers employer for employee's occupational injury or disease not covered by workers compensation.
  - Third-Party-Over Action – EE sues a third party, and third party sues employer.
  - Loss of Consortium – family member sues ER for loss of companionship or household duties employee can no longer provide.
  - Dual-Capacity Doctrine – EE sues ER in a capacity other than as ER.

59

59

Practice

- Which one of the following Commercial General Liability Coverages would provide coverage for an insured against libel, slander, and false arrest?
  - A. Property damage liability.
  - B. Medical payments liability.
  - C. Bodily injury liability.
  - D. Personal and advertising injury liability.

60

60

Practice

- Monica works for the water park Water Everywhere! as a lifeguard. One day when she was not working, she brought her cousin to Water Everywhere! for a day of fun and relaxation. On that day, Monica slipped and broke her ankle. She later sued Water Everywhere! for not maintaining a safe walkway. Which of the following best describes this claim?
  - A. Dual-capacity doctrine.
  - B. Loss of consortium.
  - C. Third-party-over action.
  - D. Personal and advertising injury liability.

61

61

How to Speak Insurance

Objective V

62

62

Insurable Interest

- Must have insurable interest in order to obtain insurance coverage.
  - Insurable interest – party could suffer a financial loss if the insured property is damaged or a covered liability claim is filed.
  - Can be held by multiple parties.
    - E.g. homeowner and mortgage company.
- Insurance is not meant to be a source of profit.
  - Only a means to recover losses.

63

63

Pricing Coverage

- Ratemaking is the process insurers use to calculate insurance rates.
  - Considers various kinds of risk-related underwriting data and other data.
  - Determines an appropriate base rate for a particular coverage.
    - Insured's premium may be higher or lower based on their risk profile.
- Goal is to create a pool of collected premiums large enough to pay expected covered losses.

64

64

Coinsurance Requirement

- Requires insured to carry insurance equal to at least a specified percentage of property's value.
  - If not met, insured may receive a proportionally reduced claim payment.
  - Loss payment =

$$\frac{\text{Amount of insurance carried}}{\text{Amount of insurance required}} \text{ x Loss}$$

  - Amount is then reduced by the deductible.

65

65

Property Valuation

- Most common insurance valuation methods:
  - Replacement cost – cost to repair or replace property using new materials of like kind and quality (no deduction for depreciation).
  - Actual cash value (ACV) – cost to replace property with new property of like kind and quality, less depreciation.
  - Agreed value method – insurer and insured agree on the maximum amount that will be paid in the event of a total loss.

66

66

Deductible

- A deductible represents the portion of a covered loss that is not paid by the insurer.
  - Helps keep premiums down.
  - Reduces administrative expense of handling many low-value claims.
  - Incentivizes insureds to prevent losses from occurring in the first place.

67

67

Insurer's Rights Under a Policy

- Insurance professionals must take care to avoid actions that may prohibit the insurer from exercising its rights under a policy.
  - Waiver – voluntary, intentional relinquishment of a right.
  - Estoppel – prevents a party from making a defense when the defense is inconsistent with the party's previous actions.
- Subrogation gives the insurer the right to recover damages from the party responsible.

68

68

Practice

- Wesley Wealth Management (WWM) owns and occupies an office building insured under a Building and Personal Property Coverage Form with an 80% coinsurance provision. The building has a value of $1,000,000 and WWM purchased a policy with a building limit of insurance of $400,000. If the building suffers a covered loss of $200,000, and ignoring any deductibles, how much will the insurer pay for this loss?
  - A. $80,000.
  - B. $100,000.
  - C. $160,000.
  - D. $200,000.

69

69

Noninsurance Contractual Risk Transfer

Objective VI

70

70

Noninsurance Risk Transfer

- Most organizations are parties to noninsurance contracts.
  - Includes leases, purchase agreements, and construction contracts.
  - May include risk transfer provisions.
- Categories of noninsurance risk transfer:
  - Transfer for risk control.
  - Transfer for risk financing – insolvent transferee provides no protection to transferor.

71

71

Transfer for Risk Control

- Noninsurance transfers for risk control:
  - Leasing – losses for lessee include damage to the property and third-party liability.
    - Lessee could be responsible.
    - Risk control involves allowing lessor to retain the risks of property ownership.
  - Waiver – relinquishment of a right.
    - Can be included in a contract.
    - Exculpatory clause is a contract provision that excuses a party from liability.

72

72

Transfer for Risk Control

- Noninsurance transfers for risk control:
  - Contracting for services – organization performing an activity is generally responsible for losses.
    - Loss exposure can be transferred by contracting with another organization.
  - Disclaimer of warranties – sellers of property often assert disclaimers.
    - May deny any express warranties made during the property's sale.

73

73

Transfer for Risk Financing

- Noninsurance transfers for risk financing are accomplished through hold-harmless agreements.
  - Contractual provision obligating one party to assume the legal liability of another party.
  - Included in various types of contracts.
- The party transferring the financial consequences is the indemnitee.
  - Indemnitor agrees to indemnify the indemnitee.

74

74

Transfer for Risk Financing

- Classifications of hold-harmless agreements:
  - Limited form – General Contractor agrees to indemnify Building Owner only for GC's negligence.
  - Intermediate form – GC agrees to indemnify BO only for GC's negligence or both parties' joint fault.
  - Broad form – GC agrees to indemnify BO for GC's negligence, both parties' joint fault, or BO's sole fault.

75

75

Practice

- Randall hired a contractor to perform some renovations on his house. When it came time to sign the contract for the job, it included the clause:
  - "The contractor agrees to indemnify and hold harmless the owner against claims, damages, bodily injury, or property damage arising out of the contractor's work and caused by any act of omission of the contractor, his agents, and his employees."
- This is an example of which one of the following forms of a hold-harmless agreement?
  - A. Broad form.
  - B. Intermediate form.
  - C. Limited form.
  - D. Special form.

76

76

Module 5

Critical Thinking

CRITICAL THINKING

PROCESS

-IDENTIFICATION
-GATHER INFORMATION
-DEVELOP INITIAL HYPOTHESIS
-CHALLENGE HYPOTHESIS
-REFORMULATE HYPOTHESIS
-DEVELOP CONCLUSION

INSURANCE VALUE CHAIN

-UNDERWRITING
-DATA ETHICS
-CLAIMS
-MARKETING:
  -NEW PRODUCTS
  -NEW CUSTOMERS
  -DISTRIBUTION MODELS

SOLVING BUSINESS PROBLEMS

-CLAIMS FRAUD
-ASSESSING LEADERSHIP

Critical Thinking

Module 5
Chapter 5

1

1

Objectives

- Obj I: Thinking Critically
- Obj II: Critical Thinking Across the Insurance Value Chain
- Obj III: Solving Business Problems With Critical Thinking

2

2

Thinking Critically

Objective I

3

3

Critical Thinking

- Critical thinking requires individuals to consider all available information and viewpoints.
  - Process of analyzing information gathered through research, experience, and observation to solve a problem.
- Many components of insurance value chain are more reliant on artificial intelligence.
  - Therefore, a defining characteristic of leadership has become the ability to make informed decisions.

4

4

Critical Thinking

- Steps in critical thinking process:
  - Identify question or challenge as specifically as possible.
  - Gather information.
  - Develop initial hypothesis.
  - Challenge initial hypothesis.
  - Reformulate hypothesis.
  - Develop conclusion.

5

5

Identify the Question or Challenge

- Question can't be answered unless it's identified.
- Need to define it as specifically as possible.
  - Including less obvious issues or contributing factors.
  - Look at it from different angles.
- Identify the source of the problem, the source of that source, etc.
  - Finding the instigating issue may seem unrelated but solving it can help fix the bigger problem.

6

6

Gather Info/Develop Hypothesis

- Gather information – all available information needs to be collected and reviewed.
- Develop initial hypothesis – may or may not be correct but acts as a starting point.
  - Should be best guess of what the most appropriate answer will be.
  - Brainstorming session can be effective to examine assumptions and challenge reasoning without judgement.

7

7

Challenge Initial Hypothesis

- Challenging the initial hypothesis creates opportunities for improvement and alteration.
  - Bring in new participants if possible.
- Discussion can be spurred by:
  - Examining assumptions and considering what would change if those are incorrect.
  - Encouraging skepticism toward information gathered to support the hypothesis.
  - Exploring possible circumstances that might cause the hypothesis to be doubted.

8

8

Challenge Initial Hypothesis

- Challenging a hypothesis does not invalidate it.
  - Stress tests it to make sure its strong.
- Both the initial hypothesis and the challenges may be flawed.
  - Product of unrecognized biases or areas of ignorance.
- Challenging from all angles can help expose these weaknesses.

9

9

Reformulate Hypothesis

- Even if a hypothesis survives a challenge, it still may need improvements.
  - Integrate any improvements through the challenge process into the new hypothesis.
  - When no new ideas need to be integrated, may be ready to become a conclusion.
- If original hypothesis needs to be discarded, a new hypothesis will need to go through the challenge process.

10

10

Develop Conclusion

- After hypothesis is challenged, refined, and improved, it can be formulated into a conclusion.
  - Conclusion should be revisited on a regular basis as new information emerges.

11

11

Practice

- Stetson is an underwriter for a commercial insurance company. In reviewing the application for insurance from Zazzle, LLC he conducts interviews with the company leadership, makes a site visit, and researches the company online. After a thorough investigation, Stetson tells his manager he recommends Zazzle, LLC to be covered by insurance. Which one of the following steps in the critical thinking process did Stetson skip?
  - A. Gather information.
  - B. Develop initial hypothesis.
  - C. Reformulate hypothesis.
  - D. Develop conclusion.

12

12

Critical Thinking Across the Insurance Value Chain

Objective II

13

13

Insurance Value Chain

- Critical thinking ensures that leaders can be confident in their teams' decision-making.
- Value chain links underwriting, claims, and marketing with support activities to create a better customer experience.
  - Integrating critical thinking into value chain helps entire enterprise identify opportunities, gather information, and develop hypotheses.
- Critical thinking is used in both analyzing data and building relationships.

14

14

Underwriting

- AI continues to take on more rate and premium determination activities.
  - Human intervention is still needed to ensure data integrity.
- Ethical balance of an insurer's data model depends on its underwriters' ability to:
  - Critically assess the available data.
  - Determine what is fair and what could be discriminatory.

15

15

Data Ethics in Underwriting

- Data used to build models includes personal details about individuals' behaviors and health.
  - Paints a picture of the past.
  - Also influences the future, as it can determine who has access to insurance and the cost.
- Models built by actuaries need to be both fair and transparent.

16

16

Data Ethics in Underwriting

- A fair model enables an insurer to make decisions based on data that is truly predictive of the expected future cost of coverage.
  - Using factors such as religion and national origin would be deemed unfair.
- A transparent model allows an insurer to demonstrate its rationale for decisions.
  - Illustrates how data is collected and used.
  - Counters "black box" perception.

17

17

Data Models in Underwriting

- Data models used for risk selection and pricing are often a source of competitive advantage.
  - Need to consider source of data, its reputation for accuracy, and its potential biases.
- Historical data may not accurately predict future outcomes.
  - Climate change.
  - New technology.
  - Artificial intelligence.

18

18

Claims

- Claims data and its collection are becoming more sophisticated.
  - Allows more advanced forms of claims fraud.
  - Every online movement of money creates an opportunity for fraud.
- Claims process is becoming more automated.
  - Apps and online forms give customers more control and decreases turnaround time of claims.

19

19

Claims

- Claims representatives are still integral.
  - Important customer touchpoint.
- Claims representatives are needed to determine which claims are fraudulent.
  - Work across value chain with underwriters, risk managers, and customer service representatives.
  - Must consider sources, biases, and reputations for accuracy of data used in investigations.

20

20

Marketing

- Critical thinking in marketing can create a competitive edge in several ways:
  - Recognizing the need for new products.
  - Segment markets to reveal new customers.
  - Rethink distribution models.
- Recognizing the need for new products.
  - Chances for success increase if people across the insurance value chain offer insights and alternative viewpoints.

21

21

Marketing

- Segment markets to reveal new customers.
  - Critical thinking can be used to determine which customer segments and insurance products are most beneficial to the insurer.
- Market segmentation can be paired with target marketing and product targeting.
  - Target marketing – focusing marketing efforts on a specific group of consumers.
  - Product targeting – designing a specific product for a market, a specific approach to a market, or both.

22

22

Distribution Models

- Rethinking distribution models is critical.
  - Important to maintain constant flow of new ideas and proposals for reaching current and new customers.
- Having a critical thinking process can help the Marketing Department work with the IT Department and customer service team.
  - They can figure out ways to reach new customers.

23

23

Practice

- Javier works as a marketer in the insurance value chain. He leads his team to use critical thinking to group potential customers by their shared characteristics. This is best known as:
  - A. Data modeling.
  - B. Customer segments.
  - C. Target marketing.
  - D. Product targeting.

24

24

Solving Business Problems With Critical Thinking

Objective III

25

25

Solving Problems

- Key components of critical thinking:
  - Questioning assumptions.
  - Avoiding biases.
  - Gathering reliable information.
- These are important skills when investigating claims fraud and assessing an insured's leadership.

26

26

Investigating Claims Fraud

- Claims representatives must balance suspicion of fraud with possibility of a legitimate claim.
  - Important to investigate claim before referring it to a Special Investigation Unit (SIU).
  - Must make appropriate, fact-based decisions by obtaining relevant information from reliable sources.

27

27

Assessing an Insured's Leadership

- Underwriters need to incorporate both objective information and subjective evaluations to assess the ability and quality of a potential insured's business leadership.
- Factors to analyze include:
  - Experience of managers.
  - Record of completing projects on time and within budget.
  - Capacity to take on new projects.

28

28

Assessing an Insured's Leadership

- Factors include:
  - Online reviews and complaints.
  - Risk management program and risk officer.
  - Loss history.
  - Employee education, training, and turnover.
  - Employee loyalty and morale.

29

29

Practice

- Jackson is an eager new underwriter. He has been assigned to Zippy 'N' Fizzy (ZNF), a local bottling company, to assess their application for commercial insurance. If Jackson is using critical thinking, which one of the following factors is most important to consider when it comes time to make decisions?
  - A. ZNF's marketing budget.
  - B. The turnover rate of ZNF's employees.
  - C. The titles ZNF assigns its management.
  - D. ZNF's social media presence.

30

30

Module 6

Collaborating and Communicating

COMMUNICATION

EFFECTIVE

-GOALS OF COMMUNICATION
-RANGE OF SKILLS
-COMMUNICATION PROCESS
-DELIVERING DIFFICULT MESSAGES
-ACTIVE LISTENING:
  -ELEMENTS
  -ROADBLOCKS
-TWO-WAY COMMUNICATION

SELECTING

-UNDERSTAND YOUR AUDIENCE
-CHOOSING A MEDIUM
-COMMUNICATING IN THE INSURANCE INDUSTRY

MEETINGS AND COLLABORATION

MEETINGS

-FUNDAMENTALS
-MEETING PREPARATION
-MANAGING PARTICIPANTS
-ENCOURAGING ENGAGEMENT
-FOLLOWING UP

COLLABORATION

-FUNDAMENTALS
-HOLISTIC RISK MANAGEMENT
-MOTIVATING WORKERS
-MOTIVATION KILLERS
-CONTRIBUTING TO COMMON GOAL

Collaborating and Communicating

Module 6
Chapter 6

1

1

Objectives

- Obj I: Fundamentals of Effective Communication
- Obj II: Selecting the Best Form of Communication
- Obj III: Leading Effective Meetings
- Obj IV: Fundamentals of Effective Collaboration

2

2

Fundamentals of Effective Communication

Objective I

3

3

Effective Communication

- Goals of effective workplace communication:
  - Increases productivity.
  - Reduces confusion.
  - Mitigates conflict.
  - Improves morale.
- Communication involves a range of skills:
  - Speaking.
  - Analytical.
  - Organizational.

4

4

Communication Process

- Steps in the communication process:
  - Setting a clear objective – helps present the message.
  - Analyzing the audience – knowing background knowledge of recipient.
    - Avoid using complex sentences or jargon.
  - Deciding when and where to talk – length and importance of message are determinants.
    - Important conversations should be given a set time and place to avoid interruptions.

5

5

Communication Process

- Steps in the communication process:
  - Paying attention to body language – posture, tone of voice, and movements.
    - Don't stare.
    - Maintain an open posture.
    - Do not slouch or cross arms.
    - Practice power poses.
  - Asking for feedback – to determine if message has been understood.
    - Don't ask to have message repeated back.

6

6

Delivering Difficult Messages

- Difficult messages come with a high potential for conflict.
- Minimize defensive reactions by:
  - Not blaming the other person – criticize a behavior, not the person.
  - Avoiding broad generalizations – avoid words such as "always," "never," and "all."
  - Avoiding sounding hostile – use "I" messages instead of "you" messages.

7

7

Active Listening

- Listening is a critical part of effective communication.
  - Many people neglect their listening skills.
- Active listeners set aside judgments.
  - Attempt to empathize with speaker's concerns.
- Active listening contributes to the development of trust and a good working relationship.

8

8

Active Listening

- Roadblocks to active listening:
  - Listening is often seen as a passive activity.
  - Listening is often seen as a weakness.
  - Silence can make people uncomfortable.
  - People like to be heard.
  - Intermittent listening occurs when people stop listening to think about what they will say next.
  - The message is resisted.

9

9

Elements of Active Listening

- Elements of active listening:
  - Attention – active listening demands a concerted effort.
    - Pay attention to nonverbal signs.
    - Mirror posture and gestures of speaker.
  - Suspension of judgement – any hint of disapproval can give speaker hesitation to continue sharing.
    - Disapproval interferes with the message.

10

10

Elements of Active Listening

- Elements of active listening:
  - Response – allows speaker to maintain control of the conversation.
    - Avoid introducing a new idea.
    - Paraphrase Response:
      - Listen to the message.
      - Paraphrase the message.
      - Feed paraphrased message back to the speaker.

11

11

Two-Way Communication

- Managers should use "I" messages.
  - Used when disagreeing with an employee or identifying a problem with their work.
  - "You" messages make recipient reluctant to engage in discussion.
- Diversity can stifle communication at times.
  - Differing styles can also impede collaboration.
  - Nondirective techniques can encourage people to speak up.

12

12

Practice

- In which one of the following situations should supervisors use "I" messages instead of "you" messages?
  - A. When they are disagreeing with an employee.
  - B. When they are communicating with government regulators.
  - C. When they are rewarding employees for a well-done job.
  - D. When they are working with a diverse group.

13

13

Practice

- Marybeth, a supervisor, was having a conversation with Scott, one of her employees. Marybeth asked, "What I hear you saying is that you would like to manage the West region. Is this correct?" Marybeth was illustrating the element of active listening known as:
  - A. Confirmation.
  - B. Significance.
  - C. Response.
  - D. Attention.

14

14

Selecting the Best Form of Communication

Objective II

15

15

Digital Communication

- Mastering digital literacy is essential to providing value to employers and customers.
  - Critical to know best time to use each.
- Digitization allows insurers to reduce costs and create a better customer experience.
- Essential to know when to use casual conversation and when a more formal tone is appropriate.

16

16

Understanding Your Audience

- Understanding the intended audience is as important as the message itself.
  - Phrasing will differ if communicating with supervisor vs. customer.
- If questions are likely, the form of communication chosen should provide an opportunity for the audience to ask questions.

17

17

Choosing a Medium

- Medium for communication can vary widely:
  - Face-to-face meetings.
  - Written correspondence.
  - Telephone calls, email, text messages.
  - Newsletters, the internet.
- Not all media is appropriate for all messages.
  - Short messages are great over email or a phone call.
  - General information does well on a website or newsletter.

18

18

Choosing a Medium

- Considerations when choosing a method:
  - Is receiving immediate feedback important?
  - Is having a written record necessary?
  - Is the information confidential?
- Synchronous communication – all parties are interacting at same time.
  - Video call or group chat.
- Asynchronous communication – parties are not interacting at the same time.
  - Email or letter.

19

19

Types of Business Communication

- Types of communication that can be used:
  - Oral – meetings, speeches, phone calls.
    - Allows for direct interaction & questions.
    - Time consuming.
    - Often lacks a record of the exchange.
  - Written – texts, emails, letters, newsletters.
    - Provides opportunity for conversation, but feedback can be delayed.
    - Allows for permanent record.
    - Many insurance transactions must be in writing.

20

20

Types of Business Communication

- Types of communication that can be used:
  - Visual – presentations and nonverbal communication.
    - Presentations can convey complex ideas but may require specific production skills.
    - Nonverbal communication includes body language and facial expressions.
      - Important to establishing rapport.
      - Nervous body language can convey lack of confidence in message.

21

21

Communication in Insurance

- Insurance is a document-driven industry.
  - Paper copies are standard for almost all documents.
- Clear, concise writing is imperative.
  - Miswritten quote or reply to a claim could require an insurer to cover an otherwise uncovered loss.
- Email remains common form of communication.
  - Texting is growing in popularity.

22

22

Communication in Insurance

- Face-to-face meetings help build rapport with customers, understand their exposures, and address policy concerns.
  - Can give an agent or producer an advantage over competitors.
- COVID-19 pandemic has greatly reduced number of in-person meetings.
  - Alternative means of effective communication can be employed.

23

23

Practice

- Which one of the following types of communication would be considered synchronous?
  - A. An email.
  - B. A newsletter.
  - C. A text message.
  - D. A phone call.

24

24

Leading Effective Meetings

Objective III

25

25

Connection and Engagement

- Modern workforce is a mix of in-office, work from home, and travelling employees.
  - Technology allows all parties to connect.
- Connecting is not the same as engaging.
  - To engage, employees must feel their time is put to good use and their involvement is valuable.

26

26

Preparing for a Meeting

- Steps to make meetings valuable & productive:
  - Determine if meeting is necessary.
    - Alternative forms of communication may be more appropriate.
  - Determine who should attend – limiting attendance leads to more efficient meetings.
  - Include agenda in the invite – also provide any supplementary materials.
    - Gives attendees time to prepare.

27

27

Preparing for a Meeting

- Steps to make meetings valuable & productive:
  - Ask for questions or suggestions – use the feedback to add to the discussion.
    - This invites engagement from attendees.
  - Log into the meeting early to check audio, video, and presentation tools.
    - Fix technical issues before meeting starts.

28

28

Managing Participants

- Maximizing engagement involves managing participants effectively.
  - Minimizes distracting behavior.
- Meeting leader should be first to arrive.
  - Come prepared.
  - Be attentive.
  - Stay on task or on agenda.

29

29

Managing Participants

- Tips for virtual meetings:
  - Avoid cluttered background.
  - Make sure face is in frame.
  - Make eye contact with the camera.
  - Participants should be on-screen.
  - Mute all microphones at start of meeting.
  - Watch for cues someone wants to speak.
    - Unmuting microphone or raising hand.

30

30

Encouraging Engagement

- Suggestions for encouraging engagement:
  - With hybrid meeting, virtual attendees will be more engaged if they're introduced and encouraged to join the discussion.
  - Assign roles to attendees – note taker or timekeeper.
  - Plan how to bring back waning focus – games, discussion ideas, questions, brainstorming.
  - Know when to end the meeting.
  - End meeting on time or early.

31

31

Following Up

- A proper meeting follow-up can:
  - Encourage action.
  - Trigger accountability.
  - Drive results.
- Follow-up should note conclusions, next steps, and specific assignments.
  - Needs to be clear and concise.

32

32

Following Up

- Content of follow up email could include:
  - What was decided.
  - Action steps.
  - Upcoming deadlines.
  - Copies of reports or slides presented.
  - Additional resources.
  - Link to a recording of the meeting.

33

33

Practice

- All of the following are integral parts to leading an effective meeting, EXCEPT:
  - A. Proper preparation.
  - B. Participant management.
  - C. Following up.
  - D. Strict control.

34

34

Practice

- Lakshma is the project manager for a software company where some employees work in the office and some work remotely. She has been learning about effective ways to lead her weekly team meetings and wants to make sure she is encouraging engagement and active participation from all members of the team. Which one of the following strategies would be the best way for Lakshma to accomplish this goal?
  - A. Push through waning attention toward the end of the meeting.
  - B. Introduce online attendees.
  - C. Unmute all microphones at the beginning of the meeting.
  - D. Let the attendees set the agenda at the start of the meeting.

35

35

Fundamentals of Effective Collaboration

Objective IV

36

36

Fundamentals of Collaboration

- Collaboration, cooperation, and coordination have distinct meanings.
  - Collaboration – act of working together to achieve a shared objective.
  - Cooperation – act of working together to achieve individual objectives.
  - Coordination – act of improving efficiency and reducing redundancy.
    - Involves some combination of assigning, organizing, or scheduling activities.

37

37

Holistic Risk Management

- Holistic risk management requires the entire organization to be on the same page.
  - Needs to be a collaborative effort.
- First step is to develop a broad perspective of the organization and its interactions with stakeholders.
  - Understand their work environments and demands from managers.

38

38

Motivating Workers to Collaborate

- Techniques to motivate workers and customers:
  - Get to know the other stakeholders – people are more inclined to work with those who will listen to their point of view.
  - Seek stakeholders input when making decisions – people will be more accepting of decisions when they've been consulted.
  - Examine how collaborators want to be rewarded.
  - Seek feedback from peers and subordinates.

39

39

Motivating Workers to Collaborate

- Techniques to motivate workers and customers:
  - Enrich the work people are doing when revising job duties.
  - Ensure stakeholders have the staff and other resources needed to support their work.
  - Help team members see the big picture.
  - Explain how collaboration will affect the team member individually – can be more motivating than only hearing how it will affect the organization.

40

40

Motivation Killers

- Tactics detrimental to motivation:
  - Making groups compete for resources.
  - Giving groups different goals or values.
  - Promoting competition among units.
  - Giving some individuals more work than others.
  - Praising in private but punishing in public.

41

41

Motivation Killers

- Tactics detrimental to motivation:
  - Assuming poor performance is a result of low motivation.
  - Focusing on a worker's personality rather than results.
  - Being biased toward the most senior person's ideas.

42

42

Contributing to a Common Goal

- The key aspect of collaboration is the commitment to work to achieve a single goal.
  - Group leaders must ensure stakeholders don't veer off course.
- Recognizing and rewarding teamwork will help keep everyone pulling in the same direction.
  - Organizations that focus primarily on rewarding individual performances typically have less success fostering collaboration.

43

43

Practice

- Dave is a project manager for Refrigerators 'R' Us. He has been assigned an important project that will require a collaborative effort from all team members. Dave should do which one of the following?
  - A. Provide each group with different objectives and values.
  - B. Help team members see the big picture.
  - C. Assume a worker's poor performance is a result of low motivation.
  - D. Praise workers privately but punish them publicly.

44

44

Module 7

Decision Making

STRATEGIC MANAGEMENT PROCESS

FORMULATION

-CREATE PLAN
-MISSION STATEMENT
-ANALYZE ENVIRONMENT
-DETERMINE STRATEGY
-SWOT ANALYSIS

IMPLEMENTATION

-PUTTING INTO ACTION
-DETERMINE ORG STRUCTURE:
  -FUNCTIONAL
  -MULTIDIVISIONAL
  -COST LEADERSHIP

EVALUATION

-STRATEGIC CONTROL
-MEASURES SUCCESS
-CONTROLS:
  -FINANCIAL
  -OPERATIONAL/PROCESS
  -HUMAN/BEHAVIOR
-CONTROL PROCESS

ANALYZING ENVIRONMENT

FIVE FORCES MODEL

-THREAT OF NEW ENTRANTS
-THREAT OF SUBSTITUTE PRODUCTS
-BARGAIING POWER OF BUYERS
-BARGAINING POWER OF SUPPLIERS
-RIVALRY OF EXISTING FIRMS

SWOT

-INTERNAL:
  -STRENGTHS
  -WEAKNESSES
-EXTERNAL:
  -OPPORTUNITIES
  -THREATS

DETERMINING STRATEGY

-CORPORATE
-BUSINESS
-FUNCTIONAL
-OPERATIONAL

Decision Making

Module 7
Chapter 7

1

1

Objectives

- Obj I: Strategic Management Process
- Obj II: Five Forces and SWOT Methods
- Obj III: Determining Strategy

2

2

Strategic Management Process

Objective I

3

3

Strategic Management Process

- Effective strategic management is especially important for the insurance industry.
  - Insurers must distinguish themselves in a highly regulated environment.
- Three interdependent stages of the process:
  - Strategy formulation – creating a plan.
  - Strategy implementation – putting plan into action.
  - Strategy evaluation – monitoring results.

4

4

Strategy Formulation

- Strategy formulation depends on an organization's mission or vision statement.
  - Mission statement – broad expression of an entity's purpose or goals.
- Strategy formulation steps:
  - Analysis of external and internal environments – SWOT analysis.
  - Development of long-term strategies.
  - Determination of strategy at different organizational levels.

5

5

Strategy Implementation

- First consideration of strategy implementation is designing the structure of the organization.
  - Most appropriate structure is determined by strategic goals.
- Types of structures:
  - Functional structure – departments are defined by the operation they perform.
    - Appropriate for a single-business company.
    - Claims, marketing, and underwriting depts.

6

6

Strategy Implementation

- Types of structures:
  - Multidivisional structure – divisions are organized into separate profit centers.
    - Appropriate for a diversified company.
  - Organize company by region.
  - Organize company by type of product or customer.

7

7

Strategy Evaluation

- Strategy evaluation provides a method for measuring a strategy's success.
  - Compare actual results to standards.
- Categories of organizational controls:
  - Financial controls – loss and expense ratios.
    - Evaluate corporate performance.
  - Operational or process controls – monitor work flow and customer service.
  - Human or behavior controls – rules and guidelines for employees.

8

8

Practice

- The strategy formulation phase includes:
  - A. An analysis of internal and external factors such as competition and customer needs.
  - B. A determination of the organizational structure.
  - C. Adjustments to policies and procedures.
  - D. Performance measurement of individual books of business.

9

9

Five Forces and SWOT Methods

Objective II

10

10

The Five Forces Model

- The Five Forces Model is used to evaluate the external environment.
  - Developed by Harvard Business School professor Michael E. Porter.
  - Often used to evaluate customers, suppliers, and creditors.
  - Indicates there are five forces driving competition.

11

11

The Five Forces Model

- Forces driving competition:
  - Threat of new entrants – barriers to entry include economies of scale, unique products, access to distribution channels, and regulation.
  - Threat of substitute products or services – makes it difficult to raise prices.
    - Includes self-insured retention and catastrophe bonds.

12

12

The Five Forces Model

- Forces driving competition:
  - Bargaining power of buyers – increases competition and demand, and lowers prices.
    - Buyers have more power in soft market.
  - Bargaining power of suppliers – reinsurers are a supplier to primary insurers.
  - Rivalry among existing firms – insurance industry has many companies, little product differentiation, or high exit costs.
    - Insurance industry is highly competitive.

13

13

SWOT Analysis

- SWOT analysis is used to determine the current state of a company.
  - Strengths, weaknesses, opportunities, threats.
- Strengths and weaknesses considers organizational assets.
  - Assets include expertise, available products, and customer loyalty.
  - Strengths and weaknesses should be prioritized based on relative importance.

14

14

SWOT Analysis

- Managers determine opportunities and threats by evaluating the external environment.
  - Opportunities might be presented by new markets, possible acquisition targets, or a reduction in competition.
  - Threats might include new competitors or economic downturns.
- Once the SWOT analysis has been completed, managers can develop strategies.

15

15

Practice

- The Five Forces Model, developed by professor Michael E. Porter, deals with the external environment. All of the following represent forces in the Five Forces Model, EXCEPT:
  - A. Bargaining power of reinsurers and other suppliers.
  - B. Rivalry among insurer's management team.
  - C. Threat of new entrants.
  - D. Threat of substitute products or services.

16

16

Determining Strategy

Objective III

17

17

Organizational Strategies

- Strategic plans encompass a variety of organizational activities.
- Most common types of organizational strategies:
  - Corporate-level.
  - Business-level.
  - Functional-level.
  - Operational-level.

18

18

Corporate-Level Strategy

- Corporate-level strategy represents the highest strategy level for a diversified organization.
  - Executive team determines businesses company will be involved in and allocates organizational resources.
  - Long-term strategies established for five years or longer.

19

19

Corporate-Level Strategy

- Growth mode strategies:
  - Concentration on a single business – company can build distinctive competencies.
    - Focus on single industry or product.
  - Vertical integration – company produces own inputs or disposes of own outputs.
    - Decreases expenses.
  - Diversification – new lines of business.
    - Can be related or unrelated.

20

20

Corporate-Level Strategy

- Decline mode strategies:
  - Bankruptcy or liquidation – worst-case.
  - Harvest – seeking short-term profits while phasing out unprofitable line.
  - Turnaround – rebuilds resources to return to profitable levels.
  - Divestiture – selling off portion of operation.

21

21

Business-Level Strategy

- Business-level strategy is tactical strategy.
  - Led by managers, with 3-5 year timeframe.
- Business-level strategies:
  - Cost leadership – eliminating costs in every aspect of the operation, from product design to distribution and delivery.
  - Differentiation – requires products and services customers perceive as distinctive.
    - Example – insurer writes only homeowners insurance and targets multiple markets.

22

22

Business-Level Strategy

- Business-level strategies:
  - Focus – concentrating on group of customers.
    - Focused cost leadership – focuses on a group of customers and offers low-price product or service.
    - Focused differentiation – focuses on a group of customers and offers unique products at a higher price.

23

23

Functional-Level Strategy

- Functional-level strategies are the plans for managing a particular functional area.
  - Specify how the underwriting, claim, actuarial, and other departments advance business-level strategies.
  - Usually 1-year time frame.
  - Companies build value and competitive advantage through efficiency, quality, customer responsiveness, and innovation.

24

24

Operational-Level Strategy

- Operational-level strategies involve daily business processes and workflows.
  - Implemented at department level to support the strategies of the functional, business, and corporate levels.
  - Premium auditing department, striving to achieve a functional-level budget strategy, might use pre-audit screening.

25

25

Practice

- An insurance company assigned one of its managers a project to make the company more competitive and respond to the external environment. The project is expected to last approximately five years. Which type of organizational strategy does this represent?
  - A. Corporate-level strategy.
  - B. Business-level strategy.
  - C. Functional-level strategy.
  - D. Operational-level strategy.

26

26