

Topical Review for Final Exam in Insurance Operations –

Fundamental Principles and Concepts Related to Insurance Operations

Principle of Indemnification

Definition of Insurance

Proximate Cause of Loss

Risk Classifications – Fundamental vs. Particular, Dynamic vs. Static, Speculative vs. Pure Risk

Risks that are insurable – ideally insurable risks --- homogeneous risks, definite in time, financially calculable losses, etc.

3 Types of Hazards and which is not insurable

Definition and application of Peril

Methods of dealing with risk – assumption, loss control, transfer [insurance], avoidance and under what circumstances you would use each

Direct vs. indirect loss within the casualty insurance contract

Different types of insurers and how they are classified

Casualty vs. Life

Private, Public, Governmental

Mutual vs. Stock Insurers --- differences in tax treatment, dividends, ownership

Lloyd's of London, Surplus Lines – Admitted vs. Non Admitted Insurers

How to evaluate insurers ---- Financial Combined Ratios, AM Best Reports , reserve adequacy

Historical precedents with respect to Insurance

Legal --- Paul vs. Virginia, Southeastern Underwriters

State – Appleton Rule, Compartmentalization of Insurance Coverages, Merritt Investigation

Legal Principles

Void vs. Voidable Insurance Contracts

Legal conditions necessary for a policy to come into existence

Special Legal concepts – unilateral, adhesion, utmost good faith, aleatory nature of the contract

Material Misrepresentation in relation to whether a policy is voidable

Insurance Operations by Functional Area

Roles of the Actuarial, Underwriter, Accountant, Legal, Investments, and Marketing Departments to the insurance mechanism

Different types of marketing systems - independent agency, direct writing, exclusive agency – legal issues, ownership of the book of business, responsibilities, coverage of expenses

Differences between statutory versus GAAP accounting for an insurer

Occurrence Based Underwriting versus Claims Made Underwriting

Application of Insuring Principles to Casualty Contracts and Insuring Operations

Casualty Settlement Options:

Insurable Interest, Actual Cash Value, Cost to Repair, Cost to Replace, Valued Settlement

Definition of the Principle of Indemnity and how it is applied or reinforced in the Casualty Insurance Contract --

Provisions: Assignment, Subrogation, Settlement

Definition of Negligence

Difference between a Civil [Tort] versus a Criminal Case

Requirements in order for a plaintiff to successfully sue a defendant for negligence

Vicarious Liability and where it is found in casualty insurance – auto and homeowners [condo]

Difference defenses related to the liability risk - doctrine of last clear chance, contributory negligence, Hold Harmless – assumption of risk

Different ways liability may be imposed – comparative negligence, res ipsa loquitur, attractive nuisance [gross negligence], employer-employee principle

Different types of Homeowner's Policies – HO-1,2,3,4,6 and how they apply to different types of homeowners, renters or condo owners.

Coverages A, B, C, D [Section 1] in the Homeowner's policy [direct and indirect loss insurance]

Coverages E and F [Section 2] in the Homeowner's policy dealing with Medical Payments and Liability

Unique provisions in the Homeowner's policy – co-insurance, mortgagee clause, transfer provision, definition of fire [determined by court precedent], methods of returning premiums in the event of termination --- pro-rata or short rate basis, appraisal provision

Basic Format to the Casualty Insurance Policy – Declarations, Insuring Agreements, Exclusions and Conditions

What and who is covered under the Medical Payments and Liability section to the HO policy

Duties of the loss adjuster in settling a claim

Requirements on the insured homeowner in the aftermath of an insured loss

e.g. notice, proof of loss, protection of property from further damage

Removal Provision

General Nature of Exclusions to the HO policies – what types of items are excluded

Business pursuits, difficult to value items, etc.

Vicarious liability stemming from the ownership of an auto

Different ways of providing liability coverage in the Personal Auto Policy[PAP] - Split limits, Aggregate Liability

Material misrepresentation in a PAP

Uninsured versus Underinsured Motorist Coverage

Medical Payments Coverage

Liability Coverage

Duties after an Accident with a PAP

Commercial Lines Coverage --- Different Types of Coverages in CPP

Products Liability – Occurrence Based vs. Claims Made Underwriting

Different Types of Reinsurance – pro-rata, excess loss and how they impact the loss settlement process in a liability claim

Implications of the fact that casualty insurance policies are contracts of adhesion that are unilaterally drawn up

What does Inland Marine insurance cover in terms of fixed objects?

Main Drivers of Health Care Costs

Differences between Managed Care Plans – Stand Alone HMO, Network HMO, PPO

Life Insurance Operations:

Understanding of the mortality table – at what age is it cheapest to buy a life annuity as opposed to life insurance policy

Different types of life insurance policies – term life insurance, whole life, variable life, universal life insurance

Basic life insurance calculations

Probability that a person age x lives to age $x+t$

Probability that a person age x lives to age t and dies in the next year

Differences between the open versus closed group method of mortality construction

Calculation of a single premium on 2 year life annuity immediate contract to a male age 70 with annual benefit of \$1,000 at an interest rate of 6%.

