

## Insurance Operations Review for the Final Exam --- Spring 2011

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### Fundamental Principles that Impact Insurance Operations

#### Definitions

Peril, Proximate Cause of Loss, Insurance, Adverse Selection, Principle of Indemnity, Risk Management Process [as a total quality management process], Hazards – Physical, Morale and Moral, Direct vs. Indirect losses under Casualty Contracts

#### Regulatory Framework

Paul vs. Virginia; Appleton Rule, Southeastern Underwriter's Case, McCarran-Ferguson [Public Law 15], Gramm-Leach-Bliley Act[Financial Services Act]

Most important goals of insurance regulation

Special Legal Principles that define the Insurance Contract

Void vs. Voidable, material misrepresentation

Utmost Good Faith, Unilateral, Adhesion, Aleatory, Not a Gambling Contract

Doctrine of Reasonable Expectations

Court precedent in favoring insured over the insurer in the case of language Ambiguities

#### Differences in Marketing Systems

Direct Writing Agency, Independent Agency, Exclusive Agency

Claims Settlement

Reasons for Denying a Claim

Methods for Settling a Property/Casualty claim

Definition and Application of Actual Cash Value vs. Replacement Cost

#### Underwriting

Combined Ratios – Why a casualty insurer may still be profitable with a combined ratio above 100

Definition of underwriting within the context of insurance operations

Accounting --- Statutory vs. GAAP Accounting --- why do regulatory laws require the adequacy of legal reserves and surplus?

#### Property and Casualty Insurance Contract Language

Consequential/Indirect Loss Coverage in Homeowners, and Commercial Lines

Definition of Insurance and the risk characteristics of the ideal insurance coverage

All-risk or open perils insurance --- how are perils defined in relation to exclusions

Format of the insurance contract and what type of information is provided – declarations, insuring agreements, exclusions, conditions, miscellaneous provisions

### Homeowner's Policy

#### Basic Coverages – A,B,C,D Section 1

Information found on the Declarations page of a property casualty insurance policy  
Insured perils, excluded perils –e.g. flood, animals, large watercraft, business pursuits  
Subrogation  
Application of an 80% co-insurance provision  
Definition of fire in terms of an insurable event  
Coordination of benefits provision  
Differences in the methods for settling claims – Actual Cash Value, Cost to Repair or Replace, Insurable Interest

#### E,F Section 2

Focus on the Liability Coverages as being most important

What is covered, who is covered, circumstances where exclusions apply

### Personal Auto Policy [PAP]

Vicarious liability --- definition and application to claim settlement  
Coverages – A,B,C, D, E and F  
Application of Split Limit Coverage for Liability Claims  
Differences between Uninsured and Underinsurance coverage  
Collision versus Non-Collision losses under the insurance contract  
Extent of coverage under the liability insuring agreement – defense + payment of liability established in a court of law  
Auto claim settlement under collision and non-collision coverage with different deductibles  
Application of split limits in settling a personal auto claim

Rate Making --- The three factors that must be met with the insurance commissioner in  
Receiving approval for a rate on coverage

Differences between: Occurrence Based versus Claims Made Underwriting

### Life Insurance

Identifying the most appropriate and least appropriate uses of whole life insurance

Determination of which would be the highest premium for a given type of life insurance policy

Classification of annuities on the basis of the benefits provided and their cost structure

