

## **Managing Insurable Risk Study Guide**

### **Description**

This course provides a knowledge foundation for underwriters, risk analysts, information systems specialists, accountants, human resources managers, and other professionals who participate in or support the commercial property and casualty insurance industry. It covers:

- Insurable Risk and Insurance Principles.
- Insurance in the United States.
- Insurance Law and Contracts.
- Underwriting and Property Insurance.
- Legal Liability.
- Commercial Liability Insurance.
- Specialty Lines.
- Reinsurance.

### **Grading**

Grading is based upon completing exercises matched to the assigned chapters and the readings.

- Grades range from B minus to A.
- You must average a B plus to receive a certificate.
- You may redo a rejected or low grade submission one time.

### **Topics**

#### **Submission 1.** Chapters 1 to 7.

1. Insurable Risk.
2. Insurance Principles.
3. U.S. Insurance Industry.
4. Brokers, Agents, and Claims Adjusters.
5. Legal Environment of Insurance.
6. Insurance Contracts.
7. Underwriting and Ratemaking.

#### **Submission 2.** Chapters 8 to 14.

8. Property insurance.
9. Legal and Contractual Liability.
10. Tort Liability and Negligence.
11. General and Professional Liability Insurance.
12. Professional, Medical, and D&O Liability.
13. Speciality Lines.
14. Reinsurance

## **The Exercises**

They are printed below.

### **Requirements for Completing the Exercises.**

Complete all exercises with at least **50%** of them using the engaged format.

### **Completion of the Exercises**

For the exercises, the guidelines are:

- Show you understand the point of the exercise.
- Add a little something to it.
- Choose either the basic or engaged format for each exercise.

### **Basic Format**

**Question:** What are examples of a speculative risk not named in the book?

**Basic Format Answer** A speculative risk exists when we have the possibility of a loss along with the chance to make a profit. Examples are betting on horse races, buying stocks and bonds, and real estate investment. This differs from a pure risk where only a loss is possible.

### **Engaged Format Answer**

Since we know pure risk occurs when loss is the only possible outcome, there is no beneficial result. Pure risk is related to events that are beyond the risk-taker's control and, therefore, a person cannot consciously take on pure risk.

An example is the possibility a person's house will be destroyed due to a natural disaster. In this case, it is unlikely there would be any potential benefit to this risk.

There are products that can be purchased to mitigate pure risk. For example, flood insurance can be used to protect homeowners from the risk that their homes will be destroyed by an overflowing river.

Other examples of pure risk events include premature death, identity theft, and career-ending disabilities.

### **Submitting the Exercises**

- Copy the questions to an MS Word document.
- Save the file with the name **<Your last name> Submission#**
- Type in your answer following each exercise.
- Save the exercises.
- Send the file as an attachment in an email to the address given by the instructor.

### **Downloading the Textbook**

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# Exercises Submission 1

## Exercises 1. Managing Insurable Risk

- 1-1. Risk is derived from exposures, uncertainty, and missed opportunities. Which source receives the least attention in the lives of most people? Explain your reasoning.
- 1-2. We usually recognize financial risk as a form of speculative risk. Is it ever a pure risk? Explain your reasoning.
- 1-3. Risk is built upon the likelihood of loss and the size of the loss. Suppose someone told you she was concerned only with severity. Would you agree that is a sound risk management practice? Explain your reasoning.
- 1-4. We often have disagreement because risk can be measured objectively or subjectively. Which gives better results? Explain your reasoning.
- 1-5. We believe that all insurable risks must also be fortuitous risks. Do you agree? Explain your reasoning.
- 1-6. We believe that the Hindu-Arabic numbering system and the Protestant Reformation gave us a better understanding of risk. What was the contribution of each?
- 1-7. Some people believe that Luca Paccioli was the most important single person in the history of our understanding of risk. Do you agree with his solution for dividing the money from an unfinished game? Explain your reasoning.
- 1-8. Risk managers believe it is important to distinguish among the concepts of exposure, peril, and hazard. Ask someone to explain the difference in the terms. Who did you ask? Did he or she get it right? Describe the reply.
- 1-9. Four categories of hazard are physical, moral, behavioral, and legal. What is an example of each that faces the city of New York?
- 1-10. Levels of insurable risk are minor, significant, major, critical, and catastrophic. What is an example of each that faces Apple Computer?
- 1-11. Some analysts believe that hurricanes pose the risk of disaster for insurance companies. Thus, hurricanes are no longer an insurable risk. Do you agree? Explain your reasoning.

## Exercises 2. Insurance Principles

- 2-1. What is the difference between the legal and social viewpoint of insurance?
- 2-2. A business purchased a building for \$2.2 million dollars a year ago. A retail store offered the firm \$1.8 million to buy it. A similar building was recently sold for \$2.6 million. The owner seeks to renew fire insurance coverage with a policy limit of \$3 million. In line with the indemnity principle, assume you are the insurance company. What limit would you offer? Explain your reasoning.
- 2-3. The Law of Large Numbers plays a big role in the insurance world. Do you agree that it is important? Explain your reasoning.
- 2-4. All insurable risks will not qualify as an insurable loss. A man requested insurance to cover the loss of a bicycle that is used in ironman triathlons. The insurer declined pointing out the premiums would be too high. Also, the loss would be trivial. Do you agree? Explain your reasoning.
- 2-5. Tell someone the story titled "Where There's Smoke, There's Fire." Ask the person if the judge was right. Answer these questions. Who did you tell? Describe the reply.
- 2-6. What strategy should a company follow with a low frequency, high severity exposure? Explain your reasoning.
- 2-7. What strategy should a company follow with a low frequency, low severity exposure? Explain your reasoning.
- 2-8. What strategy should a company follow with a high frequency, high severity exposure? Explain your reasoning.
- 2-9. What strategy should a company follow with a high frequency, low severity exposure? Explain your reasoning.
- 2-10. An insurance company has assets of \$100 million and capital of \$15 million. It issued a policy with a limit of \$20 million. How much should it require the insured to retain? How much should it reinsure of its own retention for the loss? Explain your reasoning.

### **Exercises 3. U.S. Insurance Industry**

- 3-1. Some companies prefer reciprocal exchanges to stock insurance companies as providers of their insurance coverage. Why do you think this is the case? Be specific.
- 3-2. At a cocktail party, a woman told a group of companions that she works in the property and casualty industry, specifically in the casualty area. Does this accurately help us understand what she does? Explain your reasoning.
- 3-3. An underwriter made the statement, "Basically there is no difference among reinsurance, excess insurance, and umbrella insurance. Do you agree? Explain your reasoning.
- 3-4. Use Internet research to answer the question, "Are we presently in a soft or hard market?" Explain your reasoning.
- 3-5. Why are insurance companies often worried about cash flow underwriting? Explain your reasoning.
- 3-6. For an insurance company, is it more risky to have long-tail or short-tail lines of business? Explain your reasoning.
- 3-7. Is it likely that an admitted insurer is more likely to pay an insurance claim than a non-admitted insurer? Explain your reasoning.
- 3-8. GAAP accounting should work for insurance companies as most of them are solvent and continue operations indefinitely. Do you agree? Explain your reasoning.
- 3-9. Insurance companies often boast about their reserves. Is this logical? Explain your reasoning.
- 3-10. Insurance companies also boast about their capital. Is this logical? Explain your reasoning.
- 3-11. A balance sheet lists an account titled "Reinsurance Premiums Due." Is this a valid account? Explain your reasoning.
- 3-12. Some people think a balance sheet is a better measure of solvency than an income statement. Do you agree? Explain your reasoning.

#### **Exercises 4. Brokers, Agents, and Claims**

- 4-1. Some people claim there is virtually no difference between a broker and an agent. Do you agree? Explain your reasoning.
- 4-2. Some people also believe that the government does not need to license brokers and agents who place insurance for businesses. Do you agree? Explain your reasoning.
- 4-3. If you were buying commercial insurance, would you rather work with a broker or an agent to place coverage for losses to a factory that makes motorcycles? Explain your reasoning.
- 4-4. Assume your company is being sued because one of its trucks crashed into a retail art gallery and caused extensive damage to the building and some antiques. Would you rather work with a public adjustor or an adjustor who is an employee of the insurance company? Explain your reasoning.
- 4-5. For an insurer that offers coverage on yachts and ocean-going pleasure craft, would it be better to use agents or brokers for marketing insurance policies? Explain your reasoning.
- 4-6. Is it possible to avoid the appearance of a conflict of interest when a broker accepts contingency fees from an insurer. Explain your reasoning.
- 4-7. Is it better for an insurance company to pursue a segmentation or penetration marketing strategy? Explain your reasoning.
- 4-8. Use Internet research to identify a specialty lines broker. Describe what it does. Do you think a retail broker could provide the same services?
- 4-9. Of retail and specialty lines brokers, which one needs the most knowledge of where to place insurance coverage? Explain your reasoning.
- 4-10. Why does excess insurance have to follow form?
- 4-11. A firm wants to purchase excess insurance for losses if someone hacks into its computer system and steals credit card data. Should it seek specific or aggregate excess coverage? Explain your reasoning.
- 4-12. After a large loss to property, reinsurers often pull out of a market. This occurred after hurricanes in Florida in 2005. Why do you think the companies withdrew? Be specific.

## Exercises 5. Legal Environment of Insurance

- 5-1. Globally, insurance is provided in legal systems of common law, civil law, and religious law. Do you think it is equally successful in all three systems? Explain your reasoning.
- 5-2. To be enforceable, a contract must contain an offer and acceptance and include consideration by two competent parties. How does an insurance policy between an insurer and a homeowner meet these requirements? Be specific.
- 5-3. A risk manager sought earthquake coverage on a factory in Mexico. While visiting the site, he heard a contractor talking in Spanish. The contractor heard the word “terremoto.” He knew it was the Spanish word for earthquake but did not know the context of the conversation. Subsequently, the risk manager filled out the insurance application including the statement, “To the best of my knowledge, the facility is not located near an earthquake fault line.” After the policy was issued, an earthquake damaged the factory. Does the insurer have to reimburse the damage? Explain your reasoning.
- 5-4. A broker and an applicant for insurance did not agree on whether a nearby sinkhole should be reported as part of an application for property insurance on a factory. The applicant said, “ I want you to obtain that coverage but do not report the sinkhole to the insurance company. What should the broker do? Explain your reasoning.
- 5-5. A construction company had a poor record of safety on the jobsite. In the past three years, it had six serious accidents, a rate that is three times higher than the national average. It sued its insurance company when it was offered a liability policy at three times the going rate. The owner said, “The insurer has no legal grounds to justify this differential in premium.” Do you agree? Explain your reasoning.
- 5-6. Unlike a general contract, an insurance policy cannot be assigned without the permission of the other party. Do you agree that this makes sense? Explain your reasoning.



- 5-7. A company had two operations. One was located in an industrial park and the other was at an airport. The company took out a policy to cover property loss at the airport. The insurance company accidentally listed the insured location at the industrial park address. A fire damaged the airport location. Under the legal principles of strict compliance and parole, does the insurance company have to reimburse the loss? Explain your reasoning.
- 5-8. A rare and expensive Chinese vase from the Ming Dynasty was insured for more than \$2 million. A dealer purchased a policy to cover it for theft or breakage. The insurance agent told him it was an all-risks policy. The agent did not tell him that the policy specifically required permission of the insurer before the vase could be moved from the owner's New York gallery. Without getting permission, the dealer moved the vase to Pittsburgh. During the movement, it disappeared from the baggage room at a train station. Under the legal principles of strict compliance, contract of adhesion, and the expectations principle, does the insurance company have to reimburse the loss? Explain your reasoning.
- 5-9. A company has a policy to cover smoke damage to its office. A fire in a nearby building caused such damage and the company collected \$120,000 from its insurer. The company refused to testify against the owner of the nearby building because the brother of the president of the company owns it. Under the legal principle of subrogation, can the insurer force the testimony as part of its effort to obtain reimbursement for its payment?
- 5-10. A company owns a hardware store and leases an attached garage where it stores inventory. It allows a local butcher to store equipment in the garage in return for a payment of \$200 a month. The owner requested property insurance on the assets. Does the company have an insurable interest on the store, garage, inventory, and equipment? Explain your reasoning.

## Exercises 6. Insurance Contracts

- 6-1. A musician was offered a contract to play a series of concerts in a national tour. The contract, which paid a fee of \$800,000, was contingent upon playing the violin from a 17th century Stradivarius violin. The musician asked Lloyd's of London to insure the violin for \$5 million, the total of its estimated sale value of \$1.2 million, the loss of \$800,000 in the fee, and \$3 million for subsequent lost income if the violin disappeared. Under the principle of indemnity, what would be the reply of Lloyd's? Explain your reasoning.
- 6-2. Deductibles and percentage participation clauses are included in insurance policies to reduce moral and behavioral hazards. Some people believe deductibles and participation clauses really do not work with large organizations. Most managers are not aware of insurance coverage and thus pay no attention to it. Do you think the clauses help make organizations more safe and less careless? Explain your reasoning.
- 6-3. The declarations section identifies an insured property as 24 Harborside Drive with a named insured as Selena Gonzalez. The building, which was actually 34 Harborside Avenue, was damaged in a fire. Selena filed for reimbursement. Will the insurer have to pay for the loss? Explain your reasoning.
- 6-4. Two partners are arguing about which one should be the first named insured on a policy. One partner says, "It makes no difference." Do you agree? Explain your reasoning.
- 6-5. Assume you are purchasing a policy to protect an office building. The insurance company asks whether you would prefer an all-risks or named perils insuring agreement. How would you respond? Explain your reasoning.
- 6-6. We know that insurance policies exclude certain causes of loss. Is this effectively a violation of the expectations principle? Explain your reasoning.

- 6-7. An explosion destroys a warehouse during a time when the owner's Ferrari is parked inside it. Vehicles are not an exclusion under the policy that reimburses loss to the facility. Is the Ferrari covered by the policy? Explain your reasoning.
- 6-8. A provision in an insurance policy allows either party to cancel the coverage. The insured called the agent and asked that the policy be cancelled. The next day, before the agent took any action, the property was damaged. Is it covered by the policy? Explain your reasoning.
- 6-9. An insurance policy specifically excludes punitive actions by foreign governments when such actions cause a loss to an organization. The risk manager has requested removal of this clause. If you were the insurer, would you add an endorsement to comply with this request? Explain your reasoning.
- 6-10. A fast foods restaurant has 52 stores. It has a fire insurance policy covering them all. The policy contains the provision that excludes buildings under construction. A fire damages a store that has been closed for three days to allow a new air conditioning system to be installed. Is the loss to this building covered under the policy? Explain your reasoning.

## Exercises 7. Underwriting and Ratemaking

- 7-1. Underwriters seek to develop products with a predictable likelihood of knowing statistical losses. An insurer is evaluating a risk posed by a new Internet business that does not currently exist. Can the underwriter develop a way to establish premiums and limits without historical data? Explain your reasoning.
- 7-2. Underwriters prefer to understand how an organization approaches loss control before they determine premiums and policy limits. Do you think underwriters should meet with risk managers from large organizations to discuss loss control as part of the process of purchasing or renewing insurance coverage? Explain your reasoning.
- 7-3. Why do underwriters start the process of establishing rates using a class rating foundation?
- 7-4. An underwriter is developing a product to reimburse losses for traveling amusement parks, circuses, and fairs. What are some schedule rating factors that can help to determine the level of premiums and limits?
- 7-5. For the traveling amusement parks, circuses, and fairs underwriting, what are some experience rating factors that can be used?
- 7-6. For the traveling amusement parks, circuses, and fairs underwriting, an insurance company wants to hire an underwriter who can largely use judgment rating to set premiums and limits? What background should such a person have to be hired for this position?
- 7-7. The CEO and Chief Actuary are discussing the qualifications for a senior underwriter. The CEO says an underwriting background is the most important preparation for a person. The chief actuary disagrees. He says the best preparation is corporate finance. What do you think? Be specific.
- 7-8. Observers agree that the world of risk is changing faster today than ever previously. Does this pose a risk for underwriting? Explain your reasoning.
- 7-9. A CEO believes that her insurance company should hire only individuals with an MBA degree to be underwriters. Do you agree? Explain your reasoning.

## Submission 2

### Exercises 8. Property Insurance

- 8-1. Why do we use the term indirect loss to refer to a disruption of business for an organization that suffered damage to property?
- 8-2. Two individuals are arguing about how a shed, landscaping, and pickup truck are coverage by insurance. One says they are real property. The other says they are personal property. Who is right?
- 8-3. A company cuts a hole in a wall and installs an expensive purification system in a medical laboratory that requires total filtration of air for a manufacturing process. A second system is placed in a window. The factory manager wants to insure both pieces of machinery as personal business property. The office manager thinks they are fixtures. Who is correct?
- 8-4. An office manager is making a list of inventory and fixtures in a warehouse. He is thinking about whether to get specific coverage or blanket coverage for the building and its contents. What do you recommend? Be specific.
- 8-5. Most risk managers reject the actual cash value approach to reimbursing companies for the loss of property. Do you agree with them? Explain your reasoning.
- 8-6. A bank has 22 retail branches throughout 12 counties. The replacement cost for the most valuable branch would be \$2.5 million for a total loss. The bank president wants insurance with full replacement cost on an occurrence and aggregate limit. In your view, what should be the per occurrence and aggregate limits on the policy? Explain your reasoning.
- 8-7. Real property insurance policies exclude liquid assets living objects, and transit property. Do you think these exclusions make sense? Explain your reasoning.

- 8-8. A property owner said to a colleague, “We do not need insurance for debris and demolition removal. They are covered under our property insurance policy. In any case, they are not likely to be costly.” Do you agree? Explain your reasoning.
- 8-9. A lawn supply company operates in a building with 15 other vendors. The owner is worried about flooding from a nearby river that could force the building to close for several weeks at a busy time of year. She asked you if she could buy insurance to cover the cost of continuing to pay her workers during the closure. She also needs to cover additional expenses to prepare to reopen. What would you tell her?
- 8-10. A family owns a business that installs kitchens. Eighty percent of the items it installs are purchased from a single supplier in South Korea. One family member asked you if he can buy insurance in case that source of supply is cut off. What would you tell him?
- 8-11. 8-13. What lesson did risk managers learn from the floods in Thailand?
- 8-12. Some people argue that insurance companies did not learn the lessons about water damage after Hurricane Katrina. Based on the story of Hurricane Sandy, do you agree? Explain your reasoning.

## Exercises 9. Legal and Contractual Liability

- 9-1. Why do insurance companies make a distinction between general liability and professional liability? Be specific.
- 9-2. The majority of legal liability claims involves torts. With all the contracts that are written in the U.S., why do you think this is the case? Be specific.
- 9-3. A doctor told a patient that she needed surgery and she agreed. As part of the preparation she signed several papers. One of them gave the doctor permission to perform the operation. The other waived her right to sue if the operation did not produce the desired result. The operation was a failure, leaving her in a slightly worse state than before the surgery. She sued the hospital and doctor for negligence. Is she likely to win the lawsuit? Explain your reasoning.
- 9-4. A store owner signed a contract authorizing a building contractor to renovate his facility located in a seaside resort. After a hurricane damaged neighboring buildings, tourists stopped visiting the town. The owner told the contractor not to start the renovation. The builder sued for breach of contract to compel performance or accept money? If you were the judge, how would you rule? Explain your reasoning.
- 9-5. Some people think a formal contract lasts forever. Do you agree? Explain your reasoning.
- 9-6. An individual made the statement, "I do not worry about enforcement of my contracts. I just want to get them done." What advice would you give that person in light of risk management for contractual liability?
- 9-7. The story of cardboard in China shows the limits of enforcing contracts in many areas of the world. Does this mean insurance companies should not issue insurance policies guaranteeing contract performance for operations outside the United States? Explain your reasoning.

## Exercises 10. Tort Liability and Negligence

- 10-1. Suppose a man told you that a woman accused him of stealing property and as a result the company fired him. He is suing the woman for the misbehavior. The man asked you for advice on how to win the lawsuit. What would you tell him? Be specific.
- 10-2. An accountant made a mistake on a tax return producing penalties for a client. The accountant has general liability insurance but does not have coverage for a professional tort. Does he have coverage for any damages? Explain your reasoning.
- 10-3. The chapter contains stories of frivolous lawsuits with rock-paper-scissors and a lawsuit against God. Does the ability of people to file such lawsuits cause problems for insurance underwriters? Explain your reasoning.
- 10-4. Carnival Cruise Lines had a breakdown on the Carnival Triumph in 2013. A fire in the engine room stranded the vessel and 3,000 passengers at sea for five days. Passengers told horror stories of sewage odors, long lines for meals, and sleeping on deck to get out of the hot bedrooms. Lawsuits were filed alleging negligence. Use Internet research to understand more details. Do you think Carnival was negligent? Be sure to include the steps to prove negligence to make your case.
- 10-5. A group of tourists hired a ski touring company to take them skiing in the backcountry of Colorado. They requested “the ultimate skiing trip, certified they were excellent skiers, refused to carry all the equipment recommended by the ski touring company, and waived company responsibility for skiing accidents. Late one day, they went down a particularly dangerous trail after the ski instructor advised against it. Six of the 14 members had serious injuries and had to be carried by helicopter to a hospital. The group sued the touring company alleging negligence. What defenses can be raised by the company?
- 10-6. A man planned a birthday party in home. He paid Clowning Around Entertainment to set up an inflatable bull that could be put into motion to give riders the thrill of a rodeo experience. The company placed six-inch thick pads on the floor surrounding the apparatus. Riders signed a waiver of liability prior to boarding the bull. A rider was thrown from the bull, hitting his head against the head of another guest who was standing on the pads. Both men were hospitalized with serious internal bleeding. They sued the host of the party and the entertainment company for negligence. Was anyone negligent?



## Exercises 11. General Liability Insurance

- 11-1. A CGL policy provides insurance to cover damages and the costs of defending against liability lawsuits. Do you think legal costs are more costly than judgments for damages? Explain your reasoning.
- 11-2. CGL policies cover liability claims in bodily injury, property damage, and personal or advertising Injury. Which of these categories poses the greatest chance of a large award to a plaintiff? Explain your reasoning.
- 11-3. A guest at a resort was struck by a golf cart driven by a guest of the resort. He required medical treatment. The hotel shuttle took him to the hospital. On the way, a car crashed into the van driven by a hotel employee. Both the guest and the driver were seriously injured. Both men recovered and filed lawsuits against the casino owner. Does the casino's commercial general liability policy cover the exposure? Explain your reasoning.
- 11-4. A carnival operator sold rides on a piece of equipment called "The Wild Ride. It malfunctioned and six people were serious injured. They sued the operator who then sued the manufacturer of the equipment. Both the operator and the manufacturer had CGL policies. Do the policies cover both organizations? Explain your reasoning.
- 11-5. A company has asked you if it should buy an occurrence or a claim-made CGL policy. What would you say? Be specific.
- 11-6. Assume you are the risk manager for a manufacturer of sports equipment. Your broker asks you how to define the term "occurrence" in your CGL policy. What would you say? Explain your reasoning.
- 11-7. Endorsements can be added to a claims-made CGL policy. If you were a risk manager, how would you decide whether to add such an endorsement? Explain your reasoning.
- 11-8. Do you believe that a triple trigger approach to determining insurance coverage is a sound philosophy for a judge? Explain your reasoning.
- 11-9. Given the categories of visitors to a premise, what strategy should be used to minimize losses under a CGL policy? Explain your reasoning.
- 11-10. Do an Internet search. Describe the current status of silicosis lawsuits. Has anyone been charged with fraud?

## Exercises 12. Professional, Medical, and D&O Liability

- 12-1. What are the conditions that cause professional liability exposures to arise?
- 12-2. Professional liability insurance covers lawsuits alleging intentional misbehavior. Does this make sense to you? Explain your reasoning.
- 12-3. MedMal and E&O insurance have different views on deductibles. What is the difference? Do you agree with it? Explain your reasoning.
- 12-4. Why do you think disputes arise between the insurance company and medical doctors with respect to whether a MedMal lawsuit should be settled?
- 12-5. Why do officers and board members need a special liability insurance to protect them from legal liability lawsuits?
- 12-6. Do you agree that the business judgment rule should be used as a shield so directors are not personally liable for their decisions that are harmful to the organization? Explain your reasoning.
- 12-7. A hospital with a large endowment deposited the funds in an investment bank that also held considerable funds for one of its board members. The board member became suspicious that the bank was involved in a Ponzi scheme. He withdrew all his money but said nothing at board meetings. Six months later the investment bank went bankrupt and the hospital lost its entire endowment. Shareholders sued the board. Are they likely to win? Is the single board likely to face criminal charges? Explain your reasoning.
- 12-8. How does the word “fiduciary” apply to directors and officers of an organization?
- 12-9. Given all bad behavior by corporate officers in recent years, do you think courts should amend the business judgment rule? Explain your reasoning.
- 12-10. If you were a board member for a U.S. public corporation, would you insist on having stand-alone side A coverage? Explain your reasoning.

### **Exercises 13. Specialty Lines**

- 13-1. Boiler and machinery coverage is not included in property and liability insurance policies. Does this make sense? Explain your reasoning.
- 13-2. When an insurance company inspects equipment and machinery, what is it looking for and why does it not accept safety reports from the insured?
- 13-3. Do you agree that consequential damage should be excluded in a boiler and machinery policy? Explain your reasoning.
- 13-4. If you were the risk manager for a television manufacturing company, what would you recommend to management with respect to business interruption insurance? Be specific.
- 13-5. If you were the risk manager for a commercial bread and bakery company, what would you recommend to management with respect to inland marine insurance? Be specific.
- 13-6. If you were the risk manager for a company that operates armored cars servicing banks, department stores, and jewelry stores, what would you recommend to management with respect to inland marine insurance? Be specific.
- 13-7. If you were the risk manager for an antiques auction house, what would you recommend to management with respect to fine arts insurance? Be specific.
- 13-8. If you were the head of human resources for billion-dollar food processing company, what would you recommend to management with respect to the various crime insurances? Be specific.

## Exercises 14. Reinsurance.

- 14-1. What is the difference between a primary insurer, a ceding insurer, and a reinsurer?
- 14-2. One of the objectives of reinsurance is to increase the capacity of the primary insurer. How does reinsurance achieve this goal?
- 14-3. Another objective of reinsurance is to increase the profits of the primary insurer. How does reinsurance achieve this goal?
- 14-4. Suppose you were the risk manager for a company with extensive mining operations in Peru. Would you use reinsurance fronting? Explain your reasoning.
- 14-5. Suppose you were the risk manager for Ben and Jerry's ice cream. How would you use facultative reinsurance? Be specific.
- 14-6. Suppose you were the risk manager for Samsung U.S.A. How would you use treaty reinsurance? Be specific.
- 14-7. Assume that you are a reinsurer seeking to protect against your own catastrophic exposure when you agree to reinsure 300,000 condominiums in Texas. How would you do this? Be specific.
- 14-8. Why do you think insurers use both quota share and surplus share treaties? Be specific.
- 14-9. Assume that you are a reinsurer examining tornado insurance for six southern U.S. states. The exposure is massive. How would you decide whether to purchase excess per risk, excess per occurrence, or aggregate excess reinsurance? Be specific.
- 14-10. Some reinsurance companies see no need for umbrella insurance. Do you agree that it can be unnecessary? Explain your reasoning.
- 14-11. Do you agree that insurance securitization, specifically the use of derivatives for the reimbursement of losses, is a valid risk management technique? Explain your reasoning.
- 14-12. With respect to figure 14-1, do you see any problems with it? Explain your reasoning.