



SOCIETY OF FINANCIAL EXAMINERS[®]

Supplemental Background Material

NAIC Examiner Project

Course AFE 2

Property and Liability Insurance Fundamentals

(Passing grade for this exam is 60)

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Society of Financial Examiners
Property and Liability Insurance Fundamentals

- Unit: 1
- Topic: Insurance Principles
- Text Required: Fundamentals of Risk and Insurance
Emmett J. Vaughan and Therese M. Vaughan
Tenth Edition
- Objectives: To familiarize the student with the principles that underlie the insurance mechanism.
- Assigned Readings: Vaughan and Vaughan
Chapter 1 - The Problem of Risk
Chapter 2 – Introduction to Risk Management
Chapter 3 – The Insurance Device

Assignment Outline:

Insurance Principles

- I. The Concept of Risk
 - A. A definition of risk
 - B. The degree of risk

- II. Important terms
 - A. Peril
 - B. Hazard
 1. Three types of hazard
 - a. Physical
 - b. Moral
 - c. Morale

- III. Classifications of Risk
 - A. Financial and Non-financial
 - B. Static and Dynamic
 - C. Fundamental and Particular
 - D. Pure and Speculative

- IV. The Burden of Risk
 - A. The primary burden- losses
 - B. Other burdens
 - 1. Need for reserve funds
 - 2. Deterrent effect on economic growth
 - 3. Feeling of mental unrest

- V. Risk Management Tools
 - A. Avoidance
 - B. Reduction
 - C. Retention
 - D. Transfer
 - E. Sharing

- VI. The Nature of Insurance-two fundamental characteristics
 - A. Risk Sharing
 - B. Risk Transfer

- VII. Relevant Elements of Probability Theory
 - A. Two interpretations of probability
 - 1. Relative frequency
 - 2. Subjective
 - B. Sources of probabilities
 - 1. A priori
 - 2. Historical observation- empirical- a posteriori
 - C. The Law of Large Numbers
 - D. Dual application of the law of large numbers

- VIII. Insurance and Gambling Distinguished

- IX. The Economic Contribution of Insurance

- X. Elements of an Insurable Risk
 - A. Large number of homogeneous units
 - B. Definite and measurable loss
 - C. Loss must be fortuitous or accidental
 - D. Loss not catastrophic

- XI. Self-Insurance
 - A. Requirements to be operationally dependable

Society of Financial Examiners
Property and Liability Insurance Fundamentals

- Unit: 2
- Topic: Insurance Regulation
- Text Required: Fundamentals of Risk and Insurance
Emmett J. Vaughan and Therese M. Vaughan
Tenth Edition
- Objectives: To introduce the student to the history and nature of insurance regulation
in the United States
- Assigned Readings: Vaughan and Vaughan
Chapter 6 - Regulation of the Insurance Industry

Assignment Outline

Insurance Regulation

- I. Why Insurance is Regulated
 - A. General Approaches to Government Control of Business
 1. Antitrust vs. Regulation
 - B. Economic Theories of Regulation
 1. Market Failure Theory
 2. Capture Theory
 3. Public Choice Theory
 - C. Rationale for Regulation of the Insurance Industry
 1. Insignificant monopoly problems
 2. Vested in the Public Interest
 3. Destructive Competition
 - D. Goals of Insurance Regulation
 1. Solvency
 2. Equity
 3. Availability
 4. Affordability
- II. History of Insurance Regulation
 - A. Earliest forms of insurance regulation
 - B. State regulation – starting in mid-1800's
 - C. Paul v. Virginia- 1869

1. Issue- Paul's refusal to comply with Virginia's licensing law.
 2. Decision – Insurance is not interstate commerce
 3. Rationale
- D. Regulation from 1869 to 1944
1. Abuses in the industry
 2. The Armstrong Investigation-1905
 3. The Merritt Committee- 1910
- E. South-Eastern Underwriters Association Case- 1944
1. SEUA was cooperative rating bureaus
 2. Attorney General filed brief under the Sherman Act
 3. Arguing combination in restraint of trade
 4. Decision-insurance is interstate commerce
- F. Public Law 15 - 1945
1. a.k.a. McCarran-Ferguson Act
 2. Congress reaffirmed the right of federal government to regulate insurance
 3. Gave states the right to regulate
 4. Sherman Act still applies to coercion, boycott, intimidation
- III. Regulation Today
- A. State laws distinguish among domestic, foreign, and alien insurers
 - B. Chief regulator in most states appointed by the governor
 - C. National Association of Insurance Commissioners since 1871
- IV. Areas Regulated
- A. Licensing of Companies
 1. Capital and surplus requirements
 2. Evaluation of personal characteristics of organizers
 - B. Reporting and Financial Analysis
 1. NAIC
 2. IRIS
 3. FAST
 4. FAD
 - C. Risked Based Capital
 - D. Examination of Companies
 1. Annual reports
 2. Periodic examinations-usually every 5 years
 3. Zone examinations for foreign companies
 - E. Insurer Insolvencies
 1. Rehabilitation
 2. Liquidation
 3. Insolvency funds
 - F. Reserves
 - G. Investments
 - H. Unfair Practices

- 1. Anti-rebating laws
- 2. Twisting prohibitions
- I. Policy Forms
- J. Competence of Agents
- K. Graham-Leach-Bliley
- L. Rates
 - 1. Adequate, not excessive, not unfairly discriminatory
 - 2. Property and liability rate regulation
 - a. Prior approval-most common
 - b. Open competition
 - c. File-and-use
 - d. Informational filing
 - e. New approach-flex rating
 - f. Arguments in favor of open competition
- M. Risk Retention Groups
 - 1. Authorized by a federal law
 - 2. Subject to regulation only in state where formed
 - 3. Prohibited from joining insolvency guarantee funds

- V. State vs. Federal Regulation
 - A. Arguments of those favoring federal regulation
 - B. Arguments of those favoring state regulation

- VI. The Availability/Affordability Debate
 - A. Essence
 - B. Cross subsidies in insurance
 - 1. Shared markets
 - 2. Mandated underwriting losses
 - 3. Government insurance programs
 - C. Social pricing vs. cost-based pricing
 - D. Gender Neutral Rating
 - E. Redlining
 - F. Causes of Availability Problems
 - G. Causes of Affordability Problems

Society of Financial Examiners
Property and Liability Insurance Fundamentals

- Unit: 3
- Topic: Government Insurance Operations
- Text Required: Fundamentals of Risk and Insurance
Emmett J. Vaughan and Therese M. Vaughan
Tenth Edition
- Objectives: To acquaint the student with the various insurance operations of the federal and state governments
- Assigned Readings: Vaughan and Vaughan
Pp.48-53 81-82

Assignment Outline:

Government Insurance Operations

- I. Government Insurance Defined
- II. Reasons for Government Insurance
- III. Federal Social Insurance Programs
 - A. OASDI
 - B. Medicare
 - C. Railroad Retirement Programs
 - D. Unemployment Insurance Programs
 - E. Workers' Compensation Insurance Funds
 - F. State Compulsory Temporary Disability Funds.
- IV. Federal public Guarantee Insurance Programs
- V. State Public Guarantee Insurance Programs
 - A. State Insurer Insolvency Funds
 - B. Unsatisfied Judgment Funds
- VII. Federal Private (Voluntary) Insurance Programs
 - A. Post Office Insurance Coverage
 - B. Federal Crop Insurance
 - C. Mortgage Loan Insurance

- D. National Flood Insurance Program
- E. SBA Surety Bond Program
- F. Export-Import Bank
- G. Overseas Private Investor Corporation (OPIC)
- H. Servicemen's and Veteran's Life Insurance

VIII. State Private (Voluntary) Insurance Programs

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Property and Liability Insurance Fundamentals

- Unit: 4
- Topic: The Private Insurance Industry
- Text Required: Fundamentals of Risk and Insurance
Emmett J. Vaughan and Therese M. Vaughan
Tenth Edition
- Objectives: To make the student aware of the various types of insurance enterprises, how they developed, and the reasons they exist.
- Assigned Readings: Vaughan and Vaughan
Chapter 5 - The Private Insurance Industry

Assignment Outline:

The Private Insurance Industry

- I. Size of the Industry
- II. Types of Private Insurers
 - A. Capital Stock Insurers
 1. Distinguishing characteristics
 - B. Mutual Insurance Companies
 1. Distinguishing characteristics
 2. Types of mutual insurers
 - a. Pure assessment mutuals
 - b. Advance premium mutuals with assessable policies
 - c. Advance premium non-assessable mutuals
 - d. Fraternal
 3. Demutualization
 - C. Reciprocals
 - D. Lloyd's Associations
 1. Lloyd's of London
 2. American Lloyd's
 3. Insurance Exchanges
- III. The Agent
 - A. Binding authority (property/liability agent vs. life agents)
 - B. Contracted vs. ostensible authority

- C. Brokers vs. agents

- IV. Property/Liability Distribution Systems
 - A. The American Agency System
 - B. Direct Writers
 - C. Direct Response Distribution

- V. Corporate Combinations
 - A. Insurance Company Groups
 - B. Underwriting Syndicates
 - 1. The Associated Factory Mutual Insurance Companies
 - 2. Industrial Risk Insurers
 - 3. Improved Risk Mutuals
 - 4. Nuclear Energy Pools
 - 5. Other Voluntary Syndicates

- VI. Cooperation
 - A. Rating Organizations
 - B. Distressed and Residual Risk Pools
 - C. Educational Organizations
 - D. Insurance Trade Associations
 - E. Reinsurance Organizations

- VII. Competition in the Insurance Industry
 - A. Nature of the Competition
 - 1. Price competition
 - 2. Quality competition- at two levels
 - B. Evidence of the Intensity of the Competition
 - 1. The insurance cycle
 - 2. Insurer insolvencies

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Property and Liability Insurance Fundamentals

Unit:	5
Topic:	Insurance Company Functions (1): Underwriting
Text Required:	Fundamentals of Risk and Insurance Emmett J. Vaughan and Therese M. Vaughan Tenth Edition Insurance Operations, Regulation, and Statutory Accounting American Institute for Property and Casualty Underwriters (2 nd Edition)
Objectives:	To familiarize the student with the process of underwriting and the factors which are considered in insurance company underwriting.
Assigned Readings:	Vaughan and Vaughan Pp. 135-139 Insurance Operations, Regulation, and Statutory Accounting Ch. 4 - Underwriting

Assignment Outline:

Underwriting

- I. Underwriting Activities
 - A. Line Underwriting Activities
 - B. Staff Underwriting Activities
 - C. Centralized vs. Decentralized Underwriting Authority

- II. Establishment of Underwriting Policy
 - A. Lines of Business
 - B. Factors Constraining Underwriting Options
 - 1. Capacity to Write Business
 - 2. Regulation
 - 3. Personnel
 - 4. Reinsurance

- IV. Implementation of Underwriting Policy
 - A. Underwriting Guides and Bulletins

- B. Underwriting Audits- purpose
- C. Measuring Underwriting Results
 - 1. Insurance industry trends
 - 2. Difficulties in interpretation of results
 - a. Premium volume considerations
 - b. Loss development delay
 - 3. Standards of performance

- V. The Underwriting Process
 - A. Gathering Information
 - 1. Sources of information
 - 2. Hazard Evaluation
 - B. Identifying, Developing, and Evaluating Alternatives
 - C. Selecting an Alternative
 - D. Implementing the Decision
 - E. Monitoring the Exposure

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Property and Liability Insurance Fundamentals

Unit:	6
Topic:	Insurance Company Functions (2): Reinsurance
Text Required:	Insurance Operations, Regulation, and Statutory Accounting American Institute for Property and Casualty Underwriters (2 nd Edition)
Objectives:	To develop an understanding of the functions of reinsurance, the types of reinsurance, and the nature of the reinsurance transaction.
Assigned Readings:	Insurance Operations, Regulation, and Statutory Accounting Ch. 11 Reinsurance

Assignment Outline:

Reinsurance

- I. Terminology
- II. Functions of Reinsurance
 - A. Stabilization of Loss Experience
 - B. Large Line Capacity
 - C. Financing
 - D. Catastrophe Protection
 - E. Underwriting Assistance
 - F. Withdrawal from a Territory or Class of Business
- III. The Policyholder and Reinsurance
 - A. General Rule- Policyholder has no direct right of action against the reinsurer
 - B. Exceptions
- III. Types of Reinsurance
 - A. Treaty Reinsurance
 - 1. Pro Rata or Proportional Treaties
 - a. Quota share
 - b. Surplus share
 - 2. Excess of Loss or Nonproportional Treaties
 - a. Per risk or per policy excess
 - b. Per occurrence excess
 - c. Aggregate excess

- IV. Financial Reinsurance
 - A. Time and distance contracts
 - B. Loss portfolio transfers
- V. The Reinsurance Market

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Property and Liability Insurance Fundamentals

Unit:	7
Topic:	Insurance Company Functions (3): Ratemaking
Text Required:	Insurance Operations, Regulation, and Statutory Accounting American Institute for Property and Casualty Underwriters (2 nd Edition) Fundamentals of Risk and Insurance Emmett J. Vaughan and Therese M. Vaughan Tenth Edition
Objectives:	To develop an understanding of the principles of insurance ratemaking
Assigned Readings:	Insurance Operations, Regulation, and Statutory Accounting Ch. 7 - Ratemaking Principles Vaughan and Vaughan pp. 130-135

Assignment Outline:

Ratemaking Principles

- I. Principals of Ratemaking
 - A. Objectives of Ratemaking
 - B. The Ratemaking Process
 - 1. Ratemaking in the Real World
 - a. Loss Reserves
 - b. Inflation
 - c. Other Time Dependent Factors
 - C. Risk Classification
 - D. Territorial Rating
 - E. Credibility
 - F. Additional Concepts
 - 1. Written Premiums
 - 2. Earned Premiums
 - G. Ratemaking Methods
 - 1. Judgment Method
 - 2. Loss Ratio Method

3. Pure Premium Method
H. Investment Income in Ratemaking

- I. Terminology
 - A. Rate
 - B. Premium
 - C. Net vs. gross rate or pure vs. gross premium
 - D. Gross rate = net rate (or pure premium) divided by "permissible loss ratio"
 - E. Permissible loss ratio is amount available to pay losses after provision for expenses

- II. Types of Rates
 - A. Class rates
 - B. Individual rates
 - 1. Judgment rating
 - 2. Schedule rating
 - 3. Experience rating
 - 4. Retrospective rating

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Property and Liability Insurance Fundamentals

- Unit: 8
- Topic: Insurance Company Functions (4): The Ratemaking Process and Reserving
- Text Required: Insurance Operations, Regulation, and Statutory Accounting
American Institute for Property and Casualty Underwriters (2nd Edition)
- Objectives: To develop an understanding of the ratemaking process and principles of insurance company reserve practices
- Assigned Readings: Insurance Operations, Regulation, and Statutory Accounting
Ch. 7 The Ratemaking Process
Ch. 14 pp 14.12 – 14.21

Assignment Outline:

The Ratemaking Process Chapter 7

- I. Development of Ratemaking Data
 - A. Collection of Statistics
 - 1. Policy-Year Method
 - 2. Calendar-Year Method
 - 3. Accident-Year Method
 - B. Adjustment of Statistics
 - 1. Loss Development Factors
 - 2. Trending
 - C. Territorial Relativities
 - D. Class Relativities

Insurer Financial Management Chapter 14

- I. Loss Reserve Analysis and Verification
 - A. Case Reserves
 - 1. Average value method
 - 2. Judgment method
 - 3. Tabular method
 - 4. Loss ratio method

- II. IBNR Reserves
 - A. Pure IBNR
 - B. Reserve for inadequate case reserves
 - C. $IBNR = \text{Ultimate incurred losses} - \text{paid losses}$
 - D. Establish number and amount of claims reported after cutoff date in previous years; assume same proportion this year unless there are environmental changes

- III. Loss Reserve Analysis and Verification Techniques
 - A. Case reserving system
 - B. Actuarial (or bulk) reserving system
 - C. Reasons for conducting loss reserve analysis and verification
 - D. Persons qualified by NAIC to analyze reserves
 - E. The Techniques
 - 1. Accident-year loss analysis technique
 - 2. Report-year loss analysis technique
 - 3. Discounting of loss reserves

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Property and Liability Insurance Fundamentals

Unit:	9
Topic:	Insurance Company Functions (5): Claims
Text Required:	Insurance Operations, Regulation, and Statutory Accounting American Institute for Property and Casualty Underwriters (2 nd Edition)
Objectives:	To develop an understanding of the claims process and principles of insurance company claims practices
Assigned Readings:	Insurance Operations, Regulation, and Statutory Accounting Ch. 10 Claim Adjusting

Assignment Outline:

Claim Adjusting

- I. The Claim Environment
 - A. Objectives of the Claim Department
 - B. Use of Claim Information
 1. Marketing
 2. Underwriting
 3. Actuarial
 - C. Claim Department Contacts
 1. General public
 2. Plaintiffs attorneys
 3. Defense attorneys
 4. State regulators
 - D. The Unfair Claim Settlement Practices Model Act.
- II. Organization of the Claim Function
 - A. Physical Organization of the Claims Function
 - B. Management Structure and Settlement Authority
 1. Claims managers
 2. Examiners
 3. Supervisors
 4. Adjusters
 5. Independent adjusters
 6. Producer claims services

7. Public adjusters
8. Other claims adjusting personnel
9. Unbundled claim services

III. The Claim Adjusting Process

A. Coverage

1. Insuring agreement
2. Exclusions
3. Conditions
4. Response to coverage issues

B. Legal Liability

1. Sources of liability
2. Investigation of liability

C. Damages

1. Property damage
2. Bodily injury damages
 - a. Medical expense
 - b. Loss of earnings
 - c. Pain and suffering
 - d. Permanency
 - e. Consortium
 - f. Future
 - g. Punitive damages
 - h. Survival and wrongful death
 - i. Extra-contractual damages

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Property and Liability Insurance Fundamentals

- Unit: 10
- Topic: Insurance Company Functions (6): Marketing
- Text Required: Insurance Operations, Regulation, and Statutory Accounting
American Institute for Property and
Casualty Underwriters (2nd Edition)
- Objectives: To develop an understanding of the marketing process in property and
Liability insurance companies
- Assigned Readings: Insurance Operations, Regulation, and Statutory Accounting
Ch. 2 – Insurance Regulation pp. 2.36 – 2.45
Ch. 3 - Distribution Systems pp. 3.3-3.31

Assignment Outline:

Ch. 2 – Insurance Regulation pp. 2.36 – 2.45

- I. Market Conduct
 - A. Sales practices
 - B. Underwriting practices
 - C. Claim practices
 - 1. Unfair claim practices laws
- II. Unofficial regulators
 - A. Financial rating organizations
 - B. Insurance advisory organizations
 - C. Insurance professional and trade associations
 - D. Consumer organizations

Ch. 3 - Distribution Systems pp. 3.3-3.31

- III. Distribution Systems
 - A. Insurance Market Intermediaries
 - B. Unique characteristics of insurance marketing
 - 1. Legal status of agents
 - 2. Powers and duties of agents
 - C. Attributes of insurance intermediaries

1. Relationship with insurers
 2. Compensation methods
 3. Ownership of expirations
- D. Types of Insurance Distribution Systems
1. Independent agency system
 2. Exclusive agency system
 3. Direct writer system
 4. Direct response system
 5. Combination systems
- E. Alternative marketing
1. Involuntary insurance market
 2. Involuntary property insurance
 3. Government insurance
 4. State insurance fund
 5. Federal insurance programs

Society of Financial Examiners
Property and Liability Insurance Fundamentals

- Unit: 11
- Topic: The Legal Basis of Insurance Contracts
- Text Required: Fundamentals of Risk and Insurance
Emmett J. Vaughan and Therese M. Vaughan
Tenth Edition
- Objectives: To introduce the student to concepts relevant to the understanding of specific insurance contracts and their interpretation
- Assigned Readings: Vaughan and Vaughan,
Chapter 9 - The Legal Framework

Assignment Outline:

The Legal Basis of Insurance Contracts

- I. Insurance and the Law of Contracts
 - A. General Requirements of an Enforceable Contract
 - 1. Offer and acceptance
 - 2. Consideration
 - 3. Legal object
 - 4. Competent parties
 - 5. Legal form

- II. Special Legal Characteristics of Insurance Contracts
 - A. Insurance is a Contract of Indemnity
 - B. Insurable interest requirement
 - C. Actual cash value
 - D. Valued policies
 - E. Cash payment policies
 - F. Other insurance
 - G. Subrogation
 - H. Insurance is a Personal Contract
 - I. Insurance is a Unilateral Contract
 - J. Insurance is a Contract of Adhesion
 - K. Insurance is an Aleatory Contract
 - L. Insurance is a Contract of Utmost Good Faith (uberrimae fidei)
 - M. Misrepresentation

- N. Warranties
- O. Concealment
- P. Waiver and Estoppel
- Q. Parol Evidence Rule

- III. The Insurance Contract as a Contract
 - A. Doctrine of reasonable expectations
 - B. Complexity of insurance contracts
 - C. Insurance and the courts
 - D. Policy construction
 - 1. Declarations
 - 2. Insuring agreements
 - 3. Exclusions
 - 4. Conditions

Society of Financial Examiners
Property and Liability Insurance Fundamentals

Unit:	12
Topic:	Insurance Contracts (1) - Personal Property and Liability (Homeowners)
Text Required:	Fundamentals of Risk and Insurance Emmett J. Vaughan and Therese M. Vaughan Tenth Edition
Objectives:	To acquaint the student with the essential features of homeowners insurance policies
Assigned Readings:	Vaughan and Vaughan, Chapters 24 and 25 - The Homeowners Policy Chapter 28 – General Liability Insurance for Individual

Assignment Outline:

Chapters 24

- I. Historical Development
 - A. Packaging
 - B. Policy discussed in this lesson is the ISO 2000 version
- II. General Nature of the Homeowners Program
 - A. Six standard homeowners forms
 - B. Eligibility requirements
 - 1. HO 2, 3, 5 and 8
 - 2. HO 4, 6
- III. Homeowners Section I Coverage
 - A. Overview
 - 1. Coverage A - Dwelling
 - 2. Coverage B - Other Structures
 - 3. Coverage C - Personal Property or Contents
 - 4. Coverage D - Loss of Use
 - B. Perils Insured
 - 1. Named perils - list of 16 perils
 - 2. Open perils – previously called “all risk”

- 3. Dwelling and Other Structures Coverage
 - 4. Dwelling
 - 5. Other Structures
 - C. Replacement Cost Coverage
 - D. Inflation Guard Endorsement and Guaranteed Replacement Cost
- IV. Personal Property Coverage
- A. Covers owned and borrowed property and, at insured's option, property of guests
 - B. Covers anywhere in the world (exception at a secondary residence)
 - C. Property excluded under personal property coverage
 - D. Personal property subject to dollar limits
 - E. Loss of use coverage
 - F. Additional coverages
 - 1. Debris removal
 - 2. Reasonable repairs
 - 3. Trees, shrubs, plants and lawns
 - 4. Fire department service charge
 - 5. Property removed
 - 6. Credit card, etc. coverage
 - 7. Loss assessment coverage
 - 8. Collapse
 - 9. Glass or Safety Glazing Material
 - 10. Landlord's Furnishings
 - G. Other Provisions
 - H. General Conditions

Chapters 25

- V. Perils Insured Under Homeowners Forms
 - A. Homeowners 2 - Broad Form
 - B. Homeowners 3 - Special Form
 - 1. Exclusions
 - 2. Liability

Chapter 28 – General Liability Insurance for Individual

- VI. General Nature of the Coverage
 - A. Personal liability
 - B. Medical payments
 - C. Additional coverages
- VII. Personal Liability Coverage
 - A. Persons insured
 - B. Severability of insureds

- C. Liability exclusions – examples:
 - 1. Motor Vehicles
 - 2. Watercraft
 - 3. Aircraft
 - 4. Hovercraft
 - 5. Intentional injury
 - 6. Business acts
- D. Medical Payments to Others
- E. Damage to Property of Others

Society of Financial Examiners
Property and Liability Insurance Fundamentals

- Unit: 13
- Topic: Insurance Contracts (2) - Personal
Property and Liability (Auto)
- Text Required: Fundamentals of Risk and Insurance
Emmett J. Vaughan and Therese M. Vaughan
Tenth Edition
- Objectives: To introduce the student to the essence of the auto insurance contract
- Assigned Readings: Vaughan and Vaughan
Chapter 29 - The Automobile and Its Legal Environment
Chapter 30 - The Personal Auto Policy

Assignment Outline:

Chapter 29 - The Automobile and Its Legal Environment

- I. The Auto and Its Legal Environment
 - A. Legal Liability and the Automobile
 1. Vicarious liability and the automobile
 2. Guest hazard statutes
 - B. Automobile Liability Insurance and the Law
 1. Compulsory automobile liability laws
 2. "Financial responsibility" laws
 - C. The Automobile Insurance Problem and Changes in the Tort System
 1. Criticisms of the traditional system
 - a. Injured person may remain uncompensated
 - b. Compensation may not be related to severity of injury
 - c. High cost of operating insurance mechanism
 - d. Court congestion
 - e. Insurance payments inequitable
 2. No-fault concept
 3. Types of proposals:
 - a. Pure no-fault
 - b. Modified no-fault
 - c. Expanded first party coverage.

4. Existing state laws
 - a. Modified no-fault - about 16 states;
 - b. Expanded first-party - about 10 states

Chapter 30 - The Personal Auto Policy

- II. Introduction to Auto Insurance
 - A. ISO Personal Auto Policy (PAP) is most widely sold form
 - B. Eligible vehicles

- III. Liability Coverage
 - A. Persons Insured
 - B. When two or more policies cover a loss, the policy on the auto being driven is primary
 - C. Covered autos
 - D. "Temporary substitute" autos

- IV. Liability Exclusions
 - A. Intentional injury
 - B. Damage to property owned or transported by an insured
 - C. Care, custody, and control
 - D. Domestic employee injuries
 - E. Excludes public livery or conveyance
 - F. Use in the auto business by other than named insured or family member
 - G. Non-owned trucks used in business
 - H. Use by persons who don't have a reasonable belief they are entitled to do so
 - I. Excludes any insured covered under a nuclear energy liability policy
 - J. Motorcycles
 - K. Use of a car, other than a covered auto, owned by or furnished for the regular use of the named insured.
 - L. Use of a car, other than a covered auto, owned by or furnished for the regular use of a family member
 - M. Vehicle located in a facility for racing.

- V. Other Liability Provisions
 - A. Supplementary payments - e.g.
 - B. Out of-state-coverage

- VI. Medical Payments Coverage
 - A. Insurance Agreement
 - B. Exclusions
 - C. Limitations Applicable

- VII. Uninsured Motorists Coverage (UM)
 - A. Uninsured Motorist Insuring Agreement
 - B. Uninsured Motorists Exclusions
 - C. Basis for Settlement
 - D. Underinsured Motorists Coverage

- VI. Physical Damage Coverage
 - A. Physical Damage Insuring Agreement
 - 1. Loss other than by collision (OTC)
 - 2. Collision coverage
 - B. Physical Damage to Non-owned Autos
 - C. Physical Damage Exclusions
 - 1. Use as public or livery conveyance
 - 2. Wear and tear; mechanical breakdown
 - 3. Nuclear
 - 4. Excludes sounds systems
 - 5. Excludes electronic equipment
 - 6. Excludes tapes, records, etc.
 - 7. Loss or destruction by government because of use in illegal activities
 - 8. Camper bodies not listed in declarations
 - 9. Non-owned vehicle used without a reasonable belief entitled to do so
 - 10. Radar detectors
 - 11. Custom furnishings in pickup or van
 - 12. Excludes damage to non-owned autos used while employed in the auto business
 - 13. Excludes autos located inside a racing facility
 - 14. Excludes coverage for loss to a rental vehicle

Society of Financial Examiners
Property and Liability Insurance Fundamentals

- Unit: 14
- Topic: Insurance Contracts (3) - Commercial Property
- Text Required: Fundamentals of Risk and Insurance
Emmett J. Vaughan and Therese M. Vaughan
Tenth Edition
- Objectives: To introduce the student to the essence of commercial property insurance contracts
- Assigned Readings: Vaughan and Vaughan
Chapter 31 - Commercial Property Insurance

Assignment Outline:

Commercial Property Coverages

- I. The ISO Commercial Portfolio Program
 - A. Common Policy Conditions

- II. Commercial Property Coverage Forms
 - A. Commercial Property Coverage Forms
 - B. Building and Personal Property coverage Forms
 - 1. Covered property
 - 2. Additional coverages
 - 3. Coverage extensions
 - 4. Coinsurance
 - a. Rationale for coinsurance
 - b. Coinsurance clause
 - 5. Perils insured
 - 6. Other Provisions
 - 7. Deductibles and coinsurance
 - 8. Optional coverages
 - 9. Specialized Valuation Endorsement
 - 10. Blanket insurance
 - 11. Reporting form coverage

- III. Commercial Property Coverage for Indirect Loss
 - A. Business Interruption Insurance
 - B. Extra Expense Insurance
 - C. Contingent Business Interruption and Extra Expense
 - D. Leasehold Interest Insurance
 - E. Rain Insurance
- IV. Boiler and Machinery Coverage
- V. Transportation Coverages
 - A. Ocean Marine
 - 1. Major classes
 - a. Hull
 - b. Cargo
 - c. Freight
 - d. Protection and indemnity
 - 2. Average conditions
 - a. Particular
 - b. General average
 - B. Inland Marine
 - 1. Categories
 - a. Transportation forms
 - b. Means of transportation forms
 - c. Business floater forms
 - d. Dealers forms
 - e. Bailee forms
 - f. Miscellaneous policies
 - 2. Controlled and uncontrolled forms
- VI. National Flood Insurance Program
- VII. Insurance Against Dishonesty

Society of Financial Examiners
Property and Liability Insurance Fundamentals

Unit:	15
Topic:	Insurance Contracts (3) - Commercial Liability
Text Required:	Fundamentals of Risk and Insurance Emmett J. Vaughan and Therese M. Vaughan Tenth Edition
Objectives:	To introduce the student to the essence of commercial liability insurance contracts
Assigned Readings:	Vaughan and Vaughan Chapter 32 - Commercial Liability Insurance

Assignment Outline:

Commercial Liability Coverages

- I. Employers' Liability and Workers Compensation
 - A. All states require employer to purchase workers compensation insurance or qualify as a self-insurer
 - B. Employers can also be sued by employees even though workers compensation was supposed to be their exclusive remedy
 - C. Workers Compensation Policy
 1. Part One: Workers Compensation Insurance
 2. Part Two: Employers' Liability Insurance
 - D. Needed because of erosions of the exclusive remedy doctrine:
 1. Suits by a spouse of an injured worker for the spouse's loss
 2. Third-party over suits
 3. Dual capacity
 4. Exclusions
 - E. Part Three: Other States Insurance
 - F. LHWCA
 - G. Voluntary Compensation Insurance

- II. General Liability Insurance
 - A. General Liability Exposures
 - 1. Ownership and maintenance of premises
 - 2. Conduct of business operations
 - 3. Products
 - a. Established by:
 - (1) Negligence
 - (2) Breach of warranty
 - (3) Strict liability
 - b. About 2/3 of states have modified tort liability to limit exposure
 - 4. Completed operations
 - 5. Contingent liability
 - 6. Contractual liability
 - 7. Miscellaneous exposures
 - B. Commercial General Liability (CGL) Coverages
 - 1. Includes both a "claims-made" and an "occurrence" form
 - 2. CGL insuring agreements
 - 3. CGL exclusions
 - a. Expected or intended injury
 - b. Contractual assumptions
 - c. Liquor liability
 - d. Workers compensation
 - e. Employers' liability
 - f. Pollution
 - g. Aircraft, autos, and watercraft
 - h. Mobile equipment
 - i. War
 - j. Care, custody, and control
 - k. Damage to the insured's product
 - l. Damage to the insured's work
 - m. Property damage to impaired property
 - n. Product recall
 - o. Employment related practices
 - 4. Personal and advertising injury liability
 - 5. Medical payments coverage
 - 6. Fire legal liability coverage
 - 7. Contractual liability coverage
- II. Commercial Automobile Insurance
 - A. Eligibility for coverage
 - B. Business Auto Coverage Form
 - 1. Liability coverage
 - 2. Covered auto
 - 3. Persons insured

- 4. Exclusions
 - C. Physical damage coverage
 - D. Medical payments and uninsured motorists coverages
 - E. Coverage territory
 - F. Garage Coverage Form
 - G. Garage Keeper's Insurance
 - H. Truckers Coverage Form

- III. Liability Insurance for Common Carriers
 - A. Common carrier vs. contract carrier
 - B. Insurance Requirements
 - C. Motor Truck Cargo Policy - Truckers' Form
 - 1. Coverage provided
 - D. Interstate Commerce Commission Endorsement

- IV. Insurance for Bailees
 - A. Types of bailment
 - B. Bailee Liability Coverages