

AAI 82C

Multiple-Lines Insurance Production

Segment C

Specialized Insurance and Bonds

COURSE LEADER HANDBOOK

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Appendix A

Learning Activities

Introduction

This section provides some case studies and exercises for each assignment. The material is geared specifically toward this course. Not all assignment objectives will be covered, so you should supplement these exercises with your own material. Module four of the general course leader handbook provides some ideas on how you can create your own exercises.

Students can work on these exercises as a class; they can also work on them in small groups or independently, reporting back their solutions. To add variety in the classroom, include both group and individual work in each class.

In the segment format, you should not expect to conduct more than one or two of these exercises in any single session. A tremendous amount of material is in this segment, and if you have only one day to present information to your class, you may be forced to mainly lecture.

Special Notes

As mentioned, all assignment objectives are not addressed in this handbook. The ones addressed were chosen randomly. They are not of any greater or lesser importance than any other assignment objective.

Vocabulary is a very important part of Institutes exams and is vital to good communication in the industry. While none of the exercises in this handbook specifically address the key words and phrases, you should incorporate them into the exercises that are provided. You may also want to create your own exercises to specifically address them to each assignment.

Assignment 1—Specialty Property Insurance

Complete-A-Chart Exercise

Relates to Assignment Objective 1

Given a case, select and tailor a specialty commercial property policy to address the specified exposures.

One of the best ways to understand the various policies discussed in this assignment is to compare them with the coverage provided under a CPP policy. Have the students complete the following chart that compares the policies in the areas listed.

	CPP	DIC	Layered Property Insurance	HPR	MOP	COP	Stock Throughput
Property Covered							
Property NOT Covered							
Perils Covered							
Perils NOT Covered							
Deductibles							
Options and Additional Coverages							

Case Study

Relates to Assignment Objective 1

Given a case, select and tailor a specialty commercial property policy to address the specified exposures.

Using the following case, or one from the textbook, have the students identify any exposures that could be treated with the use of specialty commercial property insurance.

Your insured is a large chain of department stores located in multiple states. The stores sell men’s, women’s, and children’s clothing; linens; jewelry; cosmetics; luggage; furniture; household items, such as china, silver, artwork, and lamps; and the like. Rather than compete directly with other national retail chains, the firm has intentionally avoided large urban locations for its retail stores, instead favoring “second-tier” cities. The department store firm has a large, highly automated warehouse located in one of the states. The warehouse is approximately 500,000 square feet and the building is equipped with an automatic sprinkler system. Inventory is received at the warehouse from manufacturers and vendors

and is then distributed to the individual store locations. Distribution from the warehouse is handled using company-owned trucks. In some cases, the manufacturers of the products ship their goods directly to the stores using their own trucks or a common carrier. Information of such direct shipments is sent electronically to the warehouse for tracking purposes. Large amounts of merchandise are purchased from overseas and are shipped via air or water. Most of these shipments are received in San Francisco or New York and must be sent to the warehouse via truck or rail transportation. The warehouse is located near a railroad track, and there is a spur to the loading dock. Each store location uses a point-of-sale system to track inventory. Information is uploaded from the store to the warehouse every night. The firm employs a large information technology (IT) staff.

In addition to retail stores, the firm also uses e-commerce, and a large percentage of sales is derived from the online catalog. Paper catalogs are also sent out on a mass-mailing basis, and orders are received via fax and mail. The firm also has a call center located in the warehouse to process telephone orders. The call center uses sophisticated telephone equipment. Orders received electronically or by fax, mail, or phone are shipped using a common carrier, often within twenty-four hours of receipt.

The retail stores consist of a mixture of leased and owned buildings. Some are located in malls, while others are freestanding buildings. In mall locations, the stores are not the key tenant and depend upon other, larger retailers to attract customers to the mall. Stores are open from 9:00 AM to 9:00 PM each day, except Sunday when they close at 6:00 PM. At the warehouse, the firm employs 100 people who handle inventory, loading and unloading, shipping, clerical work, and sales. A fully-staffed human resources department handles the administration of various employee benefit plans, including group health insurance, life insurance, and disability. A 401(k) pension plan is in place for all full-time personnel. Each store has between twenty-five and fifty employees, mostly consisting of part-timers who are mainly college students. The store manager and assistant manager are responsible for hiring decisions for their stores.

Customers typically pay with cash, checks, personal credit cards, or the department store chain's own credit card that was developed years ago. The store credit card offers cash rebates to customers who spend a certain amount during any calendar year. Cash, checks, and charge receipts are picked up by an armored car service each day and taken to the bank. Each store has a surveillance camera system installed to detect shoplifting, which has been a problem in the past. The store also uses off-duty undercover police officers who pose as shoppers.

The jewelry department, shoe department, restaurant, and hair salon located in the larger stores are not operated by your insured but are leased to others. The insured is compensated by a percentage of the sales received by the lessee. The sporting goods department is one of the most profitable areas of the business. The insured provides repair and maintenance for ski equipment, snowboards, tennis rackets, bowling balls, and similar types of sporting goods, even if the merchandise was purchased from a competitor. The insured also fills scuba tanks. Since this repair work requires expensive, specialized equipment, the insured sometimes must ship the items to the four store locations that have the appropriate equipment.

The firm is publicly traded and has a board of directors consisting of both insiders and outsiders. The officers of the corporation are selected by the board. A major accounting firm is used to perform routine audits and prepare necessary Securities and Exchange Commission (SEC) and other financial filings. Employees are eligible to purchase stock at a discount as an additional employee benefit.

Assignment 2—Excess and Umbrella Liability Insurance

If you have access to a couple of different umbrella or excess liability policies, you may have the group analyze and compare the forms using the checklist in the textbook. Since all policies are “nonstandard”, this type of analysis can reinforce the coverage differences between the forms.

Role Play

Relates to Assignment Objective 1a

Differentiate between a straight excess policy and an umbrella policy.

Divide the class into groups of two. Have one person play the role of an insurance buyer and one the role of the agent. Using the department store chain case study as a framework for the exercise, the agent should explain the need for an excess liability policy and help the “insured” determine a limit of liability. Reverse the roles and have the new agent sell an umbrella policy to the “insured”. Be sure he or she explains how that policy differs from a straight excess policy. A discussion of limits should also be included.

Group Discussion

Relates to Assignment Objective 1e

Identify and illustrate any information needed by an underwriter to properly evaluate and price an excess or umbrella policy.

Using the ACORD Umbrella Section application in the textbook, go through each item with the students and have them discuss the purpose of each question and the impacts of the various possible answers on the price of the insurance.

Assignment 3—Ocean Marine and Aviation Insurance

Case Study

Relates to Assignment Objective 1

Given a case, tailor the ocean marine cargo policy to address the specified exposures.

Using the case in Assignment 1, have the class identify any exposures that could be addressed using an ocean marine policy. Include in the discussion any modifications or endorsements that they would recommend to the insured.

Group Discussion

Relates to Assignment Objective 2

Explain how to identify prospects needing ocean cargo coverage and submit the information necessary to place them with the appropriate voyage or open cargo policy.

Have the students tell you what classes of business they write in their office. Then have them discuss each class and determine whether or not they think there are any ocean marine exposures for those accounts. Have them create a list of questions they could use to determine if their clients have any exposures in this area. This discussion can be very helpful, because often marine exposures are overlooked.

Group Discussion

Relates to Assignment Objective 4

Illustrate client commercial aviation exposures.

Have the students tell you what classes of business they write in their office. Then have them discuss each class and determine whether or not they think there are any aviation exposures for those accounts. Have them create a list of questions they could use to determine if their clients have any exposures in this area. This discussion can be very helpful, because often aviation exposures are overlooked.

Assignment 4—Surety Bonds

The most important concept for your students to understand is that surety is not insurance. Rather, it is a financial arrangement that much more closely resembles noninsurance transfer than insurance in terms of a risk management technique. Although the students may not be involved directly with surety, it is important that they understand the concepts in order to recognize when a client has a surety exposure.

Complete-A-Chart Exercise

Relates to Assignment Objective 2

Describe the characteristics that surety bonds have in common.

Use the following chart to reinforce the ways in which surety differs from insurance. Have the students complete the chart.

	Insurance	Surety
Parties to the contract	Insured Insurer	Principal Surety Obligee
Perils insured against		
Term of contract		
Limit of liability		
Premium determination		
Beginning of coverage		

Complete-A-Chart Exercise

Relates to Educational Objective 4

Describe the obligee, principal, and nature of the guarantee provided under contract bonds.

Relates to Educational Objective 7

Describe the obligee, principal, and nature of the guarantee provided under commercial bonds.

Using the charts in the textbook, recreate them without the last three columns. Have the students complete the charts in class.

Type of Bond	Obligee	Principal	Guarantee Provided
Bid bond			
Performance bond			
Payment bond			
Maintenance bond			
Subdivision bond			
Supply contract bond			
Attachment bond			
Release of attachment bond			
Plaintiff's appeal bond			
Defendant's appeal bond			
Lost securities bond			
Hazardous waste removal bond			
Credit enhancement financial guaranty bond			
Public official bond			

